

AGRI3 A Forest Conservation and Sustainable Agriculture Fund for Developing Countries

Review PIF and Make a recommendation

Basic project information

GEF ID

10497

Countries

Global

Project Name

AGRI3 A Forest Conservation and Sustainable Agriculture Fund for Developing Countries

Agencies

CI

Date received by PM

3/18/2020

Review completed by PM

4/16/2020

Program Manager

Avril Benchimol Dominguez

Focal Area

Multi Focal Area

Project Type

FSP

PIF

Part I – Project Information

Focal area elements

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

Secretariat Comment at PIF/Work Program Inclusion

· The project is well-aligned with the LD programming strategy, not only to LD-1-1, but to a large extent also to LD-1-2 and LD-1-3 (please select from drop down menu in Table A as appropriate)

Addressed

· The project seems to be well aligned with CCM programming strategy, but a clarification is needed regarding the component 1: 'Forest conservation/transformation to sustainable and climate-smart agriculture'. What kind of land is expected to be transformed?

Additional comment 03/30:

On degraded forests, it is not specified if the species planted will be native or exotic. Please clarify.

All comments addressed

Agency Response

CI-GEF Response 03/23/2020:

LD 1-2 and LD1-3 added to the drop down menu

The type of land that is expected to be transformed:

1. Agricultural Land: Agricultural production land with potential for improvement of: productivity, landscape integration and biodiversity conservation. This will lead towards: higher production (reducing land pressure and avoiding deforestation of additional land), better integration in landscapes and adding tree-or biodiversity zones.
2. Degraded land: land in use or not in use - utilising national definitions of degraded land, e.g. potentially applying EMBRAPA's definition in Brazil - with severely reduced productivity and fertility. This will lead towards restoration of fertility and soil quality, preparing for use of agricultural production or cattle breeding, reducing land pressure and avoiding deforestation of additional land elsewhere, adding tree- or biodiversity zones.
3. Degraded forest: Passive upgrading: protecting it, Active upgrading: replanting, Active upgrading to more productive combined agricultural / forestry systems)

CI-GEF Response 04/10/2020:

The project has clarified that for GEF funds, native species will be planted. Specific text, Degraded forest: Passive upgrading: protecting it. Active upgrading: replanting. Active upgrading can also include upgrading to more productive combined agricultural / forestry systems. Typically, replantation is done with native

species (one of the transactions already executed includes replanting of native species) and in case of use of the GEF investment, exclusively native species will be planted.

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

· Alignment with Land Degradation focal area in the concept needs to be elaborated and a link made to global UNCCD agenda and how this contributes to LDN efforts of selected countries. Proponents might want to check the LDN fund for an example.

Comments as of 03/30

Addressed in the PIF review sheet but not in the PIF

Contributions to LDN efforts of *selected countries* are still not specified.

· In table B it is unclear how the project resources will be distributed among the 2 outcomes (forest/agriculture). There could be 2 components or at least clearly indication of which amount is allocated to each outcome.

Addressed

· Table B, Component 1 describes the entire project without differentiating between the project elements. This does not allow analysis of the respective project amounts or co-financing for each element. For example, not clear that several of the project elements can be supported with GEF non-grant (e.g., Output 4 TA. These details are noted in the project description so should be easy to add into Table B.

We understand that the sources of TA fund are grants from ‘Netherland Government (\$ 5M)’ and ‘Others – To be mobilized during implementation (\$ 10M)’ and GEF contribution is equity, does not contribute to TA. Please specify this either in the Table B, C or in the description.

Also, co-financing amount should be identical from Table C and ANNEX A ‘Project Financing’, now they are different from one another.

Add please BD to the next round of comments

All comments addressed

Agency Response

CI-GEF Response 03/23/2020:

Question 1: The AGRI3 fund will directly contribute to the UNCCD, specifically to the “The future strategic framework of the Convention (Decision 7/COP.13). Within the Fund's E&S and Impact framework, primary Indicator 2.1a is specifically focused on supporting financing of transactions to restore degraded land (Area of degraded land restored within concessions of funded projects). The Fund will support farmers that aim to improve land and forest productivity and protect existing natural capital. This will support the achievement of the following objectives in the UNCCD strategic framework:

- Strategic objective 1: To improve the condition of affected ecosystems, combat desertification/land degradation, promote sustainable land management and contribute to land degradation neutrality:
- Strategic objective 2: To improve the living conditions of affected populations
- Strategic objective 5: To mobilize substantial and additional financial and non-financial resources to support the implementation of the Convention by building effective partnerships at global and national level

The Fund will work with private sector and NGOs to support these efforts. Where relevant and applicable, AGRI3 will also contribute to land degradation targets and national plans as set under the LDN target setting process.

Question 2: At this point in the project, it is impossible to make hard commitments on the exact allocation of the GEF investment over the 2 outcomes. Based on the preliminary pipeline, our expectation is that the majority of the investment (75%+) will go into agricultural production land under sustainable management; this includes landscape models that actively manage or conserve forest including HCV and/or HCS areas. The remainder will go into protection and sustainable management implementation of plain forest areas.

Question 3: As the AGRI3 Fund is revolving by definition, with guarantees expiring and sub-ordinated loans being paid back, all investments of the Fund can be supported with GEF non-grant. The only exception is the TA Fund, which is non-revolving and which therefore should be entirely grant-funded. This application focuses exclusively on a GEF contribution from the non-grant window as Investment In the AGRI3 Fund.

CI-GEF Response 04/10/2020:

Alignment with the BD focal area has been included. See Section 4: Alignment with GEF Focal Area strategies and Section 5: Global Environmental Benefits

Responding to the comment: The goal of the project throughout the document should be reforestation+ sustainable agriculture. Please amend sentences like “ AGRI 3 fund should contribute to forest protection and reforestation and/or sustainable land use while all projects funded by AGRI3 must contribute to improve rural livelihoods”.

This have been updated and clarified in the PIF.

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

· Co-financing ratio is good. However, table C is vague – the project should describe if the target co-financing will be loans or equity or grants. Further, Table C does not identify the 15 million TA facility investment. That should be clarified and any TA financing should be recorded in Table C. Further, page 20 references scale up to 1 billion USD, yet that figure is not listed in Table C. Clarification of which amounts are counted as co-financing is needed.

Additional questions as of 03/30

Please describe the financial unlocking and TAF sources in the PIF as described in the here in the review sheet.

All comments addressed

Additional comment as of 04/20/2020

1. Co-financing from the Government of Netherlands should be listed as “Donor Agency”.

Agency Response

CI-GEF Response 03/23/2020:

AGRI3 seeks to secure investment in the AGRI3 Fund to the amount of USD 140 mln and to secure grant funding of the TAF Fund to the amount of USD 15 mln. The AGRI3 balance sheet of USD 140 mln suffices to secure (off-balance sheet) guarantees to a total of USD 300 mln, issued to participating banks. The USD 300 mln suffices to de-risk a total of USD 1 bln of loans of participating banks to their clients to finance their investments in forest conservation and sustainable agriculture.

Table C adds up to USD 142 mln. Taken together with the net investment by GEF of ca. USD 13 mln. this makes USD 155 mln which equals the targeted size of the AGRI3 Fund (USD 140 mln) plus the targeted size of the TA Fund (USD 15 mln).

The funding for the TA Facility is included in Table C (Government of Netherlands \$5M and \$10M to be mobilized during the life of the project).

CI-GEF Response 04/10/2020:

Co-financing table updated along with the description of the co-financing.

CI-GEF Response 04/21/2020:

Co-financing from Government of the Netherlands tagged as Donor Agency

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 yes

Agency Response

The STAR allocation?

Secretariat Comment at PIF/Work Program Inclusion N/A

Agency Response

The focal area allocation?

Secretariat Comment at PIF/Work Program Inclusion

Agency Response

The LDCF under the principle of equitable access

Secretariat Comment at PIF/Work Program Inclusion

Agency Response

The SCCF (Adaptation or Technology Transfer)?

Secretariat Comment at PIF/Work Program Inclusion

Agency Response

Focal area set-aside?

Secretariat Comment at PIF/Work Program Inclusion

Agency Response

Impact Program Incentive?

Secretariat Comment at PIF/Work Program Inclusion

· The alignment with the FOLUR IP (most of the AGR13 countries and commodities are the same as in FOLUR IP) is potentially interesting to develop synergies.

Agency Response

Project Preparation Grant

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

Secretariat Comment at PIF/Work Program Inclusion

Agency Response

Core indicators

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

Secretariat Comment at PIF/Work Program Inclusion

· The core indicators need to be carefully analyzed and seem low compared to other \$15 million investments with so much co-financing.

Additional comments 03/30

The result is improved but remain relatively low. We cannot accept an explanation that CO2 emissions can't be estimated at PIF stage. The PIF should have at least conservative estimates with logics behind how the calculation is made.

Also, the number of hectares (Core Indicator 3, 4) should be specified with the logic based on the existing data available. For now, we cannot find it from the PIF. Please refer to Core Indicator question and give more description on the calculation of estimation.

Please add BD indicators as discussed with Agency and client.

All comments addressed

Additional comments 04/20/2020

Outcome 1.1. includes target 1.1.1. 41,000 hectares of forest under improved mngt, which is recorded under GEF core indicators 3.1. on agriculture lands. Please revise to change these hectares under core indicator 3.2 on forest lands.

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- Outcome 1.2. includes targets on agriculture lands: (target 1.2.1. 700,000 ha under sustainable management and target 1.2.2. 50,000 ha revitalized). 700,000 has been recorded under Core Indicator 4 (of which 550,000 on landscapes under sustainable land management in production system), but 50,000 ha should be included under core indicator 3.1. on agriculture lands restored.
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- - Co-financing from the Government of Netherlands should be listed as “Donor Agency”.

Agency Response

CI-GEF Response 03/23/2020:

There was a confusion over "direct" and "indirect" GHG emissions mitigated (GEF Core Indicator 6.1). Upon clarification, all 6,000,000 ton CO₂e_q mitigation is to be counted as "direct." The Core Indicators table has been updated accordingly.

CO₂ emissions from farms avoided / sequestered have not yet been measured as the first investments are only made now. These emissions avoided / sequestered will come on top of the calculated emissions avoided / sequestered by forest of 6,000,000 ton CO₂e_q and will thus further improved the benefits to climate change mitigation. At this point in time it is too early to give a precise forecast of this additional benefit.

CI-GEF response 04/15/2020: (included in Section on global environmental benefits

(*1) The way our estimate of CO₂e_q emissions avoided/reduced for forest has been derived is the following:

- We have used 6 actual case studies on a 10 years basis
- We have extrapolated the results to 41,000 ha 6,000,000 Mton
- We have re-scaled 10 to 20 years 12,000,000 Mton

- We have validated these results with IPCC-based models including FAO Ex-Act.

This model has been applied to a number of sample forest projects. The full model includes calculations based on baseline data for 6 case studies (including soy large producer, soy by Farmer Organization of smallholder farmers, maize and palm oil).

(*2) The way our estimate of CO₂eq emissions avoided/reduced for farms has been derived is the following:

- We have used the FAO Ex-Act model for different crops (rice, soy, sugar cane)
- We have used the intermediate scenario
- We have calculated the results for a crop mix on 700,000 ha 4,000,000 Mton
- We have re-scaled 10 to 20 years 8,000,000 Mton
- We have subtracted 20% allowing for less than 100% success rate 6,400,000 Mton

While the amount of CO₂eq emissions avoided/reduced per ha for agriculture land will be considerably lower than for forest, the areale over which this is realized is of course considerably higher than for forest (700,000 ha instead of 41,000 ha).

We aim to use the Project Preparation Grant a.o. to validate the estimates for agriculture land. The preliminary Fund pipeline for farm land does not permit robust extrapolation to allow for meaningful target-setting at this stage – as it does for forest. While being moderately conservative in our use of the models, we note that the estimates show a significant sensitivity to:

- The actual crop mix in our portfolio
- The chosen scenario in the FAO Ex-Act model
- The actual amounts of forest land under sustainable management (estimated at 41,000 ha) and agriculture land under sustainable management (estimated at 700,000 ha).

The Fund is also exploring validity and cost-feasibility of alternative on-farm climate KPIs, in alignment with the evolving EU classification system – or taxonomy – for sustainable investment, e.g. % area over which appropriate management practices are deployed on the farm; emission intensity of production (g CO₂eq/Mton); emissions per hectare (g CO₂eq/ha); % GHG emission reductions from baseline.

Consequently we need to indicate that we provide these estimates at this point in time to the best of our knowledge but can not turn them into commitments until we are able to validate them with real life projects or more precise models and assumptions.

CI-GEF Response 04/21/2020:

Core Indicators updated. 41,000 hectares moved from Core Indicator 3.1 to 3.2

50,000 hectares from Core Indicator 4 moved to Core Indicator 3.1

Project/Program taxonomy

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

Secretariat Comment at PIF/Work Program Inclusion

Agency Response

Part II – Project Justification

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

Secretariat Comment at PIF/Work Program Inclusion

· The proposed alternative scenario describes in general what is AGRI3 but it isn't clearly related to the output /outcomes of the project. The description should be more specific about the project concrete activities and how it articulates with the baseline.

· As regard to the GHG benefits, the period for the estimate should be 20 years (and not 19) and the result of 500,000 t CO₂e as direct benefits is much too low compared to the investment. How this result has been calculated, where does the mitigation comes from and what is the difference made between indirect and

indirect? Couldn't the CO2 emissions from farms avoided/sequestered by farms be estimated if we know the number of ha under improved practices (even in a very conservative manner)?

All comments addressed

Agency Response

CI-GEF Response 03/23/2020:

Page 12/13 of the PIF have been expanded by including examples of project activities leading to the foreseen outputs and outcomes of the project.

Reference is also made to the AGR13 E&S policy which has been added as an attachment.

Core Indicators have been updated. Period for the estimate is now 20 years.

CO2 emissions from farms avoided / sequestered have not yet been measured as the first investments are only made now. These emissions avoided / sequestered will come on top of the calculated emissions avoided / sequestered by forest of 6,000,000 ton CO2eq and will thus further improved the benefits to climate change mitigation. At this point in time it is too early to give a precise forecast of this additional benefit.

CI-GEF Response 04/15/2020

The alternative scenario section has been updated to include outcomes and outputs.

CO2 emissions avoided/reduced included under Global Environmental Benefits

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

Secretariat Comment at PIF/Work Program Inclusion

Agency Response

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

Secretariat Comment at PIF/Work Program Inclusion

Agency Response

Responding to: Investment guidelines of country selection and FOLUR projects should be clarified for GEF investment. Additional information on how the fund does country selection is welcome, but GEF money should go to GEF countries + To avoid double-investing and double counting, investment guidelines should include additional limitations so that the GEF funding does not go to projects already funded through other initiatives. Nick mentioned he could change guidelines for GEF investment.

Response included in Section 3: proposed alternative scenario

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

Secretariat Comment at PIF/Work Program Inclusion

Agency Response

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

Secretariat Comment at PIF/Work Program Inclusion

Agency Response

Responding to the question, Financial additionality of the GEF- why is our money needed given that the government of the Netherlands is putting first loss? Ben mentioned he would provide wording related to the specific investment class of the GEF vs. Govt.

Response included in the Incremental Costs section.

+ Guarantee fund mechanism: how it works (chartflow to be included) as well as additional description in the termsheet of guarantee characteristics (i.e. partial credit guarantees, structure of the guarantees to be defined for each project: first loss or pari passu depending on the project, covering interest rates or principal, explanation of collateral, hedging considerations for currency risk.

Response included in the Incremental Costs section, Proposed Alternative Scenario, Annex A Transaction Examples,

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

Agency Response

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

Secretariat Comment at PIF/Work Program Inclusion

Agency Response

Project/Program Map and Coordinates

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

Secretariat Comment at PIF/Work Program Inclusion

· The selection of countries needs to be elaborated on (criteria?) and a balance created between the low hanging fruits and more difficult geographies (including the ones that are in need, e.g. LDCFs)

Agency Response

CI-GEF Response 04/10/2020:

While AGRI3 has a global scope, in effect it will focus on low- and middle income countries that contain considerable amounts of forest under threat with a preference for those countries that have made progress with regards to UNFCCC Redd+ mechanisms. A practical circumstance is also that AGRI3 will focus on those countries where partner banks will be disclosing client relationships that focus on forest conservation and implementation of sustainable agricultural practices. Initial focus will be on Brazil, Indonesia and India, while over time Investments will also be made in LDC (as defined by OECD) countries (as also conditioned by the Dutch Government investment). Eventually, we foresee a spread of investment over Latin America, Sub-Saharan Africa and South- and South-East Asia.

(See response in PIF, Section 3 Proposed Alternative Scenario under Countries) In order to maximize the chances of success in terms of E&S benefits, climate impacts, minimize risks and foster links with the Fund's objectives, there is a preference for countries and jurisdictions which have made significant progress under the UNFCCC REDD+ mechanism as a priority for investment .

Transactions outside MICs and LICs may be considered in consultation with the Stichting Board and the Steering Committee. However transactions taking place within countries that are subject to financial or banking sanctions will not be eligible for investment. In addition, partner banks will have their own country selection criteria based on political risk assessment, sovereign risk rating, stability of the currency etc. For now, this means that major forest countries e.g. Brazil, Indonesia, Colombia, India, West African countries are in scope – but that for instance DRC or Congo Brazzaville may be an issue because of political risk assessment.

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

Additional comments 04/20/2020

1. Please provide a description of the Consultations that took place with civil society organizations and private sector entities, as indicated in the Stakeholders section (#2). Please note that the GEF Policy on Stakeholder Engagement (Nov 2017) requires that that at PIF stage ‘Agencies provide a description of any consultations conducted during project development...’

Agency Response

CI-GEF Response 04/21/2020:

In the design phase, there were multiple discussions with CSOs. Specifically with WWF – with which Rabobank has an ongoing strategic partnership and the Tropical Forest Alliance. In addition, there were consultations with CSOs in the UN Environment Network. In terms of engagement with the private sector, Rabobank discussed an idea of a large scale fund and its various products with farmers, farmer organizations, food companies, logistics providers, traders and regional competitor banks in Brazil, India and Indonesia. Consultations with Indigenous Peoples were not done during the design phase. However, it is expected that there will be consultations during the PPG phase in line with CI-GEF policies on engagement with Indigenous Peoples.

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

Additional comments 04/20/2020

1. While recognizing that this is a NGI project aimed at mobilizing additional public and private capital, this project should be able to provide some more succinct indicative information on key gender dimensions and plans to carry out further analysis prior to CEO endorsement. It does include some broad assertions that it will integrate gender aspects into supply chain approaches but again they should consider developing a comprehensive gender action plan prior to CEO endorsement. Please ask CI to elaborate further on gender dimensions and clearly outline its plans for further analysis and action planning prior to CEO endorsement.

Agency Response

CI-GEF Response 04/21/2020:

The project has committed to a comprehensive gender plan by CEO ER (Section IV of the Safeguard Analysis). In terms of gender dimensions, Outcome 1.2; Output 5: “At least 300,000 farmers and farm workers, with an estimated 40% female, are trained in sustainable forest management and sustainable agricultural practices” provides a response on this at PIF stage. The project will elaborate on this and other gender dimensions during the PPG phase.

Private Sector Engagement

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

Secretariat Comment at PIF/Work Program Inclusion

Agency Response

Risks

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

Secretariat Comment at PIF/Work Program Inclusion

Additional comments 04/20/2020

1. SAFEGUARD SCREENING ANALYSIS AND RESULTS” and the investment guidelines (attached in their submission) include consideration on ESS.

This is adequate for PIF submission, but it would be good to include a brief note in the review sheet that the Secretariat expects to receive CI’s assessment of the Safeguard Policy of the Executing Agency prior to CEO endorsement and that further analysis will be carried out during PPG to reconfirm the risk rating which was stated as low. Specifically, considering potential environmental and social risk or reputational risks on large scale private sector agriculture projects.

Agency Response

CI-GEF Response 04/21/2020:

CI-GEF has included a Safeguard Analysis as a separate attachment; this analysis is done at the PIF stage. The risk rating provided in the Analysis is based on the information from the PIF. The project will be further screened during the PPG Phase to determine the policies that will be triggered. The results of the secondary screening will inform the mitigation measures to be undertaken by the project and will be reflected in the CEO endorsement submission. The safeguard capacity of the EA will be assessed during the PPG phase (as indicated under Section F of the Safeguard Analysis)

Coordination

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

Secretariat Comment at PIF/Work Program Inclusion

Agency Response

04/15/2020:

Governance structure clarified

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

· Alignment with Land Degradation focal area in the concept needs to be elaborated and a link made to global UNCCD agenda and how this contributes to LDN efforts of selected countries. Proponents might want to check the LDN fund for an example.

Additional comments 03/30

Contributions to LDN efforts of *selected countries* (e.g. Brazil, India, Indonesia) are still not specified. Agency provided explanation that is partly addressed in the review sheet but not in the PIF.

All comments addressed

Agency Response

The AGR13 fund will directly contribute to the UNCCD, specifically to the “The future strategic framework of the Convention (Decision 7/COP.13). Within the Fund's E&S and Impact framework, primary Indicator 2.1a is specifically focused on supporting financing of transactions to restore degraded land (Area of degraded land restored within concessions of funded projects). The Fund will support farmers that aim to improve land and forest productivity and protect existing natural capital. This will support the achievement of the following objectives in the UNCCD strategic framework:

- Strategic objective 1: To improve the condition of affected ecosystems, combat desertification/land degradation, promote sustainable land management and contribute to land degradation neutrality:
- Strategic objective 2: To improve the living conditions of affected populations
- Strategic objective 5: To mobilize substantial and additional financial and non-financial resources to support the implementation of the Convention by building effective partnerships at global and national level

The Fund will work with private sector and NGOs to support these efforts. Where relevant and applicable, AGRI3 will also contribute to land degradation targets and national plans as set under the LDN target setting process.

CI-GEF Response 04/10/2020:

(text included under Consistency with National Priorities). UNCCD: The AGRI3 fund will directly contribute to the UNCCD, specifically to the “The future strategic framework of the Convention (Decision 7/COP.13). Within the Fund's E&S and Impact framework, Primary Indicator 2.1a (Area of degraded land restored within concessions of funded projects) is specifically focused on supporting financing of transactions to restore degraded land. The Fund will support farmers that aim to improve land and forest productivity and protect existing natural capital. This will support the achievement of the following objectives in the UNCCD strategic framework:

- Strategic objective 1: To improve the condition of affected ecosystems, combat desertification/land degradation, promote sustainable land management and contribute to land degradation neutrality:
- Strategic objective 2: To improve the living conditions of affected populations
- Strategic objective 5: To mobilize substantial and additional financial and non-financial resources to support the implementation of the Convention by building effective partnerships at global and national level

The Fund will work with private sector and NGOs to support these efforts. Where relevant and applicable, AGRI3 will also contribute to land degradation targets and national plans as set under the LDN target setting process.

Of the countries most imminent in AGRI3’s pipeline development (Brazil, Indonesia and India), to date only Indonesia has set and published LDN targets on the UNCCD website . These are targets on forest conservation, forest rehabilitation and sustainable agricultural production including soil and water conservation. Of course, AGRI3 is not a public sector instrument - and as such, not responsible for realising government-set targets. However, almost all of the Indonesian targets in principle qualify under AGRI3 eligibility criteria and results framework. Thus, we do see a strong overlap with UNCCD LDN targets.

Knowledge Management

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

Secretariat Comment at PIF/Work Program Inclusion

1. Additional comments as of **04/20/2020** PIF said “provision of knowledge and capacity development to overcome the information barriers” is “[o]ne of the crucial aspects of AGRI3 Fund’s operation”. However, it is not clear: 1) plans to learn from relevant projects during the project implementation, 2) proposed processes to capture, assess and document info, lessons, best practice & expertise generated during implementation, 3) proposed knowledge outputs, 4) plans for strategic communications to reach out the whole value chain and provide training and guidance to key stakeholders. These four aspects need to be clear in the PIF.

Agency Response

04/21/2020 (included in KM section of the PIF)

Plans to learn from relevant projects during the project implementation have already been put in place. On April 23, 2020, the first major evaluation of lessons learned and effect of key project design choices is taking place under guidance of an external consultant. The same has also been initiated on the financial modelling (to take place in the upcoming 4 weeks). In general, the AGRI3 partnership, with very diverse partners such as UN environment, Rabobank, IDH, FMO, Mirova Althelia and other fund advisers and recently the NL Government, leads to frequent evaluations of design choices and lessons learned during implementation. Furthermore, the project Steering Committee is anchored in the governance to secure these learnings.

Proposed processes to capture, assess and document info, lessons, best practice & expertise generated during implementation: the way of capturing and assessing these learnings, best practice and expertise is described above. Documentation will internally be done through minutes of the Steering Committee, updates of strategic documents and financial models. Externally, reporting on lessons learned will be include in reporting to impact investors and – given the high public profile of AGRI3 – through presentations on (side) meetings during UNGA, WEF, IMF World Bank annual meetings etc.

Proposed knowledge outputs are the description of lessons learned, best practice & expertise in updates of strategy documents and presentations as described above. As yet no publications in international magazines or on websites have been planned yet but this may become relevant once AGRI3 has collected a significant knowledge base.

Plans for strategic communications to reach out to the whole value chain and provide training and guidance to key stakeholders are included in the TA plans that accompany AGRI3 Fund investments, both to value chain actors and farmers.

Part III – Country Endorsements

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

Secretariat Comment at PIF/Work Program Inclusion

Agency Response

Termsheet, reflow table and agency capacity in NGI Projects

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

Secretariat Comment at PIF/Work Program Inclusion

1. · Type of GEF investment: they suggest a junior participation, but the financial additionality needs to be explained for that purpose. Rabobank will share the financial model with us and provide more details
2. · Type of product offered by the fund: they mention that the guarantees should be backed by deposits or counter guarantees which may limit the universe of borrowers; we should understand collateral requirements if any.
3. · Fund Governance and Structure: Agri 3 is an open-ended investment fund structured as a fund for joints account; under Dutch law, it is not a legal entity but a contractual arrangement sui generis between Agri 3 Fund Manager BV stitching title holder AGRI 3 and each of the participants in the fund. I am not sure what the sui-generis arrangement means or what are the implications. Investment services seem to be outsourced to Althelia/Mirova as advisor but not sure who the fund manager is, and what the responsibilities would be. They also mention several times ESG policies we have not seen: we would need to understand for example if noncompliance with ESG, would that be a cause of breach of covenants? We would need Legal DD.
4. · Investment strategy: the proposal mentions two stages: (i) initial stage and (ii) later stage but the concepts are overall vague and are not reflected in the termsheet. The proposal also mentions the revolving aspect of the fund that is then not detailed or mentioned in the termsheet.
5. · The proposal refers to investment criteria that was not in an Annex. The GEF should receive copy of that annex to double check that they meet our requirements from the GEBs angle.
6. · The terms of GEF investment, ROI, and maturity should be clarified. On page 33 the project leaves open for negotiation whether GEF should be a junior or senior partner, and/or accept a lowered ROI of 2%. The requesting agency should clarify the catalytic role of GEF funding under each scenario and propose which role would provide maximum risk/return benefits. Annex A provides an abbreviated term sheet and reflow schedule, but Launch dates, exit dates, tenors and other details are missing.

The fund investment will be accompanied by a TA fund that will provide pre and post investment support. It would be good to understand how the TA and investment would work together in any given investment.

Additional comments 03/30

As described in PIF, senior participants may have a return between 0-5%; but in page 34 it says that the target ROI for the GEF is 2%. Please consistency throughout the document.

In the termsheet, please include language that explicitly says that the GEF is a senior equity participant. Termsheet says that GEF participation “will unlock a new asset class of junior and senior participants which is key to the success and governance of the Fund (conditions for junior and senior participants are given below)”

How would a senior equity participation be key to unlock senior debt? That is the financial additionality which is vaguely described. We need numbers, please so as to validate our position.

How does the structure address adverse selection by Rabo and others? How does it address situations where commercial banks would have done the transaction anyway but now have coverage (the additionality question)?

2. Please include type of product offered (ie guarantees) in the termsheet in the Use of proceeds section, or other as you see fit, also please address the section that explains this in the PIF. It was not clear (section on Risks: Liquidity risks).On the guarantee operation, since this is central to the project and GEF, this area needs elaboration.

Additional questions to come there: not clear if the debt financed would be funded or unfunded; if unfunded the guarantee fees plus the cost of debt provided against the guarantees could be high. How does that work in the balance sheet?

3. This is not enough information information provided on FGR structure is not enough, I would ask to please explain the governance structure for a given project.

What is the opinion of legal counsel of CI at this preliminary stage?

On the Fund capitalization plan, it sounds like commercial lenders making use of the facility will each be investors in the structure in some manner, much like WB borrowers are also WB shareholders. How can investors participate and exit the fund? How would that work?

4. Please make the clarifications on the capitalization phase vs additional phases throughout the document

5. The revolving aspect, as described should be part of the termsheet. What it seemed is that Investors can be participating and leaving as they wish; what are the rules for this?

6.The Investment Guidelines is attached, it nevertheless does not provide information on credit worthiness of the clients or how this will be assessed by the fund or the financial institution- would a financial institution share with the fund its internal methodologies of credit risk assessment?

There are additional comments which need to be part of this investment criteria section.

7. Please address typo if ROI 2% in page 34; also we need additional language on financial additionality of the GEF taking that position.

How would local currency financing impact ROI of 5% for GEF? Any strategy that is worth mentioning?

8. Please include the explanation of the TA dibursement in the doc.

Since Mirova/Althelia is mentioned as executing partner, concept needs to clarify linkage with and potential collaboration with the LDN fund and the LDN fund Technical Assistance Facility (TAF), which is funded by GEF.

Addressed in TS but in the PIF

Also to avoid duplication, we should include in the Investment guidelines some premises that prevent to refinance /co-finance existing initiatives funded by the GEF through Althelia/Mirova.

· IDH is closely aligned with multiple GEF projects, including a GEF-6 NGI project. Techniques to avoid duplication/double-counting should be explained and justified.

This has not been addressed as part of the PIF. We suggest it becomes part of the Investment Guidelines. Please elaborate this point in the governance of the fund.

· According to the Annex on the TA facility, IDH will support efforts in Brazil, India, and Indonesia. These are countries in which the GEF already has significant investments under the Food IAP and other projects. What efforts will be made to avoid duplication/overlap/double-counting?

As per comment above, this should be part of the investment criteria.

As per my email on 04/03:

1. The goal of the project throughout the document should be reforestation+ sustainable agriculture. Please amend sentences like “ AGRI 3 fund should contribute to forest protection and reforestation and/or sustainable land use while all projects funded by AGRI3 must contribute to improve rural livelihoods”.
2. Financial additionality of the GEF- why is our money needed given that the government of the Netherlands is putting first loss? Ben mentioned he would provide wording related to the specific investment class of the GEF vs. Govt.

3. Include BD indicators as part of the proposal. CI agreed to support Rabo in tracking those.
4. Investment guidelines of country selection and FOLUR projects should be clarified for GEF investment. Additional information on how the fund does country selection is welcome, but GEF money should go to GEF countries.
5. To avoid double-investing and double counting, investment guidelines should include additional limitations so that the GEF funding does not go to projects already funded through other initiatives. Nick mentioned he could change guidelines for GEF investment. Please follow up on this.
6. Guarantee fund mechanism: how it works (chartflow to be included) as well as additional description in the termsheet of guarantee characteristics (i.e. partial credit guarantees, structure of the guarantees to be defined for each project: first loss or pari passu depending on the project, covering interest rates or principal, explanation of collateral, hedging considerations for currency risk.
7. Clarify fund governance structure (we did not cover this topic on line but they mentioned some aspects of it ie: origination of projects by FIs, Agri 3 does additional DD and screens project through its own credit screening and E&S policies, Agri-3 has a role in loan recovery in case of default etc. Please ask a copy of the POM.

All comments addressed

- 1.

Agency Response

1. Upon request of GEF, the Financial Model has been validated and updated with the latest Information. This Model is available upon request. Based on this Model, we kindly ask GEF for a senior participation with a targeted return of 5% per annum. This return is similar to the targeted return of other participants. The additionality of GEF is in the fact that GEF will be the first investor in this asset class, after investments of the NL Government and Rabobank in different asset classes. In our expectation, this anchor investment by GEF will help other investors to come in as junior or senior participant as well.

2. Guarantees of the AGRI3 Fund to participating banks will be (partially) secured by cash collateral that AGRI3 poses at those participating banks. Borrowers do not notice this collateralisation of guarantees and consequently there are no additional collateral requirements for borrowers.

3. Information on the FGR structure can a.o. be found in <https://www.cliffordchance.com/content/dam/cliffordchance/briefings/2012/03/dutch-law-funds-for-joint-account.pdf>. The Fund itself, in terms of liabilities (equity, debt), assets (cash collateral posted at participating banks and liquidity) and of-balance-sheet liabilities (guarantees) is administered in Stichting Titleholder AGRI3. The Fund Manager is Fund Manager BV - populated by Mirova/Althelia and 2 other fund managers. Legal DD will be completed during the PPG phase.

4. The initial stage is the stage of capitalisation of AGRI3 until the threshold of USD 100 mln. Above this threshold, Dutch law requires AFM supervision. Once AGRI3 surpasses this threshold, we speak of the "later stage." The structure of AGRI3 itself will not change but additional registration and governance measures will be in place.

The GEF investment will in its entirety be part of the initial stage.

The Fund is revolving in the sense that: Investments, plus net profit or minus net losses, will be paid back at dissolution of the Fund. Within the lifetime of the Fund, capital that was invested to secure guarantees and is freed up at the expiration of the guarantee, will be re-invested in new guarantees and thus have additional benefit in forest conservation and sustainable agriculture.

5. Requested Annex is attached

6. The requested GEF investment is gross USD 15 mln, net USD 13.461 mln. The targeted RoI (after year 5) is 5% - actual returns will vary. The maximum maturity of the investment is 20 years. GEF is kindly requested to come in as a senior participant. We forgo the initial request to accept a lowered targeted RoI of 2%.

7. The AGRI3 Finance Fund and the AGRI3 Facility collaborate closely throughout the investment process. Coordination between the two bodies is facilitated by the Coordination Group composed of senior representatives of IDH and AGRI3 Finance Fund. The Coordination Group is responsible for strategic alignment, pipeline evaluation and design and oversight of TA.

Where a TA need is identified in the investment process, the Finance Fund will refer that need to the TA Facility, which will review and assess the need in collaboration with the client. Where TA needs meet the criteria of the TA Facility, they will draft a scope of work and identify relevant expertise or support mechanisms. The AGRI3 Finance Fund must provide “no objection” at this stage before the work can continue. Once the work is being implemented then the TA Facility and the AGRI3 Finance Fund will communicate and coordinate regularly as to the progress in development of the TA.

Throughout the investment process the TA Facility and the AGRI3 Finance Fund work together in the following ways:

1. Screening: preliminary assessment of TA needs, identifying potential gaps/capacity issues in within potential transactions and identifying where TA can be used to support development of an application (e.g. carry out FPIC assessment to support submission). This may be used to define actions for pre investment TA or post investment TA.
2. Due Diligence: further screening to identify any gaps in capacity to achieve impacts or financial targets. This is usually established in an Environmental and Social Action Plan (ESAP) and relevant TA is then identified to support this.
3. Investment Committees: during investment committees, the IC will identify and request TA support either for deals that they would like to finance, or to create investable business case for a deal.
4. Monitoring: Once a deal has been contracted, then the TAF will also provide support in carrying out impact monitoring, for example working with clients to develop systems for monitoring and in some cases, carrying out the monitoring themselves.
5. The Coordination Group meets at least on a quarterly basis in person.
6. By having a formal quarterly meeting in which projects and pipeline are discussed, full alignment between the AGRI3 Fund manager and the TA Facility manager is ensured.
7. The Coordination Group is responsible for the continued strategic alignment (including origination strategy) between the TAF and the AGRI3 Finance Fund, ensuring the facility is on target to deliver the results indicated in the annual plan.

Responses to Additional Comments:

1. Since Mirova/Althelia is mentioned as executing partner, concept needs to clarify linkage with and potential collaboration with the LDN fund and the LDN fund Technical Assistance Facility (TAF), which is funded by GEF.

Funds and TA facilities are managed separately and with "Chinese walls" between AGRI3 and LDN Fund. LDN Fund and AGRI3 may certainly collaborate or syndicate in a given, specific situation but that should be seen as coincidental rather than the rule. AGRI3 can use lessons learned and market insights from LDN but, for regulatory reasons, has to maintain strict division with regards to pipeline and transaction information.

2. IDH is closely aligned with multiple GEF projects, including a GEF-6 NCI project. Techniques to avoid duplication/double-counting should be explained and justified.

This is about impact attribution as well as potential double accounting. AGRI3 has an investment process that includes various steps assessing investment and TA potential, that looks strictly at both impact and financial additionality to ensure that we avoid cases of duplication - either in impact attribution or financial declaration. Various governance bodies (such as the TA Foundation Board, which includes a senior IDH representative) exist to ensure this strict separation. Of course, AGRI3 also aims to build on existing work, resources and lessons learned of IDH which provide opportunities for scale and cost efficiencies, however has its own, strictly separate transaction pipeline.

In countries where the GEF-funded FOLUR program is active, synergies will be explored, yet double investment and/or double impact accounting is prohibited by the AGRI3 investment guidelines. It should be noted that the way of project sourcing of AGRI3 is basically a demand-driven, in the sense that both client and partner banks need to be buying in to a project idea for it to materialize. Therefore we see the coordination with FOLUR primarily in sharing networks and knowledge and referring project opportunities to one another – again, avoiding double investment or accounting.

3. According to the Annex on the TA facility, IDH will support efforts in Brazil, India, and Indonesia. These are countries in which the GEF already has significant investments under the Food IAP and other projects. What efforts will be made to avoid duplication/overlap/doublecounting?

With regard to IDH, see above. With regard to overlap with GEF projects: AGRI3 will - in any country it enters - carry out mapping and market analysis to identify existing project and avoid duplication. AGRI3 is also willing to enter into direct conversations with GEF to double-check avoiding any overlap or - put positively - enhance synergies without double accounting, either financial or in terms of impact.

[The response to this question was not saved in the portal] The selection of countries needs to be elaborated on (criteria?) and a balance created between the low hanging fruits and more difficult geographies (including the ones that are in need, e.g. LDCFs)

While AGRI3 has a global scope, in effect it will focus on low- and middle income countries that contain considerable amounts of forest under threat with a preference for those countries that have made progress with regards to UNFCCC Redd+ mechanisms. A practical circumstance is also that AGRI3 will focus on those countries where partner banks will be disclosing client relationships that focus on forest conservation and implementation of sustainable agricultural practices. Initial focus will be on Brazil, Indonesia and India, while over time Investments will also be made in LDC (as defined by OECD) countries (as also conditioned by the Dutch Government investment). Eventually, we foresee a spread of investment over Latin America, Sub-Saharan Africa and South- and South-East Asia.

Responses to additional comments:

ROI updated throughout the document for consistency.

Term sheet updated. See Terms and Conditions for Financing Instruments

Governance structure of the project included in the term sheet and PIF

Financial additionality section updated

Adverse selection discussed in the PIF. Please see information in Section 3: Proposed Alternative Scenario

Term sheet and Risk section updated

Legal opinion of CI: "CI will need to review the contractual arrangements with Mirova to fully understand the roles of all the parties, with review from local counsel at the due diligence stage"

Exits are discussed in Section 3 Alternative Scenario

Revolving aspect discussed in the term sheet (terms and conditions)

Credit worthiness assessment will be carried out by the commercial banks, using its own assessment method. We don't expect this to be shared with the fund as this is highly confidential. The fund will carry out its own financial assessment to assess risk of the client and therefore risk of the guarantee. We can provide those criteria – but we have explicitly agreed to test these on deals before confirming them.

Information on the TA included in an annex to the PIF, TA Facility Strategy

GEFSEC DECISION

RECOMMENDATION

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

Secretariat Comment at PIF/Work Program Inclusion

This project is recommended for technical clearance.

ADDITIONAL COMMENTS

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

Secretariat Comment at PIF/Work Program Inclusion

Conservation International will be required to play a role in the governance structure of the Fund, either in the advisory committee or investment committee to represent GEF interests in the investment while following fiduciary standards.

Review Dates

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

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

PIF Recommendation to CEO

Brief reasoning for recommendations to CEO for PIF Approval

This project seeks to create a de-risking fund that will incentivize commercial lenders in developing countries to provide agricultural loans that include investment in forest protection, reforestation and sustainable land use through climate smart agriculture. These types of investments are usually perceived as highly risky by local lenders as borrowers require new technologies, longer maturities and additional technical capacity. To unlock financing at local level, AGRI-3 will provide guarantees and subordinated debt to local lenders and capacity building provided by the Dutch Government to support pre-investment and post-investment capacity development. The project is expected to generate multiple environmental benefits which include land degradation, biodiversity and climate change mitigation. In countries where FOLUR is active, synergies will be explored. At least 18.4 million tCO2 will be avoided while at least 91,000 ha of land will be restored and 650,000ha will result under improved management.