PROPOSAL FOR FINAL CONSIDERATION

Project Fact Sheet

<table>
<thead>
<tr>
<th>C86 - REGIONAL LAC - Climate-smart Agriculture Fund for Latin America and the Caribbean (CSAF)</th>
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<tbody>
<tr>
<td>Partner Agency</td>
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<tr>
<td>Executing Agency</td>
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<tr>
<td>Sector</td>
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<td>CRS Code</td>
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<tr>
<td>Region</td>
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<tr>
<td>Budget - NDF</td>
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<tr>
<td>- Partner Agency</td>
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<td>- Other Funders</td>
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<tr>
<td>Global Environment Fund (USD 5,000,000); USAID (USD 5,000,000)</td>
</tr>
<tr>
<td>Project Period</td>
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<tr>
<td>Mode of Finance</td>
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<tr>
<td>Previous Support to Country</td>
</tr>
<tr>
<td>Grants: EUR 59.94 million (of which EUR 29 million to regional projects)</td>
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<tr>
<td>Rio Markers</td>
</tr>
<tr>
<td>Adaptation: 2 = principal objective</td>
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<tr>
<td>Gender Marker</td>
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<tr>
<td>Climate Screening Satisfied</td>
</tr>
<tr>
<td>Processing Schedule</td>
</tr>
<tr>
<td>Final - Nov 2015</td>
</tr>
<tr>
<td>Signature - Feb 2016</td>
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<td>Effective - Mar 2016</td>
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</table>

\(^1\) Exchange rate 1 EUR = 1.1236 USD
PROJECT SUMMARY

NDF grant: EUR 5 million
Project Period: 2016 - 2034
Partner Agency: Inter-American Development Bank (IDB)
Implementing Agency: Inter-American Development Bank (IDB)

The Climate-smart Agriculture Fund for Latin America and the Caribbean (CSAF or “the Fund”) is a concessional finance facility aimed at catalyzing private sector investment in sustainable agriculture, forestry and rangeland development across the LAC region. It is an initiative of the Inter-American Development Bank (IDB) and will be administered by the IDB’s Structured and Corporate Finance Department (SCF).

Unsustainable land use from deforestation, habitat conversion and poor agriculture practices accounts for nearly half of all LAC greenhouse gas (GHG) emissions and severely limits resilience to extreme climate events. Climate-smart methods and technologies offer solutions for mitigation and adaptation to climate change while achieving more sustainable productivity.

However, climate-smart business models routinely face critical barriers to finance, notably, extended payback period requirements and misinformation about risks and returns. CSAF is intended to address these barriers by channeling concessional finance and technical assistance to select private sector led climate-smart projects.

The direct clients of the Fund will be small, medium and large scale agribusinesses developing innovative climate smart projects in the region. Poverty reduction will be a direct outcome of support to these projects, with the number one drivers for poverty reduction at sub-project level being job creation and sustainable income generation for the rural poor and smallholder farmers in the value chain.

Expected outcomes include: increased investment in climate smart agriculture in the region; increased climate resilience and reduced emissions from the land use and agriculture sectors; and improved livelihoods and income opportunities for the rural poor in the region.

Financing

The total fund size including technical assistance funds is approximately USD 16.5 million. NDF is providing EUR 5 million or approximately USD 5.6 million. IDB is providing USD 850,000 in addition to staff time and resources for implementation. The Global Environment Fund is providing USD 5 million and USAID is providing USD 5 million.
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ABBREVIATIONS

CSAF  Climate-smart Agriculture Fund
EEGF  Energy Efficiency Technical Assistance and Guarantee Fund
GEF   Global Environment Facility
GHG   Greenhouse gas
IDB   Inter-American Development Bank
LAC   Latin America and the Caribbean
MSME  Micro, Small and Medium Enterprise
NDF   Nordic Development Fund
PMO   Portfolio Management Officer
SCF   IDB Structured and Corporate Finance Department
USAID United States Agency for International Development
1. INTRODUCTION AND PROJECT BACKGROUND

This proposal seeks approval from the NDF Board for EUR 5 million in grant funding for the project Climate-smart Agriculture Fund for Latin America and the Caribbean (CSAF or “the Fund”).

CSAF is an innovative concessional finance facility focused on promoting climate resilience and sustainable agriculture, forestry and rangeland development across the LAC region. It aims to mobilize capital for climate-smart investments, change market risk perceptions around such investments and build a portfolio of projects which can reliably and convincingly demonstrate both commercial and environmental benefits of climate-smart business models.

IDB introduced the initiative to NDF during meetings in the first half of 2015. The IDB Board subsequently approved CSAF in July 2015 on the basis of initial commitments of USD 5 million from the Global Environment Fund (GEF) and USD 850,000 in internal IDB technical assistance funds.

The Fund is now operational. The SCF project team is engaging with project developers and building a pipeline of “early mover” projects. NDF support will build on existing collaboration between NDF and IDB, double the Fund’s concessional lending envelope and help to establish an innovative regional facility for catalyzing private sector support to climate smart agriculture.

2. RELEVANCE AND RATIONALE

2.1. Project Relevance

Agriculture and the land use sectors play a key role in the regional economy of LAC, accounting for approximately 5% of regional GDP and 16% of employment. In addition, the region is of immense importance for global food security. In 2011, LAC produced 60% of the world’s soybean exports, and from 2006 to 2009 it produced 45% of global coffee and sugar, 44% of the world’s beef, 42% of poultry, 70% of bananas, 12% of citrus, 13% of cocoa, and 33% of maize.

The same sectors are also the major causal contributors to climate change from the region. Greenhouse gas (GHG) emissions from these sectors account for 49% of overall emissions in LAC due to ongoing deforestation, habitat conversion and other unsustainable land use practices. This emissions profile highlights the importance of including agriculture and land use in climate change mitigation and adaptation strategies.

On top of playing a large role in contributing to climate change, agriculture and land-use in the region are also increasingly vulnerable as a result of climate change. Coffee plantations in Central and South America, for example, face a variety of diseases including Coffee Leaf Rust as a result of climate change. Temperature rise and increasingly erratic precipitation are having a negative impact on crop yields in the region.

The gradual onset of climate change year-after-year as witnessed through more frequent and extreme weather events require increasingly more resilient and diversified production

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2 World Bank, World Development Indicators, 2014.
4 World Resources Institute, CAIT 2.0 Climate Data Explorer, 2013.
systems. It is thus essential to develop commercially viable models for reducing emissions from the land use sector and, at the same time, improve overall resilience within the sector.

Climate-smart methods and technologies offer solutions for mitigation and adaptation to climate change while achieving more sustainable productivity. Climate-smart agriculture investments improve productivity and profits for agribusinesses and their value chains while decreasing greenhouse gas emissions from land use, improving management of ecosystem services and increasing the resilience of productive systems. They are based on increasing agricultural output while maintaining the same or even lower amounts of inputs per unit, enhancing the environmental impact and building resilience to climate change and other production threats.

However, climate-smart agriculture investments face a number of barriers. Investments in climate-smart practices are longer term and require additional working capital, which is often in short supply for agricultural companies. Project pay back for such investments takes place over years rather than months and requires longer loan tenors than are typically available. Finally, there are significant information and capacity barriers fueling perceptions that climate-smart agriculture investments are higher risk. As a result, climate-smart agriculture opportunities are often missed.

CSAF endeavours to address these barriers by providing concessional financing to catalyze climate-smart agriculture investments from the private sector, commercial lenders and the IDB itself through its non-sovereign lending window. The Fund is designed to deploy resources on concessional basis to overcome credit and risk barriers and "crowd in" the private sector to projects that otherwise might not materialize.

2.2. Relevance to NDF’s Mandate and Strategy

CSAF has a dual focus on climate change and private sector support, which are at the core of the NDF mandate and strategy. The primary function of the fund is to lend to private sector-led, climate-smart projects demonstrating clear gains in terms of mitigation and/or adaptation. This positions the Fund and NDF support as a catalyst mobilizing additional investments.

The Fund objectives also touch directly on NDF core issues including environmental sustainability and poverty reduction which are essentially built into the design of the Fund. The direct clients of the Fund are small, medium and large scale agribusinesses developing innovative climate smart projects. Poverty reduction is a direct outcome of support to these projects, with the number one drivers for poverty reduction at sub-project level being job creation and sustainable income generation for the rural poor and smallholder farmers in the value chain.

In order to qualify as “climate-smart,” sub-projects should, first, demonstrate that they contribute to mitigation of climate change by restoring or enhancing carbon stocks and/or adaptation by improving social and ecosystem resilience to climate variability. Second, sub-projects are expected to contribute to enhancement of biodiversity and ecosystem services in productive landscapes, diversification of market participants, and creation of economic opportunities for local businesses and low income rural populations, including women and indigenous communities.

During implementation, the Fund will specifically measure key poverty reduction indicators. This will entail measuring for gender disaggregated impact on job creation at sub-project level in terms of direct employment by private sector clients of the Fund and indirect job creation through 3rd party outgrower schemes as a result of climate smart investments supported by the Fund. A table of indicators at sub-project level is provided in Section 5.2 on Environmental and Social Aspects.
The Fund also aligns with two key thematic targets in the forthcoming NDF strategy, now under discussion, namely, use of innovative financing instruments and leverage. In the first case, the Fund takes an innovative approach to the use of grant instruments by deploying NDF grant funds as interest earning, concessional lending finance. Whereas funds from NDF grants do not typically generate reflow back to NDF, loan repayments under CSAF would be expected to flow back to NDF at the close of the Fund. In the second case, leverage is one of the Fund’s core objectives. The vision of the Fund is to leverage concessional finance, including NDF resources, to prove climate smart business models, remove barriers to investment and catalyze large scale private sector capital flows to climate-smart agriculture in the region.

3. THE PROPOSED PROJECT

3.1. Objectives

CSAF is set up to invest in and build a portfolio of sub-projects in climate smart agriculture projects over a 5 year investment period with a maximum payback period of 18 years. The overall objective of the Fund is to catalyze private sector investment in sustainable agriculture, forestry, and rangeland systems in order to maintain and improve the flow of agro-ecosystem services from productive landscapes in the face of climate change and increasing resource scarcity.

3.2. Project Activities

CSAF will target sub-projects which mitigate climate change by restoring or enhancing carbon stocks and/or increase ecosystem resilience to climate variability in two main investment areas: 1) restoration of degraded lands through reforestation and other measures to enhance carbon stocks and increase productivity; and 2) improvements in agricultural management.

Examples of investments linked to restoration of degraded lands include:

- Development of agroforestry systems blending commercial timber based on native timber species with cattle pasturage to reduce pressure on remaining stands of natural forest; and
- Establishment of biodiversity corridors improving habitat connectivity and animal crossings on forest land managed for pulp and paper.

Examples of investments linked to improvements in agricultural management include:

- Sustainable certification of products such as cocoa, sesame, tea, fruits, fish and timber;
- Improving water management through reforestation of water catchment areas; and
- Improving climate resilience of smallholder coffee growers by improving access to markets, credit and technical assistance.

The project has a regional scope, and the pipeline of “early mover” projects consists of opportunities all across the region in both upper middle-income and lower middle-income countries. NDF funds will target projects in the lower middle-income tier and particularly NDF partner countries in the region, namely, Bolivia, Honduras and Nicaragua.
The Table below presents a group of indicative projects from the “early mover” pipeline.

<table>
<thead>
<tr>
<th>Country</th>
<th>Project Concept</th>
<th>Project Promoter</th>
<th>Reasons for concessional finance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nicaragua</td>
<td>Extension of credit and technical assistance to smallholder coffee growers</td>
<td>Coffee trader</td>
<td>Multiple SME sub-borrowers perceived as credit risk by commercial lenders</td>
</tr>
<tr>
<td>Guatemala</td>
<td>Combined high value timber and cocoa production</td>
<td>Family agribusiness</td>
<td>Lack of large, established sponsor support; Minimal cash flow in early years and long tenor requirements</td>
</tr>
<tr>
<td>Panama</td>
<td>Watershed restoration combined with development of sustainable cocoa through smallholders</td>
<td>Cocoa startup</td>
<td>Lack of established sponsor; Diverse producer base, partly without land titles, perceived as credit risk by lenders</td>
</tr>
<tr>
<td>Peru</td>
<td>Reforestation and habitat restoration with high value native timber species</td>
<td>Reforestation company</td>
<td>Lack of established sponsor; Long production cycle; Lack of market history for native timber products perceived as risk by lenders</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>Reforestation of degraded agricultural landscapes through smallholders</td>
<td>Reforestation company</td>
<td>Land partnership with smallholders perceived as credit risk by lenders</td>
</tr>
</tbody>
</table>

The Fund will deploy concessional tools, including, senior loans, subordinated loans and first loss guarantees as well as technical assistance with a focus on risk mitigation and credit enhancement to attract and mobilize additional finance. Concessional tools will be channeled directly through the Fund’s clients on terms negotiated by the SCF team during due diligence of each sub-project. TA may be channeled through third party service providers to finance a mix of project preparation and capacity building activities.

Capital mobilization by CSAF at sub-project level is projected in four major ways.

First, projects typically require a portion of equity from the borrowers to be able to absorb debt financing. Thus, CSAF will catalyse a capital investment by the direct clients of the Fund in projects that would otherwise not take place.

Second, because of the positive social and environmental impacts of climate smart investments, CSAF is expected to mobilize additional equity capital in select sub projects from private sector impact investors.

Third, CSAF participation is expected to reduce risk and enhance credit sufficiently to mobilize parallel senior debt both from commercial lenders as well as IDB through its non-sovereign guaranteed lending window. In both cases, the role of CSAF is to absorb sufficient risk to unlock senior debt, which, by definition, has less tolerance for risk conditions than concessional finance.

Finally, once projects under CSAF reach maturity with clear demonstration of the case for climate smart investments, additional equity and debt investors are expected to crowd-in and finance later stages of expansion and scale-up. The extended life of the Fund enables the project team to monitor and report this leverage aspect of follow-on capital over an extended period.
3.3. NDF Components

NDF support will be in the form of a grant for joint co-finance and will cut across all features of the Fund with a focus on promoting sub-projects in NDF partner countries and lower middle income countries in the region.

3.4. Cost Estimates and Financing Plan

The Fund was initially launched in July 2015 with a USD 5 million commitment from GEF and USD 850,000 for technical assistance from IDB resources. This is in addition to IDB contributions of staff salaries and time dedicated to management and administration of the Fund.

NDF will provide a grant of EUR 5 million (USD 5.6 million) to CSAF. The bulk of this commitment (USD 5 million) will in turn be deployed by the Fund for lending purposes to sub projects in the form of senior and subordinated loans and first loss guarantees, with specific terms and structure for CSAF participation determined on a case-by-case basis. The remainder of the NDF grant, approximately USD 600,000, will be available for technical assistance grants to facilitate sub-project origination, market and feasibility studies and capacity building for clients of the Fund.

USAID will also contribute USD 5 million in technical assistance support earmarked for countries in Central America.

The following Table provides a list of funding sources and uses.

<table>
<thead>
<tr>
<th>Donor</th>
<th>Concessional Finance (USD)</th>
<th>Technical Assistance (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>IDB</td>
<td>5,000,000</td>
<td>850,000</td>
</tr>
<tr>
<td>GEF</td>
<td>5,000,000</td>
<td>5,000,000</td>
</tr>
<tr>
<td>USAID</td>
<td>5,000,000</td>
<td>618,000</td>
</tr>
<tr>
<td>NDF</td>
<td>5,000,000</td>
<td>618,000</td>
</tr>
<tr>
<td>Total</td>
<td>16,000,000</td>
<td>6,468,000</td>
</tr>
</tbody>
</table>

Substantial IDB contributions in staff time and salaries during design and preparation of the Fund as well as implementation over the course of the Fund life are not included in the above figures. Costs for due diligence of sub projects are also not included in the above figures and will be shared between IDB and clients of the Fund as is standard for IDB non sovereign operations.

It is feasible that additional donors will sign on to the facility during the investment period. This is likely to be based on early results from projects funded through GEF or NDF resources and would increase the leverage impact of NDF support.

At sub-project level, each project may be either stand-alone participation by CSAF or co-financed with senior IDB debt through its non-sovereign guarantee window. The maximum contribution of CSAF to any single sub-project will be 40% of overall capitalization of the fund, not including technical assistance capital.

Below this ceiling, the size of financing allocated to any single project is expected to vary considerably on a project-by-project basis, reflecting a range of business models and operating challenges in the region. NDF will exercise its no objection authority to ensure a mix of projects are supported, with the emphasis on supporting projects best aligned with NDF priorities.

\(^5\) Figures include IDB administration fees as defined by current IDB policy on administration of funds from other donors.
3.5. Nordic Interest

Nordic companies are well established in the agricultural and land use (ie. forestry) sectors in the LAC region and represent a pool of potential clients of the Fund. IDB and NDF have discussed the possibility of joint informational events to raise awareness with Nordic companies. This could materialize as a promotional event hosted by NDF in 2016 to bring together Nordic companies as well as Nordic IFIs, including NIB, to pitch opportunities.

Participation in the Fund also carries benefits both in terms of transaction costs and information exchange. NDF and the IDB team have discussed ways to build on already established cooperation and further strengthen the information flow between institutions through both formal and informal exchange. This enables NDF to regularly promote opportunities for Nordic firms and ensures a certain level of internal learning, transactional experience and capacity building takes place within NDF over the life of the project.

There are also important synergies to explore between CSAF and NDF’s existing portfolio in the region. For example, the group of companies supported by PROADAPT, the joint NDF-IDB project promoting green growth and climate resilient business models among MSMEs, represents a potential pool of clients for CSAF. NDF’s biogas market development project in Nicaragua, which focuses heavily on the agricultural and livestock sectors, is another project which might yield clients for CSAF.

Finally, NDF is well positioned to transfer lessons learned from CSAF to inspire similar facilities in other regions. NDF has already seen interest from the African Development Bank in potentially adapting lessons learned from the Energy Efficiency Technical Assistance and Guarantee Fund (EEGF) and Eco Micro, both initiated with IDB, and may be able to play a similar “exporter” role with the CSAF model.

3.6. NDF’s Added Value and Comparative Advantage

NDF has secured assurances that the Fund will use NDF resources to promote deal flow, firstly, in NDF partner countries (Bolivia, Honduras and Nicaragua), and secondly, in lower income countries in the region. NDF’s presence thus ensures that the project team invests more time and resources than would otherwise be the case in building up the relative share of deals in NDF’s target group. Furthermore, NDF’s emphasis on Honduras and Nicaragua, in particular, is reinforced by USAID’s USD 5 million contribution which is earmarked for technical assistance to countries in Central America. This will have the practical effect of increasing the flow of loans and guarantees to those same countries.

NDF grant finance enhances the flexibility of the Fund, which is committed to challenging market perceptions and proving climate smart business models which are perceived as too risky. The willingness to accept higher levels of risk and potentially see some losses is a key feature of NDF’s comparative advantage.

Activities financed by NDF grant funds can help to uncover unrealized business opportunities and shift the baseline for best practices in climate-smart and biodiversity friendly land uses. These investments will have an important demonstration effect in the various country and regional markets by highlighting viable models for scaleup and pushing the green growth agenda in agribusiness and forestry.
4. IMPLEMENTATION ARRANGEMENTS

4.1. Technical Aspects

CSAF will have an investment period of 5 years (2016-2020) and a maximum payback period for sub-projects of 18 years. Tenor for projects approved in the later years of the investment period will be less than 18 years in line with the fixed closing date for the Fund. NDF funds will be paid into a special account administered by IDB. IDB will charge an administrative fee on NDF funds according to its policy.

The grant agreement between NDF and IDB will establish the terms for reflow of funds to NDF. Previous negotiations of the EEGF provide a baseline template for this agreement. Repayments and fees deriving from loans and guarantees to sub-projects will flow back to the NDF special account during the 5 year investment period and subsequent payback period extending through 2034. During the investment period, these funds can be recirculated back into additional projects. Following expiration of the investment period, unused funds and repayments can begin to flow back to NDF unless otherwise agreed by NDF and IDB. Possible alternatives include conversion of funds to technical assistance grants or capitalization of a follow up fund.

At sub-project level, CSAF projects must, by default, comply and be aligned with all national legislation and national development strategies in addition to IDB Country strategies. In addition, a country non-objection is obtained at the beginning of the internal review and approval process of each sub-project.

4.2. Institutional Aspects and Project Organization

The IDB SCF team will manage and administer the Fund. A Technical Advisor will sit within the SCF team and serve as the chief focal point for CSAF operations. The Technical Advisor will have technical knowledge on private sector investment in climate-smart agriculture projects and development, and climate change vulnerability.

Each sub-project will undergo the same level of review, due diligence, structuring, safeguards assessment, environmental and social scrutiny and credit analysis as takes place for other IDB non sovereign guaranteed operations. The project team will ensure that all sub-projects are compatible with the relevant IDB Country Strategy. IDB management will approve all sub-projects in compliance with the IDB Procedures for Processing Non-Sovereign Guaranteed Operations.

NDF will maintain a no-objection authority for all projects to be funded from NDF resources. This option enhances NDF capacity to influence the selection of sub-projects during implementation and promote key areas of interests including poverty reduction and gender impact.

It should also be noted that NDF is following the ongoing reorganization of the private sector within IDB. These changes are not expected to have any significant impact on operations or timeline for CSAF.

4.3. Procurement and Contract Structure

Contract structures with clients at sub-project level will follow IDB procedures for non-sovereign operations, as above. Procurement of technical assistance will be conducted at the Fund level and follow IDB procurement guidelines.
4.4. Risk Analysis

**Environmental and social impact risk** related to land use in sub-projects is to be mitigated by full environmental and social screening of all sub-projects and full compliance with the IDB Environment and Safeguards Compliance Policy. Further discussion of environmental and social compliance approach can be found in Section 5.2.

**Demand risk** for the Fund can already be seen to be low on the basis of the “early mover” pipeline. Strategic use of technical assistance and dissemination of early results will also facilitate key signals reaching the market and stimulating demand.

**Execution risk** is deemed to be low on the basis of prior NDF experience with the SCF team together with its track record with similar facilities in the region.

IDB’s presence as the executing agency helps to mitigate regional and local **political risk**. Unforeseen shifts in local or national policies regarding land use and incentives, in particular, could adversely affect investment economics. However, this can also be addressed through early dissemination of results among policy makers.

**Social acceptance risk** related to scepticism toward introduction of new methodologies and technologies is to be mitigated through effective training, capacity building and communication strategies.

4.5. Monitoring and Evaluation

Monitoring of the project will be continuous and ongoing by the project team. Monitoring will cover standard IDB indicators at Fund level and sub-project specific indicators to be defined for each sub-project. Reporting will also cover leverage indicators.

In addition to supervision and site visits, the main source of information is expected to be the Annual Review of Operations of all sub-projects financed by the Fund. This is the combination of sub-project data, updated financial models and statements, reports by the environmental and social monitoring assessments and other specific reports provided by clients and external consultants.

There will be a Portfolio Management Officer (PMO) at IDB responsible for the implementation of the monitoring plan. With the support of a Development Effectiveness Officer, the PMO will carry out all activities required for the monitoring plan. A monitoring plan and information covenants for each sub-project will be incorporated in the respective loan agreement and annexes. A mid-term review of the Fund will take place in year 3 of the investment period.

NDF will have an opportunity to participate in joint supervision and site visits to projects supported with NDF funds. NDF will also receive, review and comment on regular reports provided by SCF on the status of the Fund.

5. ECONOMIC AND SOCIAL ASPECTS

5.1. Economic Justification

The Fund is expected to have a direct positive impact on the local and regional economy relevant to each of the sub-projects. The main economic benefits are related to increased productivity, improved and more sustainable use of resources, enhancement of biodiversity and ecosystem services in productive landscapes, diversification of market participants, and creation of economic opportunities for local businesses, low income rural populations, including women and indigenous communities.
Eligible sub-projects will have to make a persuasive case for economic benefit, through outcome and output indicators contributing to the objectives of the Fund. The achievement of these objectives will be tracked by the CSAF's Technical Advisor and PMO in accordance with IDB's non-sovereign guaranteed monitoring and evaluation procedures.

5.2. Environmental and Social Aspects

CSAF is, by definition, aimed at delivering significant climate, environmental and socio-economic benefits.

The environmental benefits of the Fund are well documented throughout this proposal and linked to climate change mitigation and adaptation at Fund level and to concrete improvements in biodiversity and ecosystem services at sub-project level. In addition to the above, IDB estimates 3,000,000 tons of CO2 will be sequestered over the project life based on improved management and reforestation practices in sub-projects.

Socio-economic benefits are equally significant, and sub-projects are expected to lead to poverty reduction in several ways. Job creation benefitting the rural poor is foremost.

At sub-project level, climate smart production models and key value chains are heavily outgrower based. This is a key point which is already apparent in the design of projects in the early mover pipeline. Sub project operators, by virtue of design and strategic interest in diversifying the supply sources, will necessarily cultivate large communities of third party, smallholder producers. Thus, the Fund can be expected to have a strong impact on local jobs and income through its support to small, medium and large agribusiness operators.

It is also clear that, by virtue of simply seeking out projects that satisfy the criteria for climate smart business models, the Fund automatically selects for projects located in some of the most marginalized and impoverished regions in target countries. These are projects with clear benefits both to environment and the local economy that would not materialize in the near to medium term without concessional finance from the Fund. Enabling these projects to take root is an important tool for stimulating sustainable and environmentally smart economic growth in the most impoverished areas.

The NDF agreement with IDB will emphasize poverty reduction in the lowest income tier of countries in the region as an important aspect of selection for sub-projects funded with NDF resources. It should also be underlined that NDF will have no-objection authority for each project supported with NDF resources.

Gender inclusion is a key consideration at sub-project level where the rural and agricultural sector traditionally tends to have differentiated roles for men and women. SCF has two full time gender specialists responsible for elevating issues of gender equality and female economic empowerment. They work across the portfolio and will be involved in due diligence and appraisal of CSAF sub-projects. SCF also has an established gender analysis methodology and all sub-projects under CSAF will support gender inclusion.
The following Table provides a list of key indicators to be measured at sub-project level. Baseline figures for all indicators will be obtained as part of the due diligence on each sub-project.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Measureable value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct employment</td>
<td># employed</td>
</tr>
<tr>
<td>Direct employment of women</td>
<td># employed</td>
</tr>
<tr>
<td>Direct training costs</td>
<td>USD or local currency value</td>
</tr>
<tr>
<td>Direct training costs benefitting women</td>
<td>USD or local currency value</td>
</tr>
<tr>
<td>Indirect job creation</td>
<td># of outgrowers, # of households impacted</td>
</tr>
<tr>
<td>Indirect job creation for female led households</td>
<td># of households</td>
</tr>
<tr>
<td>Community development</td>
<td># of beneficiaries, USD or local currency value</td>
</tr>
<tr>
<td>Community development benefitting women</td>
<td># of beneficiaries, USD or local currency value</td>
</tr>
</tbody>
</table>

Additional indicators will be adapted and included on a project-by-project basis according to analysis during due diligence. All social impact indicators, including jobs, training and community beneficiary numbers, will be disaggregated by gender by default under IDB procedures for private sector projects.

The Fund is classified overall as Category B for environmental and social risk, indicating any adverse impacts are expected to be local and short-term and easily mitigated. All sub-projects will be compliant with the IDB Environment and Safeguards Compliance Policy. High risk Category A sub-projects are not expected to result from the Fund. Stand-alone sub-projects classified as Category C for lowest risk will undergo an expedited due diligence and environmental and social review process.

6. CONCLUSION

CSAF targets climate change mitigation and adaptation in the LAC region. It is a facility designed to catalyze private sector investment and lending in innovative and climate smart agriculture business models with strongly positive environmental and social impacts. NDF can double the effective lending capacity of the Fund while enhancing the focus on the lowest income tier of countries in the region, including NDF partner countries.

7. RECOMMENDATION

The Board approved grant financing of up to EUR 5.0 million to the project C86 - REGIONAL - Climate-smart Agriculture Fund for Latin America and the Caribbean (CSAF).

Helsinki, 2 November 2015

Pasi Hellman
Managing Director

Charles Wetherill
Country Program Manager
Annex 1 - Project Results Matrix

The Table below is a matrix of indicators at Fund level sourced directly from the IDB Board Document. An indicative list of sub-project indicators is presented in the Table in Section 5.2.

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</thead>
<tbody>
<tr>
<td>Greenhouse Gases Sequestered through establishment of forest or vegetation cover in tons CO2e</td>
<td>TBD</td>
<td>2014</td>
<td>0</td>
<td>1,000,000</td>
<td>1,000,000</td>
<td>1,000,000</td>
<td></td>
<td></td>
<td></td>
<td>3,000,000 tons CO2e</td>
<td>Other</td>
<td>To be reported by SMU</td>
<td></td>
</tr>
<tr>
<td>Number of internationally recognized sustainable land use certifications</td>
<td>TBD</td>
<td>2014</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2</td>
<td></td>
<td>Other</td>
<td>To be reported by SMU</td>
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</thead>
<tbody>
<tr>
<td>Sustainable Cultivated Land Area under forest or other vegetation cover in hectares</td>
<td>TBD</td>
<td>2014</td>
<td>0</td>
<td>10,000</td>
<td>10,000</td>
<td>10,000</td>
<td></td>
<td></td>
<td></td>
<td>30,000 ha</td>
<td>Other</td>
<td>To be reported by SMU</td>
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<tr>
<td>Cultivated Land Area under improved ag practices in hectares</td>
<td>TBD</td>
<td>2014</td>
<td>0</td>
<td>15,000</td>
<td>15,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>30,000 ha</td>
<td>Other</td>
<td>To be reported by SMU</td>
<td></td>
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<tr>
<td>Total facility capitalization, including IDB’s loan in USD</td>
<td>TBD</td>
<td>2014</td>
<td>0</td>
<td>5,000,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>5,000,000 USD</td>
<td>Other</td>
<td>To be reported by PMU</td>
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