

Wildlife Conservation Bond

Review PIF and Make a recommendation

Basic project information

GEF ID

10330

Countries

South Africa

Project Name

Wildlife Conservation Bond

Agencies

World Bank

Date received by PM

8/27/2019

Review completed by PM

4/27/2020

Program Manager

Avril Benchimol Dominguez

Focal Area

Biodiversity

Project Type

FSP

PIF

Part I – Project Information

Focal area elements

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

Secretariat Comment at PIF/Work Program Inclusion

Yes.

Agency Response

Indicative project/program description summary

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

Secretariat Comment at PIF/Work Program Inclusion

The project components in Table B should include activities produced by the budget described in the annex.

Some of the colors of the dots in the risk category would need to be explained.

In the sources of financing, of the concept note, you should include the interest rates that the bondholders forego to finance the projects (as it is, we only see 150 M that actually go to to be invested in other projects of the WBG).

Agency Response

The World Bank PIF datasheet does not include a column for project outputs in Table B.

Risk categories from World Bank concept note: yellow is moderate and orange is substantial.

Sources of financing in concept note has been updated to include foregone interest of bondholders.

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

In the sources of financing, of the concept note, you should include the interest rates that the bondholders forego to finance the projects (as it is, we only see 150 M that actually go to to be invested in other projects of the WBG).etails required in co-financing. Please see Section III, comments on Termsheet and reflow table.

Please note that the in-kind contributions should not be part of the co-financing ratio for the overall purposes of the NGI, only the co-financing labeled as " investment mobilized" should be included.

Additional comments as of 04/02

In the sources of financing, of the concept note, you should include the interest rates that the bondholders forego to finance the projects (as it is, we only see 150 M that actually go to to be invested in other projects of the WBG).

Details required in co-financing. Please see Section III, comments on Termsheet and reflow table.

Please note that the in-kind contributions should not be part of the co-financing ratio for the overall purposes of the NGI, only the co-financing labeled as " investment mobilized" should be included.

Agency Response Sources of financing in concept note has been updated to include foregone interest of bondholders. In-kind contributions have been excluded from the summary table in the concept note and modified as requested in the termsheet and reflow table. Co-financing amounts in section I of the PIF have been revised to exclude additional philanthropic capital as sources and amounts are unconfirmed.

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 for NGI Program.

Agency Response

The focal area allocation?

Secretariat Comment at PIF/Work Program Inclusion

Agency Response

The LDCF under the principle of equitable access

Secretariat Comment at PIF/Work Program Inclusion

Agency Response

The SCCF (Adaptation or Technology Transfer)?

Secretariat Comment at PIF/Work Program Inclusion

Agency Response

Focal area set-aside?

Secretariat Comment at PIF/Work Program Inclusion

Agency Response

Impact Program Incentive?

Secretariat Comment at PIF/Work Program Inclusion**Agency Response**

Project Preparation Grant

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

Secretariat Comment at PIF/Work Program Inclusion

N/A

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

Methodology for observation of rhino population growth needs further development. Additional details required in co-financing. Please see Section III, comments on Termsheet and reflow table.

Additional comments 03/30

The proposal needs to include under the core indicators the name of the PA etc:

Name of the Protected Area

WDPA ID

IUCN Category

The total hectares from the two sites should be entered separately: Addo and Great Fish River.

Their WDPA ID and IUCN Category should be entered too.

Agency Response

Detailed methodology for monitoring black rhino population performance is included in Annex 5 of the concept note.

The core indicators worksheet has been updated to include targets broken down by PA and the WDPA ID and IUCN category have been provided for each PA.

Project/Program taxonomy

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

Secretariat Comment at PIF/Work Program Inclusion

Yes

Agency Response

Part II – Project Justification

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

Secretariat Comment at PIF/Work Program Inclusion

Yes

Agency Response

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

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

Additional details required. Please see Section III, comments on Termsheet and reflow table.

Agency Response An explanation of the financial additionality of GEF resources is included in the termsheet.

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

Additional details required for sustainability of the project. Please see Section III, comments on Termsheet and reflow table.

Agency Response

Comments provided in the concept note have been addressed in the revised concept note.

The Wildlife Conservation Bond is highly innovative as it a first-of-its-kind structure and has the potential to be a catalyst for behavior change and increased funding in conservation, moving to an outcomes focused approach and drawing in private sector risk investment.

The Wildlife Conservation Bond has been developed with the sustainability, replicability and scalability at the forefront. Sustainability for the sites has been a core element of the Theories of Change to ensure that at the end of the 5-year investment term, there is funding in place to continue to improve management of the protected areas and increase further the rhino populations.

The next step for the Wildlife Conservation Bond would be to scale to other rhino sites, other species, other landscapes and other contexts. Now that the Theories of Change have been developed and understanding improved of what is required for the sites to be “investment ready”, this knowledge can be shared to reduce the project development time and cost for Wildlife Conservation Bond 2.0, which could include a larger number of sites and countries. There are also three priority rhino

sites in Kenya which are currently finalising their Investment Readiness status which would enable fast scaling of the Wildlife Conservation Bond. There are further opportunities to apply the work of the Wildlife Conservation Bond to other species and landscapes, lending itself particularly well to any context where a core outcome can be identified.

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.

Agency Response

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 details to be provided on stakeholder engagement.

Agency Response The PIF and concept note (p. 23) include information on the stakeholders and types of engagement. As described in component 1 in the concept note, the project sites will engage communities using the Social Assessment of Protected Areas (SAPA) methodology as a best practice tool which follows Free and Prior Informed Consent (FPIC) standards. The SAPA assessment works with target communities to understand the positive and negative impacts from living alongside the PA, and the perception of well-being. The assessment uses five broad themes to interrogate further: Rights, Participation, Transparency, Mitigation of Negative Impact, Benefit Sharing. Assessments are conducted in at baseline in Year 1 with feedback of results to the community. This participatory process supports

development of a SAPA action plan to address identified needs through targeted interventions from Year 2 – Year 5. Repeating the SAPA assessments in Year 5 provides an opportunity to evaluate change in results and perceptions, but also informs the development of the next SAPA Action Plan, ensuring an adaptive management process.

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 details to be provided in the gender section, as per GEF policies. If no input can be provided here, please justify.

Additional comments as of 04/24/2020

1. This project does not elaborate on any gender considerations and should be able at this stage at least to indicate some efforts to better understand gender dimensions and ensuring equal opportunities for women and men to participate/benefit. Please ask WB to provide additional information on gender considerations and plans.

Agency Response

The community assessments will include a detailed analysis on gender dynamics in the community, how conservation benefits are distributed across gender and age sectors as well as governance roles for women. The independent fund manager (IFM) will monitor and report on gender dimensions of project activities, and will provide detail on permanent and temporary employment at both sites, and direct community benefits, disaggregated by sex. The IFM will have safeguarding policies to protect employees, sub-contractors, community members and any persons engaged by the project; safeguarding policies will include policies around gender-based violence, sexual exploitation, and discrimination based on race, gender, sexuality, religion or any other group. Both management agencies have existing human resource policies around gender.

Gender section of PIF updated to include a brief description of relevant gender gaps: Addressing the gender gaps in rural communities around PAs can result in greater sustainability of natural resources and significant improvements in their livelihoods. According to Statistics South Africa (StatsSA), 57.2 percent of women were poor in 2015, somewhat more than men (53.7 percent). Women headed households are particularly affected by poverty. Women seem to be particularly disadvantaged in relation to land ownership; between 2005 and 2010, only 36 percent of the beneficiaries of the land redistribution and tenure program were women. In rural areas,

women are more likely than men to be engaged only in non-market activities (subsistence agriculture). Women are thus more likely than men to be doing unpaid economic work. The rate of gender-based violence is high.

Private Sector Engagement

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

Secretariat Comment at PIF/Work Program Inclusion

Additional wording on (i) mobilizing private investors through the private placement as well as (ii) fund manager and executing agencies at the local level.

Agency Response

The bond will be marketed to private investors by the World Bank, working together with a commercial investment bank. There has already been considerable engagement with potential bond investors, both institutions and individuals, to test the appetite for this type of financing mechanism, and from law firms to facilitate efficient structuring of the instrument.

The independent fund manager will be identified during project preparation through due diligence conducted by the World Bank to ensure that the organization is capable of adhering to the policies of the World Bank. Information about the proposed executing agencies is provided on p. 24 of the concept note.

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 04/22/2020

1. This is the World Bank project and they should be able to attach the “Concept Environmental and Social Review Summary (ESRS)” at the PIF stage as other World Bank projects. Please ask World Bank to attach the “Concept Environmental and Social Review Summary” and or, in line with the GEF Policy on Environmental and Social Safeguards, provide indicative information on any identified ESS risks and impacts including any preliminary measures to address identified risks and potential impacts.

Agency Response The concept stage ESRS is uploaded to the documents section of the portal.

Coordination

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

Secretariat Comment at PIF/Work Program Inclusion

Agency Response

Consistency with National Priorities

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

Secretariat Comment at PIF/Work Program Inclusion

Agency Response

Knowledge Management

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

Secretariat Comment at PIF/Work Program Inclusion

Agency Response

Part III – Country Endorsements

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

Secretariat Comment at PIF/Work Program Inclusion

Agency Response

Termsheet, reflow table and agency capacity in NGI Projects

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

Secretariat Comment at PIF/Work Program Inclusion

The PIF proposal has been recommended for further development with the below comments. The financial structure is complex and still has many unknowns that would need to be defined before the project is to be considered in a Work Program.

Annex A and Financial Structure.

1) The product seems to be a structured note offering a return based on the observation of performance of rhino population and the protection of principal at maturity- this is different from a bond which is a debt instrument linked to the creditworthiness of an issuer or an asset. Structured notes are not publicly listed but are a common product for investment amongst high net worth individuals and sophisticated (professional) investors. Please clarify the following:

a) The role of the performance guarantee should be to cover a portion of coupon payment but not all; it would not make sense that the investor receives all coupon payments despite not reaching rhino population increase (that is, coupon payment provided either by outcome payer or GEF guarantee in case performance targets are mixed).

b) The instrument has fixed and incremental payouts that are “coupon-like” but applied depending on the results rhino’s population growth observations: 100%+5.6% 100%+3.2% or 0%. With the guarantee in place, we would recommend simplifying this payout, a suggestion would be: if Rhino populations increase by [X] rhinos then coupon of [5.6]%; if not Guarantee performance of [2.5%] is paid.

c) The sources of financing of both principal and coupons are being provided by donors /outcome payers which are independent from the underlying performance of rhino population. Are you designing the payout to have principal guaranteed at maturity only? Please note this can raise liquidity issues on the note. How would the grants be committed to the bondholders? Would the proceeds be deposited in an escrow account?

d) Is it possible to link revenues from natural parks where Rhinos live to the payout of the note? If not, what are the incentives for them to pursue the necessary conservation activities to ensure Rhino population growth? Did you consider having the governments of these countries play any role in this product?

2) **Structuring of GEF guarantee:** the GEF performance guarantee amount should cover the performance risk, that is, the coupon payments only with a cap of US\$ 15 million. In mathematical terms: the GEF guarantee amount will be the minimum between US\$ 15 million, and the sum of aggregated [2.5%] coupons.

GEF Guarantee= $\min (15,000,000; \text{Coupons})$

(for example, for a nominal amount of the bond issuance of US\$ 40 M in principal, 2.5% per annum corresponds to US\$ 5 M in performance guarantee in cumulative terms; GEF Guarantee=US\$ 5 million). Please clarify and document.

Payout could be measured as follows:

- If on observation date 1, rhino population is above threshold, then coupon of [5.6%] is paid; if not, performance guarantee of [2.5%] is paid.
- If on observation date 2, rhino population is above threshold, then coupon of [5.6%] is paid; if not, performance guarantee of [2.5%] is paid.
- [...] If on observation date 5, rhino population is above threshold then then coupon of [5.6%] is paid; if not, performance guarantee of [2.5%] is paid.

The agency should work on presenting the most efficient structure of the performance guarantee, that is, when, how and how much of the guarantee will be called at a given observation.

3) The GEF suggests working with the IFC for the structuring of this project.

4) **Legal Jurisdiction:** the structured note will need to be issued under a jurisdiction. Would that be local jurisdiction(s) or international (NY Law, EU Law)?

5) **Methodology and source of observations of the Rhino populations for coupon payments:** payments for performance are based on the observations of rhino populations in two countries. Please elaborate on how and when the observations will be done (if it will be at one point in time or the average of several observations). What would be the source of observation and how reliable are they?

6) **Risks.** Please elaborate on the potential risks of investing in the note and mitigants: (i) potential loss of principal (outcome payers default considerations), (ii) liquidity risks; (iii) risks affecting the performance of the bond i.e. rhino population growth (legal, political, climate, extreme weather events, sickness, others...); (iv) do macroeconomic risks affect the bond as well, (v) tax treatment of structured products for investors may limit demand.

Additional comments 3/30/2020

Please disregard previous comments as the financial structure has changed since the proposal was initially sent in August 2019. GEF Secretariat provided a mark-up of the termsheet for a call with the team on 03/27.

Additionally, the GEF secretariat provided comments in track changes in the concept note on 03/30. A summary of the comments provided include the following:

1- How the structure will ensure compliance with GEF policies and fiduciary standards, monitoring and evaluation etc. amongst other clarifications that I already included in the termsheet. Please confirm which safeguards (IFC vs WBG) will be applied

2- Update the financial structure as discussed in our call with treasury on 03/27 ie (i) coupon payment at maturity vs. investment of interest rate that would have been paid by the bond in the projects), (ii) governance of the structure (role of fund manager and how we will be making disbursements -against milestones/conditions precedents etc), (iii) the proposal would benefit enormously with sections that detail all the information Ellisson Wright shared in an email following the conf call with fund manager details, theory of change, budget etc.

Additional comments on 04/22/2020

The success payment payout description should be described in the proposal; although there is a table in Annex to provide examples of the payout, the GEF suggests including a precise description of the principle/calculations that will apply to all success payment and include rounding rules if applicable

Agency Response

The concept note has been revised in response to the comments provided in track changes on 3/30. As explained in the concept note, the project governance structure (detailed in Annex 2) will follow standard World Bank policies and procedures (including the World Bank's Environmental and Social Framework and policies related to financial management and procurement, among others) applied for Investment Project Financing (IPF), which will flow down to the independent fund manager and project partners. A fiduciary management assessment of the SA agencies has been completed during the project preparation phase. The World Bank, as the GEF IA, will conduct its own due diligence during project appraisal to determine adequacy of arrangements to ensure that project funds will be used for purposes intended in an efficient and economical way, that financial reports will be provided, and project assets safeguarded. The application of World Bank policies will be addressed in the project agreements that will be executed with project partners.

The project's monitoring and evaluation protocol, including the use of independent third party verification, is explained on pp. 19-20 of the concept note and in Annex 5.

The financial structure has been updated in the concept note and termsheet to clarify that the bond issued by the World Bank will generate funds (foregone coupon payments) to be paid over four years that will be used to finance rhino conservation activities at two project sites in South Africa. GEF NGI funds will be used as a contingent success payment to bond investors at year 5 of the project at the time the bond matures.

The governance structure, including the use of an independent fund manager guided by an investment committee, is explained in Annex 2.

The aforementioned additional detail (fund manager details, theory of change, budget, etc.) has been incorporated into the revised concept note.

Agency response 4/27:

The language in the termsheet and concept note related to the success payment have been updated. The Success Payment will be determined as a function of Rhino Population Growth and paid at Maturity Date only upon verification of rhino growth. The rhino population growth is calculated as the compound annual growth rate (CAGR) of the total Rhino introductions subtracted from the end abundance. The annualized coupon rate will be an exact calculation based on the average annual growth rate of the rhino population over the 5-year period.

The payment will be capped on the upside [at [1.83%] annualized rate or the maximum amount of reimbursable grant] and made to the Bondholders at Maturity Date. The final payout of the Conservation Success Payment will be defined during preparation phase, and will be confirmed at the time of issuance to reflect market conditions.

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

Review Dates

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

PIF Recommendation to CEO

Brief reasoning for recommendations to CEO for PIF Approval

The project is focused on addressing major challenges for financing conservation and proposes an innovative financing model to unlock and direct private finance for the conservation of the black rhino in South Africa. The project builds on existing conservation efforts in two priority sites Addo Elephant National Park (AENP) and Great Fish River Nature Reserve (GFRNR), and product development under the US \$4.5 million Rhino Impact Investment Project funded by the Global Environment Facility (GEF), The Royal Foundation, UK Aid and the Zoological Society of London (ZSL). The WBG will issue a five-year bond for US\$ 150 million and use these proceeds for its general sustainable development (SDG) purposes. The bondholders agree upfront to forego all periodic coupons that the WBG bond would have paid to finance directly the conservation initiatives in the two identified parks. The net present value of these coupons is expected to be US\$ 13 million. The bondholders hence become direct co-financiers of the conservation efforts in South Africa. In return, they can be compensated with a contingent success payment if Rhino population grows in the two parks. The source of that contingent success payment is GEF NGI funding. The project will result in 154,141 ha of terrestrial protected areas for conservation, a population increase of 104 black rhinos and will potentially create a new asset class that can be structured to mobilize institutional investors financing to conservation.

