WWF GEF
Project Document
Cover Page

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Lead Executing Agency:	South Pole

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ACRONYMS AND ABBREVIATIONS

AAF	African Agricultural Fund
BoP	Bottom of pyramid
BUR	Biennial Update Reports
CCAFS	Climate Change, Agriculture and Food Security
CPI	Climate Policy Initiative
CPIC	Coalition for Private Investment in Conservation
CRAFT	Climate Resilience and Adaptation Finance & Technology Transfer Facility
DD	Due diligence
EA	Executing agency
ESSF	Environmental and Social Safeguards Framework
GAP	Gender Action Plan
GARI	Global Adaptation & Resilience Investment Working Group
GCF	Green Climate Fund
GIIN	Global Impact Investing Network
IFC	International Finance Corporation
IPCC	Intergovernmental Panel for Climate Change
KPIs	Key performance indicators
KYC	Know Your Counterparty
LDC	Least Developed Countries
LDNF	Land Degradation Neutrality Fund
LRF	Landscape Resilience Fund
M&E	Monitoring and evaluation
NAP	National Adaptation Plan
NAPA	National Adaptation Programme of Action
NBS	Nature-based solutions

NDC	Nationally Determined Contribution
NGO	Non-governmental organizations
PCO	Project Complaints Officer
PMU	Project Management Unit
PPR	Project Progress Report
PSC	Project Steering Committee
SEP	Stakeholder Engagement Plan
SIPP	Environment and Social Safeguards Integrated Policies and Procedures
SMEs	Small and medium-sized enterprises
TA	Technical assistance
TAF	Technical Assistance Facility
TBD	To be determined

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GLOSSARY

Adaptation to climate change: takes place through adjustments to reduce vulnerability or enhance resilience in response to observed (actual) or expected (future) changes in climate and associated extreme weather events (IPCC, 2007). An activity should be classified as adaptation-related if it intends to reduce the vulnerability of human or natural systems to the impacts of climate change and climate-related risks by **maintaining or increasing adaptive capacity and resilience** (OECD & DAC, 2010). What makes climate adaptation different is that it addresses both current and expected climate conditions and their consequences for human beings and ecosystems (Olivier, Leiter, & Linke, 2011).

Adaptive capacity: adaptive capacity is a set of factors that determine the capacity to generate and implement adaptation measures including socio-economic, structural, institutional, and technological factors (Olivier, Leiter, & Linke, 2011).

Enterprise: an enterprise is considered to be any entity engaged in an economic activity, irrespective of its legal form. This includes, in particular, self-employed persons and family businesses engaged in craft or other activities, and partnerships or associations regularly engaged in an economic activity (European Commission, 2003).

Exposure: degree of climate stress upon a particular system of interest; either long-term changes in climate conditions, or changes in climate variability, including the magnitude and frequency of extreme events (Olivier, Leiter, & Linke, 2011).

Impact investors: according to the Global Impact Investing Network (GIIN), "impact investments are investments made into companies, organizations and funds with the intention to generate social and environmental impact alongside a financial return. They can be made in both emerging and developed markets and target a range of returns from below market to market rate, depending upon the circumstances" (GIIN, 2015).

Investment readiness: the capacity of an enterprise to understand and meet the specific needs and expectations of investors. At the national or regional level, investment readiness is about the size of the pipeline of investment-ready enterprises. It is a concerted effort to develop the capacities of enterprises by improving their internal processes (through closing readiness gaps and identifying ways to add value to these processes) and external opportunities (through building the impact ecosystem so that it is conducive to their growth) (SSIR, 2014).

Landscape: a landscape is a socio-ecological system that consists of natural and/or human-modified ecosystems, and that is influenced by distinct ecological, historical, economic, and socio-cultural processes and activities. A landscape should be defined by stakeholders at a scale that is small enough to maintain a degree of manageability but large enough to be able to deliver multiple functions to stakeholders with different interests. Its boundaries are set by the stakeholders involved in landscape management, and may correspond to, or be a combination of, natural boundaries, distinct land features, socially defined areas such as indigenous territories and/or jurisdictional and administrative boundaries. The boundaries of a landscape can cross several countries (Denier et al., 2015).

Landscape approach: a conceptual framework whereby stakeholders in a landscape aim to reconcile competing social, economic, and environmental objectives. It seeks to move away from the often unsustainable sectoral approach to land management. A landscape approach aims to ensure the realization of local level needs and action (i.e. the interests of different stakeholders within the landscape), while also considering goals and outcomes important to stakeholders outside the landscape, such as national governments or the international community (Denier et al., 2015).

Nature-based solutions (NbS): Nature-based solutions are actions to protect, sustainably manage and restore natural and modified ecosystems in ways that address societal challenges effectively and adaptively, to provide both human well-being and biodiversity benefits. They are underpinned by benefits that flow from healthy ecosystems and target major challenges like climate change, disaster risk reduction, food and water security, health and are critical to economic development. NbS are intended to support the achievement of society's development goals and safeguard human well-being in ways that reflect cultural and societal values and enhance the resilience of ecosystems, their capacity for renewal and the provision of services (IUCN, 2020).

Resilience to climate change: it is a property of social-ecological systems. It relates to their capacity to cope with disturbances and recover in such a way that they maintain their core function and identity. It also relates to the capacity to learn from and adapt to changing conditions, and when necessary, transform (Sommerkorn et al., 2013).

Sensitivity: climate sensitivity describes the degree to which a system is adversely or beneficially affected by a given climate change exposure (Olivier, Leiter, & Linke, 2011).

Small and medium-sized enterprises (SMEs): the category of SMEs is made up of enterprises that employ fewer than 250 persons and have an annual turnover not exceeding EUR 50 million and/or an annual balance sheet total not exceeding EUR 43 million (European Commission, 2003). In the context of this Project, non-profit entities, such as farmer cooperatives or non-governmental organizations, with clear revenue potential yet which may not yet be formally registered, are additionally considered as SMEs. Therefore, any type of entrepreneurship that falls under the SME description, focuses on land use-related climate resilience and generates revenue, may apply for the pre-investment window of the LRF.

Technical assistance: in the context of this Project, it refers to both financial and non-financial assistance provided by local or international specialists. According to UNESCO, it can take the form of sharing information and expertise, instruction, skills training, transmission of working knowledge, and consulting services and may also involve the transfer of technical data. The aim of technical assistance is to maximize the quality of initiative implementation and impact by supporting administration, management, policy development, capacity building, etc. (UNESCO, 2019).

Vulnerability: the degree to which a system is susceptible to, or unable to cope with, adverse effects of climate change, including climate variability and extremes (Gallopín, 2006; Olivier, Leiter, & Linke, 2011).

EXECUTIVE SUMMARY

Resilience to climate change impacts needs to be strengthened, especially for those most vulnerable in rural regions and communities in developing and least developed countries (LDCs). In these regions, smallholders and farmers are already experiencing the adverse effects of climate change on crops and food production. They often lack both the know-how and the financial resources to take adaptive measures such as diversifying livelihood-systems, improving water-use efficiency, and integrating discrete adaptation strategies into a landscape approach.

A landscape approach can contribute to reducing the negative impacts of multiple stressors, especially from climate change, on ecosystems and communities, and can help in meeting the principles of sustainable development as defined by the Sustainable Development Goals (SDGs). It becomes especially important to have methods for generating diversified livelihoods and job opportunities when events like the recent COVID-19 pandemic spark a crisis that affects thousands of already vulnerable people.

The mission of the Landscape Resilience Fund (LRF) is to support the most vulnerable people in the land-use space to effectively adapt to climate change by investing in small and medium enterprises (SMEs[1]) as well as other initiatives, including farmer organizations and cooperatives. Such initiatives will be those that target adaptation and resilience through sustainable interventions at the interface of sustainable agriculture, forestry, and other nature-based solutions (NBS) that could additionally have the co-benefits of delivering gender equity, preserving biodiversity, and enhancing climate change mitigation.

However, there is an unsuitable investment environment, stemming in large part from a lack of investment-ready SMEs with climate-resilient practices. SMEs face significant barriers to the growth of their businesses. Addressing these barriers is essential to increasing the flow of investments in the adaptation sector. Current investments in adaptation, both public and private, constitute only a fraction of what is needed. It is estimated that adaptation costs could be in the range of USD 140-300 billion per year by 2030 and USD 280-500 billion per year by 2050 (Buchner, Clark, Falconer et al., 2019) as opposed to previous estimates that were between USD 25-100 billion by 2015-2030 (Fankhauser, 2019). Notwithstanding, adaptation investments have only reached USD 30 billion on average in 2017/2018 (CPI, 2019).

The objective of the 'Investment Readiness for the Landscape Resilience Fund' GEF Project is to **catalyze private sector investment in SMEs with climate-resilient practices**. Thus, public sector finance, such as this GEF Project, can assist in overcoming this key barrier of lack of investment-ready, well-developed climate-resilient practices by SMEs. Through the implementation of this Project, the GEF will provide resources needed to install a financing window within LRF for the provision of pre-investment services for investment readiness.

The LRF seeks to unlock private finance for sustainable agriculture, forestry, and other NBS focused on adaptation to climate change, which so far has been slow to mobilize due to financing barriers. These sectoral barriers indicate the existence of an unsuitable investment environment, stemming in large part from a lack of investment-ready climate-resilient practices This slows down the adoption of adaptation practices, services,

[1] Please refer to the glossary for this Project's specific definition of SMEs.

and technologies. The SMEs themselves face significant underlying barriers to the growth of their businesses, which are:

1) SMEs lack knowledge and capacity on how to prepare investment-ready climate-resilient practices;
2) SMEs facing high costs and risks associated with the preparation of investment-ready climate-resilient practices;
3) SMEs lack (i) access to adaptation-focused investors and the (ii) knowledge and expertise required for the preparation of adequate pitches and offer sheets; and
4) SMEs and private investors lack (i) capacity to monitor and evaluate the impacts of private investments in climate resilience and (ii) access to up-to-date lessons and best practices shared by similar climate-resilient practices.

Addressing these barriers is essential to producing investment-ready climate-resilient practices by SMEs and thereby increasing the flow of investments into the adaptation sector. The aim of providing pre-investment services (supported by this GEF Project) to SMEs with climate-resilient practices in the LRF pipeline is to identify and address the underlying barriers relevant and applicable to the selected SMEs, thereby making them ready for investment by a range of international and local investors, particularly multinational corporations aiming to develop climate-resilient supply chains.

The overall Project objective is to catalyze private sector investment in SMEs with climate-resilient practices. Through its three-year period, the proposed Project will achieve this objective by implementing four components. The components are:

Component 1: Establishing systems to support SMEs with climate-resilient practices to access private investments

This component will select SMEs with climate-resilient practices – particularly those that offer products or services with climate adaptation benefits – and provide them with the needed expertise required to develop investment-readiness plans (hereafter referred to as 'Plans'), and will design a system for full or partial reimbursement of the pre-investment services that will be given for the implementation of these Plans under Component 2. It is important to note that, since this Project supports SMEs with climate-resilient practices through their pre-investment phase, implementation phase activities undertaken by these SMEs are not within the project scope as they are financed by the LRF and/or other private investors. Therefore, the reimbursement of the pre-investment services will only take place when the SMEs undergo the implementation stage of their activities, become profitable, and generate revenue.

This component is intended to result in the following outcome: *sustainable processes for the provision of pre-investment services to SMEs to make their climate-resilient practices investment-ready.*

Component 2: Pre-investment services to make SMEs with climate-resilient practices investment-ready

This project component pursues to provide SMEs with climate-resilient practices, selected under Component 1, with pre-investment services, either through zero-interest loans or through the provision of direct services by South Pole or an external expert, for the implementation of their Plans (developed under Component 1).

Upon executing their Plans, the SMEs should be able to perform well against the LRF Investment Criteria and become eligible to receive implementation funding by the LRF or other investors.

The expected outcome for this component will be SMEs that *have an increased technical, operational, and financial capacity to structure their climate-resilient practices and make them investment-ready.*

Component 3: Establishing matchmaking support for SMEs with climate-resilient practices to match with potential private investors

This component seeks to assist SMEs that have previously received pre-investment services from this GEF Project in the development of offer sheets and pitches for other private investors. It also aims to arrange matchmaking meetings with potential private investors. However, not all SMEs selected under Component 1 and 2 will be supported through both activities. For SMEs that receive pre-investment services and are approved to receive implementation funding from the LRF, the activities under Component 3 will only apply if: (i) they have a clear additional capital need during the implementation stage; and (ii) have a high-potential business case that can attract significant private investments. Other SMEs that have climate-resilient practices are investable but do not exactly fit the LRF Investment Criteria even after receiving pre-investment services may receive matchmaking assistance through this component to help them secure investment through other sources.

SMEs will not be required to reimburse for the matchmaking services to the LRF. These services are also not a part of the LRF baseline but are provided to ensure that SMEs with high potential for success are able to achieve their objectives by overcoming the barrier of access to private investments.

The intended outcome will be the *increased capacity of SMEs to match with private investors for their climate-resilient, investment-ready practices.*

Component 4: Knowledge management and effective Project monitoring and evaluation (M&E)

This component seeks to (i) guarantee that the Project's M&E process will create an added value to the LRF and will allow the process of catalyzing private investments in SMEs with climate-resilient practices to strengthen and grow in the long term; and (ii) create tools to close the gap between private investors and SMEs that pursue adaptation results (a detailed description of this component is described in Appendix 10 'Knowledge Management and Communications').

The expected outcomes for this component are *4.1) M&E to inform adaptive management of this Project, and 4.2) Knowledge management increases awareness of SMEs with climate-resilient practices and private investors on successful approaches to preparing, implementing, and financing climate-resilient practices.*

South Pole, as Executing Agency (EA) of this GEF Project, will be responsible for strategic guidance and operations, and will ensure compliance with all of GEF's requirements. As the EA, South Pole will lead and coordinate all areas and activities that will be involved in this Project. There will be a Project Management Unit (PMU) responsible for the day-to-day management and coordination of the Project activities and fulfillment of its goals. This Unit will be conducting the due diligence process and recommending SMEs with climate-resilient practices for the pre-investment stage to the Technical Committee. This Technical Committee will be integrated by a team of highly qualified specialists from South Pole. The Technical Committee will review the results of the due diligence and the recommendations made by the PMU and will make the decision to refuse or approve the proposals for either: (i) investment by the LRF; or (ii) pre-investment funding before potentially receiving LRF investment.

Stakeholder consultations that contributed to the design of the Project's elements focused on project strategy, project activities, key barriers to Project objective, baselines that contribute to the Project objective, gender, safeguards and M&E, design of the selection criteria, inputs on lessons learned, and best practices in designing an effective pre-investment window that provides assistance to adaptation-focused projects. The consultations were carried out with the Lightsmith Group (EA of the CRAFT project), a potential anchor investor (undisclosed), GARI, IDH (manager of the LDN TAF), WWF DACH, WWF France, WWF Switzerland, the Landscape Finance Lab, Fairventures Worldwide, El Buen Socio, and Mirova Natural Capital.

The total budget requested from the GEF is USD 1,142,661 to be disbursed over the course of three years. The LRF will contribute with USD 12,821,806 as co-financing.

SECTION 1: PROJECT BACKGROUND AND SITUATION ANALYSIS

1.1. Project scope and environmental significance

According to the 2019 Global Assessment Report on Biodiversity and Ecosystem Services, the rate of global change in nature during the past 50 years, mainly driven by land use and climate change, is unprecedented in human history (IPBES, 2019). These drivers are additionally influenced by production and consumption patterns, human population dynamics and trends, trade, technological innovations, and local to global governance.

Given the above, resilience to climate change impacts needs to be enhanced and strengthened, especially to impacts affecting the local scale, for people to be able to cope with change and to avoid reaching a point where ecosystem services can no longer support their needs. The Global Assessment Report also states that the SDGs "may only be achieved through transformative Socio-Ecological Production Landscapes and Seascapes changes across economic, social, political, and technological factors" (IPBES, 2019), which highlights the importance of addressing resilience through a landscape approach.

A landscape approach can contribute to reducing the negative impacts of multiple stressors, such as climate change, on ecosystems and communities. Such an approach can help in meeting the principles of sustainable development as defined by the SDGs (WWF, 2016) and avoid the displacement of negative actions protecting forests and ecosystems, and decrease emissions while alleviating poverty, thereby strengthening resilience. Moreover, most landscapes in developing countries and LDCs (i.e. tropical forest landscapes) are mosaics or have interacting land uses that are difficult to separate and are best considered from a landscape level (Bernard et al., 2013). Thus, lasting impacts will be possible through a landscape-level lens.

The mission of the **LRF**[2] is to support the most vulnerable people in the land-use space to effectively adapt to climate change by investing in SMEs (please refer to Box 1 for this definition) as well as other initiatives, including farmer organizations and cooperatives. Such initiatives will be those that target adaptation and resilience through sustainable interventions in sustainable agriculture and forestry, and other NBS that could have the additional possibility of delivering biodiversity and climate change mitigation benefits. Built around the premise that sustainability and lasting impacts can only be achieved through viable business models embedded in landscapes, the LRF seeks to accompany SMEs on their pathway to financial profitability with a concerted approach.

However, there is an unsuitable investment environment, stemming in large part from a lack of bankable investment-ready climate-resilient practices, that also deliver benefits. SMEs face significant barriers to the growth of their business, and addressing these barriers, is essential to producing investment-ready climate-resilient practices by SMEs, thereby increasing the flow of investments in the adaptation sector. Therefore, the LRF has strong interest from corporate investors but not enough investment-ready SMEs with well-developed climate-resilient practices. Currently, the LRF has identified 13 SMEs with climate-resilient practices, from which most are in need of pre-investment support to make them ready for investment.

[2] The LRF is currently at a developmental stage and is expected to be officially launched during the first semester of 2021.

Public sector finance, such as this GEF Project, can assist to overcome this key barrier of lack of investment-ready, well-developed climate-resilient practices from SMEs. The objective of the 'Investment Readiness for the Landscape Resilience Fund' Project is to **catalyze private sector investment in SMEs with climate-resilient practices.**[3] Through the implementation of this Project, the GEF will provide the resources needed to install a financing window within the LRF for the provision of pre-investment services for investment readiness. GEF-funded activities will additionally help to develop a sourcing process for SMEs with climate-resilient practices that will need pre-investment support.

Box 1. SMEs with climate-resilient practices

What does this mean? The SME has products or services that build climate resilience (and reduce vulnerability) through different types of adaptation practices in the land use space (could be either through sustainable agriculture, forestry, and other NBS).

Who might be eligible? In the context of this Project, SMEs as well as non-profit entities, such as farmer cooperatives or non-governmental organizations (NGOs), **and that have a clear revenue potential**. Any entity that complies with these criteria and which may not yet be formally registered may apply for the pre-investment window of the LRF. In summary, any type of entrepreneurship that falls under the SME description or other organizations mentioned here, could have the opportunity to be selected.

What is the size of an SME that may apply? This Project seeks to support the lower range of the number of employees that the SMEs could have, which encompasses enterprises that employ fewer than 100 persons.

Who are the primary beneficiaries? SMEs' staff, farmers, indigenous people who supply the SMEs, rural communities whom the SMEs work with, and their households.

Who are the most vulnerable supported by the SMEs with climate-resilient practices? To define the most vulnerable, a vulnerability analysis is conducted as part of the selection process of the SMEs; in implementation beneficiaries will be tracked (when agreed upon) to understand the reduction of their vulnerability – for example, maize farmers that need an alternative source of income because of reduced crop production.

Broadly, the Project strategy includes:

- supporting SMEs in structuring their climate-resilient practices and making them investment-ready;
- providing assistance to integrate adaptation elements into potential climate-resilient practices;
- matchmaking support for SMEs with climate-resilient practices to access private investment; and
- generating and sharing knowledge and lessons on best practices related to the design and delivery of pre-investment services to SMEs with climate-resilient practices.

Once this pre-investment window is established, the LRF will be able to accompany SMEs with climate-resilient practices on their pathway to financial profitability, with two additional funding windows: (i) a landscape

[3] Please refer to the glossary for a project-specific definition of SMEs.

window connects local and international stakeholders and value chains; and (ii) an implementation investment window that provides grants and revolving soft loans to scale effective business models.

Therefore, the LRF seeks to: (i) source SMEs with climate-resilient practices globally to identify and scale promising approaches; (ii) reduce the vulnerability of farmers through sound climate change adaptation measures; (3) contribute to conservation, restoration, and sustainable use of vulnerable ecosystems that serve as natural infrastructure against climate-related hazards; (4) build capacity and fund local businesses to ensure financial sustainability and scaling of their interventions; and (5) integrate initiatives into the wider landscape for increased impacts. Through its initiatives, the LRF also aims to create biodiversity and climate change mitigation co-benefits.

1.2 Environmental problems, threats, and root causes

1.2.1 Environmental problems

Vulnerability of ecosystems and people to climate change impacts is increasing. The IPCC clearly states that the "warming of the climate system is unequivocal… the atmosphere and ocean have warmed, the amounts of snow and ice have diminished, and sea level has risen" (IPCC, 2014). Moreover, climate change projections indicate an increase in the frequency and intensity of extreme weather and climate events such as extreme precipitation, surface temperature rise, and longer and more frequent heat waves. Projected climate change will not only impact water availability and supply, food security, infrastructure, and agricultural incomes in rural areas but will also worsen the impacts of human activities.

As the world's population rises to over 7 billion in 2020, requiring one quarter to one third of total available land for food, feed, fiber, timber, and energy production (IPCC, 2019), increasing pressure is being put on landscapes. This coupled with the fact that climate change impacts will have negative repercussions on biodiversity, soil fertility, and changes in water availability and distribution, leading to a reduction in socio-economic opportunities and a rise in inequality, poverty, and food insecurity (Adger & Barnett, 2009; IPCC, 2019).

Rural regions and communities in developing countries and LDCs are among the most vulnerable suffering the aforementioned effects of climate change. This is due to several factors, namely, their dependency on the functions and services provided by ecosystems, which are in turn susceptible to climatic impacts and their unsustainable use. Moreover, their weather-dependent livelihood-systems are negatively affected by more frequent events (Ngigi, 2009) and their limited adaptive capacity is reduced (Bryan et al., 2013). Smallholder farmers, which produce around 70% of the total food requirement, are crucial to global food security (Denier et al., 2015). In such regions, these farmers are already experiencing the adverse effects of climate change on crop and food production. Farmers often lack both the know-how and financial resources needed to take adaptive measures such as diversifying their livelihood-systems, accessing improved seeds, improving water-use efficiency, and adopting agroforestry techniques (Bryan et al., 2013; Ngigi, 2009), among many other strategies. Therefore, smallholder farmers need to be guided and supported in order to strengthen their adaptive capacity and build their resilience to climate change by changing their connection with and use of landscapes.

In recent years, a greater understanding of the scale and complexity of drivers of unsustainable resource use and of threats such as climate change, has expanded interest in landscape approaches as a way of managing and balancing competing pressures at different scales. Developing alternatives such as landscape approaches could offer effective means of implementing sustainable strategies (Denier et al., 2015) as well as balancing multiple goals related to environmental and non-environmental processes such as the needs of the livelihoods contained within them (Freeman et al., 2015).

1.2.2 Threats

Climate change is one of the most challenging threats of all time. Climate change-induced sea-level rise, sea surface warming, and the increased frequency and intensity of extreme weather events puts the long-term ability of vulnerable communities at risk (Adger and Barnett, 2003). Globally, societies and businesses are threatened due to more frequent and extreme weather events, increasing gravitational natural hazards (such as avalanches, mudslides, and rockfall) and recurring physical impacts such as sea level, temperature rise, and changing precipitation patterns. These challenges will not cease in the short term. As previously mentioned, the IPCC's projections estimate that such extreme events will continue rising (IPCC, 2014; IPCC, 2019). In fact, 18 of the 19 hottest years on record have occurred since 2001 based on recorded average temperatures worldwide and global sea level has risen by 178 mm over the past 100 years and will continue to rise (GCF, 2019).

Climate change: present and future impacts. More and more people worldwide – especially those in vulnerable communities in developing and least developed countries – are feeling the impacts of water scarcity, heat waves, wildfires, and catastrophic storms and floods. Additionally, increasing climate variability and extreme weather events negatively affect agriculture, forests, and ecosystems. LDCs and developing countries are some of the most vulnerable to climate change. They are the least able to recover from climate stresses and their economic growth is highly dependent on climate-sensitive sectors. Climate change threatens to undo decades of progress towards reducing poverty and puts the achievement of the SDGs at risk (UNDP, 2011).

Crop production will be affected by water scarcity, changing seasonal patterns, shifts in the spread of pests and diseases, and altered soil conditions. These conditions will eventually lead to non-resilient livelihoods (Denier et al., 2015). When farming systems fail, forests provide food, fodder, and fuel to millions of vulnerable people and are key components of a wider landscape. However, climate change also impacts forests' key ecosystem services like water regulation, carbon sequestration, biodiversity, and soil conservation. The above-mentioned countries also face water-related challenges, either due to sea level rise, melting glaciers and permafrost, changing rainfall patterns, and floods and desertification, therefore making water resilience of high priority (Denier et al., 2015).

Based on this evidence, the **LRF has identified and prioritized four climatic impact categories** and its derived effects as part of the analysis for its resilience framework (please refer to the appendix on selection criteria). These initially prioritized climatic impacts are extreme precipitation, low precipitation, high temperatures, and storms. The prioritized effects, or given the case, the combination of these (and the particular exposure and sensitivity of each of the SMEs' locations), can then lead to floods, droughts, water scarcity, forest fires, increases in annual pests, and sea-level rise.

Furthermore, a pandemic resurgence could coincide with any of these prioritized climate impacts. Therefore, it is pivotal for this Project to prepare for situations where multiple hazards could combine in order to reduce possible impacts on vulnerable populations. A vulnerability analysis will be put in place at the beginning of the SMEs selection process to identify the areas most exposed to risk in the SMEs' locations, i.e. through their sensitivity, potential climate impacts, and exposure, which will allow for the identification of climate-resilient practices directed toward more vulnerable people and for the proposal of appropriate adaptation measures.

1.2.3 Root causes of environmental problems

Anthropogenic greenhouse gases (GHGs) in the atmosphere continue to rise. It is already established the existing evidence that human influence has affected the climate system (IPCC, 2019). GHG concentrations in the atmosphere continued to rise and were the highest in 650,000 years in 2019 (GCF, 2019). This is a result of GHG emissions from fossil-intensive energy production and consumption (including heating and cooling), industrial processes, transportation, and agriculture and land use change. As the planet warms due to the accumulation of GHGs, not only is the temperature rising, but also the oceanic and atmospheric systems are being affected, causing severe change in rainfall patterns and unpredictable (sometimes extreme) climatic variations. Even if GHG emissions were to cease immediately, global warming will continue to affect planetary systems (GCF, 2019). Consequently, a large number of people face threats to physical, food, and water security. Limiting climate change, therefore, requires substantial and sustained reductions in GHG emissions which, together with adaptation, can limit climate change risks (IPCC, 2014).

Unsustainable expansion of areas for productive activities and food supplies at a landscape level for a growing population. Agriculture is a major sector in most developing countries and LDCs, supporting around 50-70% of the population (GCF, 2019). It is estimated that 23% of total GHG emissions derive from Agriculture (mainly), Forestry, and Other Land Use (IPCC, 2019) and that by 2050, agricultural output will need to increase by 60% globally, compared to 2005-2007, to respond to the demands of 9.7 billion people (Minang et al., 2015). To meet the increasing demand, both the expansion of agricultural land and intensification of agricultural practices (leading generally to deforestation or land degradation) is required and it is estimated that agricultural land will increase by approximately 107 million ha by 2050 (Minang et al., 2015). It is therefore expected that if agricultural land and practices continue to increase unsustainably, GHGs will continue to rise.

1.3 Barriers addressed by the Project

This section will first introduce some of the challenges related finding private investment for adaptation initiatives and the associated barriers. Secondly, it will elaborate on the specific barriers that this Project will address.

South Pole recognizes that private investment in adaptation depends on a complex system of variables that require an even more complex analysis for the underlying and salient investment barriers and does not present this section as a complete and thorough analysis of all of them. However, it believes it is a good approach for presenting the investment environment for adaptation in a simplified manner. Later, the main barriers that this Project seeks to overcome will be explored.

1.3.1 General and underlying barriers for private investment in adaptation

To support the most vulnerable populations to adapt to climate change, there is an urgent need for greater investment in climate adaptation and resilience, but current investments in adaptation – both public and private – constitute only a fraction of what is needed. It is estimated that adaptation costs could be in the range of USD 140-300 billion per year by 2030 and USD 280-500 billion per year by 2050 (Buchner, Clark, Falconer et al., 2019).

In 2019, only USD 30 billion (~5% of total global climate finance) was directed to adaptation activities, falling drastically short of USD 50 billion per year required by non-Annex I countries (Buchner et al., 2019). Of this 30 billion, 23% has been invested in agriculture, forestry, and land use. Engaging the private sector to finance adaptation initiatives is crucial but has faced several barriers, which are even more pronounced for LDCs and small island developing states, the most vulnerable to the effects of climate change. They have under-developed or non-existent markets and a lack of well-developed robust business models (GCF, 2019), which hinders access to finance in most cases.

SMEs developing climate-resilient practices face significant financial barriers resulting in insufficient capital flow from both public and private sources. Land use activities need to be adapted to be less vulnerable to climate impacts, but often businesses and communities lack skills, incentives, and access to either medium or long-term finance (at affordable interest rates), to invest in climate resilience. In this regard, engaging the private sector for adaptation is essential to mobilize financial resources and technical capacity, leverage the efforts of governments and civil societies, and to develop innovative solutions (Biagini & Miller, 2013). The LRF seeks to unlock private finance for sustainable agriculture, forestry, and other NBS focused on adaptation to climate change, which so far, has been slow to mobilize due to financing barriers like:

- a lack of record track of prior investments and caution in financing early-stage technologies (Micale, Tonkonogy, & Mazza, 2018);
- high investment risk versus return potential. Many adaptation initiatives aim for cost-saving rather than revenue generation. Moreover, initiatives may not be scalable, deterring the flow of large-scale institutional investments (Shames, Clarvis, & Kissinger, 2014); and
- many adaptation investments see returns in the long term and do not match the short-term time horizons of investors. For instance, the benefits associated with investment in irrigation equipment, water-efficient technologies, and stress-resilient crops are often realized over longer time frames, and the size of these benefits would be dependent on uncertain climate impacts (Pillay, Aakre, & Torvanger, 2017).

These sectoral barriers indicate the existence of an unsuitable investment environment, stemming in large part from a lack of investment-ready climate-resilient practices. This slows down the adoption of adaptation practices, services, and technologies. The SMEs themselves face significant underlying barriers to the growth of their business. A recent report by the Climate Policy Initiative (Hallmeyer & Tonkonogy, 2018) helps frame the discussion around these underlying barriers. The majority of them can be broadly classified into three overarching types:

1) ***context barriers*** such as a lack of a suitable political, institutional, and market environment and missing human capital and value chains;
2) ***business model barriers*** such as unclear value addition, high costs, and missing demand-side capacity; and
3) ***internal business capacity barriers***, which are related to internal capabilities of the businesses including sound management and financial skills and sectoral expertise.

Addressing these underlying barriers, among others, is essential to producing investable SMEs, and thereby, increasing the flow of investments in the adaptation sector.

1.3.2 Specific barriers addressed by this Project

By providing pre-investment services to SMEs with climate-resilient practices, this Project seeks to address the underlying barriers that are relevant and applicable for the selected SMEs in order for their climate-resilient practices to become investment-ready for the LRF and/or other investors.

Table 1, below, provides an overview of the components and outcomes of this Project and the specific barriers that are addressed under each outcome. The barriers have been identified from South Pole's operational experience and a review of relevant literature and stakeholder consultations that have informed the development of this Project. A narrative for each barrier follows the table.

Table 1: Overview of barriers specific to the outcomes under each component of this GEF Project

Barrier	Component	Outcome
SMEs lack knowledge and capacity on how to prepare investment-ready climate-resilient practices	1. Establishing systems to support SMEs with climate-resilient practices to access private investments	1.1. Sustainable processes for provision of pre-investment services to SMEs to make their climate-resilient practices investment-ready
SMEs face high costs and risks associated with the preparation of investment-ready climate-resilient practices	2. Pre-investment services to make SMEs with climate-resilient practices investment-ready	2.1. SMEs have increased technical, operational, and financial capacity to structure their climate-resilient practices and make them investment-ready
SMEs lack (i) access to adaptation focused investors and the (ii) knowledge and expertise required for the preparation of adequate pitches and offer sheets	3. Establishing matchmaking support for SMEs with climate-resilient practices to match with potential private investors	3.1. Increased capacity of SMEs to match with private investors for their climate-resilient, investment-ready practices
SMEs and private investors lack the (i) capacity to monitor and evaluate the impacts of private investments in climate-resilience, and (ii) access to up-to-date lessons and best practices shared by similar climate-resilient practices.	4. Knowledge management and effective Project M&E	4.1. M&E to inform adaptive management of Project 4.2. Knowledge management increases awareness of SMEs with climate-resilient practices and private investors on successful approaches to preparing, implementing, and financing climate-resilient practices

Component 1: Establishing systems to support SMEs with climate-resilient practices to access private investments

Barrier 1.1.1: *SMEs lack knowledge and capacity on how to prepare investment-ready climate-resilient practices*

SMEs with climate-resilient practices are often not investment-ready because they lack know-how on structuring and developing robust investable initiatives. There are several underlying barriers causing this, most of which fall under the *business model barriers* and *internal business capacity barrier* archetypes described above. Relevant *business model barriers* are: the lack of a clear and defined scope where the adaptation component is made explicit; the value addition of the product/service is not clearly communicated to off-takers; uncertainty around revenue streams and investment returns; the lack of estimation and consideration of the level of climate risk; high upfront costs (exacerbated by poor *contextual barriers*). *Internal capacity barriers* particularly influence the early stages of the SMEs' growth and must be overcome to ensure success. These include a non-cohesive and inefficient organizational structure; an inability to manage finances; limited marketing capabilities to collect and process product relevant data, effectively communicate product benefits, and communicate with stakeholders; the poor management of human resources; inefficient operations that are not scalable and inefficiencies in production; and the inability to innovate to stay ahead of the competition.

Another significant issue is, while applying climate-resilient practices and technologies, there is often a lack of coordination with stakeholders and transfer of relevant know-how to farmers and indigenous people involved in the implementation on the ground, which results in the less effective implementation of practices and technologies, affecting revenues and expected positive impacts. This will pose a risk to potential private investors.

GEF funding for this component will be utilized to set up '*Sustainable processes for provision of pre-investment services to SMEs, to make their climate-resilient practices investment-ready'*. This would involve, initially, a selection of at least nine SMEs with climate-resilient practices that fit the selection criteria for pre-investment services, followed by development of an elaborate investment-readiness plan (the plan) with the selected SMEs. The plan will include an assessment of the specific barriers and interventions required to reach a stage of investment-readiness, and specifics of pre-investment services to be provided such as duration, type, and value.

For details on the intervention strategy and expected outcome under Component 1, see section 2.2.

Component 2: Pre-investment services to make SMEs with climate-resilient practices investment-ready

Barrier 2.1.1: *SMEs face high costs and risks associated with the preparation of investment-ready climate-resilient practices*

Upon identification of the interventions required to make the SMEs with climate-resilient practices investment-ready, the subsequent step is the actual implementation of the plan. In many cases, however, the SMEs lack the internal capacity and resources, including the technical, financial, and human resources, required to achieve implementation. This is more pronounced for new businesses or those looking to expand their operations in developing countries and LDCs and can be attributed to the existence of significant *contextual barriers* (Micale, Tonkonogy, & Mazza, 2018). Furthermore, given the lack of resources, they might be focused on decreasing their costs instead of improving the quality of their climate-resilient practice to increase their revenues. If the identified interventions are not implemented, the risks associated with implementing climate-resilient practices will remain high and the SMEs will most likely struggle to raise capital through external sources, leading to delays or even the termination of such practices.

GEF funding for this component will be utilized to ensure that *'SMEs have increased technical, operational, and financial capacity to structure their climate-resilient practices and make them investment-ready'*. Through the pre-investment funding window, the selected SMEs with climate-resilient practices will receive pre-investment services needed to implement the plan. The pre-investment services would be provided either directly by South Pole (as the EA), as zero-interest loans to the SMEs, or as a combination thereof – depending on best fit and decided on a case-by-case basis.

For details on the intervention strategy and expected outcome under Component 2, see section 2.2.

Component 3: Establishing matchmaking support for SMEs with climate-resilient practices to match with potential private investors

Barrier 3.1.1: *SMEs lack (i) access to adaptation-focused investors and the (ii) knowledge and expertise required for the preparation of adequate pitches and offer sheets*

Some SMEs with climate-resilient practices that receive pre-investment services may need project financing in addition to the LRF funding. In such a case, even when SMEs have mitigated most relevant risks associated with their practices, they may not have the means to connect with appropriate investors and know-how on the presentation of their initiatives to the investors. SMEs often lack physical access or access to information about suitable investors (both local and global) that are looking for investment opportunities matching the risk-return profile of their business. Presenting relevant information as well-structured offer sheets and convincing pitches are crucial aspects of raising external capital from private investors, the lack of which can result in missed opportunities.

GEF funding for this component will be utilized to ensure *'Increased capacity of selected SMEs to match with private investors'*. This will be achieved by, first, identifying the SMEs with climate-resilient practices in need of assistance on a case-by-case basis; and second, in case a need is established, providing support for the preparation of offer sheets and pitches, and the arrangement of matchmaking events with investors.

For details on the intervention strategy and expected outcome under Component 3, see section 2.2.

Component 4: Knowledge management and effective Project monitoring and evaluation

Barrier 4.1.1: *SMEs and private investors lack (i) capacity to monitor and evaluate the impacts of private investments in climate resilience, and (ii) access to up-to-date lessons and best practices shared by similar climate-resilience initiatives*

Due to the relative novelty of approaches to building climate resilience in sustainable agriculture, forestry, and other NBS projects, making them investable, and linking them to investors, there is no established knowledge exchange or basis of exchange on these topics. SMEs who are working on novel climate-resilient practices do not know where to access information on successful approaches followed by similar SMEs that have accessed investments. On the other hand, investors do not know where to learn about SMEs with climate-resilient practices, good track records, and low investment risks. Even those trying to bridge this barrier, like private-sector-oriented adaptation or land use funds, or similar technical assistance (TA) programs, may not always apply the best approaches because they are not fully aware of successful cases. Furthermore, SMEs in this space also require support in the monitoring of performance against environmental and social indicators and for adaptive management (The Sustainable Trade Initiative, 2019). In general, there is a lack of know-how on best practices for, and the capacity for M&E of, private investments in resilience through public-private funding.

The activities surrounding the design and delivery of pre-investment services to SMEs with climate-resilient practices in the adaptation sector, can generate substantial amounts of information, including lessons and best practices, which can prove beneficial to both initiative-related entities (SMEs' stakeholders), and non-related entities such as other GEF Projects and the wider investment community.

GEF funding for this component of the Project will be utilized for '*Knowledge management and M&E to inform adaptive project management and establish long-term private investment support for success of LRF'.* This will involve the measurement of project performance against selected key performance indicators (KPIs), the continuous monitoring and capturing of lessons, incorporation of up-to-date knowledge for adaptive management and dissemination of relevant information to identified beneficiaries.

For details on the intervention strategy and expected outcome under Component 4, see section 2.2.

1.4 National and sectoral context

The LRF will invest in climate-resilient practices in several developing and emerging countries, particularly Sub-Saharan Africa, Southeast Asia, and Latin America, with at least 50% of GEF funding flowing to SMEs with climate-resilient practices in LDCs.

Supported SMEs with climate-resilient practices will focus on countries where South Pole, as the EA, has projects and small business networks (see Figure 1) and on WWF US' Priority Places (see Figure 2). Therefore, supported SMEs in LDC will focus on these countries. However, specific countries will not be determined until activities under Component 1 of this Project are developed, which includes the selection of proposals by SMEs with climate-resilient practices.

This Project will benefit from South Pole's or WWF's local presence as on-site experience will provide a better understanding of the local context and of the private investing environment, including opportunities and challenges for the SMEs that may receive support from the LRF's pre-investment window.

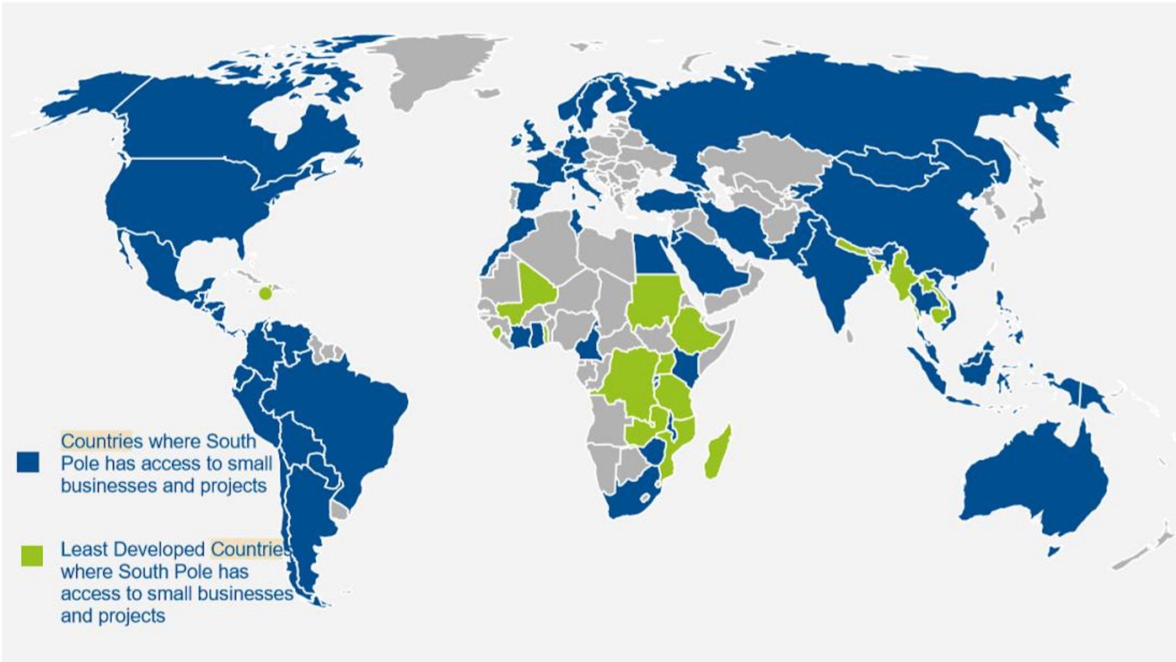

Figure 1: Map of countries where South Pole has access to small businesses and projects

Regarding the sectoral context, according to the GIIN, the 'impact investing industry' market is quickly growing and will continue to do so, since investors are recognizing that their resources should not focus solely on meeting financial returns, but they should also seek sustainable social and environmental impact. In fact, as of 2018, one in four dollars of professionally managed assets considered sustainability principles. This number is expected to grow as it is now clear that trillions of dollars are needed to address the social and environmental challenges outlined in the SDGs (GIIN, 2019).

However, more emphasis has been given to investment opportunities in mitigation than adaptation, and the adaptation financing gap is increasing as climate impacts grow. Private investment in adaptation and resilience is not growing nearly rapidly enough, since it does not properly capture private benefits from investments due to multiple barriers, deficient accounting methodologies, short investor time horizons, and insufficient information about the benefits (UNEP, 2019).

The Global Commission on Adaptation (GCA) finds that both a perceived lack of profitable investments and a perceived low commercial readiness explain additional market barriers to investments in resilience and adaptation. It suggests, among other recommendations, that there is a need to highlight and promote investment opportunities and to use public institutions to accelerate adaptation (UNEP, 2019). Regarding the latter, the Adaptation Gap Report highlights that "public finance serves to strengthen the capacities of various stakeholders, create incentives for institutions and investors, and to take on risks that would otherwise disincentivize private flows of adaptation finance" (UNEP, 2018).

The 'Survey of the Impact Investment Markets' developed by the Department for International Development (DFID) of the United Kingdom coincides with the GCA, identifying a lack of businesses with relevant skills and experience and the lack of investable propositions and/or funds with a successful track record as some of the main constraints to increased investment for fund managers in Sub-Saharan Africa and South Asia. It also highlights the need to develop hybrid financing deals that use public or subsidized capital to leverage investment by a greater number of investors and to improve access to business development services such as TA (DFID, 2015).

Despite these challenges, there is increasing interest in products and services that can enhance resilience and reduce risks. Therefore, a new set of business and investment opportunities arises, creating a growing market with potential for both positive social and environmental impact and good commercial returns, which are the basis for funds dedicated to adaptation and resilience investments.

1.5 Baseline scenario

As mentioned before, current investments in adaptation constitute only a fraction of what is needed, as USD 30 billion in average were invested in adaptation in 2019, falling short of the USD 50 billion per year required by non-Annex I countries (Buchner et al., 2019). As USD 1.5 trillion in economic damages worldwide were caused by natural disasters between 2003 and 2013 (FAO, 2015), and the Global Commission on Adaptation estimated that nearly USD 4 of avoided costs will result from every dollar invested in the areas of early warning systems, climate resilient infrastructure, improved dryland agriculture, global mangrove protection and resilient water resources (UNEP, 2021), a market opportunity to offer services and solutions to assess and manage climate risks and reduce costs, particularly in developing countries, has become clear.

Some initiatives that have been trying to increase private sector involvement in adaptation investments include the Adaptation SME Accelerator Project (ASAP), the Climate Resilience and Adaptation Finance and Technology-transfer facility (CRAFT) project and the Acumen Resilient Agriculture Fund (ARAF), which are briefly described below.

ASAP is a grant-funded initiative led by Lightsmith Group and financed by the Global Environment Facility, Conservation International, and the Inter-American Development Bank, that seeks to build an ecosystem for small- to medium-sized companies in emerging markets that have technologies, products, and services that can be used to build resilience to the impacts of climate change ("Adaptation SMEs"). The program includes the identification of Adaptation SMEs around the world operating in sectors such as food and agriculture, analytics and risk modeling, water, insurance and risk transfer, energy, transportation, and infrastructure, among others, to be aggregated into a publicly searchable database, the development of a definition and eligibility criteria to define which types of products and services are considered "climate resilience and adaptation solutions", a series of virtual convenings for Adaptation SMEs and other stakeholders, and partnerships with existing incubator and accelerator programs to develop adaptation, resilience and social impact-focused curriculum for Adaptation SMEs.

CRAFT is led by the Lightsmith Group, with funding from Nordic Development Fund (NDF) and the Global Environment Facility (GEF), as the first private sector investment strategy for climate adaptation and resilience solutions. CRAFT is a commercial investment vehicle focused on expanding the availability of technologies and solutions for climate adaptation and resilience. As a growth equity fund, CRAFT will invest in 10-20 companies, located in both developed and developing countries, which have proven technologies and solutions for climate resilience and have demonstrated market demand and revenue. The Fund, together with an accompanying Technical Assistance Facility, will help companies – like weather analytics, catastrophe risk modeling services, and drought resilient seed companies, among others – expand into new sectors and geographic markets.

ARAF is an initiative led by the Acumen Fund and financed by the Green Climate Fund, that seeks to improve climate resilience to ensure long-term sustainable increases in agriculture productivity and incomes for smallholder farmers. It will shift the pattern of investment in climate change adaptation activities in Africa from grants to a long-term capital approach, enabling smallholder farmers to respond to climate change more efficiently and effectively. It will support innovative private social entrepreneurs in micro, small, and medium-sized enterprises (MSMEs) by providing aggregator and digital platform and innovative financial services to smallholder farmers.

This Project will be able to build upon previous experiences by these initiatives and accelerate private sector investments in SMEs with climate-resilient practices, through a pre-investment window that will provide zero-interest loans to make these SMEs investment ready. The following sections describe the processes developed by the LRF without the pre-investment funding in place, which forms the baseline scenario and why it needs to provide pre-investment services to SMEs with climate-resilient practices, aided by this GEF Project, to fulfill its objective.

1.5.1 The Landscape Resilience Fund baseline scenario

The LRF is currently being developed by South Pole in cooperation with WWF Switzerland and will be established by 2021 as a foundation under Swiss law. Currently, the LRF has obtained a USD 25 million commitment from private investors that will be disbursed over the course of six years starting in 2021. The LRF is expected to have a lasting duration, as it intends to finance initiatives aligned to its mission as long as they are available and in need of financial support. Therefore, it has not yet set a target date as to when its activities will come to an end.

The LRF's mission is to finance initiatives that are embedded in landscapes, to support the most vulnerable people to effectively adapt to climate change by investing in resilience through sustainable agriculture, forestry, and other NBS that could deliver additional biodiversity and climate change mitigation benefits. It will fund SMEs that promote climate change adaptation through specific technologies, services, and goods, thereby supporting the most vulnerable in adapting to climate change. These SMEs with climate-resilient practices will be based in developing countries and LDCs, with a focus on countries where South Pole has projects and small business networks (see Figure 1) and on WWF US' Priority Places (see Figure 2). Their initiatives will be integrated into sustainable landscape approaches, with a focus on sustainable agriculture, forestry, and other NBS that protect vulnerable people against the impacts of climate change.

Built around the premise that significant sustainability and lasting impacts can be achieved through sustainable business models, the LRF will support SMEs with climate-resilient practices on their pathway to financial profitability by providing technical assistance, grants, and revolving loans for initiative implementation. All revolving loans will be paid to the LRF and will support further pre-investment services for SMEs with climate-resilient practices. The LRF will focus on investments in Southeast Asia, South Asia, Sub-Saharan Africa, and Latin America, particularly those countries where WWF has a local presence. Focus will lie on activities in international corporate supply chains as offtake from such corporates is a major income for SMEs that promote adaptation to climate change.

LRF pillars of impact

- **Global scope:** source SMEs with climate-resilient practices globally to identify and scale promising approaches, including countries where South Pole has projects and small business networks (see Figure 1) and WWF US' Priority Places (see Figure 2)
- **Climate resilience:** reduce the vulnerability of farmers and smallholders, as well as indigenous communities through climate change adaptation measures
- **Landscape approach:** connect local and international stakeholders and value chains for catalyzing impacts
- **Investor lens:** build capacity and fund local businesses to ensure financial sustainability and growth, to possibly attract further private investment
- **SDG co-benefits:** contribute to the conservation of vulnerable ecosystems, sequester carbon by increasing above- and below-ground biomass, contribute to gender diversity, and empower women

The LRF selection criteria

To receive LRF investment, the preliminary[4] selection criteria will include:

- **Climate resilience:** the proposed interventions will contribute to strengthening the resilience of vulnerable people through different adaptation strategies. Further indicators within this category that will be evaluated for the **LRF** either for people or landscapes include the degree of **(a) exposure** (based on the given exposure to climate risk today and in the future), **(b) sensitivity** (the system is highly vulnerable and susceptible to the adverse effects of the changing climate and its impacts now and in the future), and **(c) adaptive capacity** (business activities increase adaptive capacity or reduce vulnerability in other ways, now and in the future).[5]
- **SDG co-benefits: (a) mitigation (SDG 13):** the proposed interventions can provide additional mitigation benefits (e.g. business activities increase carbon stocks or sequestration or reduce negative trend); **(b) biodiversity (SDG 15):** the proposed interventions provide additional biodiversity benefits (e.g. business activities increase biodiversity or reduce negative trend), and **(c) gender equity (SDG 5):** business activities improve the role of women in society or reduce negative trend (e.g. women are able to actively participate in the planning and execution of the interventions).
- **Investment readiness:** business model is well designed; the SME is able to generate positive operating cash flow in the medium term (five years); the SME is an officially registered private enterprise; the management team has at least some experience; and the awareness of endogenous and exogenous commercial risks exists, with a risk management process in place (and ability to mitigate material risks).
- **Landscape approach:** the presence of, or ability to install, the five elements pertaining to a landscape approach: a multi-stakeholder platform, shared understanding, collaborative planning, effective implementation, and monitoring of impacts; and based on evaluation of the three landscape catalysts: governance, finance, markets (Denier et al., 2015).

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[4] The selection criteria is set as preliminary, given that the LRF is still under development and small changes may be made for improvement.

[5] For the definitions of these three terms, please refer to the Glossary.

- **Scalability or replicability:** the business model facilitates expansion of activities ensuring that (a) positive impacts can grow over time and/or (b) further initiatives can be implemented elsewhere with reduced costs and/or risks.
- **Additionality:** current or planned activities are jeopardized in the absence of LRF funding, and the SME does not have access to sufficient external financing options for current or planned activities.
- **Alignment with national priorities:** project activities contribute to priorities specified in UNFCCC National Determined Contributions (NDCs), National Adaptation Programmes of Action (NAPAs), and National Adaptation Plans (NAPs).

Finally, the LRF will require SMEs to comply with the Environmental and Social Safeguards (ESS) in order to identify, address and mitigate potential risks. These safeguards (designed by WWF) are set as the standard for LRF's investments. They seek to address a broad range of environmental and social risks, mindful of the different challenges and needs in different parts of the world.

SMEs with climate-resilient practices will be assessed against these criteria by the LRF Fund Management Team and later presented to the Technical Committee.

It is worth mentioning that, as a member of the LRF's Board of Trustees, WWF Switzerland will lead the development of the ESS for the LRF, and that it will be financed through other private investments in the LRF. Therefore, none of the GEF funds for this Project will be directed to any WWF offices worldwide.

LRF's contribution to COVID-19's impacts

The contribution to the alleviation of the impacts caused by the COVID-19 crisis is at the core of the LRF. Those most vulnerable are at the mercy of such impacts, reducing their income sources and increasing their vulnerability to climate threats by decreasing the capacity of their response. Therefore, the LRF addresses these topics and contributes to its alleviation by increasing climate resilience, generating jobs, and diversifying sources of income, among others.

LRF's investment pipeline

Currently, a preliminary SME pipeline developed by WWF and South Pole, consists of 13 SMEs with varying attributes (see Box 2 for an example):

- **Several regions and nations:** Sub-Saharan Africa (e.g. Ghana, Uganda), South Asia (e.g. India), Southeast Asia (e.g. Cambodia, Indonesia), and Latin America (e.g. Ecuador, Chile, Peru, Guatemala)
- **Multiple commodities:** e.g. cocoa, coffee, rice, cotton, and sustainable timber
- **Various initiative types:** sustainable agricultural initiatives (e.g. agroforestry, adapted crop production, diversity of local food systems, etc.), forestry (forest landscape restoration, sustainable land use management, etc.), and other NBS (mangroves as natural barriers against typhoons, riparian forests, etc.).

The SMEs in the LRF's pipeline could deliver additional adaptation benefits such as:

- increased availability and improved seasonal distribution of drinking water;
- reduction of impacts from floods and gravitational hazards (landslides, mudslides, rockslides, etc.);
- reduction of impacts from heat islands or storm surges;
- increased soil fertility, water storage capacity, and soil carbon content; and

- diversification of income streams.

Project developers are typically local SMEs, in many cases coordinating with local and international NGOs. SMEs are defined here as businesses with a maximum of 250 employees and having an annual turnover of up to EUR 50 million.[6] For this Project, any type of entrepreneurship that falls under this SME description, focuses on land use-related climate resilience and generates revenue, may apply for the pre-investment window of the LRF.

Box 2. Case study: Koa Impact

Country of intervention: Ghana

What they do: Koa Impact produces juice and other products from typically unused cocoa pulp, thereby increasing farmer income by 30% and reducing food waste by 40%. So far, 1,200 farmers have been trained in cocoa processing and hygiene measures while so far employing 35 employees in rural communities. Koa Impact is also looking for innovative uses of the cocoa husk, such as for biogas or organic fertilizer.

Why is Koa eligible?

- **SME:** 35 employees in rural communities in Ghana, seven employees in Zürich
- **Land use:** agricultural focus
- **Revenue:** the overall business model can achieve profitability within two years with two additional factories; revenues FY 2019 = over USD 188,000

How does this SME match this Project's Selection Criteria?

- **Climate resilience:** building capacities (introduction of climate-resilient practices in existing training protocols), diversified and increased income
- **SDG co-benefits:**
  - **Gender:** balanced gender distribution across pay quartiles of Koa's employees – 3,000 women and girls as beneficiaries
  - **Mitigation:** replacement of conventional energy by renewable energy in local processing
  - **Biodiversity:** reduced harvesting and operation in protected areas (part of farmer training)
- **Investment readiness:** established offtake contracts, proven business model, 1-2 years of cash flows
- **Additionality:** Koa Impact will not scale without access to this funding, limited access to capital markets

Funding instruments

The following instruments will be used by the LRF as part of the non-GEF financed baseline:

- **revolving soft loans:** these will be invested where SMEs with climate-resilient practices can show regular returns, such as for specific agricultural products with clear offtake agreements. Interest and principal repayments will not be repaid to funders but reinvested in new (or the same) climate-resilient practices therefore creating a revolving facility that will create long-term sustainable impact;

[6] This follows the definition of the European Union for Small and Medium Enterprises – for more information see Glossary.

- **TA for landscape integration:** these activities are used to ensure landscape-level resilience planning so that individual SMEs with climate-resilient practices and existing value chains are integrated and ideally reinforce each other; part of this funding will be used for capacity building; and
- **commercial debt and equity:** LRF may add a market-rate commercial investment window in the future (with no or limited concessionality), but for this, another for-profit special purpose vehicle will have to be created. In the meantime, commercial funding is expected to flow as independent investments into LRF portfolio companies.

The LRF will be established by 2021 and will run as a not-for-profit foundation under Swiss law. It will be managed by South Pole in cooperation with WWF Switzerland (who will be responsible for the ESS and landscape integration and involved in SME sourcing and fundraising). Reflows from provided services and soft loans will allow for further investment over time, after the initial funds have been depleted. Any reflows will be flowing into the not-for-profit entity (foundation), where funds held by the LRF will be transparently accounted for to ensure they are reinvested for the same purpose.

Also, the EA will secure co-financing for this Project through the private investment (confidential multinational corporation) will donate USD 12.5 million to the LRF and invested in activities related to SME assessment, quality assurance for the investment readiness plans, landscape and environmental and social risk management, and direct investment in the climate-resilient practices of selected SMEs (soft loans).

1.5.2 The LRF without the GEF Project

There are a range of private companies interested in investing in SMEs with climate-resilient practices in developing countries. However, they often lack a deal flow of investment-ready opportunities. The LRF demonstrates such private sector interest in climate-resilient practices with its goal being to finance investable initiatives integrated in sustainable landscapes in developing countries. The LRF has obtained a USD 25 million commitment for a six-year period (2021-2026).

There are currently over 13 potential SMEs, from which the majority are in need of pre-investment funding to make their climate-resilient practices investment-ready as they face barriers, such as those described in section 1.3. Making SMEs with climate-resilient practices investment-ready as part of this GEF Project, will allow the LRF to be turned into a full-fledged climate resilience fund.

There is strong interest from corporate investors to invest in LRF.[7] Yet, without the pre-investment funding supported by this GEF Project, most of the SMEs with climate-resilient practices and their initiatives in the pipeline would not be ready for implementation funding. This is due to unmitigated investment risks, sub-optimal integration of resilience aspects, and other business model and management constraints. Therefore, there will not be enough SMEs with well-developed climate-resilient practices that are ready for investment under the implementation funding window of LRF.

Consequently, without GEF funding, there will be limited investments from LRF. Over USD 12.5 million of corporate investments planned until 2023 will not be unlocked without a stronger deal flow of investment-ready SMEs with climate-resilient practices. SMEs are also unlikely to find non-LRF private investments, as

[7] This interest has been identified by South Pole during meetings with potential corporate investors for the LRF, which wish to remain anonymous until further negotiations and agreements are made.

other investors will use even stricter investment criteria (commanding lower risk and higher return) than LRF. Further, as described above, SMEs often do not know how to pitch to investors or what types of investors are the right ones to approach.

The proposed alternative scenario, enabled as a result of GEF funding for this Project, has been described in detail in section 3.1.

1.6 Coordination with other relevant GEF & non-GEF Initiatives

Coordination with similar initiatives is key for this Project as they might give support for its design and implementation, and also become a primary source for pipeline development. Therefore, it is considered to be essential to maintain good relations and regularly engage with them.

1.6.1 Global-level coordination

As the proposed pre-investment services window will be integrated within the LRF, it will operate in close partnership with well-established networks managed by its members, such as WWF, which has experience of nearly 60 years as the world's leading conservation organization in over 100 countries (for example, see Figure 2 for WWF US' Priority Places) and South Pole, which has a worldwide network of over 1,000 private companies that invest in sustainable activities (see Figure 1 for countries where South Pole has access to small businesses and projects).

Figure 2: WWF US' Priority Places[8]

As new members and co-financiers become part of the LRF, their own country priorities might be included in the scope of the LRF. For all SMEs with climate-resilient practices supported by the LRF GEF funding, coordination with countries' national institutions to ensure that the initiatives are in line with the LRF and country targets will begin at the due diligence stage.

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[8] WWF US' priority places include Amur-Heilong, Borneo and Sumatra, Coral Triangle, Eastern Himalayas, Greater Mekong and Yangtze in Asia, Coastal East Africa, Congo Basin, Madagascar and Namibia in Africa, Amazon, Pantanal, Southern Chile and The Galápagos in South America and Arctic, Chihuahuan Desert, Gulf of California Mesoamerican Reef, and the Northern Great Plains in North America. Available at: https://www.worldwildlife.org/places

Also, through Component 4 (knowledge management and effective M&E), the LRF GEF funding also seeks to generate tools to share lessons learned, interact with other relevant initiatives, and develop an adaptive management approach that will enhance results.

1.6.2 Coordination with GEF-funded Projects

WWF and South Pole seek to develop a knowledge management component for this Project, including periodic communications with organizations implementing similar GEF-funded projects or initiatives. They will be engaged in order to share information regarding TA, raise awareness of impacts and results expected on each initiative, and seek further coordination among them.

At this point, the Project has identified the following GEF-funded initiatives with a similar scope or interest:

- **Land Degradation Neutrality Fund Technical Assistance Facility**: communications with IDH, the TAF manager for the Land Degradation Neutrality Fund (LDNF) have already started in regards with learnings gained so far on pre-investment assistance;
- **Coalition for Private Investment in Conservation (CPIC) – Conservation Finance Initiative**: seeks to improve the conservation and sustainable use of biodiversity by demonstrating innovative finance blending models to increase return-seeking private investment in conservation. South Pole and WWF are both member organizations of the Coalition that guarantees access to potential investment leads and learnings on investment approaches; and
- **Adaptation SME Accelerator Project:** this project presented by Conservation International and Lightsmith Group as EA, is one of the winners of the GEF Challenge Program for Adaptation Innovation. The project seeks to build the ecosystem of SMEs involved in adaptation and climate resilience in developing countries through a program of market mapping, convening and network building, and incubation/acceleration. The TAF for the LRF will greatly benefit from lessons learned on best practices on private sector engagement for adaptation and experience in the engagement of SMEs and their selection criteria.

This Project has also identified that WWF has at least 16 GEF-funded initiatives (including the LDNF) of which some involve a landscape approach to sustainable land management. The LRF pre-investment services window will make sure to involve any valuable experiences from these initiatives, through WWF as a project partner.

Although there are many other GEF-funded projects which seek to enhance adaptation and resilience on the landscape scale, they are not being included in this list since most of them are focused on developing on-site projects and not on providing assistance for a pre-investment stage or developing innovative financing mechanisms to reach their goals. If the Project team comes across any other GEF-funded initiatives during the implementation stage, they will be included through its knowledge management component.

1.6.3 Coordination with other initiatives

Other identified initiatives that will surely be of added value to this Project are:

- **The Dutch Fund for Climate and Development (DFCD) – Land Use Facility**: managed by the Dutch Entrepreneurial Development Bank, the Land Use Facility targets investments in sectors relating to agroforestry, sustainable land use, and climate-resilient food production;

- **The WWF Landscape Finance Lab:** seeks to incubate and self-finance sustainable landscapes that generate impact at scale, including: (i) designing and developing landscape programs with climate-resilient supply chains to accelerate landscape approaches; (ii) attracting green finance from committed investors who share a vision of sustainable, productive landscapes to sustain the incubation process; and (iii) sharing results and lessons learned to the global landscape community for replication in other ecosystems in need;
- **Climate Resilience and Adaptation Finance & Technology Transfer Facility (CRAFT):** designed as a commercial investment vehicle to focus on expanding the availability of technologies and solutions for climate adaptation and resilience;
- **Climate Investment Funds (CIF) – Pilot Program for Climate Resilience:** supports developing countries and regions in building their adaptation and resilience to the impacts of climate change. It assists governments in integrating climate resilience into strategic development planning across sectors and stakeholder groups and provides concessional and grant funding to put the plans into action and pilot innovative public and private sector solutions;
- **The African Agricultural Fund (AAF):**
    - SME Fund: supports private sector companies that implement strategies to enhance and diversify food production and distribution in Africa by providing equity or quasi-equity funding and strengthening their management;
    - Technical Assistance Facility (TAF): although it ended in 2018, the International Fund for Agricultural Development, as manager of the facility, promotes knowledge sharing through the AAF TAF Impact Brief (2011-2018), which is included in section 3.7 (Lessons learned during project preparation and from other relevant projects). The TAF had a mandate to increase economic and physical access to food for low-income Africans by providing technical assistance to the portfolio companies of the AAF; and
- **Acumen Resilient Agriculture Fund (ARAF):** the ARAF, partly financed by the Green Climate Fund (GCF), plans to improve climate resilience to ensure long-term sustainable increases in agriculture productivity and incomes for smallholder farmers. It plans to shift the pattern of investment in climate change adaptation activities in Africa from grants to a long-term capital approach, enabling smallholder farmers to respond to climate change more efficiently and effectively. It will also support innovative private social entrepreneurs in micro, small, and medium-sized enterprises by providing aggregator and digital platforms and innovative financial services to smallholder farmers. The project has an estimated lifespan of 12 years.

Coordination with these initiatives began at the Project design consultation stage. It will continue through the Stakeholder Engagement Plan and will be ultimately secured through their involvement in the implementation of the knowledge management component for this Project.

SECTION 2: PROJECT EXECUTION STRATEGY

2.1 Project objective and theory of change

The objective of the proposed Project is to **"catalyze private sector investment in SMEs with climate-resilient practices"**. Furthermore, lessons and best practices from the design and delivery of pre-investment support and implementation of climate-resilient practices, will be generated and shared through the GEF Project.

The proposed Theory of Change for this GEF Project is: ***If*** the project provides pre-investment support to make SMEs climate-resilient practices investment-ready by:

- resolving shortcomings of their business model and internal capacity,
- improving the project's anticipated socio-economic and environmental benefits, and
- matching them with potential private investors

then this pre-investment window of support will increase the likelihood of SMEs receiving private investments from LRF and other investors, which will allow the LRF's investments to accelerate and lead to increased climate resilience in a suite of landscapes for the long-term (see Figure 3).

The logic of the theory of change is as follows:

Component 1: Establishing systems to support SMEs with climate-resilient practices to access private investments. 'Systems' here refers to the collective set of processes that will enable sustainable delivery of GEF funded pre-investment services to (at least) nine SMEs with climate-resilient practices, for enhancing their investability for the LRF and improving the potential of their initiatives to generate adaptation benefits and other co-benefits. These processes include (i) the selection of SMEs with climate-resilient practices; (ii) the development of individual 'investment-readiness' plans (hereby referred to as **'the plans'**), which will identify the interventions required to make them investment-ready and capture the details of the pre-investment services required to carry out said interventions (the actual provision of services falls under **Component 2**), and; (iii) to ensure financial sustainability of GEF funds, setting up agreements with the SMEs under which they would commit to partially reimburse the pre-investment services received under Component 2. This will facilitate future cash inflows to the LRF, which will later be reinvested for the provision of services to other SMEs with climate-resilient practices. If the entirety of these outputs are considered together, they constitute a system, consisting of '*sustainable processes for the provision of pre-investment services to SMEs',* thereby supporting SMEs with climate-resilient practices in accessing private investments.

Component 2: Pre-investment services to make SMEs with climate-resilient practices investment-ready. To implement the Plans developed under Component 1, South Pole will either provide them with zero-interest loans so that they can execute the plan at their own discretion or provide services to the SMEs directly. If planned services are provided, then the SMEs will have increased technical, operational, and financial capacity to structure their climate-resilient practices.

If *Components 1 and 2 are considered together,* then it will result in the preparation of high-quality investment-ready climate-resilient practices by SMEs, which are eligible to receive implementation-stage funding from the LRF (*first intermediate objective*). The LRF aims to source capital from private investors, and thus, if SMEs are able to secure funding from the LRF, private sector investments in climate-resilient practices will be unlocked (*overall objective*). Furthermore, in unlikely cases where the SMEs are unable to secure funding from the LRF, they still would have improved their investability as a result of pre-investment support and would have a higher chance of receiving private investments (especially if Component 3 is exercised in such cases). Such cases contribute to the overall objective.

Component 3: Establishing matchmaking support for SMEs with climate-resilient practices to match with potential private investors. In cases where selected SMEs are also selected by the LRF to receive implementation funding, after receiving the pre-investment services, and need to secure additional capital for the implementation stage from private investors, they will be assisted by South Pole in developing high-quality offer sheets and delivering effective pitches. Furthermore, South Pole will arrange matchmaking events, where the SMEs can meet with potential investors. These services may also be provided to those SMEs which, even after receiving pre-investment services, are unable to secure funding from LRF but have a high chance of matching with other private investors. If these non-reimbursable services are provided, then the SMEs will have an increased capacity to match with suitable investors.

SMEs with climate-resilient practices that receive GEF funded matchmaking support, will be able to match with other private investors (*second intermediate objective*). If the SMEs secure funding from other investors, then it will further contribute to unlocking private investments in climate resilience, closing the adaptation finance gap (*overall objective*).

Therefore, activities on this component will be limited as it is expected that most of the selected SMEs will receive investment from the LRF and will have no need for additional matchmaking support. However, co-financing will be available if more resources are needed to support any SMEs that require matchmaking support[9].

Component 4: Knowledge management and effective project monitoring & evaluation (M&E). Under this component, South Pole will ensure continuous M&E of the Project outputs against the proposed Results Framework (see appendix on Results Framework) and the adaptation benefits (see section 3.1). M&E of outputs will identify opportunities for improvement and thereby inform adaptive management of the Project. Further, knowledge management will facilitate the exchange of key Project-related information, including lessons and best practices with the wider SME and investment community. If adaptive management of the Project is undertaken, it will increase the effectiveness of the LRF and similar initiatives to support SMEs with climate-resilient practices while also increasing the potential of their initiatives to maximize the intended adaptation and private investment targets (*third intermediate objective*). Through effective knowledge management, SMEs with climate-resilient practices and investors can be made more aware of best approaches on developing and financing such initiatives. This outcome, among other things, will also enable long-term investor support for the LRF through increased investor awareness (*fourth intermediate objective)*. The two intermediate objectives will play a significant contributing role in unlocking private investments in SMEs with climate-resilient practices (*overall objective*).

Finally, an increased flow of private investments in climate resilience, influenced by many other factors in the long term (which cannot be fully anticipated at this stage) would enable the implementation of adaptation interventions and generation of significant adaptation and other socio-economic benefits (available in the section on Adaptation Benefits, as per the Adaptation Results Framework).

[9] Currently South Pole is negotiating with a potential investor in order to secure additional funds of USD 1.2 million for the pre-investment window of the LRF.

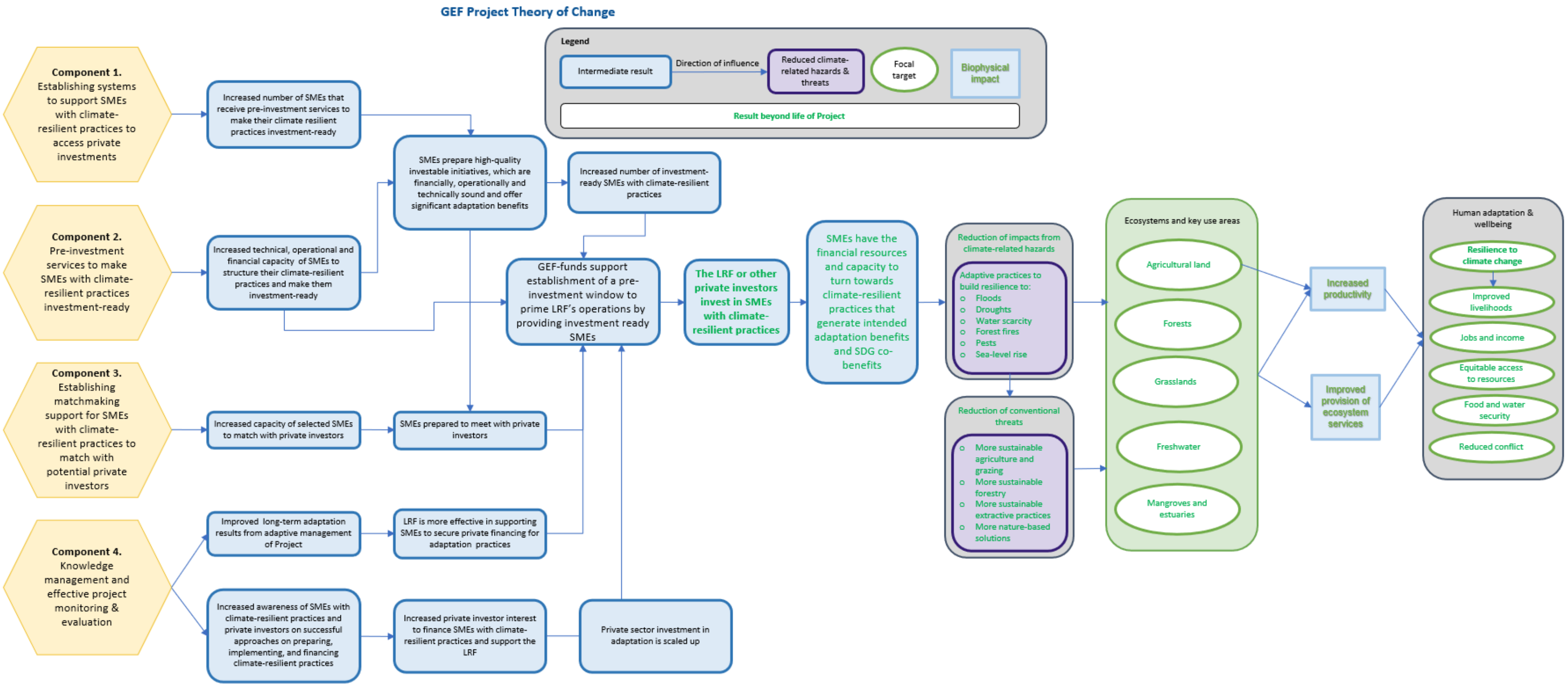


Figure 3: GEF Project theory of change

2.2 Project components and expected outcomes

The overall Project objective is to provide pre-investment services to SMEs with climate-resilient practices to unlock private sector investments in climate resilience. Through its three-year period, the proposed Project will achieve this objective by implementing four components, as summarized in Table 2.

Table 2: Project description summary

Project components	Project outcomes	Project outputs	Financing in USD	
			GEF project financing	Co-financing
1. Establishing systems to support SMEs with climate-resilient practices to access private investments	1.1 Sustainable processes for provision of pre-investment services to SMEs, to make their climate-resilient practices investment-ready	1.1.1 Selection of at least nine SMEs to be supported in making their climate-resilient practices investment-ready 1.1.2 Development of investment-readiness plans with selected SMEs 1.1.3 System for partial or full reimbursement of zero-interest loans and/or direct services, and reinvestment in SMEs	341,811	136,937
2. Pre-investment services to make SMEs with climate-resilient practices investment-ready	2.1 SMEs have increased technical, operational, and financial capacity to structure their climate-resilient practices and make them investment-ready	2.1.1 Provision of zero-interest loans and/or direct services to selected SMEs to implement their investment-readiness plans	608,600	12,289,405
3. Establishing matchmaking	3.1. Increased capacity of selected	3.1.1 Assistance to selected SMEs for	39,450	18,881

Project components	Project outcomes	Project outputs	Financing in USD	
			GEF project financing	Co-financing
support for SMEs with climate-resilient practices to match with potential private investors	SMEs to match with private investors	development of project offer sheets and pitches to investor 3.1.2 Arrangement of matchmaking meetings, including pitch events, where selected SMEs are matched with investors		
4. Knowledge management and effective project M&E	4.1. M&E to inform adaptive management of projects 4.2 Knowledge management increases awareness of private investors on successful approaches to preparing, implementing, and financing climate-resilient practices	4.1.1 M&E of Project outputs 4.2.1 Dissemination of Project results to key stakeholders 4.2.2 Project knowledge products developed and disseminated to wider SME and investment communities	122,800	39,953

This Project's process and activities are depicted in a high-level diagram, shown in Figure 4. A detailed description of each component, outcome, and output follows this diagram.

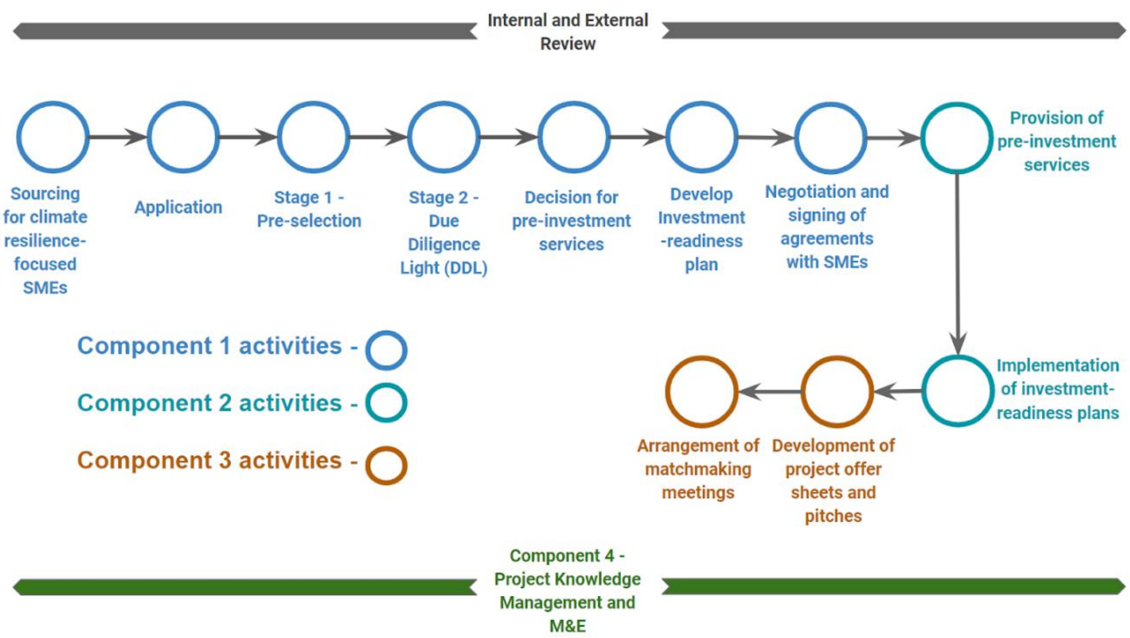


Figure 4: Process of the GEF-funded pre-investment services

Component 1: Establishing systems to support SMEs with climate-resilient practices to access private investments

Project Component 1 is structured to address the barrier "SMEs lack knowledge and capacity on how to prepare investment-ready climate-resilient practices" and its main outcome will be the development of sustainable processes for provision of pre-investment services to SMEs to make their climate-resilient practices ready for investment by the LRF.

Therefore, this component will select SMEs with climate-resilient practices – particularly those that offer products or services with climate adaptation benefits – and provide them with the needed expertise required to develop investment-readiness plans (hereafter referred to as 'Plans'), and to design a system for full or partial reimbursement of the pre-investment services that will be given for the implementation of these Plans under Component 2. It is important to note that, since this Project supports SMEs with climate-resilient practices through their pre-investment phase, implementation phase activities undertaken by these SMEs, which are financed by the LRF (and/or other private investors), is not a part of the scope.

Outcome 1.1. Sustainable processes for the provision of pre-investment services to SMEs to make their climate-resilient practices investment-ready

As stated in section 1.3, one of the main barriers for adaptation initiatives lies in SMEs' lack of capacity in preparing investment-ready climate-resilient practices. This entails a gap between the private investors seeking to finance these types of projects with the expectation of obtaining a return on their investment, and the SMEs that develop these initiatives but do not have the means to address the investors' expectations.

Through this first component, the LRF's integrated pre-investment window will be able to design and implement sustainable processes. These processes that will then allow selected SMEs to access resources, which will be used for developing and implementing a plan of action to overcome the barriers to obtaining private investments, and thus, become ready for investment by the LRF.

Output 1.1.1: Selection of at least nine SMEs to be supported in making their climate-resilient practices investment-ready

In the baseline, proposals made by SMEs for climate-resilient practices are first sourced for the LRF through existing contacts and networks in the landscapes and through South Pole's local experience and knowledge, and then added to the existing LRF pipeline based on their eligibility.

Therefore, this Project's SMEs pipeline is currently under development and will continuously evolve during the first two years of its implementation, until the second quartile of the second year (as described in Appendix 4 – High Level Work Plan). The pipeline will be developed based on existing proposals (initially sourced through existing networks and contacts we have in the landscapes under interest), the sourcing of new proposals (through existing contacts and networks in the landscapes and through South Pole's local experience and knowledge), and the submission of proposals by partners. Further SMEs with climate-resilient practices may be considered after a concept note is submitted to the PMU and it undergoes the complete selection process.

This sourcing is followed by a two-stage due diligence of the SMEs against the LRF selection criteria for receiving implementation funding. The second stage of due diligence, known as due diligence light, will determine whether an SME requires pre-investment services for their climate-resilient practices to become investment-ready for the LRF, and will assess the type of services required.

If, for a given SME, a need for pre-investment support is identified, the PMU will prepare a summary of the due diligence of the SME for the Technical Committee (described under section 2.3). The Technical Committee will assess due diligence findings and recommend the SME to receive pre-investment services through the GEF funded pre-investment window. An SME's selection for pre-investment services will then be finalized by the PMU. Under this Project, at least nine SMEs with climate-resilient practices will be selected to receive the pre-investment services.

Selection criteria for this Project

The **LRF investment criteria** will be used during the due diligence process to determine whether an SME is ready to receive investment from the LRF and includes a pre-investment selection criterion (shown in Table 3 and described in detail in Appendix 7), which will be used to determine whether the SME is eligible to receive pre-investment support facilitated through GEF funding for this Project.

To receive investment from LRF, an SME must perform strongly against the LRF Investment Criteria. **SMEs will be selected to receive pre-investment services if they are found lacking based on the selection criteria for pre-investment support** (please refer to Appendix 7).

The general assessment for the selection of an SME will be evaluated on a case by case basis. Additionally, it has to meet most, but not necessarily all criteria, to be selected. This Project is focused on strengthening the most vulnerable people against climate change impacts, and therefore, any additional co-benefits such as biodiversity will be valued but will not be an exclusion criterion. An SDGs' co-benefits criterion has been included to guarantee that these are considered as an added value for the SME during the selection process.

This selection will not benefit SMEs that can easily obtain financing from other existing funds but will rather be additional and complementary to what is available from traditional development and commercial funders. Pre-investment support will be used to address gaps based on this assessment.

*Table 3: Pre-investment selection criteria for this Project**

Criteria	Description
Investment readiness	Business model is well designed; SME is able to generate positive operating cash flow in the medium term (five years); SME is an officially registered private enterprise; management team has at least some experience; awareness of endogenous and exogenous commercial risks exists, and a risk management process is in place (and there is an ability to mitigate material risks).
Climate adaptation and resilience	The proposed climate-resilient practices will contribute to strengthening the resilience of vulnerable people through different adaptation strategies in the categories of sustainable agriculture, forests, and other NBS. Further criteria within this category include the degree of **(a) exposure,** based on the given exposure to climate risk today and in the future; **(b) sensitivity,** the system is highly vulnerable and susceptible to the adverse effects of the changing climate and its impacts now and in the future; and **(c) adaptive capacity,** business activities increase adaptive capacity or reduce vulnerability in other ways, now and in the future. For this Project, these elements will be assessed to identify the people's vulnerability.
Environmental and social risk management	This criterion seeks to address a broad range of environmental and social risks, mindful of the different challenges and needs in different parts of the world. This criterion evaluates therefore whether the SMEs consider and include in their proposal an assessment and mitigation plan to associated environmental and social risks. If it does not, the pre-investment window offers support to develop these mitigation plans.
SDG co-benefits	**(a) Mitigation (SDG 13):** the proposed climate-resilient practices provide additional mitigation benefits (e.g. business activities increase carbon stocks or sequestration or reduce negative trend); **(b) Biodiversity (SDG 15):** the proposed climate-resilient practices provide additional biodiversity benefits (e.g. business activities increase biodiversity or reduce negative trend); **(c) Gender** Equity (SDG 5):** business activities improve the role of women in society or reduce negative trends (e.g. women are included to actively participate in the planning and execution of climate-resilient practices).
Alignment with national priorities	Project activities contribute to priorities specified in NDCs/NAPAs and NAPs.
LDC coverage	Ensuring geographical balance, because 50% of GEF funding will support projects from LDCs and all GEF funding will support GEF-eligible countries only.
Additionality	Current or planned activities are jeopardized in the absence of LRF funding, and the SME does not have access to sufficient external financing options for current or planned activities.

*For further detail on this please refer to Appendix 7 on Selection Criteria.

**This Project also includes gender integration activities that will be developed during its implementation to guarantee that SMEs' climate-resilient practices integrate gender in their business cases, and that gender is mainstreamed throughout this Project's implementation. Therefore, the inclusion of Gender in the SDG co-benefits will not reduce the positive impact that this Project seeks to obtain by implementing its gender integration activities (as described In section 2.5).

It is important to highlight that this Project seeks to benefit SMEs with climate-resilient practices by providing them with the financial support needed to carry out preparation activities; this support is additional and complementary to what is available from traditional development and commercial funds. Therefore, GEF-funded activities will not benefit SMEs that can easily obtain financing from other existing funds.

Description of this Project's selection criteria

Criterion 1: Investment readiness

Together with resilience, investment readiness is one of the most important selection criteria. It helps to assess the business model in terms of its strength and comprehensibility. The selection indicators for investment readiness consider:

- **general business activities:** refers to the business model (including value created) and how comprehensible and well-designed it is;
- **capital structure:** considers total capital needs – the amount and maturity sought and current and past funding sources;
- **financial performance:** the ability of the business to generate revenue and become profitable as demonstrated by past developments and future projections;
- **legal aspects:** the description of the legal registration of the business, current or planned, and assurance that business activities are commensurate with local or national regulations and laws (e.g. legal form entity and lawful activities);
- **management:** the management team has at least some experience, ideally with strong local representation and sound management processes in place to run current business activities and plan future interventions;
- **risks:** awareness of endogenous and exogenous commercial risks exists, a risk management process is in place, and material risks can be mitigated; and
- **likelihood of future external private investment:** concrete interest from external private investors (or as a minimum: plan on how to access private capital in the future) exists. The management team is capable of presenting the SME externally and creating quality pitch materials.

Criterion 2: Climate adaptation and resilience

The PMU will carry out an initial vulnerability assessment (part of the LRF's Due Diligence), which will help identify the climatic threats and impacts for the region/country where the SMEs are based or where they are planning to implement the climate-resilient practices. When needed (particularly for direct assistance), this information will contribute to improving the activities for this category. Further, this selection criteria targets increasing climate resilience, which is reflected in strong adaptation benefits from the climate-resilient practices (particularly reducing the vulnerability of smallholder farmers and indigenous people).

The proposed SMEs' climate-resilient practices will contribute to strengthening the resilience of vulnerable people through different adaptation strategies. Further indicators within this category include:

- **exposure**: exposure to climate risk today and in the future (climatic changes) is clearly recognized and identified;
- **sensitivity:** how is the system (location of the SMEs' practices, landscape, community) vulnerable and susceptible to the adverse effects of the changing climate and its impacts now and in the future; and
- **adaptive capacity:** SMEs' proposal increases adaptive capacity or reduces vulnerability in other ways, now and in the future.

Criterion 3: Environmental and social risk management

Environmental and social risk management seeks to address a broad range of environmental and social risks while considering the different challenges and needs in different parts of the world and systematizing good governance practices to achieve transparency, public participation, and accountability, among other goals.

In this selection process, the concept of risk management is considered as the identified risks that the proposed climate-resilient practices pose in either environmental or social management. The selection process will consider whether the SMEs have a proposal that includes an assessment and mitigation plan to associated environmental and social risks.

As initially mentioned, when an SME does not address these risks, the pre-investment window through its assistance will ensure that there is an improvement of social and environmental co-benefits to reduce related risks.

Criterion 4: SDG co-benefits

The SDGs provide a guide for action in key areas, addressing global changes including those related to poverty, inequality, climate change, and environmental degradation. This Project is focused on strengthening the most vulnerable people against climate change impacts. Therefore, any additional co-benefits such as mitigation, biodiversity, and gender equality will be valued but **will not be considered an exclusion criterion**. A co-benefits criterion has been included to guarantee that these are considered an added value for the SME, during the selection process. For the purposes of this Project, the following three indicators are considered to be SDG co-benefits:

- **Mitigation (SDG 13):** the proposed climate-resilient practices provide additional mitigation benefits (e.g. business activities increase carbon stocks or sequestration or reduce negative trend);
- **Biodiversity (SDG 15):** the proposed climate-resilient practices provide additional biodiversity benefits (e.g. business activities increase biodiversity or reduce negative trend);
- **Gender equity (SDG 5):** business activities improve the role of women in society or reduce negative trends (e.g. women are included to actively participate in the planning and implementation of climate-resilient practices); and
- **Other SDGs' co-benefits:** the baseline or the SME's have an impact on other SDG co-benefits.

Criterion 5: National adaptation priorities

The Project is consistent with UNFCCC NDCs, NAPAs, and NAPs, as any SME that asks for support by the LRF will have to show how it is aligned or intends to be aligned. Additionally, any national adaptation priorities updates communicated in the Biennial Update Reports (BUR) will be part of the selection criteria of SMEs supported by the GEF funding.

Criterion 6: LDCs coverage

Because the GEF funding seeks to ensure geographical balance, half of the total GEF funding will be allocated to climate-resilient practices proposals in LDCs. Additionally, all GEF funding will support GEF-eligible countries only.

Exclusion criterion: additionality

Current or planned SME's activities are jeopardized in the absence of LRF funding, and the SME does not have access to sufficient external financing options for current or planned activities. It is important to highlight that this Project seeks to benefit SMEs by providing additional and complementary financing to what is available from traditional development and commercial funds. GEF-funded activities will not benefit SMEs that can easily obtain financing from other existing funds; therefore, for this exclusion criteria, there is clarity in a given SME's proposal that its climate-resilient practices would not be possible without this funding.

Output 1.1.2: Development of investment readiness plans with selected SMEs (as preparation for investment, see Component 2)

Under this Project component, an investment-readiness plan (including current barriers and bottlenecks, needed interventions to reach an investment-ready stage, budget, time plan, agreed implementation indicators/milestones) will be developed by the South Pole for the proposed initiative.

The Plan will also define whether the pre-investment funding will be provided as zero-interest loans or as direct services to the SME. This definition will depend on various factors, such as the interest of the SME in receiving either the loan or the direct provision of services. Other factors include the type of support needed, who is best suited to implement the investment-readiness plan and the capacity of the SME to execute the resources.

At this stage, no funding will be disbursed to the selected SMEs as zero-interest loans or direct provision of services will be awarded under Output 1.1.3 for the implementation of component 2.

Output 1.1.3: System for partial or full reimbursement of zero-interest loans and/or direct services, and reinvestment in SMEs

At this stage, South Pole will proceed to develop the individual agreements for repayment of zero-interest loans or direct services, provided to support the SME in the development of its investment-readiness plan (developed under Component 2), with each SME. A share of the amount invested into an SME (either as direct service provision by South Pole, or as zero-interest loans), will have to be reimbursed by the SME to the LRF (and not South Pole to prevent conflict of interest) in the following cases: (i) a first tranche will be reimbursed once the SME secures private investment; and (ii) a larger tranche will be reimbursed later once the SME generates sufficient cash flows.

The terms for partial or full reimbursement will be established on a case-by-case basis, it will depend on the expected revenue generated by the implementation of the SME's climate-resilient practices and will be set as a percentage of the actual revenue. Reimbursed funding will be received by the LRF Foundation, which will decide on how to best re-invest into other SMEs with climate-resilient practices. This recycling of GEF funds multiplies the number of SMEs with climate-resilient practices that can be made investment-ready for the LRF or other private investors through the LRF's pre-investment window. It is anticipated that some, but not all, of the pre-investment services recipients will make these repayments.

To establish the agreement with selected SMEs, the terms will be developed by South Pole, approved by the Technical Committee, and then conveyed to the SME for negotiation of terms and conditions of partial/full reimbursements (level, schedule, etc.) for both direct service provision by South Pole and zero-interest loans.

GEF financing will cover inhouse expertise required to establish systems and manage the process of reimbursement and reinvestment.

Component 2. Pre-investment services to make SMEs with climate-resilient practices investment-ready

Component 2 is structured to address the barrier "SMEs face high costs and risks associated with the preparation of investment-ready climate-resilient practices" and its main outcome is for SMEs to have increased technical, operational, and financial capacity to structure their climate-resilient practices and make them investment-ready.

Therefore, this Project component seeks to provide SMEs with climate-resilient practices, selected under Component 1, with pre-investment services, either through zero-interest loans or through the provision of direct services by the South Pole or an external expert, for the implementation of their Plans (developed under component 1). These pre-investment services are not a part of the LRF baseline, but rather for enabling long-term success of the LRF.

Upon executing their Plans, the SMEs should be able to perform well against the LRF Investment Criteria and become eligible to receive implementation funding by the LRF or other investors.

Outcome 2.1 SMEs have increased technical, operational, and financial capacity to structure their climate-resilient practices and make them investment-ready

It is expected that through the implementation of the plans, SMEs will be provided with the tools needed to enhance their operational, financial, and technical capacities in developing climate-resilient practices.

Output 2.1.1 Provision of zero-interest loans and/or direct services to selected SMEs to implement their investment-readiness plans.

Where reimbursement agreements have been signed with the SMEs, disbursal of the zero-interest loans by the LRF or provision of direct services by South Pole for implementation of the plan will take place. It is expected that at least 50% of the pre-investment services will be provided through zero-interest loans. However, in cases where zero-interest loans are not possible, relevant sectoral, legal, financial, and technical experts will be hired by South Pole for the provision of direct pre-investment services. Alternatively, if the PMU is able to provide such services to the SMEs through the support of specific South Pole specialists, it will do so in order to achieve successful implementation of the plan.

Regarding the disbursement procedures, South Pole, acting as Executing Agency will be responsible for managing the resources received by this GEF Project for the pre-investment window of the LRF and the disbursement of any resources during the implementation of this Project. For checks and balances, the Board of Trustees and the Project Steering Committee will have oversight of all disbursement processes.

Disbursements related to the hiring of external experts will have to comply with South Pole's Procurement Policy which establishes a set of principles for anyone conducting any form of procurement activity at South Pole to ensure that the procurement is conducted in a responsible and consistent manner. It is worth mentioning that South Pole is a signatory to the United Nations Global Compact and supports its Ten Principles which includes a range of topics including, Human Rights and Labour Principles.

In addition to South Pole's policies, GEF Project counterparties for disbursements may not be on the WWF black list, which relates to a set of sectors and industries including, among others, fossil fuels and weapons, and a set of activities including, among others, animal testing and the trade in endangered species.

Lastly, an elaborate Know Your Counterparty (KYC) process, inter alia, amended from South Pole's general KYC procedures is currently under development. The goal of KYC is to verify the identity of its counterparts including project owners, traders and intermediaries to assess their suitability to do business with, discarding specifically money laundering, bribery, child labor topics or simply reputation risk in our business relationships.

The zero-interest loans invested in SMEs may be used by the SMEs to hire experts that help them during implementation of the plans. In rare cases, part of the loan may also be used to pay for small capital investments (e.g. new laptops needed for project preparation). In general, the SMEs will be free to use the loans in the way that is of best use to them, as long as they are used to finance the activities agreed in the plan.

The PMU will implement regular check-ins to SMEs and hire experts to guarantee that the pre-investment activities stay on track with the Plan.

In both cases, the pre-investment funding will enable the SMEs to satisfy the LRF investment criteria by improving the quality of their intervention as measured by the criteria mentioned in Table 3. Therefore, a set of optimal criteria is established to determine the SMEs with climate-resilient practices that are investment-ready. Once the SMEs with climate-resilient practices reach an investment-ready stage, it is expected that they will be able to access funding through the LRF, other private investors, or both.

Component 3. Establishing matchmaking support for SMEs with climate-resilient practices to match with potential private investors

Component 3 is structured to address the barrier "SMEs lack (i) access to adaptation focused investors and the (ii) knowledge and expertise required for the preparation of adequate pitches and offer sheets" and its main outcome is for SMEs to have increased capacity to match with private investors for their climate-resilient and investment-ready practices.

Therefore, through this component, South Pole will assist SMEs – those that have previously received pre-investment services from this GEF Project – in the development of offer sheets and pitches for other private investors and arrange matchmaking meetings with potential private investors. However, not all SMEs selected under Components 1 and 2 will be supported through both activities. For SMEs that receive pre-investment services and are approved to receive implementation funding from the LRF, the activities under Component 3 will only apply if: (i) they have a clear additional capital need during the implementation stage and (ii) have a high-potential business case that can attract significant private investments. Other SMEs that are investable but do not exactly fit the LRF Investment Criteria, even after receiving pre-investment services, may receive matchmaking assistance through this component to help them secure investment through other sources.

SMEs will not be required to reimburse for the matchmaking services to the LRF. These services are also not a part of the LRF baseline but are provided to ensure that SMEs with high potential for success are able to achieve their objectives by overcoming the barrier of access to private investments.

Outcome 3.1 Increased capacity of selected SMEs to match with private investors

Output 3.1.1 Assistance to selected SMEs for development of offer sheets and pitches to investors

As mentioned above, not all SMEs selected under Component 1 may apply for these services. Therefore, a selection of investment-ready climate-resilient practices by SMEs to be provided with assistance under this component, within those selected under Component 1, will take place on a needs basis.

To increase SMEs' chances of receiving investment, the GEF funding will enhance the ability of SMEs to match with potential investors by providing training to develop effective offer sheets and pitches to deliver to investors. These offer sheets and pitches will be designed to address the identified private investor's interests. All support will be directly provided by South Pole, including the review of the draft pitches and offer sheets developed by SMEs.

In cases where specific investors are not identified immediately, the offer sheet and/or pitches will be adapted to the specific business case of the SME and the type of private finance that best fits their needs.

For this output, GEF financing will cover inhouse expertise required to establish systems and manage the process of reimbursement and reinvestment.

Output 3.1.2 Arrangement of matchmaking meetings, including pitch events, where selected SMEs are matched with investors.

Those SMEs that seek additional funding (on top of LRF funding) will be included in matchmaking meetings, whereas specific capacity will be built for the SMEs to adapt their pitches to particular investors.

Creating an event where different investors and SMEs can meet is not sufficient for generating the best possible matches (based on experience from other projects), as various investor types have different objectives and conditions for engaging in a particular investment and both developers and investors will only disclose full information on their offerings and preferences in an informal setting where competitors are not present. With GEF funding, one-to-one meetings will be arranged. Before any such matchmaking meetings, South Pole will guide and advise SMEs, considering the preferences and requirements of the targeted investor (e.g. desired cash-flow profiles, project characteristics, ability to assume particular types of risk, etc.).

GEF funding will be available to support South Pole's staff activities related to the organization and development of matchmaking events, if needed.

Component 4: Knowledge management and effective project M&E

Component 4 is structured to address the barrier "SMEs and private investors lack (i) capacity to monitor and evaluate the impacts of private investments in climate resilience, and (ii) access to up-to-date lessons and best practices shared by similar climate-resilient practices". It will include two main outcomes that are to inform adaptive management of the Project's monitoring and evaluation processes and increasing the awareness of SMEs and private investors of successful approaches for preparing, implementing, and financing climate-resilient practices through knowledge management.

Therefore, this component seeks to:

- guarantee that the Project's M&E process will create an added value to the LRF and will allow the process of catalyzing private investments in climate-resilient practices from SMEs to strengthen and grow in the long term; and
- create tools to close the gap between private investors and SMEs that pursue adaptation results.

A more detailed description of this component can be found in the Knowledge Management and Communications Appendix.

Outcome 4.1. M&E to inform the adaptive management of projects

Output 4.1.1 *Monitoring and evaluation of Project outputs*

South Pole seeks to guarantee that the implementation of this Project's M&E plan will allow continuous monitoring results to be included in annual progress reports in order to capture lessons, best practices, and experiences gained during implementation. It is expected that the capturing of lessons and the incorporation of best practices will help to better achieve the Project goals.

This process includes the assessment of project performance and impacts, which entails the collection of information for the GEF Results Framework and Adaptation Results Framework based on selected KPIs. Consequently, continuous monitoring will allow us to capture lessons, best practices, and experiences during this Project's development and the incorporation of up-to-date knowledge for adaptive management.

The inputs generated throughout this process will be managed by South Pole, who will guarantee they are presented to the LRF's Board, Technical Committee, the Project Steering Committee, and the LRF's stakeholder network, and incorporated in the due diligence and decision-making processes.

Outcome 4.2 Knowledge management increases awareness of SMEs and private investors on successful approaches to preparing, implementing, and financing climate-resilient practices

Output 4.2.1 Dissemination of Project lessons and results to key stakeholders

The dissemination of main results and lessons from this Project, both during implementation and terminal evaluation, and not limited to GEF funding but also from the wider LRF, will be gathered and shared with the broader private adaptation finance community. An interim virtual workshop on lessons learned will also be included to guarantee all relevant stakeholders participate in the learnings of this Project (included in Output 4.2.2).

Knowledge exchange is also expected to be developed with other projects under the GEF Challenge Program for Adaptation Innovation. Since South Pole expects that the GEF will call for all selected projects under the Program to share lessons on developing their projects, this component includes the availability and preparation of any communications materials needed to fully comply with this process.

Output 4.2.2 Project knowledge products developed and disseminated to wider SME and investment communities.

The objective of this sub-component is to ensure knowledge exchange on successful approaches to design and deliver pre-investment services for the development of investment-ready climate-resilient practices by SMEs with climate-resilient products and services. It is closely related to other activities in this component and includes the development of specific communication material such as:

- an annually updated factsheet and presentation to be shared in meetings with relevant stakeholders, such as potential new private investors;
- an interim virtual workshop on lessons learned after the second year of Project implementation;
- an e-learning webinar at the end of the three-year term; and
- news items and press releases (to be determined as needed throughout the Project implementation).

Dissemination channels for these Project knowledge products will be developed by the LRF once it has been established.

2.3 Institutional arrangements

Note: it is important to highlight that, while the pre-investment financing window (this GEF Project) is integrated into the LRF itself, there is a specific financing window for the LRF process. Therefore, this chapter **first describes this Project's institutional arrangements, and secondly, how they relate to the LRF's institutional structure**.

The institutional structure for the LRF is still in the late design stage. Therefore, these arrangements are still under development and will be updated once the final design of the LRF governance structure is complete.

2.3.1 Institutional arrangements for the implementation of this Project

South Pole, as EA of this GEF Project, will be responsible for strategic guidance and operations and will implement the project in compliance with all of the GEF's requirements under the guidance of the WWF GEF Agency. As the EA, South Pole will lead and coordinate all areas and activities involved in this Project.

Project Management Unit (PMU)

South Pole's Fund Management Team will act as the **PMU** (as shown in Figure 5)**,** which consists of qualified experts that will be responsible for the day-to-day management and coordination of the Project activities and fulfillment of its goals. For this objective, South Pole will provide a **core team** of specialists partially dedicated to this Project, including a Fund Manager and an Adaptation and M&E Specialist, as well as an Investment Specialist that will only work on the LRF and this Project (please refer to Appendix 6 for a detailed description of these specialists' profiles and roles). There will also be a **support team** composed of Accounting and Administrative and Operations staff from South Pole with partial dedication to this Project.

The PMU may subcontract specific duties to external entities for the implementation of this Project. As such, South Pole has policies and procedures in place to assess subcontractors' capacities and performance, which will be applied in the implementation of this Project to guarantee they are well-suited to developing specific activities and will comply with the Project's requirements.

The PMU will also be responsible for resolving key issues for this Project as they arise by involving all major stakeholders, conducting a due diligence process, and recommending SMEs with climate-resilient practices for the pre-investment stage to the Technical Committee.

The PMU will closely coordinate the M&E process to ensure that the adaptive management throughout Project execution conforms with this proposal. It will review, consolidate, and approve SMEs' reports, which must comply with this Project's M&E process, before sending them to the Technical Committee and the GEF. Lastly, the PMU will also guarantee that necessary political and coordination conditions are in place for the Project execution as committed in the ProDoc.

Technical Committee

A team of highly qualified specialists from South Pole will be brought together to establish a **Technical Committee**. The PMU will deliver a summary document from the due diligence process for the Technical Committee to review and assess. The Technical Committee will review the results of the due diligence and the recommendations made by the PMU (internal oversight) on (i) investment by the LRF and (ii) pre-investment funding before potentially receiving LRF investment. The Technical Committee assesses and determines whether the due diligence results are adequate before taking the information to the Board for further approval.

The Technical Committee will also review and assess the Project's results, as the reports from PMU are delivered to the Committee before they are sent to the GEF Agency. If any discrepancies between the Project's objective and the reported results are identified, it will then give feedback to the PMU and ask for the development of a corrective measures plan.

Project Steering Committee (PSC)

All Project decisions will be governed by the PSC, which will be the high-level body that provides strategic direction to achieve the Project's objectives. The PSC will additionally provide advice and policy guidance to the PMU, review and monitor strategic direction and will oversee progress.

Guidance can include, but is not limited to, industry insights, geographic and sector considerations, implementation of environmental and social standards and prevention and mitigation of potential reputational risk.

The PSC includes the following members: the PMU's Fund Manager, who essentially provides operational and strategic guidance as well as insights from the Project's activities; high-level South Pole managers; WWF-GEF Agency representatives; and a designated participant from WWF Switzerland. The GEF Secretariat may also consider to be part of the PSC, subject to the GEF's internal approval. Finally, the current anchor investor and future potential investors, will also be invited to participate in the PSC, but will not be mandatory for them to join.

The PSC will hold meetings twice a year to monitor Project's performance and review potential aspects of improvement and adaptation management.

Project oversight

In terms of the transparency of this Project's procedures, there will be three oversight elements that different entities will be carrying out. Firstly, there is an overall oversight of the Project by **World Wildlife Fund Inc. (WWF-US)** as a GEF Agency. Secondly, through the Board of Trustees, WWF-US will (as long as it relates to this GEF Project) be able to provide input into the LRF's annual **audit and review process** that will review all of LRF's activities, including the pre-investment windows. This process will be able to highlight any deviations from the Project's objective and implementation plan to the PMU and require immediate corrective actions. Thirdly, WWF-US as the GEF Partner Agency, will contract in coordination with the PMU, an **external terminal evaluation,** which is required for the development of GEF-funded activities**.** This will be conducted by an external entity that will be hired by South Pole to complete the transparency process.

2.3.2 The LRF governance structure and its relation to this Project

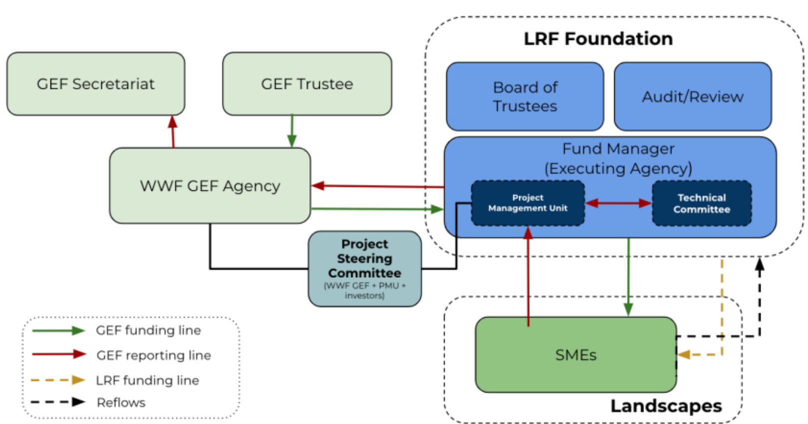


Figure 5: Institutional arrangements for this Project (dark blue) and how they interact with the LRF's governance structure (light blue)

Board of Trustees

The LRF Foundation will be guided by a Board of Trustees, consisting of one member form WWF Switzerland, a representative from the corporate anchor investor, and an external member, a specialists from partner organizations or other relevant networks related to climate resilience, landscape management, and/or investment fund management. Future investors may be also invited to become members of the Board of Trustees.

The Board will be responsible for providing high-level guidance to the Foundation in terms of its mission, vision, policies, best practices, and other guidelines needed to enable the LRF to operate efficiently. It will also be responsible for oversight of the Fund Manager as the operational arm of the foundation.

Audit/review

The LRF Foundation will undergo both an internal review as well as an external audit/review for all of LRF's processes. The internal review takes place to ensure operations and governance are managed adaptively and evolve to best realize the Foundation's objectives. To hold all governance and operational bodies accountable external audits will take place in addition to the internal review process. For this process, one or several external entities will be hired by the Fund Manager according to the Board of Trustees' requirements.

Fund management

South Pole will act as **Fund Manager** (Figure 5) (or 'Management Entity') for the LRF Foundation, based on a contract between the LRF and South Pole. As such, it will be responsible to operate the LRF, according to the Board of Trustees' guidance. It will be responsible for the development of activities for all operational dimensions, including further structuring and designing of the LRF governance structure and the development and implementation of:

- the fundraising strategy;
- due diligence process;
- the SME pipeline;
- pre-investment funding and related technical assistance services;
- financial management;
- monitoring and impact assessment; and
- knowledge management and communications.

The LRF may contract other entities to provide specific services to the Foundation.

2.4 Stakeholder engagement

This Project will comply with WWF's Standard on Stakeholder Engagement. Stakeholder consultations for this project were carried out during the project design phase and a Stakeholder Engagement Plan for Project implementation has been developed which can be found in Appendix 8 of this document.

This section is divided in two subsections, the first summarizes the results of the consultations for stakeholder engagement during project development, while the second one will briefly explain the rationale behind the development of the Stakeholder Engagement Plan (SEP) for Project implementation.

2.4.1 Stakeholder engagement conducted during Project design

For the Project planning and design stages, a stakeholder analysis took place which determined that the main objective for consultations during these stages were to obtain feedback on the following project elements:

- project strategy;
- key barriers to Project objective;
- baseline that contributes to the Project objective;
- gender, safeguards, and M&E;
- detailed Project activities; and
- inputs on lessons learned and best practices in designing an effective TAF that provides TA to adaptation-focused projects.

Several stakeholders were identified who could have interest in or influence over the Project during its life, both during the Project design and the implementation stage, and the following high priority stakeholder groups have been identified: (i) private sector entities, (ii) NGOs and think tanks, and (iii) others including similar investment vehicles. The identified stakeholders were then categorized by an order of priority (Table 4): ***high*** if the stakeholder is crucial to Project design and must be consulted; ***medium*** if the stakeholder can make a valuable contribution and could be consulted; ***low*** if the stakeholder may provide valuable inputs and may be consulted.

Table 4: Project stakeholders

Stakeholder group and sub-group	Stakeholder(s)	Priority	Stake in the project design
Group: private sector entities Sub-group: potential SME	Adapta Group, Canande Capital, Fairventures Worldwide, Izabal Agroforestry, Koa Impact	High	→ Inputs from the potential investee would help deepen the understanding of their business models and type of TA requirements → Could provide valuable feedback on Project design elements (such as key barriers to Project objective), which can be integrated into Project activities to improve the efficacy of the TA delivered to SMEs
Group: private sector entities Sub-group: knowledge sharing	The Lightsmith Group	High	→ The Lightsmith Group is the EA of the CRAFT[10] project and a valuable source of information on lessons and best practices related to the design of TA activities linked to an adaptation and resilience fund. → Could provide feedback on Project design, planned activities, and implementation
	Mirova Natural Capital, Acclimatise	Medium	→ Mirova Natural Capital is a sustainable finance firm and Acclimatise is a leading provider of climate change risk and adaptation services. They could provide valuable information and feedback for

[10] Please see the link for more information: https://lightsmithgp.com/craft/

Stakeholder group and sub-group	Stakeholder(s)	Priority	Stake in the project design
			overall Project design and planned activities.
NGOs and think tanks (including International organizations and intergovernmental organizations)	IDH – Manager of the LDNF Technical Assistance Facility	High	→ As the manager of the LDN TAF (and EA of the GEF Project), IDH can provide valuable feedback on ProDoc preparation, project design, and its planned activities, which improves the overall effectiveness of the TA delivered to SMEs.
	Conservation International, CPIC, Rare, Peace Parks Foundation	Medium	→ Experienced conservation organizations. They could share relevant knowledge regarding adaptation focused projects and provide feedback on Project design and its planned activities. → Potential for collaboration and knowledge sharing
	CGIAR: Research Programme on Climate Change, Agriculture and Food Security (CCAFS), UN Women	Medium	→ CCAFS's work could potentially contribute to Project design in relation to design and implementation of a gender mainstreaming strategy. → Seek collaboration opportunities with UN Women, especially in relation to mainstreaming gender equality and women empowerment in Project activities
Others (including investment vehicles)	AAF/ AAF SME Fund	Medium	→ The AAF was linked to a TAF that aimed to increase the impact of the portfolio companies receiving investment from the AAF. Given the similarity of AAF TAF's objectives to this project, it could share valuable lessons and best practices on the design and delivery of TA. → It could provide valuable feedback on Project design and its planned activities, which improves the overall effectiveness of the TA delivered to SMEs.
	DFCD	High	→ DFCD is a Dutch government fund focused on adaptation and climate-resilient growth. One of the key elements of the fund is the *Origination Facility,* which supports the creation of 'bankable projects' for its two investment windows, land use and water, using a landscape strategy. It could share valuable lessons and best practices on providing TA to adaptation-focused SMEs. → It could provide valuable feedback on Project design and its planned activities, which improves the overall effectiveness of the TA delivered to

Stakeholder group and sub-group	Stakeholder(s)	Priority	Stake in the project design
			SMEs.

The strategy for stakeholder engagement for project design was designed in April 2020 at the early design stage of the Project and was developed according to plan, finalized in August 2020. As SMEs with climate-resilient practices will be selected during the implementation of Component 1 of this Project, no specific on-site products or services have been identified so far. However, there were consultations with some potential SMEs, where their suggestions and feedback were gathered and addressed in the Project design process.

The following table summarizes key feedback received from stakeholders and their consideration into Project design.

Table 5: Summary of suggestions and feedback gathered through stakeholder consultations during Project design stage

Suggestion/feedback and stakeholder type	Input for Project design
Project objective: the objective must be clear that the Project will benefit entities that have the ability to become financially sustainable (revenue/profit generating). ***Stakeholder type:*** NGOs and think tanks (including International organizations and intergovernmental organizations)	The Project objective reflects this suggestion.
Gender action: at the project design stage, describe a common approach for gender action to be followed for each SME proposal, rather than a fixed plan. The exact plan should be formulated at the implementation stage on a case-by-case basis by carefully assessing gender-related risks and opportunities of the SMEs' climate-resilient practices. ***Stakeholder type:*** NGOs and think tanks (including International organizations and intergovernmental organizations)	This input has been incorporated into the design of gender considerations for this Project (section 2.5)
Gender action: it is important to identify gender-related barriers pertaining to each proposal. In some contexts, the financial literacy of women may be lower than men. In such cases, women must be empowered with financial planning services, so they	Gender-related barriers for access to finance have been assessed and specific actions to overcome the barriers have been included. See section 2.5.

Suggestion/feedback and stakeholder type	Input for Project design
are confident in making investment decisions for their climate-resilient practices. ***Stakeholder type:*** private sector entity, potential SME	
Project strategy: even if a particular SME does not fit the selection criteria for the LRF, it is good practice to encourage interactions and provide guidance to help it build capacity and secure investments in the future through other investors. ***Stakeholder type:*** NGOs & Think Tanks (including International organizations & intergovernmental organizations)	This input has been incorporated in two ways: 1) if an SME does not fit LRF investment criteria and is rejected for pre-investment services, it may receive guidance from the PMU as to how it could increase its chances of receiving investment, or which types of suitable funding sources to pursue; and 2) if an SME receives pre-investment services but is rejected by the LRF, the SME may receive assistance through Component 3 to match with a suitable investor.
Project strategy: it takes time to make the SME fit the investment criteria of the Fund, and therefore, it is important to involve the Fund early on at the pre-investment stage to guarantee alignment of the pre-investment services with the Fund investment criteria. ***Stakeholder type:*** NGOs & Think Tanks (including International organizations & intergovernmental organizations)	The pre-investment window is integrated with the LRF. Integrated facilities benefit from good communication and a close alignment between the objectives of the Fund and the activities under the pre-investment window.
Project strategy: consider ways in which the LRF and this GEF Project can create a positive impact on post-COVID-19 recovery in intended geographies. ***Stakeholder type:*** NGOs and think tanks (including International organizations and intergovernmental organizations)	South Pole has developed an COVID-19 risk and opportunity analysis for the implementation of this Project. South Pole will work closely with WWF, the GEF Agency and the GEF Secretariat in implementing any additional post-COVID-19 recovery measures needed.
Pre-investment services: Ideally, there should be maximum flexibility in the type of pre-investment services that could be provided. This is because SMEs may be operating in very different contexts and require very different types of services. Also,	In-house and sourced expertise were combined to provide a wide range of pre-investment services. Furthermore, the exact type of pre-investment services will be delivered to SMEs based on a detailed analysis of their needs on a case-by-case basis. This

Suggestion/feedback and stakeholder type	Input for Project design
since the adaptation space itself is changing fast, flexibility will allow LRF to set itself apart from other funds. ***Stakeholder type***: NGOs and think tanks (including International organizations and intergovernmental organizations)	will ensure flexibility in types of pre-investment services provided by LRF's pre-investment window.
Pre-investment services*: combine in-house capacity, WWF's country offices and external consultants to deliver the services. This will foster a great deal of knowledge and skill building for all those involved in delivery of the services. ***Stakeholder type:*** NGOs and think tanks (including International organizations and intergovernmental organizations)	Project strategy (see section 2.2) now stipulates that external experts (local/international) may be contracted with in-house expertise to provide best-fit services to the SMEs. WWF offices, however, will not deliver services for the nine SMEs supported through this Project.
Pre-investment services: assistance to early-stage SMEs or greenfield operations should focus primarily on improving the business operations. Trying to achieve objectives outside the scope of core business activities can likely lead to inefficiencies and wastage of time and resources. ***Stakeholder type:*** NGOs and think tanks (including International organizations and intergovernmental organizations)	The pre-investment services for early-stage SMEs and for greenfield operations will focus on improving core business activities to overcome business model and internal capacity barriers faced by SMEs. This may change on a case-by-case basis as dictated by the specific needs of the SMEs.
Pre-investment services: if the services include a feasibility study, then the study should not only look into the feasibility of the business case but should also try to identify market opportunities and plan a strategy for the market rollout of the product/service. ***Stakeholder type:*** private sector entity, potential knowledge sharing partner	Input will be considered when drafting the investment-readiness plans for SMEs selected to receive pre-investment services.
Pre-investment services: services required by SMEs may include carbon market services, feasibility studies for market rollout, organizing consultations with local government agencies, improving post-harvest processes (for agricultural sector SMEs),	Useful input for estimating the type and costs of pre-investment services that could be required by SMEs selected to receive the services.

Suggestion/feedback and stakeholder type	Input for Project design
and setting up remote sensing techniques for monitoring of impact. ***Stakeholder type:*** private sector entity, potential knowledge sharing partner	
Sourcing of proposals: desk-based research is good for primary research but engaging with market players directly is more effective in sourcing high-quality proposals. Very important to build connections and a professional network. ***Stakeholder type:*** private sector entity, potential knowledge sharing partner	South Pole has been and will continue to be actively engaged in consulting market players for sourcing proposals.
Impact measurement: the M&E system should be able to measure and monitor a wide range of socio-economic and environmental impacts of implemented climate-resilient practices. Consider using CRAFT's well-acclaimed impact measurement system (ESMS). ***Stakeholder type:*** private sector entity, potential knowledge sharing partner	South Pole will develop a thorough M&E methodology and consults leading players about their ESMS for impact M&E.
Stakeholder engagement: the pre-investment stage often does not require much on-ground interaction with stakeholders of SMEs. For investment-stage SMEs, engage stakeholders directly and help them set up workshops involving national focal points. ***Stakeholder type:*** NGOs and think tanks (including International organizations and intergovernmental organizations)	The project design stage did not include on-ground consultations with stakeholders of potential SMEs unless necessary.
Selection criteria: LDN TAF uses similar criteria and it works well. We advise against the use of a quantified metric approach for scoring of proposals against the criteria. The reason for this is that it is difficult and cumbersome to appropriately weight the criteria and then assign a number to the quality of the proposals.	The designed selection criteria will not solely use quantified metrics and scoring systems for selecting proposals. Rather, selection will be based on a multi-factorial assessment. See appendix on 'Selection Criteria'.

Suggestion/feedback and stakeholder type	Input for Project design
Stakeholder type: NGOs and think tanks (including International organizations and intergovernmental organizations)	

*Note: this table shows the feedback received by key stakeholders on the left column; however, not all feedback and/or suggestions are going to be implemented as received. The right column shows how the Project addresses these feedback or suggestions. In any case, we highlight that WWF country offices will not receive any type of funds from this Project, and therefore, their direct involvement in any Project activities is not expected. WWF Switzerland, as part of the LRF will be involved mainly in the sourcing and screening for potential SMEs through their networks.

2.4.3 Stakeholder Engagement Plan for Project implementation

This section describes the approach that will be taken for stakeholder engagement activities during the Project implementation stage. Given that this Project's activities are not implemented on-site, identifying specific stakeholders and estimating the time and location of such consultations was not feasible during Project design. However, groups of stakeholder for project implementation have been identified (*Table 6*) and all of them have been categorized as 'high priority', as they are crucial for Project implementation. They have been grouped according to three engagement processes that have been prioritized for project implementation:

- engagement for Project governance;
- engaging local stakeholders of supported SMEs for effective implementation of SMEs' investment-readiness plans; and
- engaging Project stakeholders and the wider SME and investor community for knowledge sharing.

The detailed explanation of these three engagement processes follows.

Engagement for Project governance

As per the Institutional Arrangements described in section 2.3.2, South Pole, as the EA and the PMU, will continuously engage with members of the Project Steering Committee and the Board of Trustees of the LRF, including WWF Switzerland and the anchor investor, for all major decision-making processes that involve activities under this GEF Project.

Engaging local stakeholders of supported SMEs for effective implementation of SMEs' investment-readiness plans

At least nine SMEs will be supported in making their climate-resilient practices investment-ready – each will have local stakeholders (including local communities and public authorities). Pre-investment services will increase the capacity of the SMEs to meaningfully engage their local stakeholders when preparing the investment-readiness plans and during the implementation of the said plan. This engagement will ensure that: (i) the Project team (PMU) obtains sufficient information on the specific impacts of climate change and how to effectively reduce vulnerability of locals through the proposed climate-resilient practices; (ii) the concerns and interests of local stakeholders are not overlooked but rather incorporated into preparing climate-resilient practices with minimal risk of opposition and maximum level of local support; and (iii) the Fund Management Team is able to obtain early insights on how to best integrate the climate-resilient practices into the landscape to create maximum value for its local stakeholders.

The Project will be publicized through local contacts and connections (especially those areas where South Pole and WWF Switzerland have impact). Additionally, potential SMEs will be able to learn about this opportunity through the LRF's website, as well as online communications and South Pole's social platforms.

Engaging Project stakeholders and the wider SME and Investor community for knowledge sharing

As previously mentioned in section 2 of the ProDoc under Component 4 of this Project, the Project team will be responsible for developing a knowledge management system that captures, during the lifetime of this Project, lessons and best practices, outputs to measure performance against the Results Framework, and results from the Project's Terminal Evaluation.

Knowledge gathered on lessons and best practices will include lessons learned regarding the design and delivery of pre-investment services and best practices for delivering these services effectively. Furthermore, knowledge management will also gather information on how successful SMEs (supported not only by LRF itself, but also by global investors) have structured their climate-resilient practices to deliver maximum value to their stakeholders, in their respective landscapes. Once useful information is captured, the wider SME and investor communities will be engaged through the dissemination of consolidated information as set in Component 4 – Knowledge management and effective Project monitoring and evaluation, including Project factsheets, presentations, a webinar, and a workshop. These stakeholders will be reached out through both South Pole's and WWF's networks and other adaptation networks that are identified. This will build awareness amongst SMEs and investors on how to structure and finance successful adaptation initiatives in the future.

All essential information on Project outputs and final results captured by knowledge management activities will be shared with key Project stakeholders through various methods such as reports, webinars, and workshops (as referred to in Section 2.2).

Table 6 presents the key stakeholders identified for Project implementation according to the respective engagement process.

Table 6: Key stakeholders for Project implementation

Engagement process	Stakeholder	Stake in Project implementation
Stakeholder engagement for Project governance	Members of the Board of Trustees such as WWF Switzerland and private corporate investors (undisclosed)	→ They provide guidance on investment priorities. → They provide information on potential SMEs with climate-resilient practices. → They are the decision-makers for the LRF. → They have oversight of the Project. → They approve the policies and procedures. that apply for Project implementation (such as safeguards, gender, etc.).
	Potential private investors for the LRF (that may become part of the Board)	→ They might provide further finance for the pre-investment window. → They might provide further guidance on investment priorities.

Engagement process	Stakeholder	Stake in Project implementation
Stakeholder engagement for effective implementation of SMEs' investment-readiness plans	Potential SMEs with climate-resilient practices	→ They may be selected to be supported by the pre-investment window. → They need to understand the scope of the Project, as well as the potential support they could receive if they are selected and the requirements to participate, in order to manage their expectations. → They may participate in the selection process. → They provide early information on needs, challenges, and limitations that might be valuable for Project implementation.
	Selected SMEs with climate-resilient practices	→ They will provide the information needed for Project implementation. → They will handle expectations on workers and communities. → They will act as a first link to potential beneficiaries.
	Local stakeholders, potentially involved or benefited from SMEs' climate-resilient practices	→ They are expected beneficiaries of Project implementation either as potential SME staff or increased livelihoods from future implementation of SMEs climate-resilient practices. → They might have concerns regarding the SMEs climate-resilient practices. → They may highlight opportunities for the future implementation of SMEs climate-resilient practices. → Their support will be needed for the future implementation of SMEs climate-resilient practices.
	Potential private investors for SMEs	→ They could provide additional financing for selected SMEs. → They could participate and provide feedback from matchmaking meetings.
Stakeholder engagement for knowledge sharing	SMEs with climate-resilient practices	→ Their experiences throughout the implementation of this Project will be very valuable to improve knowledge sharing on investment opportunities for adaptation for other SMEs.

Engagement process	Stakeholder	Stake in Project implementation
	Investor community	→ Private investors might raise their investments in climate-resilient activities. → They may provide investment guidance for future initiatives. → They will be able to interact with other stakeholders on the climate-resilience community enhancing information sharing activities.
	Adaptation networks	→ Other TAFs will be able to learn about the challenges of this Project. → They may share similar initiatives and potential SMEs for further support from the LRF.

The purpose of the Stakeholder Engagement Plan is to identify the best strategies to promote the involvement of stakeholders in the Project's decision making and execution. A summary of the SEP for Project implementation is presented in Table 7. For further information on the Stakeholder Engagement Plan for Project implementation, please refer to Appendix 8.

Table 7: Summary of the Stakeholder Engagement Plan for Project Implementation

Stakeholder	Method of engagement	Periodicity	Disclosed information*
Members of the Board of Trustees	Reports from the PMU and the Technical Committee on the Project's performance will be presented to the Board on its periodical meeting.	Every six months. However, the Board might summon extraordinary meetings if needed.	Periodical report on Project performance including targets for the Results Framework. Challenges and opportunities identified for the pre-investment window.
Potential private and philanthropic investors for the LRF	Frequent conversations and meetings	Monthly	Benefits of co-financing the LRF's pre-investment window GEF Project strategy, scope, and performance Examples of SMEs with climate-resilient practices
Potential SMEs with climate-resilient practices	Contact through existing South Pole and WWF networks LRF website	Continuously during year one and Q1 of year two of Project implementation	Scope of the Project Selection criteria Benefits of participating Requirements for participating

<table>
<thead>
<tr><th>Stakeholder</th><th>Method of engagement</th><th>Periodicity</th><th>Disclosed information*</th></tr>
</thead>
<tbody>
<tr><td>Selected SMEs with climate-resilient practices</td><td>Work meetings, email conversations, follow-up meetings, and workshops</td><td>Monthly</td><td>All information related to the scope of the Project and activities, including:
● activities and timeframe;
● provision of services;
● reimbursement of services;
● requested information;
● benefits to communities;
● stakeholder engagement;
● gender mainstreaming;
● social and environmental risk management; and
● expected results.</td></tr>
<tr><td>Local stakeholders, potentially involved or benefited from SMEs’ climate-resilient practices</td><td>The support given to the SMEs to develop their investment-readiness plans will include support for the development of their own Stakeholder Engagement Plans with the participation of local stakeholders. Therefore, methods of engagement will vary and depend on each SMEs.</td><td>During the implementation of the investment-readiness plan, which will depend on each SMEs timeframe. It is expected that the investment-readiness plan implementation will take 12 months to be completed.</td><td>SME presentation and scope, including:
● type of service or product provided by the SME;
● local Stakeholder Engagement Plan;
● risks and opportunities of the SME’s climate-resilient practice;
● potential impacts of the practice;
● beneficiaries of the implementation of the practice;
● investment needs and expected reflows;
● commitments towards the communities; and
● expectations of the communities.</td></tr>
<tr><td>Potential private investors for SMEs</td><td>Preliminary conversations and matchmaking meetings</td><td>Monthly in the third year of this Project</td><td>GEF Project presentation and scope

Examples of success stories

SMEs factsheets or offer sheets</td></tr>
<tr><td>SMEs with climate-resilient practices</td><td colspan="2" rowspan="3">These stakeholders will be primarily engaged through activities developed in Component 4:
● sharing annually updated Project factsheets and presentations (annually);
● virtual workshop on lessons learned (after the second year of Project implementation;
● an e-learning webinar (before the Project ends in year three); and
● news items and press releases (as needed).</td><td rowspan="3">GEF Project presentation

Success stories

Challenges and opportunities

Project results</td></tr>
<tr><td>Investor community</td></tr>
<tr><td>Adaptation networks</td></tr>
</tbody>
</table>

* The Grievance Mechanism will be disclosed to all stakeholders.

2.5 Gender

2.5.1 Background

According to the SME Competitiveness Outlook 2019 report, SMEs can have a positive impact on 60% of targets set for the SDGs, as they employ 60 to 70% of the workforce in many countries, affect environmental and social aspects of surrounding communities, deliver goods and services that can be crucial to providing basic needs, and foster competition, innovation, diversification, international trade, and growth (ITC, 2019). In 2014, the International Finance Corporation identified over 9 million formal women-owned SMEs in 144 countries, which translates to nearly one-third of all formal SMEs (IFC, 2014), highlighting women as a key driver of economic growth and sustainable development. In fact, the reduced gap between male and female employment in developed economies was found to have positively impacted their gross domestic product (Economist Intelligence Unit, 2012).

However, women's role in developing and LDCs has been far from ideal, as nearly half of working-age women are not currently active in the formal economy, even though this is where the highest levels of female labor force participation are found (Economist Intelligence Unit, 2012). Women-owned SMEs might be one way of boosting female participation in the formal economy, but there are many gender-related challenges for women-led businesses, which result in 70% of women being shut out from financing which prevents them from reaching their full potential (ITC, 2019).

An analysis developed by the International Finance Corporation (IFC) on 34 client financial institutions in 25 countries showed that 5.7 to 28.1% of loans were issued to women-owned SMEs, which evidences the low access to finance for women entrepreneurs (IFC, 2014). Furthermore, during the COVID-19 pandemic, women have been found to bear additional household burdens and spend three times as many hours in unpaid domestic work (United Nations Department of Economic and Social Affairs, 2020). Lastly, FAO's working paper regarding the role of women in agriculture (FAO, 2011b) found that "in sectors producing primarily for the export sector – such as textiles, electronics or some food processing industries – women tend to be replaced by males, as profits increase" (Fontana, 2003).

These gender-related challenges generate a disparity between productivity and earnings for female-owned or managed businesses. Female-managed farms, for example, are estimated to be 20 to 30% less productive than male-managed farms, and in the workplace, women earn as little as 20% of what men earn on average, but never higher than 80% (Buvinic et al., 2014).

Financial barriers for women-owned SMEs include the lack of collateral, inadequate financial infrastructure, inadequate perception and evaluation of risk, a lack of a customized approach, unfavorable lending policies, and high funding costs. Non-financial barriers include investment climate conditions, limited business skills, limited networks, and established social and cultural roles. Although some of these barriers are common for all SMEs, they are usually exacerbated in women-led SMEs.

Despite these barriers, investing in women has proven to generate higher economic and non-economic returns, since they are more likely than men to share the returns of their business with others, such as their children, improving their health, education, and nutrition (IFC, 2014). Other positive impacts include women participation in senior management, where about 85% of women-owned SMEs have women in senior management positions, while only 10% of men-owned businesses do (IFC, 2014). Finally, analyses have shown that increasing management positions for women has the potential to significantly increase the enrolment of girls in schooling (ITC, 2019).

> "Bringing yields on the land farmed by women up to the levels achieved by men would increase agricultural output in developing countries between 2.5 and 4 percent. Increasing production by this amount could reduce the number of undernourished people in the world in the order of 12–17 percent."
>
> Food and Agriculture Organization of the United Nations (FAO) (2011a). The State of Food and Agriculture

Another consideration additional to all the positive spillovers created by investing in women-owned SMEs, is that they are "well performing yet overlooked clients, representing a market opportunity for financial institutions to pursue this underserved segment" (IFC, 2014). In fact, an analysis of the performance of SME loans in an IFC's portfolio sampling dataset showed that women-owned SMEs are able to repay loans with equal ease as men-owned SMEs (IFC, 2014).

Considering this, it is clear that women-owned SMEs need support in addressing these specific barriers for accessing financial services.

2.5.2 Integrating gender into the LRF

The LRF's Board of Trustees will be responsible for establishing a gender policy that will become an integral part of the Foundation's mission and operation. The implementation of this policy will ensure that the LRF's activities will help close gender gaps in the financial sector by empowering women, encouraging their participation in decision making, improving their access to and control over resources, and generating additional socio-economic benefits (education and job opportunities, increased and new sources of income, etc.) for women. The Fund Management Team will therefore develop a Gender Mainstreaming Policy, to be approved by the Board of Trustees, that will be disclosed to all LRF's members and staff and implemented throughout all operations.

South Pole, as acting manager for the LRF, has been active in implementing a non-discrimination principle in its code of conduct which states that "*Employees will be recruited, selected, developed and advanced on merit, irrespective of race, colour, religion, gender, age, national origin, sexual orientation, gender identity, marital status or disability*". This principle is to be applied across all of its activities, including the management of the LRF, which means that gender discrimination will not be tolerated in the recruitment process of the Fund Management Team staff. This principle will be included by South Pole in the Gender Mainstreaming Policy to be developed for the LRF.

South Pole has also recently established a Global Diversity, Inclusion and Equality Policy which states that "South Pole shares the view that societies with greater gender equality are likely to achieve more ambitious environmental outcomes. Hence, addressing the intersection of gender and climate change is key for effectively fulfilling gender equality and South Pole's objective of achieving a low-carbon reality". As a member of the UN Global Compact, South Pole takes inspiration from the Women's Empowerment Principles by the UN Global Compact, and applies them across all aspects of its work, and endeavors to report on them in a regular, reliable, transparent way.

South Pole also has extensive experience in developing, managing, monitoring, and evaluating climate projects that include significant and measurable positive gender impacts (over 700 projects in more than 50 developing countries). These projects, besides their climate mitigation and adaptation benefits, increase economic and social opportunities, help improve health, and provide education for women and other vulnerable groups.

Moreover, South Pole helped develop the UN award-winning W+ Standard, the first global reporting standard quantifying the impact of climate projects on women's lives. The W+ Standard measures how companies, governments and individuals can drive social and economic empowerment for women. The W+ Standard rules outline the requirements and processes that all projects must meet and follow to be certified. It has been endorsed and verified by Verra (formerly VCS), the leading global standard for the voluntary carbon market. South Pole's involvement in the W+ Standard Program reflects its experience with gender mainstreaming in projects. However, **this Project will not seek to implement the W+ Standard** as the pre-investment window is limited to supporting the development of the investment-readiness plans for selected SMEs and the implementation of their climate-resilient practices will solely depend on the investment stage, which is not part of the scope for this Project.

Complementarity to South Pole's expertise, WWF Switzerland, as a member of the Board of Trustees, will bring vast experience in integrating gender mainstreaming into the planning, designing, monitoring, and adapting of development programs. WWF Switzerland will be able to provide its experience in the design and implementation of its Gender Policy Statement as a valuable input for developing a specific gender policy for the LRF.

Other inputs such as the GEF's Policy on Gender Equality and the GCF's Gender Policy and their gender mainstreaming tools will also be reviewed to develop a comprehensive set of gender policies and tools that ensure the integration of gender into LRF's activities.

2.5.3 Integrating gender into the implementation of this Project

Given that this Project is mainly focused on providing pre-investment services to SMEs that are to be selected throughout the implementation of its first component, a specific gender action plan cannot be developed at this moment. However, the LRF is both aware and committed to supporting the selected SMEs in developing their climate-resilient practices with the best available gender mainstreaming practices, as it understands that a wider participation in the selected climate-resilient practices is needed to obtain the ambitious results expected from the Fund.

> "In order to accurately understand, analyze and effectively promote greater resilience among vulnerable populations, it is critical to acknowledge that women, girls, boys, and men bring different abilities to contribute to resilience at multiple levels."
>
> Tabaj, K. and Spangler, T. (2017). Integrating Gender into Resilience Analysis: A Conceptual Overview

Therefore, the two main objectives of integrating gender into this Project are ensuring that:

1) women-led SMEs have equal opportunities to access the support given through LRF's pre-investment window; and
2) selected SMEs' adequately integrate gender in their scope and promote a positive influence on gender relations and dynamics.

Table 8 illustrates how the Fund Management Team will integrate gender considerations in this Project implementation, through each of its components, outputs, and activities.

Table 8: Integration of gender into GEF-funded activities

Component	Output	Gender integration activities	Target
1. Establishing systems to support SMEs with climate-resilient practices to access private investments	1.1.1 Selection of at least nine SMEs to be supported in making their climate-resilient practices investment-ready	1. Include a focus on women-led SMEs in the scanning for potentially eligible SMEs 2. Include gender considerations in the application template and provide specific support for its delivery 3. Monitor, record, and analyze gender-disaggregated information during the screening and selection process to produce lessons learned and best practices to be disseminated under Component 4 4. Include gender consideration in all stages of due diligence	1. Three of the selected SMEs are women owned.[1] 2. None of the selected SMEs proposals include activities in their scope that could negatively influence gender relations and dynamics within its scope.
	1.1.2 Development of investment-readiness plans with selected SMEs	Include gender analysis and gender action plan in the investment-readiness plans of proposed climate-resilient practices	The investment-readiness plan includes a gender analysis of the proposed climate-resilient practices and a gender action plan.
	1.1.3 System for partial or full reimbursement of zero-interest loans and/or direct services, and reinvestment in SMEs	Identify possible gender-related barriers for accessing finance in the terms and conditions for partial/full reimbursements of pre-investment services and include flexible mechanisms for women-owned SMEs into the negotiations and the signing of agreements	None of the women-owned SMEs selected failed to sign the agreement because of gender-related barriers to access finance.
2. Pre-investment services to make SMEs with climate-resilient practices	2.1.1 Provision of zero-interest loans and/or direct services to selected SMEs to implement their investment-readiness plans.	1. Capacity building of SME teams to understand gender mainstreaming and how to conduct a gender analysis and develop an action plan as an integral component of the	Investment-ready SMEs with gender analyses and gender action plans developed

investment-ready		project 2. Development of the gender analysis and the gender action plan within the implementation of the investment-readiness plans	
3. Establishing matchmaking support for SMEs with climate-resilient practices to match with potential private investors	3.1.1 Assistance to selected SMEs for development of offer sheets and pitches to investors	Identify specific capacity-building needs for women-owned SMEs and develop specific training accordingly	Women-owned SMEs receive specific training according to their needs.
	3.1.2 Arrangement of matchmaking meetings, including pitch events, where selected SMEs are matched with investors		
4. Knowledge management and effective Project M&E	4.1.1 Monitoring and evaluation of Project outputs	Include gender-related KPIs for the GEF Adaptation Results Framework to monitor and evaluate the Project	Include gender-related data analysis for adaptive management of Project through meetings and workshops
	4.2.1 Project terminal evaluation and dissemination of Project results to key stakeholders	Include a gender-related analysis on lessons learned and knowledge exchange products	Gender-related lessons and results included in the e-learning webinar
	4.2.2 Project knowledge products developed and disseminated to wider SME and investment communities		

Notes:

1. Women-owned SMEs are defined by the IFC as firms with either more than 51% women's ownership or with 20%+ women's ownership in a business that has a woman CEO, COO, or CFO (IFC, 2014).

2.6 Safeguards

This Project will comply with WWF Environment and Social Safeguards Framework (ESSF), as detailed in the Safeguards Integrated Policies and Procedures (SIPP). As the scope of this Project is focused on giving pre-investment services to SMEs with climate-resilient practices to make them investment-ready for implementing their practices by accessing private investments, the project has been categorized as a Category C project. There are no immediate environmental or social risks determined at this stage of Project development and **environmental and social risks during implementation of the Project are categorized as low as no on-site**

activities will be developed within the scope of this Project. However, the EA does acknowledge that supported climate-resilient practices may have negative effects in the future, that should be identified and managed at an early stage.

Therefore, South Pole seeks to minimize potential risks through the implementation of a detailed screening process in which social and environmental risks will be part of the SME selection criteria. Nevertheless, given the complexity of properly designing and implementing social and environmental risk management tools and procedures by an SME, South Pole does not expect all of the potential SMEs to fully comply with these criteria. In such a case where a risk assessment and the tools and procedures needed for risk management are found lacking, the Project aims to support the SMEs by including the development of a risk assessment and a risk management plan for the respective climate-resilient practice within their investment-readiness plans.

In the near future, the Landscape Resilience Fund will develop its own social and environmental risk management system which will be applicable to all of its financing windows, including the pre-investment services that are within the scope of this Project. This system will be developed by WWF Switzerland as a member of the LRF's Board of Trustees and will align with the ESSF. As such, this Project's activities are planned to meet the future requirements of the LRF's risk management system. Therefore, any environmental or social risks associated with the implementation of a climate-resilient practice by a selected SME will be identified through this Project but will be mitigated in the long term through the LRF's social and environmental risk management system.

In conclusion, the scope of this Project will not include developing a safeguard system for the pre-investment window of the LRF; however, GEF funds will be directed to the provision of support for selected SMEs with climate-resilient practices in developing their environmental and social risk management tools to make them investment-ready.

2.7 Monitoring & evaluation

The Project M&E plan has been developed in coordination with the requirements of the LRF. USD 48,600 has been budgeted for M&E (see section 2.8.3 budget).

The Project will be monitored through the **Results Framework** (see Appendix 6). The Results Framework includes one to three indicators per outcome. The baseline has been completed for each indicator along with feasible targets, set annually where relevant. A methodology for measuring indicator targets is provided. Indicator targets are Specific, Measurable, Achievable, Relevant, and Time-bound (SMART), and disaggregated by sex where applicable. Component 4 of the Results Framework is dedicated to M&E and knowledge management.

Relevant core indicators have been included to provide a portfolio level understanding of progress towards the **Adaptation Results Framework** that follows up on the SMEs' progress against specific targets established.

The Adaptation and M&E Specialist (see the Terms of Reference in Annex 7) will be responsible for gathering M&E data for the annual results framework tracking and reporting (see Table 9) and providing suggestions to the Fund Manager (acting as the PMU Project Manager) to improve the results, efficiency, and management of the Project.

Table 9: Summary of Project reports

M&E/reporting document	How the document will be used	Timeframe	Responsible
Kick-off Meeting Report	Summarize decisions made during the kick-off workshop, including changes to project design, budget, Results Framework, etc.	Within three months of kick-off workshop	Adaptation and M&E Specialist
Quarterly Financial Reports	Assess financial progress and management	Every three months	Adaptation and M&E Specialist with the support of administrative staff
WWF Project Progress Report (PPR) with Results Framework and workplan tracking	Inform management decisions and drafting of annual workplan and budget; Share lessons internally and externally; Report to the PSC and GEF Agency on project progress.	Every six months	Adaptation and M&E Specialist
Terminal Project Evaluation Report	External summative evaluation of the overall Project; Recommendations for GEF and those designing related projects.	Before Project completion	An external expert or organization recruited by WWF-US in coordination with the PMU

An annual reflection workshop has been budgeted to review Project progress and challenges to date, taking into account results framework tracking, work plan tracking, and stakeholder feedback to review Project strategies, risks, and the theory of change. The results of this workshop will inform Project decision making (i.e. refining the theory of change, informing Project Progress Report and the Annual Workplan and Budget).

2.7.1. M&E for the Project objective

The Project objective is to catalyze private sector investment in SMEs with climate-resilient practices. Progress towards this objective will be measured by three indicators, which are described in the results framework.

Objective level indicator 1: establishes the number of SME proposals approved for investment by the LRF upon receiving pre-investment support. This refers to those SMEs with a reasonable governance structure and an underlying business model that is designed to generate financial return, albeit often below market rate. This indicator will only be reported by the end of the Project and disaggregated by gender. Data reporting targets are: (i) in the first year, one male-owned SME; (ii) in the second year, three male-owned SMEs and one female-owned[11] SME; and (iii) in the third year, six male-owned SMEs and three women-led SMEs.

Objective level indicator 2: is the potential private investment leveraged through this Project for implementation of the SMEs' practices and refers to private capital that is invested (including through the LRF) into the SMEs after the pre-investment services are provided through this Project. It must be noted that the leverage ratio will be adjusted upon the development of the Project pipeline. It will be reported at the end of the Project (year three). The EA will inform according to investment information provided by selected SMEs.

Objective level indicator 3: this level indicator refers to the percentage of GEF funding that will be directed to SMEs' practices in LDCs. This is targeted to be 50% and will be measured at the end of the Project.

2.7.2. M&E for Component 1

The objective for Component 1 is to establish systems to support SMEs to access private investments for climate-resilient practices**.** The expected outcome of this component are sustainable processes for the provision of pre-investment services to SMEs to make their climate-resilient practices investment-ready. Therefore, two indicators will be used to track progress.

Indicator C 1.1: this indicator tracks the number of SMEs that have been selected for pre-investment services (direct services or zero-interest loans) and that have successfully developed an investment-readiness plan. These plans prepare SMEs to satisfy the selection criteria for LRF investment, namely investment readiness, climate resilience, SDG co-benefits, environmental and social risk management, scalability or replicability, additionality, and alignment with national priorities. The fulfillment of the selection criteria will be done on a case-by-case approach, looking at how the SMEs comply with these requirements. It is targeted that for the first year one SME will be selected, the second year four SMEs, and by the third year of the Project, a total of nine SMEs will have been selected. The goal is for the SMEs selected for pre-investment services to be ready for investment by the LRF within 12 months.

Indicator C.1.2: this is the share (%) of pre-investment services to be reimbursed as agreed with the selected SMEs (through a reimbursement agreement that will be negotiated with the SME). Payback will be made by the SME to the LRF rather than the EA. This indicator will be calculated based on the amount of reimbursement agreed by the SME (based on the SMEs' expected cash flows, including private investments) divided by the total amount of pre-investment services provided to the SME times 100. Reimbursements are not going to be achieved during the implementation of the Project so this indicator will be calculated based on the said reimbursement agreements with SMEs.

2.7.3. M&E for Component 2

Component 2 is focused on the assistance to make SMEs with climate-resilient practices investment-ready. It comprises a single indicator to measure progress. It is expected that by assisting SMEs they will have an increased technical and/or financial capacity to structure their climate-resilient practices and make them investment-ready.

Indicator C.2.1: this indicator looks at the number of SMEs that meet the LRF investment criteria after receiving pre-investment services. This indicator will be tracked by a multi-factorial scorecard to assess the criteria in an

[11] According to our Gender Section (please refer to Section 2.5) women-owned SMEs are defined in this document according to the IFC as firms with either more than 51% women's ownership, or with 20%+ women's ownership in a business that has a woman CEO, COO, or CFO (IFC, 2014).

objective way with clear definitions to understand if the selection criteria are met. As mentioned before, this will be done on a-case by-case selection basis, evaluating each component within the context of the given SME.

2.7.4 M&E for Component 3

Component 3 will seek to establish matchmaking support for SMEs to find potential private investors so there is increased capacity for SMEs to match with private investors. For this component, two indicators will be monitored.

Indicator C.3.1: share (%) of SMEs requiring assistance that have developed and approved offer sheets and/or project pitches. Offer sheets and project pitches will be used to increase SMEs' chances of receiving investment; the GEF funding will assist and enhance their ability to match with potential investors by providing training to develop adequate offer sheets and pitches to investors. SMEs will receive assistance on a need-basis only. The selection for assistance under this component will take place if: (i) the SME gets selected for LRF funding yet could make effective use of additional investment for further scaling; and (ii) the SME does not get selected for LRF funding but shows significant potential given that capital can be raised from another investor.

Indicator C.3.2: this indicator is the share (%) of SMEs requiring assistance that receive matchmaking support. It is based on the number of SMEs that receive matchmaking support divided by the total amount of SMEs that received pre-investment support times 100. Matchmaking support is the assistance for investor-specific preparation of proposals and organization of events where the SMEs will present their developed proposal to the investors. Not all selected SMEs will need matchmaking meetings as some SMEs might obtain a third-party private investment commitment before this stage and others may be approved for LRF investment. It is important to note that an SME can have more than one matchmaking meeting.

2.7.5 M&E for Component 4

This component focuses on knowledge management and effective M&E. Progress towards meeting this objective is partitioned into two sub-objectives that are measured against four indicators.

C.4.1. objective: this first objective targets M&E to inform adaptive management of projects.
Indicator C.4.1: number of Project meetings or workshops biannually held where M&E data is discussed and used for adapting the annual work plan and budget that is submitted to the Technical Committee. M&E will be used to assess the performance of the Project to improve the current and future management of the annual workplan and budget as well as outputs, outcomes, and impacts. The PMU will review SME results and give adaptive management suggestions to the Fund Manager.

C.4.2. objective: knowledge management increases awareness of SMEs and private investors on successful approaches to preparing, implementing, and financing climate-resilient practices. Progress towards this objective will be measured through two indicators.
Indicator C.4.2: number of publicly available project knowledge products. Knowledge products in this sense are: (i) 3 factsheets (annually updated); (ii) 3 presentations (products updated); (iii) 1 e-learning Webinar (during the Project); (iv) 3 newsletters; and (v) 1 virtual workshop (during the Project). The planned knowledge gathering, and exchange will help to improve the Project activity design, e.g. on how to secure payback of investments, and thereby ensure sustainability of the fund.

Indicator C.4.3: number of stakeholders that attend the virtual workshop. This will be held at the end of the Project on an online platform. The attending key stakeholders have been identified at the start of the Project, but new ones may be added throughout the course of the Project. It is expected that the workshop will be attended by 20 men and 10 women.

2.8 Budget

2.8.1 Project budget overview

This GEF Project has a total budget of USD 13,964,467 including the GEF grant and co-financing. Project activities will take place over a three-year period. The project has four components plus PMC: the first three components deliver project outputs and objectives; the fourth component covers knowledge management, monitoring and evaluation activities, and; fifth, project management costs (PMC).

Component 1 represents 30% of the total budget (USD 341,811). All its disbursements will be made in the first two years of project implementation. This is because Component 1 will support the establishment of systems to support SMEs with climate-resilient practices to access private investment.

Component 2 represents 53% of the total budget (USD 608,600). Over half of the component´s resources will be provided to SMEs as zero-interest loans for the implementation of their investment-readiness plans. The remaining resources will be used to provide SMEs assistance for the implementation of SMEs' investment-readiness plans through the Executing Agency or by external consultants. These activities will take place during the second and third year of project implementation.

Component 3 requires nearly 3.5% of the total budget (USD 39,450) and is directed to developing matchmaking meetings for SMEs that might require additional funding to the one potentially provided by the LRF. This activity will be developed by the end of the second year and throughout the third year of implementation.

Component 4 represents 11% of the total budget (USD 122,800) and includes knowledge management, monitoring and evaluation for the Project, including the External Terminal Evaluation. These funds will be executed proportionally over the three years of the Project.

The PMC represents 2.5% of the total budget (USD 30,000). It includes part of the time of personnel contracted by the project.

GEF project budget is provided in Table 10, with component budgets in Tables 11-15. There is a total of USD 12,821,806 in co-financing (see section 2.8.2 for the co-finance overview).

For additional and detailed information on the Project's Budget, please refer to Appendix 9.

Table 10: Project budget overview

Total Project costs	
Category	**Project total (USD)**
Personnel	315,100
Third-party fees and expenses	397,000
Grants and agreements	340,000

Travel, meetings, and workshops	90,561
Total Project costs	**1,142,661**

The provision of direct services by South Pole to support SMEs will be assigned on a case-by-case basis once the SMEs are selected and their investment-readiness plans identify their support needs. Therefore, at this stage, most of the resources have been allocated to cover in-house expertise required to fulfill project activities. If during the implementation of the Project, South Pole identifies that external consultants are better fit to implement the investment-readiness plans or that South Pole may lack the resources needed for implementation, co-financing resources might be used to hire the needed external experts and a minor reallocation request might be made to better reflect on resources needed from external consultants.

Table 11: Budget for Component 1

Component 1. Establishing systems to support SMEs with climate-resilient practices to access private investments	
Category	**Project total (USD)**
Personnel	114,500
Third-party fees and expenses	198,000
Travel, meetings, and workshops	29,311
Total component costs	**341,811**

Table 12: Budget for Component 2

Component 2. Pre-investment services to make SMEs with climate-resilient practices investment-ready	
Category	**Project total (USD)**
Personnel	80,600
Third-party fees and expenses	150,000
Grants and agreements	340,000
Travel, meetings, and workshops	38,000
Total component costs	**608,600**

Table 13: Budget for Component 3

Component 3. Establishing matchmaking support for SMEs with climate-resilient practices to match with potential private investors	
Category	**Project total (USD)**
Personnel	31,200
Travel, meetings, and workshops	8,250
Total component costs	**39,450**

Table 14: Budget for Component 4

Component 4. Knowledge management and effective project M&E	
Category	**Project total (USD)**
Personnel	58,800
Third-party fees and expenses	49,000
Travel, meetings, and workshops	15,000
Total component costs	**122,800**

Table 15: Budget for project management costs

Project management costs	
Category	**Project total (USD)**
Personnel	30,000
Total project management costs	**30,000**

2.8.2 Project budget notes

2.8.2.1 Staffing

The Project will have South Pole specialists assigned to the Core Team and the Support Team. The Core Team is composed of the Fund Manager, the Investment Specialist, the Adaptation and M&E Specialist, while the support team will have an Accountant and some administrative and operations support staff (Table 16).

For details regarding the roles of core staff, please refer to Appendix 6 of this document.

Table 16: Staffing costs by component (in USD)

Job title	Component 1	Component 2	Component 3	Component 4	Project mgmt. costs	Total
Core Team						
Fund Manager	16,800	5,600	11,200	16,800	0	50,400
Investment Specialist	65,700	45,000	14,000	15,000	0	139,700
Adaptation and M&E Specialist	32,000	30,00	6,000	27,000	0	95,000
Support Team						
Accountant	0	0	0	0	20,000	20,000
Administrative and operations support personnel	0	0	0	0	10,000	10,000
Total	**114,500**	**80,600**	**31,200**	**58,800**	**30,000**	**315,100**

Staffing costs for PMC are less than 3% of the overall budget while M&E staffing costs are approximately 2% of the budget. Keeping in mind that South Pole, as EA, will deliver pre-investment services to the selected SMEs with in-house staff, the remaining staffing costs are therefore associated with Core Team functions related to the implementation of the activities by component.

2.8.2.2 Third Party Fees and Expenses

The following services will be contracted to implement the activities under this Project (Table 17):

- contractual services by a company: the external terminal evaluation of the Project will be undertaken by a contracted third party. Also, the payment for a platform/tool for delivering the e-learning webinar is planned;
- international consultants: international consultants will be required to support the development of the investment-readiness plans in Component 1 and their implementation in Component 2. They have been separated, although it would be ideal that the same consultants support both components, there might be situations where this is not the case. These consultancies must include the support of stakeholder engagement, gender, and social and environmental risk management specialists; and
- local consultants: nine project specialists on SMEs will be hired to support the pipeline development process in developing countries and LDCs.

Table 17: Third-party fees and expenses (in USD)

Category/item	Component 1	Component 2	Component 3	Component 4	Project mgmt. costs	Total
Contractual services – company						
Development of e-learning webinar	0	0	0	29,000	0	29,000
External evaluation-terminal evaluation	0	0	0	20,000	0	20,000
International consultants						
External experts – investment-readiness plans development support	135,000	0	0	0	0	135,000
External experts – implementing the investment-readiness plans	0	150,000	0	0	0	150,000
Local consultants						
Nine local SME/project specialist	63,000	0	0	0	0	63,000
Total	**198,000**	**150,000**	**0**	**49,000**	**0**	**397,000**

Third-party fees and expenses constitute 35% of the total Project budget.

In order to guarantee that stakeholder engagement, social and environmental risk management and gender issues are properly mainstreamed into the investment-readiness plans for selected SMEs with climate-resilient practices, an environmental and social risk management specialist, a gender specialist and a stakeholder engagement specialist will be included into the external consultancies for investment-readiness plans development and implementation. The budget of those consultancies corresponds to USD 285,000 (output 1.1.2 and output 2.1.1).

Also, it is worth noting that implementation of the investment-readiness plans through zero-interest loans will also be required to include the above mentioned specialists (Output 2.1.1 - USD 340,000) in order to support SMEs in the development of their Stakeholder Engagement Plans and risk management tools for their climate-resilient practices, as well as a gender analysis and a Gender Action Plan. Therefore, this Project is adequately prepared to effectively address stakeholder engagement, risk management and gender issues.

2.8.2.3 Grants and Agreements

It is expected that at least 50% of the selected SMEs will have the capacity to receive zero-interest loans to implement their investment-readiness plans (Table 18).

Table 18: Grants and agreements (in USD)

Category	Component 1	Component 2	Component 3	Component 4	Project mgmt. costs	Total
Grants and agreements						
Zero-interest loans to selected SMEs	0	340,000	0	0	0	**340,000**

Grants and agreements constitute 30% of the total Project budget.

2.8.2.4 Travel

The following activities have been included in the travel budget for the Project (Table 19):

- six round trips to countries with potential SMEs to support the development of the SMEs pipeline;
- seven round trips to meetings with selected SMEs to support the implementation of their investment-readiness plans;
- one round trip to participate in a GEF Challenge Program for Adaptation Innovation meeting;
- two round trips to participate in any follow-up meetings with GEF and WWF; and
- one round trip for an SME assisting a matchmaking meeting.

Table 19: Travel expenses (USD)

Category/item	Component 1	Component 2	Component 3	Component 4	Project mgmt. costs	Total
Pipeline development	29,311	0	0	0	0	29,311
South Pole support to implementing the investment-readiness plans	0	34,000	0	0	0	34,000
GEF Challenge Programme Knowledge Sharing Meeting	0	0	0	4,000	0	4,000
Project M&E with GEF and WWF	0	0	0	8,000	0	8,000
Matchmaking meeting	0	0	5,000	0	0	5,000

Category/item	Component 1	Component 2	Component 3	Component 4	Project mgmt. costs	Total
Total	**29,311**	**34,000**	**5,000**	**12,000**	**0**	**80,311**

Travel expenses constitute 7% of the total Project budget.

2.8.2.5 Workshops and meetings

The following workshops and meetings are planned during the implementation of this Project (Table 20):

- meetings to support SMEs with the implementation of their investment-readiness plans;
- matchmaking meetings: not all selected SMEs will receive support regarding the matchmaking meetings. However, some resources have been budgeted to support the development of such meetings with private investors, when needed;
- internal project meetings: bi-annual Project meetings will be held with core and supporting staff teams and might include the invitation of other stakeholders;
- virtual workshop: a final virtual workshop will be developed before the end of the Project to inform the results and strengthen the involvement of private investors in adaptation; and
- an e-learning webinar will be held at the end of the Project to share lessons learned through implementation.

Table 20: Workshops and meetings (USD)

Category/item	Component 1	Component 2	Component 3	Component 4	Project mgmt. costs	Total
Development of local meetings with selected SMEs to support the implementation of their investment-readiness plans	0	4,000	0	0	0	4,000
Development of matchmaking meetings with potential investors	0	0	3,250	0	0	3,250
Biannual staff meetings (six in total)	0	0	0	1,000	0	1,000
Development of support material for virtual workshop	0	0	0	2,000	0	2,000

Category/item	Component 1	Component 2	Component 3	Component 4	Project mgmt. costs	Total
Total	**0**	**4,000**	**3,250**	**3,000**	**0**	**10,250**

The budget for workshops and meetings constitutes 1% of the total Project budget.

2.8.2.6 Equipment

No budget will be needed for equipment as this Project will not directly implement any on-site activities. However, the grants provided by the project (section 2.8.2.3) may include the acquisition of specific equipment required to achieve investment-readiness by selected SMEs.

2.8.2.7 Other direct costs

This Project will not undergo in further costs, different from the ones already listed in the previous sections.

2.8.3 Project Management Costs

For this Project, project management costs are limited to salaries and benefits of personnel including the Fund Manager, the accounting staff and the administrative support personnel. Therefore, the project management costs add up to USD 30,000, which corresponds to less than 3% of the total budget (Table 21).

Table 21: Budget for project management costs

Project management costs	
Category	**Project total (USD)**
Personnel	30,000
Total project management costs	**30,000**

2.8.4 M&E budget

Component 4 (Knowledge management and effective project M&E) for this Project includes Outcome 4.1. (M&E to inform adaptive management of the Project), and Outcome 4.2 Knowledge management increases awareness of SMEs with climate-resilient practices and private investors on successful approaches to preparing, implementing, and financing climate-resilient practices. Through the implementation of the activities set out in their respective outputs, the M&E activities will be implemented and fully complied with according to GEF standards. Therefore, all resources budgeted for this Component will be used for the Project's M&E Plan implementation. Hence, the M&E budget for this Project is summarized in Table 22.

Table 22: M&E Budget for this Project

Line item	Total (USD)
Personnel	19,600
Third-party fees and expenses	20,000
Travel, meetings, and workshops	9,000
Total M&E budget	48,600
Total project budget	1,142,661
% M&E of total project budget	4.25%

This project will be included in the LRFs audit process; therefore, no external audit fees have been included in the budget. Also, the Project will request to be included in South Pole's organizational audit on a yearly basis during the lifetime of the Project.

2.8.5 Co-finance overview

The total co-finance amount is USD 12,821,806, as detailed in Table 23. This includes USD 188,000 to be spent by South Pole during the project implementation phase.

Table 23: Co-financing overview

Source of co-financing	Name of co-financer	Type of co-financer	Amount (USD)
Private sector	South Pole – via multinational corporations and investors (South Pole as recipient)	Loan	12,500,000
Private sector	South Pole	In-kind	188,000
GEF Agency	World Wildlife Fund, Inc.	In-kind	133,806
Total co-financing			**12,821,806**

SECTION 3: GEF ALIGNMENT AND JUSTIFICATION

3.1 Additional cost reasoning and adaptation benefits

3.1.1 Additional cost reasoning

Table 24 describes the additional cost reasoning against the baseline for this GEF Project. Note that Components 1 and 2 have been combined since they follow the same baseline.

Table 24: Baseline scenario and the GEF alternative

Baseline	GEF alternative
Component 1: Establishing systems to support SMEs with climate-resilient practices to access private investments **Component 2:** Pre-investment services to make SMEs with climate-resilient practices investment-ready	
The LRF, with a current commitment of USD 25 million of investment from 2021-2026, will be established in 2021. Over 13 potential SME with climate-resilient practices have so far been identified as prospective cases for investment. However, the majority of the identified practices in the baseline do not fulfil the LRF Selection Criteria (see section 2.2). An analysis of the underlying reason for this suggests that without external assistance (i) SMEs will be unable to obtain the knowledge and capacity needed to plan for activities that address the barriers to accessing capital (see Barrier 1.1.1 under section 1.3); and (ii) SMEs will be unable to invest in the planned activities that could make their climate-resilient practices investment ready (see Barrier 1.2.1 under section 1.3). Both factors would result in a lack of investment-ready climate-resilient practices capable of delivering significant financial and environmental returns. Consequently, LRF investments into these SMEs will not be realized as planned and the flow of private investments to the LRF in the future is at risk.	Through Component 1 and 2 of this Project, GEF funding would enable this set of activities in addition to the baseline: → Setting up sustainable processes that must be established before South Pole can provide pre-investment services to ready SMEs for investment. These processes include South Pole assisting the SME in preparing an elaborate plan on how to meet the LRF Selection Criteria and improve their chances of receiving investments from other investors, the estimation of services required to implement said plan, and agreeing on terms of reimbursement for services to ensure at least a partial reflow and recycling of GEF funding for increased impacts. → Provision of pre-investment services as zero-interest loans and/or direct services by South Pole. These services reduce the costs and risks that the SMEs would otherwise face while independently preparing their climate-resilient practices for investment. The additional cost estimate for providing the above-mentioned services, based on past experience, is around USD 50,000 to 100,000 per SME. GEF funding covers this additional cost and in doing so, facilitates the provision of financial, technical, and legal advisory and support (as investment) to strengthen the SMEs' business cases (through sound financial management), increase their adaptive capacity, strengthen their resilience approaches, enhance potential SDG co-benefits (mitigation, biodiversity, and gender-related benefits), and integrate environmental and social risk management into their business models. Successful execution of these GEF-funded activities will de-risk the SMEs' business cases and increase their potential future financial and environmental returns. Consequently, this will increase their chances of receiving implementation funding from the LRF and other private investors. Having SMEs with investment-ready climate-resilient practices will also aid LRF's fundraising activities, as private investors will perceive a lower risk and tangible results for their investments through interventions promoted by the LRF. Lastly, this Project, through the promotion of sustainable agriculture and forestry, and other NBS that help in reducing the risk of emerging infectious diseases in the future while

Baseline	GEF alternative
	increasing the resilience of the ecologic and socio-economic systems to weather them, will contribute to reducing the negative impacts of COVID-19 and bolster a green recovery.
Component 3: Establishing matchmaking support for SMEs with climate-resilient practices to match with potential private investors	
Selected SMEs' with climate-resilient practices – notably those that have received pre-investment services through this GEF Project and may or may not qualify for LRF investment – may have unmet financing needs despite having strong business cases and high potential for attracting private capital. Despite their investability, they may not have access to other private investors or possess the technical capability required to prepare offer sheets and pitches to attract private investors (see Barrier 1.3.1 under section 1.3).	Through Component 3 of this Project, GEF funding would enable this set of activities in addition to the baseline: → Provision of training, on a need basis, to selected SMEs for preparation of offer sheets and pitches, thus increasing their chances of receiving investments. → Arrangement of matchmaking meetings between the SMEs and prospective investors (accessible through South Pole's extensive network), thus enhancing the SMEs' ability to match with a suitable investor for their climate-resilient practices. This component would only be invoked in cases where it is evident that the SME has a high potential for attracting private capital in addition to what it has secured from the LRF. In rare cases, SMEs may receive assistance even if it is rejected by the LRF, provided it has significant potential to produce financial and environmental returns and fits the investment criteria of another investor. Thereby, GEF financing would enable SMEs access to private investments for scaling their climate-resilient practices and enhancing the potential impacts.
Component 4: Knowledge management and effective M&E	
In the absence of an established process for the M&E of project outputs and knowledge exchange on lessons and best practices from preparation and implementation of climate-resilient practices (focused on sustainable agriculture and forestry, and other NBS), there will be a lack of adaptive management, i.e. integration of successful approaches into the planning and provision of pre-investment services. This could compromise an SME's ability to secure private investment and/or achieve its objective. Also, without an exchange of information about successful climate-resilient practices, SMEs will be unable to learn from similar cases and the investors' knowledge on, and access to, successful initiative types will remain limited.	Through Component 4 of this Project, GEF funding would enable this set of activities in addition to the baseline: → Adaptive management of the Project informed by continuous M&E of results and incorporation of up-to-date best practices on providing pre-investment services to climate-resilient practices. This will enable effective interventions and achievement of best results. → Knowledge management, which involves the collection and dissemination of information about selected SMEs' climate-resilient practices, including lessons and best practices on the design and delivery of pre-investment services, to key stakeholders as well as exchanging knowledge with similar initiatives. This will benefit not only the stakeholders of selected SMEs but also private sector entities and other projects under the GEF Challenge Program. It would also bolster future private investment support for the LRF.

Baseline and additional costs

The LRF has obtained a USD 25 million commitment to be invested until 2026 (which is longer than the GEF Project period) from corporate investors for actual project investments and is expected to attract an additional USD 20-40 million to be invested in a longer term (beyond the scope of this Project). Also, at least USD 1-4 million is anticipated to be leveraged to co-fund project preparation and matchmaking, in addition to the estimated USD 1 million GEF Project funds. Therefore, future investments in the LRF will be used to strengthen the pre-investment window through soft loans to SMEs with climate-resilient practices that need support to become investment ready or by the investment window in which provision of soft loans will be available to SMEs with climate-resilient practices that are investment ready.

These targets have been determined according to landscapes that have been considered by the LRF as having potential SMEs that may need investment support and because of the size of resources that the LRF is expected to handle in order to keep management fees at an acceptable level through scaling the size of the Fund.

3.1.2 Adaptation benefits

This Project will generate adaptation benefits during its three-year implementation period, regarding all activities directly developed to unlock private sector investments in SMEs with climate-resilient practices. However, unlocking investments for selected SMEs will result in further benefits that will occur after this Project is implemented, and therefore, the Fund Management Team will provide estimates of these expected results once the pre-investment services pipeline has been developed.

Thus, this section includes a description of adaptation benefits for the implementation stage of this Project (reported by this Project) and identifies which expected adaptation benefits will result from the implementation of the SMEs' practices (not to be reported by the Project).

The following table describes how the LDCF/SCCF Results Framework relates to this Project's adaptation benefits and the SMEs' practices adaptation benefits in the long term.

Table 25: Relation between the LDCF/SCCF Results Framework and this Project's expected adaptation benefits

Level	LDCF/SCCF results framework	Project's adaptation benefits[1]	Project's long-term adaptation benefits through the SME investment stage[2]
Goal	To increase resilience to the adverse impacts of climate change and variability in vulnerable developing countries and support their efforts to build adaptive capacity		
Core Indicator 1	Total number of direct beneficiaries (gender disaggregated)	N/A	Estimated to be approximately 35,000 beneficiaries, of which: ● 10,000 beneficiaries from more resilient physical

Level	LDCF/SCCF results framework	Project's adaptation benefits[1]	Project's long-term adaptation benefits through the SME investment stage[2]
			and natural assets; and • 25,000 beneficiaries with diversified and strengthened livelihoods and sources of income. (50% are female)
Core Indicator 2	Area of land managed for climate resilience (ha)	N/A	Estimated to be approximately 50,000 ha, of which: • 25,000 ha of agricultural land; and • 25,000 ha of rural land (excluding agricultural land).
Core Indicator 3	Total number of policies/plans that will mainstream climate resilience	N/A	N/A
Core Indicator 4	Total number of people trained	Number of staff from small private business owners: • 315 male • 135 females	N/A
Objective 1	Reduce vulnerability and increase resilience through innovation and technology transfer for climate change adaptation		
Outcome 1.1	Technologies and innovative solutions piloted or deployed to reduce climate-related risks and/or enhance resilience		
Output 1.1.1	Physical and natural assets made more resilient to climate	N/A	Estimated to be approximately 50,000

Level	LDCF/SCCF results framework	Project's adaptation benefits[1]	Project's long-term adaptation benefits through the SME investment stage[2]
	variability and change		ha, of which: • 25,000 ha of agricultural land; and • 25,000 ha of rural landscapes (excluding agricultural land).
Output 1.1.2	Livelihoods and sources of income of vulnerable populations diversified and strengthened (gender disaggregated)	N/A	Estimated to be approximately 35,000 beneficiaries, of which: • 10,000 beneficiaries from more resilient physical and natural assets; and • 25,000 beneficiaries with diversified and strengthened livelihoods and sources of income. (50% are female)
Output 1.1.3	New/improved climate information systems deployed to reduce vulnerability to climatic hazards/variability	N/A	N/A
Output 1.1.4	Vulnerable natural ecosystems strengthened in response to climate change impacts	N/A	TBD based on SME pipeline[3]
Outcome 1.2	Innovative financial instruments and investment models enabled or introduced to enhance climate resilience		
Output 1.2.1	Innovation incubators and/or accelerators introduced	The Project will set up an investment line similar to	TBD based on SME pipeline[3]

Level	LDCF/SCCF results framework	Project's adaptation benefits[1]	Project's long-term adaptation benefits through the SME investment stage[2]
		a small business accelerator, that will invest in at least nine entrepreneurs that are developing climate-resilient practices. • Number of incubators and accelerators supported = 1 • Total number of entrepreneurs supported = 9 (6 male/3 female)	
Output 1.2.2	Financial instruments or models to enhance climate resilience developed	The Project will introduce two innovative instruments: • revolving zero-interest loans for pre-investment support; and • delayed payment for technical services.	N/A
Objective 2	Mainstream climate change adaptation and resilience for systemic impact		
Outcome 2.3	Institutional and human capacities strengthened to identify and implement adaptation measures		
Output 2.3.1	Number of people trained regarding climate change impacts and appropriate adaptation responses	Number of staff from small private business owners: • 315 male • 135 females	TBD[3] Number of community/association members: • male • female
Output 2.3.2	Number of people made aware of climate change impacts and appropriate adaptation		TBD[3]

Level	LDCF/SCCF results framework	Project's adaptation benefits[1]	Project's long-term adaptation benefits through the SME investment stage[2]
	responses	N/A	Total number of people raised awareness: ● male ● female

Notes:

1. The Project's adaptation benefits will be reported as part of the M&E process throughout the Project implementation stage and will be included in the Adaptation Results Framework.
2. The Project's long-term adaptation benefits (that result from the implementation of SMEs' climate-resilient practices beyond the lifetime of this Project) through the investment stage will not be reported by the Project but will be informed as expected results to the GEF, once the selection process for the nine SMEs has been finalized.
3. Potential adaptation benefits to be determined once a pipeline of SMEs with climate-resilient practices has been developed.

In terms of guaranteeing that the benefits of this Project will reach the most vulnerable communities, it is worth mentioning that the pre-investment window due diligence process will focus on smaller SMEs (of up to 50 workers) that have a clear focus on how these benefits are integrated to their business plans. Also, other than the selection criteria, the Project will follow up and report every semester on the direct adaptation benefits and on the expected indirect adaptation benefits related to the SMEs that are selected.

As seen in Table 25, the Project will mainly contribute to Objectives 1 and 2 of the LDCF/SCCF framework: "reduce vulnerability and increase resilience through innovation and technology transfer for climate change adaptation" and "Mainstream climate change adaptation and resilience for systemic impact". The concrete adaptation outcomes and outputs created by the Project are:

- Outcome 1.1: technologies and innovative solutions piloted or deployed to reduce climate-related risks and/or enhance resilience:
  - Output 1.1.1: physical and natural assets made more resilient to climate variability and change: The Project estimates that the nine SMEs supported will have long-term adaptation benefits on 50,000 ha of which 25,000 will be expected to be in agricultural land and 25,000 in the rural landscape (excluding agricultural land); and
  - Output 1.1.2: livelihoods and sources of income of vulnerable populations diversified and strengthened. The Project will support at least nine SMEs, creating around 450 direct beneficiaries (assuming 50 staff per supported SME) and enabling private investments in their climate-resilient practices. The implementation of the SMEs interventions is expected to result in 35,000 long-term beneficiaries, of which 25,000 will result from the improvement of their livelihoods and sources of income and 10,000 through more resilient physical and natural assets[12].

[12] Physical assets will include processing facilities or factories to process agricultural produce and thereby capture more value in the region. GEF investment in this Project may lead to recommendations for processing facilities and other physical assets, however, GEF funds will not directly finance such assets. Natural assets may include improved riparian management or enhanced soil carbon and fertility, which directly impact/reduce the risks faced by small

- Outcome 1.2: innovative financial instruments and investment models enabled or introduced to enhance climate resilience:
    - Output 1.2.1: innovation incubators and/or accelerators introduced. The Project will set up an investment line similar to an SME accelerator that will invest in at least nine SMEs that are developing climate-resilient practices; and
    - Output 1.2.2: investment models developed and tested. The Project will introduce two innovative financial instruments to enhance climate resilience investment: (i) revolving zero interest loans for project development; and (ii) delayed payment for pre-investment services.
- Outcome 2.3: institutional and human capacities strengthened to identify and implement adaptation measures:
    - Output 2.3.1: number of people trained regarding climate change impacts and appropriate adaptation responses. The Project estimates that approximately 450 staff members from the selected SMEs will have built capacities to better identify and implement adaptation measures.

Adaptation benefits embedded in the response to the COVID-19 crisis

The contribution to the recovery of the COVID-19 crisis is embedded in the planning of this Project. From the adaptation benefits framework, Output 1.1.2 (as shown in Table 25) addresses the response to the impacts generated by the crisis.

- **Output 1.1.2:** ***livelihoods and sources of income of vulnerable populations diversified and strengthened***. This is an important output that covers the forecast that approximately 40-85% of all food production in developing regions (small scale food producers) will be minimized (United Nations Department of Economic and Social Affairs 2020). Therefore, diversifying and strengthening sources of incomes will contribute to reducing the impact of a longer or second wave of the virus.

Global environmental co-benefits

Climate-resilient practices proposed by SMEs that will be supported through the scope of this Project will potentially offer **global environmental co-benefits** in terms of biodiversity, climate change mitigation, land degradation, and forests. Therefore, South Pole will guarantee that:

- the LRF includes global environmental co-benefits tracking in its monitoring and evaluation framework, such as biodiversity and climate change mitigation (included as SDG co-benefits in this Project);
- selected SMEs that are supported through this Project monitor their expected global environmental co-benefits; and
- selected SMEs' practices' global environmental co-benefits are reported throughout the Project implementation stage.

3.2 Alignment with GEF Focal Area and/or Impact Program Strategies

Through the GEF funding, the LRF will be able to create a pre-investment services window, aimed at supporting SMEs to develop investment-ready initiatives to unlock private investments for the implementation of climate-

businesses and vulnerable people (e.g. of floods, droughts, erosion) and therefore constitute assets that also contribute financially to investees.

resilient practices at a landscape level. Therefore, this project's objective is aligned with the overall goal of the GEF-7 Adaptation Strategy, which is *"to strengthen resilience and reduce vulnerability to the adverse impacts of climate change in developing countries and support their efforts to enhance adaptive capacity"*.

The Project will contribute with the first objective of the GEF-7 Adaptation Strategy (Focal Area CCA-1), dedicated to **reducing vulnerability and increasing resilience through innovation and technology transfer for climate change adaptation** and will deliver results under Outcome 1.1 of the LDCF/SCCF results framework, aimed at piloting or deploying technologies and innovative solutions to reduce climate-related risks and/or enhance resilience. Particularly, the project will support the diversification of livelihoods and sources of income of vulnerable populations (as defined in Output 1.1.2), by unlocking investments in at least nine SMEs with climate-resilient practices that are designed to reduce the vulnerability of communities whose livelihoods directly or indirectly dependent on the landscape ecosystem services.

The project will also deliver results under Outcome 1.2 aimed at enabling or introducing innovative financial instruments and investment models to enhance climate resilience, in two ways. First, the project will promote the introduction of innovation incubators and/or accelerators (as defined in Output 1.2.1) by setting up a pre-investment line, similar to an SME accelerator, that will catalyze investments in at least nine climate-resilient practices led by SMEs in developing countries. Second, it will develop and test an investment model (as defined in Output 1.2.2) by introducing two innovative instruments: a revolving zero-interest loan for SME pre-investment support and a delayed payment for direct pre-investment services.

Even though the implementation of SMEs' climate-resilient practices through the investment stage is not part of the scope of this project, their long-term results will also contribute to the LDCF/SCCF results framework, as highlighted in Table 25.

3.3 Socio-economic benefits

The scope of this Project is limited to supporting the pre-investment stage of SMEs with climate-resilient practices, and therefore, limits its results to the main outcomes expected for its implementation, as described in Section 2.2. However, this Project will have a long-term impact. As investments in climate-resilient practices led by SMEs are materialized, those practices will result in other socio-economic benefits.

Therefore, to provide a better idea of the long-term benefits of implementing this Project, both the short and long-term potential socio-economic benefits of the climate-resilient practices are included in this section.

- **Decent job creation:** at least nine SMEs will receive pre-investment support to make their climate-resilient practices investment-ready. To do this, some SMEs that access a zero-interest loan will need to use part of it to strengthen their workforce. It is therefore expected that decent jobs will be created within those SMEs in the Project's three-year term. However, as SMEs with climate-resilient practices become investment-ready, they will be able to access private finance for implementing their practices, which will certainly create, in the long term, new jobs in areas where most vulnerable populations are found and that are high-risk, particularly when events such as the COVID-19 pandemic strike. These new, decent jobs are an important part of the response to COVID-19.
- **Enhanced livelihoods:** as SMEs' climate-resilient practices mature, it is expected that not only will new jobs but also the livelihoods of the communities will be enhanced through better wages and more stable incomes in the long term. This is particularly important for the road to green recovery and if there is a strong resurgence in COVID-19 cases.
- **Long-term foundation for economic activities:** by giving communities adaptation tools, SMEs' practices will support the sustainable development of land use activities in the long term. The SMEs'

practices will enhance the capacity of the communities to not only sustainably access natural resources but also reduce their risk to climate change pressures.

- **Increased resilience of local communities:** selected SMEs will target adaptation and resilience through sustainable agriculture and forestry, and other NBS. This will help the most vulnerable communities enhance their capacity to handle climate change-related pressures, such as floods or droughts, while also promoting the development of their economic activities. It will also contribute to increasing resilience of combined threats, such as the case given by the COVID-19 pandemic and climate-related impacts.
- **Sustained ecosystem services:** SMEs practices will promote the efficient use of natural resources for communities to become resilient to climate change impacts, therefore gaining long term access to natural resources needed for their livelihoods that would otherwise be endangered by their unsustainable use.
- **Food security:** as communities secure their access to natural resources in the long term, they will be able to reduce food scarcity, as food production should stabilize and increase. A higher income will also enable them to secure food when unexpected impacts affect their own production rates. Additionally, as SMEs practices are focused on land use activities, they will support communities' capacity to better manage their natural resources, improving their yields by diminishing threats to their crops and ultimately contributing to greater food security.
- **Reduced conflict:** as selected SMEs practices have a positive impact on the sustainability of agricultural, forestry, and ecosystem-related activities for communities, the probability of forced displacement due to resource scarcity will diminish, which will reduce possible conflicts within and between communities.
- **Promotion of gender equity:** this Project will seek to promote as many women-led SMEs as possible. As this happens, women in the selected SMEs will be empowered to have a bigger impact in vulnerable communities or even access areas where they would normally have no major influence.
- **Enhanced impact investment market:** as mentioned in section 1.3, private investment for practices in climate resilience is still weak as knowledge about initiatives and their outcomes are not clear to them. This project will help to highlight profitable cases for investment, strengthen the private sector's confidence, and lower their perception of risk in investing in these types of SMEs.

3.4 Risks and proposed mitigation measures

The proposed approach requires a certain degree of flexibility with an understanding that circumstances might change throughout the Project duration and certain risks may arise. Several possible Project-related and external risks have been identified based on South Pole's experience with similar assignments elsewhere, as well as their probability and potential impact on the fund operation. Specific risk mitigation measures have been proposed to ensure that any such risks, to the extent possible, identified in advance (or recognized as early as possible) and that contingency plans are quickly developed, implemented, and monitored until the issue is resolved. See Table 26 for details on specific risks and mitigation measures.

Table 26: Risks and proposed mitigation measures

Risk	Likelihood and potential impact	Risk mitigation measures
Not enough good SME proposals in LRF's pipeline (project specific)	Low likelihood High impact	Using the existing project pipeline and South Pole's global sourcing team to look for new projects Using partner networks, such as WWF, to source new proposals Hiring/dedicating additional sourcing staff for projects in LDCs Widely disseminating information about LRF and holding calls for SMEs' proposals by South Pole's communication team
Not enough SME proposals in LDCs	High likelihood High impact	Hiring of local SME/project specialist that support the sourcing and screening of SMEs at the local level Screening and sourcing support through South Pole's and WWF's networks Team follow-up on results, including the 50% funds directed towards SMEs in LDCs target
Availability of technical experts for preparation of SME practices during Project implementation (project specific and COVID-related)	Medium likelihood Medium impact	Hiring/dedicating technical experts within the PMU of the EA Using a roster of topical experts from South Pole and other partners of the LRF
Risk that capacity building on climate resilience for farmers and indigenous people is not effective (SME-specific)	Low likelihood Low impact	Adapting the capacity building materials and tools to situation and language of farmers and indigenous people Pre-testing capacity building approaches on a pilot group
Project implementation delays due to COVID-19 or other unexpected risks that may reduce mobility and difficult stakeholder engagement (project specific and external risks)	Medium likelihood Medium impact	Selecting SMEs and contacting technical experts during the Project's document phase Preparing a robust yet flexible implementation plan with a buffer time period to handle unexpected delays Setting clear and realistic timelines for activities

Risk	Likelihood and potential impact	Risk mitigation measures
Supported SMEs do not find investments (external risk)	Low likelihood High impact	Working with SMEs that already have an interested funder(s) which has set requirements that are not still being met by the SMEs, so that it is clear what type of pre-investment support is required in order for funding / investments to go ahead; Blending in private capital at the Fund levels Disseminating knowledge management products to the private investors in order to reduce perceived investment risks and promote investable proposals Providing matchmaking support to SMEs proposals
Supported SMEs face social and environmental risks (external risk)	Medium likelihood High impact	Carefully selecting projects that have lower risks and robust risk mitigation plans; Helping SMEs in risk assessment and preparing risk mitigation strategy;
Changing political or regulatory environment in the home country of the SMEs selected to receive pre-investment support (external risk)	Medium likelihood Medium impact	Including such risks and possible mitigation strategy in the investment-readiness plan
Potential climate risks on operations of target SMEs and the resilience of ecosystem services provisions by the SMEs (external risk)	Medium-high likelihood High impact	Conduct a vulnerability analysis of the SME based on its context (location, activities and practices, etc.) (Described in Section 3.6) Identify main threats (climate-related and derived hazards) that could potentially undermine the implementation of the practices Incorporating additional and appropriate risk mitigation strategies during the preparation of the different climate-resilient practices (e.g., site selection, insurance)
SMEs do not successfully develop their investment readiness plan	Low likelihood High impact	Executing Agency will maintain oversight over the implementation of the investment-readiness plans

Risk	Likelihood and potential impact	Risk mitigation measures
		Selection of SMEs with the capacity to execute the investment-readiness plan Develop clear reimbursement agreements for the use of the pre-investment services. This will ensure that SMEs hold liability towards the implementation of the plan.
The SMEs have delays on paying the agreed reimbursements	Medium likelihood Low impact	Clear and flexible reimbursement agreements established very early during the pre-investment stage Realistic timelines and with buffers for contingency Close monitoring of the progress made through oversight and follow ups with the SMEs
Women get pushed out of the business once the commodity is earning	Low likelihood High impact	Development of gender analysis and gender action plan to be incorporated as part of the investment-readiness plans Promote that investment agreements value gender mainstreaming and include compliance of requirements set by the gender action plan designed for the SME practices
The recession due to the COVID-19 pandemic creates market barriers that may affect SMEs' revenues and slow down or prevent the reimbursement of pre-investment services by SMEs	High likelihood High impact	Implement an early-stage vulnerability assessment in the SME selection process in order to better understand the effects of COVID-19 on markets of interest and to establish minimizing measures in the investment-readiness plans.
The COVID-19 pandemic generates a recession that makes it difficult to find private investment in the selected SMEs	High likelihood High impact	Explore the network of interested investors in COVID-19 recovery. These interested investors could represent an opportunity if they are searching for SMEs that have been affected by the pandemic and wish to cooperate for alleviation
COVID-19 restrictions make it difficult to travel and implement some of the Project's activities	High likelihood Medium impact	Include possible COVID-19 travel limitations on Project planning Use alternative tools, other than on-site meetings, for training Provide SMEs with tools needed to guarantee their involvement in Project activities

Risk	Likelihood and potential impact	Risk mitigation measures
		If feasible, hire consultants with local presence
The LRF is not able to mobilize funding from other sources (due to changed priorities or reduced funding availability) in the face of the COVID-19 pandemic	Low likelihood High impact	Legal process for the establishment of the LRF developed ahead of time to guarantee it is established during 2021 Frequent meetings with key partners and donors to follow-up on their concerns and interests Meet with other potential donors to establish other funding sources Follow-up on investment environment for alternatives of other private sources of investment for the SMEs

As this project will support SMEs with climate-resilient practices become investment-ready, no impact due to climate change related hazards are expected during its implementation. However, the LRF is aware that SMEs climate resilient practices might be exposed to risk from climate change impacts and therefore, this risk and its mitigation measures have been incorporated in this section, which includes a vulnerability assessment framework (described in Section 3.6).

3.5 How this Project will address post-COVID-19 impacts

The COVID-19 outbreak has disrupted almost all aspects of life in most countries around the world. Apart from the immediate impacts on victims from the virus, the lockdowns imposed by governments have affected the mobility, income, food security and livelihoods of millions. For people in the most vulnerable environments COVID-19 adds to a set of existing uncertainties and challenges. Additionally, extreme weather events complicate the problems faced in some regions.

Nevertheless, in many cases the COVID-19 crisis can provide opportunities to showcase initiatives with significant potential to generate Global Environmental Benefits (GEBs). For example, this Project will be doing so through the promotion of sustainable agriculture and forestry as well as other nature-based solutions (NBS) and help in reducing the risk of emerging infectious diseases in the future, while increasing the resilience of the ecologic and socio-economic systems to weather them.

Since the focus of this Project is to support SMEs with climate-resilient practices and their interventions in vulnerable environments (developing countries and LDCs), where inequality and vulnerability have been exacerbated by COVID-19, the Project will contribute by strengthening resilience against climate change impacts. An important impact of this Project in the road to alleviating the COVID-19's impacts and green recovery, is for example the creation of direct and indirect jobs through the SMEs' practices. This will contribute to alleviating COVID-19's expected and already existing impacts, which are foreseen to cause the equivalent of 400 million job losses.

An analysis of specific opportunities to integrate green recovery and resilience principles to ensure that this GEF-financed Project will deliver GEBs and climate change adaptation benefits to alleviate the impacts caused by COVID-19 follows.

This GEF Project will contribute to protecting and restoring natural systems and their functionality

With this Project, the target is to build resilience of the people in vulnerable communities, with whom the SMEs we will be supporting are working with. These SMEs have their interventions and practices in the land use space. Therefore, resilience will be achieved using services from the forests and ecosystems surrounding them as well as where they have an influence. This means that activities that we pursue with the impacts of this Project is to limit forest fragmentation, especially those high-risk areas where there is potential for future pandemics. This Project promotes sustainable forest management as well as sustainable land uses and agriculture that contribute to limiting and reducing deforestation and further forest fragmentation, through the increase of forest areas either through practices of agroforestry, forest landscape restoration, reforestation, etc.

This GEF Project includes a focus on production landscapes and the land use practices within them to decrease the risk of human/nature conflicts

Within the categories we support in the land-use space -sustainable agriculture and forestry-, we promote the adequate and sustainable natural resources management (NRM). We will target and support those SMEs that can have NRM and their strategies in their proposals and projects and that additionally, such interventions will be able to contribute to resilience to climate change through the improvement and benefits for livelihoods and which can also generate additional GEBs.

Furthermore, the objective of working on production landscapes is increasing the resilience in supply chains and other economic systems that may fall within these. Through the creation of strategic responses in supply chains and their management, it will also contribute to strengthening food security while at the same time considering biodiversity and land use approaches.

This GEF Project innovates in climate change adaptation through the engagement with the private sector (and investors)

Through this Project's third component (establishing matchmaking support for SMEs with climate-resilient practices to match with potential private investors), we will bring together local businesses (who require these services) which with their practices improve resilience to climate change with the private sector investors that are interested in the adaptation component. Moreover, we will support (as far as possible) sustainable business practices if they have, additionally from their climate-resilient practices, bio-based components in their processes, energy efficiency strategies and that are able to deliver biodiversity and mitigation co-benefits.

3.6 Vulnerability Framework: climate-related hazards' screening and vulnerability assessment

A **Vulnerability Framework** has been developed (based on the IPCC's AR5, IPCC, 2014), in order to describe the steps and processes to identify potential climate-related hazards as well as design and measure adaptation practices that are targeted to be recommended through the LRF, as well as serving as a guideline for building and strengthening resilience for vulnerable populations and landscapes in the countries where the SMEs will be selected. Additionally, elements from STAP's guidance on climate risk screening have been utilized. For further details on the guidance and how it has been matched with the LRF's vulnerability framework please refer to Appendix 11. Climate Risk Screening: LRF's vulnerability assessment.

In the LRF's preparation to select SMEs with climate-resilient practices, a **vulnerability assessment** will be carried out considering the SMEs' context of adaptation which covers the analysis of anticipated climate-hazards and the local vulnerabilities. Vulnerability will be evaluated through the elements that contribute to it. namely **exposure** (climate-related hazards) and the **potential impacts** (i.e., socioeconomics well as **the factors that contribute to sensitivity and their capacity to adapt** (IPCC, 2014) (please refer to Figure 6 to see the Framework and the elements that are considered in this assessment)**.** This assessment will help to better comprehend the context of the cause-and-effect relationship behind climate-related hazards and the impacts on SMEs, their communities, and landscapes they live in.

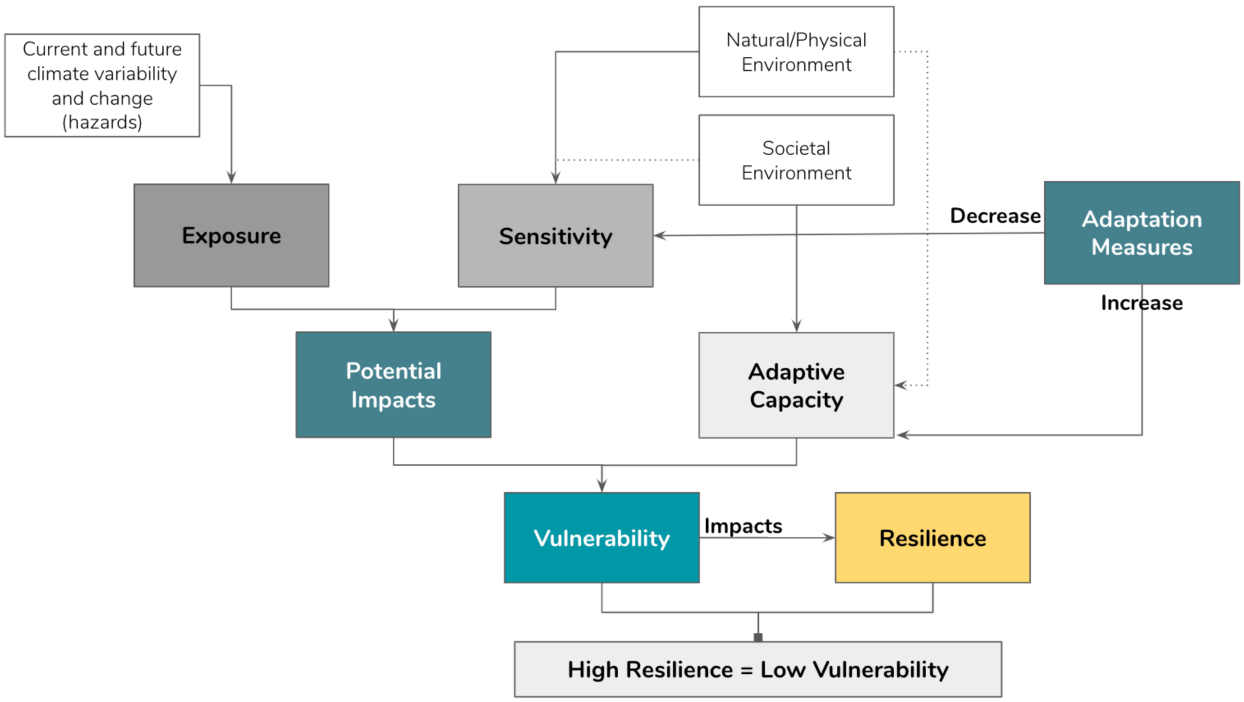


Figure 6. Components of vulnerability and its relation to adaptation measures and resilience. Source: Frietzsche et al. (2014) based on the IPCC's AR4 and AR5 approach to vulnerability (IPCC,2007, 2014) modified with added components (adaptation measures and resilience).

Where in the LRF's Due Diligence (DD) process does this vulnerability assessment happen?

Given that this GEF Project is expected to occur on the third step of the LRF's process, due diligence full, by the time the pre-investment services' process starts, this vulnerability assessment is planned to be completed. This is reflected in the yellow circles in Figure 7.

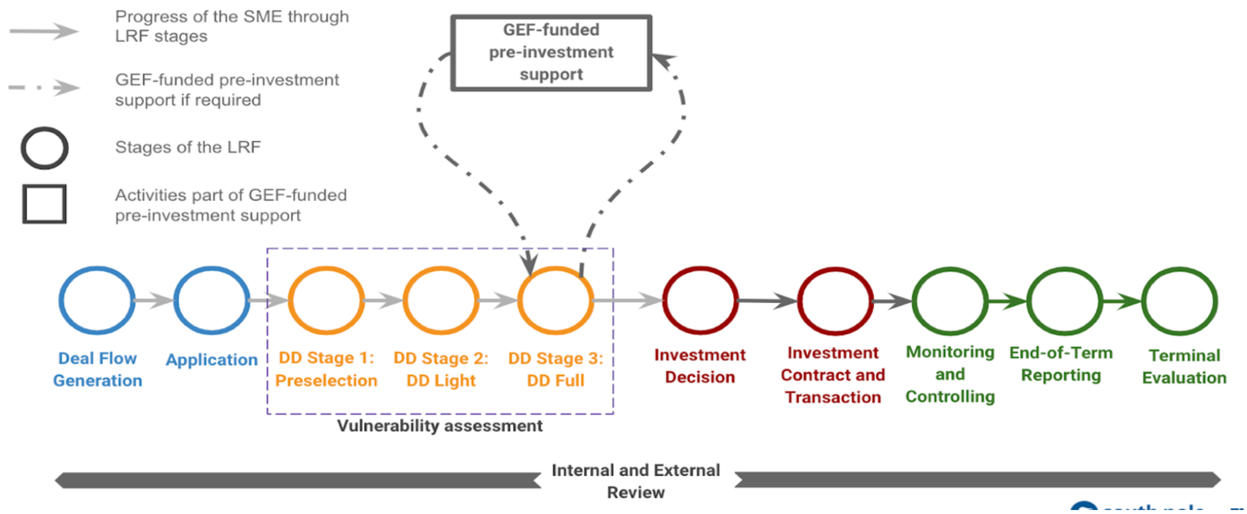


Figure 7. Journey of an SME through the LRF process and where this vulnerability assessment takes place (3 due-diligence steps).

3.6.1 Proceedings of this Vulnerability Framework

The LRF's vulnerability assessment has been adapted to the steps provided by STAP's climate risk screening guidance. The vulnerability assessment follows a mixed-methods approach by combining a top-down and bottom-up approach (Figure 8) for the compilation of information (exposure, sensitivity, adaptive capacity) that will lead to a more realistic assessment of the SMEs risks and their vulnerabilities. This process is also a combination of a data driven approach with a qualitative, expert-based approach and local knowledge. The importance of this lies in the fact that a vulnerability assessment is a highly participatory process, given that it is a result from indications of causes and magnitudes of specific climate-related hazards and impacts and risks for a specific region and location, specific sectors and/or specific groups of people. Figure 8 summarizes the process of the screening, compilation and analysis of data and information, that finally leads to the assessment and the search for recommendations.

Uses for this assessment (outputs):

- **Identification of current and potential drivers of sensitivity and exposure**: the assessment will allow the Project to better understand the factors that drive the vulnerability of SMEs and their communities as well as the landscapes they are in.
- **Identification of entry points for intervention:** information on the factors underlying a system's vulnerability which will serve as a starting point for identifying suitable adaptation interventions on sustainable agriculture and forestry as well as other nature-based solutions (NBS).
- **Tracking changes in vulnerability:** use vulnerability assessments to track changes in climate change vulnerability over time.
- **Monitoring and evaluation of adaptation**.

These outputs are reflected on Figure 8 as the white squares and how it fits in each step of the vulnerability framework's process to collect information.

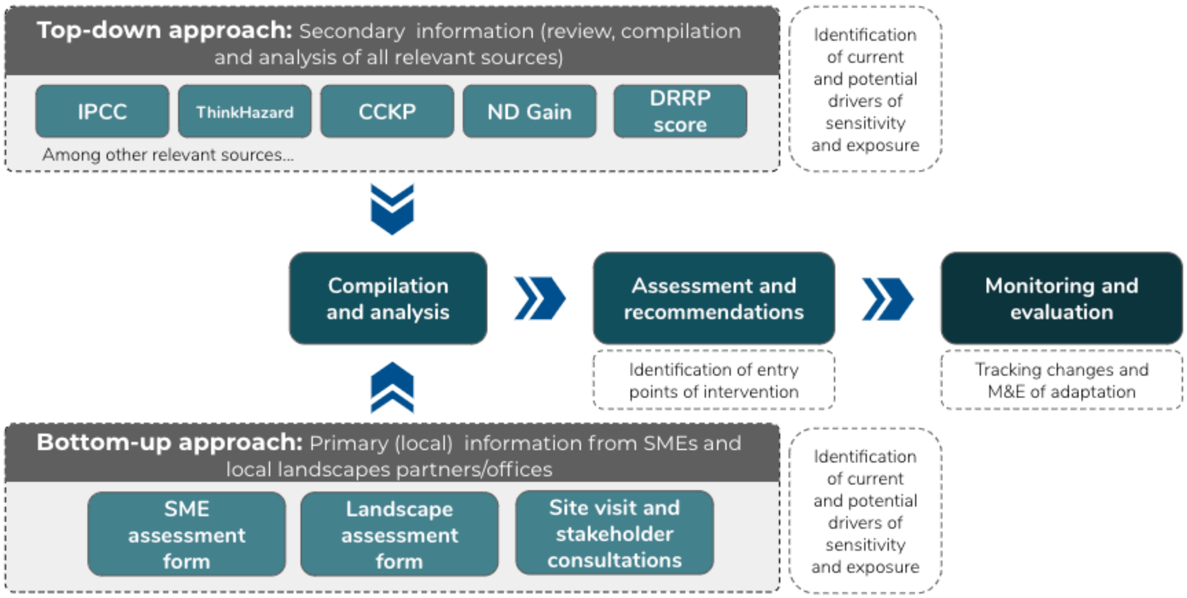


Figure 8. Mixed approach (top-down and bottom-up) and process of analyzing information for the LRF's vulnerability assessment.

When an SME is identified as a potential investee or they have presented some interest in the LRF, both primary and secondary data will be collected (Figure 8). Firstly, as a primary source of information (bottom-up approach), an "*SME assessment form*" will be sent to the interested SME. This form collects some initial and important information (such as current and potential exposure, as well as factors that can lead to sensitivity) and where climate-related hazards that threaten the SME and their community are determined.

Secondly, once this SME has been identified and as part of the top-down approach (see bottom part of Figure 8), an analysis for the level of exposure/potential impacts, sensitivity, and adaptive capacity for the SME's region/location will be carried out. This includes searching, assessing and gathering information on climate change vulnerability and identification of main climate-related hazards (will be later matched/compared with SME's response). This information will be appropriately analyzed and stored for further comparison.

Sources of information to be reviewed include but not limited to:

- USAID's Climatelinks
- The University of Notre Dame's ND-GAIN and collecting the information on:
    - ND Gain - Vulnerability
    - ND Gain - Readiness
    - Worldwide ranking by ND-GAIN Index.
    - Country Index Rank
- The Climate Change Knowledge Portal (World Bank)
- Disaster risk reduction progress score (World Bank)
- Climate Risk Index (CRI) (Global Climate Risk Index 2020)
- National Adaptation Plans (if relevant and when available)
- Any other databases/references according to the need for information. Other sources of information to consider:
    - national communications and adaptation plans studies on socio-economic, environmental and development issues
    - IPCC reports and national studies on climate change information portals

3.6.2 Steps for the Vulnerability Assessment

Identification of current and potential drivers of vulnerability

- **Climate-related hazards (exposure)**

Based on the information provided by the IPCC and the impacts projected for the regions of interest, the relevant climate-related hazards were selected and "re-categorized" on two levels: the first level which groups *climate-related hazards* as such and a second level of *derived hazards*, from the possible combination of the first level (keeping in mind they could vary given the context of the location) (Figure 9). For the first level these are: **extreme precipitation, low precipitation, high temperatures and storms**. The second level are: **floods, droughts, water scarcity, forest fires, increase in annual pests and sea-level rise.** Figure 9 presents the two levels of hazards with an additional column showing how these could lead into socio-economic impacts.

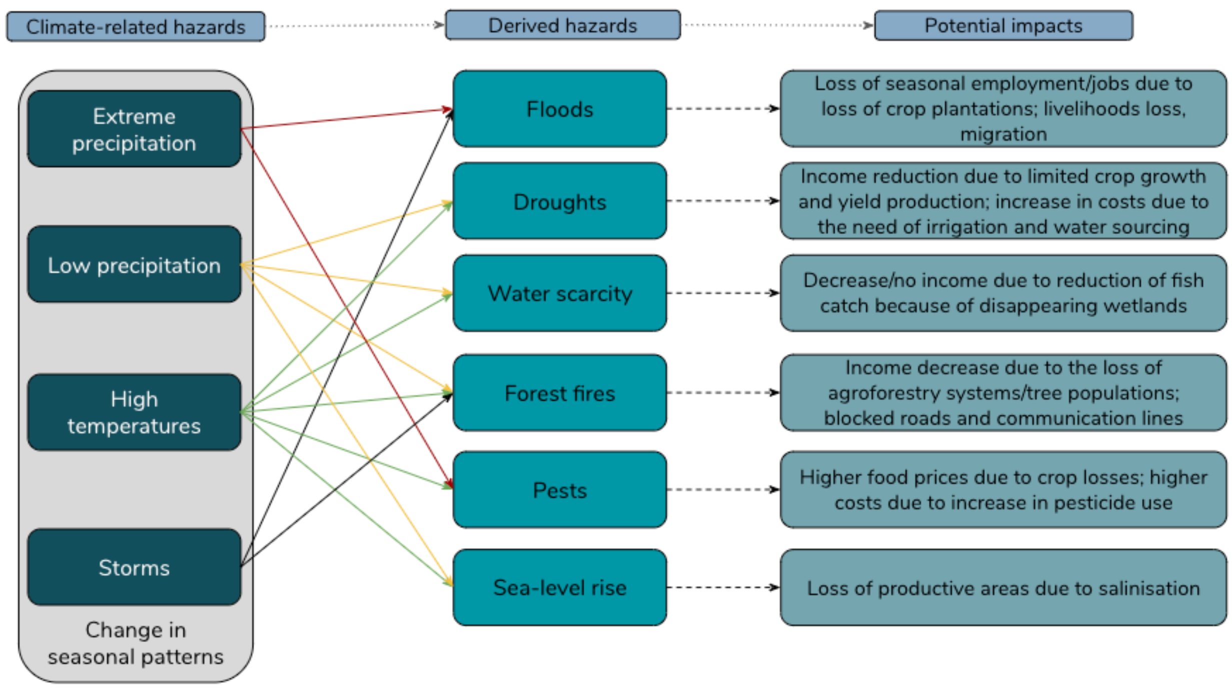


Figure 9. Expected climate-related hazards, derived hazards and associated (potential) socio-economic impacts.

As mentioned before, both hazards' categories will be identified through the direct responses from the SMEs (with the SME assessment form) and through the revision of relevant data and information. According to the responses and projections, these hazards will be recategorized based on the first and second level categories established for the Framework (Figure 9). In

Table 27, an example has been provided for Ghana (location of the case example on Box 2) of how the re-categorization will proceed.

Table 27: Example of projections to a country-level for Ghana and the re-categorization of climate-related and derived hazards.

Country level	Projections climate changes - country level	Climate-related hazards	Derived hazards	Potential impacts	Drivers of sensitivity
Ghana	• Increase in average annual temperatures between 1.4–5.8°C by 2080, with the greatest increases in the north. • Increase in the frequency of hot days and nights of 18–59 percent by 2060. • Decrease in overall rainfall of 4.4 percent by 2040. More erratic and intense rainfall during the wet season and lower precipitation levels during the dry season; larger decreases in the south. • Rise in sea surface temperatures by approximately 2–4°C. • Sea level rise of 75–190 mm by 2100 -> sea level rise of 300 mm would permanently inundate 20,000 hectares, decreasing coastal farmland by more than 3 percent.	• High temperatures • Low precipitation	• Sea level rise • Floods • Droughts	• Flooding has caused significant damage and loss of life in Ghana in recent years • Farmers giving up cocoa or losing their crop to drought	• Deforestation - rate: at 3.2% per year (one of the highest rates in Africa) • Inequitable progress on poverty reduction • Gender inequality • High dependence on agriculture for livelihoods • Weaknesses in the health care system

- **Sensitivity and adaptive capacity**

As presented in Figure 8, through the mixed-methods approach, the combination of top- and down-approaches to retrieve information on vulnerability through the elements that contribute to it, namely sensitivity, exposure and adaptive capacity will be used. This will be obtained through primary information that will be from the SMEs (through the above-mentioned *SME application form*) as well as from secondary information that will be obtained through conducting the screening, review, analysis and collection from sources that can provide relevant information from the SMEs' location on climate-related hazards (current and future) and vulnerability elements (drivers of sensitivity, adaptive capacity and if possible, potential impacts).

Sensitivity

What are the characteristics of the landscape and their related stakeholders / ecosystems, which make them less exposed/sensitive to adverse effects of the changing climate threats/impacts?
The contributing factors to be considered when analyzing sensitivity:

- human,
- social,
- financial, and
- natural elements

How have the landscape's related stakeholders / ecosystems been affected by climatic changes?

Adaptive Capacity

What measures are already in place in order to reduce the identified risks and vulnerabilities?
The contributing factors to be considered when analyzing sensitivity:

- Income
- Education
- Social networks
- Knowledge
- Technology
- Institutions
- Economy

If there are certain components that were not possible to be analyzed through the SMEs' answers and the analysis on secondary data (or information is not available), a further approach to the SMEs will be necessary to clarify these points, or an approach to the identified relevant stakeholders, i.e., through online meetings, additional questionnaires, etc.

Risk Rating

This assessment considers rating the risk based on STAP's climate risk screening guidelines, 2019. Based on the information collected and analyzed before, the risk will be given a rating depending on the level of hazards threatening the SMEs and their communities, the number of factors that lead to sensitivity and level of adaptive capacity. Once risk has been rated, ameliorative actions are identified and prioritized through the creation of risk management plans. Risk management includes actions, strategies, or policies to reduce the likelihood and/or consequences of risks or to respond to consequences. It is also important to confirm that these adaptation interventions do not themselves result in additional risks.

- **Very high risk**: The outcome of the project will be jeopardized by climate change, with a potential for severe impacts of significant irreversibility. Climate-related risks are likely to result in financial, environmental and/or social underperformance or failures. Adaptation measures are likely to be ineffective, extremely costly, socially unacceptable or increase risk and reduce resilience. Adaptation limits may be reached, or loss and damage will occur.
- **High risk**: There is a potential for widespread impacts from climate change. Outcomes may be undermined by climate change, and adaptation measures may not be readily available. Financial, environmental and social underperformance or failure cannot be excluded. However, risk management activities are likely to increase resilience and adaptive capacity of households, infrastructure, communities, and ecosystems.
- **Moderate risk:** Impact from climate change may occur, but will be limited, transient or manageable. Financial, environmental and social underperformance or failure is unlikely. The system has the capacity to manage volatility, shocks, stressors or changing climate trends.

- **Low Risk**: No impact from climate change, or even positive impact, is expected based on best available science. Financial, environmental and social underperformance or failure appears very unlikely.

Identification of entry points for intervention and recommendations

The collected information in the previous steps as well as the identification of the risk-level should contribute in responding:

- Are relevant data and information available on climatic risks and vulnerabilities? i.e. is further research or analysis needed?
- Is baseline clear? i.e. exposure to climate risk today and in the future are clearly identified for the region.
- How do the SMEs' (proposed) activities address one (or several) of the identified climate threats?
- Are major drivers and directions of climatic and non-climatic changes and their inter-relationships understood and taken into consideration for the project design?
- What set of adaptation practices and strategies are additionally needed?
- Are further training programs needed in order to build the adaptive capacity of the SMEs and their communities?

Following the information analysis on the factors underlying the SMEs' vulnerability, there will be an identification of suitable adaptation interventions **on sustainable agriculture and forestry as well as other nature-based solutions (NBS).**

There are many ways of categorizing adaptation options, but identifying the needs stemming from climate change risks and local vulnerabilities can provide a foundation for selecting and categorizing adaptation options (IPCC, 2014). Therefore, the LRF has identified these three main categories as a way of re-grouping the different potential adaptation practices and strategies that can be recommended based on the context (and location) of the SME. From the literature reviewed so far, it is expected that the proposed categories will further contribute to either strengthening the adaptive capacities or reducing vulnerabilities, as some of the compiled projects and examples address particular climatic threats (or a combination of them). These entry points will allow, for example, an easier identification of potential projects that the SMEs could incorporate into their planning or to strengthen their proposed activities/interventions. Additionally, it could also be used when providing pre-investment support to strengthen or improve anticipated impact of climate adaptation technologies and measures.

Finally, this process will also allow identifying the points where the pre-investment services (direct services and zero-interest loans) can be provided. Among others these can be:

- improvement of anticipated impact of climate adaptation technologies and measures
- improvement of social and environmental co-benefits to reduce related risks
- building training programs for farmers to strengthen their adaptive capacity.

3.7 Consistency with national priorities or plans

This Project aims to support SMEs practices that are aligned and support the implementation of the NDCs, and therefore, this alignment will be part of the Selection Criteria (Appendix 7). However, according to the Adaptation Gap Report (UNEP, 2018), only 40 developing countries have quantifiable adaptation targets in their current NDCs, and many existing targets are relatively short-term and do not look beyond 2020.

Therefore, the SME selection criteria will also include reviewing other country-level adaptation tools and instruments, such as the NAPAs and NAPs.

At least half of GEF-funded activities will be directed to SMEs proposals in LDCs. These countries are encouraged to develop NAPAs as a tool to support them in addressing the challenge of climate change given their particular vulnerability. NAPAs are action-oriented, country-driven, flexible, and based on national circumstances and provide an identification of priority activities that respond to their urgent and immediate needs with regard to adaptation to climate change. Therefore, the NAPA document presents a list of ranked priority adaptation activities/projects, as well as short profiles of each activity, and is designed to facilitate the development of project proposals for its implementation.

SMEs that bring proposals for implementation in LDCs to the LRF, will be cross-referenced with the respective NAPA in the due-diligence process to guarantee that the climate-resilient practices that will be supported are aimed at a country-level adaptation priority. According to the UNFCCC, most LDCs are currently in the process of implementing their NAPAs.

Tools used by the Fund Management Team in developing the due diligence process include:

- currently submitted NAPAs in the UNFCCC's web page: https://www4.unfccc.int/sites/NAPC/Pages/NationalReports.aspx;
- NAPA priorities database: https://unfccc.int/topics/resilience/workstreams/national-adaptation-programmes-of-action/napa-background; and
- status of NAPA implementation under the LDCF: https://unfccc.int/topics/resilience/workstreams/national-adaptation-programmes-of-action/ldc-napa-projects.

For those SMEs with proposals directed to developing countries, the NAP will be the best approach for identifying adaptation priorities. Through their NAPs, countries identify medium and long-term adaptation needs, as well as strategies and programs to address those needs. NAPs are developed under a country-driven, gender-sensitive, participatory, and fully transparent approach. Therefore, NAPs will be the best tool to cross-reference SMEs practices in developing countries, against their priorities and needs.

The Fund Manager team will be able to consult NAPAs submitted to the UNFCCC in:
https://www4.unfccc.int/sites/NAPC/News/Pages/national_adaptation_plans.aspx

In case the due diligence process finds that more information is needed to decide whether the SME proposal is well aligned with national priorities, other country-level documents can be consulted, including the National Communications through the BURs that have been presented to the UNFCCC. The Fund Management Team can consult BURs submitted to the UNFCCC in here: https://unfccc.int/BURs

Finally, if all of the above fail to demonstrate the alignment between the SME practices and national priorities, the SMEs might be asked to demonstrate evidence of government engagement and support in order to be selected. As these types of documents are very difficult to obtain, this will only be required in cases where the SME proposal has not been clearly identified as a national priority through the tools included in the due diligence process and described above.

3.8 Innovativeness, sustainability, and potential for scaling up

Innovation: GEF financing will mobilize private-sector investment in adaptation at scale through investment approach for the preparation of investment-ready climate-resilient practices, based on revolving zero-interest loans and delayed payments for pre-investment services. To best knowledge of the project preparation team, currently, there is no adaptation fund or funding mechanism that uses an investment approach for project preparation. The innovation itself also implies some risks, given the novelty of most adaptation-related interventions, there is a likelihood that some but not all of the investments will be paid back (see section 3.4 – Risks and Proposed Mitigation Measures).

Further, the LRF includes several innovative elements including:

- the focus on SMEs as drivers of change for climate resilience;
- the use of a revolving structure for most investment activities, ensuring longer term sustainability of the funding base;
- the landscape-level approach for an adaptation fund; and
- the integration of adaptation interventions into multinational corporates' supply chains, enabling a long-term funding model for adaptation that is independent of public finance.

Sustainability: the LRF is built around the premise that sustainability and lasting impacts can only be achieved through viable business models embedded in landscapes, and this GEF Project will facilitate that the LRF accompanies SMEs on their pathway to financial profitability. Therefore, all activities of the Fund will be developed with financial sustainability in mind, so every SME has to show that it can run the climate-resilient practices on a commercial basis after initial support. The LRF's pre-investment services window will be designed so that the selected SMEs' will be able to continue their practices even after the LRF exits from the investments, as they will generate financial returns to continue operation beyond the LRF support.

Long-term sustainability is also promoted through reflows from the zero-interest loans and the delayed payments for pre-investment services. These reimbursements will be agreed upon with the SME according to the expected revenues and in terms of a share of actual revenue. Once the SME reaches the implementation stage for its activities (beyond the three-year scope of this Project) and starts generating profit, a share of its revenue will be reimbursed to the LRF Foundation. These reflows will allow for re-investment over time, after the GEF Project has finished its three-year term. Any reflows will be flowing into the LRF Foundation and will be transparently accounted for to make sure they are reinvested in investment readiness activities for other SMEs.

The LRF will also foster a strong culture of knowledge sharing, as knowledge management is core to the overall programming strategy that contributes to the sustainability and replicability of direct results. The LRF has a strong network of stakeholders and partnerships, including other projects under the GEF's Challenge Program for Adaptation Innovation through which it will share its knowledge and experience, guaranteeing the sustainability of the Fund. The close collaboration between the Fund and its partners will contribute to the sustainability of the activities beyond the LRF.

Scalability: the LRF aims to structure projects so they are investment-ready and accessible to investors, and to demonstrate the potential for replicability and scalability.

By investing USD 1.14 million for sustainable processes and TA for private investment into SMEs with climate-resilient practices, GEF funding would help mobilize up to USD 25 million (of which USD 12.5 million over the three-year Project lifetime) in corporate investment into climate-resilient practices and substantially reduce the vulnerability of smallholder farmers and indigenous peoples in developing and emerging countries. Actual realized positive impacts will be multiple, as the Fund is planned to scale up to USD 60 million in five years, and project success will be used for building further capacity.

As the Fund is built on a strategic multi-stakeholder partnership that brings the public sector, NGOs, local developers, and international corporates and investors together, it has the potential to catalyze larger scale financing by building a successful business case.

3.9 Lessons learned during project preparation and from other relevant projects

This section summarizes the main lessons learned so far during the Project preparation phase as well as the conclusions drawn from the analysis of lessons and best practices shared by similar projects and organizations in the adaptation and resilience sector through open publications (please refer to Appendix 1). Lessons, inputs, and feedback gathered through ongoing stakeholder consultations have been summarized in section 2.4.4. The conclusions described below (Table 28) will be updated as new information comes to light through ongoing desk research during the Project design stage.

Table 28: Key lessons learned from the literature review and stakeholder consultations and their consideration in Project design and implementation

Key lesson	Consideration/application to Project design and implementation
Lessons and best practices from literature review	
Flexibility in the types of assistance provided is key. This also depends on the diversity in the portfolio of the Fund that might hold companies at different stages of maturity and in different sectors and geographies.	To ensure flexibility, the exact type of pre-investment services provided to SMEs will not be predefined during the Project design stage but rather determined during the Project implementation stage. This would take place under Component 1, where the intervention strategy to improve the quality and investability of the SME will be developed considering the level and type of assistance it requires.
Measurable KPIs are needed to establish effectiveness of the activities of pre-investment assistance to determine whether they deliver a measurable impact that manifests in a relevant timeframe**.**	The Results Framework of this GEF Project has several indicators to measure the performance of the Project, and hence, the effectiveness of the pre-investment support extended through this Project. In particular, the effectiveness of the pre-investment services will depend primarily on the ability of the SMEs to perform well against the LRF selection criteria after receiving the services and secure investment from the LRF and/or other private sector investors for their climate-resilient practices.
Recipients of the assistance should be required to share responsibility for costs of the interventions	Component 1 of this Project, ensures that the assistance provided to SMEs is (partially) reimbursed

Key lesson	Consideration/application to Project design and implementation
to: (i) ensure that they are engaged and that assistance activities are valued by the recipient; and (ii) ensure positive financial and developmental additionality.	if they are able to secure investments, generate cash flows, and earn profits as a result of the pre-investment services provided to them.
Type of assistance should be designed with respect to the size of the recipient company. Micro-businesses (revenue < USD 10,000) should receive training specific to target stakeholder groups of the business; small businesses (revenue < USD 5 million) should primarily receive assistance focused on improving operational capacity of the business; and medium enterprises (revenue about USD 5 million) should receive assistance for running pilots and scaling businesses to new geographies and sectors.	The type of pre-investment services provided to SMEs will be tailored based on their size and specific requirement. Since the potential investees of the LRF are primarily small and medium enterprises, the type of services will therefore mainly target core business operations (for small businesses) and for running pilots and market testing (for medium enterprises). However, this can change on a case-by-case basis as per the specific needs of an SME.
Delivery of the pre-investment support should effectively combine internal, external, and local, regional, and international consultants. Ensuring best fit is key. In-house abilities enable the timely delivery of support and local service providers contribute to long-term capacity building.	South Pole will offer best-in-class pre-investment services to the SMEs, wherever possible, by making use of its in-house capabilities and expertise. This will also reduce time-delays. In the absence of relevant expertise, South Pole will hire local and/or international consultants or will allow the SMEs to do so directly. In any case, the best fit between the requirements of the SME and the expertise of the consultant will be ensured.
In case of integrated facilities, the engagement between the TA team, project selection committee, and the investment committee of the Fund is a key factor. This ensures that the assistance provided is highly relevant with respect to the challenges faced by the investee and the investment criteria of the fund. Also, since it takes time to ensure that the project fits the investment criteria of the Fund, it is important to involve it early on during design of the assistance activities.	Effective communication and early fund participation is ensured since (i) SME's selection to receive pre-investment services is a part of its due diligence for the LRF itself and only those SMEs that fit well into the LRF investment criteria are selected; and (ii) South Pole in its role as Fund Manager for the LRF also fulfills the role of the PMU (a counterpart to the TA Team) and the Technical Committee (selection committee).

Key lesson	Consideration/application to Project design and implementation
Lessons and best practices from Project preparation by the Project team	
Screening for SMEs' climate-resilient practices in developing and LDCs is a challenge.	Generate alliances with other accelerators, investment promotion agencies, or local financial institutions
SMEs in developing and least developed countries commonly require very small loans (lower than USD 200,000), which generates high transaction costs.	Consider the involvement of a local financial institutions (banks and non-banking financial companies) to reduce transaction costs
Activities regarding capacity building should not expect the same number of male and female beneficiaries, as gender gaps in developing and least developed countries are bigger, which translates to fewer women involved in SMEs. However, it is critical to ensure gender equality in all Project activities.	Gender action for this Project will promote an equal representation of gender amongst all adaptation beneficiaries (see section 3.1) expected for GEF-funded activities.

Further lessons generated during Project design will be added to the table above.

SECTION 4: TECHNICAL APPENDICES

Appendix 1. Literature review of lessons and best practices

Each section of this appendix briefly presents some of learnings shared by other entities active in the adaptation sector and may be applicable for the development of this GEF project. Sources of this information are open publications. Please refer to section 3.7 for the main conclusions of this exercise and an explanation of how the conclusions have influenced Project design.

Designing Technical Assistance Activities for Adaptation and Resilience Companies (Hallmeyer, K., & Tonkonogy, B., 2018)

This working paper by Climate Policy Initiative (CPI) looks at two case studies to explore the barriers faced by adaptation and resilience companies and also draws lessons from a study of 41 TA facilities to understand lessons that can be drawn for adaptation and resilience. Further, they applied the research to design a potential TA facility for adaptation and resilience companies; particularly focusing on resilience analytics.

CPI is Secretariat to the Climate Finance Lab (the Lab) and has supported the Lab and the Lightsmith Group (fund manager) in developing the concept of a commercial investment vehicle (Fund + TA facility) called the CRAFT. It is a USD 500 million global private equity fund plus a USD 20 million TA facility.

Key learnings

- A well-structured TA can mobilize public and private finance by reducing investor risk and creating a pipeline of new investment opportunities.
- **Flexibility in the types of TA provided by the facility is key.** This also depends on the diversity in the portfolio of the fund that might hold companies at different stages of maturity. A wider range of sectors and geographies represented in the fund also create the need for TA activities tailored to needs.
- Activities of the TA should deliver a measurable impact that manifests in a relevant timeframe**. Measurable KPIs are needed to establish the effectiveness of the activities.**
- A TA facility that is established to support companies alongside an investment vehicle should **aim to support companies over the lifetime of the associated fund**, as companies require different types of interventions at different stages. **It should seek out opportunities for SMEs to continue to recieve TA after TA support from a given facility is anticipated to end.**
- Because establishing a TA facility can be as difficult as establishing a fund, **delays in operational design should be considered** and mitigated by establishing the facility ahead of time.
- **The design of the TA facility should consider the in-house abilities needed of the facility to deliver timely support.** For example, direct company support might be best provided by a core TA team to avoid delays, while activities that address context barriers can be outsourced to third parties.

- **TA facilities should require the recipients of TA to share responsibility for costs of the intervention** to ensure that they are engaged and that TA activities are valued by the recipient. Mechanisms for cost sharing can be either upfront payment or payback via zero-interest loans.

Recommendations for the design of a TA Facility

The focus of this document is on supporting resilience intelligence and analytics technology companies but can be extended to others:

- **to address key barriers, the Facility should offer three support lines: Preparation, Partnerships, and Resilient Systems**. **(i)** The Preparation support line could focus on discrete tasks to address internal capacity gaps and business model barriers to a company's developing country expansion. **(ii)** The Facility's second business line, Partnerships, should focus on building partnerships to indirectly support market development. This can have a larger catalytic impact on the broader market by facilitating the knowledge and linkages required to build a resilience ecosystem. **(iii)** A third support line, Resilient Systems, should undertake discrete, one-off activities to support systemic changes. See *Figure 10* below.

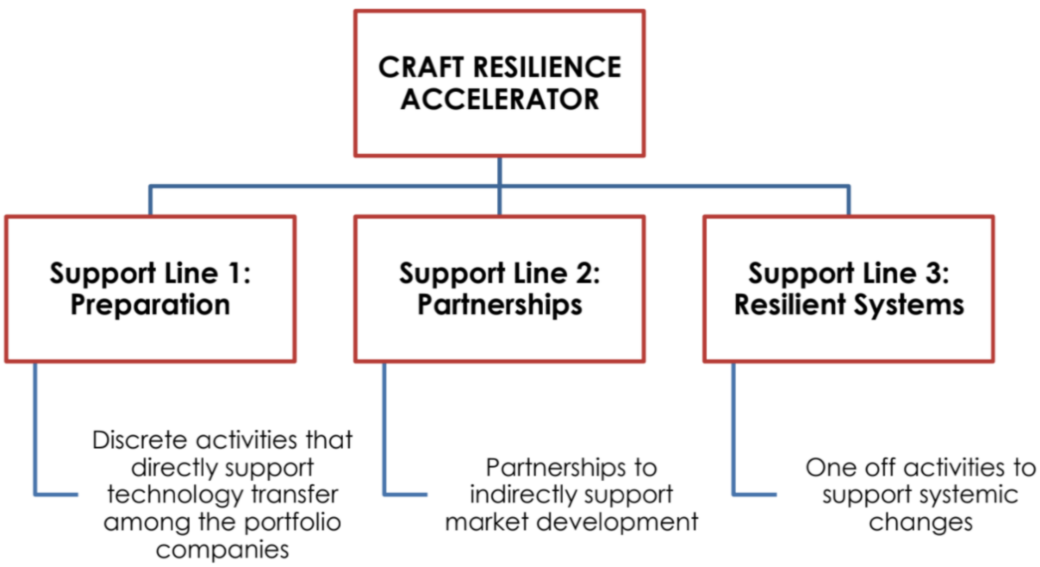


Figure 10: Structure of the CRAFT TAF 'CRAFT Resilience Accelerator' based on CPI's recommended design on a TAF that includes three support lines

- **Governance: (i) at a minimum, all preparation activities (Support Line 1) are managed by the Fund Manager.** This would enhance efficiency and ensure alignment with the needs of fast-moving portfolio companies as they enter into new markets. **(ii) Support Lines 2 and 3, Partnerships and Resilient Systems, should be connected to the Fund to ensure impact and relevance.** They could have a different governance structure, but the Fund Manager must have a key role in governance. **(iii)** Once the governance structure is established, eligibility criteria for activities and geographies need to be determined to ensure additionality and reduce the potential for market distortions.

Other learnings/inputs

Types of TA Facility models: See Figure 11 below.

Model	Properties	Example
Venture Capital (VC) Model (integrated)	**Provides TA as fully integrated service of a fund** • TA funds are managed by fund manager as part of regular portfolio management • Services can be covered by management fees or by a grant pool • Services are solely related to investee companies • Used with small portfolio of companies	• Grassroots Business Fund (GBF) • BainCapital Double Impact Fund • Ethos
Standalone Technical Assistance Facility (TAF) (Independent/ linked)	**Provides TA through an independently managed facility** • Funded by grant funding other than fund investors • Managed independently from the fund • Can be **linked** to the fund with strong co-ordination between the fund and TA facility OR can be **independent** from links to a specific fund • Specific development objectives beyond financial concerns • Funds projects related to investment activities when fund management fees are insufficient to cover services as part of business as usual • Funds other activities aligned to its objectives that don't directly impact companies invested by the main fund • Services can be provided on a cost-sharing or pure grant basis	• Seed Capital Assistance Facility (SCAF) • African Agriculture Fund (AAF) • LeapFrog Investments • US India Clean Energy Facility (USICEF) • US Africa Clean Energy Facility (USACEF)
One-off activity	**Any type of activity that is financed by donors as part of a bigger TA initiative.** • Procured directly by the donor and not by the technical assistance facility • No facility is set up	• Mercer Study on Investing in a time of climate change (Mercer, 2015) • IFC Turkey Market Study (Baglee et al, 2013)
Strategic Partnership	**Private Sector Partnership or Public Private Partnership (PPP)** • Models vary • Actors with common or related objectives coordinate to leverage capabilities of individual partners for the benefit of the whole group • More common in well-developed market economies with a stable institutional and policy environment and established direct or indirect relationships between public and private actors	• Department of Energy Small Business Voucher Program • NREL Commercialization Assistance Program

Figure 11: Type of TA facility models and their properties

- **Advantages and disadvantages of the standalone TA facility: (i)** a TA facility is more flexible in its interventions and can focus on market development activities beyond investee company needs; **(ii)** by closely linking TA Facility with the Fund, it can be ensured that the support of the facility is highly relevant to investments as the facility can provide timely support with a better understanding of the challenges of investees and businesses. This also enables share of access to information (see TA facility of the African Agriculture Fund); and **(iii)** the potential risk is information and decision time lags as it will take time for information to move from the fund to the TA facility and vice versa.

- **This study finds that the standalone TA facility (and the VC model) are best suited to address the barriers related to internal capacity and business models.**

- **27 of the 41 TA facilities that were analyzed by this study focused on building internal company capacity (addressing barriers related to internal capacity).** If TA is provided before the investment it is used to bring the company to a position where it is able to receive finance via debt or equity. If TA is provided as part of the investment, or after, then it is used to reduce the transaction costs and to increase the development impact of the investment.

- **The most common barriers for adaptation and resilience companies include:**

    - ***context-specific barriers*** that prevent investments in adaptation and resilience companies: **(i)** poor policy environment in terms of insufficient clarity from government on climate change legislation and lacking information on risk; **(ii)** a poor institutional environment; **(iii)** a poor market environment in terms of lack of capital supply; and **(iv)** poor value chains and human capital;

    - ***business model barriers*: (i)** customers lack understanding of incentives and benefits of technology; **(ii)** high technology and maintenance costs; and **(iii)** a lack of technical capacity to make viable technology, and a lack of staff, budget, and access to insurance; and

    - ***lack of internal capacity*: (i)** organizational structure is not cohesive and efficient; **(ii)** lack of business capability to manage finances; **(iii)** lack of marketing capabilities; **(iv)** poor management of human resources including a neglect of training and professional development; **(v)** an inability to innovate; and **(vi)** poor operational management.

Initial insights from projects funded by the Land Degradation Neutrality Fund Technical Assistance Facility (The Sustainable Trade Initiative, 2019)

This publication by IDH shares insights from the operations of LDN TAF on the underlying business models and innovative financing structures for sustainable land management (SLM) and ecological restoration. The LDNF TAF provides grants and reimbursable grants to (potential) SLM and ecological restoration investment projects to improve technical quality and strengthen environmental and social impacts, enabling the investment project to meet the LDN Fund investment criteria. The TAF also supports projects post-investment to reduce project risks and increase positive social and environmental impacts, as well as to better monitor their impacts and practice adaptive management more effectively. The publication shares insights into the underlying business models and innovative financing structures for SLM and ecological restoration.

Key learnings

- Even though the project developers of the above projects exhibited the analytical capability and business mindset required for investment by impact funds, grant support is needed to help build the investment case and implementation of these projects.

- Project developers require additional external support for monitoring of project performance against environmental and social indicators and adaptive management.

Other learnings/inputs

- **Project 1:** Komaza, smallholder forestry (timber) in Kenya; pre-investment

    - **Financing:** equity financing to grow operations

    - **Risk mitigation strategies applied by the project:** **(i)** deploying a proven micro-forestry business model that allows for the widespread distribution of risks and attracts investment from prominent donors and investors; and **(ii)** using technology for risk reduction in operational management (ex: applications that integrate day-to-day operations and farmer data) reduces risks associated with a project.

    - **TA used for:** **(i)** benchmark analysis of the costs against large plantations to ensure cost effectiveness; **(ii)** quantification of operator's intellectual property/technology to assess the value that can be derived under different growth scenarios to increase project attractiveness; and **(iii)** feasibility studies for expanding project's operations and assess the environmental impact and market potential of the expansion model.

- **Project 2:** Fairventures Social Forestry, community agroforestry (timber) in Indonesia; pre-investment

    - **Financing:** blended finance or grants, soft loans, and patient equity to establish proof of concept; debt financing for scaling operations

    - **Risk mitigation strategies applied by the project:** **(i)** direct supply agreements with industry partners to reduce offtake risks; **(ii)** satellite and drone mapping for land area selection, monitoring, and control; **(iii)** diversification of revenue streams between timber, non-timer crops, cash crops, and carbon credits; and **(iv)** direct support from communities in the social forestry scheme.

    - **TA used for:** **(i)** selection of most appropriate (shorter rotating) cash crops with strong market linkages to ensure offtake and improve cash flow, thereby shortening the payback period and attracting investors; **(ii)** identification of best-practice soil preparation and fertilizer options to optimize yield; **(iii)** field testing with identified crop and fertilizer options and soil preparation under local conditions to strengthen business case; **(iv)** disseminate best-practices post-harvesting; and **(v)** financial modeling of the impact of an intensified cash crop approach under the current model.

Lessons learned from African Agriculture Fund's (AAF) Technical Assistance Facility (TAF) (African Agricultural Fund, 2017; AAF TAF, 2018)

This report marks the fifth year of the AAF TAF and reflects on the progress of 42 projects implemented to date through TA to 10 AAF portfolio companies.

About AAF: *the AAF is a USD 246 million private equity fund with a 10-year life that seeks to address food security in Africa by investing in high-potential agri- and food-related businesses involved in the food value chain. The AAF was linked to a TAF that aimed to increase the impact of the portfolio companies receiving investment from the AAF.*

About TAF: *the TAF had a mandate to increase economic and physical access to food for low-income Africans by providing TA to the portfolio companies of the AAF. The objective of TAF's projects was either to strengthen companies' core operations by delivering consulting expertise to enable them to grow, and hence, contribute to food security, or to facilitate the implementation of new business models that extend their reach to poor consumers, producers, or employees through 'inclusive business' initiatives.*

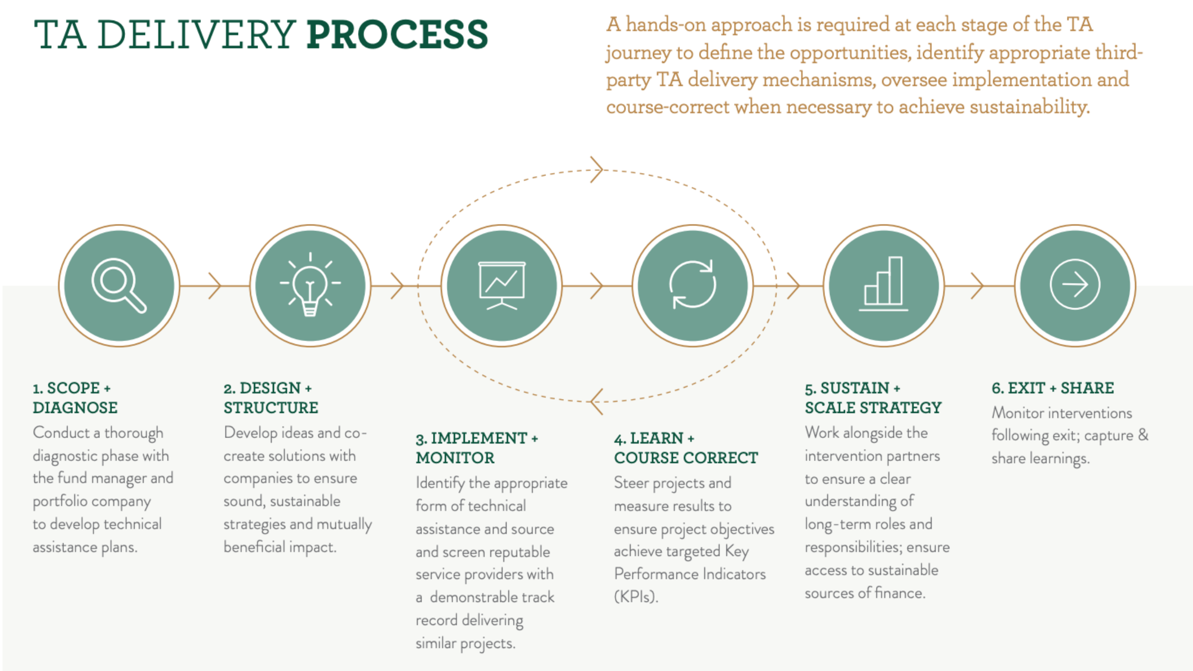


Figure 12: TA delivery process for the AAF

Key learnings

- **Designing TA:**
  - In the case of long-term support, TAF's experience has been that regular short injections (monthly or quarterly) of advice are more beneficial than a one-off consultancy.
  - **TAF carried out significant research in its early years to build a database of trusted service providers**, which allowed for an efficient means for matching these providers to projects rather

than having to screen for competency for each tender. Most common service providers are regional consultancies followed by individual consultants and then local companies.

  - **Ensuring that a project has the best fit of service provider is critical to success**; this is a common lesson drawn from other TA facilities. TAF has had an occasional mismatch on this front: consultants do not necessarily have complete knowledge on a given project's local context (one project had a disastrous harvesting failure as a result).

  - **Resolving cultural differences arising between consultants, NGOs, and the private sector is key** for forging long-term relationships and the role of the TAF team is crucial.

  - TAF recognizes the **importance of selecting local service providers** to contribute to long-term capacity building.

  - **Flexibility and the timing of TA support are key.**

- **Oversight and delivery:**

  - Sourcing and oversight of technical expertise regionally and internationally is a key element of a TAF's value addition to a fund's portfolio companies.

  - It is important to have a TAF team that has experience in development and the private sector and has strong characters who are confident in developing relationships.

  - It is generally understood that taking an inclusive business idea (addressing the needs of stakeholders at bottom of pyramid (BoP)) from conception to scale is at least) a 10-year journey and any kind of intervention based on innovation that speeds up the process is highly encouraged.

- **A diversity of projects – underpinned by the same core principle – yields more chances for TAF to cross-fertilize ideas** between industries and geographic contexts and optimize business models through adaptive management.

Other learnings/inputs

- Considering the inherent risk in working with companies before the AAF's investment in it is finalized, TAF decided to focus on post-investment support. Consequently, there was a lag period between the launch of the AAF Funds and the deployment of TAF services based on an experienced understanding of investee companies.

- Matching support to the company size: TAF supported companies with annual turnover range between USD 1-200 million. **Experience indicates that the type of TA is highly relevant with respect to the size of the company.** Types of TA provided:

  - **group training (most prevalent for micro-businesses):** standard training approaches made more powerful by training of trainers to extend learning across farmer groups;

  - **core TA (most prevalent for small businesses):** strengthening of operational capacity of the AAF SME Fund portfolio companies to expand production and services; and

- **inclusive TA (most prevalent for medium and large businesses):** support AAF portfolio companies to pilot and scale inclusive business models leading to greater economic and physical access to food for BoP consumers, producers, and employees.

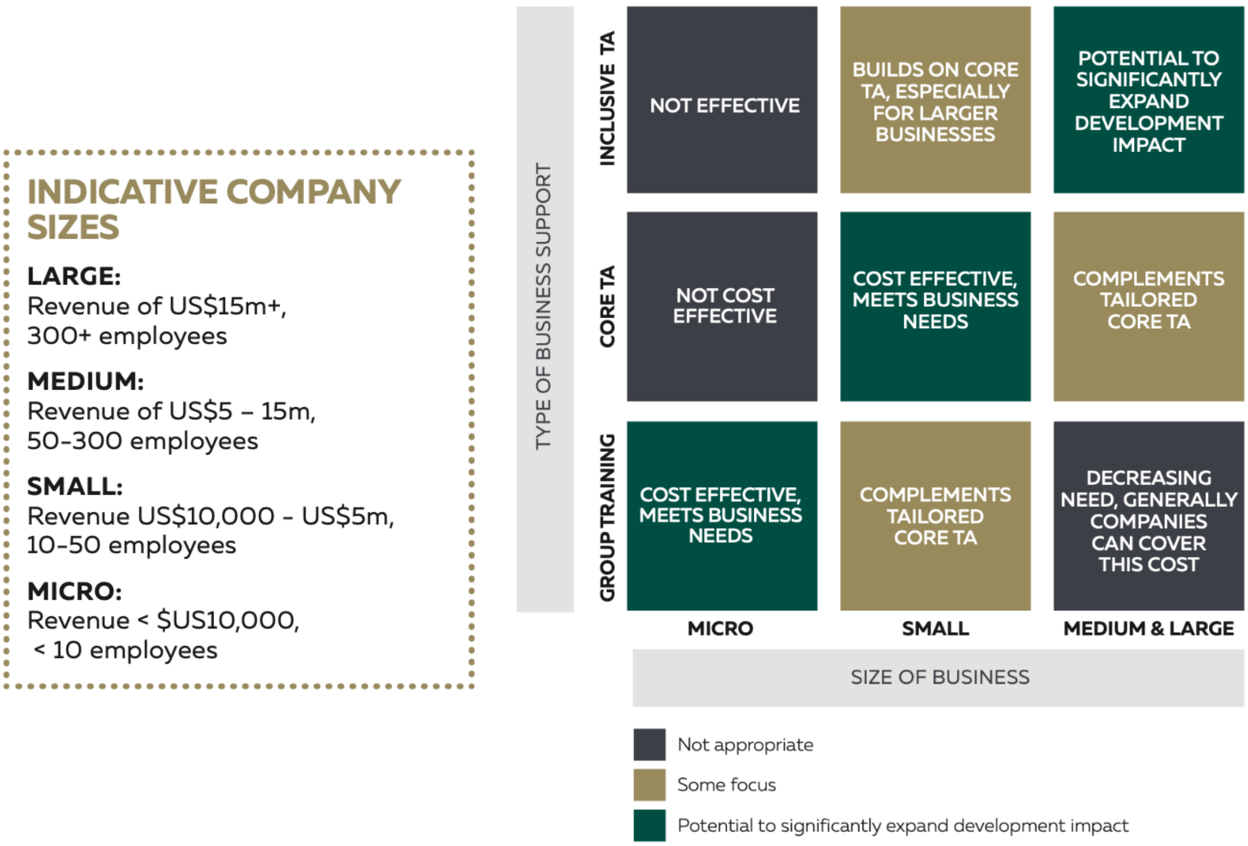


Figure 13: Company size and type of suitable business support

Transforming agriculture by linking Technical Assistance to Blended Finance for Agriculture: Trends and Lessons from Africa (Duursma et al., 2017)

This report was commissioned by IDH and AGRA. It looks into the intervention context of TA linked to blended finance for agricultural development and reviews different TA models and existing TA facilities. From the review, the report draws key lessons learned.

Key learnings:

- **Linked TA models are an effective partnership to catalyze investments in agriculture** because they often focus much more on knowledge sharing than integrated models do and are also more flexible in terms of budgetary constraints since a TA facility is not a part of the cost structure of the financing facility.

- **A TA fund needs to have clear objectives and monitor achievements of these objectives.** The key characteristics (see table above) need to be defined early.

- **The TA decision and investment decision should be made by different people to prevent any conflict of interest.** At IFC, different parties are responsible for TA and the investment. In the case of AAF TAF, TAF comes in only after investment approval by AAF.

- **Cost sharing is important to ensure positive financial and developmental additionality.** If TA is grant funded, it brings the risk of neutral or even negative financial additionality (by investing disproportionally in unviable business cases and skewing the market).

- **Pre-investment TA can play an important role in building a pipeline of investment-ready companies.** Since fund managers prefer to focus TA on businesses that they know the fund will invest in (to ensure financial returns), it is preferable that the donors to the fund finance the development of a pipeline of investable businesses, even if the eventual investment is from an unrelated source.

- **Ensure that the TA is aligned with the finance to be provided and an exit strategy is in place.** Two core aspects of an exit strategy are investor-investee alignment and the effective management of ongoing TA costs. It is important to understand the requirements of different finance providers and engage them early on to co-create solutions.

- **Flexibility is key – TA solutions should not be pre-defined.** Donors sometimes tend to define standards but if not applied to local circumstances, they might become irrelevant or have limited impact. Flexibility also means allowing the facility to seize opportunities as long as they are in line with the overall objectives and criteria. One other aspect that TAF, SDU, IFC, and AgDevCo highlighted is the need to have flexibility in terms of time. Open-ended TA Facilities ensure that delays are handled and long-term relationships are forged.

- **Fund management requires highly qualified staff. The role of a TA manager is crucial.** For pre-investment TA, the TA manager needs to be able to identify those businesses with highest chances for success, assess the biggest challenges for the company, determine which TA best addresses those challenges, develop the scope of work, select the consultant who will provide the TA, and assess the amount of subsidy that the company requires. This all needs to be done in close collaboration with the recipient company to ensure that the TA is relevant and well received. Subsequently, the provision of TA needs to be overseen and monitored, and progress needs to be discussed with the company, investor, and finance provider. The consultants providing the TA need to be evaluated and the results of the TA need to be reported. Finally, TA facilities also play a crucial role in the sharing of lessons learned to allow for a wider impact of the TA provision beyond the direct beneficiary of TA. All these activities require an in-depth knowledge of investing, business performance, the agricultural sector, consulting, and knowledge management.

- **Combine internal and external consultants and local, regional, and international consultants.** Most TA facilities acknowledged the importance of very experienced in-house staff. All parties also use external consultants. The involvement of local TA providers is key.

Other learnings/inputs

- The WEF and OECD define blended finance as '*the strategic use of development finance and philanthropic funds (concessional funds) to mobilize private capital (non-concessional) flows to emerging and frontier markets.* Blended finance has the three key characteristics of leverage (development finance, philanthropic funds, and private capital), impact (social, environmental, and economic progress), and returns (financial returns for private investors in line with market expectations).

- In this report, TA is defined as '*advisory, assistance or training to the investee business or other value chain and ecosystem actors provided either pre- or post-investment to reduce transaction costs and operational risks and increase development impact'.*

- **TA can be provided at three levels: (i)** individual smallholder farmer level (financial literacy); **(ii)** organization level (core business support); and **(iii)** enabling environment level (policies and regulations).

- **Characteristics of a TA activity or facility:**

  - **governance:** linked to a specific fund/financing facility or operate independently;

  - **timing of TA:** pre-investment (important for actors working with early-stage businesses) or post-investment;

  - **type of TA**: core business support (strengthening of the operational capacity of a company) or inclusive business support (facilitating the uptake of more inclusive business models leading to greater welfare of BoP contributing to the attainment of SDGs;

  - **risk reduction:** core business TA provided to the investee can either be designed to reduce transaction costs or operational risks; and

  - **in-house/externally sourced:** TA manager to provide TA directly or tender to other providers.

- **Additionality is an important concept in concessional finance:**

- **financial additionality:** whether concessional finance is additional to what might anyway be invested. It is important that the TA facility providing core business TA take into account the business' ability to pay for the TA, the expected effect of the TA on the business' profitability and sustainability. When providing inclusive business TA, long-term sustainability should be ensured by having a clear exit strategy; and

- **developmental additionality:** core business TA that supports the business' financial management and operations might result in more profitable business but only minimal developmental additionality. On the other hand, inclusive business TA helps businesses source from smallholder farmers, engage community, and may raise the income of several households, thereby showing developmental additionality.

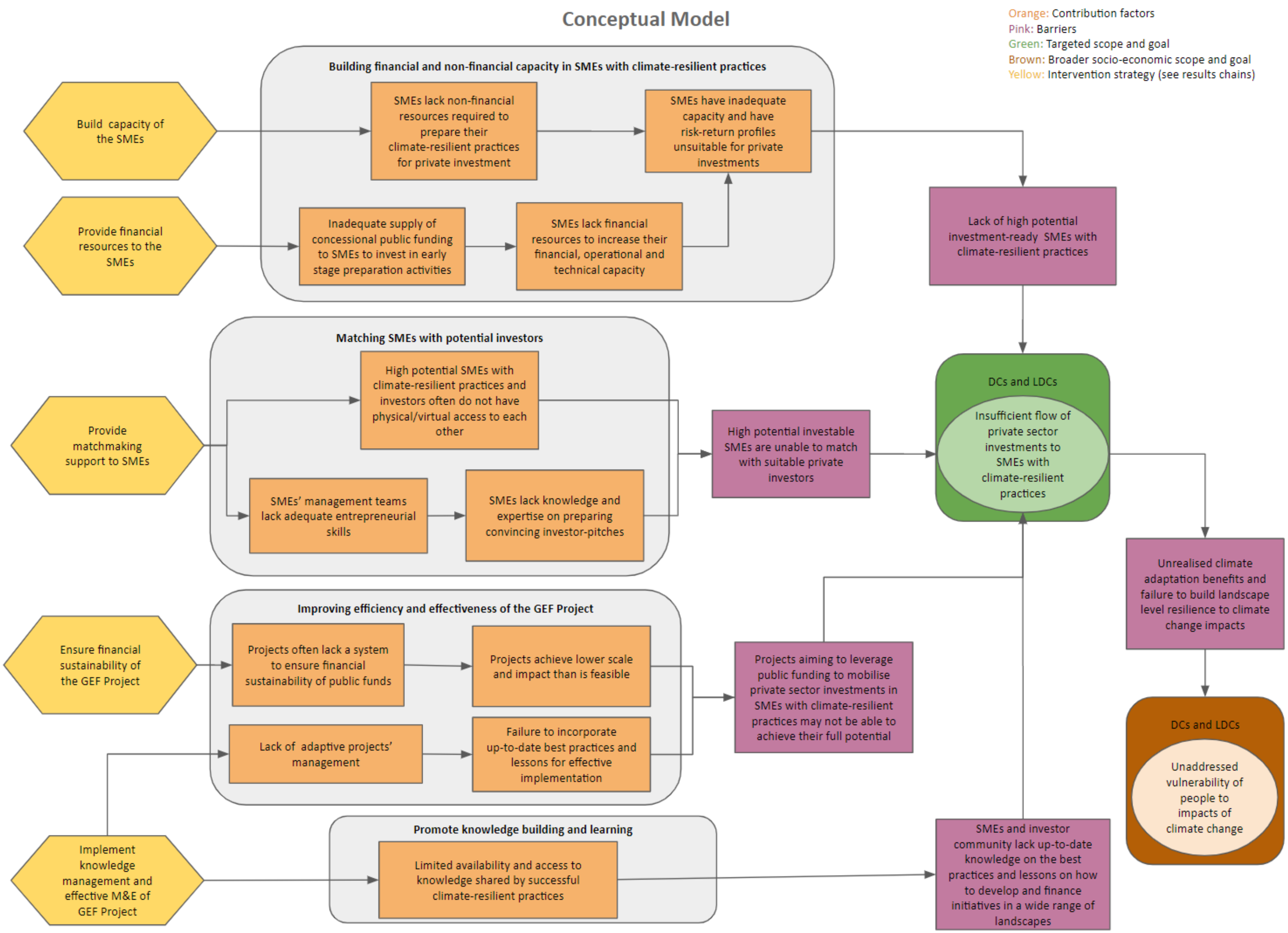
Types of TA models: there are three TA archetypes – integrated, linked, and independent with the governance of the fund and TA as the primary differentiator. *Table 29, below, discusses the characteristics, benefits and potential risks to be mitigated for integrated and linked types.*

Table 29: Differentiation between integrated and linked TA facilities

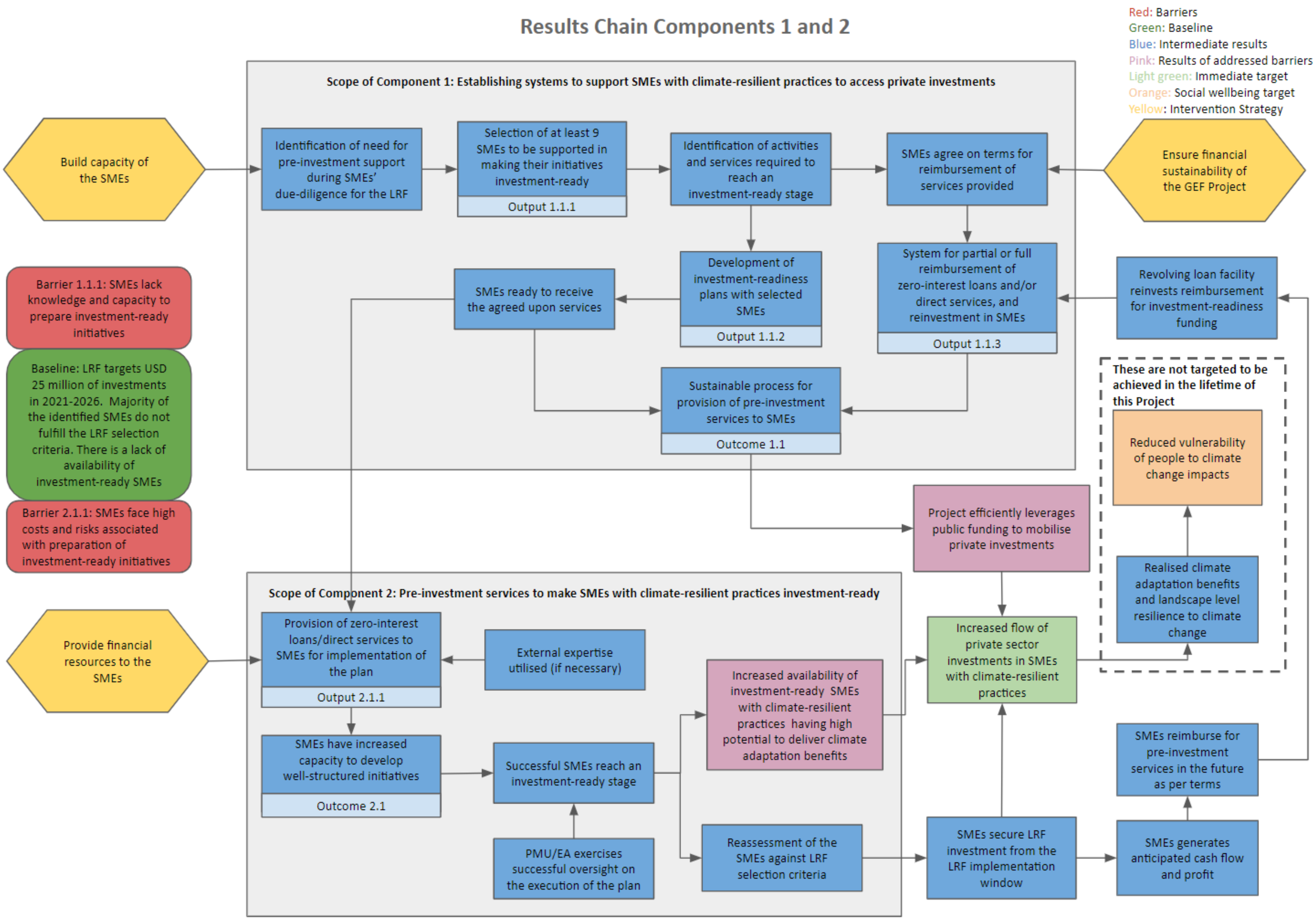
	Integrated	Linked
Characteristics		
Governance	Managed by the fund manager	Separation of TA and fund management with strong coordination
In-house/externally sourced	Often in-house	Considerable in-house support Majority of TA is external
Key objective	Increase the return on investment	Fund: increase return on investments TA: meet SDGs
Timing of TA	Pre- and post-investment Preference to keep control of pre-investment	Focus on post-investment Demand for pre-investment TA to reach out to smaller businesses not linked to export value chains
Type of TA	Core Business support Inclusive TA if in line with company strategy	Focus on inclusive TA Core business support (for SMEs) provided if required
Benefits		
	Often quick turn-around times to provide TA Linkage with investor eases alignment with priorities of investors and managers, positively influencing	Pre-investment TA is interesting if the fund works with more than one investor. It increases chances to link the company with the right type of finance. Often, there is a focus on the sharing of

	Integrated	Linked
	the effectiveness of TA	lessons learned and the replication of working models in other contexts. Financial and developmental additionality assessed independently
Risk mitigation required		
	Ensure that the solution is beneficial to all actors across the value chain Effectiveness of in-house TA needs to be monitored through quality control Costly to provide in-house expertise and finance it from fund manager fees, especially in case of smaller investments In the case of subsidized TA facilities, measures need to be in place to prevent these subsidies from mainly benefitting investors (subsidizing a higher amount than required)	Effectiveness of TA requires flexibility benefits from quick turn-around times TA manager should understand the interests of all actors involved to broker effective relationships To prevent the risk of no or limited financial additionality, assessments need to be made on a case-by-case basis of the TA required.

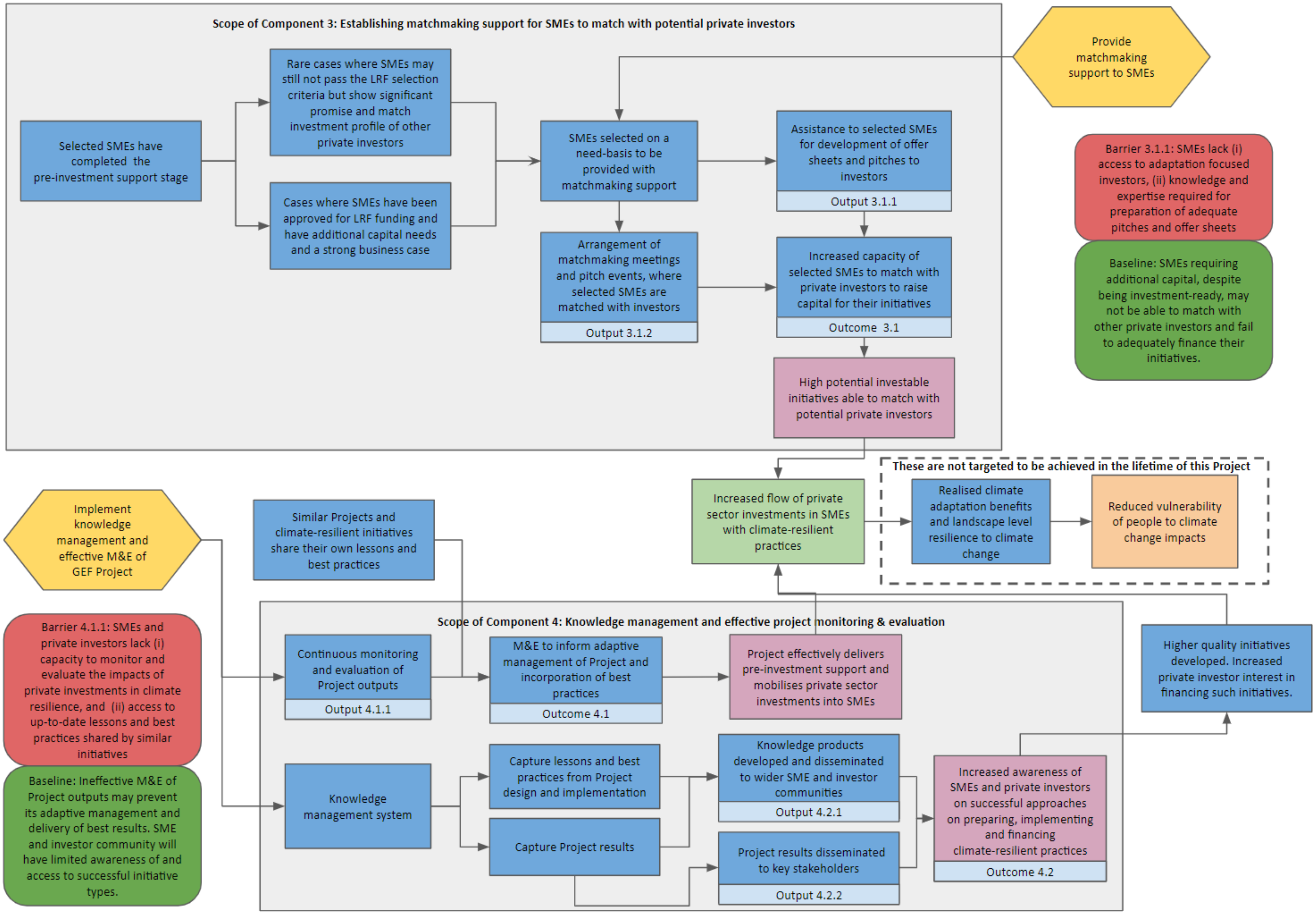
Appendix 2. Conceptual Model



Appendix 3. Results Chains



Results Chain Components 3 and 4



Appendix 4. High Level Work Schedule

Activities	Year 1				Year 2				Year 3			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Component 1: Establishing systems to support SMEs with climate-resilient practices to access private investments												
Output 1.1.1: Selection of at least nine SMEs to be supported in making their climate-resilient initiatives investment-ready												
1. Scanning for potentially eligible SMEs												
2. Application (questionnaire addressing climate change) sent to potential SMEs via email												
3. Stage 1 – Preselection: high-level assessment of the SMEs against the main LRF investment criteria												
4. Stage 2 – due diligence light: a thorough analysis of additional secondary data, LRF criteria, as well as the submission of supplemental documentation												
5. Fund Management Team presents suggestions on provision of pre-investment services to the Technical Committee												
6. Technical Committee decides if pre-investment services will be provided to suggested SMEs												
Output 1.1.2: Development of investment readiness plans with selected SMEs												
1. Development of an elaborate investment-readiness plan												
Output 1.1.3: System for partial or full reimbursement of zero-interest loans and/or direct services, and reinvestment in SMEs												
1. Negotiation with SMEs on the terms and conditions for partial/full reimbursements for the pre-investment services provided (level, schedule etc.)												
2- Signing of agreements between the parties on the pre-investment mechanism (zero-interest loans or direct services) and reimbursements												
Component 2: Pre-investment services to make SMEs with climate-resilient practices investment-ready												
Output 2.1.1 Provision of zero-interest loans and/or direct services to selected SMEs to implement their investment-readiness plans												
1. Implementation of the investment-readiness plan												
Component 3: Establishing matchmaking support for SMEs with climate-resilient practices to match with potential private investors												
Output 3.1.1 Assistance to selected SMEs for development of offer sheets and pitches to investors												
1. Selection of 'investment-ready' SMEs for development of offer sheets and pitches												
2. Provide training to selected SMEs for the development of offer sheets and pitches												
3. Review and approval of the offer sheets and project pitches by the EA												

Output 3.1.2 Arrangement of matchmaking meetings, including pitch events, where selected SMEs are matched with investors
1. Provide guidance to SMEs in adapting their pitch vis-à-vis particular investor preference; ahead of matchmaking meetings
2. Arranging one-to-one matchmaking meetings
Component 4: Knowledge management and effective Project M&E
Output 4.1.1 M&E of project outputs
1. Continuous monitoring to capture lessons, best practice, and expertise during project development, implementation, and landscape integration activities
2. Collection of information for the Project Results Framework based on selected KPIs
3. Assessment of project performance/impacts based on selected KPIs
4. Formal incorporation of up-to-date knowledge for adaptive management
Output 4.2.1 Project terminal evaluation and dissemination of project lessons and results to key stakeholders
1. Identification of relevant stakeholders for dissemination of main lessons
2. Knowledge exchange with other projects under the GEF Challenge Program
Output 4.2.2 Project knowledge products developed and disseminated to wider SME and investment communities.
1. Develop and annually update a factsheet and presentation
2. Develop a virtual workshop by the end of the second year of implementation.
3. Develop an e-learning webinar at the end of the three-year term
4. Develop news items and press releases (to be determined as needed throughout the Project implementation)

Appendix 5. GEF Results Framework (mandatory)

							Targets (annual or mid-term and close)			
Indicator/unit	**Definition (note if cumulative)**	**Method/source**	**Frequency**	**Who**	**Disaggregation**	**Baseline**	**YR1**	**YR2**	**YR3**	**Notes/assumptions**
Objective level indicators										
Project objective: to unlock private sector investments in SMEs developing climate-resilient practices										
Number of SME proposals approved for investment by the LRF upon receiving pre-investment support	**Cumulative:** number of SME proposals (that receive pre-investment support) that are able to receive implementation funding from the LRF **Projects approved for investment:** refers to projects with a reasonable governance structure and an underlying	**Method**: sum of SME proposals approved for investment by the LRF (how we calculate this indicator) **Source**: the Executing Agency will inform according to the Decision Committee directives	At the end of the Project	Executing Agency	n/a	0			6	1. It takes at least 12 months to develop and implement the investment-readiness plan. 2. Not all of the supported SMEs will be accepted by the LRF for implementation funding.

	business model that is designed to generate financial return, albeit often below market rate									
Potential private investment leveraged through this project for implementation of the SMEs' initiatives	**Potential private investment:** private capital that is invested (including through LRF) into SMEs, after the pre-investment services are provided through this Project **Leverage: r**atio of potential private investment to the amount invested into pre-investment services	**Method:** dividing the amount (USD) which will potentially be invested into SMEs by the amount (USD) provided as pre-investment services (e.g. USD 1'000'000 / USD 100'000 = 10, for every dollar provided in pre-investment services, ten dollars of private capital is expected to be unlocked) **Source:** the Executing Agency will inform according to investment	At the end of the Project	Executing Agency	n/a	0			10	The leverage ratio is to be adjusted upon the development of the project pipeline

		information provided by selected SMEs								
Percentage of GEF funding directed to SMEs in LDCs	**LDCs:** Least developed countries	**Source:** Executing Agency according to SMEs proposals	At the end of the Project	Executing Agency	n/a	0			50%	
Component 1: Establishing systems to support SMEs with climate-resilient practices to access private investments										
Outcome 1.1. Sustainable processes for provision of pre-investment services to SMEs to make their climate-resilient practices investment-ready										
Number of SMEs selected for pre-investment services and have successfully developed an investment-readiness plan	**Cumulative:** sum of the number of SMEs selected for pre-investment with an investment readiness plan developed **SMEs:** defined here as businesses with a maximum of 250 employees, and having an annual turnover of up to EUR 50 million. **Investment readiness:** the	**Method**: Adding the number of SMEs that have a developed investment-readiness plan **Source:** Executing Agency	Annual	Executing Agency	Gender*	0	Male: 1 Female: 0	Male: 3 Female: 1	Male: 6 Female: 3	The SMEs that are selected for pre-investment services in Year 1 will be ready for investment by the LRF within 12 months. Assumptions: It takes at least 12 months to develop and implement the investment-readiness plan. It is also assumed that not all of the supported SMEs will be accepted by the LRF for implementation funding. *Women-owned SMEs are defined by the IFC as firms with either

	SME must satisfy all the selection criteria for LRF Investment (Climate resilience, SDG co-benefits, Strength of the business case, Environmental and Social Safeguards Framework (ESSF), Landscape approach, Scalability or replicability, Additionality, Alignment with national priorities) **Investment readiness plan:** the document that describes the interventions required to be eligible for investment by the LRF (each stage where it is ready for									more than 51 percent women's ownership, or with 20 percent-plus women's ownership in a business that has a woman CEO, COO, or CFO (IFC, 2014).

	investment by the LRF). **Pre-investment services:** which include direct services or zero-interest loans **Direct services:** in the context of this project it refers to the services provided by the Executing Agency through expertise sourced from South Pole or, when necessary, hiring of experts.									
Share (%) of pre-investment services to be reimbursed as agreed to by the selected SMEs	**Not cumulative**	**Method:** (Amount of reimbursement agreed by the SME / total amount of pre-investment services provided to SME)*100	At the end of the Project	Executing Agency	n/a				10%	1. Reimbursements are not going to be achieved during the implementation of the project so they are calculated based on reimbursement agreements with SMEs. 2. First reimbursement agreements will be

		Source: Reimbursement agreements with selected SMEs and financial reports on behalf of the Executing Agency The payback will be made by the SME to the LRF. It will be calculated based on SMEs' expected cash flows including private investments.								negotiated with SMEs from Year 1 but will probably not be completed until Year 2. The SMEs would be required to reimburse (in partial or full) for the services provided to them (as zero-interest loans or as direct services by the Executing Agency, or a combination thereof), to ensure at least a partial return on investment. The proceeds will go to the LRF and will be reinvested for climate resilience.
Component 2: Pre-investment services to make SMEs with climate-resilient practices investment-ready										
Outcome 2.1. SMEs have increased technical, operational, and financial capacity to structure their climate-resilient practices and make them investment-ready										
Number of SMEs that meet the LRF investment criteria after receiving pre-investment services	**Cumulative** **LRF Investment criteria:** Climate resilience SDG co-benefits Strength of the business case	**Method**: scorecard to assess the criteria in an objective way with clear definitions to understand if	Annual	Executing Agency	n/a	0	0	1	4	The assistance provided will reduce the SME's costs and risks associated with implementation of the plan. **Regarding the loans:** in principle, the

	Environmental and Social Safeguards Framework (ESSF) Landscape approach Scalability or replicability Additionality Alignment with national priorities	the criteria is met								businesses are free to use the loans in the way that is of best use for them, but they should generally fund activities as agreed in the investment-readiness plan. **Based on the assumption that it takes 12 months to implement the plan.**
Component 3: Establishing matchmaking support for SMEs with climate-resilient practices to match with potential private investors										
Outcome 3.1. Increased capacity of selected SMEs to match with private investors										
Share (%) of SMEs requiring assistance, that have developed offer sheets and/or project pitches approved by the Executing Agency	**Not cumulative** **Offer sheets and project pitches:** in order to increase SMEs' chances of receiving investment, the GEF funding will assist and enhance their ability to match with potential investors by providing training to	**Method:** (number of SMEs that develop approved offer sheets/project pitches / number of SMEs that require matchmaking support) *100	Annual	Executing Agency	n/a	0	100%	100%	100%	SMEs will receive assistance in the development of offer sheets/pitches/funding proposals, only on a need-basis. The selection for assistance under this component would take place if: 1. the SME receives funding through LRF and shows high potential (in early stages) and is profitable (in later stages) and is attractive

	develop adequate offer sheets and pitches to investors.									to other adaptation-focused private investors; or 2. the SME is ineligible for LRF funding but shows significant potential and is fit for investment by another private investor **Note**: this Project does not commit to effectively achieving external private investments in selected SMEs.
Share (%) of SMEs requiring assistance, that receive matchmaking support	**Not cumulative** **Matchmaking support:** assistance for investor-specific preparation of proposal and organization of events where the SMEs will present their developed proposal to the investors	**Method**: (Number of SMEs that receive matchmaking support/number of SMEs that require matchmaking support) *100 **Source**: information provided by the Executing Agency	Annual	Executing Agency	n/a	0	100%	100%	100%	1. At least nine SMEs will be selected to receive pre-investment support 2. Not all selected SMEs will need matchmaking meetings as: a. some might obtain a private investment commitment before this stage; and b. some will be approved for LRF investment. 3. An SME can have more than one matchmaking meeting

										Note: this Project does not commit to effectively achieving external private investments in selected SMEs.
Component 4: Knowledge management and effective project M&E										
Outcome 4.1. M&E to inform adaptive management of project										
Number of project meetings or workshops held where M&E data is discussed and used for adapting the annual workplan and budget that is submitted to the Technical Committee.	**Cumulative** **M&E** will be used to assess the performance of the Project in order to improve current and future management of the annual workplan and budget as well as outputs, outcomes, and impacts.	Recording meetings through written summaries and reports.	Biannual	Executing Agency	n/a	0	2	4	6	The Project Management Unit will review SMEs results and give adaptive management suggestions to the Fund Manager.
Outcome 4.2. Knowledge management increases awareness of SMEs with climate-resilient practices and private investors on successful approaches to preparing, implementing, and financing climate-resilient practices										

Number of publicly available project knowledge products	**Cumulative:** sum of knowledge products developed and shared **Knowledge products:** 1. factsheets: 3 (annually updated) 2. presentations: 3 (products updated) 3. e-learning Webinar: 1 (during the Project) 4. newsletters: 3 5. virtual workshop: 1 (during the Project) Project knowledge products inform future private-investment support.	Development of knowledge product by Executing Agency Dissemination of knowledge products through targeted events	Annual	Executing Agency	n/a	0	3	6	10	The planned knowledge gathering and exchange will help to improve the project activity design, e.g. on how to secure pay-back of investments, and thereby ensure sustainability of the fund.

Number of stakeholders that attend the virtual workshop	**Not cumulative** The virtual workshop will be held at the end of the Project	Confirmation of date and program Virtual workshop held through an online platform	At the end of the project	Executing Agency	Gender	0			Men: 20 Women: 10	The attending key stakeholders have been identified at the start but new ones may be added throughout the project time.

Appendix 6. Draft Terms of Reference for PMU

Note: the LRF Fund Management Team, composed exclusively of South Pole's staff, will have a partial dedication to this Project and the GEF-funded activities. Hence, the PMU for this Project is composed by the Fund Management Team, which includes the following staff members:

- Fund Manager;
- Investment Specialist;
- Adaptation and M&E Specialist;
- Administrative staff; and
- Communications staff.

Since none of the latter will be hired exclusively for the implementation of this Project, developing the Terms of References will not be needed for GEF-funded activities. However, this appendix includes the job summary, tasks, and profile requirements for the Fund Manager, Investment Specialist, and Adaptation and M&E Specialist, as the core team for the implementation of this Project.

Please notice that administrative and communications staff will be provided by South Pole to the Fund Management Team throughout the implementation of the Project. Therefore, no profile descriptions have been added for these roles, as they are considered support staff and their profiles will not be specifically designed for this Project nor for the LRF.

Fund Manager

Job summary

In this role, the Fund Manager will be responsible for implementing the overall fund and Project's strategy with a focus on land use and climate change resilience and adaptation projects. The Fund Manager will lead a team and overlook the project portfolio effectively and will support the identification of new feasible and potential investment opportunities.

Tasks

- Overall technical-administrative fund management and coordination with team members, partners, and clients
- Supervise, guide, support, and be responsible for the outputs and performance of the team
- Gather and analyze reams of information, produce high-level reports, and recommend investments
- Ensure the Project is completed with high-quality results and on time and within the budget
- Appropriately manage information and knowledge on fund/Project mandates
- Support business development activities for the fund
- Develop and improve specialized skills and knowledge linked to topics and services

offered by the fund/Project

Essential profile requirements

- A minimum master's degree, ideally with some post-graduate work in finance, business administration, or sustainability-related disciplines
- Relevant work experience (the expectation is at least 10 years) in due diligence of investment cases and with relevant work experience in climate change adaptation or related fields
- Ability to manage a team of more than four members (internal and/or external collaborators) on specific fund mandates
- Advanced network of potential clients, collaborators, or other relevant stakeholders
- Excellent oral command of English. Professional proficiency in other major languages is advantageous.

Desirable profile requirements

- Legal and contract management skills are a plus
- Work experience in developing and emerging economies
- Know-how on how to assess SDGs

Investment Manager

Job summary

The Investment Manager will contribute to the management and development of the activities within the Project. Primarily, they will be responsible for managing the investment in landscape approach projects, where they will identify suitable investment cases (climate-resilient practices), perform due diligence, negotiate investment agreements, and interact with investors. In addition, they will be analyzing the business case of applicants and will be responsible for the pipeline development and negotiating and setting funding agreements with the selected applicants. Additionally, follow-up activities with these applicants will be required.

Tasks

- Overall Project investments' guide and management
- Leading all aspects of deal execution including market and financial due diligence, structuring, and contract negotiation
- Take on a high level of responsibility on behalf of steering financial decisions
- Support business development activities
- Provide investment information and financial advice, particularly focusing on TA services
- Guide investment development activities and decisions for the Project to meet specified goals (country balance, types of projects, etc.)
- Develop relationships with clients and expands client network
- Ensure projects are completed on time and within the personal time budget

Essential profile requirements

- A minimum master's degree, ideally with some post-graduate work in engineering, finance, business administration, or sustainability-related disciplines
- Relevant work experience (the expectation is at least six years) in due diligence of investment cases,
- Experience with business development, fundraising, and contracts with project developers is a further asset
- Strong technical, financial and, if possible, legal expertise on land-use projects
- Commercial skills and good business sense to be able to identify and seize opportunities in a challenging and competitive market environment
- A strong network of corporates, governments, philanthropies, project owners, and investors
- Excellent oral command of English. Professional proficiency in other major languages is advantageous

Desirable profile requirements

- Work experience in developing and emerging economies
- Know-how on how to assess SDGs

Adaptation and Monitoring and Evaluation (M&E) Specialist

Job summary

In this role, the Adaptation and M&E Specialist will be responsible for the technical proposal/deliverable preparation, completion, and M&E to the quality required by the funder, with a focus on land use and climate change adaptation projects and practices. Through the collection and analysis of high quality and timely data inputs, the Adaptation and M&E Specialist is responsible for ensuring that projects maintain their strategic vision and that their activities result in the achievement of their intended outputs and outcomes in a cost effective and timely manner, as well as contributing to project team discussions of potential opportunities for adaptive management.

Tasks

- Work with the Fund Manager to design methodology for the collection of relevant data in close collaboration with all technical specialists
- Overall project and proposal management and coordination with team members and where appropriate funders and partners
- Develop M&E protocols with prospected adaptation SMEs/projects
- Work with field teams and implementation partners to ensure they are building and using effective monitoring systems aligned with approved logic models and work plans
- Based on the M&E frameworks described above, design a database that helps maintain data collected over the course of project implementation and is transparent to all partners
- Manage said database to ensure data is accurate and updated, with guidance to ensure consistency of measurement methodologies over time
- Monitor application of project M&E plans, gather and analyze data, and produce reports on projects progress and impact in partnership with the Fund Manager

- Ensure projects are completed on time and within the personal time budget
- Provide technical advice, particularly focusing on Technical Assistance Services,
- Support business development activities on technical activities and topics,
- Develop and improve specialized skills and knowledge linked to topics and services offered by the Project.

Essential profile qualifications

- University degree, ideally at a master's level or higher in agriculture, forestry, finance, economics sustainability, climate change, program evaluation, or other related fields
- Must have at least four years of relevant work experience in climate change or sustainability consulting or project development (ideally focusing on land use and adaptation), grant/investment management, knowledge management, stakeholder engagement or other related fields. A master's degree in the above-mentioned fields will substitute for two years of experience
- Ideally, two of those years of experience will be in the design and implementation of M&E systems for development or conservation projects implemented by national/international NGOs/agencies/government
- Proven knowledge and experience in climate change, impacts, vulnerability assessments, and adaptation measures, ideally in the land use space
- Ability to manage projects of a moderate level of complexity and proven ability to manage multiple projects and priorities
- Strong analytical skills/expertise in analyzing data is required
- Experience in research methods, designing and implementing tools and strategies for quantitative and qualitative data collection, analysis, and production of reports is preferred
- Ability to conduct research tasks, analyze, and summarize data
- Ability to create high-quality written documents (deliverables, reports) in English
- Excellent oral and written command of English is essential, other languages are advantageous
- International, developing country field experience is preferred, especially in an M&E role in a development or conservation context

Appendix 7. Selection Criteria

> **Note:** this is the **first proposal** of the selection criteria components, as they are still in the design stage and will be further detailed and developed. Therefore, this section is still under development and will be updated once the design of the LRF is completely defined.

The SMEs with climate-resilient practices will be selected by the EA from the pipeline that will be developed as part of the LRF development stage. Additional SMEs' applications will be considered after a concept note is submitted to the EA.

General assessment for the selection of an SME

An SME has to meet most, but not necessarily all criteria to be selected for pre-investment support through this GEF Project. This selection will not benefit SMEs that can easily obtain financing from other existing funds but will rather be additional and complementary to what is available from traditional development and commercial funders. Pre-investment support will be used to address gaps based on this assessment. For an SME's proposal to be selected, it has to be clear that remaining gaps can be closed with support given by the available funding (between USD 50,000 and 100,000).

An SME does not have to meet all the criteria because the pre-investment support (in both direct services and zero-interest loans), will be generally invested into:

- the improvement of the anticipated impact of climate adaptation technologies and measures;
- the establishment or improvement of off-take contracts for agriculture or forest products;
- measures to improve financial planning and creditworthiness of SMEs;
- development and documentation of sound management processes;
- improvement of social and environmental co-benefits to reduce related risks; and
- if appropriate, building training programs for farmers to strengthen their adaptive capacity.

The selection criteria and their categories that will be used to evaluate the SMEs are presented in Table 30.

Table 30: Selection criteria with indicators

	Selection criteria	Indicators
1	**Investment readiness**	Assessment will be based on these indicators: 1. General business activities 2. Capital structure 3. Financial performance 4. Legal aspects 5. Management 6. Risks 7. Likelihood of future external private investment
2	**Climate adaptation and resilience**	Increasing resilience is reflected in adaptation benefits, particularly reducing the vulnerability of smallholder farmers and indigenous people. Assessment will be based on: 1. Exposure 2. Sensitivity 3. Adaptive capacity
3	**Environmental and social risk management**	The SME's proposal includes an identification, assessment, and mitigation plan to associated environmental and social risks.
4	**SDG co-benefits**	Assessment will be based on these indicators: 1. Mitigation (SDG 15) 2. Biodiversity (SDG 13) 3. Gender equality (SDG 5) 4. Other SDGs (other that may apply)
5	**National adaptation priorities**	Assessment will be based on how the proposed measures align with the different national adaptation priorities. 1. NDCs 2. NAPAs 3. NAPs
6	**SME location or SMEs' activities location**	The SME's proposal is located in an LDC and all GEF funding will support GEF-eligible countries only.
Exclusion criterion		Additionality

Description of the selection criteria

Criterion 1: Investment readiness

Together with resilience, investment readiness is one of the most important selection criteria. It helps to assess the business model in terms of its strength and comprehensibility. The selection indicators for investment readiness consider:

- **general business activities:** refers to the business model (including value created) and how comprehensible and well-designed it is;
- **capital structure:** that considers total capital needs, the amount and maturity sought and current and past funding sources;
- **financial performance:** the ability of the business to generate revenue and to become profitable as demonstrated by past developments and future projections;
- **legal aspects:** the description of the legal registration of the business, current or planned, and assurance that business activities are commensurate with local or national regulations and laws (e.g. legal form entity and lawful activities);
- **management:** the management team has at least some experience, ideally with strong local representation and sound management processes established to run current business activities and plan future interventions;
- **risks:** awareness of endogenous and exogenous commercial risks exists, a risk management process in place, and material risks can be mitigated; and
- **likelihood of future external private investment:** concrete interest from external private investors (or as a minimum: plan on how to access private capital in the future) exists. The management team is able to present the SME externally and to create quality pitch materials.

Criterion 2: Climate adaptation and resilience

The PMU will carry out an initial vulnerability assessment (part of the LRF's Due Diligence), which will help identify the climatic threats and impacts for the region/country where the SMEs are based or where they are planning to implement their practices. When needed (particularly for direct assistance), this information will contribute to improving the activities for this category. Further, this selection criteria targets increasing climate resilience, which is reflected in strong adaptation benefits from the practices (particularly reducing the vulnerability of smallholder farmers and indigenous people).

The proposed SMEs' practices will contribute to strengthening the resilience of vulnerable people through different adaptation strategies. Further indicators within this category include:

- **exposure**: exposure to climate risk today and in the future (climatic changes) is clearly recognized and identified;
- **sensitivity:** how is the system (location of the SMEs' practices, landscape, community) vulnerable and susceptible to the adverse effects of the changing climate and its impacts now and in the future; and
- **adaptive capacity:** SMEs' proposal increases adaptive capacity or reduces vulnerability in other ways, now and in the future.

Criterion 5: Environmental and social risk management

It seeks to address a broad range of environmental and social risks, mindful of the different challenges and needs in different parts of the world and systematizes good governance practices to achieve transparency, public participation, and accountability, among other goals.

In this selection process, the concept of risk management is considered as the identified risks that the proposed climate-resilient practices pose in either environmental or social management. It means that during the selection process, it will be evaluated if the SMEs consider whether their proposal includes an assessment and mitigation plan to associated environmental and social risks.

As initially mentioned, when an SME does not address these risks, the assistance provided in the pre-investment window will ensure that there is an improvement of social and environmental co-benefits to reduce related risks.

Criterion 6: SDG co-benefits

The SDGs provide a guide for action in key areas, addressing global changes including those related to poverty, inequality, climate change, and environmental degradation. This Project is focused on strengthening the most vulnerable people against climate change impacts. Therefore, any additional co-benefits such as mitigation, biodiversity, and gender equality will be valued but **will not be an exclusion criterion**. A co-benefits criterion has been included to guarantee that these are considered an added value for the SME, during the selection process. For the purposes of this Project, the next three indicators are considered as SDG co-benefits:

- **Mitigation (SDG 13):** the proposed climate-resilient practices provide additional mitigation benefits (e.g. business activities increase carbon stocks or sequestration or reduce negative trend);
- **Biodiversity (SDG 15):** the proposed climate-resilient practices provide additional biodiversity benefits (e.g. business activities increase biodiversity or reduce negative trend);
- **Gender equity (SDG 5):** business activities improve the role of women in society or reduce negative trends (e.g. women are included to actively participate in the planning and implementation of the climate-resilient practices); and
- **other SDGs' co-benefits:** the baseline or the SMEs' have impact on other SDG co-benefits.

Criterion 7: National adaptation priorities

The Project is consistent with UNFCCC NDCs, NAPAs, and NAPs, as any SME that asks for support by the LRF will have to show how it is aligned or intends to be aligned. Additionally, any national adaptation priorities updates communicated in the BURs will be part of the selection criteria of SMEs supported by the GEF funding.

Criterion 8: LDC coverage

Because the GEF funding seeks to ensure geographical balance, half of the total GEF funding will be allocated to SMEs with climate-resilient practices in LDCs. Additionally, all GEF funding will support GEF-eligible countries only.

Exclusion criterion: additionality

Current or planned SME's activities are jeopardized in the absence of LRF funding, and the SME does not have access to sufficient external financing options for current or planned activities. It is important to highlight that this Project seeks to benefit SMEs by providing additional and complementary financing to what is available from traditional development and commercial funds. GEF-funded activities will not benefit SMEs that can easily obtain financing from other existing funds; therefore, for this exclusion criteria, there is clarity in the SME's proposal that their practices would not be possible without this funding.

Appendix 8. Stakeholder Engagement Plan for Project implementation

Project Title:	Investment Readiness for the Landscape Resilience Fund
GEF Project ID:	10436
WWF-US Project ID:	G0029
Countries:	Global
Implementing Agency:	World Wildlife Fund, Inc.
Lead Executing Agency:	South Pole

Introduction

The LRF, managed by South Pole, aims to support the most vulnerable people in the land-use space to effectively adapt to climate change by investing in SMEs as well as other initiatives, including farmer organizations and cooperatives. However, although the LRF has had strong interest from corporate investors, there is currently an unsuitable investment environment, stemming in large part from a lack of investment-ready SMEs with climate-resilient practices.

The objective of the 'Investment Readiness for the Landscape Resilience Fund' GEF-Project is to **catalyze private sector investment in SMEs with climate-resilient practices**. Through its implementation, GEF resources will be utilized for the provision of pre-investment services to selected SMEs with climate-resilient practices, thereby enabling them to achieve investment-readiness. The Project will achieve this objective by implementing four components in a three-year period. A summary of the components, outputs, and expected outcomes are presented in Table 31.

Table 31: Project description summary

Project components	Project outcomes	Project outputs
1. Establishing systems to support SMEs with climate-resilient practices to access private investments	1.1 Sustainable processes for the provision of pre-investment services to SMEs, to make their climate-resilient practices investment-ready	1.1.1 Selection of at least nine SMEs to be supported in making their climate-resilient practices investment-ready 1.1.2 Development of investment-readiness plans with selected SMEs 1.1.3 System for partial or full reimbursement of zero-interest loans and/or direct services, and reinvestment in SMEs

Project components	Project outcomes	Project outputs
2. Pre-investment services to make SMEs with climate-resilient practices investment-ready	2.1 SMEs have increased technical, operational, and financial capacity to structure their climate-resilient practices and make them investment-ready	2.1.1 Provision of zero-interest loans and/or direct services to selected SMEs to implement their investment-readiness plans
3. Establishing matchmaking support for SMEs with climate-resilient practices to match with potential private investors	3.1. Increased capacity of selected SMEs to match with private investors	3.1.1 Assistance to selected SMEs for development of project offer sheets and pitches to investor 3.1.2 Arrangement of matchmaking meetings, including pitch events, where selected SMEs are matched with investors
4. Knowledge management and effective project M&E	4.1. M&E to inform adaptive management of projects 4.2 Knowledge management increases awareness of private investors on successful approaches to preparing, implementing, and financing climate-resilient practices	4.1.1 M&E of project outputs 4.2.1 Project terminal evaluation and dissemination of project results to key stakeholders 4.2.2 Project knowledge products developed and disseminated to wider SME and investment communities

Since this Project seeks to support SMEs with climate-resilient practices to become investment-ready, the Project activities do not necessarily have an on-site implementation scope. Therefore, no potential social and environmental issues have been identified for the implementation stage and no specific countries have been assessed at this moment. However, as stated in the ProDoc, at least 50% of the GEF funds will be used to support SMEs with climate-resilient practices in LDCs and the Project will primarily source potential SMEs from sites where South Pole has small business networks and projects (see Figure 1 in the ProDoc) as well as WWF US' Priority Places (see Figure 2 in the ProDoc), as WWF Switzerland is member of the LRF Board of Trustees.

This document (hereby referred to as 'the Plan'), describes the Stakeholder Engagement Plan for the implementation of the GEF Project, 'Investment Readiness for the Landscape Resilience Fund' (hereby referred to as the 'the Project'). The Plan has been prepared by South Pole (the EA), in accordance with the requirements for development of the ProDoc.

Regulations and requirements

The Project will comply with WWF's Standard on Stakeholder Engagement. As mentioned before, since this Project does not have an on-site implementation scope, no further regulations or requirements have been identified during the design stage for its implementation.

Summary of previous stakeholder engagement activities

Previous stakeholder engagement activities during the planning and design stage for this Project have taken place according to planned and are presented in Table 32.

Table 32: Details on stakeholder consultations undertaken during project design

Stakeholder group	Stakeholder	Date and method of engagement	Key discussions
Private sector entities	Lightsmith Group – EA of the CRAFT project	January 2020 In person May 2020 Conference call	→ Information sharing on project pipelines → Avenues for collaboration on knowledge sharing and engaging investors and companies in need of investment → Sharing lessons learned on CRAFT and ASAP projects
	Potential anchor investor (undisclosed)	March 2020 In person	→ Development of a landscape approach and integration into Project design and implementation → Need for clear indicators (especially regarding gender) to measure impact generation → Potential link to the stakeholder's supply chains
	El Buen Socio (potential SME)	June 2020 Conference call	→ SME sourcing and collaboration → Selection criteria and process → Gender approach on climate resiliency projects → Soft loan mechanism
	Mirova Natural Capital	July 2020 Conference call	→ Delivering impact → Investment and loan mechanisms
	Fairventures	June 2020 Conference call	→ Feedback on investment and loan mechanisms for the LRF → Suggestions for stakeholder engagement during design and implementation stages → Pre-investment services needed to leverage private involvement in climate resiliency → Inputs regarding on-site climate change impacts that need to be addressed
NGOs and think tanks (including International organizations	Global Adaptation & Resilience Investment Working Group (GARI)	February 2020 Conference call	→ Participants showed great interest in the LRF → Agreement on information sharing towards potential collaboration

Stakeholder group	Stakeholder	Date and method of engagement	Key discussions
and intergovernmental organizations)	IDH – Manager of the LDN TAF	March 2020 Conference call June 2020 Conference call	→ Sharing of most important high-level lessons from operations of the LDN TAF → Sharing of specific lessons on (inter alia) stakeholder engagement process, gender action plan, project selection, coordination with other projects, and knowledge management.
	CPIC	June 2020 Conference call	→ Experience on establishing a climate resiliency framework.
	WWF Forests Forward Program	June 2020 Conference call	→ Delivery of pre-investment services → Incorporating landscape approach
	WWF DACH, WWF France and Landscape Finance Lab	May 2019 - Present Multiple engagements	→ WWF DACH is an active partner in the fund design → Regular engagements that provide valuable inputs for Project strategy, objective, baseline, and designing the activities of the LRF and associated TA, including gender action policy

A summary of suggestions and feedback gathered through stakeholder consultations during the Project design stage can be reviewed in Table 5 of the ProDoc.

Project stakeholders

To include all relevant stakeholders, South Pole employs a two-pronged approach: (a) top-down identification of theoretically present and relevant stakeholder groups on all levels from local to global based on desk research; and (b) bottom-up verification of actually present stakeholder groups on a per-SME basis through communication with developers and review of multi-stakeholder surveys conducted as part of LRF's pipeline development process. All identified stakeholders for Project implementation have been categorized as 'high priority' as they are crucial for Project implementation.

The Stakeholder Engagement Plan for Project implementation focuses on three types of processes, as described in Table 33.

Table 33: Key stakeholders for Project implementation

Process	Stakeholder	Stake in Project implementation
Stakeholder engagement for Project governance	Members of the Board of Trustees such as WWF Switzerland and private corporate investors (undisclosed)	→ They provide guidance on investment priorities. → They provide information on potential SMEs with climate-resilient practices. → They are the decision-makers for the LRF. → They have oversight of the Project. → They approve the policies and procedures. that apply for Project implementation (such as safeguards, gender, etc.).
	Potential private investors for the LRF (that may become part of the Board)	→ They might provide further finance for the pre-investment window. → They might provide further guidance on investment priorities.
Stakeholder engagement for effective implementation of SMEs' investment-readiness plans	Potential SMEs with climate-resilient practices	→ They may be selected to be supported by the pre-investment window. → They need to understand the scope of the Project, as well as the potential support they could receive if they are selected and the requirements to participate, in order to manage their expectations. → They may participate in the selection process. → They provide early information on needs, challenges, and limitations that might be valuable for Project implementation.
	Selected SMEs with climate-resilient practices	→ They will provide the information needed for Project implementation. → They will handle expectations on workers and communities. → They will act as a first link to potential beneficiaries.
	Local stakeholders, potentially involved or benefited from SMEs' climate-resilient practices	→ They are expected beneficiaries of Project implementation either as potential SME staff or increased livelihoods from future implementation of SMEs climate-resilient practices. → They might have concerns regarding the SMEs climate-resilient practices. → They may highlight opportunities for the future implementation of SMEs climate-resilient practices. → Their support will be needed for the future

Process	Stakeholder	Stake in Project implementation
		implementation of SMEs climate-resilient practices.
	Potential private investors for SMEs	→ They could provide additional financing for selected SMEs. → They could participate and provide feedback from matchmaking meetings.
Stakeholder engagement for knowledge sharing	SMEs with climate-resilient practices	→ Their experiences throughout the implementation of this Project will be very valuable to improve knowledge sharing on investment opportunities for adaptation for other SMEs.
	Investor community	→ Private investors might raise their investments in climate-resilient activities. → They may provide investment guidance for future initiatives. → They will be able to interact with other stakeholders on the climate-resilience community enhancing information sharing activities.
	Adaptation networks	→ Other TAFs will be able to learn about the challenges of this Project. → They may share similar initiatives and potential SMEs for further support from the LRF.

Stakeholder Engagement Plan

Successful implementation of this GEF Project hinges on effective stakeholder engagement, which is why a diligent stakeholder consultation process will be followed. To date, several stakeholder consultations have been held with investors, NGOs, and project developers about the setup of the LRF itself (several bilateral consultations and presentations at some workshops to get feedback) and for Project design (please refer to Section 2.4.1 for the Stakeholder engagement conducted during Project design).

The purpose of this Stakeholder Engagement Plan is to identify the best strategies to promote the involvement of stakeholders in the Project's decision making and execution.

Table 34: Summary of the Stakeholder Engagement Plan for Project Implementation

Stakeholder	Method of engagement	Periodicity	Disclosed information*
Members of the Board of Trustees	Reports from the PMU and the Technical Committee on the Project's performance will be presented to the Board on its periodical meeting.	Every six months. However, the Board might summon extraordinary meetings if needed.	Periodical report on Project performance including targets for the Results Framework. Challenges and opportunities identified for the pre-investment window.
Potential private and philanthropic investors for the LRF	Frequent conversations and meetings	Monthly	Benefits of co-financing the LRF's pre-investment window GEF Project strategy, scope, and performance Examples of SMEs with climate-resilient practices
Potential SMEs with climate-resilient practices	Contact through existing South Pole and WWF networks LRF website	Continuously during year one and Q1 of year two of Project implementation	Scope of the Project Selection criteria Benefits of participating Requirements for participating
Selected SMEs with climate-resilient practices	Work meetings, email conversations, follow-up meetings, and workshops	Monthly	All information related to the scope of the Project and activities, including: ● activities and timeframe; ● provision of services; ● reimbursement of services; ● requested information; ● benefits to communities; ● stakeholder engagement; ● gender mainstreaming; ● social and environmental risk management; and ● expected results.

Stakeholder	Method of engagement	Periodicity	Disclosed information*
Local stakeholders, potentially involved or benefited from SMEs' climate-resilient practices	The support given to the SMEs to develop their investment-readiness plans will include support for the development of their own Stakeholder Engagement Plans with the participation of local stakeholders. Therefore, methods of engagement will vary and depend on each SMEs.	During the implementation of the investment-readiness plan, which will depend on each SMEs timeframe. It is expected that the investment-readiness plan implementation will take 12 months to be completed.	SME presentation and scope, including: ● type of service or product provided by the SME; ● local Stakeholder Engagement Plan; ● risks and opportunities of the SME's climate-resilient practice; ● potential impacts of the practice; ● beneficiaries of the implementation of the practice; ● investment needs and expected reflows; ● commitments towards the communities; and ● expectations of the communities.
Potential private investors for SMEs	Preliminary conversations and matchmaking meetings	Monthly in the third year of this Project	GEF Project presentation and scope Examples of success stories SMEs factsheets or offer sheets
SMEs with climate-resilient practices	These stakeholders will be primarily engaged through activities developed in Component 4: ● sharing annually updated Project factsheets and presentations (annually); ● virtual workshop on lessons learned (after the second year of Project implementation; ● an e-learning webinar (before the Project ends in year three); and ● news items and press releases (as needed).		GEF Project presentation Success stories Challenges and opportunities Project results
Investor community			
Adaptation networks			

* The Grievance Mechanism will be disclosed to all stakeholders.

Other than the methods described in Table 34**Error! Reference source not found.**, the LRF will have a website where information will be updated periodically for all stakeholders to review and will create a contact page where concerns and questions can be forwarded to the Project's PMU.

As this Project has no on-site implementation activities, this Project will support the gender integration and mainstreaming through the development of the SMEs investment-readiness plans that must include a gender analysis and a Gender Action Plan for the SME to implement once it reaches investment readiness and obtains financing for its climate-resilient practices. However, the Project has established a target for women-led SMEs to be supported, and as such, activities of component one will take into consideration any specific challenges, limitations, or requirements that women-led SMEs must handle to guarantee that specific support will be given for them to ensure their participation on this Project. For more information on these activities, please refer to the Gender Section in the ProDoc (section 2.5)

Also, no Indigenous people or minority groups have been identified as key stakeholders in the Stakeholder Engagement Plan for Project implementation. However, as with gender mainstreaming, this Project will support the development of a stakeholder analysis and Stakeholder Engagement Plan through the development of the SMEs investment-readiness plans. All future consultations with Indigenous people will be conducted with compliance of WWF's Standard on Indigenous Peoples.

Resources and responsibilities

This Project has no significant potential impacts or complex stakeholder engagement activities as it does not have a specific on-site implementation focus. Therefore, the PMU team will be in charge stakeholder engagement activities. However, since the development and implementation of investment-readiness plans include stakeholder analysis and the development of a stakeholder engagement plan for the selected SMEs, resources allocated for this support under Component 2 will be partially dedicated towards these activities.

The PMU will be responsible for implementing the SEP for this Project; however, the Fund Manager will be responsible for the follow-up on the development of the SEP and reporting the Project's performance to members of the Board of Trustees. The Investment Specialist will focus on arranging and developing meetings with potential private investors for the LRF and potential private investors for SMEs.

Grievance mechanism

A grievance can be filed with the Project Complaints Officer (PCO), a WWF staff member fully independent from the Project Team, who is responsible for the WWF Accountability and Grievance Mechanism and who can be reached at: email: SafeguardsComplaint@wwfus.org; Mailing address: Project Complaints Officer Safeguards Complaints, World Wildlife Fund 1250 24th Street NW Washington, DC 20037. The PCO will respond within 10 business days of receipt, and claims will be filed and included in project monitoring.

Stakeholders may also submit a complaint to WWF online or over the phone through EthicsPoint, an independent third-party platform at:

https://secure.ethicspoint.com/domain/media/en/gui/59041/index.html.

Monitoring and reporting

The LRF will implement an annual Audit and Review process that will assess all of LRF's activities, including the pre-investment window financed by this GEF Project. Other stakeholder involvement in monitoring and reporting will be delivered through the development of Component 4 of this Project by which lessons learned and results will be shared through a community composed of SMEs with climate-resilient practices (not limited to SMEs selected by this Project), the private investment community and adaptation networks.

Appendix 9. Detailed budget tables

Table 35: Indicative budget template

Expenditure Category	Detailed Description	Component (USDeq.)							Total (USDeq.)
		Component 1	*Component 2*	*Component 3*	*Component 4*	*Sub-Total*	*M&E*	*PMC*	
		Outcome 1.1	*Outcome 2.1*	*Outcome 3.1*	*Outcome 4.2*				
Grants/ Sub-grants	-	-							
Zero-interest loans given to selected SMEs for the implementation of their investment-readiness plans	Zero-interest loans given to selected SMEs for the implementation of their investment-readiness plans	-	340,000		-	340,000			340,000
Contractual Services – Company						-			
Development of e-learning webinar	Payment for the use of a platform for the development of the e-learning webinar				29,000	29,000			29,000
External evaluation - Terminal evaluation	Terminal evaluation for the project by a third party	-				-	20,000		20,000
		-				-			
International Consultants		-				-			-
External experts - investment-readiness plans development support		135,000				135,000			135,000
External experts - implementing the investment-readiness plans		-	150,000			150,000			150,000
		-				-			-
Local Consultants						-			-
8 local SME/projec specialist		63,000				63,000			63,000
						-			
Salary and benefits / Staff costs						-			
Fund Manager		16,800	5,600	11,200	11,200	44,800	5,600	-	50,400
Investment Manager	-	65,700	45,000	14,000	10,000	134,700	5,000	-	139,700
Adaptation and M&E Specialist	-	32,000	30,000	6,000	18,000	86,000	9,000	-	95,000
Accounting staff	-					-		20,000	20,000
Administrative support personnel	-					-		10,000	10,000
						-			
Trainings, Workshops, Meetings						-			
Meetings to support implementation of investment-readiness plans	Development of local meetings		4,000			4,000		-	4,000
Matchmaking meetings	Development of matchmaking	-		3,250		3,250		-	3,250
Internal project meetings	Bianual staff meetings, 6					-	1,000	-	1,000
Virtual workshop	Development of support material				2,000	2,000		-	2,000
						-			
Travel						-		-	
Pipeline development	6 round trips to countries with	29,311				29,311		-	29,311
South Pole support to implementing the investment-readiness plans	7 round trips to meetings with		34,000			34,000		-	34,000
GEF Challenge Programme Knowledge Sharing Meeting	1 round trip to participate in any				4,000	4,000		-	4,000
Project M&E with GEF and WWF	2 round trips to participate in any					-	8,000	-	8,000
Travel to matchmaking meetings	1 round trip for an SME assisting a matchmaking meeting			5,000		5,000		-	5,000
Grand Total		341,811	608,600	39,450	74,200	1,064,061	48,600	30,000	1,142,661

Appendix 10. Knowledge Management and Communications

Knowledge management, sharing, and communications

Utilizing available knowledge to apply best practices and lessons learned is important during both Project design and implementation to achieve greater, more efficient, and sustainable conservation results. Sharing this information is useful to other projects and initiatives to increase their effectiveness, efficiency, and impact among the conservation community. Knowledge exchange is tracked and budgeted in Component 4 of the Results Framework.

Prior to finalizing the Project design, existing lessons and best practices were gathered from literature review and stakeholder consultations and incorporated into the Project design. Please reference section 3.7 to review the lessons and understand how they were utilized.

During Project implementation and before the end of each Project year, knowledge produced by or available to the Project will be consolidated from project stakeholders and exchanged with other projects selected through the GEF Challenge Program for Adaptation Innovation, as well as similar projects and organizations in the adaptation and resilience sector, by the PMU. This collected knowledge will be analyzed alongside Project M&E data at the annual Adaptive Management meeting. It is at this meeting that the theory of change will be reviewed, and modifications to the annual work plan and budget will be drafted. Making adjustments based on what works and what does not work should improve Project results.

Lessons learned and best practices from the Project will be captured from reports and from stakeholders at the annual Adaptive Management meeting. The external terminal evaluation will also provide lessons and recommendations. These available lessons and best practices will then be documented in the semi-annual Project Progress Reports (with best practices annexed to the report).

The Fund Manager and the Adaptation and M&E Specialist will ensure that relevant stakeholders, such as the Board of Trustees, Project partners, and selected SMEs are informed of the Adaptive Management meeting, formal evaluations, and any documentation on lessons and best practices. These partners will receive all related documents, such as Evaluation Reports, annually updated factsheets, presentations, and newsletters to ensure the sharing of important knowledge products.

A strategic communications plan has been budgeted for this Project and will include the following knowledge and communication products:

- Component 4: knowledge management and effective Project M&E:
    - The Project will meet the reporting requirements of the WWF GEF Agency, producing the following reports: PPR and Terminal Evaluation Report.
    - The following knowledge and communication products will be developed:
        - annually updated Project factsheets;
        - annually updated Project presentations;
        - e-learning webinar by the end of the Project;
        - three newsletters for key stakeholders; and
        - a virtual workshop by the end of year two.

Knowledge and communication products developed by the Project will be published on a dedicated Project section on the LRF website. This will allow a wider audience to gain knowledge from the Project. In addition, the Adaptation and M&E Specialist will share the factsheets and newsletters with stakeholders more directly through e-mail and the annual presentation through the virtual workshop by the end of year two.

The Project has budgeted travel to key workshops, such as the GEF Challenge Program for Adaptation Innovation knowledge workshop, to share best practices and lessons learned from the Project and to learn from practitioners in the same field.

Appendix 11. Climate Risk Screening: LRF's vulnerability assessment

The Landscape Resilience Fund (LRF) aims to support the most vulnerable people in the land-use space to effectively adapt to climate change by investing in small and medium enterprises (SMEs) with climate-resilient practices through sustainable agriculture, forestry and other nature-based solutions (NBS), while seeking to additionally deliver gender, biodiversity and climate change mitigation benefits. Therefore, a **Vulnerability Framework** has been developed (based on IPCC's AR5), in order to describe the processes and tools to identify potential climate-related and derived hazards as well as design and recommend adaptation practices and strategies that are targeted to be implemented with the support of the LRF, as well as serving as a guideline for building and strengthening resilience for vulnerable populations and landscapes in the countries where the SMEs will be selected.

In the LRF's preparation to select SMEs with climate-resilient practices, the vulnerability assessment will be based on the context of adaptation which covers the analysis of anticipated climate-hazards and the local vulnerabilities. In the context of the LRF, vulnerability will be therefore evaluated through the elements that contribute to it. This will be made with the help of the vulnerability assessment as a starting point. It is therefore important not only to consider exposure to climate-related hazards and the potential impacts (i.e., socioeconomic) but also the factors that contribute to sensitivity and the capacity to adapt (IPCC, 2014) (please refer to Figure 14). This assessment will help to better comprehend the cause-and-effect relationship behind climate change and its hazards and impacts on SMEs, their communities, and landscapes they live in.

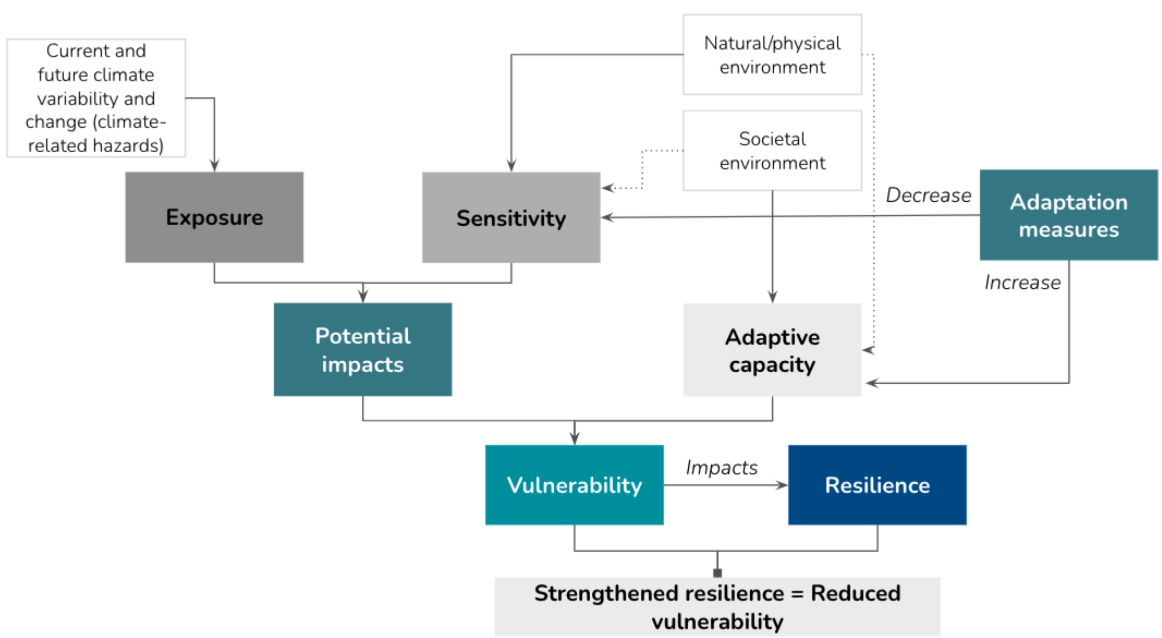


Figure 14: Components of vulnerability and its relation to adaptation measures and resilience. Source: Frietzsche et al. (2014) based on the IPCC's AR4 and AR5 approach to vulnerability (IPCC,2007, 2014) modified with added components (adaptation measures and resilience).

1. Proceedings of this Vulnerability Framework

The LRF's vulnerability assessment has been adapted based on the steps provided by STAP's risk screening guidance. The vulnerability assessment follows a mixed-methods approach utilizing a top-down and bottom-up approach (Figure 15) for the compilation of information (exposure, sensitivity, adaptive capacity) that will lead to a more realistic assessment of the SMEs risks and their vulnerabilities.

This process is also a combination of a data driven approach with a qualitative, expert-based approach and local knowledge. The importance of this lies in the fact that a vulnerability assessment is a highly participatory process, given that it is a result from indications of causes and magnitudes of specific climate-related impacts and risks for a specific region and location, specific sectors and/or specific groups of people. Figure 15 summarizes the process of the screening, compilation and analysis of data and information, that finally leads to the assessment and the search for recommendations.

Uses for the vulnerability assessment (outputs):

- **Identification of current and potential drivers of sensitivity and exposure:** the assessment will allow to better understand the factors that drive the vulnerability of SMEs and their communities as well as the landscapes they are in.
- **Identification of entry points for intervention:** information on the factors underlying a system's vulnerability which will serve as a starting point for identifying suitable adaptation interventions on sustainable agriculture and forestry as well as other nature-based solutions (NBS).
- **Tracking changes in vulnerability**: use vulnerability assessments to track changes in climate change vulnerability over time.
- **Monitoring and evaluation** of adaptation.

These outputs are reflected in Figure 15 as the white squares and how it fits in each step of the vulnerability framework's process to collect information.

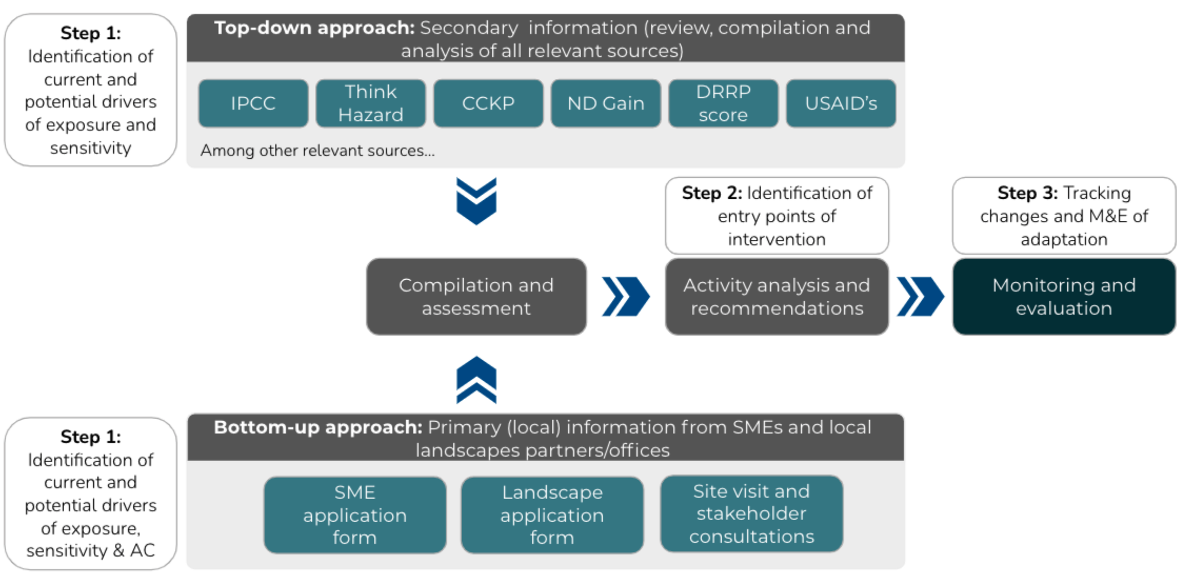


Figure 15: Mixed approach (top-down and bottom-up) and process of analyzing information for the LRF's vulnerability assessment.

When an SME is identified as a potential investee or they have presented some interest in the LRF, both primary as well as secondary information will be collected (Figure 15). Firstly, as a primary source of information (bottom-up approach), an "*SME assessment form*" will be sent to the interested SME. This form collects some initial and important information (such as current and potential exposure, as well as factors that can lead to sensitivity) and where the climate-related hazards that threaten the SME and their community are also asked.

Secondly, once this SME has been identified and as part of the top-down approach (see bottom part of Figure 15), an analysis for the level of exposure/potential impacts, sensitivity, and adaptive capacity for the SME's region/location will be carried-out. This includes scoping and gathering information on climate change vulnerability and identification of main climate-related hazards (will be later matched/compared with SME's response). This information will be appropriately analyzed and stored for further comparison.

Sources of information to be reviewed include but not limited to:

- USAID's Climatelinks
- The University of Notre Dame's ND-GAIN and collecting the information on:
    - ND Gain - Vulnerability
    - ND Gain - Readiness
    - Worldwide ranking by ND-GAIN Index.
    - Country Index Rank
- The Climate Change Knowledge Portal (World Bank)
- Disaster risk reduction progress score (World Bank)
- Climate Risk Index (CRI) (Global Climate Risk Index 2020)
- National Adaptation Plans (if relevant and when available)
- Any other databases/references according to the need for information. Other sources of information to consider:
    - national communications and adaptation plans studies on socio-economic, environmental and development issues
    - IPCC reports and national studies on climate change information portals

2.Climate-related hazards categorization

Even though this Project has not yet identified specific SMEs, and hence the location where their interventions will take place is unknown at this point, nevertheless those climate hazards that are particularly relevant (and have been established by the IPCC's projections) as those that will affect the regions that this Project targets have been identified i.e. developing countries and LDC's. Additionally, the location of the initial project pipeline has been considered to explore the potential climate-related hazards and projections.

Based on the information provided by the IPCC and the impacts projected for the regions of interest, the relevant climate-related hazards were selected and "re-categorized" on two levels: the first level which groups the climate-related hazards as such and a second level of derived hazards, from the possible combination of the first level (keeping in mind they could vary given the context where the events could happen) (Figure 15). For the first level these are: extreme precipitation, low precipitation, high temperatures and storms. The second level are: floods, droughts, water scarcity, forest fires, increase in annual pests and sea-level rise. Figure 16 presents the two levels of hazards with an additional column showing how these could lead into socio-economic impacts.

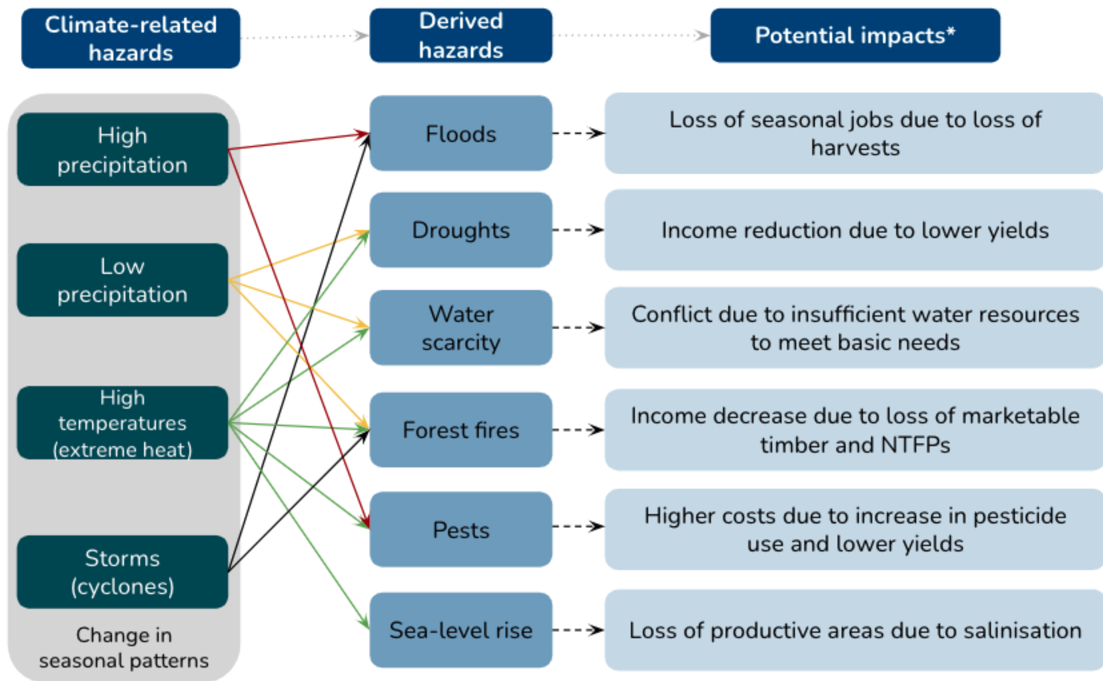


*Figure 16: Expected climate-related hazards, derived hazards and associated (potential) socio-economic impacts. *Potential impacts are examples of possible outcomes that are dependent on the location and context*

2.1 Climate-related hazards identification

As mentioned in the previous section, climate-related hazards and derived hazards will be identified through the direct responses from the SMEs (with the SME assessment form) and through the revision of relevant data and information. According to the responses and projections, these hazards will be recategorized based on the first and second level categories established for the Framework (Figure 16).

3.Vulnerability and exposure assessment

As presented in Figure 15, through the mixed-methods approach, the combination of top- and down-approaches to retrieve information on vulnerability through the elements that contribute to it will be used, namely sensitivity, exposure and adaptive capacity. This will be obtained through primary information that will be from the SMEs (through the above-mentioned SME application form) and from secondary information that will be obtained through conducting the screening, review, analysis and collection from sources that can provide relevant information from the SMEs' location on climate-related hazards (current and future) and vulnerability elements (drivers of sensitivity, adaptive capacity and if possible, potential impacts).

The collected information should contribute to clarifying the following questions:

- Are relevant data and information available on climatic risks and vulnerabilities? i.e. is further research or analysis needed?
- Baseline is clear, i.e. exposure to climate risk today and in the future.
- How does the (proposed) activities of the SMEs address one (or several) of the identified climate threats?
- Are major drivers and directions of climatic and non-climatic changes and their inter-relationships understood and taken into consideration for the project design?

If there are certain components that were not possible to be analyzed through the SMEs' answers and the analysis on secondary data (or information is not available), a further approach to the SMEs will be necessary to clarify these points, or an approach to the identified relevant stakeholders. This will be done either through a bilateral call or an additional questionnaire sent to the SME.

- **Risk rating**

This assessment will include a risk rating based on STAP's climate risk screening guidelines, 2019. Based on the information collected and analyzed before, the risk will be given a rating depending on the level of hazards threatening the SMEs and their communities, the sensitivity and level of adaptive capacity. This step is presented in Figure 15 as assessment and recommendations, which will allow the identification of entry points. Once risk has been rated, ameliorative actions are identified and prioritized through the creation of risk management plans. Risk management includes actions, strategies to reduce the likelihood and/or consequences of risks or to respond to consequences. It is also important to confirm that these adaptation or mitigation interventions do not themselves result in additional risks.

- **Very high risk:** The outcome of the project will be jeopardized by climate change, with a potential for severe impacts of significant irreversibility. Climate-related risks are likely to result in financial, environmental and/or social underperformance or failures. Adaptation measures are likely to be ineffective, extremely costly, socially unacceptable or increase risk and reduce resilience. Adaptation limits may be reached, or loss and damage will occur.
- **High risk:** There is a potential for widespread impacts from climate change. Outcomes may be undermined by climate change, and adaptation measures may not be readily available. Financial, environmental and social underperformance or failure cannot be excluded. However, risk management activities are likely to increase resilience and adaptive capacity of households, infrastructure, communities, and ecosystems.
- **Moderate risk:** Impact from climate change may occur, but will be limited, transient or manageable. Financial, environmental and social underperformance or failure is unlikely. The system has the capacity to manage volatility, shocks, stressors or changing climate trends.
- **Low Risk:** No impact from climate change, or even positive impact, is expected based on best available science. Financial, environmental and social underperformance or failure appears very unlikely.

- **Measures identification to vulnerability reduction: recommendations**

Human and natural systems have an intrinsic capacity to cope with adverse circumstances. Notwithstanding, with continuing climate change altering regional and local weather patterns and a myriad of expected and projected impacts, adaptation strategies will be needed to maintain, or given the case increase, this capacity.

There are many ways of categorizing adaptation options, but identifying the needs stemming from climate change risks and local vulnerabilities can provide a foundation for selecting and categorizing adaptation options (IPCC, 2014). Therefore, the LRF has identified three main categories as a way of re-grouping the different potential adaptation practices and strategies that can be recommended based on the context (and location) of the SME. The main categories for the LRF are sustainable agriculture and forests as well as other nature-based solutions (NbS). From the literature reviewed so far, it is expected that the proposed categories will further contribute to either strengthening the adaptive capacities or reducing vulnerabilities, as some of the compiled projects and examples address particular climatic threats (or a combination of them). This section presents an extract (Table 36) of the first identified adaptation projects under each of the LRF categories. This "project portfolio" will allow for example, an easier identification of potential projects that the SMEs could incorporate into their planning or to strengthen their proposed activities/interventions. Additionally, it could also be used when providing pre-investment support to strengthen or improve anticipated impact of climate adaptation technologies and measures.

Table 36: Extract of adaptation project examples based on the LRF's main focus categories.

Category	Subcategory	Adaptation measures examples
Agriculture	Agroforestry	• shaded coffee • cacao+tea • multi+story annual perennial systems • crop+fruit trees • non-timber forest products (NTFPs) + cash crops (peanuts, cocoa)
	Adapted crop production	• Drought tolerant varieties • Flood resistant species
	Integrated pest management	• Protect crop and pasture health by combining different pest control methods, thus reducing the use of synthetic pesticides and the toxic footprint of agriculture.
Forest	Forest landscape restoration	• Mosaic (forest + agriculture) • Riparian areas (Native species with strips of grass, shrubs and/or trees) • Productive (fruit production, timber production, paper production) • Forest reforestation • Promoting natural regeneration
	Forest conservation	• Increase efforts to reduce current stress factors • Incorporate long-term climate change into wildland fire planning • Develop silvicultural treatments to reduce drought stress

Category	Subcategory	Adaptation measures examples
		• Review genetic guidelines for reforestation
	Community forest management	• Community based forest management
Nature Based Solutions (NBS)	Mangroves	• Conservation • Protection • Restoration
	Wetlands	• Conservation • Protection • Restoration

Where in the LRF's Due Diligence (DD) process does this vulnerability assessment happen?

Given that this GEF Project is expected to happen during the third step of the LRF's DD (Figure 17), this vulnerability assessment will already have been completed by the time the pre-investment services' process has started.

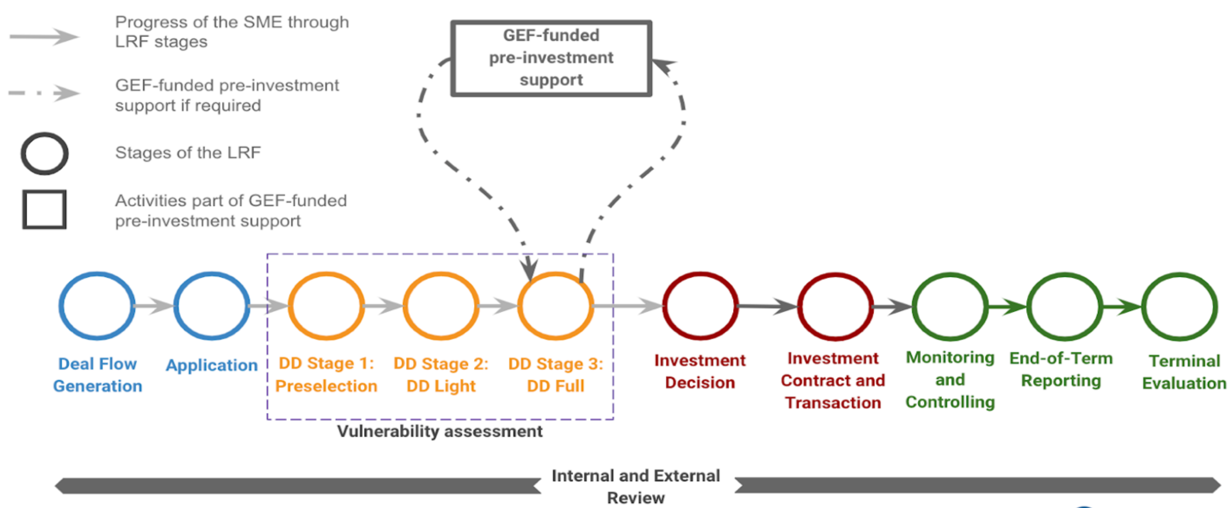


Figure 17: Journey of an SME through the LRF process and where this vulnerability assessment takes place (3 due-diligence steps).

Finally, as a summary, *Figure 18* presents all of the above-mentioned steps for this vulnerability assessment in each corresponding step of the due diligence process.

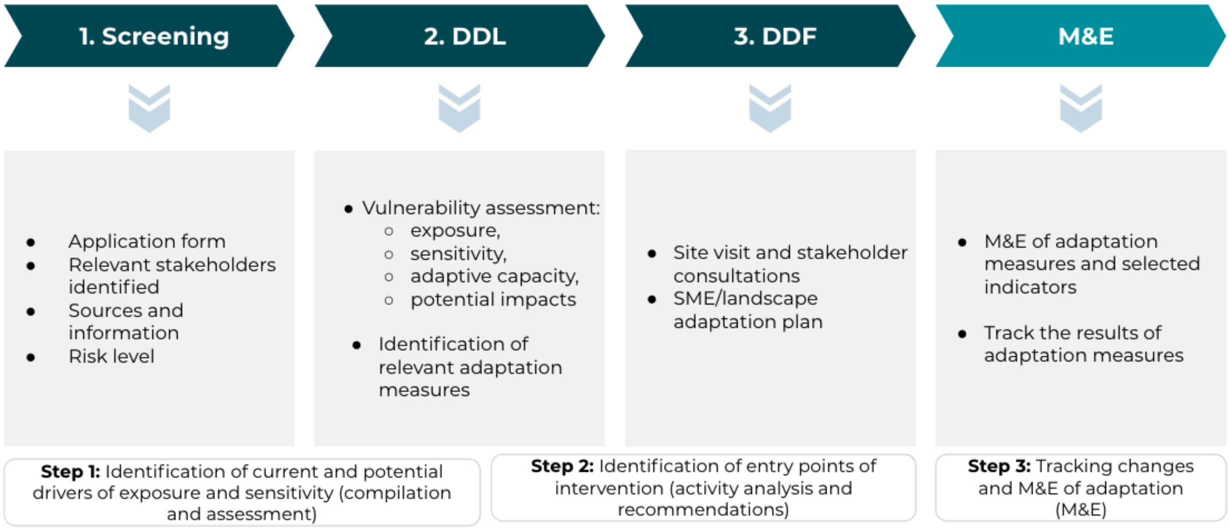


Figure 18: Summary of the vulnerability assessment in each step of DD.

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