



GLOBAL ENVIRONMENT FACILITY  
INVESTING IN OUR PLANET

**Naoko Ishii**  
CEO and Chairperson

March 18, 2015

Dear Council Member:

IADB as the Implementing Agency for the project entitled: ***Regional (Latin America and Caribbean): IDB-GEF Climate-Smart Agriculture Fund for the Americas (PROGRAM)***, has submitted the attached proposed project document for CEO endorsement prior to final approval of the project document in accordance with IADB procedures.

The Secretariat has reviewed the project document. It is consistent with the proposal approved by Council in May 2014 and the proposed project remains consistent with the Instrument and GEF policies and procedures. The attached explanation prepared by IADB satisfactorily details how Council's comments and those of the STAP have been addressed. I am, therefore, endorsing the project document.

We have today posted the proposed project document on the GEF website at [www.TheGEF.org](http://www.TheGEF.org). If you do not have access to the Web, you may request the local field office of UNDP or the World Bank to download the document for you. Alternatively, you may request a copy of the document from the Secretariat. If you make such a request, please confirm for us your current mailing address.

Sincerely,

Naoko Ishii

Attachment: GEFSEC Project Review Document  
Copy to: Country Operational Focal Point, GEF Agencies, STAP, Trustee



# REQUEST FOR CEO ENDORSEMENT

**PROJECT TYPE: Full-sized Project**

**TYPE OF TRUST FUND: GEF Trust Fund**

For more information about GEF, visit [TheGEF.org](http://TheGEF.org)

## PART I: PROJECT INFORMATION

Project Title: Climate-Smart Agriculture Fund for Latin America and the Caribbean			
Country(ies):	Latin American and Caribbean	GEF Project ID: <sup>1</sup>	5754
GEF Agency(ies):	IADB (select) (select)	GEF Agency Project ID:	RG-X1227
Other Executing Partner(s):		Submission Date:	01/30/2015
GEF Focal Area (s):	Multifocal Area	Project Duration(Months)	60
Name of Parent Program (if applicable):		Project Agency Fee (\$):	400,000
<ul style="list-style-type: none"> <li>➤ For SFM/REDD+ <input type="checkbox"/></li> <li>➤ For SGP <input type="checkbox"/></li> <li>➤ For PPP <input type="checkbox"/></li> </ul>			

### A. FOCAL AREA STRATEGY FRAMEWORK<sup>2</sup>

Focal Area Objectives	Expected FA Outcomes	Expected FA Outputs	Trust Fund	Grant Amount (\$)	Cofinancing (\$)
CCM-5 (select)	Outcome 5.2: Restoration and enhancement of carbon stocks in forests and non-forest lands, including peatland	Output 5.2: Forests and non-forest lands under good management practices	GEF TF	2,000,000	20,343,000
(select) LD-1	Outcome 1.2: Improved agricultural management Outcome 1.3: Sustained flow of services in agro-ecosystems Outcome 1.4: Increased investments in SLM	Output 1.2 Types of Innovative SL/WM practices introduced at field level Output 1.3 Suitable SL/WM interventions to increase vegetative cover in agro-ecosystems Output 1.4 Appropriate actions to diversify the financial resource base	GEF TF	3,000,000	30,516,000
(select) (select)			(select)		
(select) (select)			(select)		
(select) (select)			(select)		
(select) (select)			(select)		
(select) (select)			(select)		
(select) (select)			(select)		
<b>Total project costs</b>				<b>5,000,000</b>	<b>50,859,000</b>

### B. PROJECT FRAMEWORK

<sup>1</sup> Project ID number will be assigned by GEFSEC.

<sup>2</sup> Refer to the [Focal Area Results Framework and LDCF/SCCF Framework](#) when completing Table A.

**Project Objective: To scale up climate-smart agriculture practices to achieve carbon sequestration, resilience to climate change and improved provision of ecosystem services by leveraging private sector lending in the land use sectors in Latin America and the Caribbean.**

Project Component	Grant Type	Expected Outcomes	Expected Outputs	Trust Fund	Grant Amount (\$)	Confirmed Cofinancing (\$)
Restoration of degraded lands	Inv	- 3 million tons CO2 equivalents sequestered - Increased income for beneficiary companies and employees	- 30,000 hectares of systems under good management practices	GEF TF	2,000,000	20,343,000
Improved agricultural management	Inv	- increased provision of water and soil regulation services to vulnerable communities	- 5-6 innovative types of land management practices deployed on 33,000 hectares with climate resilient technologies	GEF TF	3,000,000	30,516,000
	(select)			(select)		
	(select)			(select)		
	(select)			(select)		
	(select)			(select)		
	(select)			(select)		
	(select)			(select)		
Subtotal					5,000,000	50,859,000
Project management Cost (PMC) <sup>3</sup>				(select)		
<b>Total project costs</b>					5,000,000	50,859,000

### C. SOURCES OF CONFIRMED COFINANCING FOR THE PROJECT BY SOURCE AND BY NAME (\$)

Please include letters confirming cofinancing for the project with this form

Sources of Co-financing	Name of Co-financier (source)	Type of Cofinancing	Cofinancing Amount (\$)
GEF Agency	IADB	Hard Loan	20,000,000
Private Sector	various private sector counterparts	Unknown at this stage	30,000,000
GEF Agency	IADB	Cash	859,000
(select)		(select)	
(select)		(select)	
(select)		(select)	
(select)		(select)	
(select)		(select)	
(select)		(select)	
<b>Total Co-financing</b>			50,859,000

<sup>3</sup> PMC should be charged proportionately to focal areas based on focal area project grant amount in Table D below.

**D. TRUST FUND RESOURCES REQUESTED BY AGENCY, FOCAL AREA AND COUNTRY<sup>1</sup>**

GEF Agency	Type of Trust Fund	Focal Area	Country Name/ Global	(in \$)		
				Grant Amount (a)	Agency Fee (b) <sup>2</sup>	Total c=a+b
IADB	GEF TF	Climate Change	regional	2,000,000	160,000	2,160,000
IADB	GEF TF	Land Degradation	regional	3,000,000	240,000	3,240,000
(select)	(select)	(select)				0
(select)	(select)	(select)				0
(select)	(select)	(select)				0
(select)	(select)	(select)				0
(select)	(select)	(select)				0
(select)	(select)	(select)				0
(select)	(select)	(select)				0
(select)	(select)	(select)				0
<b>Total Grant Resources</b>				5,000,000	400,000	5,400,000

<sup>1</sup> In case of a single focal area, single country, single GEF Agency project, and single trust fund project, no need to provide information for this table. PMC amount from Table B should be included proportionately to the focal area amount in this table.

<sup>2</sup> Indicate fees related to this project.

**F. CONSULTANTS WORKING FOR TECHNICAL ASSISTANCE COMPONENTS:**

Component	Grant Amount (\$)	Cofinancing (\$)	Project Total (\$)
International Consultants			0
National/Local Consultants			0

**G. DOES THE PROJECT INCLUDE A “NON-GRANT” INSTRUMENT? Yes**

(If non-grant instruments are used, provide in Annex D an indicative calendar of expected reflows to your Agency and to the GEF/LDCF/SCCF/NPIF Trust Fund).

**PART II: PROJECT JUSTIFICATION**

**A. DESCRIBE ANY CHANGES IN ALIGNMENT WITH THE PROJECT DESIGN OF THE ORIGINAL PIF<sup>4</sup>**

A.1 National strategies and plans or reports and assessments under relevant conventions, if applicable, i.e. NAPAS, NBSAPs, national communications, TNAs, NCSA, NIPs, PRSPs, NPFE, Biennial Update Reports, etc.NA

A.2. GEF focal area and/or fund(s) strategies, eligibility criteria and priorities. NA

A.3 The GEF Agency’s comparative advantage: For the purpose of clarification, we would like to repeat that IDB has requested advance delegated authority for subproject investments under Option 1 of the PPP modalities, by which the IDB does not need to go back to the GEF for approval of its investments. This will highly increase cost effectiveness of the Facility as outlined in section B.3.

A.4. The baseline project and the problem that it seeks to address: NA

<sup>4</sup> For questions A.1 –A.7 in Part II, if there are no changes since PIF and if not specifically requested in the review sheet at PIF stage, then no need to respond, please enter “NA” after the respective question.

- A. 5. Incremental /Additional cost reasoning: describe the incremental (GEF Trust Fund/NPIF) or additional (LDCF/SCCF) activities requested for GEF/LDCF/SCCF/NPIF financing and the associated global environmental benefits (GEF Trust Fund) or associated adaptation benefits (LDCF/SCCF) to be delivered by the project: NA
- A.6 Risks, including climate change, potential social and environmental risks that might prevent the project objectives from being achieved, and measures that address these risks: NA
- A.7. Coordination with other relevant GEF financed initiatives NA

**B. ADDITIONAL INFORMATION NOT ADDRESSED AT PIF STAGE:**

B.1 Describe how the stakeholders will be engaged in project implementation.

Depending on the sub-project type (different types described in the PFD), the specific stakeholders will vary from sub-project. In some cases, large companies will be the direct beneficiaries of the Fund. In others, financial inter-mediate Fund resources to small and medium-sized companies. Across all sub-project types, however, the companies from the Facility will be the primary stakeholders responsible for implementing the investments supported by the Fund. In some cases, the investments will also be supported by technical assistance to support investment implementation.

B.2 Describe the socioeconomic benefits to be delivered by the Project at the national and local levels, including consideration of gender dimensions, and how these will support the achievement of global environment benefits (GEF Trust Fund/NPIF) or adaptation benefits (LDCF/SCCF):

This Fund will deliver a range of socioeconomic benefits at national and local levels while increasing global environment and climate change adaptation benefits. The specific socioeconomic benefits expected from the Fund include:

- Silvo-pastoral production systems will improve the long-term sustainability of local business models; provide more local jobs as compared to traditional extensive grazing systems, while increasing sequestration of greenhouse gases. Incorporating tree production in extensively used rangeland systems can increase job opportunities for women specifically, as nurseries and processing facilities require labor that is better adjusted to women's needs.
- Many sustainability improvements facilitate achieving internationally recognized certification for certain agricultural products. Certification schemes also include a number of social standards, which will improve working conditions for employees throughout productive value chains and specifically target gender equality in order to conform to the Millennium Development Goals.
- Promoting climate resilient value chains will improve vulnerable communities' resiliency to climate change.
- Introducing climate resilient commodities to value chains will also support diversification of income sources. Diversification of on-farm income as well as value added activities can benefit women in traditionally male dominated commodity value chains. Creating additional jobs close to communities can incentivize women, who frequently have other obligations to manage as well, to participate in the formal workforce.

Additionally, all investment operations supported under the Fund will be subject to IDB's gender policies. It is an SCF goal to increase the number of projects with gender components each year. Project level outputs and outcomes have to be reported disaggregated by sex. All projects under the fund will undergo a gender analysis, consisting in

- assessing the company's workforce and supply chain for greater gender inclusion
- valuing costs and benefits to the company and nearby communities of increasing female participation
- developing optimal business strategies for enhanced gender equity

Actions will be on a case by case basis, depending on the sector, country and the client's capacity. As described in the loan proposal, all sub-projects of the Fund will benefit from IDB support for inclusion of gender and other social issues via collaboration with the IDB private sector social sustainability team.

B.3. Explain how cost-effectiveness is reflected in the project design:

A program approach will help the Fund to reduce transaction costs therefore improving cost effectiveness in two ways. First, due to technical synergies in projects, a program approach allows the fund to replicate technical design costs across projects. Second, an existing Fund will allow IDB to more

effectively respond to client demand. Ensuring readiness of resources will entice clients to engage in the identified investments, shortening IDB origination process. Advance delegated authority for the investments from GEFSEC to IDB according to PPP modalities Option 1, as requested in the PFD, will further reduce transaction costs and ensure cost-effectiveness of GEF resources.

For project level investments, cost-effectiveness calculations are not possible at this stage. These will be done project by project during the due diligence phase for each sub-project of the fund.

### **C. DESCRIBE THE BUDGETED M & E PLAN:**

The project Monitoring and Evaluation (M&E) plan is consistent with the GEF Monitoring and Evaluation policy. The project team will prepare a Project Implementation Report (PIR) at the Fund level. Each sub-project will have a Results Framework which includes SMART indicators for each expected outcome, as well as midterm and end-of-project targets. These indicators, along with the key deliverables and benchmarks, will be the main tools for assessing each sub-project implementation progress and whether expected results are being achieved. The means of verification and the costs associated with obtaining the information to track the indicators will be finalized and integrated in the overall loan budget at time of approval of each sub-project.

#### **I. Monitoring**

The following activities will be undertaken as part of the monitoring of the Smart Agriculture Facility:

- Annual audited financial statements
- quarterly reflow statements that will be communicated to GEF as per the Financial Procedures Agreement (FPA) between GEF and IDB
- Annual valuation of portfolio companies
- SCF to host the Fund's Advisory Committee
- SCF to make decisions on sub-projects (the Fund's Investment Committee)

Monitoring of the Fund will be performed every year at the time of the preparation of the Project Supervision Report (PSR). Standard indicators and fund specific indicators will be monitored for the PSR-Development Effective Matrix (DEM), Bank Results Matrix and SCF Vision Statement goals. The main sources of information are expected to be the Annual Review of Operations (ARO) of the projects financed by the Fund, which is provided by the client; updated financial models and statements; reports by the environmental and social monitoring assessments; and other specific reports provided by the client and consultants.

The Portfolio Management Officer (PMO) will be the main responsible for the implementation of the monitoring plan. With the support from the Development Effectiveness Officer (DEO), the PMO will carry out all activities required for the monitoring plan based on the information provided by the client, including the updated DEM, which will be incorporated as an annex to the PSR. The same procedure will apply for each project financed by the Facility. The monitoring plan and information covenants of each project will be incorporated in their respective Loan Agreement and annexes.

#### **II. Evaluation**

The evaluation of the Fund will be performed following the IDB's Expanded Project Supervision Report (XPSR) guidelines for evaluation of non-sovereign guarantee operations, which are consistent with Evaluation Cooperation Group - Good Practice Standards (ECG-GPS), once it reaches early operating maturity (EOM), at approximately 20

months after start of operations. The purpose of the evaluation will be to assess if the Fund, as a whole, has reached the expected results set at approval in several dimensions, based on the information collected from all projects financed under the Fund. For Project Outcomes, an assessment of the Project Contribution to Business Performance, Economic Development and Environmental & Social Aspects will be performed. In particular, and to the extent possible, for each project the calculation of the project's Financial and Economic Rates of Return (FRR and ERR) will be completed, as much as possible, following the methodology employed ex ante, based on updated data. In order to perform these calculations, client-provided information will be used, such as updated financial model and statements. The ERR will be updated by the Development Effectiveness team. All ratings will be based on the criteria contained in the IDB's Expanded Project Supervision Report (XPSR) guidelines for evaluation of non-sovereign guarantee operations, which are consistent with ECG-GPS.

The Development Effectiveness Officer (DEO), with the support of the project team and PMOs, will be responsible for conducting the evaluation to assess the effectiveness of the interventions financed under the Facility, as well as for learning purposes. The Loan Proposal and DEM at approval for each project will be used as baseline, and the PSR-DEMs, ARO and updated financials/model to assess the project developmental results and performance.

A mid-term review will take place in project year 3. The review will include all parameters recommended by the GEF Evaluation Office for terminal evaluations and will verify information gathered through the GEF tracking tools, as relevant. It will, inter alia:

- a. review the effectiveness, efficiency and timeliness of project implementation;
- b. analyze effectiveness of implementation and partnership arrangements;
- c. identify issues requiring decisions and remedial actions;
- d. identify lessons learned about project design, implementation and management;
- e. highlight technical achievements and lessons learned; and
- f. propose any mid-course corrections and/or adjustments to the implementation strategy as necessary.
- g. verify actual direct and indirect leverage ratios. Direct relates to the Fund level, whereas indirect to the investee companies.

An independent terminal evaluation will take place at the end of project implementation. The terminal evaluation will review project impact, analyze sustainability of results and whether the Project has achieved its objectives, in addition to point "d", "e", and "g" above. The evaluation will furthermore provide recommendations for follow-up activities, and will be submitted to the GEF Evaluation Office no later than 6 months after the completion of the project investment period.

GEF Focal Points in all participating countries will be informed of the key evaluation milestones and, where applicable and feasible, involve them in the M&E activities of this project.

### III. Cost

In general, IDB managed funds spend around \$150,000 per year on those activities and to cover all M&E requirements. The resources to pay for those would come from the IDB's own resources and GEF agency fees, and some items will be charged directly to the private sector clients of sub-projects.





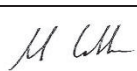
**PART III: APPROVAL/ENDORSEMENT BY GEF OPERATIONAL FOCAL POINT(S) AND GEF AGENCY(IES)**

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

NAME	POSITION	MINISTRY	DATE (MM/dd/yyyy)

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

This request has been prepared in accordance with GEF/LDCF/SCCF/NPIF policies and procedures and meets the GEF/LDCF/SCCF/NPIF criteria for CEO endorsement/approval of project.
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Agency Coordinator, Agency Name	Signature	Date (Month, day, year)	Project Contact Person	Telephone	Email Address
Michael Collins, IDB		01/30/2015	Patrick Doyle	202-6231468	patrickd@iadb.org
			Katalin Solymosi	202-6232993	katalins@iadb.org

**ANNEX A: PROJECT RESULTS FRAMEWORK** (either copy and paste here the framework from the Agency document, or provide reference to the page in the project document where the framework could be found).  
**RESULTS MATRIX** - please refer to Annex II of the attached loan proposal

**ANNEX B: RESPONSES TO PROJECT REVIEWS** (from GEF Secretariat and GEF Agencies, and Responses to Comments from Council at work program inclusion and the Convention Secretariat and STAP at PIF).

1. STAP recommends detailing further the results framework, given the importance the GEF assigns to the prospects of achieving and reporting on measurable and larger scale results on the global environment and sustainable development through program approaches. Therefore, STAP recommends adding a program objective that is consistent with the expected global benefits (Currently, a program objective is missing from the framework.), and ensuring the outputs and outcomes are defined at a higher order so the project level information cascades logically from the program framework.

Additionally, the project proponents may wish to redefine the goal so it specifically addresses global environmental and development goals in Latin America and the Caribbean related to climate-smart agriculture. This could include issues related to mitigating climate change through sequestering carbon, and contributing to food security.

The IDB may wish to consult the GEF publication "Adding Value and Promoting Higher Impact Through the GEF's Programmatic Approach" for guidance on structuring a program, including defining comprehensively the results-based framework:

[https://www.thegef.org/gef/sites/thegef.org/files/publication/Programmatic\\_Approach.pdf](https://www.thegef.org/gef/sites/thegef.org/files/publication/Programmatic_Approach.pdf)

IDB response:

The program objective (table B) was rephrased to reflect the goal of achieving global environmental benefits. Additionally, the results framework (based on table B) was amended to show more detail and follow the implementation model of the GEF programmatic approach. The new project results matrix is attached as Annex II of the loan proposal.

2. STAP recommends strengthening section C by describing the program rationale, defining explicitly the program objective(s), and detailing further the barriers. For example, STAP recommends detailing how the program intends to maximize global environmental benefits through cross-cutting activities (climate-smart agriculture), given this is one of the fundamental traits of a programmatic approach. Describing further the problem (e.g. the challenge of delivering food security without increasing biodiversity loss, land degradation and increasing greenhouse gas emissions from agriculture and deforestation), and linking it to the program objective also will strengthen further the design and logic of the program. Detailing the principles of climate-smart agriculture applied through a landscape approach also can further strengthen this section. In this regard, IDB should consider the following sources when detailing the challenges of agricultural livestock and forestry sectors amidst climate change and increased pressure on agro-ecosystems: 1) Lal, R. 2013. Food Security in a changing climate. *Ecology and Hydrobiology*: 13: 8-21. 2) Smith, P. 2013. Delivering food security without increasing pressure on land. *Global Food Security*: 2: 18-23. Furthermore, STAP recommends defining how the fund will prioritize activities, and detail further how the fund will manage risks for activities that may not be economically sustainable.

IDB response:

The reframed program rationale "To scale up climate-smart agriculture practices to achieve carbon sequestration, resilience to climate change and improved provision of ecosystem services by leveraging private sector lending in the land use sectors in Latin America and the Caribbean." is now explained in the attached loan proposal. Section A, background and diagnosis, establishes the program rationale (paragraphs 1.1 to 1.10 in the attached loan proposal).

Activities of the Fund will be prioritized according to two sets of criteria - project governance and estimated project impact regarding global environmental benefits and development results.

Project governance criteria include: financial viability, demonstrated need for concessional resources, client capacity to implement project and existing MRV system in mitigation projects.

Investment impact criteria include: baseline level of degradation or threat, positive impact on vulnerable populations (e.g. job creation, diversified income source), reduction of GHG emissions, increased flow of ecosystem services where measurable (e.g. water savings), and number of SLM practices implemented.

Each sub-project under the Fund will go through the regular IDB due diligence process with established procedures to determine financial performance and risk, legal risks, integrity risks, corporate governance, environmental-social

safeguards, evaluability and estimated development impacts. Projects that are not economically viable will not be selected under this Fund.

3. The proposal states it will promote "climate resilient value chains". However, it will be useful to detail further this activity. In particular, STAP recommends for the program to include value chain analyses for the land management practices to be addressed by component 1 and 2. The value chains should rely on a framework that considers the economic, environmental and social dimensions of agricultural value chains, including accounting for consumption and disposal patterns of waste and its effects on ecosystems and climate change (amounts of greenhouse-gas emissions, the potential to sequester carbon and reduce greenhouse gases through the value chain). Focusing on the economic, environmental and social aspects of value chains reinforces the principles of climate-smart agriculture: increasing productivity and incomes while protecting the environment. Thus, addressing the complementarities between climate smart agriculture and these three pillars of value chains can contribute to delivering the expected global environmental benefits outlined in section F.

The following FAO sourcebook on climate-smart agriculture provides information on a potential value chain framework that IDB could rely on for the value chain analysis:

<http://www.fao.org/docrep/018/i3347e/i3347e.pdf>

IDB response:

Under section A of the loan proposal, the approach has been clarified to be targeted at various players in agricultural value chains, rather than at certain value chains as a whole:

"The proposed Fund has two components for areas of investment focus:

1. Improved agricultural management (focus on sustainable certification of agricultural products and water efficiency investments)
2. Restoration of degraded lands via agroforestry and agro-silvo-pastoral systems

Both components will target corporations at various stages of agricultural value chains either directly or to act as intermediaries to reach small and medium sized producers at scale. Processors, large agribusinesses, traders and financial intermediaries can on-lend to producers to promote sustainable use of natural resources, reduce greenhouse gas emissions (GHGs), attract new market participants, and create economic opportunities for local businesses, low income rural populations, including women and the indigenous. The split in allocation among the components is indicative (tables A, B and D). Ultimate allocation will depend on opportunities arising with IDB clients.

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

In table B, the program component climate resilient value chains was changed to "Sustainable certification of agricultural products and water efficiency investments" because these investment opportunities have been identified as being most feasible and presenting largest demand from the private sector in LAC.

4. STAP recommends defining the methodology for estimating carbon stock changes from silvo-pastoral production systems. The detailed calculations also should be included in the final program document.

IDB response:

100 tons per hectare CO<sub>2</sub>e was calculated as follows: Based on IPCC 2006 default factors, degraded grasslands contain about 1.3 tons carbon per hectare (4.7 CO<sub>2</sub>e) as a baseline. ICRAF 2008 (Tennigkeit, T. & Wilkes, A. 2008: An Assessment of the Potential for Carbon Finance in Rangelands. ICRAF Working Paper No. 68, available online at <http://www.worldagroforestry.org/downloads/publications/PDFs/WP15892.PDF>) states an average carbon sequestration rate of 9.39 tCO<sub>2</sub>e/ha/a for the establishment of vegetation 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 GEF projects (e.g. [http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2008/11/25/000333037\\_20081125224142/Rendered/PDF/ICR00008750ICR1isclosed0Nov02502008.pdf](http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2008/11/25/000333037_20081125224142/Rendered/PDF/ICR00008750ICR1isclosed0Nov02502008.pdf)) but more conservative. We included in this paragraph in the reframed PFD.

5. Similarly, STAP recommends detailing further the expected global environmental benefits in addition to carbon sequestration, for example, benefits associated with soil and water management (component 2). Additionally, defining development benefits also is recommended as the GEF seeks larger scale impacts from programmatic approaches on environmentally sustainable development.

IDB response:

Increased flow of ecosystem services will be monitored where measurable directly (e.g. water savings, improved soil fertility, reduced runoff, reduced erosion), or as a proxy of reduced inputs such as fertilizer and/or pesticides. Since sub-projects are tentative at this point however, the project team decided not to include estimates on these global environmental benefits. Broader development benefits are defined under section C, Expected Development Results, of the attached loan proposal:

1.12 The Fund will increase the IDB's private sector operations' contribution to the IDB's climate investment goals established under GCI-9 including: mainstreaming climate change mitigation and increasing resilience of Bank funded activities; identifying and developing lending for climate action; and scaling up investments, addressing financial gaps and leveraging private sector investments. Indicative projects would contribute to mitigation of climate change, for instance by sequestering above and below ground carbon, and support adaptation by improving the quantity and quality of water available in areas that are increasingly threatened by drought.

1.13 The Fund will also contribute to achieving the objectives set out by the IDB's Biodiversity and Ecosystem Services Program, for instance, by increasing the number of hectares under improved land use, certified by internationally or nationally recognized environmental standards that incorporate biodiversity considerations. Technologies and techniques that improve climate change mitigation and adaptation often also improve the provision of ecosystem services and the protection of biodiversity.

1.14 The Fund's objectives align with the GEF's goal to achieve global environmental benefits. It is estimated that project investments will save up to 3 million tons CO<sub>2</sub> equivalents over the lifetime of the Fund and contribute to up to 60,000 hectares under improved management practices that result in carbon sequestration and/or sustained flow of ecosystem services in productive landscapes.

1.15 Positive social impacts from subprojects under the Fund are potentially high given the large rural workforce dependency on agriculture throughout the region; approximately 16% of the region's employment is in agriculture. Seasonal workforce stabilization, supporting SME producers in value chains and product diversification strategies are some potential investments that create shared value. To quantify shared value creation as a co-benefit of climate and biodiversity friendly investments, the project team will combine ecosystem services appraisals with the shared value appraisal methodology (under project RG-T2200) where feasible. The project team will explore how and to what extent business and job opportunities can be generated for women and other vulnerable groups in diversified cattle ranching and commercial timber production. Investments in product diversification, such as tree nurseries for commercial timber plantations, can create opportunities to engage with women.

Comments from GEF Council and IDB responses:

Comment from Germany: The agribusiness private sector is a key player in land degradation, but can also become a key player in SLM. Political framework and its implementation must provide strong incentives for this sector for engagement in SLM. Therefore activities of the proposed fund should be linked to an improved framework – either by its own activity lines or in collaboration with other partners.

IDB response: The activities of the fund will be strongly linked to initiatives on the IDB sovereign guarantee side that aim at improving regulatory frameworks regarding SLM.

A recent example of how IDB's private sector lending arm, the Structured and Corporate Finance Department (SCF), links its investments to IDB's public sector programs is a large loan to a pulp and paper processor in Southern Brazil. The municipalities impacted by the new site development overlap with the communities selected for a public sector loan to the State of Parana building institutional capacities to deal with the fiscal influx.

The foreseen loans of this fund will aim to achieve similar synergies.

We recognize the need for political frameworks to incentivize sustainable private sector investments. Since GEF resources are limited to reimbursable funds however, the fund will not be able to engage with policy processes within its own activity lines.

Comment from Germany: Investments in climate smart agriculture need long term commitment, which may inhibit private sector engagement. The international initiative Economics of Land Degradation (<http://www.eld-initiative.org/>) is providing evidence that investment in SLM is also economically worthwhile. The proposal should consider the option to undertake selected ELD case studies to produce arguments and incentives for SLM engagement of the private sector.

IDB response: Thank you for pointing out this interesting initiative and its highly relevant case studies. Under section I. of the PFD (page 9) we recognize the risk that private sector companies might not be aware of the long term benefits of SLM. The IDB therefore established the Biodiversity and Ecosystem Services Program to help companies quantify the

benefits of investments in climate-smart agriculture and other sustainable practices. The IDB's \$850,000 non-reimbursable technical assistance funds will be used to conduct Corporate Ecosystem Valuations (CEVs) with select client companies receiving a loan from the fund. The ELD methodology and documented results will be a valuable contribution to these CEVs. We are happy to explore further collaboration with the initiative and are constantly seeking additional grant resources for these types of analyses.

Comment from Germany: Regarding Brazil, the analysis and definition of interfaces between Climate-Smart Agriculture and the governmental ABC program (Agricultura de Baixo Carbono) should be enhanced. Funds for investment in large scale producers are sufficiently available in the advanced emerging power of Brazil. Therefore, small scale producers should be targeted during implementation of project activities, primarily focusing on eliminating shortage in technical assistance and the methodology development.

IDB response: We agree there is a large overlap between climate-smart agriculture interventions and Brazil's ABC program. We see the IDB-GEF fund as complementary to the ABC program and will add further reference in the PFD. SCF's target clients are typically large companies. In agriculture, these companies frequently act as intermediaries between IDB and smaller scale producers to channel financing as well as technical assistance. For projects under the fund in Brazil, we will target cooperatives, traders, farmers' associations and other intermediaries to implement the productive use of degraded lands at scale and to reduce transaction costs.

Additionally, the technical assistance resources mentioned above will help to overcome methodological hurdles.

Comment from Germany: Regarding Paraguay, the project should focus on the Chaco region where the impacts of deforestation and land degradation are critical. Public and private funds for investment, especially in large scale agribusiness are sufficiently available but have to be mobilized. The project can function as a game changer to promote more private investment in SLM in Paraguay. Private sector involvement is key for the successful project implementation in Paraguay. Synergies may arise from a close coordination with the cooperation project between the European Union and Mercosur (ECONORMAS). Technical support and experience in the area of SLM is available in the bilateral BMZ program for "Sustainable Management of Natural Resources" implemented by GIZ.

IDB response: The project team is determined to establish SLM projects in the Chaco region within and beyond Paraguay and would like to discuss with the BMZ program team possibilities of collaboration and/or funding for technical assistance in this area.

Expected outputs of investments to reduce land degradation in Paraguay and elsewhere include innovative practices introduced at field level; interventions to increase vegetative cover; and actions to diversify the financial resource base of producers. These outputs can be achieved in a wide range of ecosystems at various levels of degradation and threat. As outlined under section D., page 7 of the PFD however, priority will be given to projects according to the following investment impact criteria: baseline level of degradation or threat; positive impact on vulnerable populations; reduction of GHG emissions if applicable; and number of SLM practices implemented.

Comment from Canada: Clearly identify the reflows of the project

IDB response: Reflows are calculated under Annex D.

Comment from Canada: Specify more clearly the definition on the goal of the project (in particular, as it relates to contributing to global environmental benefits)

IDB response:

Section A of the attached loan proposal addresses this comment, as well as the rephrased program objective "To scale up climate-smart agriculture practices to achieve carbon sequestration, resilience to climate change and improved provision of ecosystem services by leveraging private sector lending in the land use sectors in Latin America and the Caribbean."



**ANNEX C: STATUS OF IMPLEMENTATION OF PROJECT PREPARATION ACTIVITIES AND THE USE OF FUNDS<sup>5</sup>**

A. PROVIDE DETAILED FUNDING AMOUNT OF THE PPG ACTIVITIES FINANCING STATUS IN THE TABLE BELOW:

PPG Grant Approved at PIF: NA			
<i>Project Preparation Activities Implemented</i>	<i>GEF/LDCF/SCCF/NPIF Amount (\$)</i>		
	<i>Budgeted Amount</i>	<i>Amount Spent To date</i>	<i>Amount Committed</i>
<b>Total</b>	0	0	0

<sup>5</sup> If at CEO Endorsement, the PPG activities have not been completed and there is a balance of unspent fund, Agencies can continue undertake the activities up to one year of project start. No later than one year from start of project implementation, Agencies should report this table to the GEF Secretariat on the completion of PPG activities and the amount spent for the activities.



## **ANNEX D: CALENDAR OF EXPECTED REFLOWS (if non-grant instrument is used)**

Provide a calendar of expected reflows to the GEF/LDCF/SCCF/NPIF Trust Fund or to your Agency (and/or revolving fund that will be set up)

Tentative list of project types that could qualify for GEF funding with estimated reflows. Not all potential projects will be financed with GEF resources, only up to USD 5million.

There will be one reflow payment from IDB to GEF after the Facility tenor of 18 years.

### **1.Reforestation Of Degraded Pasture Land In Paraguay**

Investment type description: debt

Expected start of disbursement: Q1 2016

Amount of investment (GEF funds): USD 2million

Estimated interest rate/return: 3%

Term of investment: 12 years

Estimated grace period: 8 years

Repayment method: During grace period annual interest payments are made, after grace period, four annual payments to repay principal.

Frequency of reflow payments IDB to GEF: one time

Total principal amount to be reflowed: USD 2million

Total earnings amount to be reflowed: USD 630,000

### **2.Agricultural Services And Resiliency To Water Variability In Agro-Ecoregions Of Bolivia**

Investment type description: debt

Expected start of disbursement: Q3 2015

Amount of investment (GEF funds): USD 1million

Estimated interest rate/return: 1%

Term of investment: 8 years

Estimated grace period: 2 years

Repayment method: During grace period annual interest payments are made, after grace period, six annual payments to repay principal.

Frequency of reflow payments IDB to GEF: one time

Total principal amount to be reflowed: USD 1million

Total earnings amount to be reflowed: USD 55,000

### **3.Promoting Sustainable Aquaculture In Chile**

Investment type description: debt

Expected start of disbursement: Q3 2015

Amount of investment (GEF funds): USD 2million

Estimated interest rate/return: 2%

Term of investment: 5 years

Estimated grace period: 1years

Repayment method: During grace period annual interest payments are made, after grace period, four annual payments to repay principal.

Frequency of reflow payments IDB to GEF: one time

Total principal amount to be reflowed: USD 2million

Total earnings amount to be reflowed: USD 140,000

### **4.Productive Use Of Degraded Lands In The Brazilian Cerrado**

Investment type description: debt

Expected start of disbursement: Q3 2015

Amount of investment (GEF funds): USD 1million

Estimated interest rate/return: 2%

Term of investment: 7 years

Estimated grace period: 1years

Repayment method: During grace period annual interest payments are made, after grace period, six annual payments to repay principal.

Frequency of reflow payments IDB to GEF: one time

Total principal amount to be reflowed: USD 1million

Total earnings amount to be reflowed: USD 90,000

#### 5.Sustainable Production Of High Value Added Crops And Forest Products In Honduras

Investment type description: debt

Expected start of disbursement: Q2 2015

Amount of investment (GEF funds): USD 1million

Estimated interest rate/return: 2%

Term of investment: 7 years

Estimated grace period: 2years

Repayment method: During grace period annual interest payments are made, after grace period, five annual payments to repay principal.

Frequency of reflow payments IDB to GEF: one time

Total principal amount to be reflowed: USD 1million

Total earnings amount to be reflowed: USD 100,000