



Project Identification Form (PIF) entry – Full Sized Project – GEF - 7

The Food Securities Fund: A fund to finance sustainable supply chains at scale in Emerging Markets

Part I: Project Information

GEF ID

10322

Project Type

FSP

Type of Trust Fund

GET

CBIT/NGI

☐ CBIT

☒ NGI

Project Title

The Food Securities Fund: A fund to finance sustainable supply chains at scale in Emerging Markets

Countries

Global

Agency(ies)

CI

Other Executing Partner(s)

Clarmondial AG

Executing Partner Type

Private Sector

GEF Focal Area

Multi Focal Area

Taxonomy

Focal Areas, Climate Change, Biodiversity, Land Degradation, Mainstreaming, Certification -National Standards, Agriculture and agrobiodiversity, Agriculture, Forestry, and Other Land Use, Climate Change Mitigation, Land Degradation Neutrality, Land Productivity, Stakeholders, Gender results areas, Gender Equality, Access to benefits and services, Gender Mainstreaming, Beneficiaries, Gender-sensitive indicators, Women groups, Sex-disaggregated indicators

Rio Markers**Climate Change Mitigation**

Climate Change Mitigation 1

Climate Change Adaptation

Climate Change Adaptation 1

Duration

96 In Months

Agency Fee(\$)

1,211,532

Submission Date

8/15/2019

A. Indicative Focal/Non-Focal Area Elements

Programming Directions	Trust Fund	GEF Amount(\$)	Co-Fin Amount(\$)
BD-1-1	GET	3,365,367	193,312,500
CCM-2-6	GET	3,365,367	193,312,500
LD-1-1	GET	3,365,367	193,312,500
LD-1-2	GET	3,365,367	193,312,500
Total Project Cost (\$)		13,461,468	773,250,000

B. Indicative Project description summary

Project Objective

The Food Securities Fund will improve rural livelihoods and achieve positive environmental outcomes by supporting sustainable agriculture production systems in emerging markets with a complementary source of credit, provided in partnership with companies committed to sustainable development in their sourcing areas.

Project Component	Financing Type	Project Outcomes	Project Outputs	Trust Fund	GEF Amount(\$)	Co-Fin Amount(\$)
Component 1: The Food Securities Fund for sustainable supply chains	Investment	<p>Outcome 1.1: Agricultural supply chains in emerging markets strengthened through the Food Securities Fund.^[1]</p> <p>Outcome 1.2: Increase in the area of tropical landscapes (agricultural land) under sustainable management through financial investments (loans) from the Food Securities Fund.</p>	<p>Output 1.1.1: At least 10 Value Chain Partner^[2] companies committed to facilitating finance for their supply chain and trading partners in developing and emerging countries through the Food Securities Fund, as evidenced by policies, operational procedures, and guarantees.</p> <p>Output 1.2.1: At least USD 750m deployed as loans to Aggregators tied to sustainable production practices by 2028. Loan renewals will be conditional to the maintenance of such commitments and practices.</p> <p>Output 1.2.2: At least 12 commodities covered by the loan portfolio by 2028.</p> <p>Output 1.2.3: At least 20 developing and emerging countries included in the Food Securities Fund's loan portfolio. The Food Securities Fund will have an initial focus on Sub Saharan Africa^[3]</p> <p>Output 1.3.1: At least 700,000 farmers, of which at least 30% are women and at least 50% are smallholder farmers^[4], with improved access to market and increased pre-harvest support ^[5] for sustainable production practices.</p> <p>Output 1.4.1: Aggregators grow their number of employees in local communities in the sourcing area by at least 25% over 5 years, supported by repeat loans from the Food Securities Fund.</p>	GET	12,820,446	772,500,000

Outcome 1.3: Increased access to appropriate full season support to farmers. This includes pre-harvest support, e.g. in the form of goods and services to implement sustainable farming practices

Output 1.4.2: at least 50% of the training provided by Aggregators is targeted at women and youth.

Output 1.5.1: KPIs set by the Fund to a borrower (Aggregator), including those relevant to the GEF Focal Areas are monitored on a quarterly basis. Annual on-site review of the performance on the KPIs by the borrower (Aggregator) are conducted and recorded by representatives of the Fund. The Fund delivers a consolidated annual impact report. Within the 8-year period, 8 consolidated impact reports will be available to investors.

Outcome 1.4: Employment, and economic advancement opportunities for local communities, and in particular for women and youth in rural areas increased.

Outcome 1.5: Improvements to relevant environmental impact KPIs of Aggregators and their value chains in the first 8 years.

[2] Value Chain Partners are companies that source agricultural produce from developing and emerging countries and have sustainable sourcing commitments (e.g. on no-deforestation, or the prevention of environmental degradation and biodiversity loss).

[3] This means that the largest share of the Food Securities Fund's resources is likely to be dedicated to Sub Saharan Africa in the first few years. The Fund may invest in emerging and developing markets globally from the first day, provided the investment criteria are met.

[4] There is no common definition for the term "smallholder farmer" (also referred to as small-scale farmer), as this is highly contextual according to land holding size, labor, income, market productivity, etc. Clarmondial will monitor international, regional and national discussions on definitions, including as part of the 2030 Agenda for Sustainable Development. In general, the term is used to mean "*farmers operating under structural constraints such as access to sub-optimal amounts of resources, technology and markets... smallholders refers to the limited resource endowment of farmers compared to those of other farmers in the sector. Dixon et al.*"

[1] An investment vehicle that finances responsible companies operating in developing and emerging countries that intermediate capital between primary producers (farmers and in particular smallholder farmers) and large companies with sustainable sourcing commitments.

(2004) in FAO, June 2017, Working Paper Series ESS / 17-12: "Defining Small Scale Food Producers to Monitor Target 2.3. of the 2030 Agenda for Sustainable Development" available at: <http://www.fao.org/3/a-i6858e.pdf>

[5] The Food Securities Fund intends to support "more and better business" within the value chain, this will be monitored for example by value of pre-harvest support provided in the form of improved seeds.

	Sub Total (\$)	12,820,446	772,500,000
Project Management Cost (PMC)			
	GET	641,022	750,000
	Sub Total(\$)	641,022	750,000
	Total Project Cost(\$)	13,461,468	773,250,000

C. Indicative sources of Co-financing for the Project by name and by type

Sources of Co-financing	Name of Co-financier	Type of Co-financing	Investment Mobilized	Amount(\$)
Government	USAID Development Credit Authority (DCA) (signed agreement)	Guarantee	Investment mobilized	37,500,000
Private Sector	Private investment group 1 (due diligence ongoing)	Equity	Investment mobilized	15,000,000
Private Sector	Private investment group 2 (due diligence ongoing)	Equity	Investment mobilized	10,000,000
Private Sector	Development Finance Institution (pending due diligence, support letter available)	Equity	Investment mobilized	20,000,000
Private Sector	Development Finance Institution (due diligence ongoing)	Equity	Investment mobilized	10,000,000
Private Sector	Private bank (firm commitment)	Equity	Investment mobilized	1,000,000
Government	Development agency (pending due diligence)	Loans	Investment mobilized	500,000
Private Sector	Private foundation (finalizing terms)	Grant	Investment mobilized	1,000,000
Private Sector	Institutional investors, impact funds, family offices, DFIs - Development Finance Institutions	Equity	Investment mobilized	678,250,000
Total Project Cost(\$)				773,250,000

Describe how any "Investment Mobilized" was identified

"Investment Mobilized" refers to additional funding that will be deployed over GEF's 8-year investment period to support the Food Securities Fund investment strategy, catalyzed by GEF's investment. This includes equity mobilized from investors, as well as grant and non-grant funding provided to Clarmondial to support the delivery of the investment strategy. It is expected that, by the end of the GEF investment period in 2028, circa USD 750m will have been mobilized. In the initial

year of the Food Securities Fund's operations (i.e. by December 2020), the Food Securities Fund is expected to have mobilized at least USD 67.5m in additional funding (i.e. 30m in investments, and USD 37.5m in guarantees).

D. Indicative Trust Fund Resources Requested by Agency(ies), Country(ies), Focal Area and the Programming of Funds

Agency	Trust Fund	Country	Focal Area	Programming of Funds	Amount(\$)	Fee(\$)	Total(\$)
CI	GET	Global	Biodiversity	NGI	3,365,367	302,883	3,668,250
CI	GET	Global	Climate Change	NGI	3,365,367	302,833	3,668,200
CI	GET	Global	Land Degradation	NGI	6,730,734	605,816	7,336,550
Total GEF Resources(\$)					13,461,468	1,211,532	14,673,000

E. Project Preparation Grant (PPG)

PPG Amount (\$)

300,000

PPG Agency Fee (\$)

27,000

Agency	Trust Fund	Country	Focal Area	Programming of Funds	Amount(\$)	Fee(\$)	Total(\$)
CI	GET	Global	Biodiversity	NGI	100,000	9,000	109,000
CI	GET	Global	Climate Change	NGI	100,000	9,000	109,000
CI	GET	Global	Land Degradation	NGI	100,000	9,000	109,000
Total Project Costs(\$)					300,000	27,000	327,000

Core Indicators

Indicator 3 Area of land restored

Ha (Expected at PIF)	Ha (Expected at CEO Endorsement)	Ha (Achieved at MTR)	Ha (Achieved at TE)
100000.00	0.00	0.00	0.00

Indicator 3.1 Area of degraded agricultural land restored

Ha (Expected at PIF)	Ha (Expected at CEO Endorsement)	Ha (Achieved at MTR)	Ha (Achieved at TE)
100,000.00			

Indicator 3.2 Area of Forest and Forest Land restored

Ha (Expected at PIF)	Ha (Expected at CEO Endorsement)	Ha (Achieved at MTR)	Ha (Achieved at TE)

Indicator 3.3 Area of natural grass and shrublands restored

Ha (Expected at PIF)	Ha (Expected at CEO Endorsement)	Ha (Achieved at MTR)	Ha (Achieved at TE)

Indicator 3.4 Area of wetlands (incl. estuaries, mangroves) restored

Ha (Expected at PIF)	Ha (Expected at CEO Endorsement)	Ha (Achieved at MTR)	Ha (Achieved at TE)

Indicator 4 Area of landscapes under improved practices (hectares; excluding protected areas)

Ha (Expected at PIF)	Ha (Expected at CEO Endorsement)	Ha (Achieved at MTR)	Ha (Achieved at TE)
2000000.00	0.00	0.00	0.00

Indicator 4.1 Area of landscapes under improved management to benefit biodiversity (hectares, qualitative assessment, non-certified)

Ha (Expected at PIF)	Ha (Expected at CEO Endorsement)	Ha (Achieved at MTR)	Ha (Achieved at TE)
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Indicator 4.2 Area of landscapes that meets national or international third party certification that incorporates biodiversity considerations (hectares)

Ha (Expected at PIF)	Ha (Expected at CEO Endorsement)	Ha (Achieved at MTR)	Ha (Achieved at TE)
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Type/Name of Third Party Certification

Indicator 4.3 Area of landscapes under sustainable land management in production systems

Ha (Expected at PIF)	Ha (Expected at CEO Endorsement)	Ha (Achieved at MTR)	Ha (Achieved at TE)
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2,000,000.00

Indicator 4.4 Area of High Conservation Value Forest (HCVF) loss avoided

Ha (Expected at PIF)	Ha (Expected at CEO Endorsement)	Ha (Achieved at MTR)	Ha (Achieved at TE)

Documents (Please upload document(s) that justifies the HCVF)

Title	Submitted
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Indicator 6 Greenhouse Gas Emissions Mitigated

Total Target Benefit	(At PIF)	(At CEO Endorsement)	(Achieved at MTR)	(Achieved at TE)
Expected metric tons of CO ₂ e (direct)	1000000	0	0	0
Expected metric tons of CO ₂ e (indirect)	0	0	0	0

Indicator 6.1 Carbon Sequestered or Emissions Avoided in the AFOLU (Agriculture, Forestry and Other Land Use) sector

Total Target Benefit	(At PIF)	(At CEO Endorsement)	(Achieved at MTR)	(Achieved at TE)
Expected metric tons of CO ₂ e (direct)	1,000,000			

Expected metric tons of CO ₂ e (indirect)	
Anticipated start year of accounting	2020
Duration of accounting	8

Indicator 6.2 Emissions Avoided Outside AFOLU (Agriculture, Forestry and Other Land Use) Sector

Total Target Benefit	(At PIF)	(At CEO Endorsement)	(Achieved at MTR)	(Achieved at TE)
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Expected metric tons of CO ₂ e (direct)
Expected metric tons of CO ₂ e (indirect)
Anticipated start year of accounting
Duration of accounting

Indicator 6.3 Energy Saved (Use this sub-indicator in addition to the sub-indicator 6.2 if applicable)

Total Target Benefit	Energy (MJ) (At PIF)	Energy (MJ) (At CEO Endorsement)	Energy (MJ) (Achieved at MTR)	Energy (MJ) (Achieved at TE)
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Target Energy Saved (MJ)

Indicator 6.4 Increase in Installed Renewable Energy Capacity per Technology (Use this sub-indicator in addition to the sub-indicator 6.2 if applicable)

Technology	Capacity (MW) (Expected at PIF)	Capacity (MW) (Expected at CEO Endorsement)	Capacity (MW) (Achieved at MTR)	Capacity (MW) (Achieved at TE)
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Indicator 11 Number of direct beneficiaries disaggregated by gender as co-benefit of GEF investment

	Number (Expected at PIF)	Number (Expected at CEO Endorsement)	Number (Achieved at MTR)	Number (Achieved at TE)
Female	350,000			
Male	350,000			
Total	700000	0	0	0

Part II. Project Justification

1a. Project Description

1) the global environmental and/or adaptation problems, root causes and barriers that need to be addressed (systems description);

Global environmental problems

The world is experiencing rapid and catastrophic environmental changes. According to the recent Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES)[1] Global Assessment Report on Biodiversity and Ecosystem Services, approximately 1 million plant and animal species are threatened with extinction, and the average abundance of native species in most land-based habitats has fallen by at least 20%, mostly since 1900.[2] Loss of intact ecosystems have occurred primarily in the tropics.[3] Since 1970, the largest contributor to biodiversity loss has been land use change – primarily due to agriculture.[4] This rapid loss of biodiversity has grave consequences: biodiversity conservation is critical to providing adequate food, feed, energy, medicines and genetic resources, for local and global communities.

Biodiversity loss is intricately linked with climate change, which is increasingly exacerbating the impact of other drivers leading to loss of global environmental benefits.[5] Anthropogenic greenhouse gas emissions (GHGs) are leading to increases in global temperatures, more erratic weather, and localized environmental impacts such as saltwater intrusion and pest and disease outbreaks. Agriculture is both a driver of, and impacted by, climate change. Agriculture, Forestry and Other Land Use (AFOLU) is responsible for approximately a quarter of anthropogenic GHGs, primarily from deforestation and agricultural emissions from livestock, as well as soil and nutrient management.[6] Reducing terrestrial GHG emissions and increasing sequestration in soils and biomass is critical to reducing global GHG emissions.[7]

According to the Intergovernmental Panel on Climate Change (IPCC), negative effects of climate change on crop and terrestrial food production are already evident in several regions of the world.[8] Better agronomic practices and improved crop varieties may help somewhat in addressing expected yield losses, in particular in the tropics, where food security[9] is generally at risk.[10] Figure 1 illustrates the influence of climate and non-climate factors on food security. The situation is particularly acute for communities in Sub Saharan Africa, which currently have the largest proportion of food insecure people.[11] Climate change also has negative feedback loops to other environmental challenges. For example, as food insecurity increases, pressure on protected areas may increase. There is increasing recognition of the value of ecosystem-based, institutional and social measures for adaptation and climate resilience among the public and private sectors.[12]

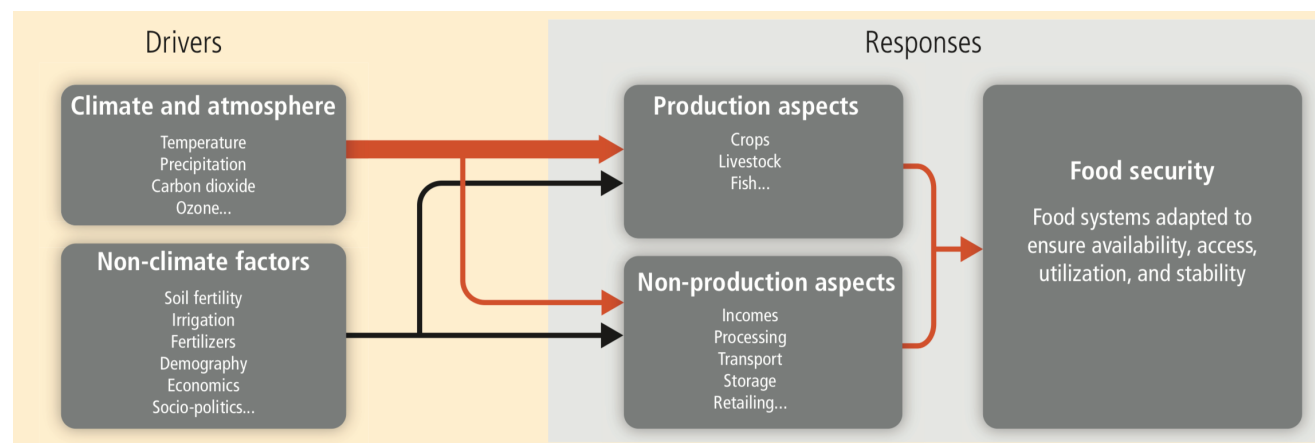


Figure 1: climate and non-climate factors contributing to food security[13]

Land degradation is also having a significant impact on global ecosystem functioning and has already led to a 5% reduction of net primary productivity in the past 2 centuries[14]. Land degradation contributes both to global GHG emissions and significant loss of ecosystem services.[15] The United Nations Convention to Combat Desertification (UNCCD) also reports an alarming decrease in soil organic carbon, an indicator of soil health. UNCCD has categorized soils in Sub Saharan Africa as particularly at risk.[16] Poor soil management can exacerbate exposure to droughts and floods, the impact of pollutants, and freshwater availability.[17]

Global freshwater resources are also under threat. Challenges include salinization and pollution of water courses and bodies, as well as degradation of water-related ecosystems. Agriculture uses 11% of the world's land surface for crop production and makes use of 70% of all water withdrawn from aquifers, streams and lakes.[18] Globally, rainfed agriculture dominates and is the most vulnerable to the impacts of climate change and environmental degradation.[19] While improvements in agricultural production have had some positive socio-economic benefits, in many areas they have resulted in serious environmental degradation, including biodiversity loss, surface and groundwater pollution from the improper use of agricultural inputs, which has compromised livelihoods in some areas of the world.[20]

Root causes

Agriculture is a key driver of the environmental issues described above. Current estimates indicate that agriculture drives almost 70% of global freshwater withdrawals[21], and that the sector contributes to 75% of global deforestation[22] and is responsible for approximately 24% of global anthropogenic greenhouse gas emissions[23]. Unfortunately, if the current projections for global population increases and dietary shifts occur, agricultural production will have to increase – thus increasing its contribution to environmental degradation. The United Nations Food and Agriculture Organization (FAO) estimates that global food production will need to increase by more than 60% by 2050 in order to meet demand[24]. Agriculture's contribution to the erosion of global environmental benefits is thus set to increase significantly in the coming years, in the absence of a shift to sustainable agricultural practices at scale.

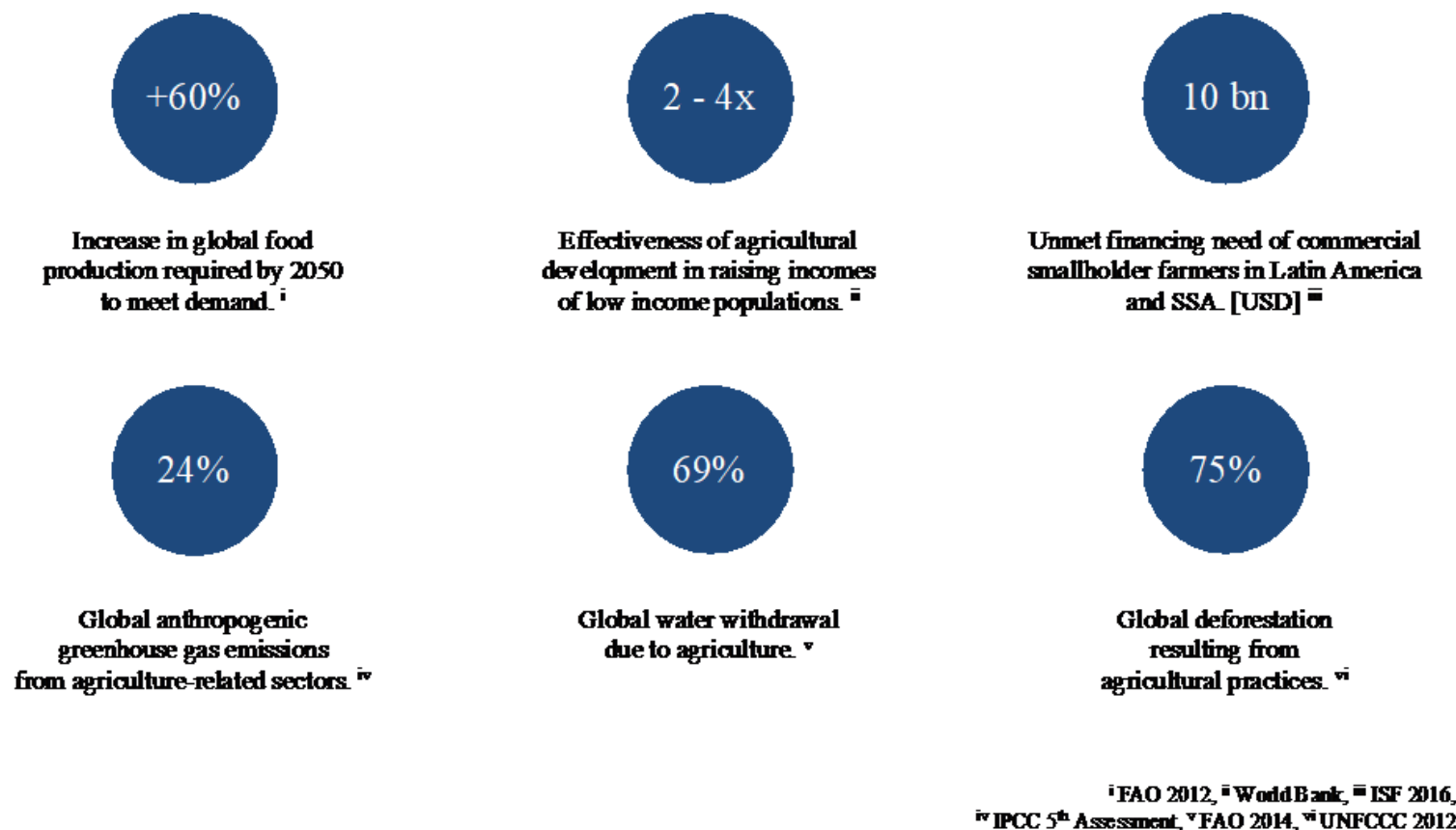


Figure 2: summary of key impact entry points for sustainable agriculture investments

While the impact of agricultural expansion and intensification is generally associated with biodiversity loss, soil fertility decline, unsustainable water abstraction and freshwater pollution, greenhouse gas emissions, and chemical pollution, these issues manifest themselves in unique ways in the various geographies:

§ In West Africa, agricultural export commodities (e.g. cocoa production) drive deforestation and forest degradation, leading to biodiversity loss and GHG emissions. Loss of tree cover in dryland areas also contributes to soil degradation. The sub-optimal use of agricultural inputs, including fertilizer, seeds and a lack of technical assistance, leads to environmental pollution and decreasing soil fertility for important food and cash crops such as sorghum.

§ In South and East Africa, an expanding footprint of food and cash crops may lead to loss of tree cover, biodiversity, and soil fertility. Improper agronomic practices and input use, including agro-chemicals and water, cause pollution.

§ In tropical Asia, expansion of cash crops has led to significant biodiversity loss and GHG emissions, (e.g. for palm oil).

§ In Latin America and Caribbean, expansive plantations of annuals (e.g. soy production) has led to a loss of forest cover and biodiversity, and declining soil health and water pollution from intensive agriculture.

In summary, the loss of global environmental benefits is caused by different root causes in the various countries and production systems. While climate change is exacerbating the issue, a common underlying root cause is the unsustainable overexploitation of natural resources, and lack of consideration of environmental and social factors within agricultural value chains, and the entities that regulate and finance such value chains.

The challenge that agriculture poses to the global environment is also tied closely to issues of poverty and inequality, in particular in rural areas. In many developing and emerging countries, and especially across Sub Saharan Africa, the agricultural sector is closely tied to socio-economic development objectives. Investments in agriculture can be extremely effective in raising incomes of low-income populations – including women and marginalized populations. The World Bank estimates that growth originating from agriculture has been two to four times more effective at reducing poverty than growth originating from other economic sectors over the last two decades^{[25],[26]}. Supporting sustainable agricultural production can have positive impacts both on farming communities (including smallholder farmers) and on job creation and training resulting from localized aggregation such as food processing. Increasing sustainable rural economic activities, in particular for African women and youth, can help to mitigate other pressing issues such as migration, urbanization and civil unrest. The link between global environmental threats and sustainable development, including climate mitigation and adaptation, is particularly prominent in the Sub Saharan Africa, where there is an urgent need to create new jobs, improve domestic and regional food security, and sustainably increase foreign exchange earnings.

Barriers

The underlying barriers that lead to adverse environmental outcomes from agriculture can be grouped into several categories:

Barrier 1: Agricultural value chain governance

This refers to the relationships among the buyers, sellers, service providers and regulatory institutions that operate within or influence the range of activities required to bring a product from farm to market.^[27] While regulators (e.g. in Europe), and consumer facing companies, such as brands, may make sustainability commitments related to sourcing of agricultural products from emerging markets, this may in reality be difficult to achieve in the near-term. Intermediaries within these value chains may include several layers of traders and processors, and value chain linkages may be loose or tight.^[28] Where value chain linkages are “loose”, i.e. where parties within the value chain on an ad hoc basis and based on relatively short-term relationships, it may be difficult to impose sustainability requirements. In some cases, the ability to impose better value chain governance is also confounded by a lack of information (e.g. detailed mapping of high carbon stock areas within a landscape), traceability, as well as complementary technical and financial resources.

Barrier 2: Access to affordable, quality and timely goods and services (excluding access to credit, which is addressed as Barrier 3 hereinbelow)

In order to implement sustainable agricultural practices, farmers and their business partners (Aggregators) need access to a range of appropriately-priced and quality goods and services, delivered at the right time. This includes access to inputs such as seeds, fertilizers and crop protection products, as well as training, weather, agronomic information, and insurance. Where farmers work at a small-scale, are poor, or live in remote rural areas, it may be difficult for them to access these services. The availability of timely and affordable products and services to support sustainable agricultural production is intricately linked to market demand as well as access to financing, including credit.

Barrier 3: Access to appropriate financial resources

Many of the crops that result in these adverse environmental impacts are part of global value chains (cocoa, coffee, palm oil) - i.e. they are sold internationally, and/or use inputs that are sourced internationally. Most of these value chains, if not all, are based on business linkages between farmers, local Small and Medium-sized Enterprises (SMEs), i.e. Aggregators, and large companies with sustainability commitments, i.e. Value Chain Partners (VCPs). While many of these large companies have taken steps to improve the environmental sustainability of their sourcing footprints, significant additional capital is required. At the level of the local supplier (primarily local SMEs), this gap is even more prominent: between 55-68% of formal SMEs in emerging markets are either underserved or unserved by financial institutions^[29]. The situation is exacerbated by the high opportunity cost of capital in many emerging markets and regulations imposed on banks in response to the global financial crisis that complicate lending to agriculture. In addition, there are few financial intermediation structures that are relevant for traditional institutional investors, which can allow them to deploy capital at scale towards sustainable agriculture in emerging markets, in particular for rural SMEs. Financing challenges at different points in the value chain are summarized in Figure 3.

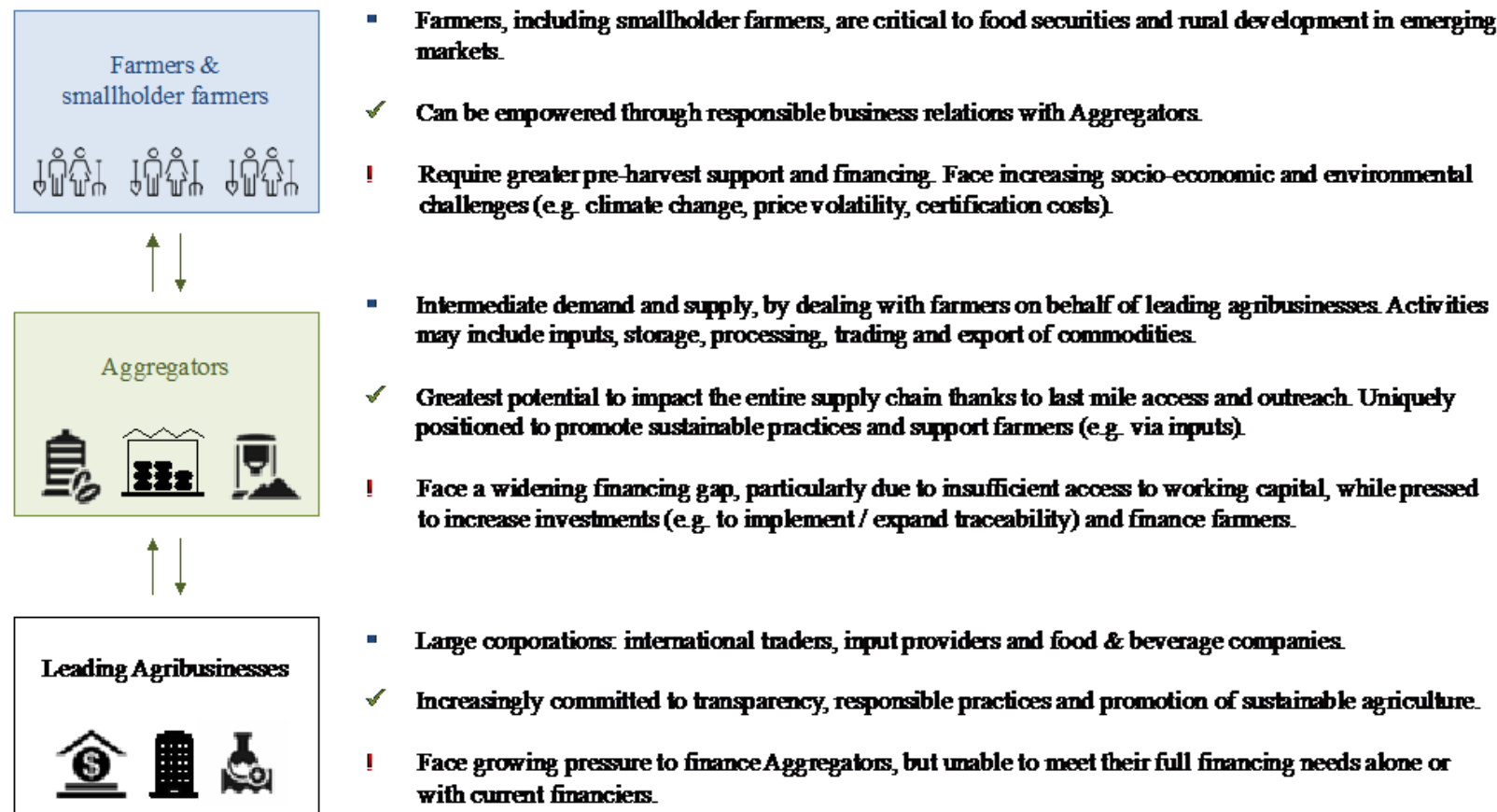


Figure 3: Simplified value chain components indicating potential entry points and financing challenges

The capital gap for sustainable agriculture exists at all steps of the supply chain^[30] and spans long-term investment capital to relatively short-term trade finance. The International Finance Corporation (IFC) estimates the credit need of one third of SMEs in North Africa^[31] and approximately half of SMEs in Sub Saharan African are not fully met and estimates the African SME finance gap to be at more than USD 421 billion^[32]. The unmet demand for trade finance in Africa is estimated at USD 120 billion, and USD 700 billion in developing Asia^[33]. Currently, only about USD 50 billion of the more than USD 200 billion credit need is fulfilled for smallholder finance in Sub Saharan Africa, Latin America, South and Southeast Asia, and it is expected this will improve in the coming years without additional attention^[33]. A lack of available credit, in particular tied to sustainable business practices, is thus both a threat and an opportunity to achieving Global Environmental Benefits.

A critical barrier to credit is the availability of collateral. A typical Aggregator has limited fixed assets (e.g. land, equipment), and these have been pledged to local banks and other lenders in order to access leasing, mortgages and overdraft facilities. Agriculture produce (e.g. grains) and sales agreements (e.g. export contracts) are available only post-harvest and are provided as collateral to trade finance providers. A significant amount of working capital is required from seeding to harvest, as shown in the schematic below, especially to support smallholder farmers and the implementation of improved practices. During this period, limited collateral (if any) is available for funders. By focusing on value chain^[34] relationships, the Food Securities Fund can provide unsecured loans to address this funding gap.

Barrier 4: Policies and a suitable enabling environment

International and local policies, related to issues such as commodity prices, trade and financial regulations influence the ability of parties within agricultural value chains to implement sustainable agricultural practices. These policies may influence both cash and food crops. A sudden change in policy, e.g. capital controls or ban on food exports, increases the perceived risk of doing business in a country and may deter capital providers, thus leading to an increased cost of funding. Bilateral trade wars may shift the market demand for a particular product, which may have impacts on the prevailing sustainability criteria. For example, production destined for non-European markets may have fewer sustainability requirements.

2) the baseline scenario and any associated baseline projects

Global agricultural production is expected to grow by approximately 20% between 2018 – 2027, with strong growth notably in Africa, the Middle East, South and South East Asia.^[35] Regional trends are likely to persist:

§ Africa: agriculture is the dominant source of employment (approximately 51%), but productivity remains slow. Sustainable economic growth will require agricultural productivity growth, which will require more investment. Despite the Malabo Declaration^[36], agriculture remains under-funded in most countries. Access to low-quality inputs and adoption of improved technologies are also a factor.^[37] Agricultural production must be done in a manner that maintains global environmental benefits; Africa represents about 30% of global mitigation potential from forests and 20% from soils, and given the right agricultural practices and funding availability, productivity could be increased by a factor of 5, on average.^[38] Value chain approaches are central to promoting investment; mobilizing capital and ensuring that growth in the sector has positive social and environmental benefits. ^[39]

§ Latin America & Caribbean: many of the leading economies in this region depend on agricultural exports for continued economic growth, and falling prices of raw materials has weakened economic performance. This situation has been exacerbated by unfavorable weather conditions, in part due to climate change. Economic and production challenges mean that countries in the region will focus on increasing productivity, reducing inequity within value chains, increasing resilience, and reducing the environmental impacts of production.^[40] The region already contributes significantly to global greenhouse gas emissions and biodiversity loss resulting from agriculture^[41] and is the second largest producer of agricultural emissions globally (after Asia).^[42] Of particular concern is the soy sector.

§ South and South East Asia: the region generally has experienced strong growth, including in the agricultural sector, and this is expected to continue. However, this growth is likely to come from an increase in land under production and intensification, including destruction of biodiverse primary forests for palm oil production.^[43] Climate change and environmental degradation is already influencing production, for example through salinization.^[44]

Throughout these regions, there is a lack of an adequate financial services for the rural sector, which constrains productivity and opportunities for moving towards sustainable production.^[45] In the absence of new financing sources dedicated to sustainable agriculture, the agriculture credit gap will persist and grow, undermining the sector's potential contribution to the Sustainable Development Goals. While large corporations may be able to fund part of their supply chain programs, this will be insufficient. Due to the applicable regulations, lending by banks and Non-Bank Financing Companies (NBFIs) remain constrained by strict collateral requirements. SMEs will face a continued struggle to access sufficient financing.

The analysis of the baseline scenario identifies several challenges affecting (or caused by) agriculture, including low productivity, limited access to high-quality inputs and improved technologies in Africa, commodity price volatility, climate change, deforestation, and biodiversity loss. It concludes that access to additional financial services, specifically facilities dedicated to promoting sustainable production, are required to close the prevailing credit gap and enable agriculture to meet its potential in contributing to the Sustainable Development Goals.

The capital gap for sustainable agriculture exists at all steps of the supply chain and spans long-term investment capital to relatively short-term trade finance. The International Finance Corporation (IFC) estimates that the credit needs of one third of SMEs in North Africa and approximately half of SMEs in Sub Saharan African are not fully met and estimates the African SME finance gap to be at more than USD 421 billion . The unmet demand for trade finance in Africa is estimated at USD 120 billion, and USD 700 billion in developing Asia . Currently, only about USD 50 billion of the more than USD 200 billion credit need is fulfilled for smallholder finance in Sub Saharan Africa, Latin America, South and Southeast Asia, and it is expected this financing gap will be exacerbated in the coming years without additional attention . A lack of available credit, in particular tied to sustainable business practices, is thus both a threat and an opportunity to achieving Global Environmental Benefits.

The Food Securities Fund proposes a strategy to address these environmental challenges as well as the credit gap. It works alongside the agricultural value chain to leverage existing relationships and commitments: large companies - Value Chain Partners (VCPs) - are used to source and de-risk investment opportunities, and local Small and Medium-sized Enterprises (SMEs) are financed to become better partners to farmers. By providing season-long loans it enables SMEs to support farmers they work with (e.g. through technical assistance, inputs and credit) in order to sustainably improve farm productivity and farmer incomes. Due to its innovative de-risking approach and structure, the Food Securities Fund is not dependent on traditional collateral from the borrower and can therefore provide a complementary and additional source of financing alongside existing financial institutions and the baseline projects indicated in the PIF. This type of funding is scarce and in high demand. Access to such funding creates an incentive for borrowers (Aggregators) and VCPs to deliver on Global Environmental Benefits.

As its loans are conditional to good environmental practices, the Fund provides a lasting incentive for local companies to become more transparent, accountable and committed to continuously improving their environmental performance. Good environmental practices are defined according to (i) a sectoral / geographical baseline, (ii) a "project" (internal) baseline, or a combination of the two. Ambitious yet realistic targets for each borrower will be established based on the baseline and included in the loan documentation. The baseline set in the initial loan period will be based on available information on the borrower (Aggregator) and its peers. Performance according to the baseline is tracked using indicators related to the GEF Global Environmental Benefits. This approach allows the Fund to support measurable progressive improvements on relevant indicators in successive loan periods. The Fund expects to see continuous improvement on these KPIs (indicators).

Structurally, the Fund is designed to have fewer of the restrictions faced by banks and many existing financing vehicles to address the financing gap in sustainable agriculture:

a) Commercial viability - Programs that fund responsible agriculture are often systematically dependent on the availability of concessional capital and lack a strategy to phase out such capital over time to become commercially viable. In contrast, the Food Securities Fund is structured to attract private, commercial investors as it builds up its track record, so that concessionary investors are gradually replaced.

b) Scalability - Many investment vehicles are structured as closed ended funds, so that investors commit their capital at the beginning and are only repaid after a long lock in period. These structures play an important role, in particular with respect to equity and longer-term debt but may take longer to scale. The lack of scale and track record prevents many institutional investors from participating in such vehicles, constraining their growth. The Food Securities Fund is different as it is structured as a fixed income fund offering quarterly liquidity to investors (i.e. the option to invest or divest at each quarter). The Fund is also supervised by the Luxembourg regulator, which provides additional comfort to institutional investors that can bring the Fund to scale.

c) Blended finance approach - Traditional financial institutions struggle to lend to agriculture SMEs for several reasons, including their dependency on traditional collateral (e.g. real estate, agricultural goods in a managed warehouse). In line with its value chain approach, the Food Securities Fund builds on existing business relationships between SMEs and larger companies (VCPs) to de-risk transactions through partial first loss guarantees. This is complemented in the first operating period by a guarantee facility from USAID. As a consequence, the Fund constitutes a new, additional source of financing that effectively addresses the prevailing credit gap in agriculture.

The VCP guarantee covers the initial loss on non-performing loans / overdue repayments. Losses that exceed the VCP guarantee are equally divided between USAID and the Food Securities Fund. Once the monies are recovered, the reverse order applies: first the Fund and USAID are equally refunded, then the VCP. Clarmondial will lead the recovery efforts on non-performing loans. It will negotiate with borrowers in default and liaise with the guarantee providers (VCPs and USAID). If required, in addition to the legal advice of Allen & Overy, Clarmondial will engage local legal service providers and additional support (especially if the loan agreement includes collateral).

A selection of example baseline projects led by various stakeholder groups are provided below. Note that this only includes reference to funded and on-going initiatives, not to those that are in development.

Project name	Years (start – end)	Budget (USD)	Funder(s)	Objectives / brief description of how it is linked to this GEF project
<i>Government-endorsed strategies and policies (regional & national)</i>				
Brazil Forest Code	Started 2012, on-going	N/A government law	Government of Brazil	Provides a legal framework and tools for monitoring compliance of borrowers to maintaining forest cover. This will help in guiding lending in Brazil.
CAADP[46], Maputo (2003) Malabo Declaration (2014)	Started in 2003, on-going	N/A government programs under the African Union	Various governments	Pan-African framework, principles and monitoring system to sustainably develop agricultural systems. This can provide useful reference documentation for the Food Securities Fund

				the Food Securities Fund.
NIRSAL[47] (Nigeria)	2013	Over USD 100m	Government of Nigeria	Public Private Partnership (PPP) to support increased lending to agriculture, expand insurance coverage to small-scale farmers, and value chain lending. Clarmondial has a Memorandum of Understanding (MOU) with NIRSAL, to collaborate in Nigeria on the Food Securities Fund.
Cocoa & Forests Initiative	2017	N/A	Ghana & Côte d'Ivoire, supported by donors and industry	PPP to define commitments, verifiable actions and timebound targets for deforestation-free and forest-positive supply chains. Part of this includes National Implementation Plans, which Clarmondial can use to guide its loans in these areas.
Indonesian Sustainable Palm Oil (ISPO) certification	2011	N/A	Government of Indonesia	Certification requirement on palm oil imposed by the Government (voluntary for smallholders). Clarmondial can use this, and Roundtable on Sustainable Palm Oil (RSPO)[48] as a guide.
<i>International funding lines (donor & development partner driven)</i>				
One World Without Hunger	N/A	N/A	BMZ (Germany)	KfW, the BMZ's implementing agency for investments from this program, has been positive about an investment in the Food Securities Fund. A commitment of EUR 10-20m is expected in 2020, following a support letter from KfW.
USAID Feed the Future	2010	N/A	United States	Strategy for an integrated approach to combating the root causes of hunger, malnutrition and poverty. The Food Securities Fund has received a guarantee from the US Development Credit Authority, subsidized by the US Bureau for Food Security in the context of the Feed the Future Program.

Adaptation of African Agriculture (AA A)	2017	N/A	AFD, DfID, World Bank, Government of Morocco	Clarmondial has advised the AAA, including various African governments, on their Climate Smart Agriculture Investment Plans. These Plans can help guide the investment strategy of the Fund.
UN Environment	N/A	N/A	N/A	UN Environment is collaborating with several private sector entities to help mobilize finance for sustainably managed landscapes.
<i>Commitments and compacts</i>				
New York Declaration on Forests	2014	N/A	N/A	Initiative to increase ambition, create new partnerships and accelerate progress on global forests. Clarmondial is a signatory to the Declaration.
Tropical Forest Alliance 2020 (TFA2020)	2012	N/A	US, World Economic Forum (WEF), Norway, UK	PPP focused on deforestation-free supply chains. It convenes stakeholders in key supply chains such as palm oil, including on mobilizing finance. Clarmondial is a member of TFA2020 and may leverage the platform for outreach and knowledge management.
Grow Africa	2011	N/A	WEF, African Union, NEPAD, private companies	Initiative to grow private sector investment in agriculture, which supports implementation of the CAADP Compact. The Country Agribusiness Partnership Framework (CAP-F) and implementation may provide a useful point of alignment for the Food Securities Fund.
PISAgro (Grow Asia – Indonesia)	2011	N/A	Indonesian government, 7 private companies[49]	Supports PPPs focused on delivering a 20% yield increase, 20% farmer income increase and 20% CO2e emission reduction. The agri-finance working group may provide a useful counterpart to the Food Securities Fund.

<i>Other impact funds and private sector impact investment strategies</i>				
IDH FarmFit Fund	2018	34m	IDH, DfID, Gates Foundation, various donors	IDH has approached Clarmondial as the Food Securities Fund could be a “partner financial institution”, complementary to the commercial banks in that the Food Securities Fund can provide more tailored funding to the pipeline projects.

3) The proposed alternative scenario with a brief description of expected outcomes and components of the project

Agriculture SMEs in emerging countries are a critical element in the transition to sustainable, climate-smart agricultural value chains, as they form the nexus between producers and larger consumer-facing companies. To act as reliable and supportive business partners to farmers, these intermediating local SMEs (Aggregators) require better access to appropriate financing. Due to their underwriting practices and regulatory restrictions, incumbent financial institutions are not in a position to close this financing gap. New sources of financing are needed that build on and strengthen existing supply chain linkages. To contribute sustainably to positive environmental outcomes, these new financing sources must be conditional to the uptake and implementation of good agricultural, social, and environmental practices: The Food Securities Fund addresses this challenge by providing a dedicated source of working capital to agriculture SMEs and the farmers they work with. Rather than making its loans dependent on traditional collateral which restricts lending by banks, the Food Securities Fund uses an innovative de-risking approach that leverages existing supply chain relationships between its borrowers and larger companies. Through this efficient and scalable approach, the Food Securities Fund will catalyze and reward the uptake of sustainable agricultural practices and contribute to significant social and environmental benefits.

Project Objective: The Food Securities Fund will improve rural livelihoods and achieve positive environmental outcomes by supporting sustainable agriculture production systems in emerging markets with a complementary source of credit, provided in partnership with companies committed to sustainable development in their sourcing areas.

The Food Securities Fund will follow an ESG policy and require borrowers to report on social and environmental impact indicators. The Food Securities Fund promotes the SDGs, in particular SDGs 13 (climate action) and 15 (life on land), as well as 2 (no hunger) and 8 (sustainable production and consumption). Figure 4 summarizes how the Food Securities Fund intends to create impact across the value chain.

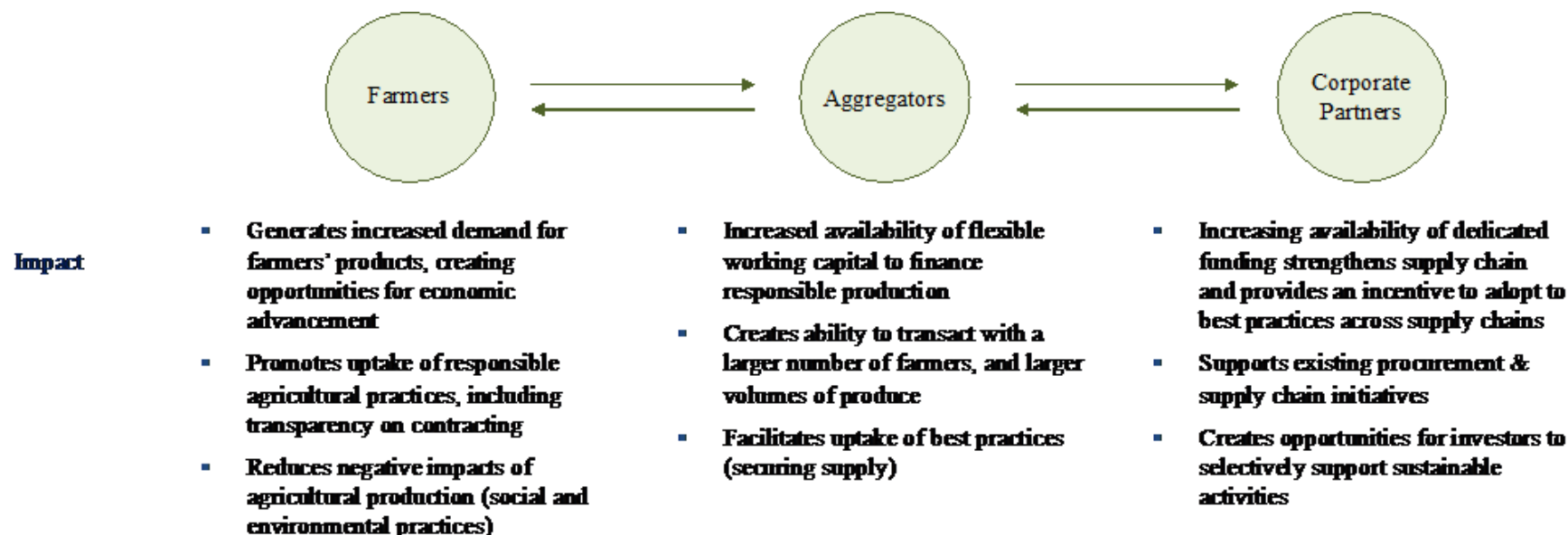


Figure 4: Illustration of impact created across the value chain as a result of the Food Securities Fund

Component 1: The Food Securities Fund for sustainable supply chains:

The Food Securities Fund is an open-ended (evergreen) impact investment fund providing full-season loans to local agri-businesses in a manner that delivers positive social outcomes and Global Environmental Benefits. The Food Securities Fund creates a basis for increasing access to capital, and reducing borrowing costs, for responsible agricultural companies (primarily SMEs) in emerging markets by leveraging value chain linkages and dependencies. While the Food Securities Fund supports the implementation of corporate sustainability commitments, it does so as an independent lender with appropriate governance to ensure the delivery of impact outcomes. The Food Securities Fund has an innovative blended finance structure and seeks to mobilize institutional capital at scale through effective de-risking from public and private sources. Though the Food Securities Fund has a global emerging market mandate, it will prioritize SMEs in Sub Saharan Africa, where current additionality is highest.

Defining characteristics

The Food Securities Fund is the first open-ended (evergreen) impact investment fund focused on sustainable agriculture in emerging markets that uses a value chain approach. It will provide working capital loans to SMEs and use a blended finance approach to offer investors a partially de-risked, fixed income-like proposition. Key defining characteristics are:

§ **Collaboration with relevant value chain stakeholders to efficiently originate, de-risk and scale.** The Food Securities Fund will identify investment opportunities in partnership with international corporates who have long-term commitments to sustainable sourcing. The Food Securities Fund will require its borrowers to report on social and environmental metrics and tie the continuation of the lending relationship to the progressive delivery of social outcomes and

Global Environmental Benefits.

§ **Ability to attract institutional capital, at scale.** The Food Securities Fund is an investment structure with significant economies of scale, suited to mobilizing increasing amounts of capital from large institutional investors. As the Fund grows, capital intermediation costs can be lowered, thus providing increasing incentives for investors and borrowers. The Fund will also be able to service a larger and more diverse set of opportunities as it grows and becomes more relevant to large commodity sectors such as palm oil, soy, and potentially fisheries. The Fund is an “evergreen” or “open-ended” structure, which means that the Fund is able to grow to a considerable size and have long-term funding relationships with its partners and borrowers.

§ **An opportunity to offer affordable pre-harvest finance to local agri-business SMEs in emerging markets, if they commit to the Fund’s impact KPIs.** Credit provided by the Food Securities Fund addresses a major barrier to local companies, helping them do more and better business with smallholder farmers. The Food Securities Fund does not depend on the availability of traditional collateral (such as equipment or real estate) as its loans are de-risked through arrangements with large corporates and a guarantee provided by the USAID’s Development Credit Authority. This type of funding is not readily available from existing financial institutions and is unlikely to be met by banks due to regulatory restrictions^[50].

An illustration of how the Food Securities Fund will work, and how it complements existing funding sources, is provided below in Figure 5^[51]. “Aggregators” are agricultural SME operating in emerging markets, such as processing companies, traders and cooperatives. “Value Chain Partners” larger companies that have an existing business relationship with Aggregators.

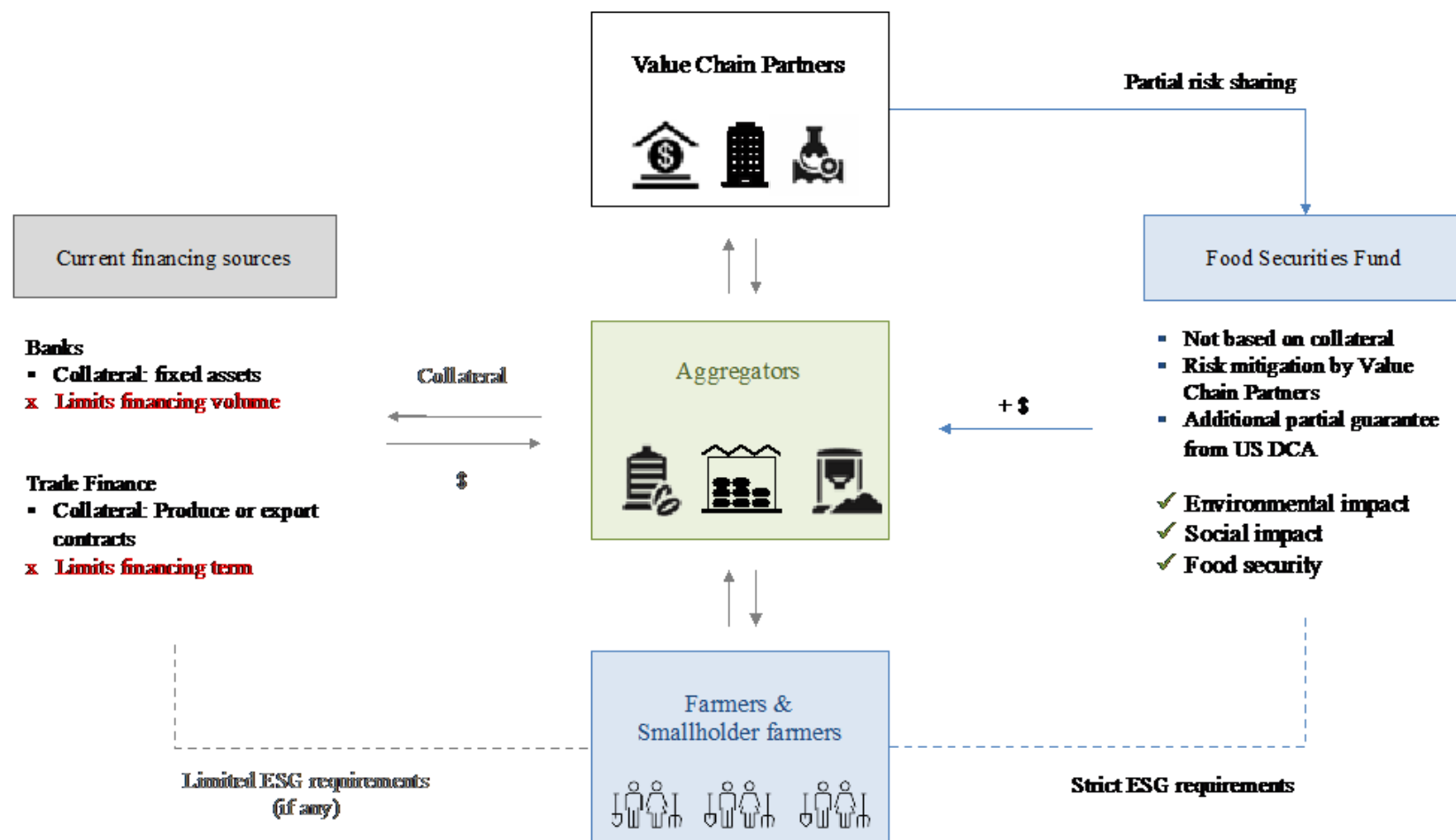


Figure 5: Illustration of additionality of funding by the Food Securities Fund

The Food Securities Fund addresses the key market and financial barriers described in Section 1, above. It builds on existing and emerging commitments by international corporates on sustainable sourcing, commitments by governments on agricultural development and food security, the work of leading environmental Civil Society Organizations (CSOs) and Non-Governmental Organizations (NGOs), and research organizations. Its structure is suitable for large institutional investors to deploy capital and meet their commitments on SDG-aligned investments. The Food Securities Fund also creates a long-term, sustainable mechanism for delivering Global Environmental Benefits by addressing a USD 200+ billion credit gap. Based on conservative assumptions, the Food Securities Fund can grow to over USD 1 billion within 10 years based on existing relationships with agriculture companies and investors.

The Food Securities Fund will play an important role in creating and pioneering the provision of loans to local SMEs in emerging markets that are not dependent on traditional forms of collateral, where there is a long-term sustainable sourcing commitment from value chain partners, NGOs and governments. The Food Securities Fund will do this through a portfolio that is:

§ Diversified: The lack of affordable, full season agricultural financing for local Aggregators is an issue throughout the developing and emerging world. The Food Securities Fund has identified a portfolio of opportunities, spanning different regions and production systems. The Food Securities Fund relies on existing sourcing relationships and has opportunities to source investments from a wide range of partners, including UN organizations and government agencies. As the Fund grows, there will be opportunities to include other sectors, such as fisheries.

§ Direct, progressive and responsive in impact: in addition to negative screening of potential investment opportunities, the Food Securities Fund monitors social and environmental impact, and expects to see positive progression on key impact areas. While the Food Securities Fund may take a long-term view on its commitment to a specific value chain, annual loan renewal events ensure that key impact concerns are responded to in a timely and effective manner.

§ Aligned: The Food Securities Fund works through agricultural supply chains, ensuring that there is long-term alignment between the farmers, Aggregators and Value Chain Partners. This is done through the Food Securities Fund's sourcing strategy and de-risking approach. The Food Securities Fund also seeks to align with regional and domestic initiatives to promote sustainable agriculture, as well as with leading NGOs and research organizations.

§ Scalable: as an evergreen Luxembourg domiciled fund, the Food Securities Fund is highly scalable. There is no "end date" for the investment period, and no forced termination of the relationship. The Food Securities Fund is also able to address smaller transaction sizes ("missing middle") due to its efficient deal origination approach. Rather than starting with at a large size and excessive pressure to deploy funding, the Food Securities Fund has a prudent and scalable approach that allows it to react to market conditions and be additional.

An initial investment pipeline has already been identified, based on existing VCP relationships. Several of these opportunities have been subject to due diligence and initial terms that have been agreed with both the borrower (Aggregator) and the guarantor (Value Chain Partner). As the Fund grows, additional countries and sectors will be added. The Food Securities Fund has a global emerging market mandate, with an initial focus on Sub Saharan Africa. This means that the largest share of the Food Securities Fund's resources is likely to be dedicated to Sub Saharan Africa in the first few years. However, the Fund may invest in emerging and developing markets globally from the first day, provided the investment criteria are met.

Investment strategy

The Food Securities Fund will invest worldwide, with an initial focus on Sub Saharan Africa, into sustainable businesses in agriculture and land use-related sectors. The Food Securities Fund will provide working capital financing to primary producers, directly and/or through their supply chain partners including aggregators, traders, input providers, exporters, agents, and companies. These investments, whenever possible, will match the full production cycle (e.g. planting, harvesting and trading) of local agricultural, fisheries, and other natural resource-based production activities. The Food Securities Fund will invest in and promote responsible businesses that demonstrate a substantive and lasting commitment to social and environmental best practices as described by the ESG Policy, adherence to which will be assessed and monitored regularly. The Food Securities Fund may also invest in related infrastructure and other aspects of such value chains, including temperature-controlled storage, marketing agencies and weather collection information, for example.

The Food Securities Fund will provide loans to Aggregators (i.e. emerging market SMEs in existing corporate value chains) and promote the uptake of responsible, climate smart agriculture practices, thereby achieving a positive social and environmental impacts and contributing to improved food security. By giving such Aggregators access to additional credit, the Fund enables them to strengthen and expand their operations. This translates into an improved, more reliable demand for produce from farmers, including smallholder farmers. Better access to working capital also improves Aggregators' ability to provide pre-harvest inputs to farmers, e.g. in the form of credit, agricultural inputs or training. The Food Securities Fund actively selects Aggregators that are committed to good social and environmental practices, and transact with farmers implementing good agriculture practices, including climate-smart agriculture. The Food Securities Fund selects these Aggregators in collaboration with their international partners, i.e. corporates that act as Value Chain Partners. In exchange for this funding, and after a financial and impact due diligence, the Food Securities Fund conducts quarterly checks to ensure that there is adherence to the key impact issues, notably related to inclusive economic rural livelihood development and climate smart agriculture.

While the Food Securities Fund is able to finance the whole value chain, it will focus on where capital tends to be most scarce, i.e. at pre-harvest and harvest. Figure 6 illustrates the challenge of financing this early part of the agricultural production cycle, and where the Food Securities Fund will focus its efforts.

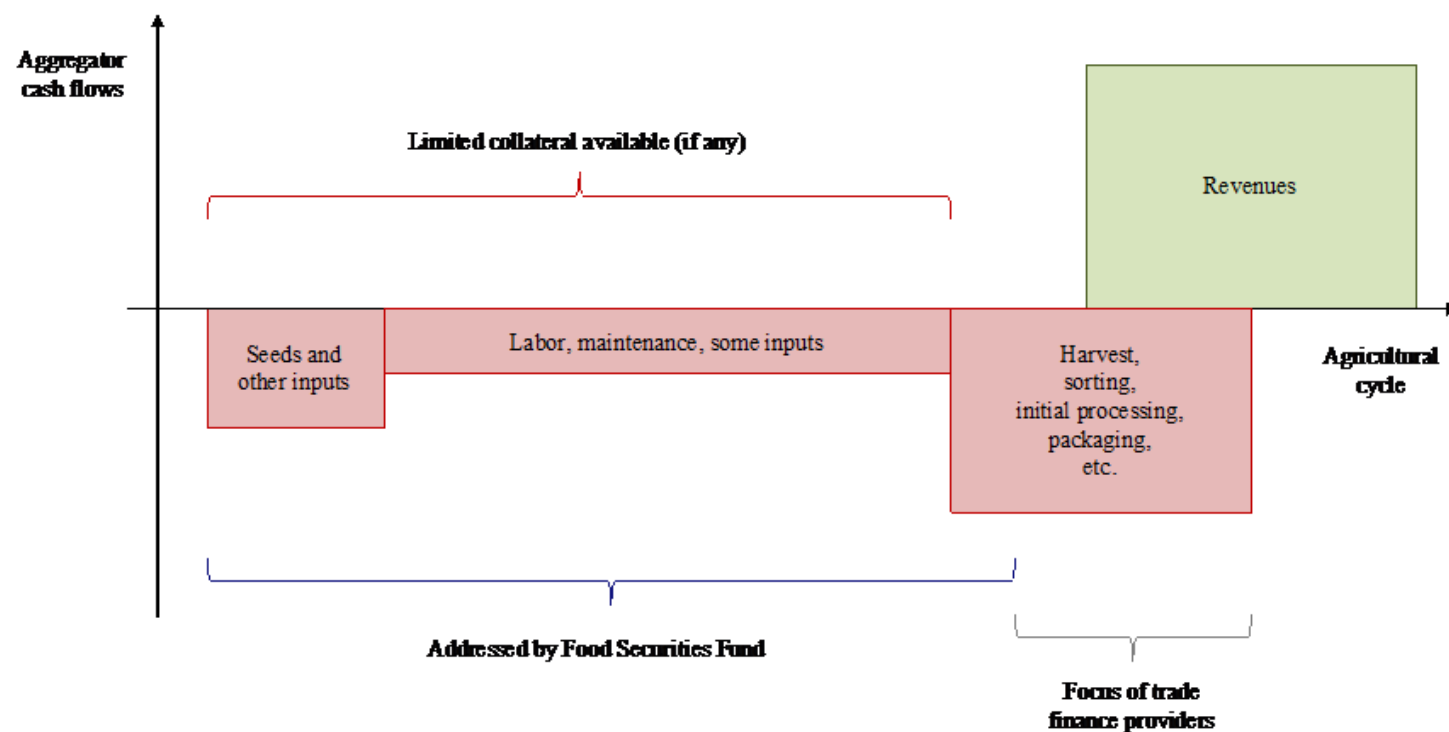


Figure 6: Simplified cash flow profile of an Aggregator in an agricultural value chain, illustrating that the Food Securities Fund will focus on where its funding is most additional

Value Chain Partners benefit from the additional financing provided by the Food Securities Fund to the Aggregators they work with. The fund allows Aggregators to grow their responsible trading volumes with Value Chain Partners, thereby contributing to supply chain commitments. Partnering with the Food Securities Fund can help Value Chain Partners to strengthen their supply chains, in particular those integrating smallholder farmers, and to scale up robust responsible agricultural practices. Over time and with increasing size, the Food Securities Fund will become a key financing partner that provides an incentive for additional Value Chain Partners and Aggregators to adopt responsible practices to access its loans. For investors, the Food Securities Fund aims to demonstrate that responsible agriculture in emerging markets is a financially attractive and impactful investment strategy.

Loans to Aggregators promote the uptake of responsible agriculture practices, thereby achieving positive social and environmental impacts and contributing to improved food security. By giving Aggregators access to more credit, the Fund enables them to strengthen and expand their operations. This translates into an improved, more reliable demand for produce from farmers, including smallholder farmers. Better access to working capital improves Aggregators' ability to provide pre-harvest inputs to farmers, e.g. in the form of credit and agricultural inputs.

The Food Securities Fund selects Aggregators that are committed to good social and environmental practices, and transact with farmers implementing good agriculture practices, including climate-smart agriculture. The uptake of good practices increases the resilience and adaptation of agricultural production to climate change, which allows farmers to increase and stabilize yields, improving livelihoods and food security.

Value Chain Partners and Aggregators see the Food Securities Fund as:

- § complementary to existing lenders;
- § a low cost and practical solution;
- § a long-term partner; and
- § enabler of stronger supply chain relationships.

Investment process and structure

The investment process of the Food Securities Fund will be coordinated by its Investment Adviser (Clarmondial) and the External Alternative Investment Fund Manager (AIFM, Vistra). The main steps are listed below, and summarized in Figure 7:

- § Origination & initial screening: Clarmondial sources transactions through VCPs, who present the working capital financing needs of the emerging market Aggregators they work with (letters of support executed with some VCPs are available). These are assessed in view of the Food Securities Fund's investment capacity and guidance/limits provided by portfolio management and the investment committee. The financial and non-financial due diligence process is

started concerning suitable investment opportunities.

§ Due diligence: performed by Clarmondial, which produces an investment proposal (template available in the data room) and discusses it with the Investment Advisory Committee. If approved, the investment recommendation is submitted to the AIFM.

§ Portfolio & risk management: portfolio and risk management functions are performed by the AIFM, as defined in the European Union Alternative Investment Fund Management Directive (AIFMD). The AIFM holds the investment committee and it is responsible for all investment decisions.

§ Valuation Committee: given that the assets of the Fund are private, the Valuation Committee will need to determine the value (i.e. on potential provisioning requirements) based on a recommendation provided by Clarmondial. The Valuation Policy is available upon request.

§ Environmental, Social and Governance (ESG) monitoring & reporting: The Investment Committee (IC) may set ESG (impact) monitoring needs in addition to those the Food Securities Fund requires in its 'base case'. Part of this role may be contracted out. It is important that a consistent, science-based approach is taken. ESG data to be presented to investors on an annual report.

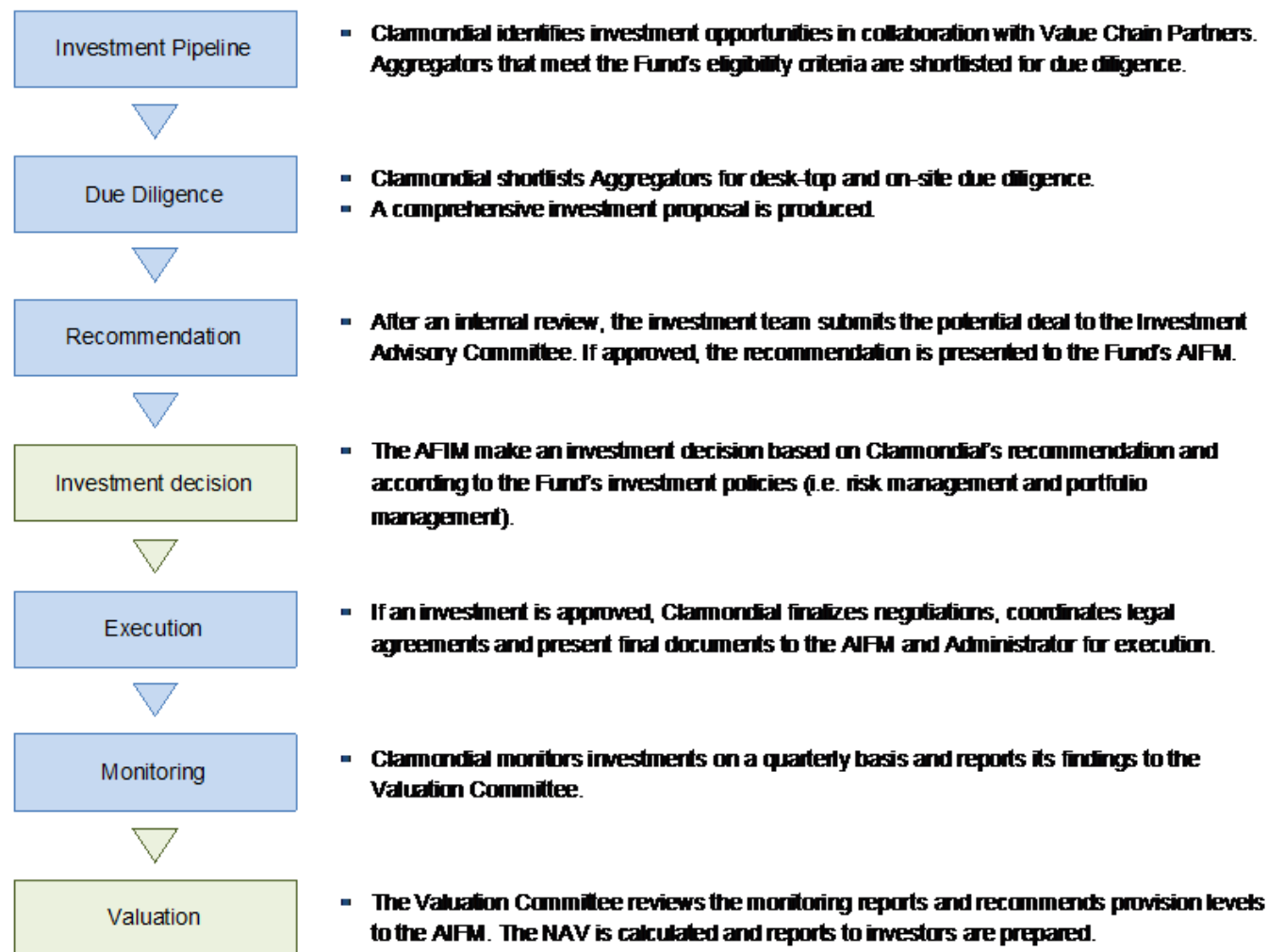


Figure 7: Summary of the investment process

Decision-making is therefore subject to independent approval levels, ensuring best practices are observed. This is illustrated in Figure 8.



Figure 8: summary of the investment decision-making process. Note that the international law-firm, Allen & Overy, provide legal advice for the Food Securities Fund including on the investment vehicle structure, regulatory compliance and investment templates and agreements.

Clarmondial and its investment team have extensive experience in private investments in agriculture in emerging markets. An Annex with a summary of the team is attached (Annex I).

Investment terms

The Food Securities Fund will provide working capital loans to responsible agriculture companies in emerging markets. Its target borrowers are SMEs that act as aggregators ("Aggregators") for farmers, in particular smallholders - e.g. local traders, processors and cooperatives. Loans are denominated in USD with interest rates of 9-15% per annum (p.a.) and tenors of up to 12 months to match a full agriculture cycle.

The Food Securities Fund is a scalable credit channel to support responsible agricultural SMEs in emerging markets, and through its ESG criteria, it promotes best practices. The Food Securities Fund is unique in that it sources and de-risks transactions by leveraging existing value chain relationships. This allows the Food Securities Fund to finance the full agricultural cycle and allows Aggregators to provide more and better support to their farmers - e.g. in the form of quality inputs, transport and packaging and speedier payment. It also allows Aggregators to transact larger volumes of produce and work with a larger number of farmers. The Food Securities Fund will monitor this impact through metrics defined in its ESG Policy.

Return to investors

The target net return is 5 – 7% p.a. in USD. This results from a portfolio yield of 10 – 12%, minus a Total Expense Ratio (TER) of 2%, provision for potential defaults and cash inefficiencies. A simplified schematic is presented below. The GEF and other investors participate in equal terms, as owners of equity in the Food Securities Fund's single share class. Figure 9 illustrates how the Food Securities Fund intends to generate a return to its investors.

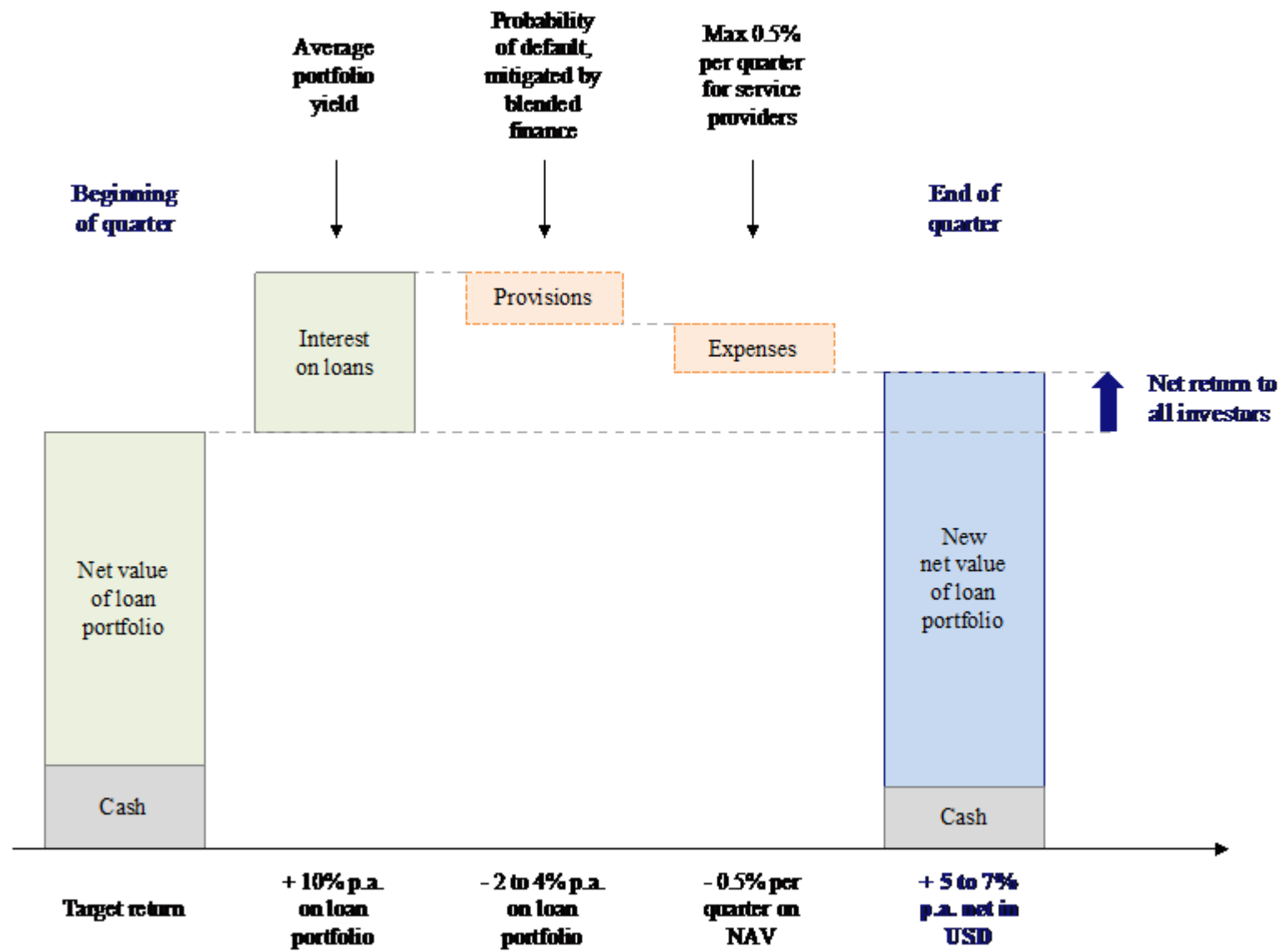
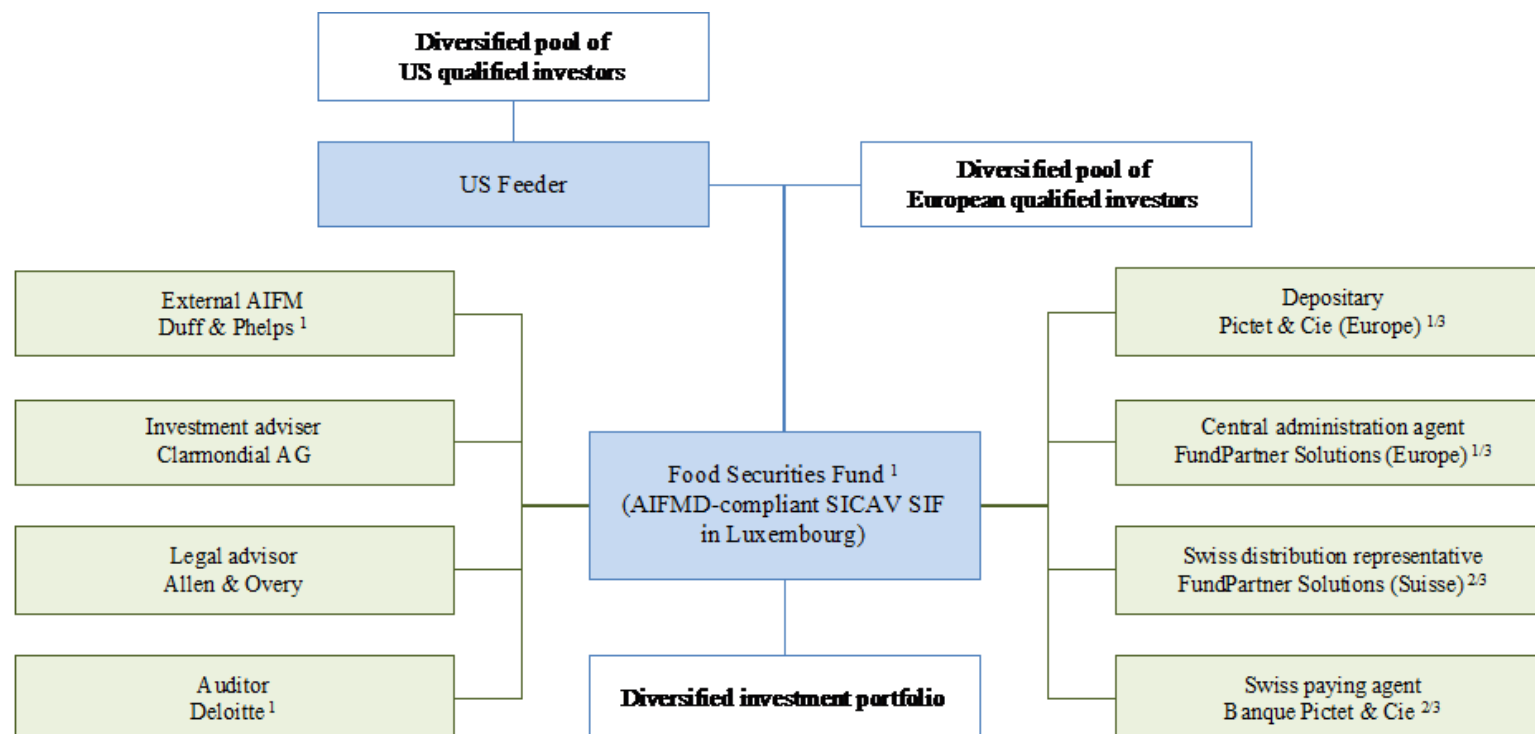


Figure 9: Illustration of how the Food Securities Fund intends to generate a return to investors

Service providers and organizational structure

The Food Securities Fund is registered (but not operational yet) as a standard S.A. SICAV-FIS entity in Luxembourg, fully regulated by CSSF. For regulatory and compliance reasons, US investors are eligible through a Delaware LLC feeder structure, which will be created by January 2020.

The main service providers are illustrated below in Figure 10.



¹ Supervised by the Luxembourg Commission de Surveillance du Secteur Financier (CSSF). To be replaced by VISTRA

² Supervised by the Swiss Financial Market Supervisory Authority (FINMA)

³ Part of the Pictet Group

Figure 10: Service providers to the Food Securities Fund

Project Outcomes and Outputs:

In the long-term, during and beyond the proposed 8-year GEF investment period in the Food Securities Fund, we intend to achieve the outcomes and outputs listed below. The Food Securities Fund has associated outputs, indicators and targets that we intend to meet within the GEF investment period.

Component 1: The Food Securities Fund for sustainable supply chains.

Outcome 1.1: Agricultural supply chains in emerging markets are strengthened through the Food Securities Fund. Supply chains are critical to ensuring that there is timely and affordable delivery of goods and services for production and that there is a predictable and fair off-taker that is able to pay a reasonable price, within a reasonable timeframe. In most cases, professional agricultural production, conducted as a business, requires links to larger agri-companies. The Food Securities Fund seeks to leverage and strengthen the relationships between Value Chain Partners, Aggregators and farmers through an independent and additional source of finance. Value Chain Partners include both input suppliers and buyers (processors, traders, consumer facing goods companies). They include both large international companies, as well as large regional or international companies. Though the Food Securities Fund will provide relatively short-term funding[52], it will do so only where there is a longer-term commitment by the Value Chain Partner to the Aggregator, and from the Aggregator to the farmer. Clarmondial, in the context of the Food Securities Fund, will independently monitor these relationships as part of their loan to the Aggregator (borrower) in the Value Chain Partner's supply chain.

§ Output 1.1.1: At least 10 Value Chain Partners[53] committed to facilitating finance for their supply chain and trading partners in developing emerging countries through the Food Securities Fund, as evidenced by policies, operational procedures, and guarantees. *This means that 10 internationally relevant agri-business companies demonstrate long-term business commitments to their suppliers and open up these supply chains to regular independent monitoring by an independent third party (the Food Securities Fund).*

Outcome 1.2: Increase in the area of tropical landscapes (agricultural land) under sustainable management through financial investments (loans) from the Food Securities Fund. The targets for this outcome are at least 2 million hectares of tropical areas under sustainable farming practices and at least 100,000 hectares of degraded lands restored. The Food Securities Fund will provide loans to local companies (Aggregators) that operate within agricultural value chains. This will enable the borrowers (Aggregators) to increase their business operations with farmers that operate their land sustainably. The Food Securities Fund intends to have a loan portfolio of at least USD 750m by 2028. Loans will be monitored quarterly, and decisions on renewals made at least annually. Within the 8-year GEF investment period, it is expected that loans to local companies (Aggregators) will result in the restoration of at least 100,000 hectares of degraded lands. A mix of commodities and countries will be targeted to ensure adequate portfolio diversification from a financial and impact perspective.

§ Output 1.2.1: **At least USD 750m deployed as loans to Aggregators tied to sustainable production practices by 2028. Loan renewals will be conditional on the maintenance of such commitments and practices.** This means that close to USD 1 billion will be deployed as loans conditional to the progressive increase in delivery of global environmental benefits by local SMEs, farmers and international companies.

§ Output 1.2.2: **At least 12 commodities covered by the loan portfolio by 2028.** The Fund will focus on a mix of food and cash crops, important to domestic economies and with environmental and social relevance, including cocoa, coffee, oil seeds (soy, palm), sorghum, vanilla and legumes.

§ Output 1.2.3: **At least 20 developing and emerging countries included in the Food Securities Fund's loan portfolio. The Food Securities Fund will have an initial focus on Sub Saharan Africa.** The initial country list is provided, this has significant overlap with the GEF FOLUR countries, and with GEF Focal Areas. It also complements GEF historical grant and non-grant portfolio.

Outcome 1.3: Increased access to appropriate full season support to farmers. This includes pre-harvest support, e.g. in the form of goods and services to implement sustainable farming practices. Local Aggregators work closely with farmers, providing them with goods and services and buying produce from them. The start of the agricultural season is often the most difficult for the farmers to resource financing, in particular smallholder and women farmers who have less collateral and bargaining power. By funding local Aggregators so that they can increase their business with farmers, in particular smallholder and women farmers, through an approach that engages Value Chain Partners, the Food Securities Fund can address some of the obstacles that prevent adequate full-season resourcing of farmers. As a condition of its loan, the Food Securities Fund regularly monitors the relationship between the farmers, Aggregators and Value Chain Partners in order to address concerns about power imbalance and fairness between the different stakeholders.

§ Output 1.3.1: **At least 700,000 farmers, of which at least 30% are women and at least 50% are smallholder farmers, with improved access to market and increased pre-harvest support^[54] for sustainable production practices.** This means that at least 700,000 farmers will be operating in supply chains where there is full-season support and external accountability on social and environmental outcomes.

Outcome 1.4: Employment, and economic advancement opportunities for local communities, and in particular for women and youth in rural areas increased. Increase in rural economic growth, in a manner that creates environmental and social benefits, is critical to preserving the environment. Aggregators (borrowers) are often an important local employer and can help to create opportunities for women and youth. Through its loans to Aggregators, the Food Securities Fund intends to see an increase in the number of local employees while ensuring that opportunities for economic empowerment for women and youth are provided in a manner that supports sustainable natural resource management.

§ Output 1.4.1: **Aggregators increase their number of employees in the sourcing area by at least 25% over 5 years, supported by repeat loans from the Food Securities Fund.** Sustainable rural job creation will boost local economies, in line with country plans under UN CBD, UNFCCC and UNCCD.

§ Output 1.4.2: **At least 50% of the training provided by Aggregators is targeted at women and youths.** This means that women will be empowered in their decision making on-farm and be presented with more leadership opportunities within local rural economies.

Outcome 1.5: Improvements to relevant environmental impact KPIs of Aggregators and their value chains in the first 8 years. The Food Securities Fund has a set of environmental and social KPIs that it will monitor over the course of the credit relationship with the Aggregator and Value Chain Partner. These include KPIs that are required for all loans, as well as some that may be assigned for specific loans. At the start of the lending relationship, the Food Securities Fund and the Aggregator will agree on KPIs that the Aggregator will be monitored on, in addition to the required KPIs. These will be included in the loan agreement and will be monitored on a quarterly basis. They will inform the decision on renewing a loan from the Food Securities Fund to the Aggregator. The Food Securities Fund expects to see steady progress on these KPIs. The Food Securities Fund will seek input from leading CSOs, research organizations, and government agencies to ensure that such KPIs are relevant, and that monitoring, and reporting are done in the best possible manner – in line with international best practice and government priorities. Note that additions or modifications to some of the specific KPIs may be developed during the project inception workshop, notably given the likely timing of the GEF allocation.

§ Output 1.5.1: Action plans for improvement of social and environmental KPIs are developed and adopted by Aggregators as a condition for loan disbursement and renewal for the following agricultural season. The Fund has a detailed set of social and environmental KPIs, which have been reviewed by Civil Society Organizations (CSOs) and relevant research organizations. The Fund intends to work with these partners, as well as Governments and the private

sector to improve the information base for investment decision making and monitoring that can result in the delivery and maintenance of global environmental benefits.

4) Alignment with GEF focal area and/or Impact Program strategies

Transactions will be selected based on both financial and non-financial aspects. Transactions that have the potential for greater contributions to Global Environmental Benefits will be prioritized - notably transactions that result in greater numbers of hectares of degraded lands restored (GEF core indicator 3.1), area of landscapes under sustainable land management in production systems (GEF core indicator 4.3), climate mitigation i.e. carbon sequestered or emissions avoided in the AFOLU sector (GEF core indicator 6.1) and more beneficiaries, in particular women (GEF core indicator 11). GEF landscapes will be prioritized in the investment pipeline against similar deals (in relation to loans amount, risk/return profile, timing, and other criteria), however, the Food Securities Fund cannot commit to only investing in GEF landscapes. With the collaboration of Conservation International, and potentially other GEF partners (e.g. WWF USA, which is also represented in the Fund's Impact Advisory Board), additional origination efforts can be directed to the GEF landscapes. Clarmondial understands that access to working capital is an issue to projects engaging private sector in GEF landscapes, therefore these should present additional investment opportunities for the Food Securities Fund. Note that GEF investment is part of the overall fund capital (i.e. there is no carve out for GEF landscapes) and a portfolio-wide restriction would be detrimental to the GEF goals by limiting the Fund's ability to scale.

Biodiversity Focal Area

(I) Mainstream biodiversity across sectors as well as landscapes and seascapes

This "mainstreaming" is defined by the GEF as "the process of embedding biodiversity considerations into policies, strategies and practices of key public and private actors that impact or rely on biodiversity, so that it is conserved and sustainably used both locally and globally." In addition to its alignment with the Food Systems, Land Use & Restoration Impact Program (FOLUR), the Food Securities Fund provides:

- § An entry point for biodiversity mainstreaming in priority sectors, e.g. through the application of the Agrobiodiversity Index);
- § Natural capital assessment and accounting, notably for testing portfolio assessment methods that integrate these approaches – in particular as the Food Securities Fund is able to provide a complementary source of green finance to the traditional banking sector. Note that Clarmondial has previously supported knowledge events and exchange on natural capital accounting and mainstreaming, i.e. with the UN Environment Natural Capital Declaration[55];
- § Sustainable use of plant and animal genetic resources, e.g. ensuring better value chain cohesiveness and long-term market commitment to a specific local variety produced with an inclusive approach, for example for sorghum.

The Fund primarily addresses large scale buyers, mainly for export, where there is a focus on consistency of supply of a particular agricultural product among other requirements (e.g. taste, quality). The Value Chain Partners with whom the Fund is engaging recognize the importance of maintaining (or improving) agrobiodiversity in order to achieve resilience within a given landscape. They may do this in different manners - e.g. by supporting farmer livelihood diversification and providing training. Increasing farmer livelihood diversification in most cases (and all that are being considered so far), translate into greater farm agrobiodiversity, which means that farmers have more stable incomes through the year and that there continues to be a stable farmer base that produces the key crop relevant for Value Chain Partners. Engagement by the Value Chain Partners and Aggregators, e.g. in providing training, is made possible by the purchase of the main product.

The Food Securities Fund also contributes to the UN CBD, including the Aichi Biodiversity Targets. In particular, the Food Securities Fund supports Targets under Strategic Goal B ("Reduce the direct pressures on biodiversity and promote sustainable use"), and to a lesser extent Strategic Goals D ("Enhance the benefits to all from biodiversity and ecosystem services") and E ("Enhance implementation through participatory planning, knowledge management and

capacity building"). The following Targets under the Strategic Goals are supported by the Food Securities Fund, though it is notable that the Fund will only start operations in 2020, therefore while the Food Securities Fund can contribute to the Aichi Biodiversity Goals and Targets, it will do so from 2020 onwards.

Strategic Goal and Target	Summary	Relevance to the Food Securities Fund
Aichi Biodiversity Targets: Strategic Goal B		
Target 5	By 2020, the rate of loss of all natural habitats, including forests, is at least halved and where feasible brought close to zero, and degradation and fragmentation is significantly reduced.	The Food Securities Fund considers the sourcing area in its investment origination, due diligence, decision and monitoring. This means that the Food Securities Fund will create an incentive for better management of a sourcing area, including promoting forest restoration and agroforestry production systems. This is linked to Outcomes 1.1, 1.2 and 1.5 and Targets 1.1, 1.2 and 1.5 in Table B above.
Target 7	By 2020 areas under agriculture, aquaculture, and forestry are managed sustainably, ensuring conservation of biodiversity.	The Food Securities Fund provides credit to local companies and their business partners, under the agreement that they utilize sustainable management practices. These practices are monitored regularly by the Food Securities Fund. This is linked to Outcome 1.2 and Target 1.2 and Outcome 1.5 and Target 1.5 in Table B above.
Target 8	By 2020, pollution, including from excess nutrients, has been brought to levels that are not detrimental to ecosystem function and biodiversity.	The Food Securities Fund requires monitoring of input management practices among its borrowers and their suppliers. This is linked to Outcome 1.5 and Target 1.5 in Table B above.
Aichi Biodiversity Targets: Strategic Goal D		
Target 14	By 2020, ecosystems that provide essential services, including services related to water, and contribute to health, livelihoods and well-being, are restored and safeguarded, taking into account the needs of women, indigenous and local communities, and the poor and vulnerable.	The Food Securities Fund requires its borrowers to consider the health, livelihoods and well-being of local communities that produce agricultural products. Specifically, the Food Securities Fund will monitor borrower's contribution to rural incomes, gender equality and job creation, and expects to see measurable progress on these indicators. This is linked to Outcome 1.4 and Target 1.4 in Table B above.

Target 15	By 2020, ecosystem resilience and the contribution of biodiversity to carbon stocks has been enhanced, through conservation and restoration, including restoration of at least 15 per cent of degraded ecosystems, thereby contributing to climate change mitigation and adaptation and to combating desertification.	The Food Securities Fund monitors agricultural production activities of its borrowers, and the landscape that they operate in. The Food Securities Fund will track the contribution to carbon stocks by the borrower, as well as to land restoration. This is linked to Outcome 1.5 and Target 1.5 in Table B above.
Aichi Biodiversity Targets: Strategic Goal E		
Target 20	By 2020, at the latest, the mobilization of financial resources for effectively implementing the Strategic Plan for Biodiversity 2011-2020 from all sources, and in accordance with the consolidated and agreed process in the Strategy for Resource Mobilization, should increase substantially from the current levels. This target will be subject to changes contingent to resource needs assessments to be developed and reported by Parties.	The Food Securities Fund is additional source of credit to local companies that are committed to sustainable agricultural practices. It is thus an additional source of private capital that has been mobilized in support of the UN CBD, its Goals and Targets. The Food Securities Fund intends to align itself with the national strategies of relevant Parties to the UN CBD. This is linked to Outcome 1.5 and Target 1.5 in Table B above.

Climate Change Focal Area.

Objective 2. Demonstrate mitigation options with systemic impacts

This is linked to the FOLUR program, where the focus is on fostering climate smart agriculture and sustainable land management while increasing prospects for food security for smallholders and communities that are dependent on farming for their livelihoods. The Food Securities Fund utilizes a sustainable supply chain (value chain) approach to promoting long-term emissions reductions from agriculture, including through reducing pressure on forests, and supporting increases in carbon storage in agricultural lands.

Land Degradation Focal Area Strategy

Objective 1. Support on the ground implementation of SLM to achieve LDN, including FOLUR

This is related to FOLUR in that promotes an integrated approach to implementing Sustainable Land Management (SLM) to increase the prospects for food security for smallholders and communities that are dependent on farming for their livelihoods, notably addressing the need for agricultural productivity increases without further expansion of farmland, erosion of genetic diversity, overexploitation of land and water resources, overuse of chemical fertilizers and pesticides, and inefficient practices that lead to greenhouse gas emissions and food loss and waste. The Food Securities Fund includes several agroforestry opportunities in its pipeline, including in dryland areas (e.g. for cashew), as well as for important tree crops such as cocoa. It also includes opportunities in legumes (e.g. pulses, potentially peanuts), which are important for soil fertility as well as local food security.

Objective 2. Creating an enabling environment to support voluntary LDN target implementation

Many of the enabling investments promoted by GEF under this objective are relevant for the Food Securities Fund, notably:

§ Creating the foundations for mobilizing more investment into specific countries and value chains from the Food Securities Fund by embedding the LDN tool, conducting policy work and promoting good resource governance, in particular for smallholders. Capacity building for a variety of levels within the landscape will also be helpful.

§ Providing technical assistance to bring bankable projects to investment.

§ Supporting smallholders through special lending and through extension projects.

§ Lessons learning and knowledge exchange, and south-south cooperation to promote and scale innovations including for financial service providers such as the Food Securities Fund.

§ Developing monitoring and information systems and targeted research on impacts, trade-offs, cost-benefit analysis of restoration and identifying incremental synergies. Clarmondial intends to work with other private and public sector entities to ensure sound monitoring systems to create a stronger link between environmental benefits and finance, e.g. as proposed in “Environmental Impact Reporting for Agriculture” (EIRA).[56]

Clarmondial recognizes that higher land value through improved production can and has led to increased deforestation and forest degradation, and that this is an important consideration with respect to the Food Securities Fund. The Fund’s Environmental and Social Governance (ESG) Policy stipulates that, among other factors, a condition for receiving loans is that the Aggregator does not promote deforestation of primary forests or biodiversity hotspots or important conservation areas. Borrowers may be required to have such a policy in place and provide proof of compliance, if they operate in an area where this may be an issue. Furthermore, the Food Securities Fund complements regulatory and legislative approaches by requiring verifiable commitment to positive social and environmental outcomes leading to Global Environmental Benefits, including regular reporting, on-site visits and continued improvements over subsequent loan cycles. The safeguards are reflected in the loan agreements, and non-compliance may lead to penalties and non-renewal of the loan for the following season. The loan agreements will have a specific section on non-financial indicators and reporting. Aggregators will commit to them, and loans will not be renewed if the conditions related to non-financial performance are not met.

The financial penalty that the Fund can impose is the non-renewal of the loan in the following season. This is a major penalty as Aggregators in emerging markets generally do not have access to sufficient working capital, particularly to pre-harvest working capital as provided by the Fund. Not having access to the Fund will likely impair the Aggregators ability to scale their business and maintain their credibility with both the farmers that supply them and the VCPs they work with.

Food security is of primary importance to the Fund, in alignment with the GEF’s land degradation programming direction. FAO refers to following four dimensions of food security: physical availability of food, economic and physical access to food, food utilization and stability of the other three dimensions over time. Technical assistance and availability of adequate inputs is often required to have enough food. However, it is typically challenging for farmers to access this. While national, donor and NGO programs provide critical support, such support is also often provided by the private sector where there is a link to a commercial crop. This link also helps to ensure that farmers have economic and physical access to food, including an adequate nutritional variety of food (some of which they will need to buy with cash), and that this is stable. The Food Securities Fund monitors these aspects proactively as part of its ESG Policy – indeed these are monitored at Aggregator (borrower) level on at least a quarterly basis so that action can be taken, and the overall impact on domestic food security is considered on the transaction and Fund level on an annual basis where it is reported to investors using the reporting template included in the ESG Policy (see Section B in Annex 2 of this Policy). Value Chain Partners and Aggregators that contract with the Fund recognize that farmers will only produce adequate product where they have food security.

Alignment with Food, Land use and Restoration Impact Program (FOLUR): The Food Securities Fund intends to address a problem that is pervasive across rural landscapes, including those under FOLUR, i.e. the availability of unsecured, pre-harvest working capital tied to transparency and continuous social and environmental impact generation. A common intention is clear, in particular in its engagement of the private sector, and delivering significant Global

Environmental Benefits. As such, Clarmondial will prioritize pipeline development where the Fund has significant overlap with the FOLUR countries and landscapes. While the FOLUR landscapes may guide investment origination, adequate conditions must exist for the Fund to transact in those landscapes (e.g. creditworthy counterparts, appropriate interest rates, suitable loan size size).

5) incremental/additional cost reasoning and expected contributions from the baseline, the GEFTF, LDCF, SCCF, and co-financing

The baseline projects described in section 2 above share a vision of mobilizing more, and more sustainable funding, to sustainable land management in emerging markets. While they have different geographical and sectoral foci, they pursue a science-based and private-sector led approach. Initiatives to engage the business community, in particular consumer-facing brands, as well as government and NGO engagement in the context of the UN CBD, UNFCCC and UNCCD, are increasing pressure to act. However, additional funding is required to support these commitments. This is unlikely to be met by commercial banks, the balance sheets of major corporations or donor funding. New funding channels are needed that tap into institutional investor interest in SDG-aligned investing, and that are able to effectively and efficiently deploy capital locally, and that share risk in a fair manner with value chain partners such as major corporations.

International companies, including consumer facing brands, traders and input providers are willing to support the efficient identification of reliable and commitment local partners that have a track record of working responsibly with farmers, and in particular smallholder farmers. However, this requires appropriate *skin in the game* from the corporate. It also requires a funding solution that can meet corporates value chain financing needs at scale, and across multiple jurisdictions and agricultural products to be relevant. From the perspective of investors, the funding solution must be in an acceptable structure, have limited intermediation costs, and independent governance so that the investment manager and advisor can hold borrowers (Aggregators) and Value Chain Partners to account on financial and non-financial performance.

While the funding need for value chains spans from long-term to short-term^[57], investors and in particular institutional investors, seek evergreen (open-ended) structures that have regular valuation events and possibilities for redemptions. Clarmondial tested the Food Securities Fund thoroughly with targeted institutional investors; while they have a long-term commitment most of their capital is deployed to “fixed income” funds where there is minimally quarterly valuation (and reporting) and opportunities for redemptions. Similarly, the Aggregators and Value Chain Partners have an on-going need for working capital, so while the funding from the Food Securities Fund can be cycled on an annual basis, the arrangements can be on a multi-year basis. This enables the investors, fund manager and advisors, Value Chain Partners and Aggregators to be held to account on a regular and transparent basis.

The unique design approach and structure of the Food Securities Fund can support many of GEF’s objectives, notably on biodiversity and FOLUR. Through the Fund, GEF can enable the creation of an innovative non-bank financing company dedicated to sustainable agriculture, willing to provide unsecured full season working capital to local SMEs and their Value Chain Partners that are dedicated to creating measurable impact over time. This Fund is also able to mobilize institutional capital efficiently and can reduce the borrowing costs and capital availability to sustainable businesses over time.

The Food Securities Fund addresses a critical funding gap that has been neglected by many impact-oriented investors and funding mobilization programs. The Fund is also an open-ended (evergreen) structure, which means that the impact of GEF's support has the ability to create impact well beyond the investment period. The GEF's anchor funding is critical in that it will:

- § Ensure a minimum viable size of the Fund is reached at start.
- § Act as a foundational investor for the first 8 years, which will create stability in the structure.
- § Add additional visibility on the commitment of the Food Securities Fund to generate Global Environmental Benefits.

Financial Value Added: The GEF's investment into the Food Securities Fund adds value in three ways: 1) by enabling it to achieve economies of scale already in the first year of operations; 2) by stabilizing its investor base; and 3) by sending an invaluable signal to other potential investors and stakeholders.

1) Economies of scale - the Food Securities Fund is a regulated vehicle in Luxembourg, with all the characteristics required to attract institutional investors and thereby achieve impact at scale. This structure, however, results in considerable fixed costs and forces the Fund to achieve a reasonable size at launch (or soon after that). While considerable interest and commitments have already been secured from investors, the GEF's investment clearly strengthens the Fund's capital base and should allow it to reach a capitalization of USD 50m within the first 12 months of operations.

2) Stable investor base - Clarmondial has structured the Fund in consultation with leading institutional investors, who indicated that they strongly prefer investment funds with at least quarterly subscription and redemption opportunities, and linked with this, quarterly valuation. Although these institutional investors are unlikely to come-and-go each quarter, we require a longer-term view in order to plan for adequate budget and liquidity of the Food Securities Fund, in particular in the first two years where the Net Asset Value (NAV) is likely to be smaller. The GEF's commitment to remain invested in the Fund for eight years provides a solid foundation on which to grow, and improves the Fund's ability to build a stable, well diversified portfolio of investments.

Please note that, despite of the commitment to remain invested in the Food Securities Fund for eight years, the GEF can submit a redemption request at any quarter like other investors (with 60 calendar days advance notice, as defined in the prospectus). The structure has no lock up mechanism, other than a liquidity protection (gate mechanism) that protects investors by limiting redemption payments to 10% of the NAV per quarter. Shares are redeemed at the NAV per share published for the relevant quarter, without a discount. The Fund will manage its cash / liquidity levels to address redemption requests (and subscription applications) in an efficient manner - e.g. by not extending new loans or renewing outstanding ones.

3) Signal effect - The Food Securities Fund uses an innovative blended finance strategy to address a critical gap faced by responsible agriculture companies in emerging markets. The GEF's investment will constitute an invaluable signal to other potential investors that are considering an investment, and thereby help mobilize private capital at scale. Other stakeholders, including the Luxembourg regulator, potential investees, and service providers, also value the GEF's investment as a strong sign of support.

Environmental Value Added: The GEF's investment is critical to the launch of the Food Securities Fund, allowing it to create environmental value added through its investments. In particular, the Fund will (a) provide continued incentives for improved agricultural production and generation of environmental benefits; (b) create a robust base for impact monitoring, reporting and generation; and (c) ensure impact creation in the long term.

a) The Food Securities Fund will provide season-long working capital loans to responsible agriculture companies in emerging markets. In accordance with the Fund's ESG Policy, loans are tied to transparency and performance on pre-agreed financial and non-financial Key Performance Indicators (KPIs), including core indicators related to Global Environmental Benefits. By monitoring these KPIs, Clarmondial can track and support the borrowers' improvements. In the

absence of sufficient improvements on these KPIs, the Fund may decide not to renew a loan. This is in contrast to other financial institutions, who typically have no (or weak) requirements related to non-financial performance. In effect, the loans provided by the Fund provide effective financial incentives for agriculture companies to continually improve their performance on environmental, social and governance (ESG) metrics. The financial incentive is the loan in itself, and its subsequent renewal. The type of investment proposed by the Food Securities Fund is highly additional: pre-harvest unsecured loans at reasonable cost. Clarmondial is not aware of other financial institutions providing funding on these conditions. Aggregators will enjoy major benefits from these loans, as we have learned and observed onsite during the last circa four years of pipeline development. Additionally, as the Fund grows, it will benefit from economies of scale to provide cheaper funding, which will further increase additionality and the interest of the borrowers in meeting or exceeding environmental and social impact targets. The Food Securities Fund should also have a demonstration effect for other investors, corporates and policy makers.

On every potential transaction, the Food Securities Fund will conduct desktop and on-site due diligence, where the availability and quality of relevant baseline information related to Global Environmental Benefits (GEBs) will be assessed. The borrower (Aggregator) will be required to report on impact indicators that track progress on the GEBs, including: Area of degraded land restored, Area of landscapes under SLM (sustainable land management) in productive systems and GHG (greenhouse gas) emissions mitigated.

Area of degraded land restored and Area of landscapes under SLM in productive systems will be tracked in reference to a project-specific baseline that will be established by Clarmondial in the course of its initial due diligence and agreed with the borrower as part of the loan agreement. Impact Advisory Board members may be requested to provide guidance, such as indicating additional sources of baseline information for a specific landscape, and on what can be considered “improved practices”.

Quarterly borrower self-reporting will be complemented with company information that forms part of their existing operating practices and can be verified (e.g. receipts, contracts). Where available, certification and third-party standard documentation will be used to monitor performance. These include reports from Rainforest Alliance / UTZ, Global GAP, and Fairtrade, for example. Clarmondial will conduct follow-up visits prior to loan renewal to verify progress on GEBs. Where possible, independent third-party data and services will be integrated (e.g. satellite data produced as part of national reduced deforestation and degradation targets).

In summary: the initial baseline is set by Clarmondial in the course of its due diligence. Borrowers self-report quarterly on impact, supplemented by information from third-party certification agencies where available. This information is assessed on-site at least annually by Clarmondial before loan renewal takes place. The information gathered in the follow-up due diligence may inform a new baseline for the following loan period.

b) A major challenge to creating social and environmental impacts and considering these as material factors in lending or investment decision making is a lack of reliable and consistent data. By requiring borrowers to regularly report on a standard set of environmental and social KPIs, the Fund will enable better integration of impact factors (e.g. to set appropriate sectoral and geographical baselines). Clarmondial is committed to sharing its learnings, as described in the Food Securities Fund ESG Policy.

KPIs and claims reported by borrowers can be ascertained in several ways depending on their nature. For example, areas of set-asides can be assessed using satellite or drone-based information. Input use in the area can be assessed by reviewing receipts. The claims may in some cases be verified through third-party certifications. All claims will be checked regularly (and at least annually through an onsite due diligence) by the Clarmondial investment team, reviewed by the Impact Advisory Board, and the reported to investors each year. During the PPG phase, the project will explore the potential for independent third-party verification of compliance with KPIs and GEBs/Core Indicators.

Note that Clarmondial also intends to work with sector and regional experts who can provide guidance on “good practices”, so that self-reported claims can be contextualized. Also, as the Fund gains greater scale, a larger inhouse database on key sectors and geographies will facilitate the validation of self-reported claims.

c) Clarmondial counts on an experienced team with backgrounds in impact investing, natural sciences and private investments in emerging markets. The team has dedicated significant time to formulate the Fund’s theory of change – in particular its contribution to Global Environmental Benefits, substantiated by the Fund’s investment criteria and ESG Policy. Clarmondial recognizes that it is important to assure investors of its commitment to generating impact and to be accountable for these. It has therefore created an Impact Advisory Board to guide the Food Securities Fund, which includes a representative from Conservation International, and one from WWF-US. Other members will be announced soon. Investors will appreciate the GEF’s commitment to the Fund as an endorsement of its ambition to create positive social and environmental impacts.

6) Global environmental benefits (GEFTF) and/or adaptation benefits (LDCF/SCCF)

Through its loans, the Food Securities Fund will impact at least 2,100,000 hectares of tropical agricultural land. This is directly linked to the delivery of global environmental benefits specified under “area of landscapes under improved practices” as well as “area of land restored”. The Food Securities Fund delivers global environmental benefits under the biodiversity, climate change, and land degradation focal areas specifically, and is aligned with the FOLUR Impact Program.

Due to its structure, the Food Securities Fund is able to ensure steady progress on delivery of global environmental benefits on this area over the GEF investment period and beyond. The scalability of the Food Securities Fund also means that capital can be delivered at a lower cost, and to a more diverse set of transactions (including geographies, agricultural product, and borrowing term) as the Food Securities Fund grows, i.e. that the incentive for Value Chain Partners and Aggregators to participate in the Food Securities Fund and demonstrate progress on global environmental benefits will be amplified as the Food Securities Fund grows.

The Food Securities Fund will also generate socio-economic benefits for at least 700,000 local people in these landscapes, with a significant share of them being women (minimum 30% on average). The critical link between rural economies, environmental degradation and empowerment of local people (in particular marginalized groups, such as rural women) must be addressed in any sustainable financing structure.

Global environmental importance and the ability of landscapes to generate Global Environmental Benefits will be considered in the investment origination process. In addition, the GEF can play an active role on ESG guidance along with the participation of Conservation International on the Impact Advisory Board (to which the GEF is also invited to participate). The Impact Advisory Board will provide guidance on the impact strategy, supervise adherence to best practice, and ensure that important initiatives including High Conservation Value (HCV) and High Carbon Stock (HCS) mapping are integrated into the strategy. Clarmondial will regularly seek advice and input from the Impact Advisory Board.

The Food Securities Fund will also generate socio-economic benefits for at least 700,000 local people in these landscapes, with a significant share of them being women (at least 50%, i.e. 350,000). The critical link between rural economies, environmental degradation and empowerment of local people (in particular marginalized groups, such as rural women) must be addressed in any sustainable financing structure.

The FSF has taken a conservative and pragmatic approach to calculating targeted contributions to Global Environmental Benefits. These are based on a conservative assessment of the current investment pipeline. Impacts created by the Food Securities Fund include both qualitative and quantitative KPIs, which are summarized in the ESG Policy. This Policy also refers to information sources that will help to inform baselines and progress on indicators (KPIs).

The Food Securities Fund has committed to tracking the following GEF core indicators that are associated with the GEBs:

- 3.1 – area of degraded agricultural land restored;
- 4.3 – area of landscapes under sustainable land management in production systems;
- 6.1 – carbon sequestered or emissions avoided in the AFOLU sector;
- 11 – number of direct beneficiaries disaggregated by gender as a co-benefit of GEF investment

For calculating direct contributions to GEF core indicators, the project has used the approaches described in the bullets below.

- Area of land restored (Ha): this is based on an estimate of the overall land that is likely to be in the portfolio of the Food Securities Fund in 2028, the proportion of that in loans that are renewed so they can result in restoration, and the commodity-geography mix where restoration is a particular focus of the Value Chain Partner and Aggregator. We estimate that on average each transaction will cover an area of 2,000 - 3,000 Hectares, that one third will be renewed for at least 5 cycles (consistent with the DCA guarantee), and that 15% relate to land restoration. However, this is a conservative estimate and the proportion contributing to land restoration is expected to be higher.

- Area of landscapes under improved practices refers to the entire land footprint of the loan portfolio of the Fund in 2028, based on similar assumptions as above. It is expected that all of the land that comes under oversight of the Fund is under “improved practices”. However, the estimate provided as part of this proposal is a conservative estimate based on the land area sizes in the current transaction pipeline.

- Direct beneficiaries: this is based on estimates given the current portfolio. The Fund has set itself a target of at least 50% women benefitting from the Fund in 2028.

Note also that these estimates only cover the situation in 2028, and not cumulative effects.

The estimate of greenhouse gas emissions (GHGs) mitigated is based on the FAO EX ACT tool, specifically using the EX-ACT 7.2 excel calculation framework. In the “Description” tab the continent, climate, moisture regime, dominant regional soil type characteristics were selected given the expected portfolio. The implementation phase was selected as 1 year, and the capitalization phase 1 year. This is likely to be an under-estimate as in many cases the effects will be manifested over a few years as the loans are renewed. The “Cropland” and “Inputs” tabs were completed with the relevant information using estimates on prevailing and expected improved practices. However, the emissions associated with running a facility, and any improved energy management systems at facility level were not included. Note that the Fund will require reporting on energy consumption and source on all transactions. In some cases, the agricultural system was not covered by the FAO EX ACT tool in its current version, in this case relevant scientific literature was considered in order to estimate likely GHG impact.

In addition to tracking the Core Indicators, the Fund has a list of quantitative impact metrics (IMs) and qualitative metrics (“Assessment Factors – AFs”), some which are required for all transactions. This is to have a flexible approach that can be tailored to specific social and environmental issues within a sourcing area, yet one that results in a consistent set of information that can be gathered and reported on the portfolio. Tracking of IMs can help estimate contribution to GEBs. For example:

- Tracking the geographical sourcing area, practices, input use, soil management, and areas of set-asides as well as replanting can help to track contributions to area of land restored and area of landscapes under improved practices.
- Combining the aforementioned information with proxies (e.g. in the FAO EX-ACT worksheet), and further operational information (e.g. on energy use) can help to estimate greenhouse gas emissions mitigated (GHGs).
- The Fund tracks numbers of beneficiaries by gender directly engaged by the Aggregator (borrower) and will over time require more accurate figures on number and gender of farmers that are transacted with, including through third parties (e.g. traders, smaller cooperatives that supply the Aggregator).

The Aggregator is required to report quarterly to the Fund on these and other KPIs. Progress will be reviewed through onsite due diligence at least annually and is a critical element in the consideration of a renewal of a loan.

The impacts created, including contribution to GEBs, will be consolidated and reported to investors annually. Through the Impact Advisory Committee, Conservation International and other experienced stakeholders will review progress on social and environmental impact creation regularly, including in preparation for the publication of the annual report to ensure that this is a fair and balanced review of progress.

Finally, the Food Securities Fund will invest in landscapes that generate GEBs. To ensure that the obligations of GEF funding are met, proceeds of the GEF investment into the Fund will be given particular attention. GEF funding will be earmarked for landscapes with high global environmental benefit. Specifically for these investments, Conservation International, as the GEF agency, will review site selection prior to deployment of GEF earmarked proceeds to ensure that GEF criteria, potential to generate GEBs and core indicator targets are met. For avoidance of doubt, as long as the total of liquidity (cash & cash equivalents) and Conservation International-approved allocation is greater than the amount invested by the GEF in the Fund (i.e. the Fund is allowed to execute investments not submitted to, or approved by, Conservation International. Exact limits and procedures will be discussed during the Project Preparation phase. CI and The Food Securities Fund commit to contracting an auditor to verify the annual GEB report covering the allocation of the GEF proceeds. Conservation International will provide training to such auditor and oversee the process. Exact procedures will be discussed during the Project Preparation phase.

7) innovation, sustainability and potential for scaling up

Innovation

The Food Securities Fund is innovative in the following aspects:

- § It takes a value chain approach to deal sourcing and de-risking. Working with international Value Chain Partners to source local lending opportunities among their business partners (Aggregators) means ready access to a large potential pipeline. De-risking by Value Chain Partners on a transaction basis means that these critical business partners have a longer-term commitment to sustainable sourcing in the locality and are willing to introduce independent oversight on the relationship. This also translates into lower deal origination cost, and an ability of the Food Securities Fund to finance earlier in the production season and on an unsecured basis. Pre-harvest, unsecured finance is particularly scarce in emerging markets.
- § It delivers global environmental benefits in the long-term, but through repeated transactions between partners. While the loans provided by the Food Securities Fund may be relatively short term in duration (up to 12 months), the Food Securities Fund intends to have multi-year relationships in place. This means that the Food Securities Fund can decide not to renew a loan if global environmental benefits and social outcomes are not delivered.
- § The structure can mobilize institutional investment at scale. The structure, domicile, management partners and return have been designed upon multiple discussions with institutional investors, based on their asset allocation capacity, criteria and priorities. In particular, there are few SDG-aligned fixed income opportunities that tackle sustainable agriculture, and that have a comparable risk-return profile.
- § The Fund is also scalable in terms of potential social benefits that it can deliver, in particular for farmers and rural communities.

§ While the Food Securities Fund initially utilizes a subsidized guarantee (from USAID DCA), it has a clear pathway for eliminating its dependence on this subsidy.

There are no comparable funds for agriculture in any region, in particular none that share this blended finance-value chain approach and utilizes this structure.

Financial and institutional sustainability

The Food Securities Fund's manager and advisor, as well as other service providers, are paid out of a maximum total expense ratio (TER) equivalent to 0.5% of the net asset value (NAV) each quarter, i.e. 2% per year. We expect to reduce the TER as the NAV grows, leading to a positively reinforcing funding solutions for companies and investors.

Clarmondial, the Investment Adviser, may need to raise additional resources to support the Food Securities Fund in the first two years, while the NAV is below USD 75m. Several funding sources have been identified and are under negotiation, including a grant and a credit line to Clarmondial. The Food Securities Fund is expected to reach at least USD 1 billion within the next 10 years or by 2030.

Clarmondial, in the context of the Food Securities Fund expects to deepen its partnership with Civil Society Organizations and governments over time. Such partners have approached us. The Food Securities Fund's Impact Advisory Board and directors will help to ensure continued mission alignment and may support additional resource mobilization - e.g. on local technical assistance to complement the investments. Groups such as UN ITC, WWF, UN Environment and the Government of Nigeria (NIRSAL) have indicated interest in such collaboration.

Potential for replication and scaling

The Food Securities Fund can be scaled up indefinitely, as it is an open-ended (evergreen) fund. Within Clarmondial's current network of Value Chain Partners, a potential pipeline in excess of USD 800m has been identified in agriculture. The approach is also relevant for other sectors, including aquaculture and fisheries. Several potential partners have approached Clarmondial in the context of funding these sectors-

The Food Securities Fund can be replicated globally. While the initial focus is Sub Saharan Africa, Clarmondial is performing initial assessments of transactions in Latin America Caribbean and South East Asia.

[1] More information available at: <https://www.ipbes.net>

[2] IPBES. 2019. Summary for policymakers of the global assessment report on biodiversity and ecosystem services of the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services. S. Díaz, J. Settele, E. S. Brondizio E.S., H. T. Ngo, M. Guèze, J. Agard, A. Arneth, P. Balvanera, K. A. Brauman, S. H. M. Butchart, K. M. A. Chan, L. A. Garibaldi, K. Ichii, J. Liu, S. M. Subramanian, G. F. Midgley, P. Miloslavich, Z. Molnár, D. Obura, A. Pfaff, S. Polasky, A. Purvis, J. Razzaque, B. Reyers, R. Roy Chowdhury, Y. J. Shin, I. J. Visseren-Hamakers, K. J. Willis, and C. N. Zayas (eds.). IPBES secretariat, Bonn, Germany. XX pages. Available from: <https://www.ipbes.net/global-assessment-report-biodiversity-ecosystem-services>

[3] *Ibid.*

[4] *Ibid.*

[5] *Ibid.*

[6] Smith P., M. Bustamante, H. Ahammad, H. Clark, H. Dong, E.A. Elsiddig, H. Haberl, R. Harper, J. House, M. Jafari, O. Masera, C. Mbow, N.H. Ravindranath, C.W. Rice, C. Robledo Abad, A. Romanovskaya, F. Sperling, and F. Tubiello, 2014: Agriculture, Forestry and Other Land Use (AFOLU). In: Climate Change 2014: Mitigation of Climate Change. Contribution of Working Group III to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change [Edenhofer, O., R. Pichs-Madruga, Y. Sokona, E. Farahani, S. Kadner, K. Seyboth, A. Adler, I. Baum, S. Brunner, P. Eickemeier, B. Kriemann, J. Savolainen, S. Schlömer, C. von Stechow, T. Zwickel and J.C. Minx (eds.)]. Cambridge University Press, Cambridge, United Kingdom and New York, NY, USA.

[7] *Ibid.*

[8] Porter, J.R., L. Xie, A.J. Challinor, K. Cochrane, S.M. Howden, M.M. Iqbal, D.B. Lobell, and M.I. Travasso, 2014: Food security and food production systems. In: Climate Change 2014: Impacts, Adaptation, and Vulnerability. Part A: Global and Sectoral Aspects. Contribution of Working Group II to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change [Field, C.B., V.R. Barros, D.J. Dokken, K.J. Mach, M.D. Mastrandrea, T.E. Bilir, M. Chatterjee, K.L. Ebi, Y.O. Estrada, R.C. Genova, B. Girma, E.S. Kissel, A.N. Levy, S. MacCracken, P.R. Mastrandrea, and L.L. White (eds.)]. Cambridge University Press, Cambridge, United Kingdom and New York, NY, USA, pp. 485-533.

[9] According to the 1996 World Food Summit, "food security exists when all people, at all times, have physical and economic access to sufficient safe and nutritious food that meets their dietary needs and food preferences for an active and healthy life. According to the UN FAO, there are 4 dimensions to food security: (1) physical availability of food, i.e. the supply side including food production, stock levels and net trade, (2) economic and physical access to food, related to household incomes, expenditures, markets and prices, (3) food utilization, related to the nutritional status of individuals and (4) stability of the other three dimensions including issues that undermine production, rural economy, etc. More information can be found at:

<http://www.fao.org/3/al936e/al936e00.pdf>

[10] *Ibid.*

[11] *Ibid.*

[12] Noble, I.R., S. Huq, Y.A. Anokhin, J. Carmin, D. Goudou, F.P. Lansigan, B. Osman-Elasha, and A. Villamizar, 2014: Adaptation needs and options. In: Climate Change 2014: Impacts, Adaptation, and Vulnerability. Part A: Global and Sectoral Aspects. Contribution of Working Group II to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change [Field, C.B., V.R. Barros, D.J. Dokken, K.J. Mach, M.D. Mastrandrea, T.E. Bilir, M. Chatterjee, K.L. Ebi, Y.O. Estrada, R.C. Genova, B. Girma, E.S. Kissel, A.N. Levy, S. MacCracken, P.R. Mastrandrea, and L.L. White (eds.)]. Cambridge University Press, Cambridge, United Kingdom and New York, NY, USA, pp. 833-868.

[13] Porter, J.R., L. Xie, A.J. Challinor, K. Cochrane, S.M. Howden, M.M. Iqbal, D.B. Lobell, and M.I. Travasso, 2014: Food security and food production systems. In: Climate Change 2014: Impacts, Adaptation, and Vulnerability. Part A: Global and Sectoral Aspects. Contribution of Working Group II to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change [Field, C.B., V.R. Barros, D.J. Dokken, K.J. Mach, M.D. Mastrandrea, T.E. Bilir, M. Chatterjee, K.L. Ebi, Y.O. Estrada, R.C. Genova, B. Girma, E.S. Kissel, A.N. Levy, S. MacCracken, P.R. Mastrandrea, and L.L. White (eds.)]. Cambridge University Press, Cambridge, United Kingdom and New York, NY, USA, pp. 485-533.

[14] IPBES (2018): Summary for policymakers of the assessment report on land degradation and restoration of the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services. R. Scholes, L. Montanarella, A. Brainich, N. Barger, B. ten Brink, M. Cantele, B. Erasmus, J. Fisher, T. Gardner, T.G. Holland, F. Kohler, J.S. Kotiaho, G. Von Maltitz, G. Nangendo, R. Pandit, J. Parrotta, M.D. Potts, S. Prince, M. Sankaran and L. Willemen (eds.). IPBES secretariat, Bonn, Germany. 44 pages. Available from: https://www.ipbes.net/system/tdf/spm_3bi_ldr_digital.pdf?file=1&type=node&id=28335

[15] UN Convention to Combat Desertification, “Land in Numbers 2019: Risks and Opportunities”. Available from: http://catalogue.unccd.int/1202-Land%20in%20numbers_2%20new-web.pdf

[16] *Ibid.*

[17] *Ibid.*

[18] FAO. 2011. The state of the world’s land and water resources for food and agriculture (SOLAW) – Managing systems at risk. Food and Agriculture Organization of the United Nations, Rome and Earthscan, London.

[19] *Ibid.*

[20] *Ibid.*

[21] FAO (2017), “Water for Sustainable Food and Agriculture, A report produced for the G20 Presidency of Germany”, Food and Agriculture Organisation of the United Nations, Rome

[22] FAO (2016), “State of the World’s Forests”, Food and Agriculture Organisation of the United Nations, Rome

[23] Smith P., M. Bustamante, H. Ahammad, H. Clark, H. Dong, E.A. Elsiddig, H. Haberl, R. Harper, J. House, M. Jafari, O. Masera, C. Mbow, N.H. Ravindranath, C.W. Rice, C. Robledo Abad, A. Romanovskaya, F. Sperling, and F. Tubiello, 2014: Agriculture, Forestry and Other Land Use (AFOLU). In: Climate Change 2014: Mitigation of Climate Change. Contribution of Working Group III to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change [Edenhofer, O., R. Pichs-Madruga, Y. Sokona, E. Farahani, S. Kadner, K. Seyboth, A. Adler, I. Baum, S. Brunner, P. Eickemeier, B. Kriemann, J. Savolainen, S. Schlömer, C. von Stechow, T. Zwickel and J.C. Minx (eds.)]. Cambridge University Press, Cambridge, United Kingdom and New York, NY, USA.

[24] FAO (2017), “The future of food and agriculture, trends and challenges”, Food and Agriculture Organisation of the United Nations, Rome

[25] World Bank Group (2015), “Ending Poverty and Hunger by 2030, an Agenda for the Global Food System”, World Bank Group, Washington D.C.

[26] Cervantes-Godoy, D. and J. Dewbre (2010), “Economic Importance of Agriculture for Poverty Reduction”, *OECD Food, Agriculture and Fisheries Working Papers*, No 23, OECD Publishing

[27] Based on <https://www.marketlinks.org/good-practice-center/value-chain-wiki/value-chain-governance-overview>

[28] Agricultural value chains can be classified as “tight” (well-organized, clear and pre-agreed relations between stakeholders in the value chain), or “loose” (poorly-organized, ad hoc relationships). For more information refer to: <https://www.rafllearning.org/topics/value-chain-development>

[29] World Bank (2017): What’s Happening in the Missing Middle? Lessons from Financing SMEs, World Bank Group, Washington D.C.

[30] Note that in this document the terms “supply chain” and “value chain” are used interchangeably

[31] IFC (2017): MSME Finance Gap, World Bank Group, Washington D.C.

[32] WTO (2016): Trade finance and SMEs: Bridging the gaps in provision, World Trade Organization, Geneva

[33] Dalberg, Initiative for Smallholder Finance, MasterCard Foundation & Rural & Agricultural Learning Lab (2016): Inflection point: unlocking growth in the era of farmer finance

[34] Note that in this document the terms “supply chain” and “value chain” are used interchangeably

[35] OECD/FAO (2018), *OECD-FAO Agricultural Outlook 2018-2027*, OECD Publishing, Paris/Food and Agriculture Organization of the United Nations, Rome

[36] A summary of the Malabo Declaration can be found at: <http://www.nepad.org/caadp/publication/malabo-declaration-accelerated-agricultural-growth>

[37] African Development Bank (2019), *African Economic Outlook 2019, Macroeconomic Performance and Prospects, Jobs, Growth and Firm Dynamism*, AfDB, Abidjan

[38] FAO/IPCC Expert Meeting on Climate Change, Land Use and Food Security, January 2017

[39] African Development Bank (2019), *African Economic Outlook 2019, Macroeconomic Performance and Prospects, Jobs, Growth and Firm Dynamism*, AfDB, Abidjan

[40] ECLAC/FAO/IICA (2017): *The Outlook for Agriculture and Rural Development in the Americas: A Perspective on Latin America and the Caribbean*, San Jose

[41] IADB (2011): *Agricultural Greenhouse Gas Emissions in Latin America and the Caribbean, Current Situation, Future Trends and One Policy Experiment*, IADB, Washington, D.C.

[42] FAO (online): "Latin America doubled its agricultural emissions of greenhouse gases in the past 50 years". Accessed from: <http://www.fao.org/americas/noticias/ver/en/c/240449/>

[43] OECD/FAO (2017), *OECD-FAO Agricultural Outlook 2017-2026*

[44] OECD/FAO (2017), *OECD-FAO Agricultural Outlook 2017-2026*

[45] *Ibid*

[46] CAADP: Comprehensive Africa Agriculture Development Programme

[47] NIRSAL: Nigeria Incentive-Based Risk-Sharing System for Agricultural Lending, established by the Government of Nigeria (Central Bank, Agriculture Ministry)

[48] Roundtable on Sustainable Palm Oil (industry standard)

[49] Bayer Cropscience, Indofood, McKinsey, Nestlé, Sinar Mas, Syngenta, Unilever

[50] The Food Securities Fund is exploring how it can partner with local and international financial institutions, including lending alongside local commercial banks, e.g. where those banks have hit their risk limits for specific clients or industries.

[51] Note that we intend to be able to remove the US Development Credit Authority guarantee after the initial 8 years. ESG refers to "Environmental, Social and Governance" (i.e. impacts)

[52] The funding term is maximum 12 months, but it is intended that loans will be renewed on an on-going basis, subject to satisfactory ESG and financial performance.

[53] Value Chain Partners are companies that source agricultural produce from developing and emerging countries and have sustainable sourcing commitments (e.g. on no-deforestation, or the prevention of environmental degradation and biodiversity loss).

[54] The Food Securities Fund intends to support “more and better business” within the value chain, this will be monitored for example by value of pre-harvest support provided in the form of improved seeds.

[55] For example: <https://www.clarmondial.com/the-zurich-natural-capital-roundtable/>

[56] For information refer to: <https://www.clarmondial.com/eira-report-published-april2019/>

[57] Funding needs may be short term, e.g. for pure export finance, or for long-term, multi-year capital investments.

1b. Project Map and Coordinates

Please provide geo-referenced information and map where the project interventions will take place.

The phases of the Food Securities Fund can be divided in two according to expected to breakeven. The Fund is expected to reach breakeven at the end of the second year of operations (2022) – the “initial phase” refers to the period 2020 – 2022. For clarification, the phases are based on the viability of the Food Securities Fund rather than a geographical focus per se. However countries prioritized for the first phase, based on potential pipeline, are marked in blue in Figure 11 below. In this initial period, most of the Food Securities Fund’s resources will be dedicated to Sub Saharan Africa. The Fund may invest in emerging and developing markets globally from the first day, including in Phase I, provided the investment criteria are met. The second phase will run from 2022 onwards, including until the end of the GEF investment period in 2028. The countries prioritized for that phase are market in green. Please note that this indicative and may be subject to change as the investment strategy is implemented.

Figure 11: Focus countries for the Food Securities Fund

The countries prioritized for Phase I (2020 – 2022) are: Brazil, Burkina Faso, Burundi, Côte d’Ivoire, Ethiopia, Ghana, Indonesia, Kenya, Liberia, Madagascar, Mexico, Nicaragua, Nigeria, Zambia

The countries prioritized for Phase II (2022 – 2028) are: Argentina, Benin, Cameroon, Colombia, Egypt, Malawi, Mozambique, Peru, Sierra Leone, South Africa, Tanzania, Togo, Uganda, Vietnam, Zimbabwe

2. Stakeholders

Select the stakeholders that have participated in consultations during the project identification phase:

Indigenous Peoples and Local Communities Yes

Civil Society Organizations Yes

Private Sector Entities Yes

If none of the above, please explain why:

In addition, provide indicative information on how stakeholders, including civil society and indigenous peoples, will be engaged in the project preparation, and their respective roles and means of engagement.

The Food Securities Fund is being developed in close collaboration with private investors and agriculture companies that source from tropical landscapes. Civil Society Organizations (CSOs) have provided input to the Food Securities Fund's ESG criteria and KPIs. These include Conservation International, WWF, IUCN, UN ITC, and the World Food Programme (WFP). Continued guidance will be sought regularly from these organizations, including as part of the Impact Advisory Board to the Food Securities Fund (public announcement available at www.clarmondial.com/launch-iab-fsf). The Food Securities Fund seeks to improve the lives of local communities (e.g. cocoa farming communities in Ghana). The Food Securities Fund will implement international best practice on ensuring that its loans protect indigenous rights (e.g. IFC standards), and will track progress on local socio-economic indicators, including indigenous communities where they are involved in the relevant value chain.

Stakeholder	Engagement and Project Implementation Role (s)	Means and Timing of Engagement	Means of Information Dissemination
Local borrower (Aggregator), e.g. processors, agro-dealers, cooperatives	These are the potential borrowers. They are the main counterpart for negotiating and receiving the investment (loan) from the Food Securities Fund, as well as implementing the best practices listed in the loan agreements. They have direct relationship with the farmers.	Negotiations with potential borrowers has commenced. Origination, due diligence and monitoring will continue to take place on an on-going basis.	Direct communication with the potential borrower and the Food Securities Fund.
International agricultural companies (Value Chain Partner), e.g. input providers, off-takers	These are the guarantors to the investment (loan) to the local borrower (Aggregator).	Negotiations with international companies as guarantors has commenced. Interaction with them will proceed on a similarly regular basis as for local borrowers (Aggregators).	As above.
Civil Society Organizations (local & international)	Several CSOs have been consulted on their views of the Food Securities Fund, including the ESG Policy and associated KPIs. This will continue on a regular basis, e.g. through the Impact Advisory Board.	Interactions with the Impact Advisory Board (CSO representatives) will occur at least on a quarterly basis. CSOs that are in the value chain will be consulted regularly.	Direct communication with the Food Securities Fund. Annual impact reports published by the Food Securities Fund.

	Advisory Board to the Food Securities Fund. In some cases, the Food Securities Fund may lend to a local company that is cooperating on a project with a CSO. In this case, they may be a technical partner.	Involved in a specific local project will be consulted as an when appropriate, e.g. in the due diligence, deal preparation, and monitoring phases.	
Local, national government agencies	The Food Securities Fund will consider policies and regulations issued by government agencies in its consideration of a potential investment opportunity. In some cases, the Food Securities Fund may seek explicit alignment with a specific transaction, for example, they may be a technical partner or partial guarantor.	The Food Securities Fund will review any relevant government material during due diligence of a potential transaction. Critical policies and regulations will be monitored on a quarterly basis in countries where investments have taken place. Interactions with relevant government agencies has already commenced, e.g. a MOU with NIRSAL[58] in Nigeria has been executed.	Online materials published by relevant Government agencies, as well as direct communications where appropriate.
Other impact investors and impact investment funds	Several impact investing funds with aligned strategies have been consulted in terms of potential collaboration with the Food Securities Fund. The Food Securities Fund may enter into a partnership with other funds, e.g. on co-investments. At a minimum, ad hoc communication will occur to share experiences and potential collaboration opportunities.	Interactions with several other impact funds has already begun (e.g. with Moringa). This will continue on an ad hoc basis, as appropriate.	Direct communications, published news items, conferences, workshops.
Technical experts	The Food Securities Fund will draw on technical experts to complement that of the core team. This includes sectoral and local experts. Experts may contribute their expertise during the origination, due diligence and monitoring of investments (loans) made by the Food Securities Fund.	Regularly, as required. This has already begun, e.g. with Mr. Jim Fitzpatrick as an independent expert on seeds, nuts and dried fruits. Experts may be engaged on an ad hoc, or on-going (part-time) basis.	Direct, as necessary.
Certification agencies	The Food Securities Fund will consider reports done by independent certification agencies in its due diligence and monitoring. For example, access to up-to-date UTZ / Rainforest Alliance certification materials and reports may lessen	As appropriate.	The Food Securities Fund may get in touch with independent certification bodies for guidance and information on an ad hoc basis.

	the reporting burden on the potential borrower.		
Local and international banks and financial institutions	The Food Securities Fund may collaborate with other financial institutions, such as local banks. This may occur where there are multiple lenders to a borrower, or where additional banking services are needed in order to provide a loan (e.g. in certain cases, hedging may be required).	As appropriate.	As appropriate.

[58] NIRSAL is the Nigeria Incentive-Based Risk-Sharing System for Agricultural Lending.

3. Gender Equality and Women's Empowerment

Briefly include below any gender dimensions relevant to the project, and any plans to address gender in project design (e.g. gender analysis).

The Food Securities Fund will track the creation of new economic opportunities for women in the relevant value chains, including training and employment opportunities (socio-economic benefits for women). It will also track the participation of women in local Aggregators (i.e. direct employment and training), and women farmers. These are, for example, included in the Food Securities Fund's Outcome 1.3 and Target 1.3. In addition, during the PPG phase, Clarmondial and its partners will develop a Gender Mainstreaming Plan for the Food Securities Fund – which considers the role of women in the family activities related to each commodity targeted by the Food securities Fund. The Gender Mainstreaming Plan will provide more detail on the gender dimensions of the Project. The Food Securities Fund will aim at establishing a baseline for each investment and set reasonable improvement targets for each loan cycle.

The Food Securities Fund intends to “do good” rather than “do no harm”. However, in order to “do good”, adequate baseline information is required. The Fund requires borrowers (Aggregators) to collect gender impact information as a condition to its loan (see the ESG Policy, in particular Impact Metrics under Part I, and Section B). While the Fund will consider this in its initial loan decision (e.g. comparing to any available baseline information on the geographical area or sector), it may be difficult to set a target before engaging with a specific borrowers. The borrower may already be required to demonstrate certain improvements with respect to gender within the first loan cycle - e.g. increasing the number of women farmers trained. However, this will be agreed on a deal specific basis.

The Food Securities Fund may require Aggregators to improve on gender considerations in the following aspects as appropriate in a particular transaction:

- a) Farmers: the Fund will require an estimate of farmers that the Aggregator sources from (gender split), and the number of women farmers engaged. As a condition of its loan, the Fund may require that the Aggregator increase the number of women farmers (women led farming households) that are engaged.
- b) Farmer training: many Aggregators provide training and technical assistance for farmers. The Aggregator will be required to report on the gender split in such training. The Fund may require that the Aggregator increases its training to women farmers.
- c) Rural jobs and job-related training: the Fund requires Aggregators to track the number of women employed (full time and part time), and women in managerial positions. The Aggregators may be required to track training of female staff, and to provide information on relevant policies (e.g. maternity leave, access to child care). The Fund may require the Aggregator to improve on these job-related aspects.

Progress on these impacts will be tracked by Clarmondial on a quarterly basis and considered in the context of loan renewal at least annually to ensure that adequate progress has been made. The Impact Advisory Board will also review the results, and a summary update report provided to investors on an annual basis.

The fund will aim to benefit at least 350,000 women (i.e. at least 50% of its target farmers). Note that Clarmondial itself is a majority women-owned and -led business, which is unusual among investment advisors / fund managers, even in the impact space.

Does the project expect to include any gender-responsive measures to address gender gaps or promote gender equality and women empowerment? Yes

closing gender gaps in access to and control over natural resources; Yes

improving women's participation and decision-making; and/or Yes

generating socio-economic benefits or services for women. Yes

Will the project's results framework or logical framework include gender-sensitive indicators?

Yes

4. Private sector engagement

Will there be private sector engagement in the project?

Yes

Please briefly explain the rationale behind your answer.

The Food Securities Fund engages the private sector in three specific aspects:

Investors: The Food Securities Fund will mobilize substantial equity investments from private sector investors, such as private banks, asset managers, and family offices.

Borrowers (i.e. Aggregators): The Food Securities Fund will finance Small- and Medium sized Enterprises (SMEs) operating in developing and emerging countries that aggregate agricultural produce from and/or provide goods and services to farmers, in particular smallholder farmers.

Guarantors (i.e. Value Chain Partners): The Food Securities Fund will work with international companies such as traders, input providers and consumer facing goods companies, to identify investment opportunities in their agricultural supply chains originating in developing and emerging countries.

5. 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)

Note that these and other risk factors are integrated into the Food Securities Fund Valuation Policy, which also includes a template valuation proposal to track loans. Clarmondial also maintains a list of relevant sources to track the status of relevant risks. Risk factors are monitored on a quarterly basis.

Risk	Potential Manifestation	Potential Impact	Mitigants
Deal sourcing risk	Food Securities Fund is unable to source adequate deals	Food Securities Fund does not make investments	Deal sourcing strategy through network of corporate partners (VCPs)
Civil or political unrest	Producers stop producing Imports and exports are affected In-country transport affected	Amount, value or tradability of agricultural produce affected, impacting Aggregators' business and loan servicing	Relatively short-term lending approach, regular monitoring of local situation. Loans tied to primarily export markets.
Local policy change	Changes in policies regulating import and export of goods Changes to the convertibility and transferability of currency Changes in tax laws Changes in foreign investment laws	Borrower's ability to conduct business or repay financing affected	Relatively short-term lending approach, regular monitoring of local situation. Loans tied to primarily export markets.
Price volatility	Strong price drops in local or international markets	May affect Aggregators' financial viability and credit risk.	Loans require tie-in with off-taker (Value Chain Partner), or clarity on market to secure loan. As these are fixed for the duration of the loan this is mitigated by the Food Securities Fund structure unless.
Weather events	Drought / flood / earthquake affecting production or trade	Crop is (partially) destroyed	The Food Securities Fund will monitor uptake of good agricultural practices to mitigate this risk. As the portfolio grows, it may be

			e possible to arrange insurance.
Pest & disease risk	Aggregator not able to produce / trade	Crop is (partially) destroyed	As above.
Long-term climate trends	Long term climate shifts impact production	Farming becomes unviable, impacts Aggregator via ability	Quarterly monitoring, annual review of the loan to ensure that business model is suited to climatic conditions.
Local community & employee relations issues, farmer relations	Farmers to not sell to Aggregator, e.g. due to side-selling Local communities not supportive of Aggregator	Aggregator unable to trade, secure adequate HR, meet obligations	Food Securities Fund actively encourages full season support to farmers and communities beyond of f-take. Food Securities Fund screens for longer-term commitment by Value Chain Partner and Aggregator to the area.
Financial performance of Aggregator (borrower)	Aggregator has liquidity or solvency issues	Aggregator unable to service liabilities	Where practical, the Food Securities Fund will obtain relevant collateral to the loan. Partial first loss guarantee (up to 50%) from Value Chain Partner, additional de-risking from US DCA.
Legal and compliance	Financial fraud or misappropriation Inadequate insurance	Risk that aggregator is unable to service liabilities in future	Due diligence on Aggregator, regular (quarterly) financial monitoring, de-risking on loans as described above.

6. Coordination

Outline the institutional structure of the project including monitoring and evaluation coordination at the project level. Describe possible coordination with other relevant GEF-financed projects and other initiatives.

Institutional structure of the project, including monitoring and evaluation coordination

The Food Securities Fund has established a strategy and processes for monitoring and evaluating the projects. The non-financial aspects to this are summarized in the ESG Policy. The ESG policy provides a framework for how the Food Securities Fund will use ESG criteria to screen for, execute and monitor investments to manage risks and generate tangible positive systemic change in agriculture. It details which ESG criteria are taken into consideration and how these are relevant for the Food Securities Fund's stakeholders. The ESG Policy and its KPIs are related to and aligned with the Outcomes, Outputs, Targets and Indicators listed above. Note that the ESG Policy will be reviewed at least annually by the Impact Advisory Board to the Food Securities Fund.

As part of its initial screening of a potential transaction, the Food Securities Fund employs "negative screening". Fund follows the IFC Exclusion List criteria.

The Fund will not finance borrowers (Aggregators) involved in activities that:

- § are in breach of local laws and guidance, including on human rights, labor practices and natural resources;
- § are in breach of international good practice on human rights, labor and natural resource management;
- § promote deforestation of primary forests or biodiversity hotspots or important conservation areas; or
- § practice involuntary re-settlement, or where there is social unrest due to land tenure issues and displacement of peoples.

Aggregators may also not use financing from the Food Securities Fund to purchase, trade, or facilitate the use of chemicals on Fairtrade International's Red List of prohibited materials.

The ESG Policy will be implemented throughout the Food Securities Fund's activities, most importantly during the analysis of potential investments, in investment decisions, monitoring and reporting to investors as described below. A process described in the ESG Policy details how this ESG-related information is documented during these activities. Note that the Food Securities Fund provides loans to Aggregators who are also the Food Securities Fund's primary source of ESG-related information. This section therefore focuses on Aggregators.

Analysis of potential investments: Prior to the detailed analysis of potential investments, the Aggregators concerned will be filtered according to the exclusion criteria. Subsequently, the relevant ESG-related information will be reviewed during the analysis and due diligence such aggregators, specifically concerning the impact metrics and assessment factors. This includes the review of the Aggregator's records, systems, policies and business practices, as well as any available reports by independent third parties such as auditors or certification agencies. The analysis of ESG-related information is an integral part of the due diligence conducted on potential borrowers, both from an impact and risk management perspective.

Investment decisions: Information on ESG criteria will be reflected in the investment proposal provided to the Food Securities Fund's investment committee. In its deliberations, the Food Securities Fund's investment committee will consider the ESG aspects alongside other financial and business indicators.

Monitoring: For each investment the Food Securities Fund's Investment Committee has the discretion to select the impact metrics and assessment factors that should be monitored. These metrics and factors will be included as reporting requirements in the loan agreement with the respective Aggregator. The reporting requirements will include sharing of relevant reports from third parties, such as auditors or certification bodies, where possible. The Aggregators will report to the Food Securities Fund on a quarterly (if possible) or annual basis. To the extent possible, such reporting will be verified and complemented during any on-site visit to the Aggregator.

Reporting to investors: The Food Securities Fund will report to its investors on ESG approaches and performance on at least an annual basis. Such report will include the relevant impact metrics and assessment factors, subject to their availability, on a deal-by-deal basis. Where practical, relevant industry or geographical baselines will be included to put the performance of the Food Securities Fund's portfolio into perspective. Where possible, the Food Securities Fund aims to demonstrate impact over time and against the "business as usual" scenario.

Responsibilities: The following table describes the responsibilities of the Food Securities Fund's governance bodies and service providers regarding the ESG Policy.

Party	Responsibility
Alternative Investment Fund Manager (AIFM)	§ Monitor the implementation of this policy.
Board of Directors	§ Approve the ESG Policy and any changes to it. § To ensure its continued relevance and to reflect the experience accumulated in the Food Securities Fund's activities, this ESG Policy will be reviewed on an annual basis. All modifications will be recorded.
Investment Adviser (Clarmondial)	§ The assessment of ESG aspects during its due diligence of potential investments. At the discretion of the Investment Adviser, this may include the appointment of sub-contractors (e.g. consultants to develop ESG criteria for a specific transaction, or auditors to check the ESG performance of the Food Securities Fund's counterparts). § On an on-going basis, the Investment Adviser will assess the suitability of the ESG policy and suggest respective changes to the Food Securities Fund's Board of Directors on an annual basis. To this end, the Investment Adviser will seek to remain up to date with respect to relevant issues and latest thinking on ESG issues. § The Investment Adviser will monitor the performance of the Food Securities Fund's investees with regards to ESG aspects on a quarterly basis and support the production of the Food Securities Fund's annual report for the Food Securities Fund's investors.
Investment Committee	§ Define the impact metrics and assessment factors to be monitored for each of the Food Securities Fund's investments.
Impact Advisory Board	§ Review the ESG Policy at least annually, preferably quarterly to ensure adequate consideration of ESG factors. § Provide guidance on material ESG impacts to consider within the strategy and its implementation, potential partners, technical providers or sources of information. § Review the annual impact report.

Figures 7, 8 and 10 provided above also illustrate the organizational structure and process.

Coordination with other relevant GEF-financed initiatives

The Food Securities Fund intends to coordinate with several GEF-financed projects and initiatives. These are summarized in the table below.

Project name	Years (start - end)	Budget (USD)	Funder(s)	Objectives / brief description of how it is linked to this GEF project
<i>Government-endorsed strategies and policies (regional & national)</i>				

UN CBD NBSAPs	N/A	N/A	Various	NBSAPs provide a summary of current national trends with respect to biodiversity and conservation. It includes information on major drivers of biodiversity loss, strategic objectives and national actions. The investment strategy of the Fund can be informed by NBSAPs.
UNFCCC reporting	N/A	N/A	Various	Non-Annex I countries provide a variety of reports that can be used to guide the Food Securities Fund. This includes national documents reporting on mitigation and emissions reduction strategies, as well as national adaptation programmes. These can help guide the Food Securities Fund in its investment strategy and monitoring.
UNCCD reporting	N/A	N/A	Various	National LDN targets, combined with reports submitted by the Parties to the UNCCD can help to inform and guide the Food Securities Fund strategy. In addition, various initiatives related to the UNCCD are complementary to the Food Securities Fund, including the LDN Fund and the Drought Initiative.
<i>International funding lines (donor & development partner driven)</i>				
Good Growth Partnership	2017	N/A	Funded by GEF, with UNDP, Conservation International, IFC, UN Environment, WWF with the governments of Brazil, Indonesia, Liberia & Paraguay	Initiative to promote sustainable supply chains, from production to demand, transactions, and knowledge management. Clarmondial is aligned with this initiative through its collaboration with Conservation International, among others. The Food Securities Fund can provide additional finance to complement traditional funders, such as banks.
<i>Commitments and compacts</i>				

Coalition on Private Investment in Conservation (CPIC)	2016	N/A	GEF, Rockefeller Foundation	Clarmondial is a member of CPIC and has contributed to various working groups.
<i>Other impact funds and private sector impact investment strategies</i>				
Moringa Fund	N/A	N/A	GEF, Rothschild private bank, various private investors	As the Moringa Fund focuses on long-term funding to sustainable value chains, the Food Securities Fund may be able to provide a complementary working capital solution to the Moringa Fund's investees.
&Green Fund	2017	100m	Government of Norway, GEF, Unilever	The &Green Fund is able to invest in larger transactions in specific jurisdictions, including in subordinated positions. There may be collaboration opportunities in certain areas, and on larger deal sizes.

Coordination with the GEF FOLUR Impact Program

The Food Securities Fund is well-aligned with GEF's FOLUR Impact Program, in particular as it will "help countries meet the growing demand for increased crop and livestock production, while reducing the risk of further expansion of farmland, erosion of genetic diversity, overexploitation of land and water resources, overuse of chemical fertilizers and pesticides, and inefficient practices that lead to deforestation, biodiversity loss, land degradation, and greenhouse gas emissions".^[59] While there only a partial match with the initial FOLUR cohort of countries and landscapes, a common intention is clear, in particular in its engagement of the private sector (see table below)^[60], and delivering significant Global Environmental Benefits.

FOLUR private sector approach	Alignment with the Food Securities Fund
(i) Strengthening corporate governance and sourcing policies	The Food Securities Fund works with international corporates to source investment opportunities in their supply chains. The Food Securities Fund encourages a long-term commitment by these corporates to their suppliers and ensures sustainable sourcing policies are implemented. While the Food Securities Fund and its investors take some of the risk burden, it ensures appropriate <i>skin in the game</i> from the corporates by requiring a partial first loss guarantee and an on-going business relationship committed to continuous improvements.
(ii) Targeting sourcing policies on regions and countries that are putting in place interventions to improve land management	While sourcing policies are ultimately driven by corporates and their customers, the Food Securities Fund works with, and seeks to align with, countries and regional programs that have actionable intentions to improve land management. For example, an MOU exists with the Government of Nigeria to work alongside its agricultural finance program NIRSAL.
(iii) Increasing commitment for zero deforestation and sustainability standards in supply chains for both direct and indirect suppliers	The Food Securities Fund seeks change by requiring continuous monitoring on key sustainability impact KPIs of suppliers. The Food Securities Fund lends to suppliers of international corporates. While the funding is seasonal, it may sign multi-year funding agreements where at least annual achievements have to be demonstrated in order to continue the lending relationship.
(iv) Including gender and equity aspects in purchasing / sourcing policies and in engagements with producer organizations and cooperatives	Gender and equity aspects are a critical part of the Food Securities Fund and will be continuously monitored. The Food Securities Fund intends to see improvements in the gender balance of females engaged at the level of the farmer as well as the aggregator (e.g. cooperative, processor).
(v) Encourage and leverage additional financing and investment by private sector actors	The Food Securities Fund leverages and supports the existing financial relationships between organizations in the value chain, e.g. by complementing the pre-finance that may already be provided by consumer-facing companies in the context of their sustainable sourcing commitments through an off-balance funding solution. The Food Securities Fund creates a new channel for capital to flow from institutional investors to sustainable agriculture in emerging markets, notably unsecured full season finance to emerging market agricultural SMEs.

Within the GEF commitment period, the Food Securities Fund intends to target the following initial FOLUR cohort countries and sectors:

- Palm oil in Indonesia and Liberia, with the potential for including Peru
- Cocoa in Côte D'Ivoire, Ghana, and potentially Indonesia, Peru and Colombia
- Coffee in Burundi and Ethiopia, with the potential for including Indonesia, Colombia, Peru, Guatemala and Mexico
- Soy, notably in Brazil and potentially Argentina and Paraguay

The Food Securities Fund may also consider opportunities in the rice sector in Indonesia and Vietnam.

[59] GEF FOLUR Impact Program

[60] *Ibid.*

7. Consistency with National Priorities

Is the Project consistent with the National Strategies and plans or reports and assessments under relevant conventions

Yes

If yes, which ones and how: NAPAs, NAPs, ASGM NAPs, MIAs, NBSAPs, NCs, TNAs, NCSAs, NIPs, PRSPs, NPFE, BURs, INDCs, etc

- National Bio Strategy Action Plan (NBSAP)
- CBD National Report
- Cartagena Protocol National Report
- Nagoya Protocol National Report
- UNFCCC National Communications (NC)
- UNFCCC Biennial Update Report (BUR)
- UNFCCC National Determined Contribution
- UNFCCC Technology Needs Assessment
- UNCCD Reporting
- ASGM National Action Plan (ASGM NAP)
- Minamata Initial Assessment (MIA)
- Stockholm National Implementation Plan (NIP)
- Stockholm National Implementation Plan Update
- National Adaptation Programme of Action Update
- Others

The Fund intends to work in a diverse set of countries. The initial country list includes Brazil, Burkina Faso, Burundi, Côte d'Ivoire, Ethiopia, Ghana, Indonesia, Kenya, Liberia, Madagascar, Mexico, Nicaragua, Nigeria, Togo, Zambia. An overview of relevant national strategies is given in the table below. Note that national reports such as the NBSAP, UNFCCC National Determined Contribution (NDC) and National Adaptation Programme of Action (NAPA) Update are useful in guiding investments, identifying reference levels and information sources. Note that not all target countries are party to the Nagoya Protocol, and have submitted NAPA Updates. The Fund will also regularly monitor the Stockholm Convention website, notably the country registries for agricultural chemicals. Figure 12 summarizes the national strategy alignment to relevant conventions for some of the focus countries of the Food Securities Fund.

Documentation submitted by national governments, e.g. in the context of the UNCBD, UNFCCC and UNCCD will be monitored and utilized where relevant. For example, under the UNCCD, national LDN targets, combined with reports submitted by the Parties to the UNCCD can help to inform and guide the Food Securities Fund strategy. In addition, various initiatives related to the UNCCD are complementary to the Food Securities Fund, including the LDN Fund and the Drought Initiative.

National strategy alignment to relevant conventions

Country	NBSAP	CBD National Report	Cartagena Protocol National Report	Nagoya Protocol National Report	UNFCCC NDC	UNCCD	NAPA
Brazil	☐	☐	☐		☐	☐	
Burkina Faso	☐	☐	☐	☐	☐	☐	☐
Burundi	☐	☐	☐	☐	☐	☐	
Côte d'Ivoire	☐	☐	☐	☐	☐	☐	
Ethiopia	☐	☐	☐	☐	☐	☐	☐
Ghana	☐	☐	☐		☐	☐	
Indonesia	☐	☐	☐	☐	☐	☐	
Kenya	☐	☐	☐	☐	☐	☐	
Liberia	☐	☐	☐	☐	☐	☐	☐
Madagascar	☐	☐	☐	☐	☐	☐	☐
Mexico	☐	☐	☐	☐	☐	☐	
Nicaragua	☐	☐	☐		☐	☐	
Nigeria	☐	☐	☐		☐	☐	
Togo	☐	☐	☐	☐	☐	☐	☐
Zambia	☐	☐	☐	☐	☐	☐	☐

Figure 12: Summarizes the national strategy alignment to relevant conventions for countries targeted by the Food Securities Fund - note this includes only some of the countries considered

In addition to the relevant conventions, the Food Securities Fund will monitor national strategies, policies and regulations. These include agriculture investment plans, food security strategies and national development plans. Where available, the Food Securities Fund will reference and utilize government impact monitoring systems, including early warning systems and geographic mapping and investment prioritization initiatives to support and further inform national initiatives. These may Climate Smart Agriculture Investment Plans (CSA IPs) developed by CGIAR CIAT and the World Bank, for example.

8. 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.

Progress on the Key Performance Indicators (KPIs) listed in the ESG Policy as well as in Table B above will be consolidated into an annual impact report. This report will not contain confidential information but will provide an overview of the impact created by the Food Securities Fund. It will be primarily a qualitative summary, describing the achievements and challenges, integrating the assessment factors and responding to the questions included in the Table below.

A summary of this annual report will be made public and shared with key stakeholders – in particular national and regional government agencies, development partners, CSOs and NGOs. Information gathered, and lessons learned, as a result of implementing the Food Securities Fund, may also be shared in thought pieces, workshops and conferences. Events where the results may be presented include the Global Impact Investing Network (GIIN) annual investor forum, and New York Climate Week. This may also help to stimulate discussions with partners to address additional resourcing needs at the local level, including technical assistance, business partnerships and other types of capital (e.g. equity, project finance).

Stakeholder group	Intended aim	Assessment factors: questions to be addressed in annual report	Information sources
Farmers & rural livelihoods	Improve rural livelihoods	<p>§ Did the Fund help to improve rural livelihoods, and how?</p> <p>§ Did the Fund contribute to creating opportunities for women, youth and indigenous communities, if so, how?</p> <p>§ Did the Fund contribute to increased food security, and how?</p> <p>§ Did the Fund contribute to the adoption of good (sustainable) agricultural practices by farmers?</p>	Information sourced from aggregators, selected interviews with Value Chain Partners (VCPs) and relevant local groups
Value Chain Partners	Increase value chain support to responsible agriculture	<p>§ Did the Fund support the adoption and operationalisation of sustainable supply chain commitments, and how?</p> <p>§ Did the Fund support the Value Chain Partner's action on robust reporting on material impact issues, and if so, how?</p> <p>§ Did the Fund support the VCP in promoting the business case for responsible agriculture[61], and if so, how?</p> <p>§ What are VCPs motivations or challenges for engaging in responsible agriculture?</p>	Information from discussions with existing and potential Value Chain Partners (VCPs)
Investors	Increase investor engagement in responsible agriculture	<p>§ Did the Fund engage with investors on responsible agriculture?</p> <p>§ What is the range of investors understanding of responsible agriculture?</p> <p>§ What are their primary concerns and motivations for investing or not investing?</p> <p>§ What non-financial information are investors concerned about in the context of responsible agriculture?</p>	Information from discussions with investors and potential investors in the context of the Fund
General	Promote business-led and science-based approaches to responsible agriculture	<p>§ Which partners has the Fund engaged with in trying to promote investments in responsible agriculture?</p> <p>§ What steps did the Fund take, or does it intend to take to promote greater action on the Fund's core impact issues?</p>	Description of other partnership arrangements and discussions (e.g. research organizations, NGOs, government agencies)

In addition to this work, Clarmondial has and will continue to publish research and thought pieces linked to its experiences on sustainable finance.

Clarmondial may consider writing up "special features" on topic areas, and to generally inform the market about our experience showcasing concrete examples. This is consistent with commitments that Clarmondial has made to other funders of the Food Securities Fund development, e.g. Convergence[62], which will develop one or more case studies about the Fund.

On impact metrics, the collaboration with research organizations and other stakeholders will also benefit the sector as a whole. Inside VCPs, it will have a demonstration effect. Other activities include:

§ Participating in relevant meetings, gatherings and events where the work of the Food Securities Fund can be shared;

§ Plan for exchanges between borrowers, VCPs and investors;

Planned documentation of project success and lessons learned beyond donor requirements but aligned with the strict fund distribution regulations in Europe and the USA

[61] Convergence has provided a “design grant” to Clarmondial for the development of the Food Securities Fund, in that context is has and will continue to work with Clarmondial and partners to share experiences and lessons.

[62] Note that the terms “sustainable agriculture” and “responsible agriculture” are used interchangeably throughout this document.

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 with this template).

Name**Position****Ministry****Date**

ANNEX A:

Instructions. Please submit an indicative termsheet in this section. The NGI Program Call for Proposals provided a template in Annex A that can be used by the Agency. Agencies can use their own termsheets but must add sections on Currency Risk, Co-financing Ratio and Financial Additionality as defined in the template provided in Annex A. Termsheets submitted should include sufficient details to allow a financial expert to understand and judge the financial viability of the proposed investments. Indicative terms and conditions should be used when specific details are not yet available. Please ensure that by copying the termsheet in the section of the PIF/PFD, the format allows reviewers to read the content.

Disclaimer:

The CI-GEF Project Agency has conducted a preliminary review and assessment of the proposed non-grant instruments (NGI). Additional due diligence of the NGI proposal will be conducted by the CI-GEF Project Agency during the PPG phase.

All investments are speculative in nature and involve substantial risk of loss. Much of the information and indicative terms submitted by the CI-GEF Project Agency is derived directly from information provided by the project proponent, which we believe is reliable/reasonable. CI does not warrant the completeness or accuracy of such information and does not provide any representations or warranties as to the success of financial returns to be generated by the NGI or whether the NGI would be deemed to be in line with market terms and conditions.

CI wishes to disclose to the GEF that CI Ventures is in the process of providing a loan to Clarmondial. Our potential loan to Clarmondial has not influenced our judgment in our review of the proposed PIF.

Project/Program Title	The Food Securities Fund: A fund to finance sustainable supply chains at scale in Emerging Markets																			
Project/Program Number	10322																			
Project/Program Objective	The Food Securities Fund will improve rural livelihoods and achieve positive environmental outcomes by supporting sustainable agriculture production systems in emerging markets with a complementary source of credit, provided in partnership with companies committed to sustainable development in their sourcing areas.																			
Country [ies]	Global emerging markets, including but not limited to Burkina Faso, Côte d'Ivoire, Ghana, Indonesia, Madagascar, Nigeria, Zambia.																			
Agency presenting the Project	Conservation International																			
Project Financing	A. Sources of Co-financing, Name of Co-financier and type of co-financing																			
	<table><tr><th>Sources of Co-financing</th><th>Name of Co-financier</th><th>Type of Co-financing</th><th>Investment Mobilized</th><th>Amount (\$)</th></tr><tr><td>Government</td><td>USAID Development Credit Authority (DCA) (signed agreement)</td><td>Guarantee</td><td>Investment mobilized</td><td>37,500,000</td></tr><tr><td>Private sector</td><td>Private investment group 1 (due</td><td>Equity</td><td>Investment</td><td>15,000,000</td></tr></table>					Sources of Co-financing	Name of Co-financier	Type of Co-financing	Investment Mobilized	Amount (\$)	Government	USAID Development Credit Authority (DCA) (signed agreement)	Guarantee	Investment mobilized	37,500,000	Private sector	Private investment group 1 (due	Equity	Investment	15,000,000
	Sources of Co-financing	Name of Co-financier	Type of Co-financing	Investment Mobilized	Amount (\$)															
	Government	USAID Development Credit Authority (DCA) (signed agreement)	Guarantee	Investment mobilized	37,500,000															
Private sector	Private investment group 1 (due	Equity	Investment	15,000,000																

	diligence ongoing)		mobilized	
Private sector	Private investment group 2 (due diligence ongoing)	Equity	Investment mobilized	10,000,000
Private sector	Development Finance Institution (pending due diligence, support letter available)	Equity	Investment mobilized	20,000,000
Private sector	Development Finance Institution (due diligence ongoing)	Equity	Investment mobilized	10,000,000
Private sector	Private bank (firm commitment)	Equity	Investment mobilized	1,000,000
Government	Development agency (pending due diligence)	Loan	Investment mobilized	500,000
Private sector	Private foundation (finalizing terms)	Grant	Investment mobilized	250,000
Private sector	Institutional investors, impact funds, family offices, DFIs - Development Finance Institutions	Equity	Investment mobilized	678,250,000
Total Co-financing				772,500,000

B. Indicative Trust Fund Resources Requested under the NGI Program

\$15,000,000 inclusive of Project Preparation Grant (PPG) and other costs.

Total Project Financing: sum of A+B = \$ 787,500,000

Currency of the Financing

USD

Currency risk

Not applicable.

The shares of the Food Securities Fund will be valued in USD.

The Food Securities Fund will not take local currency risk. If the investment (loan agreement) is not denominated in USD, the Food Securities Fund will hedge the position.

For currency hedging purposes, mostly futures will be purchased. The Fund is not planning to use swaps. Exact construction (e.g. ACC - advances on FX contracts related to exports in Brazil; or onshore OTC FX Future with a Certificate of Capital Importation in Nigeria) will be discussed with and arranged through commercial banks in each country for each loan as and when required.

Co-financing ratio

Every GEF 1USD mobilizes 52 USD.

Every GEF 1USD mobilizes 43 USD of private sector financing.

Financial additionality of GEF resources

The Food Securities Fund addresses the growing, unmet, need for working capital in a manner that incentivizes continuous improvement on social and environmental KPIs in a highly scalable way. Traditional, collateral-focused lending has failed to close the financing gap in the agriculture sector in emerging markets and is ill-suited to supporting the transition to sustainable supply chains. The Food Securities Fund mobilizes capital from institutional investors in an innovative, scalable, blended finance structure to strengthen responsible value chains by providing unsecured, rolling, season-long working capital loans to responsible SMEs, enabling them to increase their support to smallholder farmers.

The Fund supports the long-term commitment of large corporates to their local suppliers and provides a mechanism to ensure transparency and accountability with

	<p>in value chains. It will trigger a demonstration effect in the agricultural and capital markets, showing that unsecured funding can be provided at affordable rates where there is a commitment to stronger value chains and third-party oversight. Support by the GEF constitutes a strong positive signal towards potential investors on the merits of such strategy and its goals. An investment of USD 15 million by the GEF improves the Fund's economies of scale and allows the financing of a larger portion of the current deal pipeline. It helps Clarmondial attract additional subscriptions to the Food Securities Fund, notably from leading private banks, insurance companies and pension funds, enabling a stronger launch and setting the foundations for a USD 750 million commitment target over 8 years. Also, increasing scale will allow a reduction of the Food Securities Fund's intermediation cost (i.e. the Fund's total expense ratio), making it even more attractive to investors, borrowers and partners.</p>
Use of proceeds	<p>The Fund follows an efficient deal origination approach and investment strategy: it collaborates with large, established corporates in the food and agriculture sector ("Value Chain Partners" or "VCPs") that source from local companies in emerging markets ("Aggregators"). The Fund provides rolling debt financing in the form of unsecured senior loans, typically on a 12-month basis, to Aggregators (i.e. enters into loan agreements with SMEs in emerging markets, including cooperatives and processors).</p> <p>Instead of relying on traditional collateral, the Fund will enter into risk-sharing arrangements with the VCPs, such as a partial first-loss guarantee regarding the financing provided by the Fund to the Aggregator. The Fund has an additional risk cover from the US Development Credit Authority (DCA), supported by the US Bureau for Food Securities, which covers a loan period of up to 6 years (i.e. including renewals) with a specific borrower. This enables the Fund to originate efficiently, and to provide additional, predictable, full season working capital that does not depend on collateral provided by the borrower and that continuously supports improvements on pre-agreed social and environmental impact areas.</p> <p>The tenor has been discussed with potential borrowers, who confirm it matches their needs. Clarmondial has identified over USD 100m in pipeline for the Food Securities Fund under the proposed terms. The loans will be used to cover inter-seasonal working capital needs, especially those required by smallholder farmers prior to and during the harvest period. For example, this may be to advance improved seeds in the case of annuals, and technical assistance for pruning in the case of tree crops / perennials. Longer tenors may cause a mismatch with the quarterly liquidity offered to investors. However, longer tenors may eventually be considered subject to the overall composition of the portfolio.</p> <p>Value Chain Partners (VCPs) will help Clarmondial originate transactions for the Food Securities Fund, by recommending their suppliers (Aggregators) that match the Fund's borrower investment criteria. When making a loan to an Aggregator, the Fund will negotiate a first loss guarantee with the VCP that introduced such Aggregator. Depending on the case, this first-loss guarantee will cover 10 to 40% of the loan (principal). If the Aggregator defaults on the loan, the VCP will compensate the Fund for part of its losses. Exact terms will be negotiated on each case along the lines of those of the USAID guarantee agreement (e.g. best effort recovery period, r</p>

reimbursement upon recovery). Indicative terms sheets have been signed with Aggregators and VCPs. Typically, the Fund will not require that the guaranteed amount is readily available in a cash account, due to the credit worthiness of the VCPs and the cost of such approach. The VCP first loss guarantee is a standard feature for the loans made by the Fund. Only in exceptional cases (and subject to the availability of collateral), can the Board of Directors waive this requirement.

The agreement with USAID Development Credit Authority (DCA) and the Bureau for Food Security (BFS) covers 50% of the remaining loss, *pari passu* with the Fund, after the VCP first loss coverage. For example, on a USD 1m loan with a 20% (USD 0.2m) first loss guarantee from the VCP, the Fund and USAID would each bear 40% (USD 0.4m) of the credit risk. When a loan is disbursed, the Fund registers it on the USAID Credit Management System. These multiple entries can add up to USD 37.5m in USAID exposure, i.e. this is the maximum payment by USAID if all deals fail. Renewed loans are counted only at original entry. Assuming average 25% first loss covered by the VCPs, and remaining 75% exposure divided between Fund and USAID, the USAID guarantee covers a portfolio of USD 100m. The guarantee covers only the loan principal, not interest payments. Claims will be honored following a 90-day period of reasonable recovery efforts by Clarmondial, and full write-off of the loan by the Fund. Clarmondial intends to place all loans under the USAID guarantee up to the available limit (subject to country credit rating and other parameters demanded by USAID). The costs payable by the Fund to USAID are divided into a one-off origination fee and a semi-annual utilization fee.

Default workouts: the VCP guarantee covers the initial loss on non-performing loans / overdue repayments. Losses that exceed the VCP guarantee are equally divided between USAID and the Food Securities Fund. Once the monies are recovered, the reverse order applies: first the Fund and USAID are equally refunded, then the VCP. Clarmondial will lead the recovery efforts on non-performing loans. It will negotiate with borrowers in default and liaise with the guarantee providers (VCPs and USAID). If required, in addition to the legal advice of Allen & Overy, Clarmondial will engage local legal service providers and additional support (especially if the loan agreement includes collateral).

Jurisdiction of investments: Allen & Overy are the legal advisers to the Fund in Luxembourg. They review all legal documents at fund and investment levels. Loan and guarantee agreements will be executed under US / EU laws unless local regulations in investment countries require otherwise, in which case appropriate legal advice will be accessed.

Eligible instruments: Based on the prospectus, the Fund is allowed to invest in various asset classes and financial products. This flexibility allows for cash management and greater flexibility in the recovery of non-performing loans. The investment strategy is based on private loan agreements (i.e. senior unsecured loans) executed between the Fund and the Aggregator, backed by private guarantee agreements executed between the Fund and the VCPs. These agreements will be typically denominated in USD (or in EUR, or in local currency hedged back to USD).

Financing instruments

The GEF will invest in Food Securities Fund single-class shares (i.e. equity) alongside public and private investors under the same terms & conditions. The additionality derives from the timing of the commitment – the approval by the GEF by the end of 2019 will have a significant impact in Clarmondial's ability to attract public and private investors at Fund launch.

	<p>private investors at a minimum.</p> <p>We deem this as the most efficient structure to mobilize private capital in Europe and the USA due to its simplicity, scalability, regulatory requirements, reduced administrative burden and lack of conflicts of interest.</p>
<p>Terms and conditions for the financing instruments</p>	<p>(a) <u>Fund strategy</u>: The Fund provides rolling debt financing of up to 12 months to Aggregators (i.e. SMEs in emerging markets including cooperatives and processors). Instead of depending on traditional collateral (fixed assets or produce), the Fund seeks a risk-sharing arrangement with the Value Chain Partners, such as a partial first-loss guarantee regarding the financing provided by the Fund to the Aggregator. The Fund has an additional risk cover from the US Development Credit Authority (DCA), supported by the US Bureau for Food Security (BFS). This enables the Fund to originate more efficiently (i.e. working through the supply chains of large corporates), and to provide additional, full season working capital that does not depend on collateral provided by the borrower. The open-ended nature of the Fund also means that, as the Fund size increases and matures, the intermediation cost can be reduced, with benefits passed onto borrowers and investors.</p> <p>The Fund will invest worldwide, directly or indirectly, into sustainable businesses in agriculture and land use-related sectors. The Fund will focus on providing relatively short-term financing to primary producers, directly and/or through their supply chain partners including traders, input providers, exporters, agents, and companies. These investments, whenever possible, shall match the full production cycle (e.g. planting, harvesting and trading) of local agricultural, fishery, and other natural resource-based production activities. The Fund seeks to invest in, and promote, responsible businesses in emerging, frontier and developing markets that demonstrate a substantive and lasting commitment to social and environmental best practices, as described by the ESG Policy, adherence to which will be assessed insofar as possible and practical during the analysis of investment opportunities and as part of the monitoring of the investment portfolio. It may also invest in related infrastructure and other aspects of such value chains, including temperature-controlled storage, marketing agencies and weather collection information, for example.</p> <p>The prospectus states that the Fund will not invest more than 30% of its gross assets in any one investment, but the internal guidance is stricter: no more than 25% exposure per country, commodity, VCP or Aggregator. Also, the guarantee agreement with USAID forces the Fund into an allocation balance between country risk ratings and Feed the Future country priorities in order to optimize the usage of the guarantee. Integrity and the due diligence scope are assessed by the various investment governance bodies (Investment Advisory Committee, Investment Committee, Fund Manager) and both the Fund Manager (Vistra) and Central Administrator / Depository (Bank Pictet Group) are subject to AML / CFT regulations. Various activities are excluded from investment, as listed in the ESG Policy.</p> <p>Credit analysis: investment criteria include financial and non-financial (ESG) components, in addition to the first loss guarantee by the VCP (which is typically an off-taker with trading history with the Aggregator). Standard requirements include (i) a suitable legal setup; (ii) annual financial statements for the previous 3 years of operation; (iii) no defaults on financial commitments during in the previous 3 years; (iv) adequate business size / volume and equity to absorb the proposed loan; (v) commitment to comply with the Food Securities Fund's ESG Policy. Clarmondial will perform off and on-site due diligence and also deploy its best efforts to evaluate t</p>

the integrity of the borrowers' managers and shareholders, as well as any reputational risks associated with the proposed transaction.

Investment exits: as the Food Securities Fund provides working capital loans with a fixed tenor, it will not have to negotiate exits. Irrespectively, Clarmondial's team and the Fund's Board Members have negotiated exits from investments in the past.

Liquidity: The Fund will try to optimize liquidity management by matching investment pipeline with subscription applications and redemption requests (quarterly with 30 and 60 calendar day advance notice, respectively). Liquidity allocation will be discussed between Clarmondial, the Fund Manager, and the Central Administrator. The Fund aims to have a varied portfolio of loans disbursed, repaid and renewed throughout the year. Redemption requests will be served via liquidity management, i.e. by (re-)investing only the cash available net of redemption requests from investors.

(b) Fund structure: Open-ended, Luxembourg domiciled S.A. SICAV-FIS regulated by the Luxembourg authorities (fully compliant with the European Union's Alternative Investment Fund Management Directive - AIFMD). This is a common investment fund structure, suitable for institutional investors in Europe and the USA.

With the Food Securities Fund, Clarmondial is following a similar route as adopted by market practice in the Grand Duchy of Luxembourg, by fund managers in the mainstream and impact investment sectors alike. European fund regulations have become a significant hurdle for new managers, so most of the firms operate under "regulatory umbrellas" provided by third-party providers. Until a company / fund reaches significant scale, having its own fund management license is usually not economically viable. In fact, some established companies decide to maintain a third-party manager despite reaching significant size, because they do not consider an in-house solution as strategic.

Clarmondial has designed the Fund in close dialogue with leading institutional investors, such as European pension funds, insurance companies, private banks, US university endowment funds, foundations, family offices and development finance institutions. Their due diligence to date has confirmed that the legal, regulatory, financial and governance structures of the Fund are sound and well aligned with their needs and market practices.

Vistra will act as the Fund's external alternative investment fund manager (AIFM). As such, Vistra is ultimately responsible for its compliance with applicable laws and regulations towards the Luxembourg supervisory authority for the financial sector (Commission de Surveillance du Secteur Financier - CSSF). Under the European

of (Commission de Surveillance du Secteur Financier, CSSF). Under the European Union's Alternative Investment Fund Managers Directive (AIFMD), Vistra will make sure that the investments proposed by Clarmondial are aligned with the Fund's documentation.

The Investment Advisory Agreement, whose parties are Clarmondial, Vistra and the Fund itself, defines the role and duties of Clarmondial. These include investor relations, deal origination, assessment / due diligence, monitoring, and the eventual collection of non-performing investments (i.e. recovery of defaulted loans). Clarmondial assists with the daily operations of the Fund, and is the only entity in charge of originating and proposing deals that fulfil the safeguards and policies of the Fund. These are checked initially by the Clarmondial team, and then reviewed by its Investment Advisory Committee, before reaching Vistra's Investment Committee.

Clarmondial's Investment Advisory Committee ("IAC") is comprised by inhouse and independent specialists, such as Jacques Taylor (Head of John Deere Sub Saharan Africa), Danny van Debt (former Head of Rabobank subsidiaries in Latin America and Africa), and Christian Speckhardt (former Chief Investment Officer of responsibility).

For avoidance of doubt, Conservation International will complete its legal due diligence before the GEF CEO endorses an investment in the Fund. The result of such review should detail the analysis and assessment of (a) the legal and structural risks identified after analysis of the Investment Advisory Agreement; and (b) a legal opinion that no additional risks arise given that Clarmondial is contracted as an investment advisory company (i.e. instead of a portfolio manager), as well as in relation to the domicile and jurisdiction of the agreement and its signatories.

(c) Targeted IRR: 5.0% to 7.0% p.a. net to investors, in USD.

(d) Remuneration of Limited Partners and General Partners: The Food Securities Fund does not have a GP/LP structure, but a single share class for all investors without distinction. The target IRR to investors is presented in (c) above. The fund manager, investment adviser and other service providers are remunerated out of the Fund's maximum total expense ratio (TER) of 0.5% of the Net Asset Value (NAV) per quarter. There is no performance-related fee. There is nevertheless a direct alignment between investors and the Fund's service providers as the Fund offers investors quarterly liquidity: if the Fund performs poorly, investors may redeem their shares, causing the Fund's Net Asset Value (NAV) to drop. Service providers are directly affected by this as the NAV is the basis for the calculation of their fee. The Clarmondial team have made significant personal and professional contributions to developing this Fund, and sees the success of the Fund as a basis for growing the business.

business.

The Food Securities Fund has established a maximum TER, as mentioned above. Fees to service providers are paid according to the service agreements – on an hourly basis (e.g. legal services), or linked to the Fund's net asset value (NAV) and number of investments, for example. Clarmondial is paid the remaining amount as Investment Advisor to the Fund. No service provider, including Clarmondial, is entitled to performance related fees. This point was discussed at length with institutional investors and potential anchor investors who stated that they did not think such performance related fees were appropriate for a fixed income (i.e. debt) fund.

For avoidance of doubt: the USAID guarantee is paid out of the Fund's bank account. The Fund has a maximum Total Expense Ratio equivalent to 0.5% of the Net Asset Value (NAV) per quarter. Clarmondial receives the remaining amount after all service providers (AIFM, custodian, legal advisers, etc.) are paid. In practice, the payment to USAID reduces the amount available for Clarmondial, so one can argue that Clarmondial is responsible for all expenses.

(e) Fund governance: The Food Securities Fund is managed by Vistra, a regulated Alternative Investment Fund Manager (AIFM) in Luxembourg. Clarmondial acts as Investment Advisor to the Food Securities Fund and to the AIFM. The Food Securities Fund is regulated, and it counts on its own Board of Directors as well. Clarmondial is supported by an Impact Advisory Board, whose founding members include Conservation International and WWF USA.

USAID is not involved in investment decisions, but their criteria may affect the portfolio composition. The USAID guarantee agreement lists some criteria, mechanisms and exposure limits, for example:

- The maximum USAID DCA exposure per borrower is USD 6m.
- USAID DCA does not guarantee the first 10% loss (which should be covered by the VCP).
- The loan should not have more than 75% in guarantees by the VCP or other parties.
- The maximum total exposure is USD 37.5m, of which at least USD 18.75m should be allocated by 31 March 2023 and the remaining by 31 March 2027.
- At least 25% of the cumulative USAID exposure should be allocated to Feed the Future Focus Countries.
- At least 50% of the cumulative USAID exposure should be allocated to Feed the Future Focus and Aligned Countries.

- The weighted average country risk rating of the USAID exposure should not exceed 5.0 (based on the USAID country credit score).

Once a loan agreement is executed, it will be added to the USAID web portal and automatically covered without individual approvals (except for the overall limits mentioned above). On certain cases, the Fund may choose not to register a loan under the USAID guarantee (e.g. if the VCP provides sufficient guarantees or if other guarantors are engaged).

(f) Pipeline of projects: Please refer to the table below:

GEF 7 - IP focal area				
Country	Crop	Biodiversity	Climate change mitigation	Land degradation
Brazil	Soybeans	✓	✓	✓
Burkina Faso	Cashew	✓	✓	✓
Burundi	Coffee	✓	✓	✓
Cote d'Ivoire	Cocoa	✓	✓	✓
Ethiopia	Coffee	✓	✓	✓
Ghana	Cocoa	✓	✓	✓
Ghana	Rice		✓	✓
Indonesia	Vanilla	✓	✓	✓
Indonesia	Palm oil	✓	✓	✓
Kenya	Pulses		✓	
Kenya	Avocado		✓	
Liberia	Palm oil	✓	✓	✓
Liberia	Cocoa	✓	✓	✓
Madagascar	Vanilla	✓	✓	✓
Mexico	Coffee	✓	✓	
Nicaragua	Coffee	✓	✓	✓
Nigeria	Sorghum	✓	✓	
Nigeria	Pulses		✓	
Togo	Cashew	✓	✓	
Zambia	Maize	✓	✓	
Zambia	Peanuts	✓	✓	

ANNEX B:

Instructions. Please submit a reflows table as provided in Annex B of the NGI Program Call for Proposals. Any financial returns/gains/interests earned on non-grant instruments, will be transferred to the GEF Trust Fund as noted in the Guidelines on the Project and Program Cycle Policy. Partner Agencies will be required to comply with the reflows procedures established in their respective Financial Procedures Agreement with the GEF Trustee.

Item Data	Item Data
GEF Project Number	10322
Estimated Agency Board approval date	12/01/2020
Investment type description	Equity (single-class shares of the Food Securities Fund)
Expected date for start of investment	30 JUN 2020
Amount of investment (USD GEF funds)	USD 12,820,446 *
Amount of investment (USD co-financing)	USD 735'000'000 in subscriptions to the Food Securities Fund + USD 37,500,000 guarantee by USAID DCA
Estimated interest rate/return	5.0 % p.a. (target net return 5.0 – 7.0% p.a.)
Maturity	8 years (30 JUN 2028)
Estimated reflow schedule	Single repayment at final repayment date
Repayment method description	Redemption of fund shares
Frequency of reflow payments	Single repayment
First repayment date	Please refer to final repayment
First repayment amount	Please refer to final repayment
Final repayment date	31 JUL 2028 (based on 30 JUN 2028 share price)
Final repayment amount	USD 18,941,638
Total principal amount to be paid- reflowed to the GEF Trust Fund	USD 12,820,446 (100%)
Total interest/earnings amount to be paid-reflowed to the GEF Trust Fund	USD 6,121,192 (5.0% p.a. over 8 years)

* Refers to the net amount invested in the Fund. Based on a USD 15,000,000 total commitment; USD 1,238,532 in agency fees (PPG and implementation); USD 300,000 for PPG phase; and PMC at USD 641,022.

ANNEX C:

The GEF Agency submitting the PIF or PFD is required to respond to the questions in Annex C of the NGI Program Call for proposals in order to demonstrate its capacity and eligibility to administer NGI resources as established in the Guidelines on the Project and Program Cycle Policy, GEF/C.52/Inf.06/Rev.01, June 9, 2017 (Annex 5).

Annex C: Partner Agency Eligibility to administer Concessional Finance

The GEF Agency submitting the PIF or PFD will demonstrate its capacity and eligibility to administer NGI resources as described below:

a) Ability to accept financial returns and transfer from the GEF Agency to the GEF Trust Fund;

Conservation International (CI) has the ability to receive financial returns and to transfer such returns to the GEF Trust Fund. CI is currently managing one GEF-6 Non-grant Instrument. We have established a segregated GEF bank account to receive funding from the GEF and from grantees and NGI beneficiaries. Further, our accounting system transparently tracks cash inflows by source, by type of inflow, and by GEF project.

b) Ability to monitor compliance with non-grant instrument repayment terms;

CI is able to monitor the compliance of Non-grant Instruments through contractual terms in agreements with NGI beneficiaries, financial and technical site visits, full audit reports, structured reporting requirements built into quarterly financial and impact reports and analytic reviews thereof.

c) Capacity to track financial returns (semester billing and receiving) not only within its normal lending operations, but also for transactions across trust funds;

CI has the capacity to monitor financial returns of NGI recipients and implements this oversight in various ways depending on the nature of the NGI. In general, CI will evaluate the projected /anticipated cash flow from NGIs based on their business plan, develop a pro forma repayment schedule with the recipient, monitor actual results against projections and ensure timely collection of reflows via the monitoring procedures described above. In addition, CI's accounting system and procedures enable us to track and report on inflows and outflows across each project and by GEF Trust Funds.

d) Commitment to transfer reflows twice a year to the GEF Trust Fund;

During the PPG phase, CI will work with project proponents to define a suitable schedule of payments. However, CI can establish reflow repayment schedules with the NGI recipients, require semi-annual repayment of reflows to CI and remit amounts collected along with relevant support to the GEF Trust Fund on a semi-annual basis.

And, in case of NGI for private sector beneficiaries:

e) Track-record of repaid principal and financial returns from private sector beneficiaries to the GEF Agency.

CI will employ the methods described above to track and record NGI principal and financial returns. CI's GEF Agency currently has one NGI (equity/investment fund) in its portfolio, which is still in its investment period and as such has not started to distribute fund proceeds to the investors. However, CI has implemented several NGI programs over its history. CI has engaged in over 100 deals, totaling \$30 million in responsibly invested eligible sustainable enterprises through Verde Ventures, and more recently through CI Ventures has continued to successfully implement NGIs, secure repayment of principal and interest.

And, in case of concessional finance for public sector recipients:

f) Track-record of lending or financing arrangements with public sector recipients; g) Established relationship with the beneficiary countries' Ministry of Finance or equivalent.

CI has supported public sector entities mainly through grants and have established strong relationships with governments through our country programs. The NGIs that CI is proposing would be established with private sector beneficiaries and do not involve concessional finance directly to governments.