

Scaling Up CRAFT: Mobilizing Private Capital to Mitigate Climate Change and Reduce Land Degradation through Resilience Investments

Basic Information

GEF ID

10765

Countries

Global

Project Title

Scaling Up CRAFT: Mobilizing Private Capital to Mitigate Climate Change and Reduce Land Degradation through Resilience Investments

GEF Agency(ies)

CI

Agency ID

GEF Focal Area(s)

Multi Focal Area

Program Manager

Avril Benchimol Dominguez

PIF

Part I – Project Informatic

Focal area elements

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

Secretariat Comment at PIF/Work Program Inclusion

The overall link between the targeted technologies and investments and impact in the environment in terms of GEBs has to be further assessed ; the project team recommends a lower investment of MSP size. (US\$ 2M)

The description of the environmental problems is very limited and general. Among the examples provided, 2 could potentially align with LDFA 1.1 and LD 1.4. The alignment with LD 2.5 is not demonstrated ('Create enabling environments to support scaling up and mainstreaming of SLM and LDN').

The proposed interventions supported by the fund focus on agricultural analytics, resilient food systems, water efficiency solutions, and geospatial mapping and imaging. As such some are not the most efficient to generate GEBs (resilient food systems, water efficiency solutions) and the others are about monitoring (they don't generate GEBs but rely on others to do so).

In addition, the Pongomia oil production is the main example providing climate mitigation benefit. But such a monoculture over a so vast area is not favorable to biodiversity and this aspect needs to be considered before supporting such activity (especially when we don't know the previous state of the land).

The proposal presents a TOC focused on adaptation, which is not eligible under the CCM strategy. 2.6 is not an eligible entry point for this project, 1.4 could be stretched to fit this program, although not originally intended to finance these type of interventions. The proposal, does indicate significant potential mitigation outcomes.

On NON-AFOLU side The project design and approaches are in general not in line with CCM1-4 strategy. This is primarily a water production investment and emissions avoidance is a co-benefit from adaptation action, thus rather fits in an adaptation space.

About the overall composition of Table A: there is a single component; we suggest to divide in several components: financing is (1); but additional components on areas relevant to the GEF would be welcome; I would recommend Outcome 1.2/ 1.3 are separate components that result of the financing.

An updated Theory of Change would help with the reorganization of the components. Indicators do not need to be separate from the Outcome- CI please help with that.

Additional comments 4/6/2021

- 1) Ok noted that the GEF investment amount has changed to 4 million USD; although initial feedback provided after screening was for US\$2 M MSP with a potential to reach higher amounts. Final amount to be confirmed.
- 2) The selection of objectives LD 1.1 and LD 1.4 in Table A is correct. Nevertheless, in the alternative scenario and under the alignment with GEF FAs, "(LD-1-1) Maintain or improve flow of agro-ecosystem services to sustain food production and livelihoods through Sustainable Land Management (SLM) and Sustainable Forest Management (SFM)", "(LD-1-4) Objective: Demonstrate mitigation options with systemic impacts for food systems, land use and restoration impact program" are not correct. Please revise.
- 3) Please refer to core indicator section and project justification section for further comments.
- 4) Please refer to core indicator section and project justification section for further comments.
- 5) The selection of CCM 1-4 in Table is correct, but again, please revise CCM objective/entry point under the alignment with GEF FAs. Also, please categorize it by focal area (CCM and LD), now they are mixed.
- 6) Also refer to comment 5 above. We will address core indicator related comments in core indicator sector further.
- 7) Ok, but indicative M&E budget (output 1.1.6) should be included in project financing (Table B) following GEF's new project and program cycle policy.
- 8) Ok, the revised Theory of Change Diagram is well noted.

Please change Rio Markers Mitigation to 2.

Additional comments 4/20/2021

- 1)Cleared
- 2) Please delete SFM part for LD-1-1, SFM is LD-1-2
- 3) See comments Part II. 1.
- 4) See comments Part II. 1.
- 5) Cleared.
- 6)See comments Part II. 1.
- 7)Cleared
- 8) Cleared

Additional comments 4/23/2021

2) Cleared
3,4,6) See comments Part II. 1.

Additional Comments 05/05/2021

1. Amounts per focal area in Table A and Table D don't match – please ask the Agency to amend

- Table A for CC: \$1,500,000 Table D for CC: \$2,000,000
- Table A for LD: \$2,500,000 Table D for LD: \$2,000,000

Agency Response

05/05/2021:

Amounts for Table A and D align with breakdown: 1.5M for CC and 2.5M for LD.

04/27/2021:

Comments addressed in Part II.1 of review sheet and in the PIF (targets for Outcome 1.3, Core Indicator Summary (table 5), Description of Water Harvest and Drip Irrigation Company and Core Indicator excel sheet attached)

04/22/2021:

2)SFM is deleted

3,4,6) Comments under core indicators and GEBs addressed

03/24/2021:

1) The revised proposal describes in much greater detail the overall link between the targeted technologies and investment and impact on GEBs. Consequently, the revised proposal is based on a \$4 million NGI.

2) LD 2.5 was deleted. Please see the revised description of the Global Environmental Problems in Section 1a of the PIF which describes how CRAFT's intervention – investing in scaling up innovative clean technologies in our 6 focus areas – overcomes the barriers that currently prevent the adoption of innovative approaches to GHG reduction and sustainable land management.

03/24/2021: 1) The revised proposal describes in much greater detail the overall link between the targeted technologies and investment and impact on GEBs. Consequently, the revised proposal is based on a \$4 million NGI.

3) Based on this feedback on technologies that support monitoring, no GEBs will be counted from the geospatial imaging company in the sample portfolio. Please see Section 1a of the PIF which describes more clearly how each of the focus areas reduces GHG emissions and/or improves sustainable land management.

4) The project has corrected the GHG analysis to properly reflect the actual tree planting density of the reforestation project; we had incorrectly used a tree planting density assumption based on a commercial plantation pilot project the company did with citrus growers in the US.

Based on these comments, we spent more time with the company to examine the assumptions in our GHG analysis. The planting density we assumed (247 trees per ha) was based on a commercial pilot plantation that they developed with citrus growers in the US, whereas the actual planting density for pongamia as part of the reforestation program in India is only about 2.5 pongamia trees per ha, and the density is expected to grow only to 5 pongamia trees per ha in the next stages of the project (if the company can secure the capital it needs to scale up). The reforestation project is not a monoculture and instead uses a diverse mix of 20 native tree species interspersed with existing vegetation.

The reforestation project that the company has begun and hopes to scale up (if they can raise the next round of capital) is described here:

- Last year, the company's NGO partner in India, Naandi Foundation, planted 5 million trees in over 50,000 ha in India, including 500,000 trees in over 5,000 ha in the Araku Valley, a hilly area of Andhra Pradesh containing some degraded lands. For its agroforestry restoration work with indigenous/Adivasi communities in the Araku Valley, Naandi Foundation was selected as one of 10 organizations winning the Rockefeller Foundation's Food Vision 2050 prize.
- The Araku Valley reforestation program aims to restore degraded lands that have depleted and eroded soils and reduced tree cover, while also increasing the economic opportunities for local people. Naandi Foundation planted a mix of different trees interspersed with existing vegetation to help restore the land; the trees planted in 2020 included a diverse mix of over 20 species of native fruit, oilseed, softwood, and hardwood trees, most with some economic value, including tamarind, manuka, sal, neem, and pongamia. Pongamia trees (known locally as karanja or pungai) were about 2.5% of the total in the Araku Valley, or 12,500 pongamia trees. The reforestation program aims to restore soil quality and biodiversity and increase the tree canopy shading the region's highly-regarded shade-grown coffee.
- In partnership with the company, Naandi Foundation can increase pongamia planting from 2.5% to 5-10% of the mix given the higher economic value of pongamia that will be unlocked by the company's technology to upgrade pongamia oil to food grade, making pongamia as valuable an income source as tamarind.
- The company is obtaining Wild Harvest and Fair Trade certification for the pongamia oil produced from this project, in part to ensure that the majority of the increased value for the food oil flows to the smallholders, tribes, and villages collecting the pongamia pods.

Our revised GHGs analysis assumes that, in the next 10 years, using capital from the Fund's investment and continued partnership with Naandi Foundation and other partners in the Araku Valley and other degraded lands in India, the company will supply pongamia seedlings as part of a 5% mix of reforestation programs covering 200,000 hectares. The assumed planting density of pongamia is 5 trees per ha (compared to the commercial plantation-based density we had been assuming of 247 trees per ha). For comparison, Naandi Foundation alone planted 50,000 ha just last year; 200,000 ha is about 0.2% of India's overall reforestation target of 95 million ha by 2030. We believe

the company can deliver the projected GHG reductions just by supplying enough pongamia trees for 5% of the mix that Naandi Foundation plans to plant in the Araku Valley alone in the next few years.

Also please note that, based on feedback provided by Pascal Martinez and Filippo Berardi on February 24, 2021, the GHG analysis was extended to include the full 30-year productive life of the trees that will be planted through 2029 (the anticipated end of the Fund's life).

5) Alignment with 2.6 has been removed. A revised Theory of Change was included in Section 1a of the PIF which focuses on cleantech innovation for GHGs and land management.

Overall, the theory of change is that the Fund will achieve GEBs by mobilizing and deploying public and private capital to demonstrate viability of cleantech solutions delivering GHG reductions and improved sustainable land management in developing countries. This helps to overcome the barriers to GHGs and sustainable land management which include: a) lack of capital and commercial barriers preventing widespread deployment of proven, affordable, and appropriate cleantech innovations for agricultural and land management and in non-energy sectors generally, including AFOLU, industry, water, and transportation; b) lack of innovation needed to accelerate the implementation of sustainable agriculture and land management, especially in developing countries; and c) lack of application and scaling up of innovative cleantech solutions outside of the energy sector, including in AFOLU, water and transportation, especially in developing countries.

6) Although there are adaptation co-benefits from the water harvesting technology, the GHG reductions are a primary impact of the cleantech innovation that the fund is supporting. The panels are a renewable energy technology, aligned with 1-4, that uses onsite solar energy to displace fossil fuel energy used elsewhere for generation, purification, bottling and transportation of bottled water. The solar power captured by the hydropanels does not produce electricity for the grid but instead displaces fossil fuel use for both plastic bottle manufacturing (factories will consume less fossil-fuel powered grid electricity) and for transportation of bottled water (ships and trucks will consume less diesel fuel). It is the fossil fuel energy (and GHG emissions) embedded in bottled water that these solar hydropanels are displacing. The GHG reductions are a primary impact of this solar panel technology, which also produces adaptation co-benefits.

7) On Table A, CI prefers to retain one component for the project as the GEF funding will be invested into CRAFT and the fund will work to achieve the different outcomes. However, all outcomes are related to the same component as this is an impact investment fund. The GEF grant and co-financing will be invested jointly in the fund to deliver the outcomes as per table A.

8) An updated theory of change is included in the revised document. CI typically includes Outcome Indicators in PIFs.

CI-GEF Response 04/15/2021:

- 1) We are resubmitting the PIF at \$4M. If the project is not technically cleared at \$4M, we will discuss the feasibility of a \$2M investment.
- 2) We have updated the description of the alignment with the focal areas. We note that LD1-4 is Reduce pressures on natural resources from competing land uses and increase resilience in the wider landscape.
- 3) and 4) Core Indicators updated.
- 5) CC-M entry point is revised and the LD and CC focal area elements are better organized.
- 6) Core indicators updated.
- 7) M&E component created. Output 1.1.6 will now be captured under M&E.

8) Rio Marker changed to 2.

Indicative project/program description summary

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

Secretariat Comment at PIF/Work Program Inclusion

See answers to 1 and amend as necessary.

For the water related projects: the GEB was calculated based on the assumption that generated water replaces 40 percent of water bottles sold in the targeted region with lifecycle emissions of PET bottles (the parameter comes from California's case study). The calculation also did not exclude life-cycle emissions of hydropanels and distributions of generated water, and some parameters used do not match this project's design. If this is primarily a renewable energy project, calculating emissions reduction by replacing grid power which contains fossil fuel-based power is more appropriate methodology. It is thus very likely that GEBs are overestimated, and it would be very difficult to track progress on how much bottles the hydropanel water production replaced. The project assumes the replication factor as 2 with no justification and estimated 2.7 million tons of emissions reduction over 15 years. Considering these aspects, it is recommended to eliminate or reduce the funding from CCM1-4.

Additional comments 4/6/2021

- 1) The table should be totally re-arranged to be aligned with the updated TOC. Project Outcomes and outputs are geared towards achieving GEBs, the financial structure is a means to an end- so please rearrange (note STAP will be reviewing this table and would seek to first and foremost identify how the fund will deliver environmental benefits).
- 2) Please refer to core indicator/project justification sections for further comments. There are still many issues on the quantification of GEBs mostly in LD. If not fully justified, the amount of GEF investment should be reduced.

Additional comments 4/20/2021

- 1) ToC Outcome 1.3 does not include GHG mitigation through food systems, land use and restoration and Outputs under Outcome 1.3 do not match with the ToC Outputs.
- 2) See comments Part II. 1.

Additional comments 4/23/2021

- 1) Cleared

2) See comments Part II. 1.

Agency Response

04/27/2021:

Comments addressed in Part II.1 of review sheet and in the PIF (targets for Outcome 1.3, Core Indicator Summary (table 5), Description of Water Harvest and Drip Irrigation Company and Core Indicator excel sheet attached)

04/22/2021:

ToC updated

3,4,6) Comments under GEBs, core indicators, alternative section addressed

Water related projects:

The 40% figure is based on the actual percentage of panels installed in 2020 that displaced bottled water as the primary prior source of water. In future, the actual figures will continue to be tracked and reported by the company each year going forward.

To estimate GHG emissions reductions, a conversion factor of 0.2075 kg CO₂/liter is applied that represents the avoided emissions associated with PET plastic bottle manufacturing. Source: California Department of Resources study, "Life Cycle Assessment of Polyethylene Terephthalate (PET) Beverage Bottles". This conversion factor does not include the avoided emissions from transportation of the bottled water to end markets. It is therefore a conservative (low) figure – an underestimate. We also cite two other studies that include both plastic bottle manufacturing as well as transportation of the bottled water; both studies indicate higher GHG/liter conversion factors, ranging from 0.24-0.53 kg CO₂/liter. These studies are: University of Michigan, Center for Sustainable Systems, "Comparative Life-Cycle Assessment of Bottled vs. Tap Water Systems" (2009), which indicates avoided lifecycle GHGs of 0.2445-0.532 kg/L, and PET Water Bottle: A Carbon Footprint Assessment (2016), which estimates 0.431 kg CO₂ per 33 cl bottle. Our GHG analysis uses the lowest of all these figures, representing only the energy and GHGs avoided from PET plastic bottle manufacturing.

We have corrected our GHG analysis to account for life-cycle emissions of hydropanels and distributions of generated water. To account for the GHG emissions associated with the manufacturing of each hydropanel, a 1-year CO₂ payback is deducted – the analysis will show no GHG emissions reductions until one year after each panel is installed. Compared to polysilicon PV panels, which have a 3-year energy payback (see this 2016 Nature meta study), we estimate that these hydropanels have a 1-year energy and CO₂ payback. Solar PV panel manufacturing requires much more energy-intensive silicon purification, ingot manufacturing, and wafering. Hydropanels have only a small area of silicon PV, but otherwise are similar in materials (glass, stamped metal, plastic, and some electronics) and manufacture. Our best estimate is that the manufacturing-related emissions for these hydropanels is less than one-third of that for solar PV panels. Conservatively,

we assume a 1-year CO2 payback.

We estimate that any GHG emissions associated with water distribution are de minimis, because the hydropanels produce water onsite for communities and businesses. Users collect water from the panels' built-in 30 liter reservoirs into their own plastic jugs or glass bottles that are reused; any emissions associated with the manufacture of these reusable containers is de minimis compared to the GHG reductions over the 20-year life of the solar hydropanels and compared to the emissions from manufacture of the panels themselves, which is already factored in through the 1-year payback calculation.

As described above, the solar power captured by the hydropanels does not produce electricity for the grid but instead displaces fossil fuel use for both plastic bottle manufacturing (less consumption of fossil-fuel powered grid electricity by factories) and for transportation of bottled water (less consumption of diesel fuel by ships and trucks).

The company is tracking and reporting both (a) the prior source of water for their projects (including bottled) and (b) the actual water output of the panels:

(a) The company has always examined the prior water sources for each new project installed (e.g., whether it was bottled water, trucked water, or local well water), but starting in early 2021, the company has begun recording that prior water source information in the company's CRM, along with other information, such as the price previously paid for water or the distance traveled, and time spent to collect water.

(b) The water output of each panel is registered in electronics in each panel and is communicated on a daily basis via cellular modem or mesh network to the company's secure cloud. Thus the company has accurate daily water output data for each panel installed worldwide.

The data above will help to ensure that estimates of the amount of bottled water displaced and the GHG emissions avoided are accurate.

We do not believe that the GHG calculations in this proposal are an overestimate but rather are a conservative (low) estimate. As described above, this GHG analysis uses the lowest of all the GHG conversion factors from the studies cited above, and this GHG conversion factor represents only the energy and GHGs avoided from PET plastic bottle manufacturing, excluding the GHGs associated with fossil fuel combustion for the transportation of bottled water bottles to their point of use.

Replication factor breakdown:

[Note: The revised PIF is for NGI of \$4M instead of \$10M, so the numbers referenced above have changed. The replication factor is now 1.6x instead of 2.0x.]

The CRAFT Fund is a blind pool fund that so far has made only one out of 8-12 possible investments. The approach used to estimate GEBs generated from future investments is to choose a representative sample of five investments from a range of sub-sectors that offer cleantech solutions. The replication factor is based on a sample portfolio that is illustrative of the broader pipeline of opportunities that the fund plans to invest in (see the pipeline table copied in the PIF).

The GEBs analysis is based on a sample portfolio of five representative potential investments totaling \$96 million of potential invested capital. Based on a \$4M NGI, the CRAFT Fund will be able to scale up to \$157 million, or 1.6x the \$96 million of potential invested capital in the sample portfolio. By investing \$157 million, instead of the \$96 million represented in the sample portfolio, or 1.6x as much capital, the CRAFT Fund will be able to invest 1.6x more GEBs, or \$157 million of potential invested capital. This is a conservative estimate of the potential for the CRAFT Fund to scale up its investments.

CRAFT Fund will be able to generate 1.6X as much GEBs as from the \$96 million sample portfolio. This assumes that the five-company sample portfolio is representative of the 8-12 investments that will be made from the \$157 million fund in the alternate scenario.

The calculations work as follows:

- To estimate the GEBs produced by a \$157 million fund size (the alternate scenario, multiply the GEBs from the \$96 million sample portfolio by 1.6x

- To estimate the portion of the GEBs produced by a \$157 million fund that is attributable to the GEF NGI, calculate GEF capital + GEF-mobilized capital as a proportion of the total fund size:

Divide the sum of GEF's investment (\$4 million) plus the capital mobilized by GEF's investment (\$41 million) by the overall fund size = \$45 million / \$157 million = 28.5%

- To estimate the amount of GEBs attributable to GEF, multiply the total GEBs produced by a \$157 million fund by the 28.5% of capital that is attributable to GEF.

GEF's financing is critical to mobilizing capital which will be invested in growth-stage companies to expand their cleantech innovations and to deliver GEBs in new geographies, sectors and applications. All of the companies generate some combination of GEBs, including climate mitigation and/or improved land management.

More specifically, CRAFT invests in technology-enabled physical products and services, such as drought-tolerant crops, drip irrigation systems, and water harvesting panels that reduce GHG emissions and improve sustainable management of land and restore land and agricultural productivity. CRAFT also invests in companies that provide data and intelligence such as agricultural analytics, digital mapping, weather forecasting, and geospatial imaging provide the data needed to assess and manage climate-related risks such as drought, heat stress, flood, storms, and wildfires. The communities, businesses, and farmers that use these data and analytics tools are able to manage their land more sustainably while using less resources, reducing GHG emissions, improving incomes and livelihoods, and building climate resilience. The intelligence generated by these companies is a critical component of systematically designing and safeguarding other interventions to reduce GHG emissions and improve land management practices in the context of increasing physical risks and impacts from climate change.

The private sector can help create or expand markets for products and services that support the technology transfer for mitigation. The proposed pipelines aligns with CCM1-4 and the Cleantech Focus (#127) of the Climate Change Focal Area Strategy which emphasizes technology deployment, dissemination, and transfer in energy, water, and buildings with a special emphasis on SMEs and private sector partnerships.

CI-GEF Response 04/15/2021:

- 1) For the resubmission on 3/24, CI-GEF worked with Lightsmith to ensure that the Results Framework and the Theory of Change aligned. The Outcomes and Outputs in the ToC directly correspond to the Results Framework. Outcome 1.1 focuses on resource mobilization which is needed to achieve Outcomes 1.2 and 1.3. The Global Environmental Benefits/core indicators are captured under Outcomes 1.2 and 1.3.

2) The GEF analysis for the hydropanel company has been revised.

Co-financing

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

Secretariat Comment at PIF/Work Program Inclusion

The co-financing unlocked by GEF investment (directly attributable is 1:8 with total Fund size of US\$ 201M) but co-financing ratio could increase if additional financing if the Fund reaches close of target US\$ 250M .Still to discuss the portion of DFI financing vs. pure private sector.

High participation of DFIs or Philanthropies: Rockefeller foundation, Nordic Dev Fund, Gov of Luxembourg, KfW, EIB.

- o Of the \$193M, how much is non-concessional? The only no-concessional is Axa. Please provide sources of junior capital (alongside with GEF).

- o The PFI mentions that EIB and AIIB would unlock \$12M after GEF's participation, inferring that they have a larger slack. PIF mentions that senior investors will invest \$60M.

Additional comments 4/6/2021

Please include all the explanations/table in the termsheet by source of co-investment; i.e. total co-investment of the fund in categories of private sector vs. other donors/DFIs etc. Agency should help; on the financial additionality section, you should specifically add how much additional money GEF is unlocking to achieve the US\$ 157M. close.

Additional comments 4/20/2021

- 1) Numbers under Table C description should be revised, still showing previous version's number.
- 2) Every \$1 of Junior layer (not GEF financing) is unlocking \$7.4 of Senior layer, should be revised. How much additional money GEF is unlocking in junior layer, and ultimately the senior layer?
- 3) Numbers do not match in different sections (some says 157M, some says 158M) because of rounding – might be better to present numbers up to tenth for consistency.)

Additional comments 4/23/2021

Cleared

Additional Comments 05/05/2021

Additional Comments 05/05/2021,

1. Co-financing from EIB and AIIB should be labelled as “donor Agency” (not “other”).

Agency Response

05/05/2021: Co-financing from EIB and AIIB changed to donor agency.

04/22/2021:

1) Table C text updated

2) Please note that GEF’s commitment will not unlock or mobilize any additional Junior capital but only additional Senior capital, at a ratio of 1 : 7.5. This mobilization ratio increases to 10x when we include pre-approved DFI commitments (from EIB and AIIB) that are unlocked by GEF’s commitment, which provides required co-financing for the DFIs. Please see the revision in the portal.

3) CRAFT’s innovative blended finance structure – including a Junior concessional layer that mitigates downside risk for Senior non-concessional investors – enables GEF’s catalytic commitment to the Junior layer to mobilize 7.5x as much non-concessional capital into the Senior layer: a \$4 million GEF commitment to the Junior will enable \$30 million of new Senior capital (7.5x as much). In addition, GEF’s \$4 million commitment will also “unlock” another \$11 million of Senior commitments from DFIs (EIB and AIIB) that are already approved but that require additional co-financing. This will result in total new commitments mobilized of \$41 million, or a total mobilized of over 10x GEF’s \$4 million commitment.

3) Thank you for this comment, we have revised the PIF and consistently used \$157.5 million.

[Note: The revised PIF is for NGI of \$4M instead of \$10M, so the numbers referenced above have changed. The alternate scenario fund size is now \$157 million instead of \$201 million.]

At the \$157 million fund size in the alternate scenario, \$58 million will be private Senior investment, an increase of approx. \$31 million from the baseline scenario. For avoidance of doubt, all of the Senior investment is non-concessional (EIB, AXA, US Family Office, Rockefeller Foundation) as well as the parallel investment (KfW). AXA and the US Family Office are both private sector non-concessional Senior; we anticipate a second close of an additional \$5 million of US Insurance Company investment as well as up to \$30 million of AIIB investment. Alongside the \$58 million of private Senior investment, there will be \$57 million of Senior from DFIs, \$21 million of parallel investment (neither Senior nor Junior) from a government agency (KfW), and \$20 million of Junior (incl. GEF’s NGI).

Other blended finance funds for renewable energy or energy efficiency investments have had Junior layers as large as 50% of the total fund size, compared to a 20% Junior layer for the CRAFT Fund.

	Baseline Scenario	Alternate Scenario	<u>Change</u>	Investors
Senior - Private	\$28.5	\$58.1	\$29.6	Current investors as of 2nd closing (AXA, a Family Office, PNC Insurance, individuals) + New private Senior investors (incl. a European impact Fund of Funds, investment advisor for families and foundations)
Senior - DFI	\$45.0	\$56.6	\$11.6	AIIB, EIB
Parallel - Government	\$21.2	\$21.2	\$0.0	KfW
Parallel - Private	\$1.1	\$1.6	\$0.5	Lightsmith
<u>Junior</u>	<u>\$16.8</u>	<u>\$20.3</u>	<u>\$3.5</u>	NDF, Luxembourg, Rockefeller Foundation, GEF
TOTAL	\$112.5	\$157.7	\$45.2	
Total Private	\$29.6	\$59.6	\$30.1	
Total DFI/Government	\$82.9	\$98.0	\$15.1	
TOTAL	\$112.5	\$157.7	\$45.2	

[Note: The revised PIF is for NGI of \$4M instead of \$10M, so the numbers referenced above have changed.]

As shown in the table above, a \$4M NGI would increase the fund size by \$45 million, of which approx. \$30 million would come from new private Senior investors (some of which are currently in due diligence) and \$11.6 million of which would come from unlocked commitments from EIB and AIIB. These unlocked commitments are commitments that have already been approved but that need additional matching investment to be used. As of the second closing, the fund is not using all of the approved commitments from EIB and AIIB until it secures additional commitments from other investors; and without additional Junior catalytic capital, it will be difficult or impossible to secure more private Senior investment in the Fund.

CI-GEF 04/15/2021:
Term sheet updated.

GEF Resource Availability

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

Secretariat Comment at PIF/Work Program Inclusion

PPG/PMC should not be used in this project

Additional comments 4/6/2021

GEF discussed US\$ 2 M as potential amount, after screening results; US\$ 4M is still pending approval based on the updated version. It may be required to have all the numbers be run for US\$ 2M.

Additional comments 4/20/2021

OK.

Agency Response

PMC will not be used for the project. However, CI is requesting the Project Preparation Grant. While the CRAFT fund was already launched, there are specific activities that need to be completed, specifically for the GEF investment, prior to CEO endorsement, including a review of the alignment of the 2008 CRAFT Environmental and Social Management (ESMS) with the revised GEF Environmental and Safeguard Policies, preparation of safeguard plans based on the safeguard screening/analysis, required legal and financial due diligence of the fund documents.

04/15/2021:

1) Given viability of overall project, analysis was calculated on \$4M. If the project is not technically cleared at \$4M, we will discuss the feasibility of a \$2M investment.

The STAR allocation?

Secretariat Comment at PIF/Work Program Inclusion

Agency Response

The focal area allocation?

Secretariat Comment at PIF/Work Program Inclusion N/A

Agency Response

The LDCF under the principle of equitable access?

Secretariat Comment at PIF/Work Program Inclusion N/A

Agency Response

The SCCF (Adaptation or Technology Transfer)?

Secretariat Comment at PIF/Work Program Inclusion N/A

Agency Response

Focal area set-aside?

Secretariat Comment at PIF/Work Program Inclusion N/A

Agency Response

Impact Program Incentive?

Secretariat Comment at PIF/Work Program Inclusion N/A

Agency Response

Project Preparation Grant

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

Secretariat Comment at PIF/Work Program Inclusion

Since the project is already being implemented, we do not think PPG should be used here; please refer to the policies for the use of PPG.

Additional comments 4/6/2021

Discuss whether the specific PPG activities requested merit the claimed US\$130,800 - a review of the alignment of the 2008 CRAFT ESMS, required legal and financial due diligence of the fund documents.

Additional comments 4/20/2021

OK.

Agency Response

CI-GEF Response 04/15/2021:

PPG request has been revised to 112,000. These funds are needed for the following: Due diligence costs for a law firm based in Luxembourg, ProDoc writer is approximately, Costs to Lightsmith to deliver the CEO endorsement package (including revision of the fund's ESMS, Stakeholder Engagement Plan, Gender Mainstreaming Plan and building out the technical aspects of the measurement and monitoring channels within Portfolio Companies to support the GEB reporting.

Core indicators

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

Secretariat Comment at PIF/Work Program Inclusion

In its current version, the estimation of GHG emission reduction seems overly optimistic and more consideration will be needed on the methodology used than what was possible at screening level. The current figures are inconsistent, but all seems overestimated.

One figure is 47 million, another one in the excel is 140 million tons (which seem very high)

Please justify the volume. 85% of the prospective emission reductions come from only one project looking to do monoculture plantation of 220k hectares of a drought resistant tree. This, again, seems optimistic. There is no discussion on cost per hectare for this project, but tree planting projects are typically more expensive than improved practices so this need to be understood.

Additional comments 4/6/2021

General comments

- 1) From the table provided page 34, attributes GEB outcomes to the GEF based on the share of GEF financing over the total fund. As per GEF practice, we list the report under the core indicators the entire results of the project, including results from GEF and from co-Financing. This is because the GEF intervention is supposed to enable the fruition of the entire fund.
- 2) Emission reduction volumes listed under Outcome 1.3 (pag 30) are inconsistent with the ones indicated in Table F on core indicators.

- 3) As previously mentioned, the CCM objective/entry point specified on pag 32 “Demonstrate mitigation options with systemic impacts” is only relevant for the GEF-7 IPs and should not be used here. Agency was already advised to only use objective CCM objective 1.4.
- 4) We note the total number of beneficiaries for indicator 11 is substantial (1.6 million). However, please identify ways to achieve greater gender balance among female and male beneficiaries and revise accordingly.

Comments on tree plantation and relative expected mitigation outcomes

- 5) The proposal still reports in the Portal that the target for GHG emissions reductions in AFOLU is 140 million t CO2e (outcome 1.3), while it is now 2,015,966 in the core indicator table. Core indicators 3 and 4 in the table also don't match with the project description under the alternative scenario. The numbers must be consistent throughout the information provided.
- 6) The calculation of GHG emission mitigation in the AFOLU should be over a 20 years period from the expected start date of the project and not until 2049. This comment was already made in the previous round and is still not addressed.

Additional comments 4/20/2021

- 1) Cleared.
- 2) See comments Part II. 1.
- 3) Cleared.
- 4) Cleared. In CEO Endorsement, please address how beneficiaries are calculated including number of female beneficiaries.
- 5) See comments Part II. 1.
- 6) See comments Part II. 1.

Additional comments 4/23/2021

2,5,6) See comments Part II. 1.

Additional comments 05/05/2021

1. Note that the “GEF Results Framework seeks to capture Core Indicator values to which the GEF projects have contributed, and projects are not required to determine the portion of results attributed to GEF financing”. From the review sheet I can see that the Agency has justified “attribution” by noting that the full fund includes “fundraising that has occurred prior to GEF’s investment and will not be attributable to the GEF”. It is not relevant when the fundraising took place, rather when the investment is taking place and any future investments from CRAFT should be included in the targets for GEF Core Indicators. This is even more relevant for CRAFT, which received initial funding from SCCF. Please revise the GEF Core Indicator targets to reflect “expected GEBs from Total Fund.

Agency Response

05/05/2021:

GEF Core indicators revised to correspond to "Expected GEBs from Total fund" rather than Expected GEBs attributable to the GEF. We have retained the charts showing the overall breakdown.

04/27/2021:

Comments addressed in Part II.1 of review sheet and in the PIF (targets for Outcome 1.3, Core Indicator Summary (table 5), Description of Water Harvest and Drip Irrigation Company and Core Indicator excel sheet attached)

04/22/2021:

2,5,6) Addressed in GEB, Alternative scenario sections

Please see discussion of GHG analysis above.

[Note we have revised the GHG analysis for tree planting. so the numbers referenced above have changed.]

The current figure for 6.1 - Carbon Sequestered inside the AFOLU sector, is 4.3 million tonnes CO2e. This should be consistent now between the table in Annex B and the Excel spreadsheet.

	GEF Core Indicator	Units	Expected GEBs from Sample Portfolio	Scale Up Factor ^a	Expected GEBs from Total Fund	GEF Attribution ^a	Expected GEBs attributable to GEF	GEF cost per unit (in \$, not allocated)
3.1	Areas of landscape restored	ha	200,728	1.6	329,600	28.5%	93,796	42.6
4.3	Area of landscape under sustainable land management in productive systems	ha	6,041,224	1.6	9,921,893	28.5%	2,822,891	1.4
6.1	Carbon Sequestered inside the AFOLU sector	tCO2e	4,314,337	1.6	7,085,714	28.5%	2,015,966	2.0
	<i>Direct (tree planting)</i>	t CO2e	4,314,337	1.6	7,085,714	28.5%	2,015,966	-
	<i>Indirect</i>		-	1.6		28.5%	-	-
6.2	Emissions avoided outside AFOLU	t CO2e	9,936,552	1.6	16,319,441	28.5%	4,643,066	0.9
	<i>(hydropones)</i>	t CO2e	3,169,609	1.6	5,238,600	28.5%	1,490,413	-
	<i>(drip irrigation)</i>	t CO2	5,897,943	1.6	9,686,573	28.5%	2,755,940	-
	<i>(tree food oil)</i>	t CO2e	849,000	1.6	1,394,368	28.5%	396,713	-
11	Beneficiaries	#	3,434,399	1.6	5,640,368	28.5%	1,604,754	2.5
	Fund capital invested	USD	96,666,666	1.6	167,667,600			

^a Analysis is based on a representative sample portfolio of five potential investments totaling \$89 million of potential invested capital. The impact estimates are then scaled up by a factor of 1.6x to represent the potential impacts from the full \$157.7 million CRAFT fund size in the alternate scenario.

^a 28.5% represents the share of the total fund capital (\$157.7 million) attributable to the GEF's investment (\$4 million from the GEF + \$41 million mobilized by the GEF). Because 28.5% of the fund's total capital is attributable to the GEF, 28.5% of the total GEBs generated by the fund are attributable to the GEF.

[Note: Based on your comments, we have revised the GHG analysis for tree planting, so the numbers referenced above have changed.]

Based on the corrected analysis, which assumes much lower actual tree planting densities of 2.5-5 pongamia trees planted per ha as part of the ongoing reforestation program in the Araku Valley (please see the detailed description above), the projected emissions reductions from tree planting are now 30% of the total projected emissions reductions from the overall sample portfolio.

The reforestation project in the Araku Valley is described in more detail above. For cost of tree planting, the cost of planting pongamia trees is not believed to be significantly more or less expensive than the cost of planting any of the 20 other native tree species included in the land restoration project.

CI-GEF response 4/15/2021:

1) The GEBs attributable to the GEF represents the pro-rata share of total fund capital (\$157.7 million) attributable to the GEF's investment (\$4 million from the GEF + \$41 million mobilized by the GEF). Because 28.5% of the fund's total capital is attributable to the GEF, 28.5% of the total GEBs generated by the fund are attributable to the GEF. Fundraising that has occurred prior to GEF's investment will not be

the total GEBs generated by the fund are attributable to the GEF. Fundraising that has occurred prior to GEF's investment will not be attributable to the GEF.

2) Outcome 1.3 targets 2 million tonnes CO₂e and 4.67 million tonnes CO₂e while Table F cites 6,659,033 metric tons of CO₂e. The discrepancy is a result of rounding in the Results Framework.

3) Reference to CCM2-6 deleted.

4) The CRAFT Fund seeks to invest in technologies that can help communities, particularly those marginalized – including women and girls, in developing countries. CRAFT mobilizes capital and invests in technologies to enable vulnerable populations, including women, to promote sustainable land management and mitigate climate change. Concurrently, it seeks to create opportunities to enhance livelihoods, particularly for women. In ensuring equitable access to the benefits of the project, including employment and income generating activities, the Fund will identify potential impact, technical assistance, or other available donor funds where possible to support disenfranchised groups, including women, to access cleantech tools and knowledge products.. CRAFT will enable local businesses, including women-owned and/or led enterprises to adapt their existing methods, expand local markets and demand, as well as attract further investment, especially for yet to be identified cleantech products and services.

5) Core indicators and Global Environmental Benefits section updated.

6) The drought tolerant tree has an expected life of 20 years. Each year that the Fund is invested, trees will be planted and the analysis assumes that the last year that trees are planted is 2029. The 20 year life is calculated from the year that it is planted (2029) and GHG emissions reductions are calculated through 2049.

Project/Program taxonomy

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

Secretariat Comment at PIF/Work Program Inclusion

Please address as necessary.

Additional comments 4/6/2021

No change has been made from the previous version. Please go through the list again and add relevant taxonomy, e.g. SMEs, Individuals/Entrepreneurs, Non-Grant Pilot, Project Reflow, Innovation & relevant taxonomy under land degradation and climate change focal area.

Additional comments 4/20/2021

Cleared

Agency Response

04/15/2021:

Taxonomy updated

Part II – Project Justification

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

Secretariat Comment at PIF/Work Program Inclusion

The barriers and baseline scenario are only presented from a financial perspective and the project description doesn't show a clear connection with the reality of land management. The added value on the ground to demonstrate GEBs need to be demonstrated.

There is additional need to explain how environmental projects in adaptation address environmental challenges in line with the GEF7 strategic directions.

Are technologies private sector only? You mean deployed/developed with private sector investment only?

Missing description on how the types of technologies (climate resilient technologies) they are aiming at developing and that can both deliver adaptation and GHG /improved land management area.

Additional comments 4/6/2021

- 1) Partially, barriers and baseline scenario has been added considering environmental aspects, however please revise FA objectives, GEBs following comments from core indicator section throughout the project justification description.
- 2) Okay.
- 3) Okay.
- 4) Okay.

- 5) Please explain how you would ensure: “transferring and expanding innovative climate technologies in developing countries”. Are the companies based in developing countries or serving developing countries directly? The sentence “CRAFT will develop technology transfer and expansion plans in developing countries for 100% of its investments” leaves room for questioning if initial investments will benefit developed countries only and then technology would be deployed. It is key for the GEF to invest in technologies benefiting developing countries during the life of the investment. Please explain.

Comments on hydropanels and relative expected mitigation outcomes

- 1) LC GHG emissions of hydropanels – currently “1 year of energy and CO2 payback” is used but the basis/justification is not provided. Please use the absolute number of LC GHG emissions per one unit of hydropanel to calculate the total amount of LC emissions of hydropanels based on the number of estimated total units and deduct them from the estimated avoided emissions.
- 2) The parameter of water volume per kg of PET: the PIF uses 27.9 liters/kg PET, which is a parameter for California-average beverage (not only water but also includes other types of beverage) as described in Page 2 and Table 1.1 of the report “the Life Cycle Assessment of Polyethylene Terephthalate (PET) Beverage Bottles Consumed in the State of California.” As this project replaces bottled water, 38.2 liters/kg PET is the right parameter in the report for this project (noting these parameters do not necessarily represent the countries in which this project will intervene). This comment was already made in the previous round and is still not addressed.
- 3) Replacement of plastic water bottles and distributions of generated water: We note that the project will track the prior sources of water of users of hydropanels while the methodologies to identify them are not clear. Please also make sure the users do not use plastic bottles that are used only one or few times, as the calculation dismisses the emissions of the distribution of water.
- 4) We also noted that the duration of accounting emissions avoided under indicator 6.2 on the portal is 20 years while the excel sheet of hydropanels accounts emissions avoided until 2044 (from 2021) while other investments use different timelines. Please address the discrepancy.

Comments on tree plantation and relative expected mitigation outcomes

- 1) In the previous version, the plant density was 247 trees per ha and now it is 5 trees per ha. It appears that the entire difference in expected CO2e sequestration impacts comes from this input, so the change is very significant between the two versions submitted and should be better explained and supported:
 - a. What are the basis for this dramatic change? What study(ies) support(s) such assumption?
 - b. Furthermore, can the business model still work with such a low tree density? In particular, how can such density of trees be competitive with soy or oil palm plantation?
 - c. We cannot qualify an intervention as “land restoration” with only 5 trees per ha.

All of this additional explanations should be in the core indicator section and in the relevant sections of the document that elaborate on this specific types of projects.

- 2) As previously noted, the expected area of landscapes under improved management is very significant with 2.8 million ha. So is the area of land restored with around 94k ha. The proposal says “Hectare estimates were determined based on third-party

assessments and studies (referenced in the "Sample Portfolio" tables below) from reputable universities, governments and multilaterals such as the World Bank". It is unclear how the mentioned references are used to determine the target. The 2.8

million ha come from the Agricultural Analytics Company under this sample, only one reference is cited (GIIN: Understanding Impact Performance: Agriculture Investments). More information is needed to determine how this study leads to the 2.8 million estimate.

- 3) The GHG benefit result should be the difference of the carbon stock with the project and the one without the project. What would be the carbon stock in the targeted lands without the project in 20 years should be deducted from the result. Again, it is unclear why the agency is not using EX-ACT tool which is the recommended approach. This comment on baseline vs project results and use of the EX-ACT tool was already presented to the Agency and left unaddressed.

Additional comments 4/20/2021

Comments on hydropanels and relative expected mitigation outcomes

- 1) Please address the below previous comment, which is not addressed in the indicators sheet (excel) and PIF. The conversion factor will be calculated by (5.79 kg CO₂/kg PET divided by 38.2 liters/kg PET), which is 0.1516 kg CO₂/liter of water.
 - The parameter of water volume per kg of PET: the PIF uses 27.9 liters/kg PET, which is a parameter for California-average beverage (not only water but also includes other types of beverage) as described in Page 2 and Table 1.1 of the report "the Life Cycle Assessment of Polyethylene Terephthalate (PET) Beverage Bottles Consumed in the State of California." As this project replaces bottled water, 38.2 liters/kg PET is the right parameter in the report for this project (noting these parameters do not necessarily represent the countries in which this project will intervene). This comment was already made in the previous round and is still not addressed.
 - 2) The calculating timeline of GHG emissions avoided seems to be up to 2041, instead of 2044 (three years shortened). Please make it consistent between the review sheet/PIF and the indicators sheet.
 - 3) On preparation for CEO Endorsement,
 - Please improve the parameters of calculating GEBs of hydropanels, in particular life cycle GHG emissions of a unit of the hydropanel to accurately deduct such emissions from the total emissions avoided.
- Please consider ways to avoid usage of single-use plastics or similar plastics that will be used only a few times to avoid the increase of emissions, when people collect water from hydropanels.

Comments on tree plantation and relative expected mitigation outcomes

- 1) New estimate for GHG mitigation benefits for AFOLU activities are low but fine at PIF stage as only 5 Pongomia trees/ha are taken into account while there are much more trees and the overall land is improved. At CEO Endorsement, when we would expect to know actual area of intervention of the fund, please provide more comprehensive approach taking into account all the carbon sequestered on the land.
- 2) Now the portal it is reported 2,015,966 tCO₂eq under AFOLU sector but in excel document for GHG reduction calculation is 3,141,882 tCO₂eq in 2043 (20 years after the starting date of 2023). Please check.
- 3) The portal, duration of the accounting should be 20 years, not 26 years.

Additional comments 4/23/2021

Thanks for uploading the revised version. However, we found out the GEB comments are not well addressed yet for AFOLU sector. Can you make sure GHG emission reduction for AFOLU are addressed in core indicator 6.1 and capturing 20 years duration? Also, please address the

second comment that is in the review sheet (Now the portal it is reported 2,015,966 tCO₂e under AFOLU sector but in excel document for GHG reduction calculation is 3,141,882 tCO₂e in 2043 (20 years after the starting date of 2023). Please check.)? We only allow different duration for core indicator 6.1 for exceptional cases and we don't see it would be the case for CRAFT project.

In the review sheet, we note that not all the data to elaborate a complete assessment of GHG emission mitigation from land restoration activities were available and at CER we expect a confirmation of the land area restored and that the approach includes the whole restored ecosystems to assess the climate change mitigation benefit from the restoration (not only one species), as per IPCC guidelines;

We guess the team might have been confused AFOLU and non-AFOLU reduction, non-AFOLU emission can be extended up to the lifetime of the products. Just to make sure, for hydropanels, agency should include lifecycle emissions including waste stage on the calculation of emission (please include it in CEO ER).

GEF comments 04/29/2021:

Yes, please by CEO endorsement: (a) confirm the land area of the program that can be attempted with the funding that is being sought (i.e., the land area of the alternative scenario for this potential investment), and (b) confirm that the approach to land restoration includes not just one tree species (pongamia) but multiple native tree and plant species. We can confirm that the program is for land restoration, including ecosystem restoration, not just tree planting and (c) confirm estimate of hydropanels.

Agency Response

04/27/2021:

The drought tolerant tree analysis to 20 years per GEF's suggestion (Indicator 6.1). The analysis was revised to show that 3,141,882 tCO₂e will cumulatively be avoided by the year 2043 of which 1,468,112 tCO₂e or 28.5% will be attributable to the GEF Project. (Note that in the Core Indicators Worksheet, the individual excel tabs for each company shows the total while the "GEF attribution" is calculated on the "GEF Core Indicator Summary" Tab).

By CEO endorsement we can (a) confirm the land area of the program that can be attempted with the funding that is being sought (i.e., the land area of the alternative scenario for this potential investment), and (b) confirm that the approach to land restoration includes not just one tree species (pongamia) but multiple native tree and plant species. We can confirm that the program is for land restoration, including ecosystem restoration, not just tree planting.

By CEO endorsement we can ensure that the lifecycle emissions estimate includes the waste stage in the calculation of emissions. [Note that a third-party, independent lifecycle GHG study for hydropanels has not been conducted, so the lifecycle emissions estimates are based on a comparative assessment with solar PV lifecycle emissions. By CEO endorsement, we can consult with the company to ensure the estimate for hydropanels is as accurate as possible and that it includes the waste/disposal stage.]

04/22/2021:

1) Please see the revised PIF which revises the conversion factor from 0.2075 to 0.1516 resulting in a cumulative GHG emissions avoided in 2041 of 2,241,041 t CO₂e.

2) The GEF Portal does not allow for submission beyond 20 years, even though GHG Benefits are accrued through 2044. The useful life of the hydropanel is 15 years and the last set of panels are assumed to be installed in 2029. The revised GEB estimates and corresponding spreadsheet consider only the GHG emissions expected through the year 2041 based on GEF feedback and portal's technical limitations.

3) We have estimated the lifecycle emissions of the solar hydropanels based on studies of the lifecycle emissions of solar PV panels along with an analysis of the energy-intensive processes in solar PV manufacturing (silicon purification, ingot molding, wafering) that are avoided in solar hydropanel manufacturing. Solar hydropanels are a new technology, and as yet no lifecycle GHG analysis has been conducted specifically for hydropanels. But before CEO endorsement, we can consult with the company to refine the comparative lifecycle GHG analysis.

In the company's projects, water is produced onsite in communities or at businesses, and the water is collected in large re-usable canisters or filled into reusable glass bottles (for businesses). We will work with the company to collect water in reusable containers and to further reduce the use of single use plastic.

Tree plantation and mitigation outcomes:

Between Council and CEO Endorsement, it may be possible to get better information on the land restoration program, including the area of the land and the condition of the degraded land in the Araku Valley; however, the procedures necessary to collect the data on total carbon sequestered in the land (beyond the estimated tree biomass) will not be implemented until the time of the Fund's investment in the company, which will be after CEO Endorsement.

The portal for Core Indicator 6.2 allows for up to 30 years. The analysis assumes a 20 year life of the pongamia tree. The last trees will be planted in 2029.

Barriers, GEBs, Theory of Change have been revised.

While the investments are aligned with CC-A, the project is demonstrating alignment with the CC-M and LD.

Yes, CRAFT invests exclusively in private sector companies that offer cleantech innovations.

The focus of this project is on delivering on GHG emission reductions and sustainable land management through investing in cleantech innovations.

4/15/2021:

1) FA objectives and GEBs revised

5) As required by the LPA, the CRAFT Fund will have a strategy of applying the technologies and solutions it invests in 100% of cases to developing countries, with at least 50.1% of investments domiciled in developing countries, and 17% of investments with traceable

substantial use of proceeds in developing countries. More specifically, starting from the date on which the Partnership makes its first Portfolio Investment, the Partnership shall at all times during the Commitment Period have invested an amount equal to at least 100% of all drawn "ODA Commitments" in "ODA Compliant Investments." An "ODA Compliant Investment" means the portion of a Portfolio Investment (i) in a Portfolio Company that is domiciled in an ODA Country, (ii) which is expected to promote economic development and welfare in one or more ODA Countries and (iii) that the relevant Portfolio Company commits to spend in one or more ODA Countries. "ODA Commitments" shall mean the Capital Commitments from those Investors that have represented to the General Partner in their side letters that their funds must be used in ODA-eligible developing countries (the "ODA Investors"). "ODA Countries" shall mean those countries that are listed as "DAC List of ODA Recipients" by the Development Assistance Committee (DAC) of OECD.

Comments on hydropanels and relative expected mitigation outcomes:

1) The lifecycle emissions associated with each panel is estimated to be one-third of that for solar PV panels of equivalent size. As this is a new category of solar panel, there are no lifecycle GHG emissions studies available. Based on a comparison of the manufacturing of solar hydropanels against that of crystalline Silicon (cr-Si) solar PV panels, it was determined that solar hydropanel manufacturing avoids the most energy-intensive and carbon-intensive processes in solar PV manufacturing – silicon purification, silicon ingot production, and wafering – while the other processes and components – stamped aluminum frames, glass and adhesive-based encapsulation, injection-molded plastic parts, and some on-board electronics, sensors, and controls – are largely the same. These avoided steps represent over two-thirds of the lifecycle energy and GHGs associated with cr-Si solar PV panels, with the first step (silicon purification) alone representing 45% of the total lifecycle GHG emissions. (See Fthenakis and Kim, "Photovoltaics: Life-cycle analyses", Solar Energy, 2010.) The study estimates lifecycle GHGs for multi-crystalline Silicon PV, including the panels, frame, and balance of system, are 38 g CO₂e per kWh. In our GHG analysis, we will use one-third of that, or 12.67 g/CO₂e per kWh, for the lifecycle emissions of solar hydropanels.

As requested, we will adjust the GHG analysis to deduct the estimated lifecycle emissions of each panel from the estimated avoided emissions, rather than allowing a one-year payback period before beginning to count estimated avoided emissions. Based on this analysis, the lifecycle emissions on a per panel per year basis or a per liter of water produced basis is equivalent about 11% of the estimated avoided emissions.

2) Analysis revised

3) Based on 2020 data, approximately 40% of all installations displace plastic water bottles as the primary prior water source. Starting in 2021, the company is tracking the prior water source of each new project installed which will be primary data collected through business development channels and recorded in the company's CRM. The Company does not have a permanent, on-site presence and will not be able to control how users collect water from the hydropanel.

4) The hydropanels have an estimated useful life of 15 years and year the company installs thousands of panels globally. The analysis assumes that the last panel installed as part of the Fund's investment occurs in 2029 (the expected end of the Fund); therefore, the GHG emissions reduction estimates are calculated until the year 2044.

Comments on tree plantation and relative expected mitigation outcomes

1) Thank you for this comment; we have corrected our GHG analysis to properly reflect the actual tree planting density of the reforestation project; we had incorrectly used a tree planting density assumption based on a commercial plantation pilot project the company did with

project, we had incorrectly used a tree planting density assumption based on a commercial plantation pilot project the company did with citrus growers in the US.

Based on these comments, we spent more time with the company to examine the assumptions in our GHG analysis. The planting density we assumed (247 trees per ha) was based on a commercial pilot plantation that they developed with citrus growers in the US, whereas the actual planting density for pongamia as part of the reforestation program in India is only about 2.5 pongamia trees per ha, and the density is expected to grow only to 5 pongamia trees per ha in the next stages of the project (if the company can secure the capital it needs to scale up). The reforestation project is not a monoculture and instead uses a diverse mix of 20 native tree species interspersed with existing vegetation.

a. Please see the explanation of this change in our responses to the GEF's Initial Review; the figure of 5 trees per ha is based on actual and planned planting densities in the land restoration program that was begun in the Araku Valley in India:

The project is a land restoration project rather than a commercial plantation, although most species selected, including pongamia, have real economic value for the smallholders and tribes in the area. The pongamia trees represent only 2.5-5% of the overall planting, which includes 20 native species of trees including tamarind, manuka, sal, and neem as well as pongamia.

From our responses to the GEF's Initial review:

The reforestation project that the company has begun and hopes to scale up (if they can raise the next round of capital) is described here: Last year, the company's NGO partner in India, Naandi Foundation, planted 5 million trees in over 50,000 ha in India, including 500,000 trees in over 5,000 ha in the Araku Valley, a hilly area of Andhra Pradesh containing some degraded lands. For its agroforestry restoration work with indigenous/Adivasi communities in the Araku Valley, Naandi Foundation was selected as one of 10 organizations winning the Rockefeller Foundation's Food Vision 2050 prize.

The Araku Valley reforestation program aims to restore degraded lands that have depleted and eroded soils and reduced tree cover, while also increasing the economic opportunities for local people. Naandi Foundation planted a mix of different trees interspersed with existing vegetation to help restore the land; the trees planted in 2020 included a diverse mix of over 20 species of native fruit, oilseed, softwood, and hardwood trees, most with some economic value, including tamarind, manuka, sal, neem, and pongamia. Pongamia trees (known locally as karanja or pungai) were about 2.5% of the total in the Araku Valley, or 12,500 pongamia trees. The reforestation program aims to restore soil quality and biodiversity and increase the tree canopy shading the region's highly-regarded shade-grown coffee.

In partnership with the company, Naandi Foundation can increase pongamia planting from 2.5% to 5-10% of the mix given the higher economic value of pongamia that will be unlocked by the company's technology to upgrade pongamia oil to food grade, making pongamia as valuable an income source as tamarind.

The company is obtaining Wild Harvest and Fair Trade certification for the pongamia oil produced from this project, in part to ensure that the majority of the increased value for the food oil flows to the smallholders, tribes, and villages collecting the pongamia pods.

c. As described above, 5 trees per ha is the planting density only for pongamia trees. The pongamia trees represent only 2.5-5% of the overall planting, which includes 20 native species of trees including tamarind, manuka, sal, and neem as well as pongamia.

2. CRAFT is a blind pool fund, and the projects shown here are representative projects based on technology companies that CRAFT could, but has not yet, invested in. We have obtained as much data as we can to present a representative picture of the potential projects and their impacts. After investment, CRAFT will obtain detailed data on each project. But before each investment, we do not have enough data to

impacts. After investment, CRAFT will obtain detailed data on each project. But before each investment, we do not have enough data to apply the EX-ACT tool.

3. CRAFT is a blind pool fund, and the projects shown here are representative projects based on technology companies that CRAFT could, but has not yet, invested in. We have obtained as much data as we can to present a representative picture of the potential projects and their impacts. After investment, CRAFT will obtain detailed data on each project. But before each investment, we do not have enough data to apply the EX-ACT tool.

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

Secretariat Comment at PIF/Work Program Inclusion

The baseline scenarios for ag projects: we would need to know: what was on the degraded land before project takes place to claim GEBs.

As for the avoided GHGs, there should be a way of assessing the baselines.

Additional comments 4/6/2021

- 1) Baseline scenario of projects preventing environmental degradation on the ground before project takes place to claim GEBs should be presented directly in the PIF, not in the review sheet. Now the baseline scenario only describes on financial aspects.
- 2) Can it be presented in the PIF now with the projects in pipeline?

Additional comments 4/20/2021

Cleared. Please say baseline of proposed projects in pipeline are presented in section for GEBs.

Additional comments 4/23/2021

Cleared, checked the language is included

Agency Response

04/22/2021:

Baseline projects text included in the baseline section

For the reforestation project in the Araku Valley, please see the description above.

The investment criteria for selecting investments will include a methodology and reporting framework to assess and report on GHGs. Any investment claiming GEBs from sustainable land management will have the necessary data to establish a baseline, including identifying the

location, degree of land degradation, climate, soil, land management practices, etc. No GEBs will be counted from the geospatial mapping and imaging company, which is based on monitoring and analytics rather than on-the-ground practices.

CI-GEF 04/15/2021:
Baseline scenario updated.

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

Secretariat Comment at PIF/Work Program Inclusion

The alternative scenario does not justify the investment of US\$ 10M. The GEF suggests a lower amount of US\$ 2 M that can be justifiable as long as the underlying projects are aligned with GEF-7 programming directions and the quantification of core indicators is improved.

Additional comments 4/6/2021

- 1) Ok on financial side; however please note that the GEF provided feedback for an MSP of US\$ 2M and all financial analysis has been carried out with US\$ 4M. Until we confirm the final amount the numbers may need to be re-calculated for a US\$ 2M financing.
- 2) Please revise alternative scenario using following GEF-7 FA objectives and comments from core indicator section.

Additional comments 4/20/2021

Please revise alternative scenario using following GEF-7 FA objectives and comments from core indicator section, and provide consistent number throughout the proposal.

Additional comments 4/23/2021

Cleared

Agency Response

04/22/2021:
Alternative scenario updated by deleting reference to SFM and using consistent numbers.

The revised proposal is based on a \$4 million NGI.

A GEF commitment to the Junior layer of the CRAFT fund will mobilize additional Senior commercial capital. Without the GEF NGI, the fund will remain at the \$112 million baseline size. With the GEF \$4 million NGI, CRAFT will be able to mobilize an additional \$41 million of Senior

will remain at the \$12 million baseline size. With the GEF \$1 million top, CRAFT will be able to mobilize an additional \$11 million of GEF capital of which \$30 million will be private capital and \$11 million will be (unlocked) DFI capital.

At the larger fund size, CRAFT will be able to invest more capital into more companies that offer innovative cleantech solutions: 8-12 companies instead of 6 companies and \$20-25 million per company on average instead of \$15-20 million. In addition, the larger fund size will be able to provide expanded strategic business development efforts to help companies expand in developing countries through expanded outreach and introductions to potential customers, partners, and sources of financing to overcome some of the commercial barriers preventing the scaling up of innovative cleantech solutions.

CRAFT will invest in companies that offer a) innovative cleantech solutions (such as hydropanels, drip irrigation) which will be applied, transferred and used in developing countries (CCM-1-4); b) drought-resistant seeds or crops to support the agroecosystem services to sustain food production and livelihoods through Sustainable Land Management (LD-1-1); and c) data and analytics technologies that help manage and reduce pressures on natural resources from competing land uses and increase resilience in the wider landscape (agriculture analytics, geospatial mapping and imaging) (LD-1-4).

The expansion of these innovative cleantech solutions in developing countries will generate additional Global Environmental Benefits through a reduction in GHGs (drought tolerant trees, drip irrigation, hydropanel) and improved land management practices. [Although please note that the current GEB analysis does not include GEBs for land management from remote analytics such as geospatial imaging or mapping.]

CI-GEF Response 04/15:

As mentioned, we submitted for \$4M. If the project is not technically cleared, we will discuss the feasibility of \$2M

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

Secretariat Comment at PIF/Work Program Inclusion

To be updated once the rationale of the project is improved.

Additional comments 4/6/2021

1) Please revise the section with additional comments provided in Table A, project justification and core indicators sections.

Additional comments 4/20/2021

Thanks, just delete SFM part from LD-1-1.

Additional comments 4/23/2021

Cleared.

Agency Response

04/22/2021:

SFM deleted

The project aligns with the following focal areas: Promote innovation and technology transfer for sustainable energy breakthroughs for cleantech innovation (CCM-1-4); Demonstrate mitigation options with systemic impacts for food systems; Maintain or improve flow of agro-ecosystem services to sustain food production and livelihoods through Sustainable Land Management (LD-1-1); Reduce pressures on natural resources from competing land uses and increase resilience in the wider landscape (LD-1-4).

CI-GEF Response 04/15/2021:

Done

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

Secretariat Comment at PIF/Work Program Inclusion

To be updated after the new proposal is received.

Agency Response

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

Secretariat Comment at PIF/Work Program Inclusion

No. To be updated on the CCM side. On the adaptation side, yes.

[Additional comments 4/6/2021](#)

No, please revise following comments provided in the core indicator/project justifications section.

[Additional comments 4/20/2021](#)

No, please address additional comments Part II. 1.

[Additional comments 4/23/2021](#)

No, please address additional comments Part II. 1.

Agency Response

04/27/2021:

Comments addressed in Part II.1 in the review sheet and in the PIF.

04/22/2021:

GEBs related to water harvesting updated.

The revised proposal has updated the GEBs analysis on the CCM side, reducing projected GHG reductions from tree planting (by accurately using a much lower tree planting density consistent with the ongoing reforestation program in the Araku Valley, which the company hopes to scale up, if it receives sufficient capital) and lower GHG reductions from the solar hydropanels (by deducting the emissions associated with manufacturing the panels).

The revised proposal also has updated the GEBs analysis on the land management side, removing GEBs for land management from any remote monitoring technologies such as geospatial imaging, mapping, and analytics.

The revised proposal is based on a \$4 million NGI instead of \$10 million.

CI-GEF Response 04/15/2021:

Core indicator/project justification updated.

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

Secretariat Comment at PIF/Work Program Inclusion

Yes.

Agency Response

Project/Program Map and Coordinates

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

Secretariat Comment at PIF/Work Program Inclusion

Yes, but vague

Additional comments 4/6/2021

Okay. Provide this description on the PIF directly.

Additional comments 4/20/2021

Cleared.

Agency Response

As a blind pool fund, exact locations will be established at the time of each investment. For the one investment that has been executed to date, in the sola hydropanels company, the locations of all panels installed are known and reported, and will continue to be in the future.

CI-GEF Response 04/15/2021:

Done

Stakeholders

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

Secretariat Comment at PIF/Work Program Inclusion

Please improve this section aligned with GEF policies.

Additional comments 4/6/2021

The section is still quite weak considering the GEF provided fund for fund construction. GEF requires annual implementation report on stakeholder. What are the results of stakeholder engagement from the previous GEF investment? Please provide description of any consultations conducted during the project implementation, information on how stakeholders will be engaged in the proposed activities, means of engagement throughout the project/program cycle.

Additional comments 4/23/2021

Cleared

Agency Response

04/22: SEP section was revised

A Stakeholder Engagement Plan will be developed during the PPG phase.

Under the Plan, Lightsmith will engage in outreach to key stakeholder groups over the duration of the Project through two specific processes:

- (1) Global Adaptation & Resilience Investment Working Group ("GARI") meetings;
- (2) Annual Meetings; and
- (3) International climate convenings such as Climate Week Workshops, COPs and other events

In addition, where possible, Lightsmith will also engage with key stakeholder groups through other processes:

(4) Regional Meetings, where Lightsmith has the opportunity to discuss the project and to disseminate and share information produced through the GARI group.

To date, GARI has convened over 300 private investors and other stakeholders over 21 meetings in New York, London, San Francisco, and Washington DC to discuss practical approaches to adaptation and resilience investment.

CI-GEF Response 04/15/2021:
SE section updated

Gender Equality and Women's Empowerment

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

Secretariat Comment at PIF/Work Program Inclusion

Please improve this section aligned with GEF policies.

Additional comments 4/6/2021

Please the description directly to the PIF. Also provide what efforts has been made for gender mainstreaming from the previous investment.

Additional comments 4/20/2021

Thank you it can be cleared in PIF level but as mentioned in the core indicator section, with all this efforts, women beneficiaries are significantly lower than male beneficiaries. The Gender Mainstreaming Plan should actively seek ways to benefit both gender, not only tracking gender indicators of the fund.

Additional comments 4/23/2021

Cleared

Additional comments 05/05/2021

¹ *It is well note that the PIF includes early consideration on gender. Please note, however, that the PIF references Lightsmith's*

2. The team notes that the PIF includes early consideration on gender. Please note, however, that the PIF references Lightsmith's approach to gender. Please ask CI to further describe in the section on gender (in the portal) how CI commits to ensuring that CI's Policy Gender is applied. Please also include a reference in the review sheet that clarifies that, as a GEF Agency, CI is aligned with GEF Gender Policy. In any instances where Lightsmith's requirements may differ from CI's, CI should review and share this review with the GEF Secretariat in advance of CEO endorsement.

Agency Response

05/05/2021:

CI added a sentence in the portal to explain the process with the EA during the PPG phase.

(included in the PIF) All CRAFT investments will (continue to) comply with Lightsmith's Environmental and Social Management System (ESMS), which applies the IFC Performance Standards (2012) and is consistent with the CI-GEF/GCF Policy on Environmental and Social Safeguard Standards. (While developing its ESMS, to ensure alignment with the E&S policies of donor governments and multilaterals, Lightsmith incorporated input from E&S specialists at CI, Nordic Development Fund, KfW, and EIB.) All CRAFT investments will (continue to) implement E&S Safeguards appropriate to each investment, including:

Stakeholder Engagement Plan that is fit-for-purpose and proportional to the environmental and social risk;
Gender Mainstreaming Plan, including monitoring and reporting on the number of beneficiaries disaggregated by gender (target at least 30% female); and Grievance Mechanism.

In addition, as a GEF Agency, CI complies with the GEF Gender Policy. In any instance where Lightsmith's requirements may differ from CI's policy, CI will review and share this review with the GEF Secretariat in advance of CEO endorsement.

04/22: Yes, we will incorporate this comment as part of the revised Gender Mainstreaming Plan at the PPG phase.

A Gender Mainstreaming Plan will be developed during the PPG phase.

CRAFT will monitor and report on the following minimum gender indicators:

1. Number of men and women who participated in Project activities (e.g., meetings, workshops, consultations);

2. Number of men and women who received benefits (e.g., employment, income generating activities, training, access to natural resources, land tenure or resource rights, equipment, leadership roles) from the Project; and if relevant
3. Number of strategies, plans, and policies derived from the Project that include gender considerations.

CRAFT is also responsible for ensuring that the Project is undertaken in such a way that both women and men:

- a) receive culturally compatible social and economic benefits;
- b) do not suffer adverse effects during the development process; and
- c) receive full respect for their dignity and human rights.

CRAFT will seek to provide equitable opportunities for participation by and access for both women and men. The Gender Mainstreaming Plan describes measures to provide for equitable participation of women and men in the Project, including in recruitment and procurement processes, meetings and consultations, and governing bodies. In addition, the Plan describes how the Project will track and report on gender participation.

Specifically, the Plan provides guidelines for gender mainstreaming in the following aspects of the Project:

- a) Recruitment and Procurement;
- b) Meetings and Events;
- c) Project Governance;
- d) Strategies and Plans; and
- e) Monitoring & Evaluation.

CI-GEF Response 04/15/2021:

Gender section updated.

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

Secretariat Comment at PIF/Work Program Inclusion

Agency Response

Risks to Achieving Project Objectives

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

Secretariat Comment at PIF/Work Program Inclusion

OK.

Agency Response

Coordination

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

Secretariat Comment at PIF/Work Program Inclusion

Should be improved.

Additional comments 4/6/2021

No improvements from the last version.

Additional comments 4/20/2021

Cleared

Agency Response

CI-GEF Response 04/15/2021:

Coordination section now includes list of projects.

Consistency with National Priorities

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

Secretariat Comment at PIF/Work Program Inclusion

Agency Response

Knowledge Management

Is the proposed "knowledge management (KM) approach" in line with GEF requirements to foster learning and sharing from

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

Secretariat Comment at PIF/Work Program Inclusion

Yes.

Agency Response

Environmental and Social Safeguard (ESS)

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

Secretariat Comment at PIF/Work Program Inclusion

Additional comments: The ESS and climate risk screening should be provided at PIF level. Please elaborate on the ESS minimum standards as well as the types of project categories you intend to exclude. This section is key; as you know climate risk screenings is also required for all GEF projects so please include climate risk screening in this proposal.

Additional comments 4/20/2021

Thanks for uploading ESS document.

Please provided the preliminary overall risk categorization (levels) (e.g. High/Substantial, Moderate/Medium, or Low)

[Additional comments 4/23/2021](#)

Cleared

[Additional comments 05/05/2021](#)

1. It is well noted that the PIF includes the ICI PROJECT SAFEGUARD SYSTEM. As a GEF Agency, CI is aligned with GEF's Policy on Environmental and Social Safeguards. Please ask CI to further describe in the section on ESS (in the portal) how C commits to ensuring that CI's Policy on ESS is applied. Please also include a reference in the review sheet that clarifies that, as a GEF Agency, CI is aligned with GEF's Policy on Environmental and Social Safeguards. In any instances where Lightsmith's requirements may differ from GEF's, please provide a reference to the GEF's Policy on Environmental and Social Safeguards.

From CIS, CI should review and share this review with the GEF Secretariat in advance of CEO endorsement.

Agency Response

CI-GEF 05/05/2021: Added some text related to Lighthsmith's ESS policies. We confirm that as a GEF Agency, CI is aligned with GEF's policy on Environmental and Social Safeguards. In any instance where Lighthsmith's requirements may differ from CI, CI will review and share this review with the GEF Secretariat in advance of CEO endorsement.

04/22: risk rating provided

CI-GEF Response 04/15/2021:

Safeguard screening uploaded

art III – Country Endorsements

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

Secretariat Comment at PIF/Work Program Inclusion

Agency Response

Termsheet, reflow table and agency capacity in NGI Projects

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

Secretariat Comment at PIF/Work Program Inclusion

- Differentiation between General Partners and Fund Managers. Yet, the team behind Lightsmith (Manager) seems to control both the GP and FM. Ultimately, there is little separation of roles. Please elaborate on the governance structure.
- We would like to understand the figure of RAIF and AIFM in this structure-
- Life of the fund is 10year period such as the target companies; is the short term of the financing adequate for technologies? Please explain what you mean by targeting companies with " capital-efficient" business model as a criteria for selection. The GEF would welcome a selection criteria that ensures technology deployment in developing countries
- Does Lightsmith seek majority control of portfolio companies. Is there a minimum participation percentage?
- The exit strategy for each of the companies is not clear, we welcome additional comments.
- In the era of COVID, it appears that First Time funds are indeed struggling. On the other hand, experienced managers with a proven track record are benefitting from the current situation. This argument alone worth some consideration to Lightsmith. The waterfall and the carry follow a fair European standard. However, senior investors are favored disproportionality if upside ever occurs, despite not bearing the same risk than junior, please elaborate.
- LP. Please elaborate on clause (iv). A cap at 4% for junior vs a cap of 8% for senior LP does not align with risk-reward trade-off.

- Clause (iv), to be fully understood with a scenario analysis.
- Disclose the Fund Manager (GP) fee structure and incentives: please show fee payment in
- Returns and reflows: is the >4% IRR applicable for GEF financing (in reflow table) to be made read elsewhere that junior tranche is 1% IRR.

Please explain how a lower size [around US\$ 2 M from GEF investment] will impact the overall project.

Additional comments 4/6/2021

There are some waterfall principles yet to be understood. Most notably, principle (iv) Junior L can jump to 8% and (vi) the remainder allocation of returns is undefined but disproportionately the fund documents so that it can be reviewed ahead of CEI endorsement? While the aim of the rationale between risk/return must be ensured. If seniors have priority to accessing returns, junior amounts after seniors are paid.

Instead of capturing reflows to GEF in a fiduciary account until the end of the fund's life, could not remain available to shore up other investors, so an advanced reflow is preferred.

Please provide more information on the risk of the technology tied to exit strategy and expected realization: timing, sale to strategic. We think 3-5 years may be too short to ensure a

Please include in the risks section what would happen if the exit cannot be secured on time; highlight

Kaufman prominent role in decision making as an independent member of the IAC; please explain investments in emerging markets. If there is a disagreement between Mr. Kaufman and Lights the decision to be taken?(Governance of the fund, role of investment committee/Kaufman/investor clarified).

Additional comments 4/20/2021

- 1) Thank you, please provide ahead of CEO endorsement details on additional LPS to unc
- 2) Thank you, please revise the termsheet and reflow table accordingly and return back to
- 3) Cleared.
- 4) Cleared.
- 5) Cleared.
- 6) Thanks for providing detailed bio of Mr. Kaufman. But we do not see answer for the se taken if there is a disagreement between

taken if there is a disagreement between.

In addition to previous comments, figures in the termsheet is not visible in the portal, please u

[Additional comments 4/23/2021](#)

Figures inside the termsheets are not available.

Agency Response

04/27/2021:

Term sheet includes all figures.

04/22

1) Ahead of CEO endorsement, we will provide details of the LPs to show GE's position in the waterfall.

2) Please see revised Terms and Reflows

6) If there is a disagreement, and the two partners, Mr. Koh and Mr. Wagle, vote to approve an investment, and the Independent Member, Mr. Kauffman, votes against the investment, the investment will not be approved. The Independent Member's vote is required to approve any investment or divestment of the Fund. But if Mr. Koh and Mr. Wagle vote against approving an investment, the Independent Member's affirmative vote is not sufficient to approve the investment. The role of the Independent Member of the Investment Committee was designed this way in consultation with the first close investors to provide a useful independent view on proposed investments. In practice this means that the Independent Member asks additional questions that should be addressed and brings up potential risks as well as potential opportunities to add value to investments; it is a helpful additional, independent view on each proposed investment.

1) The governance structure of the fund is standard for private equity funds, with additional governance features added as required by the fund's domicile in Luxembourg and by the participation of several DFIs/multilaterals and governments among the Fund's investors.

It is correct that the same Lightsmith team controls both the General Partner (Lightsmith Climate Resilience GP S.à r.l) and the Investment Advisor (Lightsmith Climate Resilience Management LLC), and they are related entities. This is standard for private equity funds. The same Lightsmith team carries out different but related responsibilities for the Fund through these two entities. The Fund has a separate Fund Manager, which is Lemanik Asset Management S.A., a licensed AIFM Management Company in Luxembourg.

A General Partner entity is typically set up to serve solely as the General Partner for that particular fund, carrying out no other business activity but to direct the legal and financial operations of a fund for the benefit of that fund's investors. By contrast, a Fund Manager may manage multiple funds. In this case, there is only one fund managed by Lightsmith Group – the GP and the Investment Advisor serve only the CRAFT Fund.

For this fund, the specific roles of the GP, the Fund Manager, and the Investment Advisor are set out in the Limited Partnership Agreement (LPA). The General Partner calls capital from the investors and effects legal contracts for the Fund, such as with the Fund's service providers. The Investment Advisor carries out the investment operations of the fund, including sourcing, analyzing and executing investments; advising, supervising, and adding value to those investments; and ultimately, exiting the investments. The Fund Manager oversees and must approve the investments and the portfolio management activities proposed by the Investment Advisor. To ensure the

Fund Manager's independence, the Fund Manager is paid directly by the Fund, not through the GP or the Investment Advisor, and the GP cannot replace the Fund Manager without the approval of the investors.

There are no conflicts of interest between the interest of the General Partner and the Investment Advisor (their interests are fully aligned, and there is only one fund).

The LPA ensures that both Lightsmith entities serve the interest of the Fund in several ways, including: a Key Person provision that requires that the two partners of Lightsmith Group must spend at least 90% of their business time on the Fund and not on outside activities; an exclusivity provision that requires that all investment opportunities seen by Lightsmith that match the investment strategy and criteria of the Fund must be given first to the Fund; and a prohibition preventing Lightsmith from raising and organizing any other investment vehicle until at least 75% of this fund is deployed; among other measures.

The LPA also established an investor Advisory Committee, currently composed of members from EIB, KfW, Nordic Development Fund, and AXA, whose approval is needed for certain important policy and governance decisions for the Fund, such as replacing any of the Fund's service providers, such as the auditor or the AIFM/Fund Manager; reviewing the annual Fund budget; and ruling on any conflict of interest questions.

2) The RAIF is the Fund. Reserved Alternative Investment Funds (RAIFs) are a type of fund structure available in Luxembourg that most closely mirrors the standard limited partnership private equity fund structure. Per Luxembourg law, because RAIFs are not subject to direct supervision by the Luxembourg's regulatory body (the Commission de Surveillance du Secteur Financier), they must be managed by an authorized Alternative Investment Fund Manager (AIFM) that has its registered office in a EU member state and is fully compliant with the Alternative Investment Fund Managers Directive (AIFMD). Lemanik Asset Management S.A., the AIFM Fund Manager for the CRAFT Fund is a licensed AIFM Management Company in Luxembourg. Lightsmith, the Executing Entity for this project, is the Investment Advisor implementing the investment and impact strategy of the fund, under the supervision of Lemanik as the Fund Manager of record for the Fund.

3) A 10-year fund life is standard for private equity funds. The typical holding period for growth equity investments is 3-5 years. Compared to venture capital, which invests in early-stage technology companies and has a typical holding period of 5-7 years, a growth equity fund such as CRAFT invests in more mature companies with proven technologies and proven business models that are starting to grow rapidly. The focus on growth-stage companies can also enable faster impact; the CRAFT fund seeks to scale up the deployment of companies' solutions in developing countries. Although the Fund will exit investments and deliver financial returns within 10 years, the companies can continue to operate, grow, and generate impacts even after the 10-year life of the fund.

4) Lightsmith pursues an active minority investment strategy, typically acquiring 10-40% stakes in companies. We seek active governance measures in each investment such as Board seats or observer seats as well as negative protections and covenants. At the time that each investment is approved, there must be a clear investment thesis, a clear impact thesis, and a clear set of envisioned exit possibilities. Generally the exits for these investments will be via trade sales to regional or global companies that are leaders in that industry. Given that CRAFT will invest in companies at the growth stage – beyond technology and initial customer adoption risk – its portfolio companies should have a range of potential exit opportunities moving forward without the timing risk of technology development or initial product-market fit.

It is true that it is especially difficult right now for first time fund strategies and new managers to raise funds – particularly for investments in developing countries. The CRAFT Fund has managed to reach a first closing above the minimum viable size for this strategy, which was

determined to be \$75 million. But it will be difficult or impossible for the Fund to scale up beyond its current size without attracting additional Junior capital. CRAFT continues to generate investor interest despite these headwinds, but needs additional Junior commitments to catalyze this interest into commitments.

5) The purpose of the Junior layer is to mobilize additional Senior capital into this first time fund strategy focused in innovative cleantech solutions in developing countries. As acknowledged above, this is a particularly difficult time to raise first time funds, especially for investment in developing countries. The waterfall structure for the CRAFT fund was modeled after similar blended finance funds for renewable energy and energy efficiency, such as the Danish Climate Investment Fund and GEEREF. The Junior layer and the waterfall for the CRAFT fund serves a similar purpose: to mitigate perceived risks through a first-loss feature and allowing the Senior layer to take preferred or disproportionate upside returns.

The Junior layer is meant to take more risk in order to mobilize private capital into this new area of investment. Unlike some those earlier blended funds, which had a 1:1 ratio of Junior:Senior capital, the CRAFT Fund has only 20% Junior capital (a 1:4 ratio).

6) The Junior return and the Senior return are not capped at 4% or 8%. The 4% and 8% are just initial preferred returns thresholds at which the returns waterfall shifts the allocation of distributions. For example, if total distribution proceeds exceed the amount needed to give Junior investors a 4% return and Senior investors an 8% return, then additional returns are distributed to both Junior investors and Senior investors in step (vi) of the waterfall. Junior investors have a lower preferred return threshold for the catalytic reasons described in the previous response.

7) The Junior return and the Senior return are not capped at 4% or 8%. The 4% and 8% are just initial preferred returns thresholds at which the returns waterfall shifts the allocation of distributions. For example, if total distribution proceeds exceed the amount needed to give Junior investors a 4% return and Senior investors an 8% return, then additional returns are distributed to both Junior investors and Senior investors in step (vi) of the waterfall. Junior investors have a lower preferred return threshold for the catalytic reasons described in the previous response.

Clause (iv), to be fully understood with a scenario analysis.

See below for indicative net IRRs for Junior and Senior investors:

1) Scenario 1: Underlying investments generate 15% gross IRRs

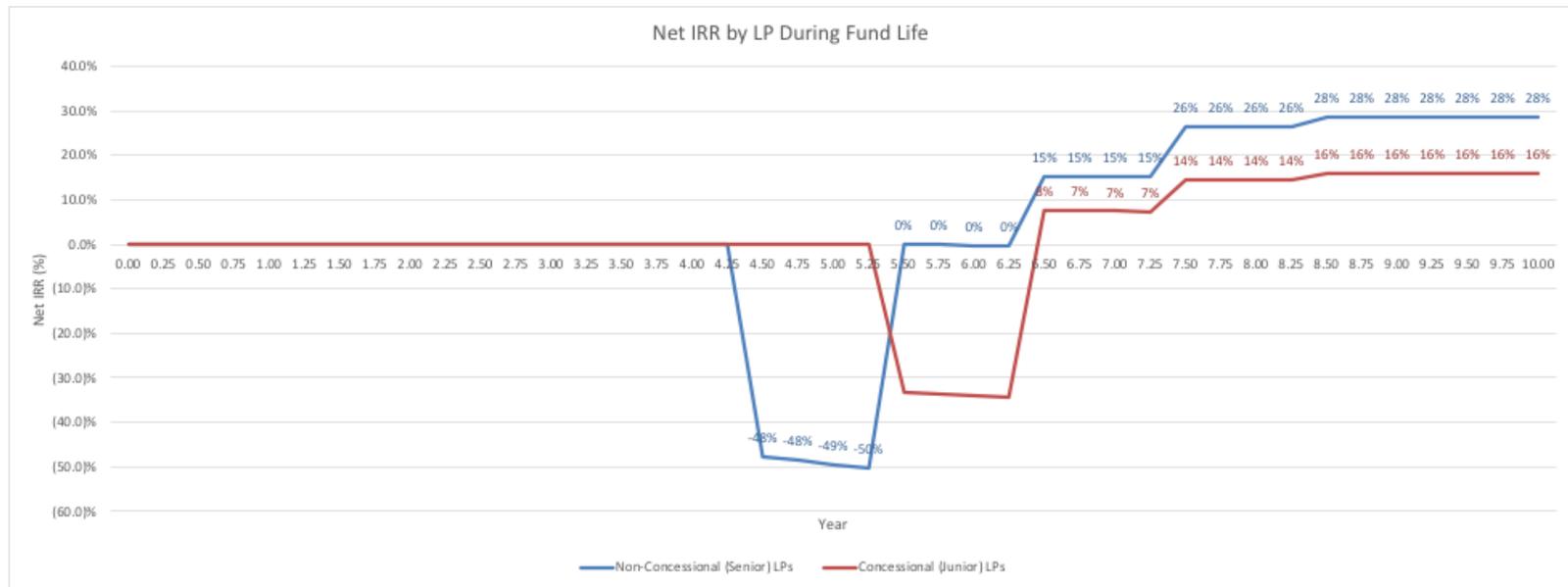


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2) Scenario 2: Underlying investments generate 25% gross IRRs

 Graphical user interface, chart, line chart Description automatically generated

Scenario 3:



8) The Fund pays Advisory Fees to the Investment Advisor (Lightsmith Climate Resilience Management LLC) and AIFM Fees to the AIFM/Fund Manager (Lemanik Asset Management S.A.) on a quarterly basis.

During the Fund's initial 5-year Commitment Period, the Advisory Fee is equal to 2.0% of total committed capital on a *per annum* basis. After the 5-year Commitment Period, the Management Fee is equal to 2.0% of net invested capital on a *per annum* basis.

The AIFM Fee is deducted from the Advisory Fee each quarter and is paid directly by the Fund to the AIFM/Fund Manager.

Advisory Fees and AIFM Fees are not paid via the remuneration waterfall, but instead are operating expenses of the Fund that are paid on a quarterly basis when the GP calls capital from investors to pay for the Fund's fees and expenses. The LPA caps certain operating expenses of the Fund and requires the investor Advisory Committee to review the Fund's annual budget and approve any expenses exceeding the budget.

9) [Note: We could not find the reference to a 1% IRR for the Junior tranche.] The actual returns and reflows for the GEF financing will depend on the actual financial performance of the Fund and its investments. GEF would see a 4% IRR on its investment in the Fund if the Fund's underlying investments generate a 12.0% gross IRR. The CRAFT strategy is actually targeting higher gross IRRs on its underlying investments of 20-25% which would translate into an indicative net IRR for the GEF financing of 8-10%.

investments of 20-25%, which would translate into an indicative net IRR for the GEF financing of 6-10%.

10. The revised proposal is based on a \$4 million NGI. The core rationale is the same: the CRAFT Fund will find it difficult or impossible to raise additional Senior capital unless it can secure at least some additional Junior capital. A \$4M NGI commitment into the Junior layer will enable the CRAFT Fund to mobilize an additional \$41 million of Senior capital, for a total increase of \$45 million, increasing the fund size from \$112 million to \$157 million, or an increase of about 40%. This additional capital will enable the CRAFT fund to achieve its intended 8-12 investments (instead of 6) averaging \$20-25 million (instead of \$15-20), helping deploy innovative cleantech solutions more widely in more developing countries, and producing correspondingly more GEBs.

Even at \$4M, the catalytic impact of a GEF NGO could be very important, potentially delivering a 10X mobilization ratio. It would be particularly disappointing to have \$30 million of private Senior investment in due diligence for potential investments in the CRAFT Fund that was unable to join due to insufficient Junior capital (with the Junior layer already falling below the targeted 20%).

Additional comments received 03/24:

- 1) The theory of change for CRAFT in the long term -not only to attract initial players, plus DFIs, thereby demonstrating that this first fund is viable, but thereafter...what is the path? Is the argument that the bigger players will invest in some subsequent, larger vehicle?

From page 36 of the PIF:

“By showcasing the commercial and economic viability of investing in climate resilience solutions in developing countries, CRAFT’s activities will catalyze the development of broader markets for climate resilience solutions. By identifying concrete examples of technologies, products and services that can support climate resilience, and by creating and disseminating case studies and data on the business case for adaptation, CRAFT can also create a demonstration effect, encouraging more public and private actors to use climate resilience solutions, more entrepreneurs and innovators to adapt their existing tools to offer these solutions (or to develop new ones), and more investors to finance them. The success of CRAFT and its investee companies to deploy capital and ultimately climate solutions will embolden private investment in these and related technologies in emerging markets, as well as donor activity to generate climate mitigation and sustainable land use benefits employing a resilience-driven approach. CRAFT’s innovative approach is intended to achieve this paradigm shift and transformative effect.”

From page 38:

“Lightsmith can replicate and scale the CRAFT strategy through a second fund without catalytic capital. The current 1,000+ company map and 20 subsectors analysis suggest an additional USD1 billion fund could be invested following CRAFT’s strategy.

Other sponsors could replicate CRAFT’s strategy of investing in resilience “tools” companies, particularly in sector-specific or country-specific strategies, as the market develops.

CRAFT’s strategy could be adapted to different stages or classes of investment, such as venture capital, PE buyouts and rollups, or public

equities. Lightsmith's market mapping has identified early stage, mature buyout, and large public companies relevant to climate resilience. CRAFT's strategy can be used to extend climate resilience to real estate, infrastructure, fixed assets, and financial securities, screening each set of assets for climate risk and resilience. CRAFT companies—particularly in analytics—can be used to screen these investments.

CRAFT's investee enterprises can deploy their products (water harvesting panels, drought-tolerant tree crops) in large-scale projects, attracting much greater amounts of debt and equity. All of these follow-on interventions can similarly support the generation and safeguarding of global environmental benefits through greater adaptation and climate resilience technologies and solutions."

2) The individual investments (esp any of them that are in developed markets) look like could attract growth equity capital from a variety of sources. How additional will CRAFT be?

It is correct that CRAFT will sometimes be investing alongside other co-investors, and these co-investors may be larger, more established investors. This is where the CRAFT team's experience and differentiation in three areas becomes important to enable the CEOs and other investors of these companies to see CRAFT as a differentiated and value-added investor:

- first, the CRAFT team's differentiated focus on the needs and demand driven by the effects of climate change, which helps CRAFT identify new types of opportunities, including new customers, geographic markets, and applications, for these innovative cleantech companies that they may not have previously considered;
- second, CRAFT's focus on, experience in, and relationships to support international expansion. Whereas many other investors are focused on one country or region, CRAFT focuses on assisting with international expansion through relationships with potential corporate and government customers and partners, some of which include CRAFT's own investors with businesses related to infrastructure and insurance, for example; and
- third, CRAFT's experience with helping cleantech companies at the growth stage, which have different needs than technology startups or than established global companies.

For example, for the Fund's first investment, in the water harvesting technology company, CRAFT joined a large growth round led by BlackRock and joining existing investors led by (Bill Gates') Breakthrough Energy Ventures. Obviously, CRAFT is not BlackRock nor Bill Gates, but the CEO and investors of the water harvesting company wanted CRAFT to join the investment round because:

- The CRAFT team is experienced at helping companies at exactly this stage to overcome the challenges to scaling; the company's existing investors are technology investors focused on the early stages of technology and company development, and the lead new investor, BlackRock, is focused on the future opportunities for large global deployment in the hundreds of millions and billions of dollars. But the company at this stage really needs help with securing new customers and partners for immediate international expansion. CRAFT has been implementing its 100-Day Plan for Value Add for this investment, which has so far included outreach to 12 potential partners and customers, including in India and Morocco, and to sources of project financing for the company's water harvesting projects, including both DFIs and private sectors sources.
- The CRAFT team is experienced in renewable energy project financing, and in particular how to bring an emerging technology such as these solar water harvesting panels to readiness for fully commercial, bankable project finance debt. CRAFT's help here has included recommendations and introductions for structuring technology risk insurance to backstop the warranty and production risks.

3) The purpose of capturing reflows to GEF in a fiduciary account until the end of the fund's life is due to institutional agreement between CI and GEF or is there any other reason? The funds do not remain available to shore up other investors, so could they be reflowed in

of and GEF-7 is there any other reason? The funds do not remain available to shore up other investors, so could they be renewed in advance?

There will be at least one repayment in 2029, with potential for additional repayment in 2031 if the fund is extended.

4) It would be helpful to see more specific information on the potential investees listed in the CRAFT pipeline that are aligned with the new Theory of Change. It also would be good to see the diligence reporting that the Lightsmith team carried out on Water Harvesting Inc. (as an example of its approach in this important area, and which we understand is its only commitment to-date).

Please see the revised PIF (Table 6: Illustrative Pipeline) which links each company's cleantech solution to a GEF-7 Objective.

During due diligence, Lightsmith assessed the Water Harvesting Company against the requirements in its ESMS. Key issues identified at assessment include: E&S management system development and effectiveness of ongoing implementation; labor and working conditions including occupational health and safety; community health and safety with regards to water quality; the need for effective engagement of stakeholders and for a system to redress any potential stakeholder grievances. Based on the issues identified at assessment, Lightsmith developed the Environmental and Social Action Plan below which was included as part of the 100-Day Plan.

5) The fund structure described in the CRAFT summary appears quite complex. It would be useful to understand the rationale for the structure, as well as the nature and extent of the fees and other financial intermediation costs associated with CRAFT's structure and activities.

The rationale for the blended finance structure of CRAFT is that a Junior concessional layer of capital can crowd in Senior commercial capital by overcoming perceived risks and thereby mobilize private investment. A blended capital structure of this type is even more important in the context of a first-time investment strategy and investments into developing countries, particularly in the aftermath of Covid-19 as is described in Baseline Scenario (page 12). This rationale is based on interviews with over 50 potential investors and the original GEF project to refine and develop the CRAFT strategy.

On fees and costs: The investors in CRAFT limited their expenses by setting the management fee (the "Investment Advisory Fee") at a market-standard 2% and by setting a cap for the annual operating expenses of the Fund. The other operating and administrative costs of managing the Fund, and in particular the costs of the required AIFM Management Company in Luxembourg, are borne by Lightsmith and paid out of the management fees.

6) Please provide more information on Richard Kaufman, who seems to have veto power on investments. Provide information on any special terms of the various shareholder agreements.

Richard Kauffman serves as an Independent Member of the Investment Committee for the CRAFT Fund. Please see his bio below. He is a senior, experienced investor – including deep experience in cleantech-related sectors – and a former senior government official with roles for the US Department of Energy and New York State focused on leading the US’ and New York State’s energy and climate transition as well as building resilience after repeated extreme weather events, such as Hurricane Sandy that devastated much of New York State in 2012.

The vote of the Independent Member is required to approve any investment or divestment of the Fund. This arrangement and the selection of Mr. Kauffman for this role was discussed and agreed with the existing investors at the first closing of the Fund. The rationale is that, to supplement the investment experience of the two Lightsmith partners, it is helpful to have an additional, independent outside view on each investment at both the screening stage and the final investment committee stage. This helps to identify issues to investigate in due diligence as well as opportunities for Lightsmith to add value.

It was important for the role of Independent Investment Committee Member to be filled by someone with deep international investment experience, experience in the relevant sectors, as well as experience working with both partners (he has known both Lightsmith partners for over 10 years). Mr. Kauffman was the first choice for this role, and when he left his position in the New York State government before the Fund’s first closing he became available and agreed to accept this role. (He also accepted a role as Chairman of a large renewable energy-focused fund.)

Richard Kauffman –biography

Richard Kauffman joined the Investment Committee of the Partnership as an Independent Investment Committee Member shortly after the first closing of the Fund.

Richard Kauffman has over 30 years of experience as an investor, corporate executive, and government official, with a focus on clean energy, clean technologies, and climate change.

Until recently, Mr. Kauffman served as the Chairman of Energy and Finance for New York State, where he oversaw the State’s energy agencies and led the comprehensive energy policy for the State’s energy transition, including its commitment to 100% carbon-free power by 2040. He continues to serve as Chair of the New York State Energy Research and Development Authority (NYSERDA) and the New York Green Bank, which is the principal entity for implementing the State’s clean energy deployment policies.

In 2015, Mr. Kauffman served as New York’s lead delegate in Paris at the UN Climate Change Conference (COP21), and in 2017 and 2018, he represented the US government on energy issues in Brazil, Nepal, and Norway. Prior to joining the New York State government, Mr. Kauffman served as Senior Advisor to Secretary Steven Chu at the U.S. Department of Energy (DOE), where he oversaw the restructuring of DOE’s Loan and the development of debt and equity capital markets policies, including uses of REITs and MLPs for renewable energy.

In his career in finance and investing, Mr. Kauffman was CEO and President of Good Energies, a leading investor in clean energy.

In his career in finance and investing, Mr. Kauffman was CEO and President of Good Energies, a leading investor in clean energy technologies; a partner of Goldman Sachs where he chaired the Global Financing Group and served on the Partnership and Commitments Committees; and Vice Chairman of Morgan Stanley's Institutional Securities business and co-head of its Banking Department. In London, he served as Vice Chair of Morgan Stanley International.

Mr. Kauffman has served on numerous corporate Boards, including as Chairman of the Board of Levi Strauss & Co. and as a member of the Board of Q-Cells, a major German solar manufacturer. He is currently on the Board of Altaba, the successor company of Yahoo! Inc.

As a non-profit board member, he currently serves on the board of the Wallace Foundation and on the advisory board of the Precourt Energy Institute at Stanford. He previously served on the boards of the Brookings Institution, the Wildlife Conservation Society, the New York Philharmonic, and Alvin Ailey. He is a member of the Council on Foreign Relations and currently serves on a study group on energy.

Mr. Kauffman received a bachelor's degree from Stanford University, a master's degree in international relations from Yale University, and a master's in public and private management from the Yale School of Management.

7) Confirm GEF has the same terms as EIB and AIB. Who are the other investors? What is the status of their solicitation? Projected date of next closing

EIB and AIB participate in the Senior layer of the Fund. GEF will participate in Junior layer of the Fund alongside the Nordic Development Fund, the Government of Luxembourg and the Rockefeller Foundation, with the same terms as outlined in the LPA.

The second closing is expected to occur by the end of this month. The third and final close is currently scheduled to occur by June 24, 2021; however, there is a provision to extend, if necessary, in order to accommodate the GEF.

8) Confirm that there is no "preferred cumulative" return to any investor.

There is no "preferred cumulative return." Net proceeds from any investments are distributed to Limited Partners ("LPs") and the General Partner ("GP") of the Fund in accordance with the Fund's waterfall, summarized below:

- (i) First, 100% to Senior LPs in repayment of their unreturned capital contributions;
- (ii) Second, 100% to Junior LPs in repayment of their unreturned capital contributions;
- (iii) Third, 100% to Senior LPs until they have received distributions equal to a 4% per annum compound interest calculated annually on their capital contributions;
- (iv) Fourth, 100% to Senior LPs and Junior LPs, pro-rata, until Senior LPs have received an 8% per annum preferred return on their capital contributions and Junior LPs have received a 4% per annum preferred return on their capital contributions;
- (v) Fifth, 100% to the GP until it has received a sum equal to 20% of the amounts cumulatively distributed to Senior and Junior LPs under items (iii), (iv), and this item (v);
- (vi) Sixth, the remainder shall be distributed (A) 80% to Senior and Junior LPs, with disproportionate distributions in favor of

- (vi) Sixty, the remainder shall be distributed (A) 60% to Senior and Junior LPs, with disproportionate distributions in favor of Senior over Junior LPs, and (B) 20% to the GP. Of the amounts distributable to the Senior LPs and Junior LPs under this sub-clause (vi)(A), the Senior LPs receive a fraction of such amount equal to (a) 2x Senior LPs' total percentage interests in the investment, divided by (b) the sum of the numerator and the Junior LPs total percentage interests in such investment, and the Junior LPs receive the remainder.

9) Provide assumptions about expected realization: timing, sale to strategic.

Portfolio Companies will be held between 3 and 5 years. For each investment, the Fund identifies an exit strategy which may likely include a sale to a strategic buyer.

10) Has the manager provided the annual report (ESG and impact) on the 2019 investment? We will appreciate you could submit past performance information of reference.

The Fund is currently preparing its 2020 Annual ESG and Impact Report which includes its first investment made in 2020. The Report will be shared annually with all investors.

CI-GEF Response 04/15/2021:

Junior LP returns are not capped at 4, but instead 4% is just a threshold at which the flow of distributions shifts. Expected returns for Junior LPs range from 4% to 11% when gross returns (at the individual investment level) occur in the targeted range of 15% to 25%.

The aim of the Junior layer is to mobilize private and commercial investment into the new field of cleantech innovation for GHG reductions and land restoration. The waterfall of the Junior layer was based on a study of previous funds in the earlier stages of renewable energy and energy efficiency investing, including the Danish Climate Investment Fund and EIB's GEEREF. The waterfalls in these prior funds allocated more risk and lower expected returns to the Junior layer to overcome the total lack of private investment in those fields at the time. Also, in some of those previous funds, a higher Junior ratio of 1:1 (50% of the fund) was used; this was not seen as necessary for the CRAFT Fund, which only has a 20% Junior layer (1:4 ratio). The waterfall for the Junior layer was negotiated in detail with the Junior investors, including Nordic Development Fund, Government of Luxembourg (via EIB-LCFP), and the Rockefeller Foundation.

Yes, if GEF prefers, reflows do not need to be held in a fiduciary account but can be returned to GEF as they come in.

CRAFT is a growth equity investment strategy, meaning it invests growth capital in growth-stage technology companies that have already proven their technologies, their business models, and customer/market update, and now need capital and strategic assistance to scale up and expand in developing countries. The focus of CRAFT is in scaling up innovation and helping expand the application of these technologies across more developing countries.

Venture capital funds that investing in startup often do have 5-7 year (or longer) holding periods for their investments, but 3-5 years is a typical range for growth equity funds.

This is the central financial risk of a growth equity investment strategy – even successful companies may not achieve an exit via sale to a larger company or IPO. The lack of exit would mean no funds from that investment would flow back to the investors. Of course a lack of exit

does not mean that the non-financial, impact objectives would not be achieved – the deployment of a company’s technology may be greatly expanded, and GHG emissions or land degradation decreased – even if there is no financial exit.

Mr. Kauffman’s experience in emerging markets includes: representing the US government on energy issues in Brazil and Nepal in 2017 and 2018; serving as New York’s lead delegate in Paris at the UN Climate Change Conference in 2015 (COP21), which included cooperation with developing countries; investing experience during his time as CEO of Good Energies, a cleantech and renewable energy investment firm that invested globally, including some in emerging markets

Richard Kauffman serves as an Independent Member of the Investment Committee for the CRAFT Fund. Please see his bio below. He is a senior, experienced investor – including deep experience in cleantech-related sectors – and a former senior government official with roles for the US Department of Energy and New York State focused on leading the US’ and New York State’s energy and climate transition as well as building resilience after repeated extreme weather events, such as Hurricane Sandy that devastated much of New York State in 2012. The vote of the Independent Member is required to approve any investment or divestment of the Fund. This arrangement and the selection of Mr. Kauffman for this role was discussed and agreed with the existing investors at the first closing of the Fund. The rationale is that, to supplement the investment experience of the two Lightsmith partners, it is helpful to have an additional, independent outside view on each investment at both the screening stage and the final investment committee stage. This helps to identify issues to investigate in due diligence as well as opportunities for Lightsmith to add value.

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EFSEC DECISION

RECOMMENDATION

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

Secretariat Comment at PIF/Work Program Inclusion

ADDITIONAL COMMENTS

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

Secretariat Comment at PIF/Work Program Inclusion

Review Dates

	PIF Review	Agency Response
First Review	3/11/2021	
Additional Review (as necessary)	4/6/2021	
Additional Review (as necessary)	4/20/2021	
Additional Review (as necessary)	4/23/2021	
Additional Review (as necessary)	5/5/2021	

PIF Recommendation to CEO

Brief reasoning for recommendations to CEO for PIF Approval

