GEF-8 PROJECT IDENTIFICATION FORM (PIF)

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General Project Information

Project Title Natural Capital Fund (NCF): Investing in Nature-Positive Agri-Food Enterprises in Asia and the Pacific	
Region Regional	GEF Project ID 11062
Country(ies) Regional	Type of Project FSP
GEF Agency(ies): ADB	GEF Agency ID
Executing Partner Various ministries and industry/business support organizations in project investment countries	Executing Partner Type Others
GEF Focal Area (s) Multi Focal Area	Submission Date 2/27/2023
Project Sector (CCM Only) AFOLU	

Taxonomy

Gender Equality, Gender Mainstreaming, Biodiversity, Focal Areas, Protected Areas and Landscapes, Productive Landscapes, Financial and Accounting, Conservation Finance, Natural Capital Assessment and Accounting, Mainstreaming, Fisheries, Certification -National Standards, Ceritification - International Standards, Agriculture and agrobiodiversity, Climate Change, Climate Change Mitigation, Agriculture, Forestry, and Other Land Use, Climate Change Adaptation, Private sector, Ecosystem-based Adaptation, Innovation, National Adaptation Plan, Climate resilience, Livelihoods, International Waters, Large Marine Ecosystems, Pollution, Plastics, Persistent toxic substances, Nutrient pollution from all sectors except wastewater, Nutrient pollution from Wastewater, Freshwater, River Basin, Aquifer, Lake Basin, Strategic Action Plan Implementation, Acquaculture, Coastal, Land Degradation, Food Security, Sustainable Land Management, Drought Mitigation, Sustainable Livelihoods, Sustainable Forest, Restoration and Rehabilitation of Degraded Lands, Community-Based Natural Resource Management, Sustainable Agriculture, Improved Soil and Water Management Techniques, Ecosystem Approach, Sustainable Pasture Management, Income Generating Activities, Land Degradation Neutrality, Land Productivity, Carbon stocks above or below ground, Chemicals and Waste, Disposal, Waste Management, Hazardous Waste Management, Persistent Organic Pollutants, Uninentional Persistent Organic Pollutants, Green Chemistry, Pesticides, Best Available Technology / Best Environmental Practices, Open Burning, Emissions, Sound Management of chemicals and waste, Influencing models, Deploy innovative financial instruments, Convene multi-stakeholder alliances, Demonstrate innovative approache, Strengthen institutional capacity and decision-making, Stakeholders, Beneficiaries, Private Sector, Financial intermediaries and market facilitators, SMEs, Non-Grant Pilot, Capital providers, Project Reflow, Individuals/Entrepreneurs, Large corporations, Local Communities, Civil Society, Community Based Organization, Communications, Behavior change, Awareness Raising, Type of Engagement, Consultation, Information Dissemination, Partnership, Participation, Gender results areas, Access and control over natural resources, Knowledge Generation and Exchange, Capacity Development, Sex-disaggregated indicators, Gender-sensitive indicators, Women groups, Capacity, Knowledge and Research, Enabling Activities, Knowledge Generation, Community-based adaptation

Type of Trust Fund GET	Project Duration (Months) 60
GEF Project Grant: (a) 0.00	GEF Project Non-Grant: (b) 13,761,469.00
Agency Fee(s) Grant: (c) 0.00	Agency Fee(s) Non-Grant (d) 1,238,531.00
Total GEF Financing: (a+b+c+d) 15,000,000.00	Total Co-financing 646,350,000.00
PPG Amount: (e) 0.00	PPG Agency Fee(s): (f) 0.00
PPG total amount: (e+f) 0.00	Total GEF Resources: (a+b+c+d+e+f) 15,000,000.00
Project Tags CBIT: No NGI: Yes SGP: No Innovation: No	

Project Summary

Provide a brief summary description of the project, including: (i) what is the problem and issues to be addressed? (ii) what are the project objectives, and if the project is intended to be transformative, how will this be achieved? iii), how will this be achieved (approach to deliver on objectives), and (iv) what are the GEBs and/or adaptation benefits, and other key expected results. The purpose of the summary is to provide a short, coherent summary for readers. The explanation and justification of the project should be in section B "project description".(max. 250 words, approximately 1/2 page)

Agriculture accounts for 70% of all freshwater withdrawals globally[2][1], and agriculture expansion is responsible for 90% of global deforestation[3][2]In addition, nearly 52% of the land used for agriculture globally is moderately or severely degraded and approximately 2 billion hectares are severely degraded. Current unsustainable agriculture and land management practices, which include potentially hazardous agrochemicals, plastic waste, significantly contribute to further land degradation. Agriculture also accounted for 10-12% of total global anthropogenic emissions of greenhouse gases (GHGs).[1][3]

[1] Agricultural GHGs are primarily from CH_4 and N_2O (form IPCC 6th Assessment (Note: NCF GHG benefits are likely to be reported as carbon credits, used by NCF private sector investors, and thus will not reported to GEF as GEBs)

Unfortunately, small-scale farmers and small and medium enterprises (SMEs), are the most vulnerable to climate and environmental change, and lack the financial resources, knowledge and technologies to address the aforementioned land degradation issues.

Over four trillion dollars ($4.1 trillion) are needed by 2050 to meet the climate change, biodiversity, and land degradation targets.[4]4 [5These challenges are particularly acute in the Asia and Pacific region (APR) where 30% of the national wealth comes from natural capital.[6]6 Despite the number of pledges, commitments, and capital available in capital markets, there is an overwhelming lack of pipeline (SMEs) that can absorb the volume of capital needed to transform agri-food systems and protect, restore, and sustainably use natural capital. This lack of deal flow is particularly critical for nature capital projects in the agri-food systems space, where the payback period tends to be long and/or difficult to identify because it typically takes significant time for (i) SMEs to adopt new practices and technologies, and (ii) natural capital investments to start generating the expected ecosystem benefits and associated revenues. For these reasons, SMEs often find it challenging to obtain affordable long-term patient capital to match the long-lead times that agri-food systems and natural capital projects require, and the existing catalytic capital is not always used to support up-front project development costs. These problems are particularly acute in the early stages of a project given the insufficient availability of pre-seed, seed, and early-stage capital for agri-food systems and natural capital projects, which tends to trap them in what is known as the “valley of death”. In addition, when SMEs can access finance, the cost of funding can often be too high when compared to the revenue streams that some agri-food systems and natural capital projects can generate and the terms offered (e.g., tenors, grace periods, repayment periods, etc.) are not always tailored to the needs and cash flows of the projects.

The Natural Capital Fund (NCF) is a close-ended $150 million catalytic natural capital blended finance fund, designed and managed by ADB, that aims to support SMEs implementing agri-food systems projects that enhance food security, and protect, restore, and sustainably use natural capital in Asian Development Bank’s (ADB)developing member countries (DMCs).

The NCF will have a 20-year term, with a 15-year holding period, and will raise capital from sovereign public investors (sovereign donors, development agencies and climate funds), philanthropies and corporates. Given the challenges presented above, the NCF aims to fill critical investment gaps by providing catalytic capital to build a pipeline of SMEs, as well as de-risk investments and crowd-in additional capital at transaction level ($702 million), implementing agri-food systems and natural capital projects—at different stages of the project cycle—that have clear transformational impact. The capital leveraged at the transaction level will come from public (e.g., governments, development finance institutions [DFIs], state corporations, etc.) and private investors (e.g., banks, asset managers, corporates, etc.).

To that end, the NCF aims to use Global Environment Facility (GEF) funding to focus on a market niche by developing a much-needed pipeline of agri-food systems and natural capital projects (via SMEs), specifically at the pre-seed, seed. and early stages, that most often lack access to the long-term, catalytic capital they need to get their businesses off the ground. Furthermore, while most of these SMEs only get grants, if at all, and do not generate any financial return, the NCF aims to generate a gross average annual return of approximately 1.8% per annum.

The NCF will deploy grants, debt, equity and guarantees either directly to SMEs/projects, or indirectly via financial intermediaries (e.g., public investors (governments, DFIs, state corporations, etc.,) and commercial investors (e.g., banks, asset managers [private debt and private equity], corporates, etc.). In addition, the NCF will emphasize long-term, multi-partner and multistakeholder collaboration to create economies of scale, leverage synergies, and achieve greater impact.

Unlike most impact investment funds in the market, where the investment strategy is developed and then the fund manager starts originating deal flow, the NCF has followed a bottom-up approach, where the pipeline has been originated in parallel with the investment strategy. To that end, the NCF has piggybacked on current ADB sovereign and private sector operations to identify a robust pipeline of potential deals that can deliver positive natural capital and agri-food systems outcomes.

In fact, current ADB projects provide the basis for estimating the expected NCF outputs and outcomes. Just based on a selected number of potential deals, the GEBs in AFOLU that are over the baseline at the time of the PIF preparation include an estimated area of degraded land and ecosystems under restoration of 740,000 hectares; natural grass under restoration of 400,000 hectares; mangroves under restoration of 50,000 hectares; and area of agricultural landscapes under improved practices of 2 million hectares. At the time of the PIF, estimates are that NCF will directly benefit 300,000 people; limit 3,000 MT HHPs; and 2,000 MT avoided plastic residue~~)~~. NCF will generate large GHG benefits however the GHG benefits will be reported as carbon credits to be used by the private investors and not reported as GEBs for the GEF. Other co-benefits are mentioned in Table 2 and in Section C, Focal Areas as Co-Benefits. These will be further discussed in the CEO Endorsement Request.

The geographic scope for the NCF will be Asia and the Pacific region. ADB’s DMCs which correspond with almost all GEF eligible countries, will be among the target recipients. This vast region includes countries in Central West Asia (10), East Asia (2), South Asia (6), Southeast Asia (9) and the Pacific Small Island Developing States (SIDS) (14). The region also includes important countries which have potential for fund resource mobilization and partnerships (Singapore, South Korea and Japan).

The NCF will be a core component of ADB's Innovative Natural Capital Financing Facility (INCFF) and will contribute to achieving the objectives of the Sustainable Development Goals (SDGs), the Paris Agreement, and the Kunming-Montreal Global Biodiversity Framework in ADB’s DMCs.

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[1] Food nature: Food systems are responsible for a third of global anthropogenic GHG emissions.

[2] World Bank: Globally, 70% of Freshwater is Used for Agriculture.

[3] FAO, COP26: Agricultural expansion drives almost 90 percent of global deforestation.

[4] UNEP: State of Finance for Nature.

[5] Food and Land Use Coalition: Growing Better, Ten Critical Transitions to Transform Food and Land Use.

[6] ADB: Why Nature Matters.

[7] Land management estimates extrapolated from market area and project documents; and GHG emissions from land using FAO Ex-Act and USEPA water transport model (see Annex G-3).

[8] IPCC 6th Assessment Report 2022, Mbow., C. et al, Chapter 5, Food Security. Food security and climate change have strong gender and equity dimensions.

Indicative Project Overview

Project Objective

To mobilize and deploy catalytic capital for small and medium enterprises (SMEs) that are implementing climate smart, agri-food systems projects that protect, restore, and sustainably use natural capital.

Project Components

The Natural Capital Fund

Component Type	Trust Fund
Investment	GET
GEF Project Financing ($)	Co-financing ($)
	100,000.00

Outcome:

1. Increased volume of financial (public and private), corporate and carbon markets investments in agri-food systems projects that protect, restore, and sustainably use natural capital

Indicator 1: Amount of additional finance raised by the NCF, and amount of public and private capital mobilized by the NCF by 2038 for agri-food systems projects that protect, restore, and sustainably use natural capital; target: at least USD 126.350,000 of additional finance raised by the NCF, and at least USD 702 million are mobilized by the NCF by 2038 for agri-food systems projects that protect, restore, and sustainably use natural capital

Output:

1.1 NCF financing (USD10 million) from public and private investors and corporates raised

1.2 At least USD 140 million of financial investors' commitments to the NCF are structured for a 15-year investment horizon

1.3 Amount of equity raised

1.4 Amount of grants raised

The Natural Capital Fund

Component Type	Trust Fund
Investment	GET
GEF Project Financing ($)	Co-financing ($)
	400,000.00

Outcome:

2. Agri-food systems that protect, restore, and sustainably use natural capital in the Asia Pacific region are strengthened through the NCF

Indicator 2. Number of investments in agri-food systems that protect, restore and sustainably use natural capital deployed through the Natural Capital Fund; target: at least 22 investments

Output:

2.1. At least 22 natural capital assessments conducted in selected project areas

2.2. At least 22 business cases of agri-food systems projects that protect, restore and sustainably use natural capital developed by 2038 disclosing risk-return, impact and private capital leverage data

2.3. At least 10 developing countries in Asia and the Pacific are included in the NCF portfolio

Investment Readiness

Component Type	Trust Fund
Technical Assistance	GET
GEF Project Financing ($)	Co-financing ($)
	10,000,000.00

Outcome:

3. Robust pipeline of agri-food systems projects that protect, restore and sustainable use natural capital is created through the Investment Readiness (IR) of the Natural Capital Fund

Indicator .3: Amount of agri-food systems projects that protect, restore, and sustainably use natural capital supported by the IR of the NCF; target: At least 22 agri-food systems projects that protect, restore, and sustainably use natural capital are supported by the IR of the NCF..

Output:

3.1. At least 11 agri-food systems projects originated, developed and structured, that protect, restore and sustainably use natural capital are originated through the IIR of the Natural Capital Fund

The Natural Capital Fund Investments

Component Type	Trust Fund
Investment	GET
GEF Project Financing ($)	Co-financing ($)
13,761,469.00	635,850,000.00

Outcome:

4. Investments in agri-food systems that protect, restore and sustainably use natural capital; and generate durable and quantifiable GEBs

Indicator 4.1. Area of degraded agricultural lands under restoration; target 1,000.000 ha

Indicator 4.2. Area of natural grass and woodlands under restoration; target: 500,000 ha

Indicator 4.3. Area of wetlands (including estuaries, mangroves) under restoration; target: 100,000 ha

Indicator 4.4. Area of landscapes under sustainable land management in production systems; target: 2,000,000 ha

Indicator 4.5: Highly hazardous pesticides eliminated; target: 3,000 MT

Indicator 4.6: Avoided residual plastic waste; target: 2,000 MT

Indicator 4.7: People benefiting - target: 3 million people (51% women)

Output:

4.1. At least USD140 million deployed in agri-food systems projects that protect, restore, and sustainably use natural capital

M&E

Component Type	Trust Fund
GEF Project Financing ($)	Co-financing ($)

Outcome:

Output:

Component Balances

Project Components	GEF Project Financing ($)	Co-financing ($)
The Natural Capital Fund		100,000.00
The Natural Capital Fund		400,000.00
Investment Readiness		10,000,000.00
The Natural Capital Fund Investments	13,761,469.00	635,850,000.00
M&E		
Subtotal	**13,761,469.00**	**646,350,000.00**
Total Project Cost ($)	**13,761,469.00**	**646,350,000.00**

Please provide justification

PROJECT OUTLINE

A. PROJECT RATIONALE

Briefly describe the current situation: the global environmental problems and/or climate vulnerabilities that the project will address, the key elements of the system, and underlying drivers of environmental change in the project context, such as population growth, economic development, climate change, sociocultural and political factors, including conflicts, or technological changes. Describe the objective of the project, and the justification for it. (Approximately 3-5 pages) see guidance here

Agri-food systems are responsible for 34% of global greenhouse gas (GHG) emissions[1][7], while agriculture accounts for 70% of all freshwater withdrawals globally[2][8], and agriculture expansion is responsible for 90% of global deforestation[3][9]. In addition, nearly 52% of the land used for agriculture globally is moderately or severely degraded and approximately 2 billion hectares are severely degraded. Current unsustainable agriculture and land management practices, which include potentially hazardous agrochemicals, plastic waste and GHG emissions, significantly contribute to further land degradation. *agro-chemicals, plastic waste, GHG emissions*.

Unfortunately, small-scale farmers and small and medium enterprises (SMEs), are the most vulnerable to climate and environmental change, and lack the financial resources, knowledge and technologies to address the aforementioned land degradation issues.

Over four trillion dollars ($4.1 trillion) are needed by 2050 to meet the climate change, biodiversity, and land degradation targets.[4][10] [5][11] These challenges are particularly acute in the Asia and Pacific region (APR) where 30% of the national wealth comes from natural capital.[6][12] Despite the number of pledges, commitments, and capital available in capital markets, there is an overwhelming lack of pipeline (SMEs) that can absorb the volume of capital needed to transform agri-food systems and protect, restore, and sustainably use natural capital. This lack of deal flow is particularly critical for nature capital projects in the agri-food systems space, where the payback period tends to be long and/or difficult to identify because it typically takes significant time for (i) SMEs to adopt new practices and technologies, and (ii) natural capital investments to start generating the expected ecosystem benefits and associated revenues. For these reasons, SMEs often find it challenging to obtain affordable long-term patient capital to match the long-lead times that agri-food systems and natural capital projects require, and the existing catalytic capital is not always used to support up-front project development costs. These problems are particularly acute in the early stages of a project given the insufficient availability of pre-seed, seed, and early-stage capital for agri-food systems and natural capital projects, which tends to trap them in what is known as the “valley of death”. In addition, when SMEs can access finance, the cost of funding can often be too high when compared to the revenue streams that some agri-food systems and natural capital projects can generate and the terms offered (e.g., tenors, grace periods, repayment periods, etc.) are not always tailored to the needs and cash flows of the projects.

The Natural Capital Fund (NCF) is a close-ended $150 million catalytic natural capital blended finance fund, designed and managed by ADB, that aims to support SMEs implementing agri-food systems projects that enhance food security, and protect, restore, and sustainably use natural capital in Asian Development Bank's (ADB)developing member countries (DMCs).

The NCF will have a 20-year term, with a 15-year holding period, and will raise capital from sovereign public investors (sovereign donors, development agencies and climate funds), philanthropies and corporates. Given the challenges presented above, the NCF aims to fill critical investment gaps by providing catalytic capital to build a pipeline of SMEs, as well as de-risk investments and crowd-in additional capital at transaction level ($702 million), implementing agri-food systems and natural capital projects—at different stages of the project cycle—that have clear transformational impact. The capital leveraged at the transaction level will come from public (e.g., governments, development finance institutions [DFIs], state corporations, etc.) and private investors (e.g., banks, asset managers, corporates, etc.).

To that end, the NCF aims to use Global Environment Facility (GEF) funding to focus on a market niche by developing a much-needed pipeline of agri-food systems and natural capital projects (via SMEs), specifically at the pre-seed, seed. and early stages, that most often lack access to the long-term, catalytic capital they need to get their businesses off the ground. Furthermore, while most of these SMEs only get grants, if at all, and do not generate any financial return, the NCF aims to generate a gross average annual return of approximately 1.8% per annum.

The NCF will deploy grants, debt, equity and guarantees either directly to SMEs/projects, or indirectly via financial intermediaries (e.g., public investors (governments, DFIs, state corporations, etc.,) and commercial investors (e.g., banks, asset managers [private debt and private equity], corporates, etc.). In addition, the NCF will emphasize long-term, multi-partner and multistakeholder collaboration to create economies of scale, leverage synergies, and achieve greater impact.

Unlike most impact investment funds in the market, where the investment strategy is developed and then the fund manager starts originating deal flow, the NCF has followed a bottom-up approach, where the pipeline has been originated in parallel with the investment strategy. To that end, the NCF has piggybacked on current ADB sovereign and private sector operations to identify a robust pipeline of potential deals that can deliver positive natural capital and agri-food systems outcomes.

Based on a selected number of potential deals, the global environmental benefits (GEBs) in agriculture, forestry, and other land use (AFOLU) that are over the baseline at the time of the preparation of the Project Identification Form (PIF) include an estimated area of degraded land and ecosystems under restoration of 740,000 hectares; natural grass under restoration of 400,000 hectares; mangroves under restoration of 50,000 hectares; and area of agricultural landscapes under improved practices of two million hectares. At the time of the PIF, estimates are that NCF will directly benefit 300,000 people.[8]13 The NCF is likely to also finance deals that limit potential hazardous pesticides in food production, the use of highly hazardous pesticides (HHPs) in farming (estimate 3,000 MT HHPs); and the use of plastic in packaging and reduction of agro-food plastics (estimate 2,000 MT avoided plastic residue). NCF GHG benefits will be substantial, but due to the unique structure of the fund, GHG benefits will be reported as carbon credits to be used by the private investors and not reported as GEBs for the GEF to avoid double-counting. The NCF also will produce other co-benefits to be elaborated in the CEO Endorsement Request.

The geographic scope for the NCF will be Asia and the Pacific region. ADB's DMCs which correspond with almost all GEF eligible countries, will be among the target recipients. This vast region includes countries in Central West Asia (10), East Asia (2), South Asia (6), Southeast Asia (9) and the Pacific Small Island Developing States (SIDS) (14). The region also includes important countries which have potential for fund resource mobilization and partnerships (Singapore, South Korea and Japan).

The NCF will be a core component of ADB's Innovative Natural Capital Financing Facility (INCFF) and will contribute to achieving the objectives of the Sustainable Development Goals (SDGs), the Paris Agreement, and the Kunming-Montreal Global Biodiversity Framework in ADB's DMCs.

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[8] IPCC 6th Assessment Report 2022, Mbow., C. et al, Chapter 5, Food Security. Food security and climate change have strong gender and equity dimensions.

B. PROJECT DESCRIPTION

Project description

This section asks for a theory of change as part of a joined-up description of the project as a whole. The project description is expected to cover the key elements of good project design in an integrated way. It is also expected to meet the GEF's policy requirements on gender, stakeholders, private sector, and knowledge management and learning (see section D). This section should be a narrative that reads like a joined-up story and not independent elements that answer the guiding questions contained in the PIF guidance document. (Approximately 3-5 pages) see guidance here

The NCF is a close-ended $150 million catalytic natural capital blended finance fund, designed and managed by ADB, that aims to support SMEs implementing agri-food systems projects that enhance food security and protect, restore, and sustainably use natural capital in ADB's DMCs. The NCF will have a 20-year term, with a 15-year holding period, and will raise capital from public investors (sovereign donors, development agencies, and climate funds), philanthropies, and corporates. The NCF aims to fill critical investment gaps by providing catalytic capital to build a pipeline, as well as de-risk investments and crowd-in additional capital at the transaction level ($702 million), of SMEs implementing agri-food systems and natural capital projects – at different stages of the project cycle – that have clear transformational impact. The capital leveraged at the transaction level will come from public (e.g., governments, DFIs, state corporations, etc.) and private investors (e.g., banks, asset managers, corporates, etc.).

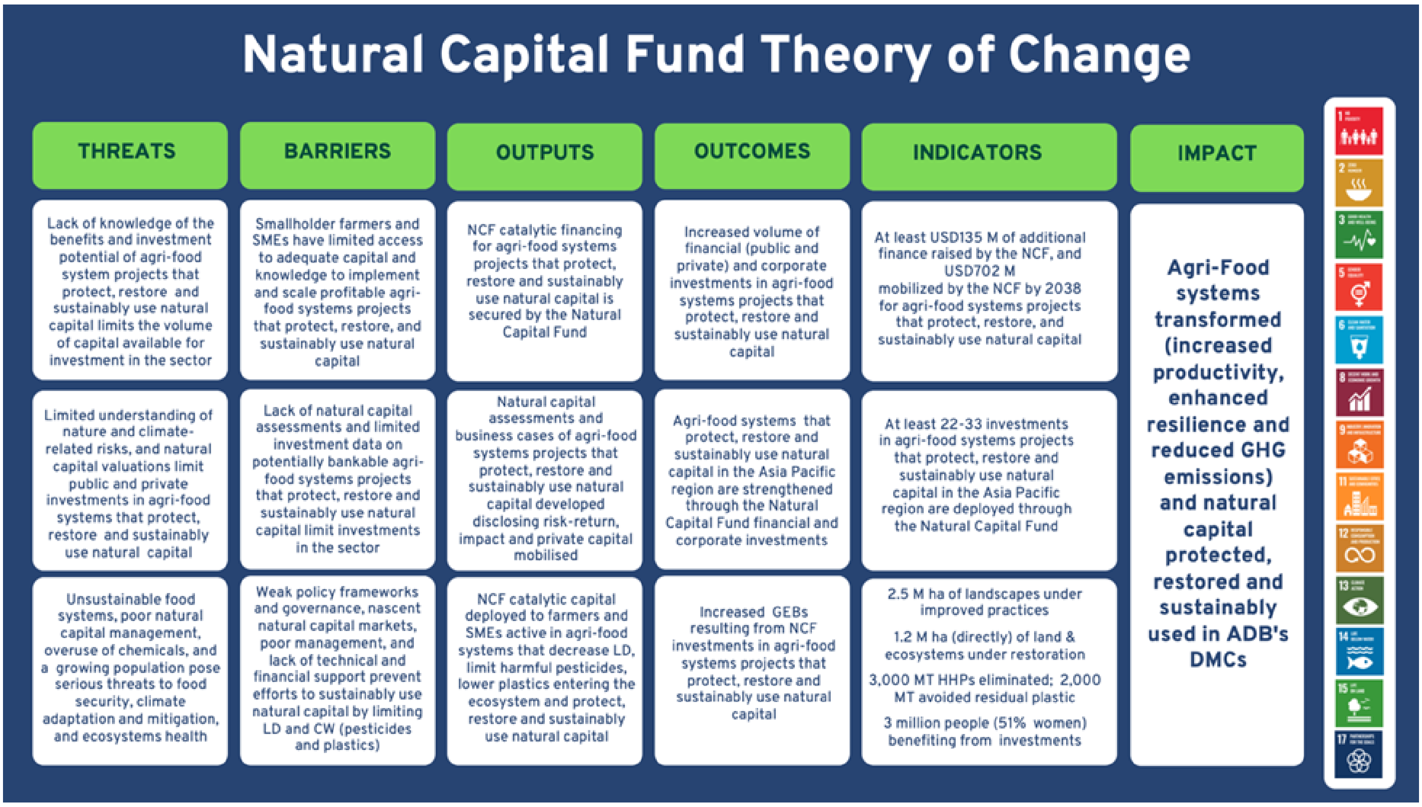
To that end, the NCF aims to use GEF funding to focus on a market niche by developing a much-needed pipeline of agri-food systems and natural capital projects (via SMEs), specifically at the pre-seed, seed, and early stages, that most often lack access to the long-term, catalytic capital they need to get their businesses off the ground. Furthermore, while most of these SMEs only get grants, if at all, and do not generate any financial return, the NCF aims to generate a gross average annual return of approximately 1.8% per annum.

The NCF will deploy grants, debt, equity and guarantees either (i) directly to SMEs and/or projects, or (ii) indirectly via financial intermediaries (e.g., public investors [governments, national DFIs, state corporations, etc.,] and commercial investors [banks, asset managers (private debt and private equity), corporates, etc.]). In addition, the NCF will emphasize long-term, multi-partner and multistakeholder collaboration to create economies of scale, leverage synergies and achieve greater impact.

The overarching impact goal for the NCF is to mobilize and deploy catalytic capital for SMEs that are implementing climate smart agri-food systems projects that protect, restore, and sustainably use natural capital in the APR. The focus will be on SMEs and smallholder farmers that predominate in the APR. With the right access to adequate finance and technical assistance, SMEs can contribute greatly to GEBs while also increasing their food security, strengthening resilience to a changing climate, and reducing GHG emissions. The NCF's mission is to mobilize and deploy catalytic capital for SMEs that are implementing climate smart agri-food systems projects that protect, restore, and sustainably use natural capital.

The project rationale section examines the threats to achieving GEBs from the AFOLU sector and specifically the barriers to transforming the current APR farmer SME's baseline to achieve the desired GEBs. The Theory of Change (TOC), presented in Figure 3 below, summarizes those threats and barriers, and goes on to show how they underpin the NCF's intended outputs, outcomes, impact, and their associated indicators. This narrative briefly describes how the NCF's integrated approach catalyzes limited resources to scale investments and achieve an enduring transformation.

Figure 3: Theory of Change



Above is the Theory of Change. Drivers of environmental degradation would be captured under the description of "Threats", and would include: i) weak governance marked by absence of policy coherence and limited enforcement or implementation capacity; ii) increasing populations which place pressures on terrestrial and marine ecosystems, iii) economic development characterized by expansion of land and coastal and marine areas, iv) uneven access to finance and technology for small holder farming communities.

The challenge is how to get the private sector engaged and private capital flowing to natural capital enhancing projects. NCF will develop business cases that showcase attractive risk-return profiles for projects that protect, restore, and sustainably use natural capital. The best way to show how NCF achieves the outcomes/outputs is through NCF's key feature, developing a project pipeline. In our discussions with private investors, this was THE major roadblock to their 'natural capital' investment strategies, they lacked a good project pipeline. The approach of the NCF will be 'from the ground' and focus on generating a robust and diverse pipeline of investment opportunities.

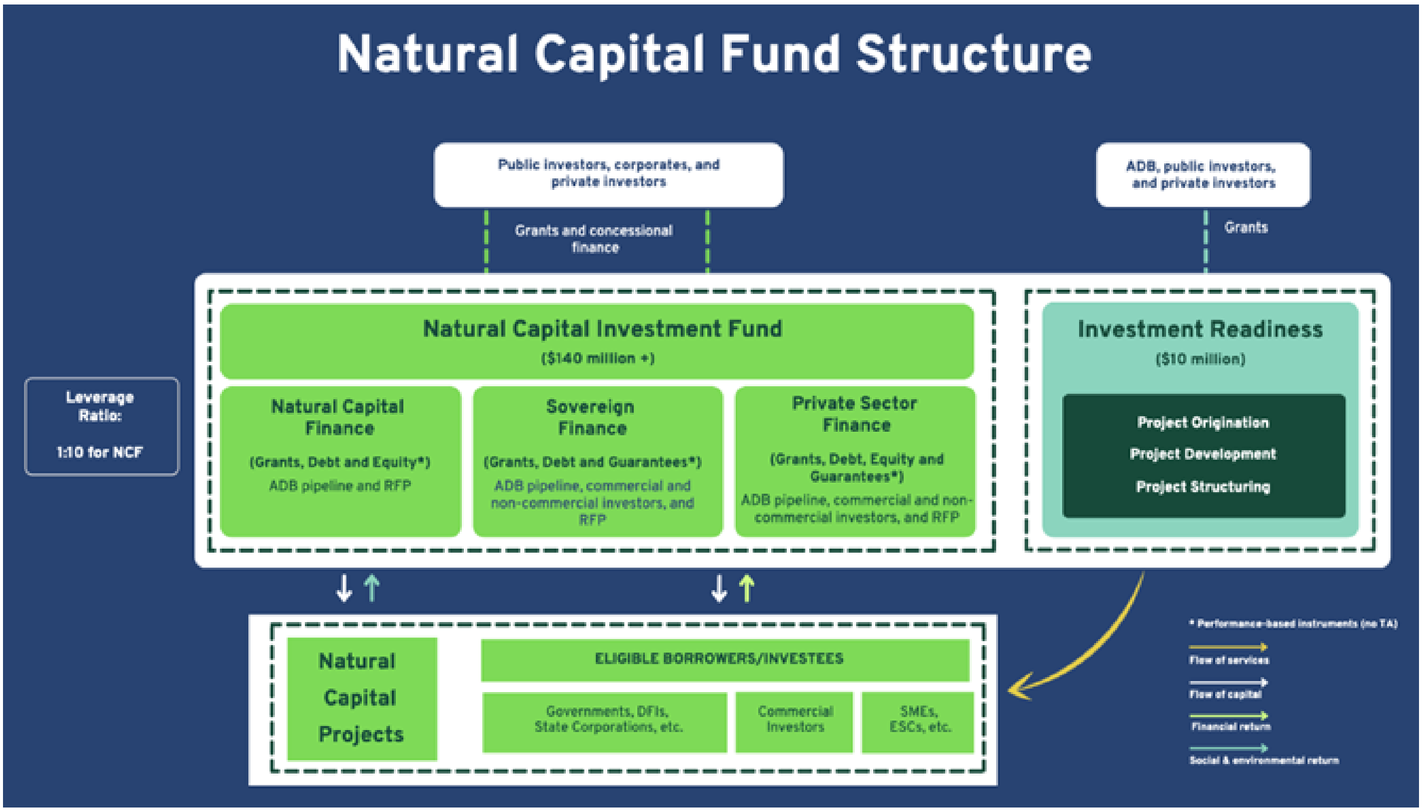
The NCF uses a blended finance structure that uses catalytic capital from public (sovereign donors, development agencies, DFIs, and climate funds) and philanthropic sources to increase public (e.g., governments, national DFIs, state corporations, etc.,) and private sector investment (e.g., banks, asset managers, corporates, etc.,) in agri-food systems projects (SMEs) that protect, restore, and sustainably use natural capital.

Figure 4 shows the NCF structure, which is divided into:

(i) The Natural Capital Investment Fund (NCIF), the corpus of the NCF that will raise $140 million from public investors (sovereign donors, development agencies, and climate funds), philanthropies, and corporates via grants and concessional finance (e.g., equity); and

(ii) The Investment Readiness (IR), a sidecar that will raise $10 million from ADB, public investors (sovereign donors and development agencies) and philanthropies, via grants, to provide technical assistance to the NCF.

Figure 4. Natural Capital Fund Structure



The NCIF is divided into the following three investment tracks:

(i) **Natural Capital Finance** will provide grants, debt, and equity to natural capital projects that are originated from ADB's sovereign and private sector's current and future pipeline, as well as to projects arising from RFPs.

(ii) **Sovereign Finance** will provide grants, debt, and guarantees to agri-food systems projects (SMEs) that protect, restore, and sustainably use natural capital. These projects may be originated from ADB's sovereign and private sector current and future pipeline, RFPs, as well as through co-investments with commercial and non-commercial investors.

(iii) **Private Sector Finance** will provide grants, debt, equity and guarantees to agri-food systems projects (SMEs) that protect, restore, and sustainably use natural capital. These projects may be originated from ADB's sovereign and private sector current and future pipeline, RFPs, as well as through co-investments with commercial and non-commercial investors.

The IR will be structured as follows:

(i) Project origination, which will assist the NCF in helping originate pre-seed, seed, and early-stage projects;

(ii) Project development, which will help SMEs to better develop their projects, so they are eligible for NCF investments; and

(iii) Project structuring, which will help SMEs to better structure their projects from a financial perspective, so they can become eligible for NCF investments.

To try to ensure that the NCF investments deals with the wider context, namely the main causes of environmental degradation, the NCF will use the following strategy:

(i) Only those investments (SMEs and/or intermediaries) that contribute to address the negative externalities and inefficiencies of the agri-food systems in which they operate will be selected. These investments will need to have a strong focus on protecting, restoring, and sustainably using natural capital. To that end, all investments (SMEs and/or intermediaries) will be required to develop a TOC and an impact framework to showcase how such investments will address the wider context.

(ii) In addition, all sovereign finance and natural capital finance projects will need to show a clear strategy that is well aligned with the government's objectives and priorities to address the wider context.

(iii) The Natural Capital Lab (NCL), one of the three components of the INCFF, will specifically focus on addressing the wider context by providing advisory services and technical support to those countries where the investments take place. In addition, the NCL will ensure that the wider context is addressed in full alignment with country strategies, priorities, etc.

It is envisioned that the GEF would become an anchor investor to the NCF by investing $13,650,000 million in equity in the NCF, specifically in the NCIF, whereas the IR will raise capital from ADB, sovereign donors, and philanthropies. Consultations have been ongoing with potential investors, with favourable responses received, but it is too early to consider this interest as a commitment. These are listed in a confidential document which is attached to the roadmap.

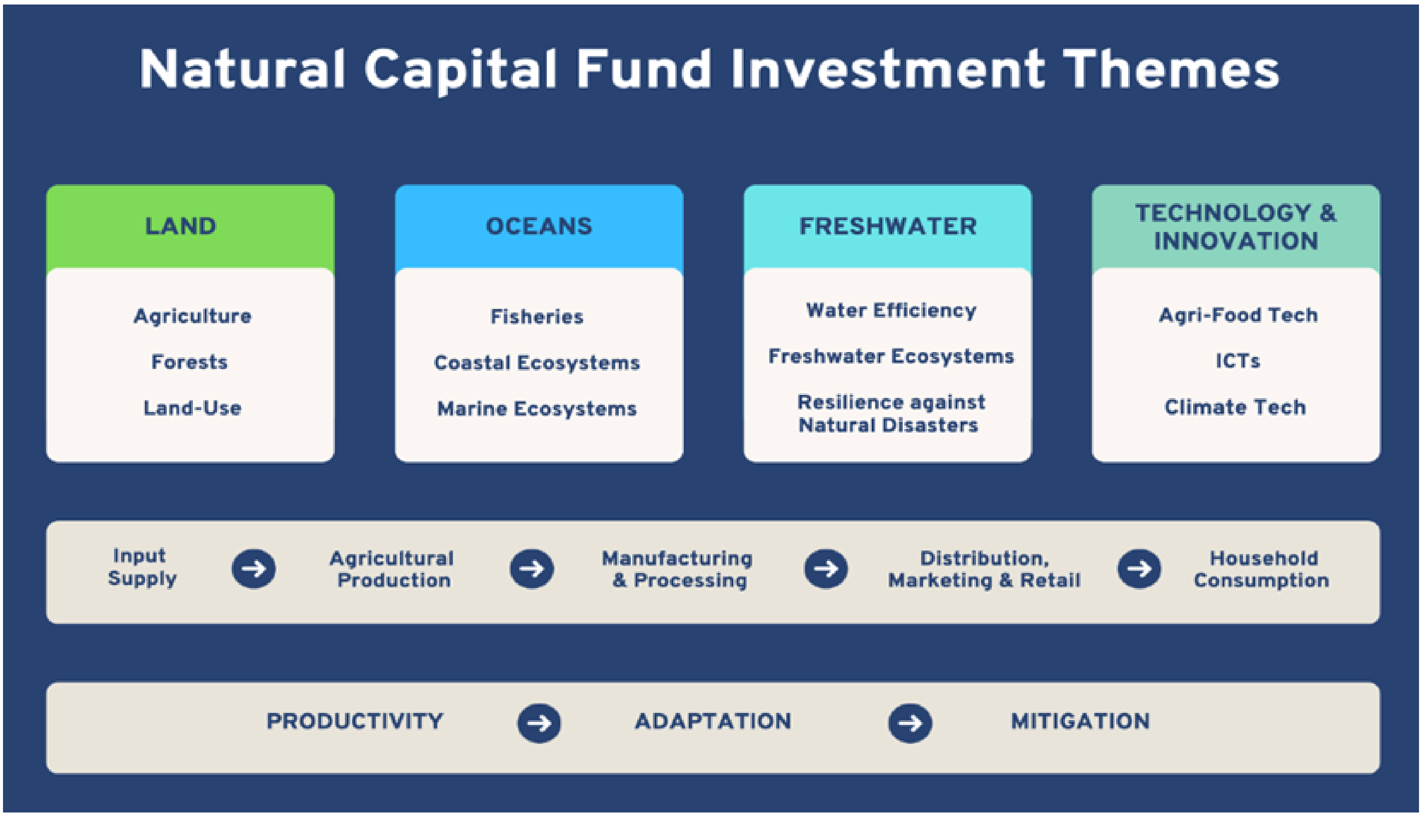
The NCF's funding approach would be based on an evaluation of each individual project's projected cash flows. The quantum of investment made by NCF would ensure that its funding is capped at 33% of total debt for debt funding, 25% of total equity for equity funding and 20% of total funding for grants. In this manner, the amount of concessional funding would be optimized for each project.

The expectation is to raise a significant proportion of commitments to the NCF through grants. All equity investors would be pari-passu with each other. Thus, we do not envisage a situation wherein some investors would exit after a few years while others would only get paid out at the end of the fund's tenor. It is our understanding that 15-20 year tenor for projects of this type is industry standard. Furthermore, during resource mobilization efforts will be made to engage donors / investors which are prepared to consider this tenor. Our aim is, indeed, to crowd-in as much private sector investment as possible, while maintaining minimum concessionality, focusing on innovation, and providing reasonable reflows.

The NCF's investment strategy is to encourage innovative natural capital oriented business models that generate positive cash flows, and thus a positive return on investment. Concessionality is designed to help businesses cross initial "death valleys" and attain viability. NCF investment process would be designed for learning and enhancing the pipeline over the life of the fund, graduating successful business models to commercial financing and enrolling new pipeline of projects in frontier areas

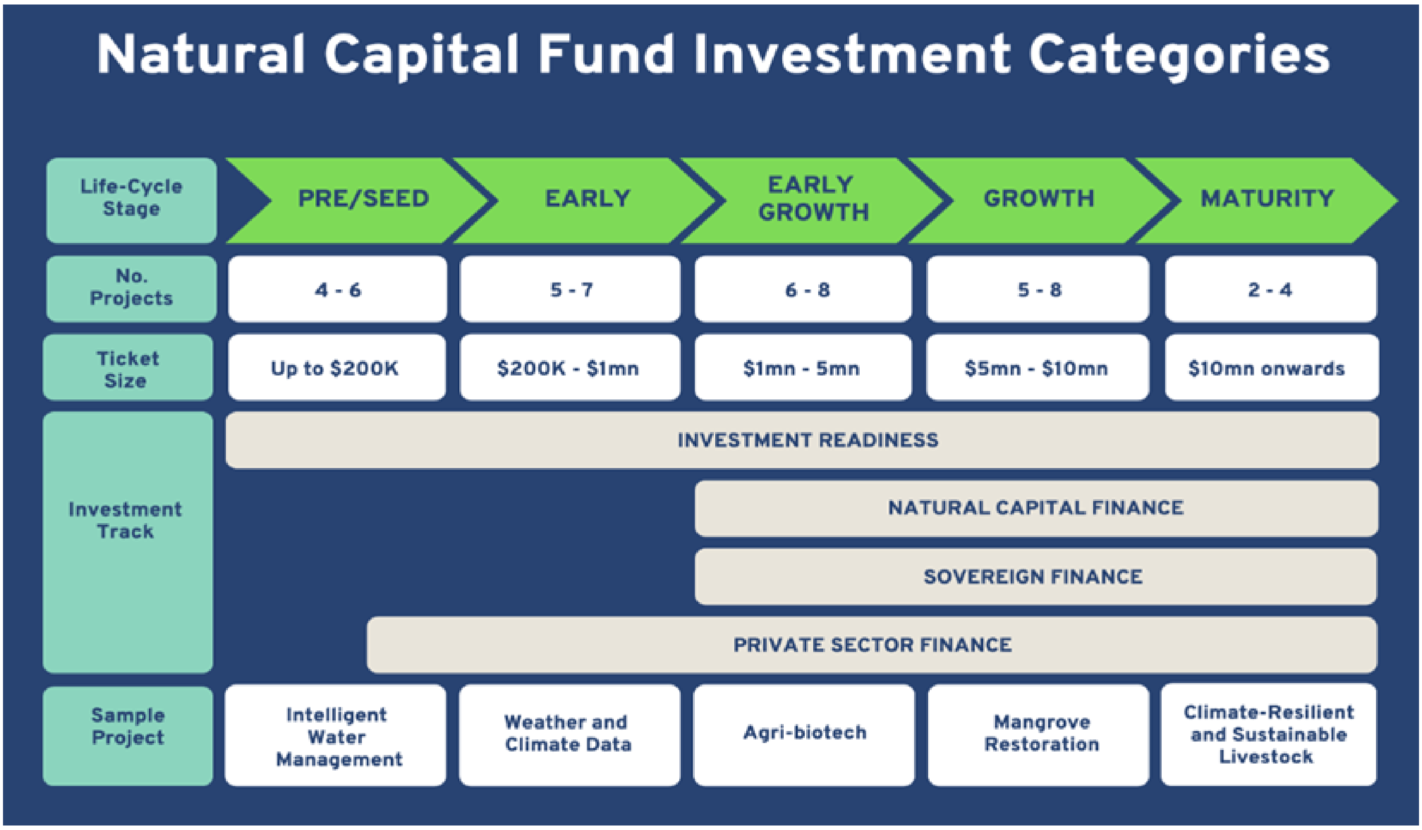
To ensure public and private investor's interest in investing in natural capital projects, ADB has held numerous stakeholder consultations with potential public (e.g., climate funds, DFIs, etc.) and private sector investors (e.g., asset managers [private debt and private equity], commercial banks, investment banks, investment advisors, corporates, foundations, etc.) as well as project developers than can also invest commercially in natural capital projects within the agri-food systems space. In addition, farmer's groups and SMEs have been consulted to solicit their insights. Feedback received during this stakeholder consultation has been incorporated into the design of the NCF's investment strategy. Against this background, and with the inputs also received from ADB's sovereign and private sector teams, the investment themes, and types of interventions under each investment theme were developed, as shown in Figure 5:

Figure 5. Natural Capital Fund Investment Themes



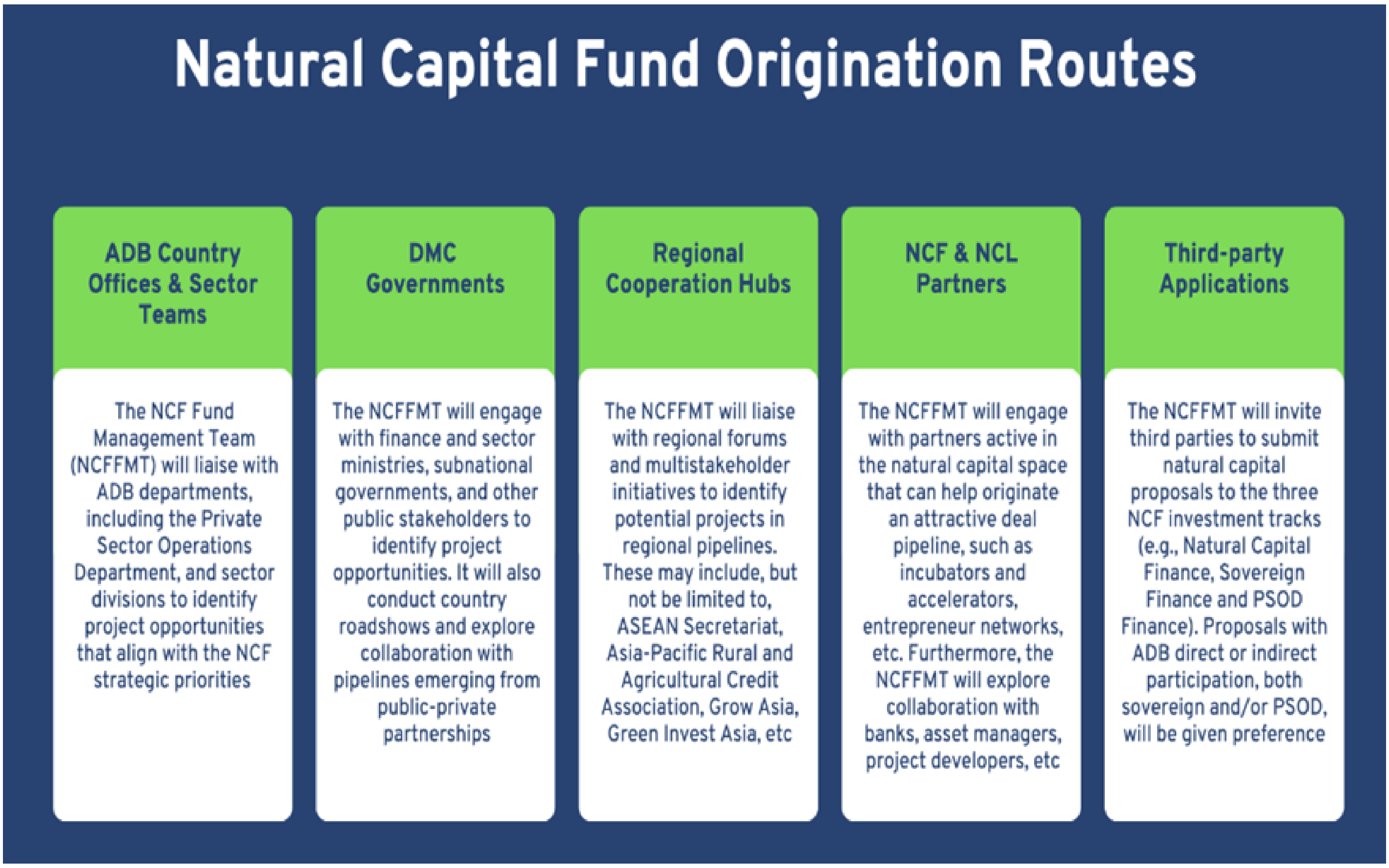
As part of the NCF investment strategy, ADB has carefully determined the investment categories that will compose the NCF's portfolio, which includes the different stages of the investment cycle, number of SMEs and/or projects to be invested in per stage, funding purpose, expected ticket size, average maturity and terms, and geographic allocation. Figure 6 below presents an overview of the main features of the NCF investment categories:

Figure 6. Natural Capital Fund Investment Categories



During the market research and stakeholder consultation phases, potential private investors highlighted lack of an attractive and investment-ready pipeline continues to be the major roadblock in their 'natural capital' investment strategies. In addition, there are other private investors that were consulted that do not have natural capital strategies in place due to their perception of a sector that cannot generate attractive risk-return profiles. Hence, unlike most impact investment funds in the market, where the investment strategy is developed and then the fund manager tries to originate deal flow, the NCF has followed a bottom-up approach, where the pipeline has been developed in parallel with the design of the investment strategy. To that end, the NCF developed a clear pipeline development strategy as shown in Figure 7.

Figure 7. Natural Capital Fund Origination Routes



As part of the pipeline development strategy, ADB analyzed current ADB sovereign and private sector operations to identify a pipeline of potential deals that could deliver positive natural capital and agri-food systems outcomes. This entailed an analysis of the investment profile, risk considerations, expected impact, and investment needs of each potential deal across the four investment themes and investment categories described above. The investment gap analysis was conducted as part of ADB plans to provide at least $14 billion over 2022–2025 in a comprehensive program of support to ease a worsening food crisis in the APR and improve long-term food security by strengthening food systems against the impacts of climate change and biodiversity loss.

As a result of the analysis, it was clear that some of the eligible borrowers and/or investees may need local currency to conduct their operations. In these cases, ADB, a leading triple-A institution, will manage through its Treasury Department any potential currency risk by matching its loans and investments to the same currencies in which funds are received into the NCF. Hence, the NCF funds to be invested may only be converted into other currencies if they are fully hedged through cross currency swaps or forward exchange agreements.

Table 1 below shows 7 sample NCF deals from the potential pipeline that summarize the type of deals that the NCF would invest in. Furthermore, Table 1 shows the life cycle stage, investment track, description of the deal, the amount of co-financing and potential gross average annual return, and the expected impact. It is important to note that some of these deals, which were originated from ADB's pipeline, most often lack the necessary capital and technical assistance (investment readiness) to help SMEs, and especially smallholder farmers, upscale new approaches and technologies to integrate natural capital into their business models and deliver GEBs at scale.

Table 1: NCF Sample Deals

Deal Name ***Life-cycle Stage*** ***Investment Track***	Description	Amount Invested* Co-Financing GAAR (Gross Average Annual Return)	Expected Impact
1. FluidLytix *Life-cycle Stage: Pre-seed* *Investment Track: Investment Readiness*	Technology that promotes water efficiency by reducing unwanted air in water pipelines, thereby increasing water and pipe (PVC) cost savings	NCF amount invested: 150k convertible grant Co-financing: 0 GAAR: 3%	Increases water efficiency and resilience, increases yield, promotes SLM, strong gender part, reduces GHGs and PVC pipe
2. Komunidad *Life-cycle Stage: Early* *Investment Track: Private Sector Finance*	Weather and natural disaster data systems and analytics to build climate resilience in disaster-prone areas, resulting in better management of climate risks and disaster preparedness. It has developed a tool to help plan seeding, irrigation, and harvesting.	NCF amount invested: 500K equity Co-financing: 1.5M equity from impact investor GAAR: 2.5%	Climate resilience for SME farmers, climate adaptation, improves soil health, increases yield, promotes SLM, promotes lower pesticide use, and allows option for bio-pesticide
3. E Green Global Co. Ltd. *Life-cycle Stage: Early-growth* *Investment Track: Private Sector Finance*	World's first mass production platform for successfully commercializing non-GMO, high-quality virus-free potato microtubers, while drastically reducing water and GHG emissions of the potato industry, and improving soil health	NCF amount invested: 3M equity and 100K recoverable grant Co-financing: 5M equity from private equity investor GAAR: 5%	Reduces water use and GHGs, improves soil health, increases productivity, sustainable land use, increases yield, promotes SLM, lowers pesticide use
4. Mangrove Restoration	Promote mangrove restoration, resilience against natural disasters, and carbon sequestration, while improving the livelihoods of coastal communities through sustainable shrimp production and carbon finance	NCF amount invested: 5M equity Co-financing: 50M (35M from ADB sovereign loan, 5M equity from corporate, 5M equity from commodity	Disaster and coastal protection, climate adaptation, carbon sequestration, GHG emissions reduced, SLM, increase production, strong gender support

Life-cycle Stage: Growth *Investment Track: Natural Capital Finance*		trader, and 5M equity from carbon investor) GAAR: 5%	
5. Climate-Resilient and Sustainable Livestock Development Project *Life-cycle Stage: Early-growth* *Investment Track: Sovereign Finance*	Promote pasture rehabilitation and carbon sequestration while increasing the income of herder households through the formation and institutionalization of pasture user groups and the implementation of rangeland user agreements	NCF amount invested: 5M (4.5M in loan guarantee and 500K in recoverable grant) Co-financing: 47M (30M from ADB sovereign loan, 10M from domestic FIs, and 7M carbon finance from impact investor) GAAR: 1.5%	Land restoration, land under better environmental management, carbon sequestration, climate resilience, food security, strengthened governance and institutional capacities, gender equality
6. Pakistan Flood Assistance Project *Life-cycle Stage: Maturity* *Investment Track: Sovereign Finance*	Reconstruction with long-term resilient irrigation, drainage, flood risk management, and on-farm water management infrastructure for recovery of flood-ravaged provinces of Balochistan, Khyber Pakhtunkhwa and Sindh.	NCF amount invested: 12M (concessional loan) Co-financing: 475M (ADB sovereign loan) GAAR: 1%	Food security, climate change adaptation through durable irrigation infrastructure, enhanced environmental sustainability, SLM, strengthened governance and institutional capacities, gender equality, opportunities for reduction of HHPs and residual plastic
7. Yellow River Basin Green Farmland and High-Quality Agriculture Development Project	Sustainable and resilient production bases balancing producing food and agricultural products with environmental protection, and rehabilitation and climate adaptation and mitigation; and agribusiness that adds value to commodities through value chain development and market connectivity; and strengthen institutions for a more sustainable sector	NCF amount invested: 9.1M (performance-based loan) Co-financing: 157M (ADB sovereign loan) GAAR: 1%	Agricultural production for higher value crops while increasing natural capital; land rehabilitation, climate adaptive farm infrastructure, climate mitigation through cropping, increases yield, promotes SLM, agri-business market platform increasing efficiency, low and non-chemical pesticide use, reduction of agricultural plastics, strengthened governance and institutional capacities.

Life-cycle Stage: Growth *Investment Track: Sovereign Finance*			

k = thousands, M = million.

Notes:

1. Amount in USD
2. Return is gross annual average.

Below is a more detailed explanation on each NCF sample deal that showcases how – the NCF's flexible financial instrument offering, investment readiness support, and investor and technical partners' network may help them deliver transformation impact. Note that Deal #1 in Table 1 is a small, pre-seed investment that would not receive capital from MDBs or any other investor, given the high-risk and high transaction cost they represent due to their lack of track record, their unproved business model and technology solution, the small ticket size they require, and the uncertain returns they can generate. It is important to note that although pre-seed, seed, and early-stage investments represent high risk, they can also potentially deliver high rewards from a financial, social and environmental perspective (e.g., SDGs, GEBs, etc.). In these early-stage investments, there are potentially ground-breaking technologies and approaches that require investment to support their feasibility, design, piloting, and marketing phases before they can achieve transformational impact.

Deal #1 is **pre-seed**, a technology that reduces unwanted air in water pipelines, resulting in pipelines carrying more water, fewer design considerations for air venting and less maintenance for prevention of air locks. If developed and deployed as planned, the technology could save water initially in Thailand's pipelines and can then be upscaled throughout the APR. Although only a fraction of the APR's irrigation water flows in pipelines (most irrigation water is in open channels), there remains a significant number of existing pipelines and they are expanding. According to FAO, pipelines conserve water by limiting leakage and evaporation and are much more efficient and more climate resilient. Smallholders and larger farms benefit from water conservation by increasing the amount of water and supply consistency needed for multiple cropping. In areas of PVC water transmission, the technology would lessen the pipe size and pumping needed.

Deal #2 is an **early-stage** investment that has proven technologies with existing sales but lacks capital to expand to regional markets and to add an agricultural specific tool to help farmers mitigate local climate impacts. With a combination of ADB venture seed financing and NCF equity financing, this technology can reach communities and businesses throughout the APR, helping them to better adapt to a changing climate with more efficient use of water and fertilizer, early flood and drought warnings, early warning on pests, and recommendations for sustainable pest control methods that offer alternatives or lower the use of hazardous pesticides.

Deal #3 is **early growth** and of sufficient size for ADB Private Sector Operations Department (PSOD) to invest. With an additional equity investment from NCF the company will build the first mass production platform for commercializing non-genetically modified, pest resistant, high-quality virus free potato microtubers. The result will be much lower water use, less pesticide use, and far fewer GHG emissions per ton of product, which also increases farmer income and increases natural capital. An additional impact investor helps to launch the technology in India, and later upscale throughout the APR. The additionality of NCF and the impact investor brings this technology to market faster and ushers a stronger track to regional upscaling.

Deal #4 is **growth**, an area for both ADB sovereign and PSOD financing. This is a great stage to attract corporate investments looking for lower risk, higher profile, and larger investment. Sovereign projects are with the Government, in this instance Vietnam ($35M ADB), and inherently are guaranteed, although co-financing may have a separate investment profile. The project, to restore mangroves, has both a financial and economic gain from protection from natural disasters, carbon sequestration (assists the Government to meet their nationally determined contribution (NDC), and sustainable shrimp production, but not a cash flow. The NCF $5M concessional loan provides the additionality needed to develop the project. A $15M in carbon finance, from each corporation, commodity trader, and carbon investor fosters a link to carbon credits, certified-sustainable shrimp sales, and other community sustainable-labeled products that produce cash flows. Although the carbon credits are passed to the investor and not claimed as a NCF output, the credit sales underpin the investment that restores and maintains natural capital in the mangroves.

Deal #5 is **mature**, where the ADB project, usually sovereign, is in the pipeline (in ADB's Country Partnership Strategy) and there is an additional opportunity for greater environmental benefits with the NCF additionality. In this deal, ADB has an existing program in Mongolia for sustainable livestock development that preserves Mongolia's vast grassland and restoring natural capital. The NCF's $10M guaranteed to FIs encourages the Government to borrow an additional $30M from ADB and ultimately expands the amount of grassland restored and under sustainable management.

Deals #6 and #7 are similar to Deal #5 (**mature**) in that they are ADB sovereign loans with opportunities for the NCF to influence the entire project and establish investments in natural capital. Deal #6 in Pakistan addresses an urgent need to protect against future, climate-enhanced floods, but with climate resilient infrastructure that also provides climate mitigation benefits. Deal #7 in China is an example of likely future ADB sovereign projects investing in higher value crops, market access, sustainable fertilizer use, low and non-chemical pesticide use, reduction of agricultural plastics, and strengthening the agriculture institutions. The NCF investments in these types of projects allows NCF investors access and to invest in areas like smaller farm and processing technologies, organic agriculture products, or maybe a women-owned agricultural co-op, that generate GEBs, and have institutional and policy support from the sovereign project. These NCF investments can influence the entire project and upscale innovative technologies or methods, and transform the sector.

Financial additionality, use of proceeds, and financing instruments. Under the baseline scenario, without GEF co-financing, the NCF would provide a lower, and shorter-term, quantum of funds from ADB ordinary resources which would significantly reduce the de-risking and leverage potential at the transaction level, specifically when compared to the benefits of a blended finance fund. Similarly, the NCF would find it difficult to build a pipeline of early-stage natural capital projects that represent higher-risk and lower return, despite their potential GEBs impact, without GEF's investment.

Furthermore, the NCF aims to raise $13,761,469 million from GEF, and an additional $136+ million from public investors (e.g., sovereign donors, development agencies, and climate funds), philanthropies. and corporates at fund level. To ensure that the NCF raises the corpus of the Fund ($150 million), ADB has developed a comprehensive fundraising strategy that builds on its (i) decades of experience and robust track record of mobilizing co-financing (for example $16.4 billion raised in 2020 and $12.9 billion in 2021 by ADB for similar initiatives); and (ii) distribution networks and stakeholder consultations undertaken with potential public investors, philanthropies, and corporates. Against this background, the NCF aims to raise most of the capital in the form of grants and equity from the following potential investors:

(i) Public investors, such as:

  a. Sovereign governments and development agencies in the form of grants (approximately 57% of the total capital, based on the $128 billion per year that are allocated from public sources to terrestrial and marine ecosystems[1][14]), and

  b. Climate funds: GEF in the form of equity (10% of the total capital).

(ii) Philanthropies in the form of grants and equity (approximately 20% of the total capital, based on a recent estimate of philanthropic giving provided in 2021 ($810 billion) and the objective of Giving to Amplify Earth Action (GAEA) to mobilize $3 trillion[2][15]).

(iii) Corporates from the food and agriculture space, as well as the textile and technology sectors (though the NCF is open to other sectors too) in the form of grants and equity (approximately 13% of the total capital, based on the $26 billion per year that is allocated to natural capital[3][16]).

The fundraising estimations above are consistent with industry data and in line with ADB's track record mobilizing co-financing, as shown in Figure 8, which represents a sample of some of the capital raised by ADB for a few climate funds since 2017. Hence, based on ADB's fundraising experience and the conversations so far with potential investors (e.g., development agencies, philanthropies, and corporates), the NCF is targeting $50 million for the first closing (minimum kick-off investment size), with the total amount raised by the final closing.

Figure 8: Examples of ADB's Product Range

Examples of ADB's Product Range

Name	ASEAN Catalytic Green Finance Facility	Asia-Pacific Climate Finance Fund	Australian Climate Finance Partnership	ADB Venture Investment Fund I	Climate Innovation and Development Fund
Target Size	$1.42 billion	$10.675 million	AU$140 million	$60 million	$25 million
Year Established	2019	2017	2020	2020	2022
Type of Fund	Other Fund	Trust Fund	Trust Fund	Trust Fund	Trust Fund
Sector	Green Infrastructure	Financial Risk Management Products	Climate Adaptation & Mitigation**	Climate Tech (Early-Stage)	Climate Adaptation & Mitigation***
Geographies	ASEAN*	All DMCs	Pacific and SE Asia	South Asia and SE Asia	India and Vietnam
Instruments	Debt (Loans)	TA, Grants, Debt, Mezzanine, Equity, etc.	TA, Grants, Debt, Equity, Guarantees, Mezzanine	Equity and Quasi-equity	TA, Grants, Debt, Equity, Guarantees, Mezzanine

*Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Philippines, Thailand, and Viet Nam
** Multi-sector: Renewable energy, sustainable transport, energy efficiency, land use and agribusiness, water supply and sanitation and/or wastewater treatment, solid waste management, blue carbon, agriculture and forestry, land use management, resilient infrastructure, marine and coastal ecosystem protection, health care and disaster risk management
***Multi-sector: Non-conventional renewable power generation, sustainable transport, climate-smart urban solutions, grid optimization technology, agriculture and land use, and green manufacturing and construction

In addition, the NCF aims to leverage $702 million at the transaction level from public (e.g., governments, DFIs, etc.) and private investors (e.g., banks, asset managers, corporates, etc.). The estimation of this leverage is based on the following ADB's capital structure assumptions:

Table 2: NCF Capital Leverage at Transaction Level

Debt Investments (inc. guarantees)	
Project/Entity Debt to Equity	3.0
NCF's share of debt (up to)	33%
For every $1 of NCF's debt investment	
External Debt	2.0
Equity	1.0
Equity investments	
Project/Entity Debt to Equity	3.0
NCF's share of equity (up to)	25%
For every $1 of NCF's equity investment	
External Debt	3
Equity	4
For every $1 of NCF's grant investment	
External Capital	4
NCF debt investment	50
NCF equity investment	50
Grant investment	50
Total capital crowded in	**702**

These internal calculations are consistent with the data from historical transactions provided by Convergence and the Overseas Development Institute on blended finance funds and DFIs 'leverage', respectively. These also resonate with all the potential co-investors that the NCF has talked to, namely banks, asset managers (private debt and private equity funds), corporates, and project developers that can raise and deploy a significant quantum of capital. It is worth noting that the estimations at the transaction level are conservative, as a large focus of the investments would be on building a pipeline of SMEs that are at pre-seed, seed, and early stages, and whose investment needs require small ticket sizes.

In addition, the NCF will use ADB's eligibility criteria for project-level co-financing, as determined by the Strategic Partnerships Division (SPSP) of the Strategy, Policy and Partnerships Department and the Partner Funds Division (SDPF) of the Sustainable Development and Climate Change Department (SDCC) at ADB. This follows five steps:

1. Identification (find areas/sectors of mutual interest)
2. Preparation (early engagement, joint TOR for project design)
3. Approval (commitment letter (DD/approval), funds commitments, regulations and signing of agreements)
4. Implementation (additional financing (for President approval) and minor change in scope)

5. Completion and evaluation

Furthermore, the NCF will try to select those co-financing partners that can:

1. Align strongly with UN SDGs, Paris Agreement and the Kunming-Montreal Global Biodiversity Framework
2. Align strongly with NCF's TOC and aim to achieve its impact
3. Provide, at co-investor level, at minimum leverage ratio of 1:3Provide, at investee level, a minimum contribution of 10% to 25%
4. Determine the following information:
    a. Grants: Resources provided without expectation of repayment.
    b. Loan: Resources provided with expectation of repayment.
    c. Equity: Investment into a company or asset with and the financial returns.
    d. Guarantee: Commitment to partially or fully reimburse a lender if the borrower fails to repay a loan.
5. Determine total investment mobilized (co-financing that excludes recurrent expenditures)
6. Can identify, document, monitor and report on co-financing and investment mobilized throughout the GEF/NCF investment
7. Meet all ADB and GEF social and environmental safeguards.

Table 3: NCF Expected Returns

Blended Returns	
Return on Equity Investment	5%
Return on Debt Investment	0.50%
Blended Return	1.8%

Based on the existing pipeline analyzed and on historical data from previous ADB transactions, it is reasonable to assume that the gross average annual return would be approximately 1.8%, which is a blended return from the expected average return on equity investment (5%) and the expected average return on debt investment (0,50%).

Considering that the NCF aims to build in part an early-stage pipeline and to crowd-in additional capital, all proceeds from exits will be reinvested into the Natural Capital Fund. Hence, the exit strategy for all equity investors, who will be pari-passu with GEF, would consist of the redemption of their shares in 20 years (one single repayment at final repayment date). Furthermore, NCF's portfolio of investments across all its instruments would be liquidated by the end of 20 years. The amount thus realized would be proportionately divided among all investors in line with their contribution amount. Further details of the financial instruments and its terms, as well as the use of the NCF proceeds are described in the Term Sheet (Annex G-4).

It is worth noting that the approach of the NCF to GEF's additionality goes beyond the incremental cost approach, as also suggested by the Independent Evaluation Office of the GEF, and focuses also on the following six areas of additionality:

a. Specific environmental additionality

b. Legal/regulatory additionality

c. Institutional additionality and governance additionality

d. Financial additionality

e. Socioeconomic additionality

f. Innovation additionality

The rationale for looking beyond purely natural capital projects, or the incremental cost for environmental benefits, is that the NCF aims to transform agri-food systems in the Asia and Pacific region, while also protecting, restoring, and sustainably using natural capital. This is particularly critical given that agri-food systems completely depend on natural capital, while being also major drivers of global forest and biodiversity loss, land and soil degradation, water pollution, and greenhouse gas emissions among others. However, despite the depletion of natural capital that agri-food systems cause, agri-food systems projects (SMEs) still struggle to access capital due to their perception of high-risk and low-return; high transaction costs due to the fragmentation of the sector, the small ticket sizes required and the lack of aggregation' and the inconducive enabling environment.

Against this background, SMEs require capital not only to invest in the incremental costs for environmental benefits or on natural capital projects, but to invest in agri-food systems projects that protect, restore, and sustainably use natural capital while also adopting new agri-food practices, technologies, etc. The pipeline presented focuses on natural capital and agri-food systems projects that can deliver positive natural capital outcomes. Hence, the additionality is not only in terms of environmental benefits, but also in terms of (please note that this is not an exhaustive list):

a. Financial additionality: The ability of the NCF to raise additional capital (seeing GEF as the anchor investor), specifically $136.35 million at fund level, and $702 million at transaction level.

b. Socioeconomic additionality: The ability of the NCF to invest in SMEs that will help improve the living standard among small-scale farmers/fishermen/livestock herders, etc., affected by environmental conditions.

c. Innovation additionality: The ability of the NCF to invest in SMEs that will develop or accelerate the adoption and/or demonstration of new technologies that have not shown yet market viability but that have the potential to contribute to sustainable agri-food systems that protect, restore, and sustainably use natural capital.

Outcomes → GEBs. Based on Table 1, NCF has diverse investment tools originating from multiple investor classes that can be tailored uniquely to each deal or contribute to a fund. Investors that include GEF, corporations, ADB, public, private, philanthropic and carbon markets all satisfy their individual additionality mandates with investments that range from technology companies, market companies, government led initiatives, and directly to farmer SMEs. All deals generate GEBs, and although quantification is difficult at this stage, NCF has clear indicator targets in the Results Framework that influence all investments, and they direct the fund management to apprise them in each individual project evaluation.[4][17]

Overall, the NCF outcome indicators include at least $702 million of capital invested by 2038 in agri-food systems projects that protect, restore, and sustainably use natural capital in the APR. This includes sustainable land management (LD-1), restoration of productions landscapes (LD-2), reduction of agricultural chemicals, chemical waste, and plastics (CW1-2) T, and people benefiting from investments. NCF will have at least 22 agri-food systems business cases, each disclosing the risk-return profile, impact, and private capital leverage data by 2038. There are many co-benefits expected from all the projects and where possible, they will be tracked, their impact defined, and resulting GEBs reported. Table 3 highlights the project investment indicators and the co-benefits based on the sample 7 deals. Co-benefits that are essential for the smallholder transformation, that are represented in the sample deals, and that produce durable GEBs are listed as prerequisite co-benefits. Co-benefits that are likely by 2038 from NCF investments, but are not included in the outcome indicators, are listed as incidental.

Table 4: Achieving GEBs – Investment Indicators and Co-Benefits

Source	Investment Indicators*	Co- Benefits (prerequisite)	Co-Benefits (incidental)
Deal Level			
1. FluidLytix	20,000 ha – area of landscapes under sustainable land management in production systems	Increases water availability and climate resilience; increases system and farmer productivity; private sector investors expand technology network; promotes SLM	Global applications; scale up through private sector investors GHG reduction: PVC pipe reduction; and 135,000 tCO2e directly; 1

			million tCO2ei indirectly (if upscaled)
2. Komunidad	35,000 ha – area of landscapes under sustainable land management in production systems 50 MT HHPs eliminated	Climate resilience for SME farmers; climate adaptation; improves soil health; decreases pesticide use from better knowledge, alternatives, and timing; increases farm income, economic productivity; private sector capital leverages upscaling product	Global applications; scale up through private sector investors GHG reduction: 25,000 tCO2e directly; 2 million tCO2e indirectly (if upscaled)
3. E Green Global Co. Ltd	50,000 ha under sustainable land management (if upscaled) 200 MT HHPs eliminated	Reduces water use, providing more water to grow more crops and drink; improves ecosystem natural capital (soil health); increases productivity; pest resistant (low pesticides); private sector capital leverages upscaling product	Decreases need for more natural land for agriculture; scale up through investors GHG reduction: 4,500 tCO2e directly; 450,000 tCO2e indirectly (if upscaled)
4. Mangrove Restoration	13,750 ha of mangroves, coastal wetlands, restored	Policy support for sustainable agricultural land management; provides disaster and coastal protection, adaptation to rising seas; MSD allows for entry of private sector investors, allowing for NCF leveraging more area under sustainable management	Enhances biodiversity, increases ocean and human health GHG reduction: 78,000 tCO2e sequestered
5. Climate-Resilient and Sustainable Livestock Development	295,000 ha of grassland restored	Farmers' increased knowledge and MSD on range management brings long term ecosystem viability; direct female beneficiaries, increased durable food security; strengthened governance and institutional capacities	Enhances biodiversity, increases women and child health GHG reduction: 1 million tCO2e indirectly (if upscaled)
6. Flood Assistance	200,000 ha of degraded land restored and under sustainable land management	Some floodplain lands to be taken out of farming and restored, allowing floods; poorly irrigated farmland upgraded with sustainable, climate smart irrigation; piping water leads to water savings; investigating incremental project to reduce pesticides and field plastic (if upscaled)	Enhances biodiversity; protects land; increased women and child health GHG reduction: (xx) tCO2e (not estimated)
7. High-Quality Agriculture	50,000 area of landscapes under sustainable land management in production systems 400 MT HHPs eliminated 500 MT avoided residual plastic	Innovative cropping leads under sustainable land management, producing more per hectare; lower farm chemical use; agro-processing and marketing lower energy and plastic consumption; large number of beneficiaries (if upscaled)	Increases income, crop nutritional value; upscales decrease plastics in processing GHG reduction: (xx) tCO2e from agriculture processing (not estimated)
Fund Level			

Total NCF GEB (estimates)	1.2 million ha area of degraded agricultural lands under restoration; 2.5 million ha area of landscapes under improved practices for sustainable land management; 3,000 MT Highly Hazardous Pesticides (HHPs) eliminated; 2,000 MT avoided residual plastic waste; and 3 million people benefiting.

(Note: NCF GHG benefits are likely to be reported as carbon credits, used by NCF private sector investors, and thus will not reported to GEF as GEBs)

Fund level indicators and GEBs are estimated based on the current deals, using the criteria to be used in project origination, and the desired NCF outputs described in the Results Framework. Stakeholder consultations, discussed later in the PIF, show high interest for areas of the current deals but also for forests within the "Land" investment theme,), as well as "Oceans", "Freshwater" and "Technology and Innovation", specifically agri-food tech. The latter is a broad area that includes food manufacturing, processing, distribution, and consumption and stakeholders are interested in making each more efficient, more nutritious, and with less waste. Continued stakeholder consultations, with clear guidance on the intended outputs, will produce additional deals.

Stakeholder involvement and contributions. Stakeholder engagement is a hallmark of ADB operations and ADB is in a distinctive position to engage at every level with country offices in each of ADB's DMCs as well as with its network of corporate and private investor partners in each country. Each DMC has unique challenges that vary by geography, culture, regulations, politics, and capacity to deliver projects. ADB has a long history of working with each DMC on multiple loan, equity, guarantee and technical assistance (TA) projects that require the identification and engagement of key stakeholders, local actors, co-investors and/or co-financiers, and beneficiaries. Each project requires cooperation with stakeholders and mutual agreement, usually as loan covenants, on the project outputs, outcomes, intended impact, and monitoring indicators. This ADB approach is compatible with the GEF stakeholder engagement policy and approach. The NCF will deploy a stakeholder engagement strategy outlined below (and to be refined during PPG), to deliver intended outcomes. Smallholder farmers and SME collaboration with public and private sector partners is key to delivering GEBs. Working with SMEs directly is a priority for the NCF partners that include: (i) contributing partners (public and private investors, and corporates) to capitalize the NCF; (ii) co-financing and co-investment partners (public and private investors, and corporates) that can help leverage additional capital, including commercial finance; (iii) project developers (private sector partners, and knowledge partners) that can help originate, structure, and implement innovative natural capital projects on the ground, as well as source impact business and technology solutions; and (iv) technical partners (knowledge partners and carbon standards and/or ratings) that provide knowledge, best practices, and guidance on natural capital.

There are several levels of stakeholder engagement which require the NCF fund management team to pursue multi-stakeholder dialogues (MSDs) to address GEF and other investor priorities. One of ADB's project origination routes is through existing ADB PSOD or Sovereign partners. Thus. many of the stakeholders are already engaged by ADB through ongoing programs, regional dialogues, and through ADB's Country Operations.

Private Sector Engagement

The NCF will leverage private sector capital and expertise by partnering with private investors (i.e., family offices, private equity funds, asset managers, commercial banks, etc.); corporates; and project developers to finance the transformation of agri-food systems that protect, restore, and sustainable use natural capital. Private sector stakeholders were consulted during the conceptualization, design and marketing/fundraising phases to explore their interest in the NCF, seek their inputs and feedback on the project design and explore willingness to partner with the NCF as investors, co-investors and co-financiers, project developers, knowledge partners, and carbon standards/ratings agencies. More extensive engagement with the private sector will be done during the marketing phase and the NCF implementation. The prominent role of the private sector is summarized below:

(i) There is heavy involvement from ADB's PSOD in the NCF through the Natural Capital Finance and PSOD Finance tracks and ADB Ventures through the PSOD Finance track.

(ii) Private sector investors deploy capital into the fund as contributing partner and/or co-financing and co-investment partner. As a contributing partner, financial resources from public and private investors will be raised to blend catalytic capital for the establishment and implementation of the NCF. Co-financing and co-investment partnerswill help mobilize commercial funding to target the underserved farmer groups and SMEs. The private sector will also participate in the NCF governance as a member of the NCF Advisory Board, Investment Committee, and Working Expert Group.

(iii) There is a dedicated investment track (Private Sector Finance) exclusively for investing and financing, with other co-investors and co-financiers (all of them private) into private financial intermediaries, and SMEs. Furthermore, the sovereign finance track can also invest in the private sector through private financial intermediaries and SMEs.

(iv) The private sector technical capacity and practical expertise helps to originate, develop, and structure investment projects; incentivize proof of concept; and strengthen capacity around agri-food system transformation and the enhancement of natural capital.

(i) As knowledge partners and carbon standards/certification agencies, the private sector will share experience and information on best practices, lessons learned, and guidance to build the knowledge base, disseminate information, and inform responsible decision making in natural capital.

(v). As eligible borrowers/investees of the NCF, commercial investors and SMEs involved in the agri-food value chain with natural capital components are expected to increase income and improve competitiveness for SMEs, contribute to development impacts and scale through agri-food systems transformation, natural capital protection, and climate resilience activities that will be supported by the project.

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[1] UNEP and ELD: State of Finance for Nature, 2022.

[2] WEF: New Initiative to Help Unlock $3 Trillion Needed a Year for Climate and Nature.

[3] UNEP and ELD: State of Finance for Nature, 2022.

[4] ADB will use its own eligibility criteria for project-level co-financing, as determined by the Strategic Partnerships Division (SPSP) of the Strategy, Policy and Partnerships Department and the Partner Funds Division (SDPF) of the Sustainable Development and Climate Change Department (SDCC): (i) Identification (find areas/sectors of mutual interest); (ii) Preparation (early engagement, joint TOR for project design); (iii) Approval (commitment letter (DD/approval), funds commitments, regulations and signing of agreements); (iv) Implementation (additional financing (for President approval) and minor change in scope); (v) Project completion and evaluation

Coordination and Cooperation with Ongoing Initiatives and Project.

Does the GEF Agency expect to play an execution role on this project?

Yes

If so, please describe that role here. Also, please add a short explanation to describe cooperation with ongoing initiatives and projects, including potential for co-location and/or sharing of expertise/staffing

The NCF's cooperation with ongoing ADB initiatives and projects is underway and discussed below.. The NCF will coordinate very closely with ADB's sovereign and PSOD departments, as well as in-country representatives, to explore collaboration and synergies, and leverage ADB's ongoing lending and equity pipelines, country operations, country assessments, and knowledge products.

ADB will also coordinate investments with its Rural Development and Food Security (Agriculture) Thematic Group and the Environment Thematic Group. The NCF will work closely with ADB's regional departments and knowledge hubs to leverage government relationships, operational networks, and relevant industry knowledge. ADB's SPSP will help to facilitate all official communications between the NCF and the financial partners. ADB's DMCs are continuously engaged by the Bank and there is an ongoing dialogue regarding how business and technology solutions contribute to more inclusive and sustainable economic growth.

The NCF is directly aligned with ADB's Strategy 2030, specifically Operational Priority 1 (OP1), widen the geographic coverage to frontier markets with potentially higher risk and developmental impacts; (OP2) further diversify ADB's portfolio to non-infrastructure sectors, including those with high potential for gender impact; (OP3) prepare bankable projects with NCL's support by designing eco-compensation schemes, payment –for ecosystem services and other innovative methods of structuring project cash flows; and mobilize a high-ratio of third-party capital (private, sovereign and donor); (OP5) transform agri-food systems in DMCs to become more sustainable by protecting, restoring and sustainably using natural capital; and target underserved agri-food system players (SMEs, farmer groups, etc.) and multiply the impact of sovereign and PSOD projects; (OP7) develop new strategic partnerships with financiers, innovators, and technology-enabled solutions. These OPs enable ADB to supplement and complement PSOD and Sovereign operations and more effectively mobilize financing to meet the SDGs and target support for lagging pockets of poverty and social inequality in the APR.

NCF will have formal and informal links to ADB operating divisions through NCF's Advisory Board, Investment Committee, Expert Group, and the Fund Management Team All of the NCF governance bodies will be formed by ADB staff who will provide ongoing coordination with the aforementioned ADB operations, management, and knowledge divisions.

Discussion on links with other relevant initiatives is included in the Annex G-1

Core Indicators

Indicator 3 Area of land and ecosystems under restoration

Ha (Expected at PIF)	Ha (Expected at CEO Endorsement)	Ha (Achieved at MTR)	Ha (Achieved at TE)
1600000	0	0	0

Indicator 3.1 Area of degraded agricultural lands under restoration

Disaggregation Type	Ha (Expected at PIF)	Ha (Expected at CEO Endorsement)	Ha (Achieved at MTR)	Ha (Achieved at TE)
Cropland	1,000,000.00			

Indicator 3.2 Area of forest and forest land under restoration

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

Indicator 3.3 Area of natural grass and woodland under restoration

Disaggregation Type	Ha (Expected at PIF)	Ha (Expected at CEO Endorsement)	Ha (Achieved at MTR)	Ha (Achieved at TE)
Natural grass	500,000.00			

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

Ha (Expected at PIF)	Ha (Expected at CEO Endorsement)	Ha (Achieved at MTR)	Ha (Achieved at TE)
100,000.00			

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

Ha (Expected at PIF)	Ha (Expected at CEO Endorsement)	Ha (Achieved at MTR)	Ha (Achieved at TE)
1000000	0	0	0

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

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

Indicator 4.2 Area of landscapes under third-party certification incorporating biodiversity considerations

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

Type/Name of Third Party Certification

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

Ha (Expected at PIF)	Ha (Expected at CEO Endorsement)	Ha (Achieved at MTR)	Ha (Achieved at TE)
1,000,000.00			

Indicator 4.4 Area of High Conservation Value or other forest loss avoided

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

Indicator 4.5 Terrestrial OECMs supported

Name of the OECMs	WDPA-ID	Total Ha (Expected at PIF)	Total Ha (Expected at CEO Endorsement)	Total Ha (Achieved at MTR)	Total Ha (Achieved at TE)

Documents (Document(s) that justifies the HCVF)

Title

Indicator 6 Greenhouse Gas Emissions Mitigated

Total Target Benefit	(At PIF)	(At CEO Endorsement)	(Achieved at MTR)	(Achieved at TE)
Expected metric tons of CO_2e (direct)	0	0	0	0
Expected metric tons of CO_2e (indirect)	0	0	0	0

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

Total Target Benefit	(At PIF)	(At CEO Endorsement)	(Achieved at MTR)	(Achieved at TE)
Expected metric tons of CO_2e (direct)				
Expected metric tons of CO_2e (indirect)				
Anticipated start year of accounting				
Duration of accounting				

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

Total Target Benefit	(At PIF)	(At CEO Endorsement)	(Achieved at MTR)	(Achieved at TE)
Expected metric tons of CO_2e (direct)				
Expected metric tons of CO_2e (indirect)				
Anticipated start year of accounting				
Duration of accounting				

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

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

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

Technology	Capacity (MW) (Expected at PIF)	Capacity (MW) (Expected at CEO Endorsement)	Capacity (MW) (Achieved at MTR)	Capacity (MW) (Achieved at TE)

Indicator 9 Chemicals of global concern and their waste reduced

Metric Tons (Expected at PIF)	Metric Tons (Expected at CEO Endorsement)	Metric Tons (Achieved at MTR)	Metric Tons (Achieved at TE)
650.00	0.00	0.00	0.00

Indicator 9.1 Solid and liquid Persistent Organic Pollutants (POPs) removed or disposed (POPs type)

POPs type	Metric Tons (Expected at PIF)	Metric Tons (Expected at CEO Endorsement)	Metric Tons (Achieved at MTR)	Metric Tons (Achieved at TE)

Indicator 9.2 Quantity of mercury reduced (metric tons)

Metric Tons (Expected at PIF)	Metric Tons (Expected at CEO Endorsement)	Metric Tons (Achieved at MTR)	Metric Tons (Achieved at TE)

Indicator 9.3 Hydrochloroflurocarbons (HCFC) Reduced/Phased out (metric tons)

Metric Tons (Expected at PIF)	Metric Tons (Expected at CEO Endorsement)	Metric Tons (Achieved at MTR)	Metric Tons (Achieved at TE)

Indicator 9.4 Number of countries with legislation and policy implemented to control chemicals and waste (Use this sub-indicator in addition to one of the sub-indicators 9.1, 9.2 and 9.3 if applicable)

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

Indicator 9.5 Number of low-chemical/non-chemical systems implemented, particularly in food production, manufacturing and cities (Use this sub-indicator in addition to one of the sub-indicators 9.1, 9.2 and 9.3 if applicable)

Number (Expected at PIF)	Number (Expected at CEO Endorsement)	Number (Achieved at MTR)	Number (Achieved at TE)
5			

Indicator 9.6 POPs/Mercury containing materials and products directly avoided

Metric Tons (Expected at PIF)	Metric Tons (Expected at CEO Endorsement)	Metric Tons (Achieved at MTR)	Metric Tons (Achieved at TE)

Indicator 9.7 Highly Hazardous Pesticides eliminated

Metric Tons (Expected at PIF)	Metric Tons (Expected at CEO Endorsement)	Metric Tons (Achieved at MTR)	Metric Tons (Achieved at TE)
650.00			

Indicator 9.8 Avoided residual plastic waste

Metric Tons (Expected at PIF)	Metric Tons (Expected at CEO Endorsement)	Metric Tons (Achieved at MTR)	Metric Tons (Achieved at TE)
500.00			

Indicator 11 People benefiting from GEF-financed investments

	Number (Expected at PIF)	Number (Expected at CEO Endorsement)	Number (Achieved at MTR)	Number (Achieved at TE)
Female	153,000			
Male	147,000			
Total	**300,000**	**0**	0	**0**

Explain the methodological approach and underlying logic to justify target levels for Core and Sub-Indicators (max. 250 words, approximately 1/2 page)

Core indicators 3 and 4, and related sub-indicators related area of land ecosystems under restoration, were calculated using estimates from existing ADB projects in agriculture and natural resources sector. The sample deals in the PIF narrative are representative but not necessarily the entire direction of future NCF investments. The Mongolia grassland is a unique opportunity with large GEBs and although there may be similar future NCF investments, the GEBs are likely to be far lower. The mangrove example is one that can be upscaled and translates well across Asia, so there may be additional mangrove projects in the NCF pipeline. Overall, NCF expects that many future investments will produce GEBs under core indicators 3 and 4 however, estimates for the potential GEBs under core indicators 3, 4, and 11.

However, there is high potential for NCF investments to generate co-benefits related to core indicators 2, 5, 6, 8, and 9. At the time of this PIF, these core indicators are listed as co-benefits, but over the next 20 years of NCF operation they are likely investments in each of these areas.

Under Core Indicator 11: The direct beneficiaries (CI 11) are those with 'high intensity' support and are estimated at 300,000 people with 51% female. This is aligned with GEF-8 beneficiary strategy of direct technical and/or training support from the investment. This excludes 'medium intensity' support such as increase in general information available for land use or benefits from consuming non-pesticide foods. Several of the early stage investments and especially technologies, although higher risk, offer greater direct beneficiary support from the training attached to the technology. The total beneficiary number fits with ADB's history of APR investments and ADB's experience with intended outcomes. [The 51% female is meant to be total beneficiaries, but as identified in the gender plan, ADB's support of women is integral in all ADB project planning. ADB strives to identify and include women single - head of households, women in areas of current low representation, and in areas of management. The NCF will include in each project, indicators for investing in women farmers, women in farm servicing, and women in management along the agricultural value chain.]

See 23-05-09 Updated GEF ID 11062 GEB Worksheet as well as 23-05-09 GEF ID 11062 Worksheet on Deal-Specific GEBs attached in Roadmap.

NGI (only): Justification of Financial Structure

Please describe the financial structure and include a graphic representation. This description will include the financial instrument requested from the GEF and terms and conditions of the financing passed onto the Beneficiaries.

Please refer to Project Description above, including Figure 4, and to the Annexed Term Sheet. Specifics of project financing, use of proceeds, and the financial instruments are in the term sheet (Annex G-4), whereas the specifics on financial additionality are described above in its relevant section. The following section describes in detail the financial structure.

Natural Capital Fund (NCF): The minimum targeted fund size is $150 million with a 20-year term. The NCF uses a close-ended blended finance structure that raises catalytic capital from public (sovereign donors, development agencies, and climate funds) and philanthropic and corporate sources to increase public (e.g., governments, national DFIs, state corporations, etc.,) and private sector investment (e.g., banks, asset managers, corporates, etc.,) in agri-food systems projects (SMEs) that protect, restore, and sustainably use natural capital.

It is envisioned that the GEF would become an anchor investor to the NCF by investing $13.65 million in equity in the NCF, while the NCF would raise an additional $136.35 million (at the fund level). In addition, the NCF aims to leverage $702 million at the transaction level from public (e.g., governments, DFIs, etc.) and private investors (e.g., banks, asset managers, corporates, etc.). All proceeds from exits will be reinvested into the NCF. Hence, the exit strategy for all equity investors, who will be pari-passu with GEF, would consist of the redemption of their shares in 20 years (one single repayment at final repayment date). Furthermore, the NCF's portfolio of investments across all its instruments would be liquidated by the end of 20 years. The amount thus realized would be proportionately divided among all investors in line with their contribution amount. The NCF aims to generate a gross average annual return of 1.8%, which is a blended return from the expected average return on equity investment (5%) and the expected average return on debt investment (0,50%). Please note that all calculations have been indicated above. Further details of the financial instruments and its terms, as well as the use of the NCF proceeds are described in the Term Sheet (Annex G-4). Similarly, further information on the reflows can be seen in the GEF Reflows Table (see Annex G-5).

Figures 4, 5 and 6 above provide more granularity on the specific investment structure, investment themes, investment categories (and their respective life-cycle stage, ticket size, investment track, and type of sample deals with their respective risk profile and investment needs). More specifically, Figure 4 shows the NCF structure in more detail, which is divided into the Natural Capital Investment Fund and the Investment Readiness:

1. **Natural Capital Investment Fund:** It represents the corpus of the NCF that aims to raise $140 million from public investors (e.g., sovereign donors, development agencies and climate funds), philanthropies, and corporates via grants and concessional capital (e.g., equity).

    a. **Natural Capital Finance:** This track will accept contributions, with a minimum target size of $5 million per contributor, from public investors (e.g., sovereign donors, development agencies, and climate funds), philanthropies, and corporates. The contributors to this track will seek to prioritize social and environmental returns, with a specific focus on nature-based carbon strategies. This track can deploy grants, debt, and equity for (i) sovereign and/or PSOD current or pipeline projects; and/or (ii) natural capital projects/entities that participate in the RFP issued by the NCF, and that benefit from ADB's additionality. It is worth noting that all carbon credits generated will be according to best industry standards (Integrity Council of the Voluntary Carbon Market), in partnership with certifying industry leaders (e.g., Gold Standard, Verra, etc.) and that all carbon credits will be retired. CCM is not is not a primary NCF focal area, and is a co-benefit from NCF's natural capital investments. There are no climate change results claimed for core indicator 6. However, in cases where the carbon credits are directly tied to GEF funding, they will be retired and reported to GEF SEC. In most cases, co-financing from another public and/or private investors will generate the carbon credits and those will be retired, but not claimed CCM focal area alignment (CI 6). In all cases investments that involve carbon credits must also meet the NCF investment criteria for natural capital environmental benefits, namely land that is restored, protected or under sustainable management. *Carbon credits generated by a NCF project may contribute to investor interest and the project's financial viability, but they also must go hand-in-hand with the targeted LD and CW focal area benefits for NCF financing.*

In those cases where the carbon credits generated only count with GEF funding, these will be retired and reported to GEF SEC. In those cases where there is also co-financing from another public and/or private investor, the carbon credits generated will be retired but will not claim CCM focal area alignment. However, in all cases, any investment that involves carbon credits must also meet the NCF investment criteria for natural capital environmental benefits (land that is restored, protected or under sustainable management).

b. **Sovereign Finance:** This track will accept contributions from public investors (e.g., sovereign donors, development agencies, and climate funds), philanthropies, and corporates. The contributors to this track will seek to prioritize social and environmental returns, with a specific focus on sustainable agri-food system investments that protect, restore, and sustainably use natural capital. This track can deploy catalytic capital in the form of grants, debt, and guarantees for projects that (i) emerge from ADB's pipeline; and/or (ii) are co-invested with ADB commercial and non-commercial investors; and/or (iii) projects/entities that participate in the RFP issued by the NCF, and that benefit from ADB's additionality. A key objective is to crowd-in commercial finance, with a target leverage ratio of 1:3

c. **Private Sector Finance**: This track will accept contributions from public investors (e.g., sovereign donors, development agencies and climate funds), philanthropies and corporates. The contributors to this track will seek to invest in projects that prioritize social and environmental returns, alongside a more attractive financial return, with a specific focus on sustainable agri-food system investments that protect, restore, and sustainably use natural capital. This track deploys catalytic capital in the form of grants, debt, equity, and guarantees for projects that (i) emerge from ADB's pipeline, including ADB Ventures; and/or (ii) are co-invested with ADB commercial investors (e.g., banks, corporates, foundations, family offices, venture capital and private equity funds, impact funds, etc.); and/or (iii) participate in the RFPs issued by the NCF and benefit from ADB's technical additionality. A key objective is to crowd-in commercial finance, with a minimum leverage ratio of 1:3.

2. **Investment Readiness (financed by non-GEF sources):** The minimum targeted size for this track is $10 million, with a 20-year lifetime. The IR will accept non-returnable contributions from ADB, public investors (sovereign donors and development agencies), and philanthropies. Furthermore, the NCF will target financial sustainability. Therefore, ADB will have the option to recycle capital and any returns originated from NCF financing and exits back into the IR. The IR will deploy its funding via grants (e.g., recoverable grants, convertible grants, etc.) and impact linked financing, whose terms and conditions will be based on market diagnostics conducted to identify the exact funding gaps, investment needs and demand in the targeted geographies and sectors. Its main activities will be to (i) originate a pipeline of high-potential projects that solve key agri-food systems bottlenecks, including proof-of-concept pilots that have high-potential for large transformational and gender impact; (ii) support project development to better integrate natural capital components, define project parameters, improve project viability, and mainstream gender approaches; and (iii) support project structuring. These activities will leverage ADB's public and private sector networks in the APR, as well as ADB's expansive corporate client and other partner networks. The NCF, through the IR, aims to identify proof-of-concept opportunities in the DMCs that can benefit from the NCF resources (e.g., grants, debt, equity, and guarantees). In addition, the IR will work closely with the NCL (also funded with non-GEF resources) to generate the knowledge, tools, methodologies, etc., needed to help DMCs invest in projects policy,

regulatory frameworks, market conditions, guidelines, and training that promote agri-food systems transformation and the protection, restoration, and sustainable use of natural capital.

Risks to Project Preparation and Implementation

Summarize risks that might affect the project preparation and implementation phases and what are the mitigation strategies the project preparation process will undertake to address these (e.g. what alternatives may be considered during project preparation-such as in terms of consultations, role and choice of counterparts, delivery mechanisms, locations in country, flexible design elements, etc.). Identify any of the risks listed below that would call in question the viability of the project during its implementation. Please describe any possible mitigation measures needed. (The risks associated with project design and Theory of Change should be described in the "Project description" section above). The risk rating should reflect the overall risk to project outcomes considering the country setting and ambition of the project. The rating scale is: High, Substantial, Moderate, Low.

Risk Categories	Rating	Comments
Climate	Low	The project is in response to climate so there is a pre-project investment assessment of climate risks – drought, flood, temperature
Environment and Social	Low	Environmental benefits are the primary goal so all the investments will have a positive environmental impact. Social risks from climate change (lowering income); demographics (farmer migration to cities); and change in market forces (lowering income) are carefully assessed and monitored in each ADB DMC by ADB Country Operations
Political and Governance	Low	Political change (new government canceling programs) is a risk but generally does not affect these types of investments; governance (corruption affects the investment) can affect the larger sovereign projects where ADB administers a strong anti-corruption policy and audits
Macro-economic	Low	Changes in the macro-economic environment caused by a collapse in the economy or a commodity collapse affecting the investment usually are short-lived in the agri-food systems
Strategies and Policies	Low	Many of the investments do not rely on policies to generate returns or

		GEBs; however, some would benefit from policies that favor climate, water conservation, and natural capital investments
Technical design of project or program	Moderate	Project design is key to avoiding problems and delivering the GEBs – ADB has a long history of project design; NCF design has risks for management and implementation that can be mitigated by strong oversight by ADB, hiring a qualified and experienced fund manager, and by continuing strong multi-stakeholder dialogue Poor preparation and/or monitoring does not produce intended impact -The NCF investment readiness will strengthen the technical capacity of borrowers/investees to improve project viability, identify and adequately structure potential revenue streams, and improve the financial returns and competitiveness of beneficiaries while generating development impacts -Baseline project review with ADB project managers show high level of demand Pipeline is show robust, available projects Stakeholders are putting forth good projects. The NCF will engage an experienced and capable team of experts in the Fund Management Team who will work closely with external and internal partners (government, development partners and the private sector). The NCF Management Team will focus on the origination of projects. Different origination routes will be employed, a robust investment selection process has been developed, and the investment readiness will minimize this risk NCL developed protocols to be implemented on all NCF loans Thorough investment screening by

		Fund manager and ADB lowers risk Stakeholder engagement before, during, and after the project produces better preparation; use of ADB's network in DMCs Mobilization of experienced teams of investment experts Close monitoring and value addition post-investment Active exit management throughout the life of any equity investments. Natural capital accounting methodologies and approaches will be developed, in collaboration with the Natura Capital Lab, to identify, measure and quantify the value of natural capital, which is expected to lead to the identification and monetization of revenue streams (e.g., carbon, biodiversity, water, etc). Blended finance (the strategic use of catalytic capital) will help de-risk NCF investments and improve the risk-return profile of natural capital investments to attract commercial investments. The NCF will collaborate with private investors, project developers and knowledge partners with extensive experience in natural capital revenue generation to identify and further develop best approaches and methodologies. Lack of appetite from potential users to adopt impact solutions in targeted markets. - Under the INCFF TA, ADB will incentivize the participation of impact solution adopters by: (i) involving specialized corporate innovation partners to improve program design and facilitation; (ii) avoiding direct competition between impact solution end users involved in a particular program or project; and (iii) reducing the risk and administrative burden of collaborating with impact solution

		providers through grant funding for the initial validation of the solutions.
Institutional capacity for implementation and sustainability	Moderate	Having durable GEBs is integral to the project and requires capacity for implementation. Knowledge, skills, and resource gaps will be identified on each project and addressed in the investment proposal. Monitoring and reporting will be required by the borrower Borrower's capacity to implement the project – and environment and social management capacity -NCF project due diligence assess capacity for environmental monitoring, gender targets, monitoring KPIs; fund level TA needs to provide KPs and if needed, capacity development; over time the system will be refined, and risk reduced Ability of NCF to streamline farmer, farmer group, or co-op investment proposal and ESS requirements -The blended finance model needs to provide fund level TA to develop, monitor, and verify ESS (climate change too); at the project level, borrowers are required to self-report; baseline project has ongoing ESS monitoring Farmers fail to understand the value chain, natural capital, and the NCF - Small projects limit in-person assistance so rely on KPs, baseline project administration assistance, government, community, and financial intermediaries, if any
Fiduciary: Financial Management and Procurement	Moderate	Financial management will be established by NCF, and investments monitored. There is a risk of poor financial management by the borrower and NCF must monitor the investment Overall coordination of multiple investors of Currency depreciation - ADB will recruit a competent team with extensive experience in fund management

		across multiple investors and asset classes; and will extend technical support and oversight (through treasury and financial controllers) that all investments are managed according to investors needs and terms. The NCF governance structure will provide another layer of oversight through the interactions of the advisory board with the rest of governance bodies, etc. A project monitoring and reporting system will be developed to will keep track of project implementation, ensure regular reporting, and identify problem areas early on, including coordination issues, to prompt the needed action Non-deployment of the fund commitment. -Several of the countries have currency issues; mitigate through guarantees and blended finance Cash flows of the NCF may be affected by currency risks. To hedge against this risk, NCF transactions will be carried out primarily in US dollars and NCF contributions will be deposited into a US dollar interest-account identified by ADB. Contributions that are not in US dollars will be converted prior to deposit to the NCF account. Macroeconomic conditions will be monitored to prepare for factors/external shocks that may impact currency movement, Lack of appetite from private investors to co invest with INCFF in targeted markets - The risk posed by the failure to deploy the full extent of the Fund's resources within the prescribed investment period is mitigated by ADB's record of making loans, direct equity investments and mobilizing an experienced team of investment and lending experts to manage the NCF. -

		The NCF will crowd-in private investors by sharing deal-flow and offering additionality as a strategic co-investor that can scale innovative solution providers through: (i) NCF's capabilities in design, structuring and project preparation (ii) strong government and corporate relationships with solid industry expertise; (iii) regional convening power; (iv) operation at scale with critical mass to sustain long-term strategic engagement; (v) the provision of patient capital; (vi) follow-on investment; and (vii) the credibility of ADB's brand Lack of investable natural capital impact solutions in targeted markets in the pipeline. - The NCF will de-risk potential investees through the following activities: (i) under Natural Capital Lab, implement natural capital accounting methodologies to identify, measure and value natural assets and eco-compensation schemes that improve project viability and mitigate risks in emerging markets; as well as identify and provide best practices, knowledge and training for the protection, restoration and sustainable use of natural capital; (ii) under Agribusiness Service Platform, provide market-oriented services necessary to introduce impact solutions to DMCs and mobilize the participation of NGOs, volunteers and young entrepreneurs; and (iii) provide grant funding to validate solutions. These activities will be implemented in partnership with an extensive network of corporates, project developers, private investors, and knowledge partners, and by leveraging ADB's existing project pipelines, corporate client networks

		and government relationships and regional convening power.
Stakeholder Engagement	Moderate	Ability of NCF to streamline farmer, farmer group, or co-op ESS requirements Although a risk, ADB maintains strong stakeholder ties and a key feature of the NCF is capitalize on those ties; however regular Multi-Stakeholder Dialogues (MSDs) are required -The blended finance model needs to provide fund level TA to develop, monitor, and verify ESS (climate change too); at the project level, borrowers are required to self-report; baseline project has ongoing ESS monitoring
Other		
Financial Risks for NGI projects	Moderate	There are financial risks to NCF projects, especially the pre-seed and early-stage investments. Some may not produce the desired results, but some may also vastly exceed the desired result. NCF will try to minimize the risks of these early projects. These are listed above.
Overall Risk Rating	Moderate	

C. ALIGNMENT WITH GEF-8 PROGRAMMING STRATEGIES AND COUNTRY/REGIONAL PRIORITIES

Describe how the proposed interventions are aligned with GEF- 8 programming strategies and country and regional priorities, including how these country strategies and plans relate to the multilateral environmental agreements.

Confirm if any country policies that might contradict with intended outcomes of the project have been identified, and how the project will address this.

For projects aiming to generate biodiversity benefits (regardless of what the source of the resources is - i.e., BD, CC or LD), please identify which of the 23 targets of the Kunming-Montreal Global Biodiversity Framework the project contributes to and explain how. (max. 500 words, approximately 1 page)

NCF aligns with the following GEF focal areas (relationship to GEF-8 indicators follows):

- Land Degradation (LD), LD-1: sustainable land management; and LD-2: restoration of production landscape.
- Chemicals and Waste (CW), CW-2: strengthen the sound management of agricultural chemicals and their waste, through control, and reduction and/or elimination.

NCF investments are prioritized on their contributions to GEBs and align with several GEF-8 CIs. They include hectares of degraded lands restored (CIs 3.1, 3.3, 3.4); area of landscapes under sustainable land management in production systems (CI 4.3); chemicals of global concern and their waste reduced (CIs 9.7, 9.8); and the number of direct beneficiaries disaggregated by gender as co-benefit of GEF investment (CIs 11.1, 11.2). The following sections describe the NCF alignment with the GEF-8 programming strategies and country and regional priorities, and specifically the CIs.

LD focal area. The NCF aligns with GEF-8 programming strategies for 'land and ecosystems under restoration' (CI 3) and 'areas of landscapes under improved practices' (CI 4). Investments target SMEs and small farmer groups with integrated approaches to implementing sustainable land management programs, increase food security for smallholders, increase agricultural productivity, limit food waste (through the marketing platform), preserve water resources, and promote erosion control.

CW focal area. NCF will have investments in green chemical alternatives in agro-food processing and production (CI 9.5), green pesticide alternatives to highly hazardous pesticides (CI 9.7), and agricultural field plastic reduction, recycling, and improved plastic waste (especially hazardous waste containers and PVC) disposal, avoiding incineration (CI 9.8), either directly as a standalone investment or as a component of a larger investment. All NCF project proposals will be screened for highly hazardous chemical and agricultural field plastic waste reduction opportunities and monitored for results. Of the current indicative deals 2,3 and 7 have the opportunity to provide such an investment

Focal Areas as Co-Benefits. The CIs cited for the NCF were purposely limited, and those cited were just for 7 deals and those directly resulting from the investment. NCF projects will likely generate results applicable to other CIs, as they will other GEBs important to other NCF investors. Co-benefits that align with GEF-8 programming strategies include GHG emissions in and outside the AFOLU sector from the existing 7 deals. . Due to the unique structure of NCF, GHG benefits will be reported as carbon credits to be used by NCF private investors, and not reported as GEBs for the GEF to avoid double-counting. Although it is unlikely NCF will invest in strictly protected terrestrial or marine areas, the investments will certainly contribute to allowing more land and marine systems to be preserved, for instance, mangrove and grassland restoration investments. These same NCF investments will contribute to biodiversity enhancement with mangroves preserving marine ecosystems and grasslands preserving soil biodiversity. Investments in improved restoration and landscapes in the AFOLU sector since land degradation, livestock waste, agricultural emissions, and the resulting receiving water quality and air quality deterioration combine with increasing temperatures to form a threat to biodiversity and ecosystem health.[1][18] Table 2 has a summary of co-benefits.

Beneficiaries. The beneficiaries (CI 11) are estimated at 3 million people with 51% female, is aligned with GEF-8 beneficiary strategy. The total beneficiary number fits with ADB's history of APR investments and ADB's experience with intended outcomes. The 51% female is meant to be total beneficiaries, but as identified in the gender plan, ADB's support of women is integral in all ADB project planning. ADB strives to identify and include women single - head of households, women in areas of current low representation, and in areas of management. The NCF will include in each project indicators for investing in women farmers, women in farm servicing, and women in management along the agricultural value chain. Typically, ADB projects include indicators for at least 30% women in each of these roles

[1] Chelsea Harvey, E&E News on April 21, 2022.

D. POLICY REQUIREMENTS

Gender Equality and Women's Empowerment:

We confirm that gender dimensions relevant to the project have been addressed as per GEF Policy and are clearly articulated in the Project Description (Section B).

Yes

Stakeholder Engagement

We confirm that key stakeholders were consulted during PIF development as required per GEF policy, their relevant roles to project outcomes and plan to develop a Stakeholder Engagement Plan before CEO endorsement has been clearly articulated in the Project Description (Section B).

Yes

Were the following stakeholders consulted during project identification phase:

Indigenous Peoples and Local Communities:

Civil Society Organizations: Yes

Private Sector: Yes

Provide a brief summary and list of names and dates of consultations

During the development of the NCF and concept paper/PIF in 20220 through January 2023, ADB held numerous consultations with a broad range of key stakeholders to introduce the concept of the NCF, solicit inputs on the NCF design and PIF preparation, and explore partnership arrangements. Although most of the consultations were conducted through email and online calls and messages supplemented by limited face-to-face meetings due to the coronavirus pandemic, these consultations provided important inputs in the development of the NCF concept and PIF for the implementation and delivery of the NCF.

A summary of key stakeholders who expressed interest to explore potential collaboration in the design, investment in, and implementation of the NCF is shown below. Please note that these are still confidential and have notyet authorized ADB to disclose their names until further discussions have been held

1. Public investors

   (i) Global Environment Facility

   (ii) FMO (Dutch Entrepreneurial development bank)

   (iii) Foreign Commonwealth and Development Office (UK government)

2. Private investors

   (i) Bloomberg Philanthropies

3. Corporates

   (i) Groupe Danone

   (ii) Salesforce

   (iii) Unilever

4. Private Sector Partners

   (i) ADM Capital

   (ii) Asia Pacific Rural and Agricultural Credit Association

   (Includes 89 members from central banks/regulatory authorities, agricultural/rural Development banks, cooperative banks/federations and cooperatives, commercial banks, government agencies and microfinance institutions)

   (iii) Carbon Growth Partners

   (iv) Climate Asset Management

   (v) Resilient Landscapes

   (vi) Revalue Nature

   (vii) Livelihoods Funds

   (viiii) Mirova

   (ix) Pollination

   (x) Respira International

   (xi) Trafigura

   (xii) World Business Council for Sustainable Development

5. Public Sector Partners

   (i) Development Bank of the Philippines

   (ii) Landbank of the Philippines

6. Knowledge Partners

(i) Stanford University (Natural Capital Project)

(ii) WWF

(iii) Future Food Platform (Geneva)

7. Smallholder Farmer Producer Organizations

(i) Avantika Farmers Producer Company (India)

(ii) Samrudha Kisan Farmers Producer Company (India)

8. Others

(i) Thryve.Earth

This platform enables multiple stakeholders to develop nature-based carbon projects. It is interested in partnering with NCF to provide funding to natural capital projects on their platform.

(ii) GramHeet

(iii) Samunnati Financial Intermediation & Services Private Limited

Further engagement of stakeholders at the regional, national, and local levels will be done during the NCF marketing phase. A comprehensive stakeholder assessment and stakeholder engagement plan will be further developed to refine their role/s and responsibilities, and means of meaningful engagement during implementation. The stakeholder assessment will provide a deeper understanding of the conditions in ADB developing member countries as a basis for a more meaningful engagement with various levels of stakeholders in the spirit of mutual agreement, cooperation, and ownership to deliver the project outcomes. Regular review and refinement of the stakeholder engagement plan will be done during implementation to ensure inclusive, effective, responsive, and sustainable collaborative engagement towards leveraging private capital and maximizing impact.

A stakeholder engagement plan summarizing the role/s and partner/s in the project, potential stakeholders, and the mode of engagement is summarized in Table 1. Stakeholders are divided into three categories: (i) those who invest in the NCF, who co-invest and/or co-finance with the NCF, who is a project developer, knowledge partner, and carbon standard/ratings certifier; (ii) those who comprise the different bodies within the governance structure of the NCF, most of whom are internal to ADB; and (iii) the beneficiaries who will comprise the eligible borrowers and investors for natural capital projects, as well as smallholder farmers, SMEs, and others who will be involved on the implement the projects on the ground.

Table 7: Preliminary Stakeholder Engagement Plan

Role/Project Partner	**Stakeholder**	**Engagement**
A. Investment, Co-financing/Co-financing, Knowledge, and Carbon-Standard Rating Certifier Partners		

Contributing partner	Public sector: ADB; public investors (e.g., sovereign governments and their development agencies, and climate funds) Private sector: Private investors (e.g., foundations, family offices); and corporates	ADB and its NCF team will directly engage with contributing partners to raise funds for the capitalization of the NCF. Consultations with potential contributing partners have begun with some expressing interest to contribute to the NCF. ADB and NCF contributing partners/Advisory Board will hold annual consultations to review the actual progress achieved by the NCF and to provide strategic directions to the Fund. As may be mutually agreed, an evaluation of the Fund will be conducted to assess its overall effectiveness, value addition and sustainability for greater impact and relevance.
Co-financing and co-investment partner	Public sector: Public investors (sovereign donors,development agencies, and climate funds) - Private sector: Private investors (e.g., philanthropies, family offices, asset managers, private equity funds, commercial banks, etc.); corporatesand some project developers that raise their own capital	ADB and its NCF team will directly engage with co-financing and co-investment partners to help catalyze additional capital for the NCF, including commercial finance. Consultation with potential co-financing and co-investment partners have begun with some expressing interest to co-finance and co-invest in the NCF. There will be regular meetings and engagement will also take place during the investment selection process and the issuance of RFPs.
Project developer	Public sector: DMC governments; conservation NGOs; public universities; scientific organizations; ASEAN Secretariat, Grow Asia; Green Invest Asia, etc. - Private sector: Project developers (e.g., Lestari Capital, Carbon Growth Partners, etc.); climate change advisory companies (e.g., Pollination, etc.); impact funds/asset managers (e.g., Livelihoods Funds, etc.)	The NCF Fund Management Team in close collaboration with the ADB representatives, and external NCF partners, will engage directly and extensively with project developers in the origination of the NCF project pipeline. Project developers will help originate, structure, and implement natural capital projects on the ground.
Knowledge partner	Private sector: Carbon standards/ratings organizations (e.g., Verra, Gold Standard, etc.) Public or private sector: Conservation NGOs (Conservation International, The Nature Conservancy, WWF); universities (Stanford University: The Natural Capital Project);	ADB and the NCF Fund Management team will utilize existing ADB partnerships with DMC governments, academic institutions, civil service organizations, and others, and expand knowledge partnerships to identify, disseminate, scale up and replicate evidence from the NCF and others on best practices as well as provide innovative solutions to preserve and promote natural capital. For example, Stanford University's NCL will be engaged formally as a knowledge partner given their expertise in integrating the value

	scientific organizations (World Resources Institute); etc.	of natural capital into decision making. It will provide the knowledge backbone for natural capital assessments at the landscape and project levels.
B. Governance		
NCF Advisory Board	Public sector: ADB; public investors (e.g., sovereign governments and their development agencies, and climate funds) Private sector: Private investors (e.g., philanthropies, family offices, etc.); and corporates	External contributing partners comprise the Advisory Board. Annual consultation meetings will be held to guide the overall direction of the NCF; review and endorse its implementation guidelines, annual work plan, and annual progress report; and review activities supported by the NCF. The NCF Advisory Board will work closely with the NCF Steering Committee composed of ADB representatives who will be tasked with the strategic oversight of the NCF. ADB and NCF contributing partners/Advisory Board will hold annual consultations to review the actual progress achieved by the NCF and to provide strategic directions to the Fund. As may be mutually agreed, an evaluation of the Fund will be conducted to assess its overall effectiveness, value addition and sustainability for greater impact and relevance.
NCF Investment Committee	ADB: NCF ADB representatives from the SDCC/SPDF, operations departments, and , SPS/SPSP Private sector: 2 investment experts (1 from impact investing and the other from the banking sector) with proven credentials on natural capital financing and investment	The NCF Investment Committee is tasked with the direct oversight of the NCF financings and investments, operations and governance. As needed, it will engage with representatives of ADB's sectoral and thematic groups and other bodies in the NCF governance structure, mostly the NCF Expert Group.
NCF Expert Group	ADB: SDCC Director as chair and NCF Investment Committee nominated representatives from SDCC, including thematic and sector groups; and operations departments; and the NCF fund manager	The NCF Expert Group will be engaged in ensuring the achievement of the intended impacts of the NCF impacts transformed agrifood systems and protected, restored and sustainably used natural capital, as well as its

	(ADB individual, not a firm), contracted externally and embedded into ADB structure, specifically the NCF, to manage the fund. Private sector: Technical experts on natural capital, agri-food systems transformation, and climate change Civil society: Technical experts from scientific organizations, universities and/or conservation NGOs	close connection with other ADB projects and programs through the Agri-Food Systems Working Group. In particular, the NCF Expert Group provide high- level guidance on the strategic direction of the NCF, explore opportunities for the engagement of ADB pipeline projects and other venues to foster joint effort within ADB; review NCF project proposals, project information memo, and endorse projects for approval by the NCF Investment Committee. This will require close working relationship and regular exchange with the NCF Investment Committee and ADB operational departments.
NCF Fund Management Team	ADB: Fund Manager (ADB individual, not a firm), contracted externally and embedded into ADB structure, specifically the NCF, to manage the fund. In addition, the NCF Fund Management Team will also count on ADB staff and consultants to help the fund manager as part of the Fund Management Team.	The NCF Management Team is charged with the daily operations of the NCF, from the origination of NCF projects, preparation and screening of pipeline projects, recommending projects for NCF support, to the management of the NCF investment portfolio and monitoring and evaluation of NCF activities. Achievement of these tasks will require close interaction with ADB colleagues in the operations departments, the NCF Expert Group, and eligible project proposal applicants.
C. Beneficiaries		
Beneficiary (Eligible borrowers and investees for natural capital projects, smallholder farmers, SMEs, early sa.)	Public sector: DMC governments, DFIs, state corporations Private sector: Private sector intermediaries (e.g., banks, asset managers [private debt and private equity], social lenders, corporates, etc.) and direct beneficiaries (e.g., SMEs, smallholder farmers, etc.) -	The NCF Management Team and its implementing partners will engage closely with beneficiaries and regularly monitor NCF activities and its beneficiaries to ensure that targets are met and issues are addressed.

ADB = Asian Development Bank, DFI = development finance institution, MDB = multilateral development bank, NCF = Natural Capital Fund, NGO = non-government organization, SDCC = Sustainable Development and Climate Change Department, SME = small and medium enterprise, SPD = Strategy, Policy, and Partnerships Department.

In addition, coordination among the pillars of the Innovative Natural Capital Financing Facility will be carried out through the NCF Expert Group by: (i) providing technical feedback (from a natural capital impact perspective) on project applications to the NCF; and (ii) working in parallel with investment readiness. The rich knowledge and information generated from NCF projects and activities, together with other with information from ADB and other sources, will be collected and then placed in the Agribusiness Services portal to facilitate worldwide information/knowledge exchange and dissemination on the transformation of agri-food systems for enhanced food security and the protection, restoration, and sustainable use of natural capital.

(Please upload to the portal documents tab any stakeholder engagement plan or assessments that have been done during the PIF development phase.)

Private Sector

Will there be private sector engagement in the project?

Yes

And if so, has its role been described and justified in the section B project description?

Yes

Environmental and Social Safeguard (ESS) Risks

We confirm that we have provided indicative information regarding Environmental and Social risks associated with the proposed project or program and any measures to address such risks and impacts (this information should be presented in Annex D).

Yes

Overall Project/Program Risk Classification

PIF	CEO Endorsement/Approval	MTR	TE
Medium/Moderate			

E. OTHER REQUIREMENTS

Knowledge management

We confirm that an approach to Knowledge Management and Learning has been clearly described in the Project Description (Section B)

Yes

ANNEX A: FINANCING TABLES

GEF Financing Table

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

GEF Agency	Trust Fund	Country/ Regional/ Global	Focal Area	Programming of Funds	Grant / Non-Grant	GEF Project Grant($)	Agency Fee($)	Total GEF Financing ($)
ADB	GET	Regional	Multi Focal Area	NGI	Non-Grant	13,761,469.00	1,238,531.00	15,000,000.00
Total GEF Resources ($)						**13,761,469.00**	**1,238,531.00**	**15,000,000.00**

Project Preparation Grant (PPG)

Is Project Preparation Grant requested?

true

PPG Amount ($)

PPG Agency Fee ($)

GEF Agency	Trust Fund	Country/ Regional/ Global	Focal Area	Programming of Funds	Grant / Non-Grant	PPG($)	Agency Fee($)	Total PPG Funding($)
ADB	GET	Regional	Multi Focal Area	NGI	Non-Grant			0.00
Total PPG Amount ($)						**0.00**	**0.00**	**0.00**

Please provide justification

Sources of Funds for Country Star Allocation

GEF Agency	Trust Fund	Country/ Regional/ Global	Focal Area	Sources of Funds	Total($)
Total GEF Resources					**0.00**

Indicative Focal Area Elements

Programming Directions	Trust Fund	GEF Project Financing($)	Co-financing($)
LD-1	GET	6,192,661.00	269000000
LD-2	GET	3,440,367.00	230000000
CW-2	GET	4,128,441.00	147350000
Total Project Cost		**13,761,469.00**	**646,350,000.00**

Indicative Co-financing

Sources of Co-financing	Name of Co-financier	Type of Co-financing	Investment Mobilized	Amount($)
GEF Agency	Asian Development Bank	Grant	Investment mobilized	500000
Donor Agency	Confidential	Grant	Investment mobilized	85850000

Private Sector	Confidential	Equity	Investment mobilized	20000000
Others	Confidential	Equity	Investment mobilized	30000000
GEF Agency	Asian Development Bank	Loans	Investment mobilized	510000000
Total Co-financing				**646,350,000.00**

Describe how any "Investment Mobilized" was identified

The $ 500,000 co-financing is through an ongoing ADB Technical Assistance project on "Green and Resilient Rural Recovery through Agri-Food System Transformation in Asia and the Pacific Region". Among others, this TA supports the initial work related to the Innovative Natural Capital Financing Facility (INCFF).

The ADB $510 million co-financing, is based on the following scenario: There will be at least 3 Sovereign Natural Capital Loans aligned with the NCF. These include:

i) Hubei Huanggang Dabie Mountain Ecosystem Protection and Carbon-Neutral Green Development Project - a $200 million loan aimed at promoting and demonstrating sustainable ecosystem protection and low carbon development principles and practices in the Dabie Mountain in Huanggang Municipality in Hubei Province, integrating policy advice, digitalization, trainings, green financing mechanism for environmental protection, and climate smart agri-businesses development. Expected opportunities to co-finance green projects and climate-smart agribusinesses by NCF will be at least $100 million.

ii). Sustainable Bamboo Value Chain Project in Assam – a $60 million loan for helping create a sustainable bamboo value chain with potential to generate investment opportunities for NCF in SMEs, FPOs and larger projects of at least $50 million, and

iii). Chishui River Basin Ecological Protection and Green Development – a $250 million loan for revitalizing the rural economy in the region; the project's focus on creating green finance mechanisms would generate opportunities for NCF to invest at least $100 million in funding wastewater treatment, protection of drinking water sources, sustainable agriculture, eco-tourism, etc.

These three loans will leverage $250 million of investment opportunities for various investors / donors under the NCF, which may include ADB depending on the nature of the opportunity.

The $ 136,238,531, as explained in the narrative of the PIF, will be drawn from contributions to the NCF from bilateral and multilateral donors, corporates / private sector, and philanthropic organizations. The target amount is based on market diagnostics work and regular consultations with key stakeholders. This is elaborated in the stakeholder and investment mobilization strategy in the sections below.

ANNEX B: ENDORSEMENTS

GEF Agency(ies) Certification

GEF Agency Type	Name	Date	Project Contact Person	Phone	Email

GEF Agency Coordinator	Qingfeng Zhang	2/27/2023	Arun Abraham		aabraham.consultant@adb.org

Record of Endorsement of GEF Operational Focal Point (s) on Behalf of the Government(s):

Name	Position	Ministry	Date (MM/DD/YYYY)

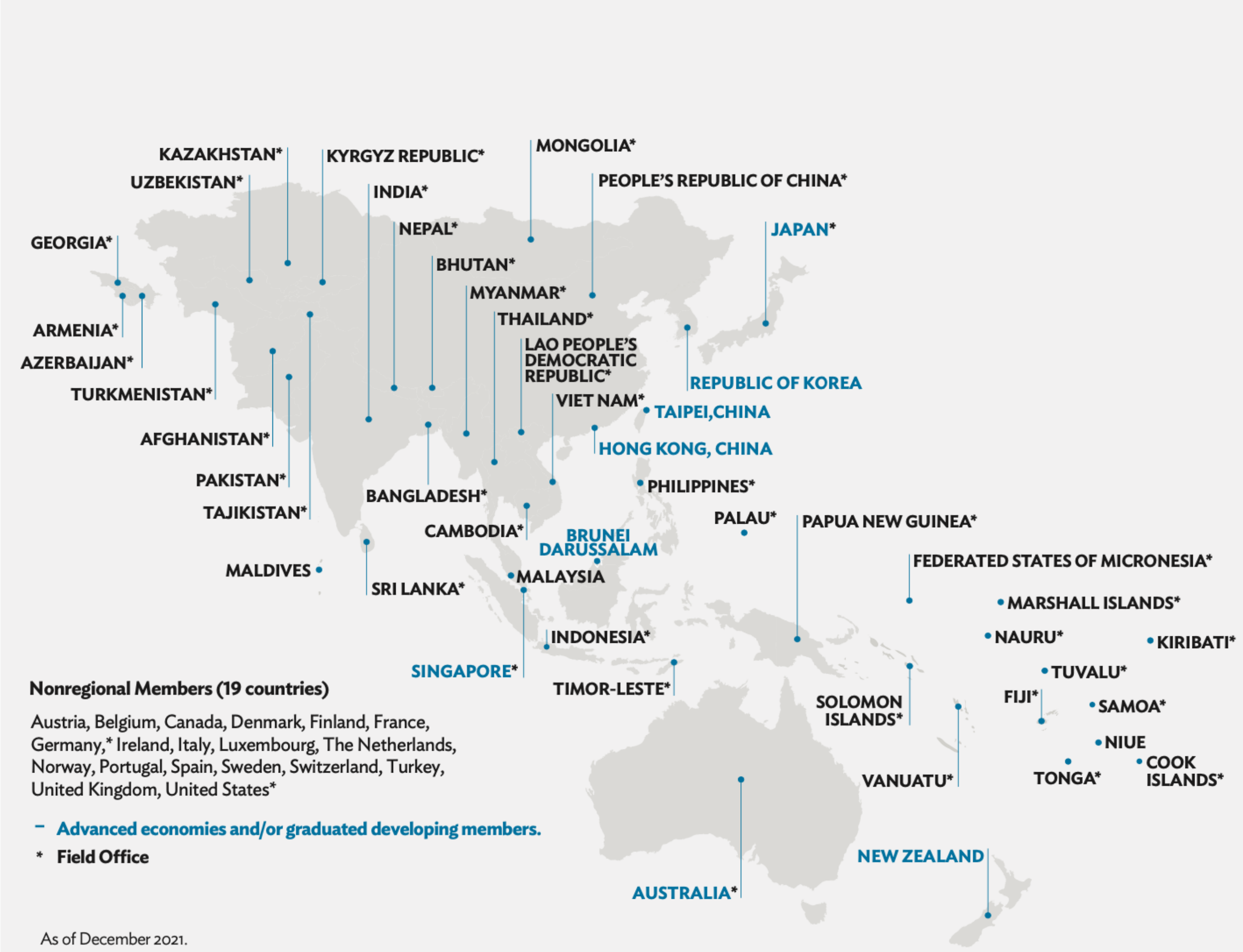
NGIs do not require a Letter of Endorsement if beneficiaries are: i) exclusively private sector actors, or ii) public sector entities in more than one country. However, for NGI projects please confirm that the agency has informed the OFP of the project to be submitted for Council Approval

Yes

ANNEX C: PROJECT LOCATION

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

Appendix 4: ADB Regional and Nonregional Members



ANNEX D: ENVIRONMENTAL AND SOCIAL SAFEGUARDS SCREEN AND RATING

(PIF level) Attach agency safeguard screen form including rating of risk types and overall risk rating.

Title
23-04-14 GEF ID 11062 ESS Rapid Assessment

ANNEX E: RIO MARKERS

Climate Change Mitigation	Climate Change Adaptation	Biodiversity	Land Degradation
Significant Objective 1	Significant Objective 1	No Contribution 0	Principal Objective 2

ANNEX F: TAXONOMY WORKSHEET

GEF TAXONOMY

Please identify the taxonomic information required in Part I, Item G by ticking the most relevant keywords/ topics/themes that best describe the project.

Level 1	Level 2	Level 3	Level 4
☒Influencing models			
	☐Transform policy and regulatory environments		
	☒Strengthen institutional capacity and decision-making		
	☒Convene multi-stakeholder alliances		
	☒Demonstrate innovative approaches		
	☒Deploy innovative financial instruments		
☒Stakeholders			
	☐Indigenous Peoples		
	☒Private Sector		
		☒Capital providers	
		☒Financial intermediaries and market facilitators	
		☒Large corporations	
		☒SMEs	
		☒Individuals/Entrepreneurs	
		☒Non-Grant Pilot	
		☒Project Reflow	
	☒Beneficiaries		
	☒Local Communities		
	☒Civil Society		
		☒Community Based Organization	
		☐Non-Governmental Organization	
		☐Academia	
		☐Trade Unions and Workers Unions	
	☒Type of Engagement		
		☒Information Dissemination	
		☒Partnership	
		☒Consultation	
		☒Participation	
	☒Communications		
		☒Awareness Raising	
		☐Education	
		☐Public Campaigns	
		☒Behavior Change	
☒Capacity, Knowledge and Research			
	☒Enabling Activities		
	☒Capacity Development		
	☒Knowledge Generation and Exchange		
	☐Targeted Research		
	☐Learning		
		☐Theory of Change	
		☐Adaptive Management	
		☐Indicators to Measure Change	
	☒Innovation		
	☒Knowledge and Learning		
		☒Knowledge Management	
		☒Innovation ☒Capacity Development	
		☐Learning	
	☒Stakeholder Engagement Plan		

ANNEX G: NGI RELEVANT ANNEXES

Annex G.1: Template for Indicative Financial Termsheet

Instructions. This termsheet to be submitted with the PIF/PFD should include sufficient details to allow a financial expert to understand and judge the financial viability of the proposed investments. Indicative terms and conditions should be used when specific details are not yet available. An equivalent termsheet used for internal Agency purposes is acceptable but must include sections on Currency Risk, Co-financing Ratio and Financial Additionality.

Project/Program Title	Natural Capital Fund: Investing in Nature-Positive Agri-Food Enterprises in Asia and the Pacific
Project/Program Number	11062
Project/Program Objective	The Natural Capital Fund (NCF) is a $150 million catalytic natural capital blended finance fund designed to support the transformation of agri-food systems (increased productivity, enhanced resilience and reduced GHG emissions) that protect, restore and sustainably use natural capital in ADB's Developing Member Countries (DMCs). The NCF fills critical investment gaps by providing investment readiness support, and catalytic capital to de-risk investments and crowd-in commercial capital for agri-food systems and natural capital projects - at different stages of the project cycle - that have clear transformational impact. The NCF will be a core component of ADB's Innovative Natural Capital Financing Facility (INCFF) and will contribute to achieving the objectives of the UN Sustainable Development Goals (SDGs), the Paris Agreement, and the Kunming-Montreal Global Biodiversity Framework in ADB's DMCs.
Country [ies]	ADB Developing Member Countries (DMCs) that meet the NCF's eligibility criteria
Agency presenting the Project	Asian Development Bank (ADB)
Project Financing	Please include: A. Sources of Co-financing, Name of Co-financier and type of co-financing (Part I section C of the PIF/PFD)

Sources of Co-financing	Name of Co-financier	Type of Co-financing	Amount USD
GEF Agency	ADB	Grant	500,000
Bilateral and Multilateral Donors	Confidential	Grant	85,850,000
Private Sector Corporates	Confidential	Grant/Equity	20,000.000
Philanthropies	Confidential	Grant /Equity	30,000,000
GEF Agency	ADB	Loans	510,000,000
Total Co-Financing			646,350,000

	B. Indicative Trust Fund Resources Requested under the NGI Program (Part I section D of the PIF/PFD) GEF TF Project Financing: US$ 13,761,469,000 (excluding Agency Fees) Total Project Financing: sum of A+B = USD 150,000,000 In addition, the NCF, as a key component of the Innovative Natural Capital Financing Facility (INCFF), will aim to mobilize an additional USD 702 million by co-financing/ co-investing with both public and private investors.
Currency of financing	USD, but financing/investments in local currency may also be considered
Currency risk	The shares of the NCF (where applicable) will be valued in USD. The NCF will transact in USD as the primary currency, for both financing as well as investments. If the financing/investment is not denominated in USD, the NCF will hedge the currency risk, considering cost, margins, counterparty, and currency risks. Through its Treasury Department ADB manages its currency risk by matching its loans and investments to the same currencies in which funds are received. Funds to be invested may only be converted into other currencies provided that they are fully hedged through cross currency swaps or forward exchange agreements.
Co-financing ratio	Every GEF 1USD mobilizes 9.6 USD at fund level. Every GEF 1USD mobilizes 2.9 USD of private sector financing at fund level
Financial Additionality of GEF Resources	*(i) The financing barriers addressed with the GEF blended finance resources:* Natural capital investments are often perceived to be *high risk* and *low return* because of their innovative nature, the limited understanding of the actual risk vs the perceived risk, as well as the potential returns to financiers, and the lack of capacity to adequately identify, measure and value natural capital (e.g., carbon, biodiversity, water, etc.). The volume of capital required by SMEs for natural capital investments is often quite small, specifically when compared to other sectors, and the payback period is long and/or difficult to identify because it typically takes significant time for natural capital investments to start generating the expected ecosystem benefits and associated revenues. For these reasons, projects often find it challenging to obtain affordable medium to long-term patient capital (5-20 years) to match the long-lead times that natural capital projects require, and the existing catalytic capital is not always used to support up-front project development costs (i.e., building pipeline), and/or invest in smaller deals. These problems are particularly acute in the early stages of a project given the insufficient availability

of pre-seed, seed, and early-stage capital for natural capital projects, which traps them in the "valley of death". In addition, when projects have access to finance, the cost of funding can often be too high when compared to the revenue streams that some natural capital projects can generate, and the terms offered (e.g., tenors, grace periods, repayment periods, etc.) are not always tailored to the needs and cash flows of the projects.

Because of these challenges, the traditional private sector financing (i.e., commercial banks, asset managers, etc.) struggles to close the agricultural, ~~and~~ natural capital, and small/medium sized farmer financing gap in developing countries and, in most cases, is ill-equipped (i.e., close-ended structures that have short terms and holding periods, inadequate financial products, needs for collateral, etc.) to accelerate the transformation of agri-food systems and natural capital. Coupled to these, agri-food systems and natural capital investors face significant constraints to identify deal flow, with an adequate risk/return profile, in developing countries. This challenge is due to both, a limited number of bankable deals, and insufficient pools of patient and risk-tolerant capital needed build a pipeline and de-risk private sector investments.

Against this background, the NCF aims to address the growing, and unmet, demand for medium to long-term catalytic capital (5-20 years) that small and medium enterprises (SMEs) in the Asia and Pacific region require to finance/invest in agri-food systems projects that protect, restore, and sustainably use natural capital. This type of capital, and investment readiness support, is not only critical to develop natural capital projects that need longer gestation periods (i.e., landscape restoration, soil carbon sequestration, etc.), but also for agri-food systems projects that require a significant adaptation period to change from traditional agricultural practices to low-carbon, climate-resilient and nature positive practices.

The NCF will raise USD150 million of long-term catalytic capital, from both public and private investors, through an innovative blended finance structure that mobilizes a much larger volume of capital, at transaction level (up to an additional USD702 million), to co-finance and co-invest with commercial banks, asset managers, private equity-funds, project developers, DFIs, state corporations, etc., in agri-food systems projects that protect, restore, and sustainably use natural capital. The Fund will trigger a demonstration effect by showing how DFIs can blend ordinary resources and catalytic capital, from public and private investors, at transaction level to crowd-in commercial capital for natural capital investments.

Support by GEF sends a strong signal to prospective investors that the NCF investment strategy and its impact objectives are well suited to scale environmental action and deliver global environmental benefits. GEF's participation in the junior equity tranche would make GEF the anchor investor of the NCF, giving stability to the structure by providing long-term capital, and allowing the NCF to raise additional long-term capital (i.e., up-front equity, etc.) from other investors (i.e., corporates, family offices, foundations, etc.) with different risk-return profiles. It is important to note that all equity investors are expected to also commit investments for 15-20 years and receive returns that are proportional to their investments and share class (i.e., 1%-2%). This type of tenor is considered industry standard for these types of natural capital investments. Those parties investing in the Natural Capital Finance window, such as corporates, may receive their returns in the form of certified carbon assets. The rest of investors -grant providers- will not receive any return from the NCF. In cases where the carbon credits are directly tied to GEF funding, they will be retired and reported to GEF SEC. In most cases, co-financing from another public and/or private investors will generate the carbon credits and those will be retired, but not claimed CCM focal area alignment (CI 6). In all cases, investments that involve carbon credits must also meet the NCF investment criteria for natural capital environmental benefits, namely land that is restored, protected or under sustainable management. *Carbon credits generated by a NCF project may contribute to investor interest and the project's financial viability, but they also must go hand-in-hand with the targeted LD and CW focal area benefits for NCF financing.*

GEF's contribution is a catalyst to mobilizing long-term capital at transaction level from co-financiers and co-investors, including private equity funds, asset managers, and commercial banks that seek catalytic capital to invest in strategies/projects that can deliver high-integrity global environmental benefits, alongside financial returns. The GEF contribution will allow the NCF to finance/invest in a larger portion of the DMC pipeline that requires long-term capital. The NCF strategy is expected to showcase how natural capital and sustainable agri-food

	systems can become a new asset class that delivers an attractive risk-return profile for investors and, that supports governments and vulnerable populations in developing countries address their environmental needs. *(ii) Quantification of financial additionality:* Under the baseline scenario, without GEF co-financing, NCF would provide a lower, and shorter-term, quantum of funds from ADB ordinary resources, which would significantly reduce the de-risking and private leverage potential at transaction level, specifically when compared to the benefits of a blended finance fund. Further, the NCF will blend, at transaction level, GEF's and the remaining of the NCF's contributions to leverage USD865 million from both public and private sources.
Use of Proceeds	Underpinning the NCF'sinvestment thesis is that agri-food systems are one of the largest contributors to climate change and the depletion of natural capital. Hence, the NCF seeks to invest in agri-food systems projects that protect, restore, and sustainably use natural capital in DMCs. The NCF will finance and invest in the following four investment themes: - Land: Sustainable Agriculture, Sustainable Forests and Sustainable Land-Use, Sound Management and Reduction of Chemicals and Wastes in Supply Chains - Oceans: Sustainable Fisheries, Coastal Ecosystems and Marine Ecosystems (corollary to GEF financing) - Freshwater: Water Efficiency, Freshwater Ecosystems and Resilience Against Natural Disasters (corollary to GEF financing) - Technology and Innovation: Agri-Food Tech, ICTs, and Climate Tech (corollary to GEF financing. In addition, the NCF is expected to align, over the course of the Fund, with the following GEF focal areas: - Land Degradation - Chemicals and Wastes To address the entire food systems conundrum, the NCF will deploy capital in projects that address key challenges and negative externalities across the agri-food value chain, including: i) input supply; ii) agricultural production; iii) manufacturing and processing; iv) distribution, marketing, and retail; and v) household consumption. All financing and investments shall contribute to increase at least two of the following criteria: i) productivity; ii) climate adaptation; and iii) climate mitigation. The NCF will finance and invest via grants, debt, equity and guarantees in i) public sector entities, such as governments, national DFIs, state corporations, etc.; and ii) private sector entities, such as commercial banks, MFIs, private equity funds, private debt funds and directly in SMEs. The financing and/or investments will then be channeled to the final project beneficiaries (i.e., SMEs, smallholder farmers, etc.) implementing agri-food systems projects that protect, restore, and sustainably use natural capital in DMCs. Final beneficiaries will repay the grants, where necessary, loans, equity and guarantees either directly to the NCF, or indirectly via the financial intermediaries they borrowed or received the investment from. Given one focus of the NCF is in the early stages of the investment cycle, many of the final borrowers/investees will be SMEs with tenors of 8+ years. Similarly, the NCF will minimize investment losses due to non-performance of debt investments by attaching covenants that trigger early repayment in case of non-performance. Also, wherever possible, the debt would be collateralized. Equity investments will include a put option to the promoter, in addition to voting and information rights.

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<td>In those instances where the financing and/or investments come from the Natural Capital Finance window, the final beneficiaries and/or financial intermediaries may repay the proceeds to the Fund in the form a carbon offsets generated by a carbon project. All NCF projects that generate carbon credits will be certified under voluntary carbon standards, such as Gold Standard and Verra, and fully aligned with their methodologies and guidelines. . Due to the unique structure of NCF, GHG benefits will be reported as carbon credits to be used by NCF private investors, and not reported as GEBs for the GEF to avoid double-counting. In cases where the carbon credits are directly tied to GEF funding, they will be retired and reported to the GEF.

In addition, the NCF will select investments based on a set of eligibility criteria, developed in collaboration with ADB's Natural Capital Lab and previously approved by ADB and GEF. These will include but not be limited to, project type, climate impact, natural capital/biodiversity impact, development/gender impact, replicability/scalability, sustainability/durability, etc. Investments that do not meet GEF's criteria for generating GEBs will not be eligible for GEF funding. A 'concurrence mechanism' between ADB and GEF will be created. The approach will improve effectiveness and efficiency in the investment selection and capital allocation processes, as well as reduce transaction costs.

To ensure GEF's additionality and avoid overlapping and double counting of GEBs with co-financing and co-investment partners, the NCF will only finance/invest in those strategies/projects that have not previously benefited from GEF funding. This requirement will be enforced during the deal origination, screening (on the eligibility criteria), and due diligence processes.

To ensure an adequate and sufficient pipeline of agri-food system projects that protect, restore, and sustainably use natural capital, the NCF will leverage ADB's deal origination process, through its well-established sovereign and private sector finance departments, as well as its relationships with food and agriculture corporates, asset managers, private equity funds, and national DFIs and state corporations. Similarly, it will also open a "Request for Proposals" process to allow other market participants to apply for funding and investment readiness support.

In addition, the NCF will assess the likelihood-adjusted impact by assessing the impact potential of a given investment, and the likelihood of that impact materializing. The NCF team will use a matrix specifically developed for this purpose:

<table>
<tr><td></td><td></td><td colspan="4">Likelihood</td></tr>
<tr><td></td><td></td><td>High</td><td>Medium-High</td><td>Medium-Low</td><td>Low</td></tr>
<tr><td rowspan="4">Impact Potential</td><td>High</td><td>High</td><td>High</td><td>Medium</td><td>Low</td></tr>
<tr><td>Medium-High</td><td>High</td><td>High</td><td>Medium</td><td>No-Go</td></tr>
<tr><td>Medium-Low</td><td>Medium</td><td>Medium</td><td>Low</td><td>No-Go</td></tr>
<tr><td>Low</td><td>Low</td><td>Low</td><td>No-Go</td><td>No-Go</td></tr>
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<tr>
<td>Financing Instruments</td>
<td>Given the catalytic nature of the NCF, the capital will be raised in the form of grants from sovereign donors and foundations, and in the form of equity from foundations, corporates, and family offices. This blended finance structure will have, in addition to the grant tranche, a single-class share (i.e., Equity). The GEF will invest in the Equity Tranche, which will be pari-passu with other Junior investors and have the same maturity (15-20 years). All investors will be equally invested in each investment, except those corporates that decide to only invest in the</td>
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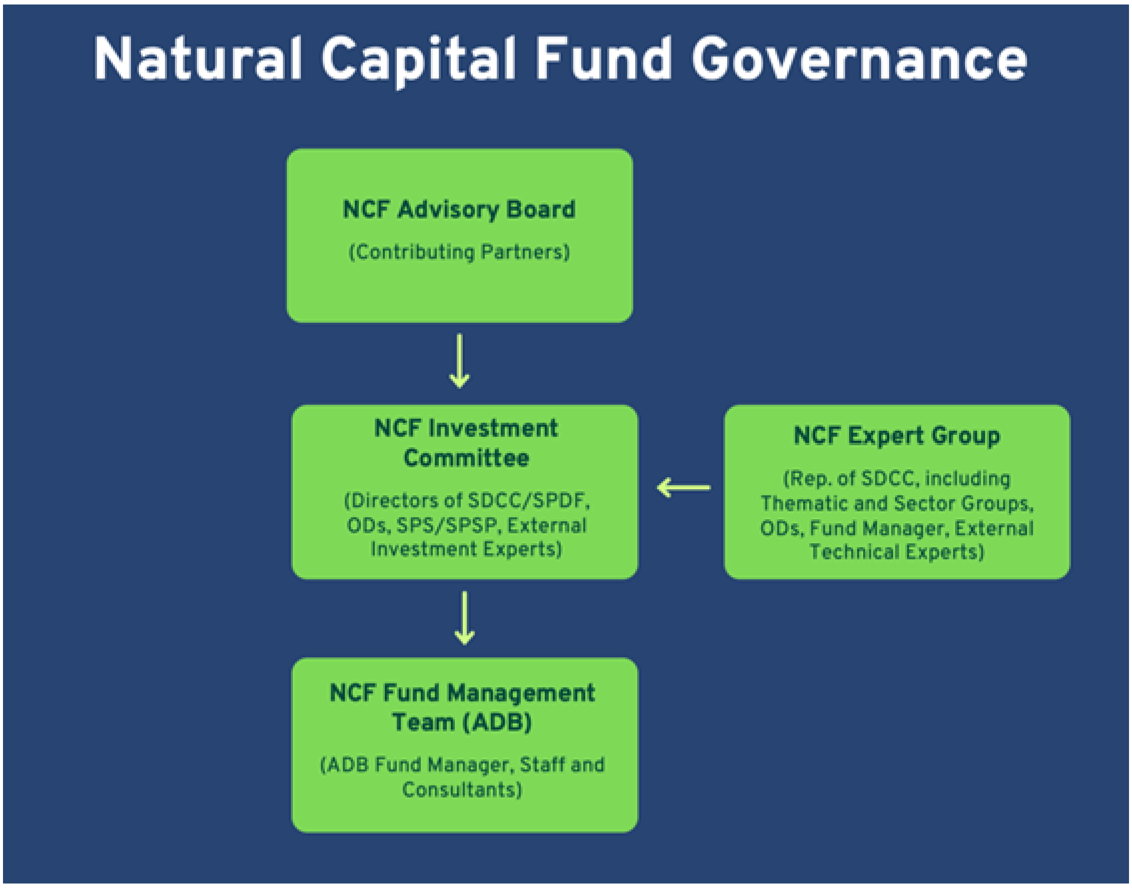
<tr><td></td><td>natural capital finance window (i.e., carbon sequestration projects that deliver livelihoods and biodiversity benefits). Regardless this, all investments will be aligned with GEF global environmental benefits, and all GHGs will be apportioned to avoid double counting.

It is important to note that ADB has extensive experience and track record mobilizing large volumes of capital (via grants) from sovereign donors and foundations for ADB-managed Trust Funds.

The NCF will deploy performance-based instruments (i.e., grants, debt, equity and guarantees) according to the needs of the borrowers/investees, the compliance with the NCF eligibility criteria -including both likelihood and potential impact-, the life-cycle stage (i.e., pre-seed, early, early-growth, growth, and maturity) of the potential borrowers/investees, and the investment track (i.e., investment readiness, natural capital finance, sovereign finance, and private sector finance) utilized to deploy the capital. The NCF will try to structure all financing instruments in concessional terms to help de-risk investments, lower the cost of funding and crowd-in commercial investments.</td></tr>
<tr><td>Terms and conditions of the Financing Instruments</td><td><u>Fund Structure:</u> The NCF is a close-ended fund with a 20-year term and a 15-year holding period, which will be structured as a Trust Fund and anchored in ADB. The target gross average annual return of the NCF is 1-2% per annum.



To ensure integrity, compliance with the eligibility criteria, and ensure a thorough due diligence process, the NCF will count with a governance structure composed by an Advisory Board, and Investment Committee, an Expert Group and the Fund Management Team. More details on the exact composition of the governance structure can be seen below:</td></tr>
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	Fund strategy: The terms and conditions of the financing instruments deployed by the NCF will depend on the factors indicated above (i.e., needs of the borrowers/investees, compliance with the NCF eligibility criteria, life-cycle stage of potential borrowers/investees, and the investment track they are applying to. Additionally, the terms of the financing instruments, specifically for the performance-based component, will be informed, among other factors, by the likelihood-adjusted impact matrix developed for that purpose (as indicated above). More specific details on each financing instrument can be found below: ***Key terms of grant:*** Amount: TBD Maturity: Up to 15 years for returnable grants Repayment: At the end of maturity ***Key terms of debt:*** Amount: <= 10% of the funding requirement Maturity: Up to 15 years Repayment: Semi-annual or annual, equal Repayment moratorium: Up to 3 years Interest rate: Up to 1.5% over SOFR (or other acceptable benchmark)/Fixed rate of up to 2% Interest servicing: Flexible according to cash flows (with preference for semi-annual or annual) Security: Secured with asset cover depending on the business asset base Prepayment penalty: Nil ***Key terms of Equity:*** Amount: <= 10% of the funding requirement Cap on stake: 26% Key Shareholder Rights: Veto rights/Tag-along/Right to appoint directors/affirmative voting/information & inspection Maturity: Put option on promoter at the end of 15 years, if no earlier exit Expected return: 6-8% ***Key terms of Guarantees:*** Amount: <= 10% of the funding requirement Type of Guarantee: Partial or Full Credit Guarantee Guaranteed Instruments: Loans/Bonds/Credit Facilities Guarantee Premium: up to 50 bps Maturity: 15 years

Annex G.2: Reflows table

Instructions. Any financial returns, gains, interest or other earnings and remaining principal will be transferred to the GEF Trust Fund as noted in the Guidelines on the Project and Program Cycle Policy. and the GEF Non-Grant Instrument Policy.

Item Data	Item Data
GEF Project Number	11062
Estimated Agency Board approval date	November 2024
Investment type description	Equity Investment
Expected date for start of investment	December 2024
Amount of investment (USD GEF funds)	13,761,469.00 (excluding Agency Fee)
Amount of investment (USD co-financing)	Fund Level: USD 126,238,531 (excluding $10 million allocated for "Investment Readiness") Project Level: USD 702,000,000
Estimated interest rate/return	1.8% p.a.
Maturity	20 years
Estimated reflow schedule	Single repayment at final repayment date
Repayment method description	GEF's exit strategy is redemption of its shares in 20 years.
Frequency of reflow payments	One single repayment
First repayment date	In 20 years
First repayment amount	Please refer to final repayment
Final repayment date	31/12/2044

Final repayment amount	19,661,668
Total principal amount to be paid- reflowed to the GEF Trust Fund	13,761,469
Total interest/earnings/premiums amount to be paid-reflowed to the GEF Trust Fund	5,900,199

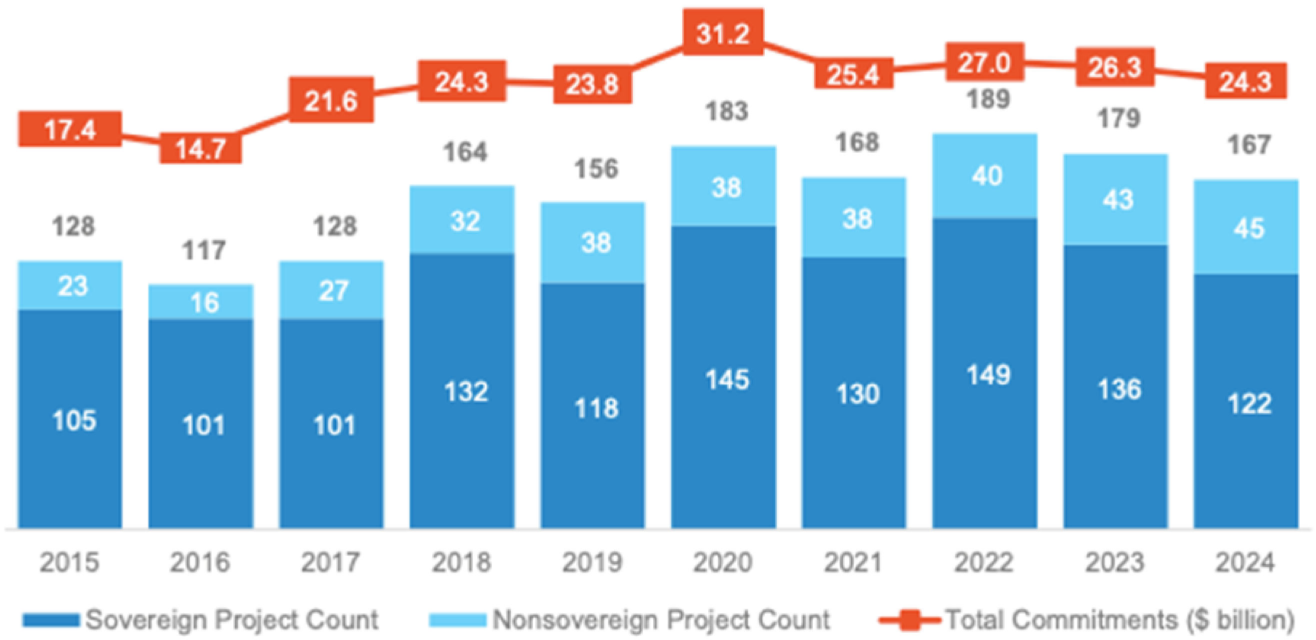
Annex G.3: GEF Agency Eligibility to Administer Concessional Finance

The GEF Agency submitting the PIF or PFD will demonstrate its capacity and eligibility to administer NGI resources as noted in the NGI Policy, summarized below:

ADB's track record of mobilizing financing for DMCs. ADB has extensive experience and strong track record mobilizing large volumes of capital (via grants) from sovereign donors and foundations for ADB-managed Trust Funds (see below). Investment strategies in each DMC is defined in the Country Partnership Strategy (CPS), which provides the strategic framework for ADB to engage with each DMC. It is the primary platform for designing operational programs to deliver development results at the country level, guided by both the country's development strategy and the corporate strategic priorities of ADB. The CPS timeframe is aligned with the client's strategic planning cycle, where relevant and feasible, and done is close cooperation with each DMC's ministry of finance.

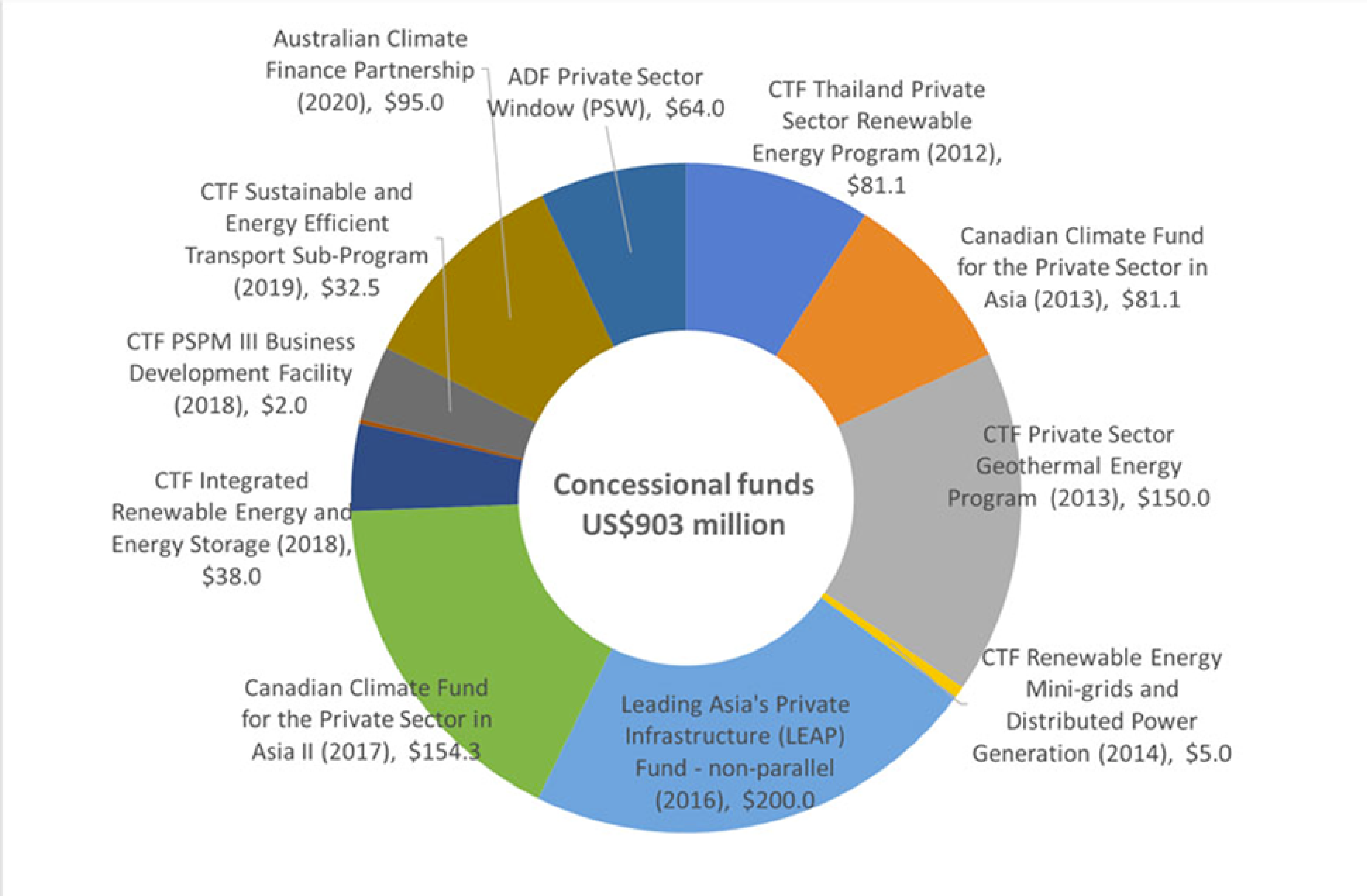
ADB's capacity to manage large investments across the DMCs. ADB's projected commitments are expected to be about $78 billion for 2022–2024 (see figure below). As they continue to deal with the devastating impacts of COVID-19, DMCs are exhibiting strong demand for financial support. To deliver this support, ADB expects to deliver between 167 and 189 projects per annum during the period, with an increasing proportion being undertaken as NSO. While ADB is taking all possible actions to accelerate project design and implementation, the COVID-19 pandemic may continue to cause delays in DMCs' ability to prepare high-quality, implementation-ready projects and programs.

Figure 17: Actual and Projected Commitments



Source: Asian Development Bank estimates.

ADB's track record managing funds and concessional financing in the agricultural sector. ADB has a solid track record designing, financing, and implementing agri-food systems projects, and natural capital projects. Some examples of natural capital initiatives are the: (i) Action Plan for Healthy Oceans, which aims to mobilize $5 billion for ocean health and the blue economy between 2019 and 2024; and (ii) the Regional Flyway Initiative, which will mobilize $3 billion for wetland protection and sustainable management. Against this background, ADB will leverage its expertise, portfolio, network, and lessons learnt to ensure an effective design and implementation of the NCF. A sample of ADB's blended finance fund management experience, just in the renewable energy and energy efficiency space, is highlighted in the following infographic.



ADB's capacity to monitor compliance with the NGI repayment terms. The specifics of the NGI repayment terms and how ADB manages funds flow are provided in the Term Sheet and Reflow Table.

The Financial Control Department is responsible for accounting for the financial consequences of ADB's transactions and decisions, and for the preparation, fair presentation and overall integrity of the internal financial reports and published financial statements. It is also responsible for loan administration and accounting and related fiduciary responsibilities, including disbursement of funds to projects and programs financed by ADB

Capacity to track financial returns (semester billing and receiving) is not only within its normal lending operations, but also for transactions across trust funds: As noted above, the Asian Development Bank provides for a strong fiduciary control framework for both its lending and non-lending operations. ADB maintains separate records and ledger accounts for the administration of GEF Funds.

Annex G.4: Management Capacity of Executing Agency and Governance Structure

For projects requesting equity instrument, structured finance, or SPVs please provide following information

a) The overall governance structure of the investment (reporting line, decision-making bodies) is described below;

b) Investment layers (tranches) will be elaborated during the project preparation

c) Bio of the key persons including fund manager: TORs for a fund management firm will be developed during project preparation, including those of the individual officers.

d) Track-record of the fund manager (s) and key persons: The selection of Fund Manager will follow ADB procurement processes once CER endorsement has been secured. The qualifications and experience of key personnel and track record of the firm will be subject to evaluation during the procurement.

e) Specific clauses to be included in the Limited Partner Agreement: To be explored during project preparation.

<u>Overall Governance</u>

ADB and its NCF team will directly engage with contributing partners to raise funds for the capitalization of the NCF. Consultations with potential contributing partners have begun with some expressing interest to contribute to the NCF. The NCF will use ADB's eligibility criteria for project-level co-financing, as determined by the Strategic Partnerships Division (SPSP) of the Strategy, Policy and Partnerships Department and the Partner Funds Division (SDPF) at ADB. This follows five steps:

1. Identification (find areas/sectors of mutual interest)
2. Preparation (early engagement, joint TOR for project design)
3. Approval (commitment letter (Due Diligence /approval), funds commitments, regulations and signing of agreements)
4. Implementation (additional financing (for President approval) and minor change in scope)
5. Completion and evaluation

ADB and the NCF Fund Management team will utilize existing ADB partnerships with DMC governments, academic institutions, civil service organizations, and others, and expand knowledge partnerships to identify, disseminate, scale up and replicate evidence from the NCF and others on best practices as well as provide innovative solutions to preserve and promote natural capital. For example, Stanford University's NCL will be engaged formally as a knowledge partner given their expertise in integrating the value of natural capital into decision making. It will provide the knowledge backbone for natural capital assessments at the landscape and project levels.

<u>NCF Advisory Board</u>

External contributing partners comprise the Advisory Board. Annual consultation meetings will be held to guide the overall direction of the NCF; review and endorse its implementation guidelines, annual work plan, and annual progress report; and review activities supported by the NCF. The NCF Advisory Board will work closely with the NCF Steering Committee composed of ADB representatives who will be tasked with the strategic oversight of the NCF.

ADB and NCF contributing partners/Advisory Board will hold annual consultations to review the actual progress achieved by the NCF and to provide strategic directions to the Fund. As may be mutually agreed, an evaluation of the Fund will be conducted to assess its overall effectiveness, value addition and sustainability for greater impact and relevance.

NCF Investment Committee

The NCF Investment Committee is tasked with the direct oversight of the NCF financings and investments, operations and governance. As needed, it will engage with representatives of ADB's sectoral and thematic groups and other bodies in the NCF governance structure, mostly the NCF Expert Group.

NCF Expert Group

The NCF Expert Group will be engaged in ensuring the achievement of the intended impacts of the NCF impacts transformed agrifood systems and protected, restored and sustainably used natural capital, as well as its close connection with other ADB projects and programs through the Agri-Food Systems Working Group. In particular, the NCF Expert Group provide high- level guidance on the strategic direction of the NCF, explore opportunities for the engagement of ADB pipeline projects and other venues to foster joint effort within ADB; review NCF project proposals, project information memo, and endorse projects for approval by the NCF Investment Committee. This will require close working relationship and regular exchange with the NCF Investment Committee and ADB operational departments.

NCF Fund Management Team

The NCF Management Team is charged with the daily operations of the NCF, from the origination of NCF projects, preparation and screening of pipeline projects, recommending projects for NCF support, to the management of the NCF investment portfolio and monitoring and evaluation of NCF activities. Achievement of these tasks will require close interaction with ADB colleagues in the operations departments, the NCF Expert Group, and eligible project proposal applicants.

In addition, coordination among the pillars of the Innovative Natural Capital Financing Facility will be carried out through the NCF Expert Group by: (i) providing technical feedback (from a natural capital impact perspective) on project applications to the NCF; and (ii) working in parallel with investment readiness. The rich knowledge and information generated from NCF projects and activities, together with other with information from ADB and other sources, will be collected and then placed in the Agribusiness Services portal to facilitate worldwide information/knowledge exchange and dissemination on the transformation of agri-food systems for enhanced food security and the protection, restoration, and sustainable use of natural capital.