



# GEF-6 PROJECT IDENTIFICATION FORM (PIF)

PROJECT TYPE: Full-sized Project  
 TYPE OF TRUST FUND: GEF Trust Fund

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## PART I: PROJECT INFORMATION

Project Title:	Risk Mitigation Instrument for Land Restoration		
Country(ies):	Latin America and Caribbean region	GEF Project ID: <sup>1</sup>	9277
GEF Agency(ies):	IADB (select) (select)	GEF Agency Project ID:	RG-X1254
Other Executing Partner(s):		Submission Date:	2015-09-03
GEF Focal Area(s):	Land Degradation	Project Duration (Months)	60
Integrated Approach Pilot	IAP-Cities <input type="checkbox"/> IAP-Commodities <input type="checkbox"/> IAP-Food Security <input type="checkbox"/>	Corporate Program: SGP	<input type="checkbox"/>
Name of parent program:	[if applicable]	Agency Fee (\$)	1,350,000

## A. INDICATIVE FOCAL AREA STRATEGY FRAMEWORK AND OTHER PROGRAM STRATEGIES<sup>2</sup>

Objectives/Programs (Focal Areas, Integrated Approach Pilot, Corporate Programs)	Trust Fund	(in \$)	
		GEF Project Financing	Co-financing
LD-2 Program 3 (select) (select)	GEFTF	7,500,000	60,000,000
LD-3 Program 4 (select) (select)	GEFTF	7,500,000	60,000,000
(select) (select) (select)	(select)		
(select) (select) (select)	(select)		
(select) (select) (select)	(select)		
(select) (select) (select)	(select)		
(select) (select) (select)	(select)		
(select) (select) (select)	(select)		
(select) (select) (select)	(select)		
Total Project Cost		15,000,000	120,000,000

## B. INDICATIVE PROJECT DESCRIPTION SUMMARY

Project Objective: Catalyze private sector investments in restoration of degraded lands by reducing financial project risk						
Project Components	Financing Type <sup>3</sup>	Project Outcomes	Project Outputs	Trust Fund	(in \$)	
					GEF Project Financing	Co-financing
Sustainable management and restoration of forests	Inv	22,500 hectares of land under sustainable forest management and/or restoration practices	2 land restoration projects guaranteed by the Risk Mitigation Instrument	GEFTF	7,500,000	60,000,000
Integrated landscape management	Inv	Increased investments in integrated landscape management (on 22,500 hectares)	2 INRM projects guaranteed by the Risk Mitigation Instrument	GEFTF	7,500,000	60,000,000
	(select)			(select)		
	(select)			(select)		
	(select)			(select)		
	(select)			(select)		
	(select)			(select)		

<sup>1</sup> Project ID number will be assigned by GEFSEC and to be entered by Agency in subsequent document submissions.

<sup>2</sup> When completing Table A, refer to the excerpts on [GEF 6 Results Frameworks for GETF, LDCF and SCCF](#).

<sup>3</sup> Financing type can be either investment or technical assistance.

	(select)			(select)		
	(select)			(select)		
Subtotal					15,000,000	120,000,000
Project Management Cost (PMC) <sup>4</sup>				(select)		
<b>Total Project Cost</b>					15,000,000	120,000,000

For multi-trust fund projects, provide the total amount of PMC in Table B, and indicate the split of PMC among the different trust funds here: ( )

**C. INDICATIVE SOURCES OF CO-FINANCING FOR THE PROJECT BY NAME AND BY TYPE, IF AVAILABLE**

Sources of Co-financing	Name of Co-financier	Type of Co-financing	Amount (\$)
GEF Agency	Inter-American Development Bank	Loans	60,000,000
Private Sector	Impact investors	Equity	60,000,000
(select)		(select)	
(select)		(select)	
(select)		(select)	
(select)		(select)	
<b>Total Co-financing</b>			120,000,000

**D. INDICATIVE TRUST FUND RESOURCES REQUESTED BY AGENCY(IES), COUNTRY(IES) AND THE PROGRAMMING OF FUNDS<sup>a)</sup>**

GEF Agency	Trust Fund	Country/ Regional/ Global	Focal Area	Programming of Funds	(in \$)		
					GEF Project Financing (a)	Agency Fee (b) <sup>b)</sup>	Total (c)=a+b
IADB	GEFTF	Regional	Land Degradation	Non-Grant	15,000,000	1,350,000	16,350,000
(select)	(select)		(select)	(select as applicable)			0
(select)	(select)		(select)	(select as applicable)			0
(select)	(select)		(select)	(select as applicable)			0
(select)	(select)		(select)	(select as applicable)			0
<b>Total GEF Resources</b>					15,000,000	1,350,000	16,350,000

a) Refer to the [Fee Policy for GEF Partner Agencies](#).

**E. PROJECT PREPARATION GRANT (PPG)<sup>5</sup>**

Is Project Preparation Grant requested? Yes  No  If no, skip item E.

**PPG AMOUNT REQUESTED BY AGENCY(IES), TRUST FUND, COUNTRY(IES) AND THE PROGRAMMING OF FUNDS**

Project Preparation Grant amount requested: \$					PPG Agency Fee:		
GEF Agency	Trust Fund	Country/ Regional/Global	Focal Area	Programming of Funds	(in \$)		
					PPG (a)	Agency Fee <sup>6</sup> (b)	Total c = a + b
(select)	(select)		(select)	(select as applicable)			0

<sup>4</sup> For GEF Project Financing up to \$2 million, PMC could be up to 10% of the subtotal; above \$2 million, PMC could be up to 5% of the subtotal. PMC should be charged proportionately to focal areas based on focal area project financing amount in Table D below.

<sup>5</sup> PPG requested amount is determined by the size of the GEF Project Financing (PF) as follows: Up to \$50k for PF up to \$2m (for MSP); up to \$100k for PF up to \$3m; \$150k for PF up to \$6m; \$200k for PF up to \$10m; and \$300k for PF above \$10m. On an exceptional basis, PPG amount may differ upon detailed discussion and justification with the GEFSEC.

<sup>6</sup> PPG fee percentage follows the percentage of the Agency fee over the GEF Project Financing amount requested.

(select)	(select)		(select)	(select as applicable)			0
(select)	(select)		(select)	(select as applicable)			0
<b>Total PPG Amount</b>					<b>0</b>	<b>0</b>	<b>0</b>

## F. PROJECT'S TARGET CONTRIBUTIONS TO GLOBAL ENVIRONMENTAL BENEFITS<sup>7</sup>

Provide the expected project targets as appropriate.

Corporate Results	Replenishment Targets	Project Targets
1. Maintain globally significant biodiversity and the ecosystem goods and services that it provides to society	Improved management of landscapes and seascapes covering 300 million hectares	<i>Hectares</i>
2. Sustainable land management in production systems (agriculture, rangelands, and forest landscapes)	120 million hectares under sustainable land management	<i>45,000 Hectares</i>
3. Promotion of collective management of transboundary water systems and implementation of the full range of policy, legal, and institutional reforms and investments contributing to sustainable use and maintenance of ecosystem services	Water-food-ecosystems security and conjunctive management of surface and groundwater in at least 10 freshwater basins;	<i>Number of freshwater basins</i>
	20% of globally over-exploited fisheries (by volume) moved to more sustainable levels	<i>0 Percent of fisheries, by volume</i>
4. Support to transformational shifts towards a low-emission and resilient development path	750 million tons of CO <sub>2e</sub> mitigated (include both direct and indirect)	<i>4,500,000 metric tons</i>
5. Increase in phase-out, disposal and reduction of releases of POPs, ODS, mercury and other chemicals of global concern	Disposal of 80,000 tons of POPs (PCB, obsolete pesticides)	<i>0 metric tons</i>
	Reduction of 1000 tons of Mercury	<i>0 metric tons</i>
	Phase-out of 303.44 tons of ODP (HCFC)	<i>0 ODP tons</i>
6. Enhance capacity of countries to implement MEAs (multilateral environmental agreements) and mainstream into national and sub-national policy, planning financial and legal frameworks	Development and sectoral planning frameworks integrate measurable targets drawn from the MEAs in at least 10 countries	<i>Number of Countries:</i>
	Functional environmental information systems are established to support decision-making in at least 10 countries	<i>Number of Countries:</i>

## **PART II: PROJECT JUSTIFICATION**

1. *Project Description.* Briefly describe: 1) the global environmental and/or adaptation problems, root causes and barriers that need to be addressed; 2) the baseline scenario or any associated baseline projects, 3) the proposed alternative scenario, GEF focal area<sup>8</sup> strategies, with a brief description of expected outcomes and components of the project, 4) [incremental/additional cost reasoning](#) and expected contributions from the baseline, the GEFTF, LDCF, SCCF, and [co-financing](#); 5) [global environmental benefits](#) (GEFTF) and/or [adaptation benefits](#) (LDCF/SCCF); and 6) innovation, sustainability and potential for scaling up.

1) Global environmental problems and root causes

More than 40 percent - approximately 650 million hectares - of forests in Latin America and the Caribbean are deforested or degraded. Three hundred million hectares of these lands have become classified as degraded forests, woodlands and savannas while another 350 million hectares are completely deforested. Drivers of deforestation and degradation vary by country, but in general this degradation can be linked to agricultural and forestry activities, which compete with natural forests for land. Deforestation and degradation are likely to continue at pace given trends of a growing global population and change of dietary habits. In addition to habitat destruction and disruption of provision of local ecosystem services, this land use change is linked to greenhouse gas emissions and climate

<sup>7</sup> Provide those indicator values in this table to the extent applicable to your proposed project. Progress in programming against these targets for the projects per the *Corporate Results Framework* in the [GEF-6 Programming Directions](#), will be aggregated and reported during mid-term and at the conclusion of the replenishment period. There is no need to complete this table for climate adaptation projects financed solely through LDCF and/or SCCF.

<sup>8</sup> For biodiversity projects, in addition to explaining the project's consistency with the biodiversity focal area strategy, objectives and programs, please also describe which [Aichi Target\(s\)](#) the project will directly contribute to achieving.

change. Most countries in the Latin America and Caribbean region are not high per capita GHG emitters, but emissions from the land use sector account for 49% of overall emissions in the region.

The LAC region represented 32.6% of the global increase in land put to agricultural use between 1960s and 2000s, while its share of the increase in world agricultural production during that same period was only 14.3%, indicating great potential to increase land use efficiency (FAOSTAT). Latin America has already cleared at least 40% of its original forests, which are critical to preserving biodiversity and slowing the advance of climate change.

In many countries, weak regulatory frameworks present perverse incentives for the private sector to continue with unsustainable practices. In Paraguay, for example, where wood biomass accounts for 46% of the national energy matrix, no regulation is in place to control the source of wood, resulting in continuously high deforestation rates in natural forest areas. The establishment of sustainably managed fuelwood plantations in combination with the enhancement of previously degraded natural forests can provide a partial solution in this case.

In Peru, 150,000 hectares of rainforest continue to be converted each year, mainly due to extractive industries and small scale farmers establishing plots for agricultural and livestock production. While producers benefit in the short-term, soils are exhausted quickly and do not provide long-term income, therefore incentivizing further clearings. Productivity upgrades on already cleared land can help break the cycle. Consequently, the Peruvian Government has identified restoration of productive landscapes with native tree species as the sector with the single largest GHG mitigation potential (Peru's NC to the UNFCCC).

Scientists agree that in Latin America in general, and specifically in Central America, the population residing in rural frontier areas promises have a vast impact on future tropical deforestation and therefore need to be targeted for restoration efforts. "It is here, not in cities and not in long settled rural areas, where fertility and native population growth is extremely high, rural migration is dynamic, and where land cover change remains extraordinarily expansive per capita" (López-Carr & Burgdorfer 2013).

Financial incentives are necessary to overcome the high opportunity costs producers are facing when changing from one production system to another. State-backed incentives for the establishment of cash crops such as oil palm, citrus, soy or even livestock weaken the business case for the sustainable use of forests and the (re-) establishment of more complex production systems involving trees in agricultural landscapes.

## 2) The baseline scenario

Unsustainable land use practices are in part driven by the financing and investment options available to farmers. Access to long-term financing is limited for most farmers, particularly small farmers. Investments in productivity upgrades and land restoration are longer-term investments that generate revenues over many years, requiring longer tenors than available to most farmers. Additionally, uncertainty in real productivity gains and future revenue growth derived from these investments is common, as project economics are impacted by many factors, including technology performance and regulatory incentives and barriers. The lack of financing opportunities focused on long-term investments for farmers results in poor land use management, unnecessary farm expansion, additional greenhouse gas emissions, and lower productivity levels.

Given the negative social and environmental consequences of continued deforestation and degradation, the IDB private sector is increasingly seeking investments in the restoration of degraded lands as a means of bringing low productivity land into production and decreasing deforestation pressure. Such investments however, have longer payback periods and represent various types of high financial risk, making them difficult to finance with IDB's own capital. For example, upgrading from a traditional cattle grazing system to a silvopastoral system is an investment that does not reach the break-even point until trees are harvested, which can be at least seven years. Production systems involving native tree species with the production goal of high value timber have even longer rotation, making it difficult for IDB or other debt financiers to invest in these projects. In addition to long payback periods, experience shows that project developers in this field typically carry additional risks because of their size. Many projects in this innovative sector are small and do not have the support of a large, established sponsor, which

increases risk and makes it more challenging for IDB to invest. The lack of established offtake agreements for the final product is another frequent challenge. Given that many commercially viable land restoration activities operate in recently established or niche markets such as native tropical timber and non-timber forest products, processors of such products are hesitant to sign offtake agreements until a critical mass of raw material is secured. For the same reason, there is less market history on such products, making it difficult to derive future price fluctuation estimates. Last, companies focused on primary production on degraded lands are often not involved in processing/ value adding activities that require larger investments in assets. The lack of physical assets makes these potential borrowers riskier due to the lack of collateral they can provide. For all these reasons, land restoration investments are often too risky for debt investors and prevent the IDB from realizing its goal of supporting restoration of degraded lands.

### 3) The proposed alternative scenario

In order to address the high risk of land restoration investments, IDB proposes to put in place a Risk Mitigation Instrument for Land Restoration and is requesting USD 15 million from the GEF for this purpose. The instrument would assume first loss positions in land restoration projects financed by the IDB and catalyze USD 120 million in co-financing. The GEF investment of \$15 million is expected to yield an overall indicative return of \$17.91 million based on a combination of fees for guarantees and interest on subordinated loans. Assuming some expected guarantee losses, net reflows will result in a lower amount.

The GEF contribution would be used to provide first-loss guarantees and subordinated loans in order to reduce risk to IDB's ordinary capital by assuming risky positions in projects' financial structures, enabling the IDB and co-lenders to finance projects that they would normally be unable to, thereby leveraging equity investments and providing scale to projects. The first-loss position assumed by the Risk Mitigation Instrument's capital will make lenders more comfortable with the conditions required by the individual sub-projects. The guarantees will be used to overcome the first cost barriers to forestry projects, and to provide collateral during the early years when the trees have little value.

The critical additionality of the Risk Mitigation Instrument is that it catalyzes scale in this sector by providing a debt partner to impact investors. In other sectors, the traditional relationship between equity and debt is one of equity taking risk and debt providing scale. In this sector there are few lenders willing to take project risk. As a catalyst therefore, the Instrument will allow IDB and other senior lenders to provide commercial debt to this space, thereby leveraging the equity investments of the impact investors, and scaling collective development impact.

An example project can help to demonstrate the additionality of the Risk Mitigation Instrument. The IDB is evaluating an opportunity to support a reforestation trust in Colombia, where small landowners would be able to access reforestation services to create income around timber harvest. A significant grace period is required to make this project viable as there is little income from timber production for the first several years. Offering such a generous grace period to small landowners is too risky for the IDB and other debt investors. A guarantee is needed in the first few years to cover this risk, but the amount of the guarantee could decline as the trees grow in value and provide collateral to the senior lenders.

In deploying resources from the Risk Mitigation Instrument, the IDB will follow two criteria: potential for restoring degraded lands and financial justification of using the Instrument.

In order for a sub-project to be considered eligible for the Risk Mitigation Instrument, the sub-project must be located on degraded lands. GEF 6 Programmatic Directions LD-2 and LD-3 define restoration activities that will qualify under the Instrument. This includes: sustainable management of forests and agroforestry for increased ecosystem services in agriculture; landscape regeneration through use of locally adaptive species, including agroforestry and farmer-managed natural regeneration; sustainable land use management approaches to avoid deforestation and forest degradation in production landscapes, including practices for sustainable supply of wood and biomass energy; and good practices in community and small-holder land management, including local knowledge. Afforestation (the establishment of forests in areas with no previous forest cover) will be excluded from GEF funding. These activities can be applied within a landscape approach. In more detail, they will be:

- o Intercropping: Planting various crops interspersed with tree species has multiple well-known benefits for the environment and revenues of such systems. Leguminous tree species can provide natural fertilizer to the soil,

therefore increasing the productivity of crops and reducing the need for synthetic fertilizer.

- o Shade-grown systems: Coffee and cocoa grown under shade, both in traditional multi-storey and commercial “simplified” systems, provide important ecosystem benefits while generating income for small to medium producers.
- o Reforestation for biomass: Projects aimed at establishing plantations of native and exotic species for commercial use as biomass or higher added value timber or non-timber forest products. Planted in mosaic patterns to ensure habitat connectivity and the protection of water sources, such plantations have important direct benefits to ecosystem services, as well as the indirect benefit of reducing the unsustainable use of wood fuel from natural forests, thereby avoiding deforestation and forest degradation.
- o Timber and non-timber forest products: Under longer rotation periods (7+ years), tree plantations deliver a higher added value per unit and increase the direct benefit for ecosystem services and biodiversity by providing a long-term forest cover with less disturbance from planting, thinning and harvesting activities.
- o Silvo-pastoral systems: Reforestation in mosaic patterns or in low densities on existing degraded pastures has a huge potential of generating ecosystem service benefits on a large scale. Trees planted on degraded pasture land provide a permanent soil cover that enables recovery of the topsoil, soil carbon sequestration, improved water retention and regulation services. This can be complemented by planting of improved and locally adapted grass species, as well as grazing management.
- o Improving the flow of ecosystem services such as soil, water and temperature regulation by improving agricultural land management near protected areas.

Financial justification is another important criteria; if a sub-project is not financially sustainable, it will undermine any environmental benefits created by the investment. The IDB and impact investors will carefully evaluate the financial sustainability of every sub-project according to normal due diligence procedures. The first-loss position assumed by the Risk Mitigation Instrument will improve investors' ability to finance restoration projects, but investors and lenders will maintain their commitment to the financial sustainability of investments. In addition to financial viability, the use of resources under the Risk Mitigation Instrument must be necessary for the project to receive GEF support. Guarantees and loans will only be provided where there is a clear case for additionality. Related, the Risk Mitigation Instrument will be deployed following a principal of minimum concessionality, meaning that sub-projects supported by the Instrument will receive the minimum amount of GEF resources required to make them viable.

In addition to these criteria, the IDB will also prioritize the social and economic benefits generated by the sub-projects as well as seeking a diversity of sub-project type and geographies.

IDB requests delegated authority for the investments from GEFSEC, according to Option 1 under the PPP modalities.

#### 4) Incremental /additional cost reasoning

The GEF Risk Mitigation Instrument will provide resources to financial packages where it is absolutely necessary for the project to receive GEF support. Guarantees and subordinated loans will only be provided where there is a clear case for additionality, i.e. where the risk would otherwise be too high to bring in IDB capital. Related, the Risk Mitigation Instrument will be deployed following a principal of minimum concessionality, meaning that sub-projects supported by the Instrument will receive the minimum amount of GEF resources required to make them viable.

The potential for leveraging IDB and private sector co-financing for investments under the proposed mechanism is great. Long-term investments in productive forest landscapes and restoration of forest ecosystems face major investment barriers, most importantly a risk profile that has proven to be un-bankable for commercial investors without some form of risk buffer. The Risk Mitigation Instrument can provide the missing link in long-term forestry

financing and therefore enable implementation of private sector restoration activities at scale. It is expected that the Instrument will catalyze \$120 million in private sector investment in land restoration, leading to the global environmental benefits described below.

#### 5) Global environmental benefits and/adaptation benefits

The Risk Mitigation Instrument will contribute to global environmental benefits in focal area LD-2. Investments catalyzed by the instrument will result in restoration of 45,000 hectares and the sequestration of 4.5 million tons of CO<sub>2</sub> equivalent. The carbon benefit was calculated based on IPCC 2006 default factors. According to those, degraded grasslands contain about 1.3 tons carbon per hectare (4.7 tons CO<sub>e</sub>) as a baseline. ICRAF 2008 states an average carbon sequestration rate of 9.39 tCO<sub>2</sub>e/ha/a for the establishment of vegetation on degraded rangelands. Based on this we estimate an average of 10 tons CO<sub>2</sub>e/ha/a sequestration rate for an estimated project lifetime of ten years, resulting in approx. 100 tons CO<sub>2</sub>e/ha. This calculation is comparable to other carbon restoration projects but more conservative. Additionally to the carbon benefits directly obtained by above and below ground sequestration on project areas, investments catalyzed by the Risk Mitigation Instrument will have a positive impact on reduced deforestation and land degradation by reducing pressure on natural resources.

In order to identify investments that generate flows of ecosystem services such as hydrological flows, reduction of erosion and soil carbon sequestration while at the same time generating separate income streams or enhancing agricultural income by increasing the productivity of crops or livestock; the instrument will focus on combined production systems as detailed under answer 3).

#### 6) Innovation, sustainability potential for scaling up

The Risk Mitigation Instrument is innovative for its use of a donor-supported financial instrument that will enable private sector capital to invest in restoration projects. Risk mitigating instruments are used in other sectors (the IDB manages such instruments to promote energy efficiency and renewable energy investments), but such instruments are less common in the land use sectors. By mitigating risk, the GEF resources will catalyze \$120 million in private sector investment. Upon completion of the project, private investors will be able to build on the proof of concept established by the Risk Mitigation Instrument.

Given commitment of IDB and other investors to this topic, there is significant potential for scaling up lessons learned from the proposed Risk Mitigation Instrument. Under Initiative 20x20, for example, a number of impact investors have made commitments to investments in land restoration, though there has been little analysis to date of financial risks of these investments. The Risk Mitigation Instrument can catalyze future investors by reducing the perceived risk of such investments and providing a model for addressing risks that remain. The project itself and the potential for scalability will result in significant Global Environmental Benefits, specifically the restoration of an estimated 45,000 hectares and the sequestration of 4.5 million metric tons of CO<sub>2</sub> equivalent.

2. *Stakeholders*. Will project design include the participation of relevant stakeholders from [civil society](#) and [indigenous people](#)? (yes  /no  ) If yes, identify key stakeholders and briefly describe how they will be engaged in project design/preparation.

From concept approval until CEO endorsement, the primary stakeholder in the development of the Risk Mitigation Instrument is the IDB.

At the sub-project level, social benefits, including benefits to civil society and indigenous groups will be a key component of interventions. Each sub-project will engage a variety of stakeholders depending on the specifics of the investment, including: private sector companies, commercial banks, local and indigenous community groups, and business cooperatives. Private companies will be the direct beneficiaries of the investments and responsible for executing activities. Commercial banks will be co-lenders in investments, leveraging the resources of the IDB, and the GEF. Engagement with civil society and indigenous people will be a component of every project and particularly important for investments that include value chain development. The IDB's Environmental and Social Safeguards compliance policy, which includes safeguards for the rights of indigenous people, will be applied to every sub-project. Engagement of civil society and indigenous people stakeholder groups will vary by project.



3. *Gender Considerations.* Are [gender considerations](#) taken into account? (yes  /no  ). If yes, briefly describe how gender considerations will be mainstreamed into project preparation, taken into account the differences, needs, roles and priorities of men and women.

The Risk Mitigation Instrument is primarily targeted at IDB and its co-lenders in this first stage. At the sub-project level, social benefits, including benefits to women will be a key component of interventions.

Agricultural and forestry sectors tend to have differentiated roles for men and women, making consideration of gender roles particularly important. All sub-projects will support inclusion of gender and other social issues; the IDB has an established gender analysis, which helps businesses identify opportunities for employing more women or incorporating women-owned businesses into their supply chain. Additionally, in monitoring and evaluation of the projects' impacts, indicators will differentiate between impacts on men and women.

4 *Risks.* Indicate risks, including climate change, potential social and environmental risks that might prevent the project objectives from being achieved, and, if possible, propose measures that address these risks to be further developed during the project design (table format acceptable).

The primary risks facing this Risk Mitigation Instrument and its sub-projects are:

(i) Information risks (high): The benefits of restoration of degraded lands are not well understood by some private sector companies and investors. Additionally, project developers sometimes do not have fully-developed business plans, making their project unbankable. IDB will support sub-projects with technical assistance resources to help quantify benefits to companies and to develop business plans.

(ii) Regulatory risks (low): Unanticipated changes in local or national regulatory or legal frameworks could raise the cost of investments, adversely affecting the economics of projects.

(iii) Policy risks (low): Unforeseen shifts in local or national policies regarding land use could adversely affect investment economics.

(iv) Climate change risks (medium): The Latin America and Caribbean region is particularly vulnerable to climate change; the IDB has made climate change adaptation one of its five priority sectors in recognition of this threat. For example, coffee production in Central and South America has already been negatively affected by the Coffee Leaf Rust epidemic, which is exacerbated by climate change. This risk will be mitigated by climate risk assessments in sub-projects supported by the IDB.

(v) Insufficient demand (medium): Given the innovative nature of investments supported by this project, there is a risk of insufficient bankable projects. IDB will provide technical assistance resources to identify and develop projects, mitigating this risk.

(vi) Financial viability of projects (low): if projects are not financially successful, it would potentially undermine environmental and social benefits generated by the investments. In order to address this risk, IDB will apply its normal financial due diligence process to every project under the RMI.

5. *Coordination.* Outline the coordination with other relevant GEF-financed and other initiatives.

Through GEF 5, GEF supports the Climate-Smart Agriculture Fund (CSAF), managed by the private-sector window of the IDB. These two projects address similar but distinct challenges. The Risk Mitigation Instrument will focus specifically on absorbing risk in investments that help to restore degraded lands, while the CSAF is focused on adaptation and mitigation opportunities in the land use sector. In those cases where thematic overlap might occur between eligible projects, the Risk Mitigation Instrument will be used after the CSAF is fully committed.

At the country level, GEF has numerous projects in the LD-2 category that share similar objectives to the Risk Mitigation Instrument. As sub-projects are selected, the project team will be sure to align sub-projects with existing GEF projects.

The IDB private sector is in advanced talks to seek synergies with Initiative 20x20, a country-led effort to bring 20 million hectares of land in Latin America and the Caribbean into restoration by 2020 and which supports the Bonn Challenge (whose global commitment is to restore 150 million ha). The IDB and Initiative 20x20 are seeking to unify the efforts of impact investors (such as Moringa and Athelia Fund) in this space by providing a platform to

support projects. The Risk Mitigation Instrument will catalyze 20x20 investors' resources by reducing the perceived risk of such investments and providing a model for addressing risks that remain. In various occasions, impact investors collaborating with Initiative 20x20 have expressed that such facility would allow them to multiply their investments by demonstrating less risk when raising capital. Furthermore, the IDB will collaborate with the World Resources Institute (WRI), an Initiative 20x20 partner, in order to use WRI's Atlas of Forest Landscape Restoration Opportunities and other tools to guide project site selection.

Research organizations in Latin America, such as the International Center for Tropical Agriculture and the Centro Agronomico Tropical de Investigacion y Ensenanza, are working on similar thematic issues. IDB collaborates closely with these research organizations and others to better understand agricultural sectors, identify specific investments, and validate scientific findings.

*6. Consistency with National Priorities.* Is the project consistent with the National strategies and plans or reports and assessments under relevant conventions? (yes  /no  ). If yes, which ones and how: NAPAs, NAPs, ASGM NAPs, MIAs, NBSAPs, NCs, TNAs, NCSAs, NIPs, PRSPs, NPFE, BURs, etc.

The project's objectives are aligned with many national strategies and plans; especially with the National Communications to the UNFCCC. Following some examples:

Chile: In its second National Communication, Chile highlights the land use and forestry sector as being important capturers of GHG emissions, although net capture gradually decreased from 1984 to 2006, pointing to the importance of heightened efforts in restoration of degraded lands and other land use based mitigation activities.

Costa Rica: The third National Communication focuses on coffee, cattle, and sugar as sub-sectors with high potential for mitigating climate change through improved land use management, which aligns with the project's objectives.

Mexico: In their 5<sup>th</sup> National Communication, the country has highlighted multiple programs in which the forestry and agricultural sectors can reduce or capture greenhouse gas emissions.

Peru: The National Communication from 2010 states that the Peruvian Amazon region contributes to roughly 48% of national GHG emissions mainly due to conversion of forest, while at the same time being the largest carbon sink. To accomplish GHG reduction goals, the government has committed to target the sectors that promise the most impact at the least cost, including forestry and other land use sectors.

*7. Knowledge Management.* Outline the knowledge management approach for the project, including, if any, plans for the project to learn from other relevant projects and initiatives, to assess and document in a user-friendly form, and share these experiences and expertise with relevant stakeholders.

Given the regional importance of restoration of degraded lands, there is significant potential to learn from other initiatives that target degraded lands and to leverage the project's impact through knowledge sharing and dissemination of results.

In establishing the GEF-supported Climate-Smart Agriculture Fund, the IDB did an extensive survey of the landscape of organizations working sustainable land-use. This includes an analysis of activities in private and public sector, such as Brazil's Low Carbon Agricultural Program. To build upon this knowledge and identify further opportunities in restoration of degraded lands, IDB has hired a consultancy firm to map and prioritize private and public sector initiatives working in the restoration of degraded lands.

In order to collect and disseminate results, each sub-project will be managed by the IDB's Portfolio Management Unit and Development Effectiveness Unit. Indicators will be formulated and tracked for each sub-project, allowing for an evaluation of investments made under the Risk Mitigation Instrument. Based upon these evaluations, the IDB will produce communications materials that highlight lessons learned. These materials will focus on the risk associated with restoration investments and how risk mitigation instruments can make private sector investors comfortable with the investment.


**PART III: APPROVAL/ENDORSEMENT BY GEF OPERATIONAL FOCAL POINT(S) AND GEF AGENCY(IES)**

**A. RECORD OF ENDORSEMENT<sup>9</sup> OF GEF OPERATIONAL FOCAL POINT (S) ON BEHALF OF THE GOVERNMENT(S):**  
 (Please attach the [Operational Focal Point endorsement letter\(s\)](#) with this template. For SGP, use this [SGP OFP endorsement letter](#)).

NAME	POSITION	MINISTRY	DATE (MM/dd/yyyy)

**B. GEF AGENCY(IES) CERTIFICATION**

**This request has been prepared in accordance with GEF policies<sup>10</sup> and procedures and meets the GEF criteria for project identification and preparation under GEF-6.**

Agency Coordinator, Agency name	Signature	Date (MM/dd/yyyy)	Project Contact Person	Telephone	Email
Michael Collins, IDB		09/03/2015	Duncan Gromko	+1 2026232496	duncang@iadb.org
			Katalin Solymosi	+12026232993	katalins@iadb.org

**C. ADDITIONAL GEF PROJECT AGENCY CERTIFICATION (APPLICABLE ONLY TO NEWLY ACCREDITED GEF PROJECT AGENCIES)**

For newly accredited GEF Project Agencies, please download and fill up the required [GEF Project Agency Certification of Ceiling Information Template](#) to be attached as an annex to the PIF.

<sup>9</sup> For regional and/or global projects in which participating countries are identified, OFP endorsement letters from these countries are required even though there may not be a STAR allocation associated with the project.

<sup>10</sup> GEF policies encompass all managed trust funds, namely: GEFTF, LDCF, and SCCF