



GEF-6 GEF SECRETARIAT REVIEW FOR FULL-SIZED/MEDIUM-SIZED PROJECTS THE GEF/LDCF/SCCF TRUST FUND

GEF ID:	9719		
Country/Region:	Global		
Project Title:	Piloting Innovative Investments for Sustainable Landscapes		
GEF Agency:	UNEP	GEF Agency Project ID:	
Type of Trust Fund:	GEF Trust Fund	GEF Focal Area (s):	Land Degradation
GEF-6 Focal Area/ LDCF/SCCF Objective (s):	LD-3 Program 4;		
Anticipated Financing PPG:	\$50,000	Project Grant:	\$2,000,000
Co-financing:	\$52,000,000	Total Project Cost:	\$54,000,000
PIF Approval:		Council Approval/Expected:	
CEO Endorsement/Approval		Expected Project Start Date:	
Program Manager:	Ulrich Apel	Agency Contact Person:	Ersin Esen

PIF Review			
Review Criteria	Questions	Secretariat Comment	Agency Response
Project Consistency	1. Is the project aligned with the relevant GEF strategic objectives and results framework? ¹	January 5, 2017: Yes. This is a request under the NGI window, aligned with LD strategy objective 3, program 4: Maximizing transformational impact through mainstreaming SLM. cleared	
	2. Is the project consistent with the recipient country's national strategies and plans or reports and assessments under relevant conventions?	January 5, 2017: Yes. cleared	
Project Design	3. Does the PIF sufficiently indicate the	January 5, 2017.	January 13, 2017

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	drivers ² of global environmental degradation, issues of sustainability, market transformation, scaling, and innovation?	<p>a) Please describe if the expected benefits in hectares are from the entire PP fund, including GEF funding and the co-financing of \$50 million, or from solely the GEF \$2 million funding.</p> <p>January 13, 2017. Has been clarified.</p> <p>cleared</p>	<p>The benefits stated are from all funding. Clarified in section 1.5 as: The global benefits from the GEF investment and the co-finance includeâ€¦. CO2 benefits included in section 1.5.</p> <p>4. Is</p>
	4. Is the project designed with sound incremental reasoning?	<p>January 5, 2017. Please respond to the following comments on the non-grant elements of the project:</p> <p>a) The PIF describes the GEF investment in three initial projects. However, Annex 1 presents two \$1 million infusions. Please explain how the GEF investments are allocated to the three projects</p> <p>b) The PP fund to which the GEF will contributed funding appears to be offering guarantees, structured financing, and concessional loans, but the financial structure is unspecified and not clear. Please explain if GEF funds will be mixed into the general PP fund, or will be allocated to specific investment projects</p> <p>c) All GEF non-grant projects must</p>	<p>January 13, 2017.</p> <p>The PIF rather refers to the three initial focus countries for the Fund. Within those countries, there are 7 focus landscapes, but actual investments will take place into specific projects within those landscapes. This is clarified on page 4 by adding the following highlighted sentence: The project will be targeting seven landscapes in Brazil, Indonesia and Liberia namely Brazil: (i) The State of Mato Grosso; Indonesia: (ii) South Sumatra and Jambi, (iii) West Kalimantan and (iv) Aceh; Liberia: (v) The South East Landscape, (vi) The Western Landscape and (vii) The Nimba Landscape. Actual investments will take place into specific projects within those landscapes. More detailed information is provided in Annex</p>

¹ For BD projects: has the project explicitly articulated which Aichi Target(s) the project will help achieve and are SMART indicators identified, that will be used to track the project's contribution toward achieving the Aichi Target(s)?

² Need not apply to LDCF/SCCF projects.

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		<p>have a potential for reflows. Without the potential for reflows, the project will operate like a grant and will not present opportunities for replication and scaling by the private sector. For a loan, it would be presumed that capital costs would be at a concessional rate, such as LIBOR, or LIBOR + 50 basis points. For a risk guarantee, a maintenance fee of appropriate size is standard. For structured financing, the rate of return is negotiated with the other investment partners to provide the minimum level of concessionality. Without these provisions, there is no potential for reflows. In many GEF non-grant projects, the use of GEF funding for equity investments has proven effective. Please explain if equity funding will be an option, and please revise the proposal to include an appropriate rate of return for each of the proposed eligible approaches consistent with the goals of the PP fund.</p> <p>d) The proposed tenor, 20 years with 15 year grace period, appears to be a concessional loan. This is acceptable, though it would be standard for a shorter payback period. If other mechanisms are used, such as risk guarantee, it is standard for fees to be charged up front. Please evaluate the</p>	<p>2 on the target landscapes. The following sentence on page 9 causing to confusion deleted: "The requested GEF support will be instrumental in executing the first three signed PPI agreements as playing the junior de-risking finance." Allocation of GEF funds into the PPF fund is clarified in the "Scenario with the GEF investment" section by adding the following sentence on page 9: All GEF funding is directly going into the actual PPF Fund, hence its share in any project will be proportionate to its % contribution to the Fund. The two separate instalments in Annex 1 changed into one single investment of US\$2mln. This will suit the Fund better given its investment targets in 2017 and 2018. Yes, the GEF funds will be mixed into the total PP Fund allocation and thus proportionately spread across the PP Fund's investment as explained above. The financial structure is clarified in the "Scenario with the GEF investment" section: In the beginning, the PP Fund will only fundraise from grants and redeemable grants. The GEF funding (classified as a redeemable grant) will take the same risk as the other grant and redeemable grant contributors to the Fund, with the difference to grant providers in that it expects repayment of its grant at a future</p>

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		<p>options and propose a new approach.</p> <p>e) The project describes attracting several investment partners, including multilateral development banks. The financing amounts to be provided by these partners is not specified in the document. Likewise, the equity investments from beneficiaries is not provided. Please provide an estimate for these leveraged investments.</p> <p>January 13, 2017. The response to comments has helped clarify the planned approach. Comments are cleared for now.</p> <p>At CEO approval stage, we will need to additional details on the proposed structures and optional financial mechanisms. We will need an explicit statement if the fund will be taking foreign exchange risk, which is acceptable, but must be declared in advance of approval and fully described. Further, GEF will need to see a reflow schedule that identifies the full potential for return not adjusted for risk. That is, concessional finance assumes a below-market rate of return and significant risk, however, the GEF investment must have a potential for reflow if all investments are successful. Naturally, reflows may be lower after defaults</p>	<p>date. The repayment might be impaired if the Net Asset Value of the Fund has decreased due to costs incurred and not (entirely) recouped from the investments made by the Fund.</p> <p>When the Fund transacts, it is able to provide various debt and mezzanine products in order to make a project work. The investment committee will assess whether or not the proposed instrument for a project is acceptable in order for the project to be successful (financially and from an impact perspective).</p> <p>The Fund manager and the investment committee will focus on two main high-level criteria when assessing the type of instrument or mechanism needed: (i) the project as a whole needs to make commercial sense over the term of the financing; and (ii) the project needs to deliver sufficient impact (specifically environmentally in terms of ha of protected forest as per the Fund's own criteria). Given this, the Fund manager will propose debt-based instrument, which is most applicable for the project in question.</p> <p>The current investment strategy expects a split of instruments between subordinated loans (40%), unfunded-risk sharing (guarantees) (30%), mezzanine debt (20%), and convertible debt (10%). This is clarified on Page 10 with the following additions:</p>

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		<p>and losses are taken into account. As the proposed arrangement already assumes management will achieve "break-even" after losses, it should be a simple matter to estimate returns before losses and present to the GEF. Furthermore, investment from beneficiaries can be counted as co-financing, which could be adjusted and submitted at the time of CEO endorsement.</p>	<p>The Fund expects to earn a return in any project, which it finances. The Fund will always aim to cover its operating costs (cost of capital and transaction costs) from an investment.</p> <p>In other words, the Fund will not set a predefined interest rate for its debt instruments. However, it will aim to price its debt-based instruments as close to the market rate as possible, taking into account the commercial aspects of the project and its criteria for environmental protection. So for example, in a smallholder palm planting project in Liberia the Fund might not be able to charge more than 1-2% as the commercials would make the project unsustainable above that (given that a DFI might say charge 5-7%, and the mixed rate required for the model is closer to 3-4%). However, in a project with soy farmers in Brazil, the Fund might follow a commercial bank in charging market rate but take a subordinate position, which will be unpriced and a slightly longer payback. This could be sufficient to catalyse the impact the Fund is looking for.</p> <p>All projects should cover costs, thus priced at least in the 1-2% and overall the Fund plans not to take more than 50% unhedged local currency exposure. The proposed tenor is based on the expected liabilities, and their duration, that the Fund will incur through its</p>

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			<p>investments. A key comparative advantage for the Fund is its ability to offer long-tenors in these producer countries. Most commercial investors, including local financial institutions, are unable to provide tenors over ten years (often even five years) due to the country, fx and commodity risk profile of these projects. It is likely that a high percentage of projects financed by the Fund will be for long-term capital expenditure projects (e.g. replanting of palm oil trees) as this is where the access to finance gap lies. In the key-focus commodities of the Fund, investments into intensification of production are typically between seven and fifteen year projects. Hence the Fund needs to find, invest and then recoup its investment from these projects in order to repay its contributors (GEF in this case). The Fund will structure its payment schedule with investees in a manner that makes most sense for the success of the project, and often this will result in back-ending the repayment of its investment. Thus, the request for the payback schedule is shown in the following table. The interest schedule suggesting (0%) reflects the expectation that the Fund will not generate above 0% return (after costs) on its projects on average (i.e. across the total portfolio). This is because it will not cover the full credit risk of the projects it is investing in, but rather can only commit</p>

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			<p>to always covering its transaction costs and its cost of capital through its pricing of investments. Therefore, over a portfolio of projects the credit risk will likely result in some credit default(s) and the Fund might not be able to cover that with performance from other projects.</p> <p>The reason the Fund charges a below market return (or has the capacity to do so) is in order to develop an impactful project which otherwise cannot reach break-even because of the high financing costs from the market. The Fund will always need to prove additionality to its investment committee, and that it will not crowd-out other investors. It will only invest in projects where it can clearly show that its financing is needed for the project to succeed and furthermore that it has an exit strategy for itself (the Fund) which could result in other more-commercial actors taking this or similar projects forward. It should be noted that in some projects the Fund might be able to charge a higher fee (for example when the project itself generates strong free cash flows) however the Fund's pricing will still not cover its risk (for being subordinate for example) as it will be requiring significant investment from the investee on the protection part and for this it needs to be able to incentivize adequately. The Fund aims to balance out its performance in order to break-even</p>

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			<p>over the long-run however from a purely financial perspective it will only do so if the current uncertainty priced by the market is in fact incorrect (perceived risk gap). As a result, the PP fund will only raise 0% funds or redeemable grants in the beginning phase.</p> <p>An estimated for the leverage investments is provided on page 10:</p> <p>The Fund expects to be able to leverage its funding 4 times, meaning on average it will be only contribute 25% of a project's required investment. Thus, the other partners will carry the rest. Likely, the beneficiaries own capital will vary depending on the type of project, but we expect around 0-20% on average to come from the actual land-user. 10-50% from the supply chain company and the rest from the financial institutional partner.</p> <p>The co-finance from NICFI to the PP Fund will be US\$ 22 million and in the form of grant. The co-finance figure and its type changed in Table C.</p>
	<p>5. Are the components in Table B sound and sufficiently clear and appropriate to achieve project objectives and the GEBs?</p>	<p>January 5, 2017: Yes. Table B is adequate at PIF stage. Further elaboration is expected at (final) CEO approval stage.</p> <p>Please edit table B in a way that the numbering starts with 1.</p> <p>January 13, 2017:</p>	<p>January 13, 2017. Corrected</p>

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		Has been corrected. cleared	
	6. Are socio-economic aspects, including relevant gender elements, indigenous people, and CSOs considered?	January 5, 2017: Yes. Adequate at PIF stage. Further detail is expected at (final) CEO approval stage. cleared	
Availability of Resources	7. Is the proposed Grant (including the Agency fee) within the resources available from (mark all that apply):		
	• The STAR allocation?	n/a for NGI project	
	• The focal area allocation?	n/a for NGI project	
	• The LDCF under the principle of equitable access	n/a	
	• The SCCF (Adaptation or Technology Transfer)?	n/a	
	• Focal area set-aside?	January 5, 2017: Funds under the NGI window are currently available.	
Recommendations	8. Is the PIF being recommended for clearance and PPG (if additional amount beyond the norm) justified?	January 5, 2017. No. Please address comments and re-submit latest within 10 business days. January 13, 2017: Yes. The PIF is recommended for CEO approval. Please note comments in the review sheet that pertain to expected items to be delivered at final CEO approval	

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		stage.	
Review Date	Review	January 05, 2017	
	Additional Review (as necessary)	January 13, 2017	
	Additional Review (as necessary)		

CEO endorsement Review			
Review Criteria	Questions	Secretariat Comment at CEO Endorsement	Response to Secretariat comments
Project Design and Financing	1. If there are any changes from that presented in the PIF, have justifications been provided?		
	2. Is the project structure/ design appropriate to achieve the expected outcomes and outputs?		
	3. Is the financing adequate and does the project demonstrate a cost-effective approach to meet the project objective?		
	4. Does the project take into account potential major risks, including the consequences of climate change, and describes		

CEO endorsement Review

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	sufficient risk response measures? (e.g., measures to enhance climate resilience)		
	5. Is co-financing confirmed and evidence provided?		
	6. Are relevant tracking tools completed?		
	7. <i>Only for Non-Grant Instrument:</i> Has a reflow calendar been presented?		
	8. Is the project coordinated with other related initiatives and national/regional plans in the country or in the region?		
	9. Does the project include a budgeted M&E Plan that monitors and measures results with indicators and targets?		
	10. Does the project have descriptions of a knowledge management plan?		
Agency Responses	11. Has the Agency adequately responded to comments at the PIF ³ stage from:		
	• GEFSEC		
	• STAP		
	• GEF Council		
	• Convention Secretariat		
	12. Is CEO endorsement recommended?		

³ If it is a child project under a program, assess if the components of the child project align with the program criteria set for selection of child projects.

CEO endorsement Review

Review Criteria	Questions	Secretariat Comment at CEO Endorsement	Response to Secretariat comments
Recommendation			
Review Date	Review		
	Additional Review (as necessary)		
	Additional Review (as necessary)		