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

GEF ID:	**9277**		
Country/Region:	**Regional**		
Project Title:	**Risk Mitigation Instrument for Land Restoration**		
GEF Agency:	**IADB**	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-2 Program 3; LD-3 Program 4;**	
Anticipated Financing PPG:		Project Grant:	**$15,000,000**
Co-financing:	**$120,000,000**	Total Project Cost:	**$135,000,000**
PIF Approval:		Council Approval/Expected:	**October 01, 2015**
CEO Endorsement/Approval		Expected Project Start Date:	
Program Manager:	**Jaime Cavelier**	Agency Contact Person:	**Duncan Gromko**

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]	JM/DER, August 12, 2015. Yes. The project aligns with GEF-6 focal area objective LD	
	2. Is the project consistent with the recipient country's national strategies and plans or reports and assessments under relevant conventions?	JM/DER, August 12, 2015. Yes. The project is consistent with target countries strategies to promote sustainable land management, restore degraded lands, and increase carbon stocks. The project is coordinated with the 20x20 initiative in Latin America.	
Project Design	3. Does the PIF sufficiently indicate the	JM/DER, August 12, 2015. Please	The concept of the project is to restore

PIF Review			
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	drivers[2] of global environmental degradation, issues of sustainability, market transformation, scaling, and innovation?	address the following comments. a) The project identifies trends in deforestation due to population growth, extractive industries, small-scale farmers, and state-backed incentives for cash crops as contributing to on-going unsustainable land use practices. It is not clear how the project will address these drivers or create replicable investments in the face of these drivers. Please clarify. JM/DER/IM: August 31, 2015. The response is adequate at the PIF stage. By the time of CEO endorsement, please expand on the innovative aspects of the investment approach and how this risk mitigation strategy could be catalytic and create replicable investments.	degraded lands, thereby improving their productive capacity. The project will reduce pressures from some of the listed drivers by fulfilling increasing demand through greater productivity. The project does not directly tackle each of the drivers â€“ for example it does not address population growth â€“ but instead addresses the general trend of increased demand for agricultural commodities that result from the listed, underlying drivers. For example, one of the sub projects is a silvopastoral investment in Paraguay. In Paraguay, nearly half of the country's energy comes from biomass, much of which is harvested from natural ecosystems. The project addresses this deforestation driver by increasing supply of biomass produced in silvopastoral systems, reducing pressure on natural forests. In terms of replicable investments, as discussed in Part II number 6) of the PIF, the project team believes that the RMI can catalyze future investments by reducing perceived risk and providing a model to address remaining risks.
	4. Is the project designed with sound incremental reasoning?	JM/DER, August 11, 2015. Please address the following	a) It is true that there is increasing focus on land restoration amongst IFIs and bilateral agencies as well as the 20x20

[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.

PIF Review

Review Criteria	Questions	Secretariat Comment	Agency Response
		comments. a) From a financial perspective, the project argues that risk mitigation funding through this project will catalyze investment. But there are already many investment activities underway, some mentioned by the project; many supported by IFIs and bilateral agencies, so it is unclear how this additional risk mitigation funding will catalyze new investment. Isn't there a real risk that this fund will simply increase returns for private sector investors who will be moving ahead with the same baseline projects regardless? b) The example provided on page 6 of a "grace-period" that is needed is unclear. How would a risk mitigation instrument, as proposed in this project, provide a grace period? c) The project write-up explains that "equity taking risk and debt providing scale" is the typical model but that "in this sector there are few lenders willing to take project risk." the project also explains that in many land-restoration projects, it may take up to seven years before forest crops offer value. Therefore, who can a very small risk mitigation fund of $15 million be allocated when the potential risks may not appear for	Initiative with which this project is aligned. Funding commitments, such as those made by 20x20 impact investors, are high-level targets and not tied to specific investments. Once investors analyze the risk associated with investments, the project team believes that they will find many of them to exceed their risk appetite. This has been the IDB's own experience, and thus has been unable to invest in these cases. It is important to note that in managing the Risk Mitigation Instrument, the IDB will employ a principal of minimum concessionality, which means that the IDB will not provide terms beyond what is required by the project. If an investment is commercially viable without funds from the RMI, the project team will not use the RMI. The IDB manages several similar donor funds that use the same principal of minimum concessionality and have found that it mitigates the risk that you mention. Furthermore, it ensures that donor funds are additional in each project. b) The delay of repayment of the principal of loan during a grace period is considered to be one of the primary risks for forestry and agroforestry projects. By absorbing that risk through a guarantee, the RMI will allow the IDB or other investors to lend to projects that have significant grace periods. c) To clarify, the "equity taking risk and

PIF Review

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		seven years? Won't debt providers want some debt service before the seven year period? d) Please elaborate on the "Revenue Model" that the Public/Private Sector would like to support with NGI funding. That is, if the GEF resources are to be used for risk-mitigation, then it implies that beneficiaries of investments will in normal cases be able to pay the investment back - please clarify what revenue models the beneficiaries will allow them to generate a positive return and pay back the investment. e) Please provide benchmarks for existing businesses in "intercropping", "shade-grown systems", "afforestation and reforestation for biomass", "Timber and NTFP", "Sylvo-pastoral systems". Do you have examples of businesses that are succeeding with these approaches? JM/DER, August 31, 2015. a) The response justifies the risk mitigation instrument (RMI) by noting that many investors are under-estimating the risks that projects face and will need to take advantage of the RMI; also that the IDB will employ a principal of minimum concessionality that should avoid the consequence of	debt providing scale" comment is meant to describe investing in general, not land restoration investments. The point was made in order to say that the project team does not see this pattern in forestry sectors, for example, because the risks mentioned in the project justification often exclude debt investors. This point was clarified in the PIF. Debt providers each have their own specific lending conditions. In the case of the IDB, we typically ask for payment on interest during the grace period; delay on repayment during the grace period is only on principal. This delay in repayment of the principal is one of the risks the project will mitigate â€“ it is this seven years of no repayment of principal that is risky for debt investors. d) The revenue model and cash flow profile varies based on the sector and specific project. Coffee grown in agroforestry systems provides returns much sooner than pure forestry investments, for example. During project origination and due diligence, each project is required to provide business plans and financial models, which include how they will bring their product to market. In agricultural and forestry projects, the IDB typically asks for projects to have an offtake agreement â€“ an agreement to purchase the project's products â€“ in order to invest. Please see the response to

PIF Review			
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		excess returns. Comment cleared. b) The response explains that projects with grace periods are perceived as risky, thus these are the types of projects that may need access to the RMI. Comment cleared. c) The response notes that as in b), projects with grace periods or long delays before off-take agreements are initiated are perceived as risky, and may need access to the RMI. Comment cleared. d) Revenue model explained in response to question 5. Comment cleared. e) Examples provided. comment cleared.	question five for further information on evaluating projects' financial sustainability. As an illustrative example, a combined cocoa and forestry project typically generates little revenues until year three or four. A loan under the CSAF would provide a grace period during that time. The tenor or repayment period of the loan would likely be eight to ten years. e) The indicative pipeline includes examples of projects and companies that are already profitable in each of the production models. In Colombia and Peru there are examples of companies producing timber for forestry activities. In Paraguay, the company is establishing silvo-pastoral systems, with the forestry products sold for biomass. The projects mentioned in Guatemala and Panama both consist of inter-cropping and shade grown systems, as cocoa is grown under shade trees. Not listed in the annex is a project in Colombia to develop the production of a nut species, grown in a native tree species. All of these businesses are operational. They are requesting financing from the IDB to scale up their operations.
	5. Are the components in Table B sound and sufficiently clear and appropriate to achieve project objectives and the GEBs?	JM/DER, August 12, 2015. Please address the following comments.	a) A project's financial sustainability is a key component for IDB given our role as a lender. As a part of the project approval process, the IDB undergoes a rigorous due diligence process, including financial due

PIF Review

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		a) In the section on risks, there is no mention of the risk that investments will not be cost-effective or sustainable. Please clarify how investment decisions will be made to ensure cost-effectiveness and replicability. b) In the section on risks, there is no mention of how the agency will ensure that each investment is consistent with GEF focal area objectives. How will the screening be performed and monitored? c) Enhancements to carbon stock are estimated to yield GHG emissions mitigation benefits of 4.5 million tons over ten years on 45,000 hectares. The preliminary estimate does not make clear how much of the 45,000 hectares would have been restored in the baseline case without GEF investments. Please clarify. d) A rough cost-effectiveness estimate based on the emissions benefit shows \$135 million/4.5 million tons/10 years equal \$3/ton/year. Please clarify if this cost-effectiveness is comparable to other projects; and clarify if this would be representative of the potential cost-effectiveness for achieving the 20x20 initiative. e) the project proposal says "guarantees and loans" will be provided. Please explain how the risk	diligence. The project teams and IDB's credit division are responsible for this due diligence. The business plans and financial models provided by the prospective borrowers are thoroughly vetted and assumptions questioned, including sensitivity analyses on key input price assumptions and sale prices. Depending on the project and sector, third party consultants are hired to further analyze the business plan and financial model. Project risks remain after due diligence and our management team and credit division determine whether the risks have been adequately mitigated. This point has been clarified in the PIF. b) Consistency with GEF focal area objectives has been explained in Part II, number 3) of the PIF. During project origination, the project team will evaluate projects to ensure that they are consistent with the indicated in the PIF. Indicators will be agreed on with the borrower to measure implementation of the activities, which will be monitored throughout the life of the project. c) According to IPCC 2006 default factors, degraded grasslands contain about 1.3 tons of carbon per hectare. Under the baseline scenario, it is assumed that projects continue with low-productivity, degrading activities such as cattle grazing; i.e. zero hectares of the 45,000 would be restored without the project. In order to

PIF Review			
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		mitigation "first loss" can use these two very different instruments. f) The Outcomes of the project are 22.5K hectares under SFM/restoration practices and 22.5K hectares in integrated landscape management for a total of 45K hectares. Each of these outcomes plan to use $7.5M from GEF and $60M in co-financing. The investment per unit are would be $333/ha when considering GEF funds only and $3,000/ha when considering GE + co-financing. This is a significant investment with unknown returns of GEBs. The investment appears to be not cost-effective. Please elaborate. JM/DER/IM: August 31, 2015. a) IDB performs extensive due diligence as documented in the response. Comment cleared. b) The explanation in the revised PIF is acceptable. However please note that afforestation (the establishment of a forest where there was no forest) can not be supported with GEF funds. Reforestation, the reestablishment of forest cover, can be supported with GEF funds. In order to better understand the nature of the proposed interventions listed on pages 6 & 7, please elaborate on the working definitions of reforestation and	qualify for the RMI, the use of the instrument must be additional â€“ the investment would not happen without the RMI. d) To the knowledge of the project team, there has not been a systematic review of the tons of CO2e abated or sequestered per dollar of investment, across projects or technologies for restoration. Making high-level conclusions about investment dollars per ton for a single technology would be challenging due to significant project to project variation. There has been some research on projecting the costs of REDD+ implementation (IIED 2009, Boucher 2008). These estimates are based on reducing deforestation activities and thus focused primarily on opportunity cost. Even with this singular focus on deforestation they show a significant variation in costs, ranging from less than zero to $13.34 per ton CO2e. There are a number of reasons to believe that these studies underestimate the cost of REDD+ (Blackman 2010). Given the high variability and the uncertainty of these estimates, it is difficult to use these estimates as a basis for comparing cost-effectiveness for the RMI. Additionally, the project team believes that this metric is not the best means of evaluating an investment's cost-effectiveness and that it significantly undervalues the cost-effectiveness of the

PIF Review

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		restoration and their role in the landscape. c) The response notes that the estimate of 45,000 hectares is incremental - none of it would happen without the investment. Comment cleared. d) Sufficient explanation on the cost-effectiveness was provided. Comment cleared. e) Both subordinated loans and guarantees can be effective for offering risk protection/mitigation. Comment cleared. f) The response notes that the $3,000/ha estimate is an investment, not a cost; that is, the investment will generate a stream of revenue that will have positive net present value. Thus the cost-effectiveness is quite good. Comment cleared. ??	RMI. It is important to note that the $135 million used to derive the estimate of $3/ton/year represents only the initial investment cost of CO2e mitigation. This estimate does not include the returns on investment. Given that projects supported by the RMI will generate returns, the net cost per ton will be close to zero or negative. Moreover, given the innovative nature of the project, simply measuring the tons of CO2e sequestered fails to capture the impact of the project. There is significant potential to expand impacts beyond the immediate project investments by the lessons learned internally for the IDB and externally for project developers that together catalyze additional financing opportunities for restoration. Given increased donor interest in promoting private sector investments in climate change related activities (such as the GCF), the project team believes that this project has an opportunity to replicate and scale that makes cost comparisons less relevant. The initial investment cost is based upon an estimate of $3,000 per hectare restored and 100 tons of CO2e sequestered per hectare. Restoration costs vary significantly by type of restoration and geography. For instance, natural regeneration is much less costly than reforestation. Given that the projects

PIF Review

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			supported under the RMI are generating returns, they are likely to have higher initial investment costs. The $3,000 per hectare figure comes from the project's team experience in developing projects. The 100 tons of CO2e figure is based upon an ICRAF study as cited in the PIF. It is difficult for the project team to comment on the expected costs of the 20x20 Initiative as a whole. Given that 20x20 covers a broader range of forest activities (natural regeneration, avoided deforestation, reforestation) that are supported by both public and private sectors, it may be difficult to make assumptions about 20x20 costs based on the RMI. e) In the case of loans, only subordinated debt would be provided under the RMI, which shares an important feature with guarantees: both subordinated debt and first-loss guarantees assume a first-loss position in the repayment waterfall, meaning that senior debt is repaid first. Both mechanisms absorb risk from senior debt. The project team expects that guarantees will be used more often, but in select cases subordinated debt may be more appropriate. The PIF was changed to reflect that loans are only subordinated. f) The cost of restoring degraded land depends on the type of restoration involved. In the case of the RMI, the land will be restored for productive purposes,

PIF Review

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			which is typically expensive. The estimate of $3,000 per hectare is based upon pipeline development and other experience, the project team believes that it is an accurate reflection of the cost of restoring degraded land. It is important to note that the lands will generate revenues for the project developer and the investment of $3,000 per hectare will be returned; the NPV of the investment per hectare is positive. The comment on unknown returns on GEB is a separate issue. As indicated in the PIF and referenced in the review sheet, GEB are estimated as the restoration of 45,000 hectares and the sequestration of 4.5 million tons of CO2 equivalent.
	6. Are socio-economic aspects, including relevant gender elements, indigenous people, and CSOs considered?	JM/DER, August 12, 2015. Yes.	
Availability of Resources	7. Is the proposed Grant (including the Agency fee) within the resources available from (mark all that apply):		
	• The STAR allocation?	JM/DER, August 11, 2015. This is a request for access to the non-grant instrument pilot and STAR resources are not needed.	
	• The focal area allocation?	NA	
	• The LDCF under the principle of equitable access	NA	
	• The SCCF (Adaptation or Technology Transfer)?	NA	

PIF Review			
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	• Focal area set-aside?	NA	
Recommendations	8. Is the PIF being recommended for clearance and PPG (if additional amount beyond the norm) justified?	JM/DER, August 11, 2015. Not at this time. Please address the comments in boxes 3, 4, and 5. JM/DER, August 31, 2015. The responses were very helpful. The major comments have been addressed, with one remaining comment in box 5b. Also, as the project PIF will be likely be read by Council members when the project is considered for a work program, it would be beneficial to include references in the PIF document to the following: a) The Bonn Challenge and how this project contributes to it; b) The project's contribution to and clear link with the 20 x 20 initiative. Please briefly revise and re-submit. JM/DER, September 8, 2015. The revision was re-submitted. At the time of CEO endorsement please address the following: a) By the time of CEO endorsement,	

PIF Review

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		please expand on the innovative aspects of the investment approach and how this risk mitigation strategy could be catalytic and create replicable investments. b) Some of the potential investments may be risky due to land tenure and dangerous areas in the region. Please address these risks. c) Some impact investors with only be interested in projects favoring "natural restoration" as opposed to agricultural uses. Please describe if any of these investments will be considered and if so, the business model. d) Please explicate the business model for each type of investment. For example, will any investments depend on carbon credits for viability? e) Elaborate on how the proposed interventions on the ground assist in structuring sustainable landscapes, by strengthening or rehabilitating the forest resources that provide the ecosystem services necessary for the commercial activity (i.e. coffee or cocoa) or some other provision (i.e. water for downstream users). For this effect, please provide a map of the landscapes and target areas for restoration in each of the sub-projects.	

PIF Review			
Review Criteria	Questions	Secretariat Comment	Agency Response
		9-08-15 Yes. The Program Manager Recommends CEO PIF Clearance.	
Review Date	Review	August 12, 2015	
	Additional Review (as necessary)	August 31, 2015	
	Additional Review (as necessary)	September 08, 2015	

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. *Only for Non-Grant Instrument:* 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		
Recommendation	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
Review Date	Review		
	Additional Review (as necessary)		
	Additional Review (as necessary)		