Funding Proposal

FP181: CRAFT - Catalytic Capital for First Private Investment Fund for Adaptation Technologies in Developing Countries

Multiple Countries | Pegasus Capital Advisors | Decision B.30/03

23 November 2021

GREEN CLIMATE FUND

Contents

Note to Accredited Entities on the use of the funding proposal template

- Accredited Entities should provide summary information in the proposal with cross-reference to annexes such as feasibility studies, gender action plan, term sheet, etc.
- Accredited Entities should ensure that annexes provided are consistent with the details provided in the funding proposal. Updates to the funding proposal and/or annexes must be reflected in all relevant documents.
- The total number of pages for the funding proposal (excluding annexes) **should not exceed 60**. Proposals exceeding the prescribed length will not be assessed within the usual service standard time.
- The recommended font is Arial, size 11.
- Under the GCF Information Disclosure Policy, project and programme funding proposals will be disclosed on the GCF website, simultaneous with the submission to the Board, subject to the redaction of any information that may not be disclosed pursuant to the IDP. Accredited Entities are asked to fill out information on disclosure in section G.4.

Please submit the completed proposal to:

fundingproposal@gcfund.org

Please use the following name convention for the file name:

"FP-[Accredited Entity Short Name]-[Country/Region]-[YYYY/MM/DD]"

A. PROJECT/PROGRAMME SUMMARY

A.1. Project or programme	Programme	**A.2. Public or private sector**	Private
A.3. Request for Proposals (RFP)	*If the funding proposal is being submitted in response to a specific GCF Request for Proposals, indicate which RFP it is targeted for. Please note that there is a separate template for the Simplified Approval Process and REDD+.* Not applicable		
A.4. Result area(s)	*Check the applicable GCF result area(s) that the overall proposed project/programme targets. For each checked result area(s), indicate the estimated percentage of GCF budget devoted to it. The total of the percentages when summed should be 100%.*		
	Mitigation: Reduced emissions from: ☐ Energy access and power generation: ☐ Low-emission transport: ☐ Buildings, cities, industries and appliances: ☐ Forestry and land use: Adaptation: Increased resilience of: ☒ Most vulnerable people, communities and regions: ☒ Health and well-being, and food and water security: ☒ Infrastructure and built environment: ☐ Ecosystem and ecosystem services: See D1: Impact potential for additional information.		GCF contribution: Enter number% Enter number% Enter number% Enter number% 45% 30% 25% Enter number%
A.5. Expected mitigation impact	*Indicate t CO2eq over lifespan*	**A.6. Expected adaptation impact**	Over 39 million individuals N/A – global strategy
A.7. Total financing (GCF + co-finance)	400 million USD	**A.9. Project size**	Large (Over USD 250 million)
A.8. Total GCF funding requested	100 million USD *For multi-country proposals, please fill out annex 17.*		
A.10. Financial instrument(s) requested for the GCF funding	*Mark all that apply and provide total amounts. The sum of all total amounts should be consistent with A.8.* ☐ Grant Enter number ☒ Equity 100 ☐ Loan Enter number ☐ Results-based payment Enter number ☐ Guarantee Enter number		
A.11. Implementation period	12 years (10 years +2 years potential extension)	**A.12. Total lifespan**	~10 years
A.13. Expected date of AE internal approval	*This is the date that the Accredited Entity obtained/will obtain its own approval to implement the project/ programme, if available.* *9/7/2021*	**A.14. ESS category**	*Refer to the AE's safeguard policy and GCF ESS Standards to assess your FP category.* I-2
A.15. Has this FP been submitted as a CN before?	Yes ☒ No ☐	**A.16. Has Readiness or PPF support been used to prepare this FP?**	Yes ☐ No ☒

A.17. Is this FP included in the entity work programme?	Yes ☐ No ☒	**A.18. Is this FP included in the country programme?**	Yes ☐ No ☒
A.19. Complementarity and coherence	*Does the project/programme complement other climate finance funding (e.g. GEF, AF, CIF, etc.)? If yes, please elaborate in section B.1.* Yes ☒ No ☐		
A.20. Executing Entity information	*If not the Accredited Entity, please indicate the full legal name of the Executing Entity(ies) and provide its country of registration and ownership type. Note that there can be more than one Executing Entity. Also indicate if an Executing Entity is the National Designated Authority. Refer to the definition of Executing Entity in the Accreditation Master Agreement.* Executing Entities: - Lightsmith Climate Resilience Partners SCSp RAIF - Lightsmith Climate Resilience GP S.à r.l. - Lightsmith Climate Resilience Management LLC - Lemanik Asset Management S.A. (AIFM management company) - GCF CRAFT Holdings, LP, a Delaware limited partnership - GCF CRAFT Holdings GP LLC, a Delaware limited liability company - Pegasus Capital Advisors, the AE, for its role in managing GCF CRAFT Holdings, LP		
A.21. Executive summary (max. 750 words, approximately 1.5 pages)			

Provide an executive summary of the project/programme including:

1. *Climate change problem*
2. *Proposed interventions*
3. *Climate impacts/benefits*

Climate Change Problem

Climate change is already increasing humanitarian tragedy and economic damage globally and will continue to do so even if global warming can be held to 1.5°C. Worldwide, natural disasters in 2020 alone produced losses of over $210 billion, significantly higher than $166 billion in 2019 (MunichRe 2021). Climate change is affecting water availability and quality, the agriculture and food sectors, energy production, infrastructure, and health through multiple direct and indirect pathways. In short, the risks and impacts increased by climate change are substantial, complex, and growing.

It has been estimated that up to $300 billion per year would be needed for climate adaptation in developing countries alone by 2030 (UNEP, 2014), but adaptation receives only 5% of all climate finance – and less than $500 million of private investment (GCA/CPI, 2021). While adaptation has been traditionally considered as a public good and a service to be provided from public funds, mobilizing private sector in adaptation holds significant potential to accelerate the pace of adaptation worldwide while also helping local economies transition to more resilient pathways.

The private sector plays a critical role in climate adaptation in several ways: First, the private sector generates adaptation technologies and solutions that can be used by businesses, communities, and governments. Private sector investors can also provide finance flows and business guidance to help accelerate the growth of companies building a more climate-resilient future. Third, the private sector plays a key role in encouraging broader adoption and upscaling of adaptation technologies and practices by demonstrating their profitability and economic viability.

The demand for adaptation technology exists in all markets, and a growing number of users demonstrate an ability to pay for such technologies. In 2018, $170 billion was estimated to have been spent on climate solutions globally. That spending is expected to more than double to $380 billion by 2022. There is an urgent need to mobilize both private sector capital and innovative technology to upscale adaptation in developing countries. In January 2021, UN Secretary General Antonio Guterres called for 50 per cent of all climate finance to be allocated to adaptation in developing countries. If capital is rapidly deployed into companies who are proposing viable adaptation solutions, vulnerable developing countries will rapidly become more resilient, because access to cost-efficient, proven adaptation technologies will be accelerated in response to demand.

Proposed Intervention

This Funding Proposal recommends that GCF commit up to $100 million of catalytic capital to scale-up ambition in adaptation finance by catalyzing the Climate Resilience and Adaptation Finance and Technology-transfer facility ("CRAFT" or the "Fund"), the first private investment fund for climate resilience and adaptation. CRAFT addresses the "Adaptation Gap" by mobilizing capital to scale up technologies for climate resilience and adaptation and applying them in developing countries using a south-south technology transfer mechanism. CRAFT employs an innovative blended finance structure, including a Junior concessional layer that mitigates downside risk for Senior non-concessional investors. Having achieved first close in 2019 with a combination of public, private, and philanthropic investors, CRAFT has been securing additional Junior and Senior capital, but its mobilization has been impacted by the effects of COVID-19. CRAFT has mobilized over $125 million of public, private, and philanthropic investor commitments into the Fund and $108 million of non-concessional capital into CRAFT's first investment. GCF's catalytic capital would help to scale investment into private sector adaptation in developing countries by mobilizing up to $136 of additional Senior non-concessional capital.

The Fund has identified multiple market segments and technologies, products, and services to manage climate variability and weather volatility, reduce physical disruption and damage from climate extremes, and reduce resource scarcity (particularly water and food).

A $100 million commitment of catalytic capital from GCF would allow CRAFT to scale-up ambition in adaptation finance and accelerate development, application, and transfer of critical private sector adaptation and climate resilience technologies in developing countries, particularly in the context of promoting green recovery from COVID-19. GCF's finance could mobilize capital in two ways: 1) encourage up to $136 million of additional Senior capital at the fund level to scale up CRAFT to its maximum size of $400 million and 2) unlock $800 million or more in co-financing at the portfolio company level. It is expected that GCF's engagement and expertise would accelerate CRAFT's impact by aligning its investments and applications with developing countries' national climate action plans and accelerating the scaling up of adaptation and climate resilience technologies and solutions.

CRAFT is focused on developing countries in which private capital mobilization is broadly more challenging. These challenges are exacerbated by COVID-19, which has increased potential investors' perceived risk of new investment strategies, particularly those aimed at developing countries. GCF's catalytic capital commitment mobilizes capital by overcoming that perceived risk, enabling CRAFT to achieve substantially greater mobilization and impact in the post-COVID-19 environment. In addition, COVID-19 has had dramatic human health impacts and increased the fragility of society and the economy, particularly in the most vulnerable developing countries, further increasing the strain on global systems that are already susceptible to the physical risks and impacts of climate change. Additional analysis on COVID-19 and its link to climate resilience can be found here.[1]

Climate Adaptation Benefits

CRAFT generates measurable adaptation benefits in developing countries by mobilizing technologies that enable the reduction of exposure to climate hazards through improved access to resilient infrastructure, resilience intelligence applications and knowledge, and other risk-reducing assets, as well as by deploying technology that leverages stronger adaptive capacity in the key vulnerable sectors. CRAFT supports investments in six categories of technologies: (1) Catastrophe Risk Modeling and Weather Forecasting, (2) Agricultural Analytics, (3) Supply Chain Analytics, (4) Geospatial Imaging and Mapping, (5) Water Harvesting and Efficiency and (6) Resilient Food Systems. CRAFT's Impact Measurement System (IMS) measures the impact of each investment on climate adaptation, the Sustainable Development Goals (SDGs), economic development, and gender.

[1] The Global Center on Adaptation, *Adaptation Finance in the Context of COVID-19*, 2021. https://gca.org/wp-content/uploads/2021/01/GCA-Adaption-in-Finance-Report.pdf

B. PROJECT/PROGRAMME INFORMATION

B.1. Climate context (max. 1000 words, approximately 2 pages)

Climate change problem: Describe the climate change problem the proposal is expected to address. Describe the mitigation needs (GHG emissions profile) and/or adaptation needs (climate hazards and associates risks based on impacts, exposure, and vulnerabilities) that the proposed interventions are expected to address. Also describe the most likely scenario (prevailing conditions or other alternative) that would remain or continue in the absence of the proposed interventions. Include baseline information. The methodologies used to derive such information, including the mitigation and adaptation needs, should be included in the feasibility study.

Context: In describing the mitigation and/or adaptation needs, briefly describe the target region/area of the proposed interventions including information on the demographics, economy, topography, etc.

Related projects/interventions: Also describe any recent or ongoing projects/interventions that are related to the proposal from other domestic or international sources of funding, such as the Global Environment Facility, Adaptation Fund, Climate Investment Funds, etc., and how they will be complemented by this project/programme (e.g. scaling up, replication, etc.). Please identify current gaps and barriers regarding recent or ongoing projects and elaborate further how this project/programme complements or addresses these.

Climate change problem

Climate change is already increasing humanitarian tragedy and economic damage around the world.[2] Even if global warming is limited to 1.5°C above pre-industrial levels, climate-related risks and impacts will increase, with substantial loss and damage to food and agriculture, water, energy, global supply chains, the built environment, and human and animal health (IPCC, 2018).[3] Given that limiting global warming to 1.5 degrees is itself increasingly challenging, it is becoming all the more urgent to accelerate the pace of adaptation.

CRAFT's Approach to the climate change problem

It has been noted that by 2030, up to $300 billion per year would be needed globally for climate adaptation in developing countries alone (UNEP, 2017)[4], but adaptation receives only 5% of all climate finance – and less than $500 million of private investment. (GCA/CPI, 2021)[5]. GCF investment into adaptation projects has thus far for the most part concentrated on public-sector driven initiatives. In 2020, the level of GCF contribution to adaptation was $535 million USD. Total global adaptation finance (including from entities such as AF, GEF and bilateral/multilateral donors) approached $30 billion in 2019. [6]

Traditional approaches to financing adaptation are inadequate because they rely solely on development and aid budgets, which have proven slow to mobilize. According to the Global Commission on Adaptation (GCA) and Climate Policy Initiative, less than $500 million of private investment can be ascribed to adaptation and climate resilience (GCA/ CPI, 2021). There is an urgent need to mobilize private sector capital and innovation to enable climate adaptation in developing countries (UNEP, 2014).

CRAFT works by accelerating the development of private sector driven technologies and services in the following in-demand areas:

- **Agricultural analytics:** enhance the adaptive capacity and resiliency of agriculture beneficiaries by better predicting crop planting patterns in vulnerable geographies and advising farmers on best practices around the optimal use of natural resources and agricultural inputs;
- **Water harvesting and irrigation:** improve access to year-round, clean drinking water for individuals in areas of high or extreme water stress; use irrigation technology to increase agriculture productivity and protect against climate-related crop failures;

[2]. UN FAO, *The impact of disasters on agriculture and food security*, 2015. www.fao.org/3/a-i5128e.pdf
[3] IPCC, *Global Warming of 1.5° C - Summary for Policymakers*, 2018. www.ipcc.ch/sr15/chapter/summary-for-policy-makers
[4] UNEP, *Adaptation Gap Report*, 2016. www.unep.org/adaptationgapreport/sites/unep.org.adaptationgapreport/files/documents/agr2016.pdf
[5] Only $22 billion of $410 billion of global climate finance in 2015-2016 went to adaptation, and the vast majority was public finance. Climate Policy Initiative, *Global Landscape of Climate Finance 2017*. https://climatepolicyinitiative.org/wp-content/uploads/2017/10/2017-Global-Landscape-of-Climate-Finance.pdf
[6] Global Center on Adaptation, *Adaptation Finance in the Context of Covid-19*. *https://gca.org/wp-content/uploads/2021/01/GCA-Adaption-in-Finance-Report.pdf* Climate Policy Initiative, *Updated View on the Global Landscape of Climate Finance 2019*. *https*://www.climatepolicyinitiative.org/publication/updated-view-on-the-global-landscape-of-climate-finance-2019/

- **Resilient food systems:** adopt drought tolerant seeds and trees to increase resilience in areas with degraded land and high salinity;
- **Geospatial mapping and imaging:** enable the quantification of climate pressures and changes which are massive in both geographic scope and timeline; satellite technology can rigorously characterize change and develop models based on historical data to forecast change to inform adaptive decision-making;
- **Catastrophe risk modeling/disaster risk management:** reduce exposure to climate related hazards by informing strategic planning, decision-making and investment to build climate resilience for physical and natural assets through climate risk assessments.
- **Supply chain analytics:** enhance the adaptive capacity of companies, employees, goods and services across supply chains by incorporating weather and other parameters to support demand forecast, inventory and end-to-end management.

CRAFT is focused on investing in and scaling up adaptation solutions for developing countries that have a combination of climate vulnerabilities and an enabling environment for private investment (i.e., a history of successful private equity investment). CRAFT's investments in companies in developing countries that produce adaptation solutions will support their scaling up and the deployment of their adaptation solutions into developing countries. Presently, adaptation solutions companies face multiple barriers to securing capital to scale up and deploy their technologies, such as limited access to finance as SMEs in developing countries and a lack of understanding that their adaptation solutions can be applied in other developing countries that will face similar challenges because of climate change. These challenges have been compounded by the COVID-19 global pandemic, which in 2020 resulted in an estimated 40% reduction in foreign direct investment into developing countries (GCA/CPI, 2021) and increased fragility and challenges for SMEs in developing countries.

These developing countries - in which adaptation solutions companies are located and will deploy their technologies - face both increasing chronic risks such as water stress, sea level rise, flooding, wildfire, and land degradation as well as increasing frequency and severity of extreme weather events (IPCC, 2019). CRAFT's investment in scaling up and applying adaptation and climate resilience solutions in these developing countries will build private sector capacity for adaptation and climate resilience. Moreover, by catalyzing a global market, CRAFT supports the broader application of adaptation technologies to other developing countries, including Low Income Countries (LICs) and Small Island Developing States (SIDS) (i.e., as a global market for adaptation technologies is scaled up, and becomes more affordable, other developing countries will also benefit from those technologies in the future). CRAFT includes country concentration limits to maintain risk diversification and focuses on a range of technology areas to promote portfolio diversification. CRAFT's investment of GCF funding will be targeted at the countries of focus, but may well have a longer term benefit for other developing countries as well.

CRAFT's criteria for developing country selection include a close examination of each country's (a) income level, (b) climate vulnerability, and (c) private investment environment. To achieve higher potential impact on climate resilience and adaptation, the Fund evaluated developing countries for climate vulnerability across several different metrics (vulnerability rankings, historical losses, projected hazards, etc.). Analysis was based on several sets of climate vulnerability rankings (e.g., Germanwatch CRI, ND-GAIN Index, CPI analysis, IPCC discussion of regional climate risk and adaptation needs). Please see Annex 24 for a country-by-country vulnerability assessment and CRAFT's alignment with each country's climate policies and plans. As part of this process, CRAFT consulted each country's NDC and existing climate policies (e.g., NAPs) to assess what each country identified as its most pressing climate vulnerabilities. CRAFT's six initial focus areas, which include agricultural analytics, water harvesting and drip irrigation, resilient food systems, geospatial mapping and imaging, supply chain analytics and catastrophe risk modeling, overlap with the technology need of all 6 NOL countries identified in this proposal. By deploying capital into companies that offer these solutions, CRAFT's potential climate impact addresses the vulnerabilities below.

CRAFT builds on and complements the GEF supported Adaptation SME Accelerator Project (ASAP). The ASAP project was targeted to enhancing the availability and uptake of climate adaptation solutions by identifying, engaging and empowering SMEs providing such solutions in developing countries. The ASAP project contributed to the identification of Adaptation SMEs worldwide and the development of an "adaptation solutions taxonomy" on which this project is based. The ASAP project also linked to national and regional level SME incubators to encourage the emergence of private sector in adaptation relevant sectors and markets.

CRAFT also supplements the Adaptation Fund, LDCF and the Climate Investment Funds by scaling up private sector adaptation investment and capacity in developing countries. In all beneficiary countries, CRAFT investments will be consistent with national government programs, as well as relevant climate finance programs and projects, to ensure complementarity of approaches and maximization of benefits. Market evaluation conducted prior to investment in portfolio projects will include baseline assessments to understand any past lessons from adaptation programming in

the country, end-user ability to pay and the sustainability/profitability of investments, and an analysis of public and private sector customers and value chains to assess demand and demand growth.

CRAFT's programme interventions occur through its investments in companies that offer products, services or technologies that reduce or remove an identified hazard, threat or impact of climate change. (Note that the table below provides an illustrative and non-exhaustive set of hazards, threats, and programme interventions. As climate change continues to unfold, the scale, frequency, and type of hazards and impacts are expected to change as will the programme interventions to reduce or remove them and the context in which those interventions will occur, such as recovery from the COVID-19 global pandemic (GCA/CPI, 2021).)

Eligibility criteria for programmatic adaptation projects

Region	Country	Hazard	Impact	Programme interventions
Eastern Province	Rwanda	More frequent violent storms with torrential rains Drought in 2016 in the Kayonza, Kirehe, and Nyagatare districts left 44,000 households (some 225,000 people) food insecure[7] Warmest average annual temperatures in the country of 20-21°C[8] Publications: USAID – Rwanda Climate Change Risk Profile[7] Climate Change in Rwanda: The Observed Changes in Daily Maximum and Minimum Surface Air Temperatures during 1961–2014[8]	Crop damage or total crop destruction and thus yield reduction. Increased flooding and landslides destroying crops cultivated on vulnerable/fragile areas such as valleys and steep slopes.	Provision of data and analytics to be used for risk transfer, including agriculture insurance Agriculture: identification and investment into strategies that enhance food security and sustainable food production using agricultural analytics and/or resilient food products (e.g., climate resistant seeds, etc.), including solutions that make the supply chain more resilient; target knowledge transfer in areas such as improved soil management practices Water: Investment in companies offering water harvesting solutions or drip irrigation Risk Management and Analytics: Geospatial, weather monitoring, catastrophe risk modeling and other climate intelligence services to effectively monitor and predict extreme weather events such as floods to ensure citizen livelihood and reduction in supply chain disruptions
South-western Region	South Africa	Increasing temperature, heat waves; probability of summer heat waves has increased dramatically over the last 2 decades of the 20th century compared to 1961 to 1980 (Lyon,	Reductions in crop yields, pressure on water resources Damage to infrastructure due to extreme heat and other extreme events	Agriculture: identification and investment into strategies that enhance food security and sustainable food production using agricultural analytics and/or resilient food products (e.g., climate resistant seeds, etc.), including solutions that

[7] USAID, *Rwanda Climate Risk Profile*. 2019. https://www.climatelinks.org/sites/default/files/asset/document/2019_USAID-ATLAS-Rwanda-Climate-Risk-Profile.pdf

[8] Frontiers in Earth Science, *Climate Change in Rwanda: The Observed Changes in Daily Maximum and Minimum Surface Air Temperatures during 1961–2014*. 2021. https://www.frontiersin.org/articles/10.3389/feart.2021.619512/full

		2009) leading to increased frequency of fires Water shortages projected due to increased water withdrawals for irrigation in the Breede River (Steynor et al., 2009) Under low mitigation scenarios, temperature to increase more than 6°C Maize-based systems are particularly vulnerable to climate change and are projected to result in yield losses of 30%+ in South Africa (Schlenker and Lobell, 2010) Publications: National Climate Change Adaptation Strategy, IPCC Report - Africa	Cholera outbreaks are associated with heavy rainfall in the region and may be influenced by El Nino-Southern Oscillation (de Magny et al., 2007, 2012; Mendelsohn and Dawson, 2008) Publications: National Climate Change Adaptation Strategy, IPCC Report - Africa	make the supply chain more resilient Water: Investment in Companies offering water harvesting solutions, the safe disposal of wastewater effluent and strategies that minimize outflows into the marine environment Risk Management and Analytics: Geospatial, weather monitoring, catastrophe risk modeling and other climate intelligence services to effectively monitor and predict hurricanes to ensure citizen livelihood and reduction in supply chain disruptions; provision of data and analytics to be used for risk transfer Health: Strategies focused on medical diagnostics (i.e., with test kits), research on alternative medicine
Northern Mexico Southeast Mexico	Mexico	Droughts, precipitation and temperature, heatwaves, and disease transmission Precipitation declines of 0 to 30% are projected over Mexico by 2040, with the most acute declines in northwestern Mexico, the primary region of irrigated grain farming (IPCC North America) Ocean temperature increases, accelerated sea level rise, greater frequency and intensity of extreme weather events, increase in the incidence and spread of diseases caused by vectors, alterations to agroclimatic systems and fishing (USAID 2017).	Decreasing agricultural and livestock yields Increasingly exposed infrastructure, settlements and assets Publications: Estrategia Nacional Visión de Cambio Climatico	Agriculture: identification and investment into strategies that enhance food security and sustainable food production using agricultural analytics and/or resilient food products (e.g., climate resistant seeds, etc.), including solutions that make the supply chain more resilient; target knowledge transfer in areas such as improved soil management practises Water: Investment in companies offering water harvesting solutions or drip irrigation Risk Management and Analytics: Geospatial, weather monitoring, catastrophe risk modeling and other climate intelligence services to effectively monitor and predict changing rainfall patterns and heat stress; monitor to reduce supply chain disruptions; provision of data and

		Extreme events with significant damage to infrastructure; in 2013, two powerful storms simultaneously hit both coasts within a 24-hour period resulting in $5.7 billion in damages.[9] 1.4-2.0°C increase in temperature by 2050[9] In ten years, Zacatecas has lost 478 million US dollars due to drought. 2005, 2009, and 2011 were the most critical years, with 47%, 39%, and 63% losses in agricultural income. [10] Publication: IPCC- North America USAID – Mexico Climate Risk Profile[9] Drought Assessment in Zacatecas, Mexico[10] Extreme climate events and adaptation: an exploratory analysis of drought in Mexico[11]		analytics to be used for risk transfer
Southern Islands	Bahamas	Rainfall deficiency and subject to drought During wet season from June to November, islands are subject to flooding and hurricanes (i.e., Andrew in 1992, Bertha in 1996, Lili in 1996, Floyd in 1999, Michelle in 2001, etc.) Publications: National Policy for the Adaptation to Climate Change 2005	Leads to decreasing productivity in crop yields Soil is vulnerable to salinization due to flooding and sea level rise Loss of soil fertility and degradation due to increased precipitation and flooding Hurricanes can cause massive damage to infrastructure including power and telecommunication grids,	Agriculture: identification and investment into strategies that enhance food security and sustainable food production using agricultural analytics and/or resilient food products (e.g., climate resistant seeds, etc.), including solutions that make the supply chain more resilient Water: Investment in Companies offering water harvesting solutions, the safe disposal of wastewater effluent and strategies that minimize outflows into the marine environment

[9] USAID, *Mexico Climate Risk Profile*. 2017. https://www.climatelinks.org/sites/default/files/asset/document/2017_USAID_Climate%20Change%20Risk%20Profile_Mexico.pdf
[10] *Drought Assessment in Zacatecas*, Mexico. 2016. https://www.mdpi.com/2073-4441/8/10/416
[11] *Extreme climate events and adaptation: an exploratory analysis of drought in Mexico.* 2009. https://www.cambridge.org/core/journals/environment-and-development-economics/article/abs/extreme-climate-events-and-adaptation-an-exploratory-analysis-of-drought-in-mexico/834769A864777E5D8560DC97D90899C9

			docks, roadways, homes, schools and medical facilities. The cost to replace damaged infrastructure due to Hurricane Joaquin in 2015, was estimated to be more than 80 million Bahamian dollars (INDC 2015). Publications: First National Communication on Climate Change IPCC Report on Small Islands INDC – November 2015	Risk Management and Analytics: Geospatial, weather monitoring, catastrophe risk modeling and other climate intelligence services to effectively monitor and predict hurricanes to ensure citizen livelihood and reduction in supply chain disruptions; provision of data and analytics to be used for risk transfer
Tobago	Trinidad & Tobago	Between 1961-1990, average ambient temperature increased by 0.6 °C but the rate of warming has picked up to an increase of 1.7 °C over the period 1961-2008 (National Climate Change Policy 2011). Increased potential to be hit by tropical storms Increased frequency and intensity of hurricanes and hillside erosion.[12] Intensifying coastal erosion and need for nature-based solutions.[12] Datasets and Models: Providing Regional Climates for Impacts Studies (PRECIS) system from the Hadley Centre Coupled Climate Model (HADCM) global model NOAA Research Publications: National Climate Change Policy 2011	Increased aridity of soils and decreased crop yields due to the decreased availability in water for irrigation and tolerance of crop varieties Soil is vulnerable to salinization due to flooding and sea level rise Less available surface water due to increased evapotranspiration Reduced percolation and recharge of groundwater reserves in aquifers Publications: IPCC AR4 – Impacts of Climate Change to the Caribbean Region National Climate Change Policy	Agriculture: identification and investment into strategies that enhance food security and sustainable food production using agricultural analytics and/or resilient food products (e.g., climate resistant seeds, etc.), including solutions that make the supply chain more resilient Water: Investment in Companies offering water harvesting solutions, the safe disposal of wastewater effluent and strategies that minimize outflows into the marine environment Risk Management and Analytics: Geospatial, weather monitoring, catastrophe risk modeling and other climate intelligence services to effectively monitor and predict hurricanes to ensure citizen livelihood and reduction in supply chain disruptions; provision of data and analytics to be used for risk transfer

		Coastal Engineering in the Caribbean[12]		
Amazon Region	Brazil	Increased temperatures, 1.7°C – 5.3°C increase in temperatures by 2085; Potential effects of climate change in Brazil suggest changes of 4–4.5°C in surface temperature as a result of increased CO2 concentrations (de Siqueira et al., 1994, 1999) (IPCC 2014). In southern and southeastern Brazil, long-term tendencies for air temperature, from the beginning of the 20th century, have indicated warming tendencies (Sansigolo et al., 1992) (IPCC 2014). During the past decades, patterns of precipitation have changed significantly and temperatures have risen by 0.5°C (IPCC 2014). Droughts that led to forest fires were detected during the very strong ENSO events of 1911–1912, 1925–1926, 1982–1983, and 1997–1998. Extreme droughts also occurred during these years in northeast Brazil (IPCC 2014). In sub-tropics, precipitation exhibits a long-term change, with a sharp increase in the period 1956–1990 after a dry period along 1921–1955 (Castañeda and	Increased desertification and forest fires Decrease in biodiversity Reduced availability of freshwater, increased flooding and coastal erosion Increased food insecurity Reduced crop yields Decreased available arable land, driving continued deforestation Erosion and depletion of nutrient rich soil Reductions in rainfall would affect not only Amazonia but also Brazil's central-south region, where most of the country's agriculture and silviculture are located Risk of water supply shortages for cities, hydropower generation, and agriculture Publications: ClimateLinks, USAID	Risk Management and Analytics: Geospatial, weather monitoring, catastrophe risk modeling and other climate intelligence services to effectively monitor and predict hurricanes to ensure citizen livelihood and reduction in supply chain disruptions; provision of data and analytics to be used for risk transfer Agriculture: identification and investment into strategies that enhance food security and sustainable food production using agricultural analytics and/or resilient food products (e.g., climate resistant seeds, etc.) Water: Investment in companies offering water harvesting solutions or drip irrigation

[12] Met Office UK. *Coastal Engineering in the UK – The Need for Climate Predictions.* 2019. https://www.metoffice.gov.uk/binaries/content/assets/metofficegovuk/pdf/business/international/coastal_engineering.pdf

		Barros, 1996) (IPCC 2014). Brazil will experience an increase of 1.43°C in the average temperature and a reduction of 1.44 per cent in rainfall in the period from 2030 to 2049, which simulations suggest will reduce the agricultural productivity by 18 per cent.[13] In order to forecast coastal response to the effects of climate change at these sites over several time horizons (2030–2070–2100), model simulations using the DRanSTM (Dilating Random Shoreface Translation Model) were performed. Simulation results have demonstrated that Cassino sector is particularly vulnerable to such effects, and therefore presents extremely high recession distances (102–103 m).[14] Publications: IPCC- Latin America Climate change and agricultural productivity in Brazil: future perspectives[13] Modelling climate change effects in southern Brazil[14] Climate change impacts on heat stress in Brazil—Past, present, and future implications for	Climate Risk Profile Brazil IPCC- Latin America	

[13] *Climate change and agricultural productivity in Brazil: future perspectives.* 2016. https://www.cambridge.org/core/journals/environment-and-development-economics/article/climate-change-and-agricultural-productivity-in-brazil-future-perspectives/0BD4A1035BC0ED1B3399DC5782D10CB0

[14] *Modelling climate change effects in southern Brazil.* 2013. https://bioone.org/journals/journal-of-coastal-research/volume-65/issue-sp2/SI65-327.1/Modelling-climate-change-effects-in-southern-Brazil/10.2112/SI65-327.1.short

		occupational heat exposure[15] Climate change evidence in Brazil from Köppen's climate annual types frequency[16]		

B.2. Theory of change (max. 1000 words, approximately 2 pages plus diagram)

[15] *Climate change impacts on heat stress in Brazil—Past, present, and future implications for occupational heat exposure.* 2020. https://rmets.onlinelibrary.wiley.com/doi/10.1002/joc.6877

[16] *Climate change evidence in Brazil from Köppen's climate annual types frequency.* 2018. https://rmets.onlinelibrary.wiley.com/doi/abs/10.1002/joc.5893

Describe the theory of change and provide information on how it serves to shift the development pathway towards a low-emission and/or climate resilient direction. Provide the diagram of the theory of change (approximately 1 page).

The theory of change should include any barriers (social, gender, fiscal, regulatory, technological, financial, ecological, institutional, etc., as relevant) that need to be addressed. Use a results chain of inputs, activities, outputs, outcomes, and impact statements, and identify the how and why of causal relations to deliver the project's expected results.

The CRAFT initiative is based on the premise that if capital was rapidly deployed to support SME-led adaptation solutions, developing countries and communities worldwide would become less vulnerable more rapidly because they would have increased access to cost-efficient, locally tailored, demand driven, technologically proven adaptation technologies. In an ideal scenario, the adaptation finance gap would be reduced and developing countries could face the impending climate changes with more preparedness, without relying on donor funding. However, several barriers need to be addressed before this solution is fully met.

Barriers

Barrier 1 – Insufficient local, actionable information about climate risks, impacts and adaptation options.

The companies offering these solutions do not call themselves "climate resilience" companies, and many do not realize their potential to address climate-related risks. Adaptation has historically not been well-defined and can take many forms. By identifying the “tools” that can be used for adaptation and resilience, CRAFT can help narrow the gap and accelerate the development of climate adaptation intelligence. In addition, many companies with these tools do not serve the sectors and geographies where they are most needed.

CRAFT applies the ASAP Adaptation Solutions Taxonomy (Annex 27) and can invest in and support Adaptation SMEs identified through ASAP. ASAP’s findings constitute an effective marketing/feasibility study which has identified Adaptation SMEs that are potential investments for CRAFT. By mapping climate resilient companies and matching them against the key vulnerabilities in each geography, CRAFT has the potential to deliver impact where it is and will be most needed as climate change continues to unfold.

Barrier 2- Limited access to technologies to manage climate risks.

Many developing countries are limited by the inadequate infrastructure and lack of resources, including climate intelligence, to enhance their communities’ capacity to adapt to climate change. By investing in the best climate resilient solutions for developing countries, and by directly supporting the Fund’s portfolio companies in expanding their offerings and footprints globally, CRAFT supports technology transfer for climate resilience. Through the international expansion of portfolio companies’ commercial activities, CRAFT can embed technology, knowledge, and capacity for climate resilience within businesses, governments, and communities in developing countries.

Barrier 3 – Low risk appetite of commercial investors to invest in adaptation technologies companies in developing countries leading to insufficient finance for adaptation SME growth.

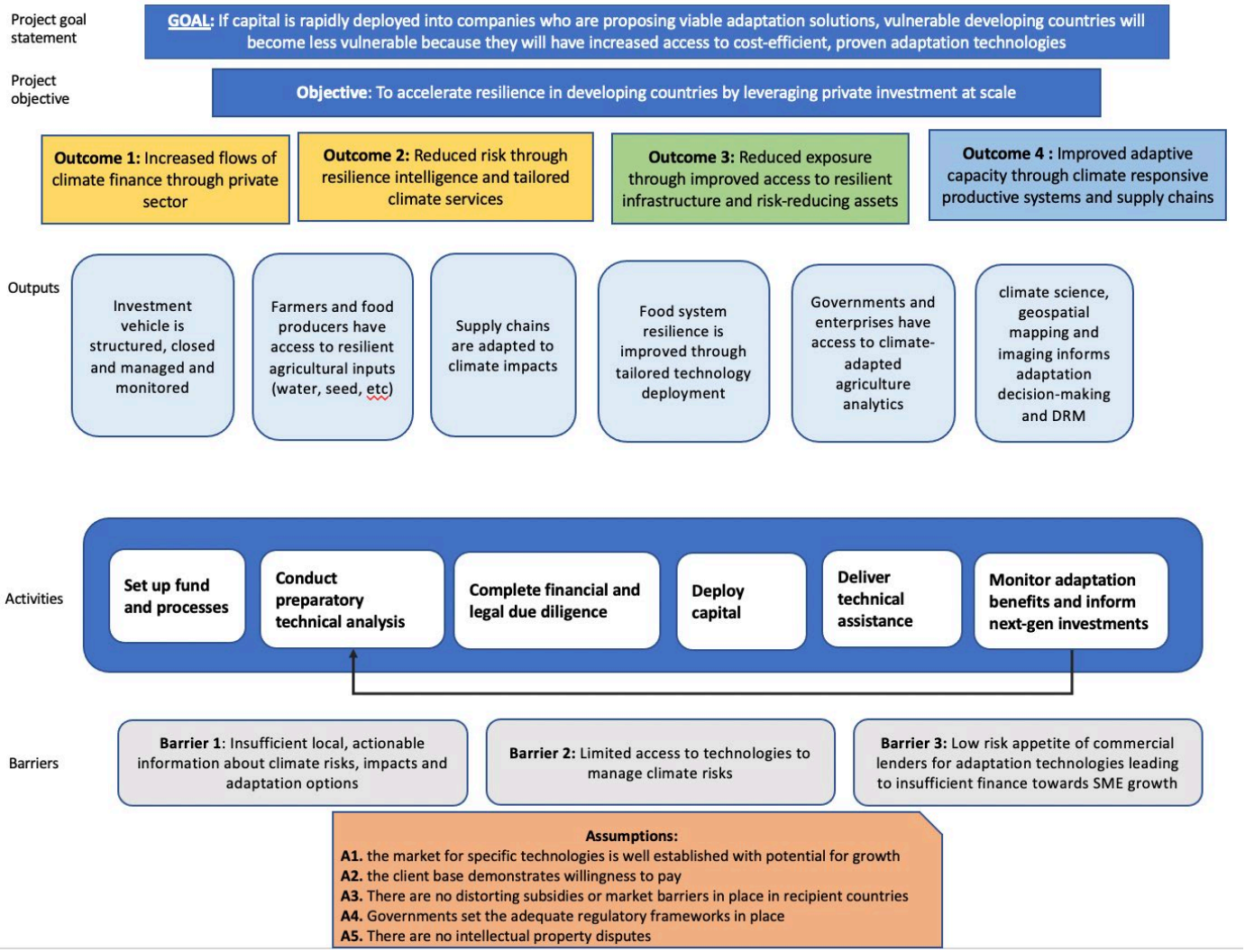
By 2030, it is expected that the cost of adaptation will reach $140-$300 billion per year. However, as of 2019, only $30 billion was deployed.[17] GCA/CPI reports that private investment in adaptation remains limited to less than $500 million as of January 2021 (GCA/CPI, 2021), with FDI into developing countries declining by 40% in 2020 in the context of COVID-19. SMEs in general face substantial barriers to accessing finance in developing countries, with the World Bank reporting that 40 percent of MSMEs in 128 countries are credit constrained (IFC, 2017). The challenge of SME access to finance in developing countries is further compounded for SMEs involved in adaptation and climate resilience (CPI, 2018).[18] Commercial investors are often hesitant to take on risk for new strategies, especially in developing markets. CRAFT employs an innovative blended finance structure, with a Junior concessional layer that mitigates downside risk for Senior non-concessional investors, which encourages adaptation-finance investment. The Fund sees adaptation investing as an opportunity to generate returns while delivering impact.

[17] The World Bank, *Enabling Private Investment in Climate Adaptation and Resilience. 2021*. https://openknowledge.worldbank.org/bitstream/handle/10986/35203/Enabling-Private-Investment-in-Climate-Adaptation-and-Resilience-Current-Status-Barriers-to-Investment-and-Blueprint-for-Action.pdf?sequence=5&isAllowed=y

[18] IFC, *MSME Finance Gap.* 2017. https://www.ifc.org/wps/wcm/connect/03522e90-a13d-4a02-87cd-9ee9a297b311/121264-WP-PUBLIC-MSMEReportFINAL.pdf?MOD=AJPERES&CVID=m5SwAQA

COVID 19 – challenges and opportunities: The need for adaptation technologies and solutions is even greater and more urgent than before due to the humanitarian and economic impact of COVID-19 on developing countries, which has further constrained public investment into adaptation-related sectors and constricted adaptive capacity of many communities. This is compounded by accelerating physical climate risks and hazards; yet the risk appetite of most private investors for first time strategies – such as climate adaptation investment for emerging markets – has been dramatically impacted as well. GCF's catalytic capital commitment would help to overcome that perceived investment risk and to scale up finance for adaptation and climate resilience solutions for developing countries in the recovery from COVID-19.

CRAFT Theory of Change



CRAFT invests in technologies that help communities, businesses, and governments assess, reduce and manage climate vulnerabilities, which are defined as significant risk of loss, damage, or harm to specific populations, sets of physical assets, or economic or ecological systems resulting from physical phenomena that have a significant contribution from climate change.[19] CRAFT accomplishes this by investing in climate resilience "tools" (technologies, products, and services) that can help assess and manage climate risks, resulting in:

[19] Some key climate vulnerabilities include: (a) water stress, water scarcity, and drought affecting both urban and rural populations in regions such as Southern and Eastern Africa; (b) declining agricultural productivity from drought, aridification, and heat stress in regions such as Southern and Eastern Africa and North Africa; (c) supply chain disruption affecting manufacturing, logistics, and industry globally; (d) physical damage to homes, buildings, and infrastructure from storms and floods in regions such as coastal South and Southeast Asia; and (e) harm to human and animal health from the spread of disease vectors in regions such as Latin America, the Caribbean, and Sub-Saharan Africa. IPCC: www.ipcc.ch/assessment-report/ar5

Direct impacts

CRAFT directly reduces climate vulnerabilities for beneficiaries by scaling up access to: (a) localized, asset-specific information on climate-related risks and impacts, and (b) physical products and services to manage those risks and impacts. CRAFT also makes measurable contributions toward several SDGs, gender equality and social inclusion, as well as to GHG emissions reductions and economic development. Furthermore, the accelerated development of developing country SME in sectors where demand is sure to grow would deliver multiple economic benefits in addition to helping countries transition to a more sustainable economic model.

CRAFT's Impact Measurement System (IMS) measures, tracks, and reports on these using both ex ante and ex post benefits reporting. This will feed into the identification of next-generation adaptation investments.

Indirect market-level impacts.

CRAFT creates indirect impacts by catalyzing the development of markets for climate resilience solutions. By identifying concrete examples of technologies, products and services that can support climate resilience, CRAFT has the potential to create a demonstration effect, encouraging more public and private actors to use climate resilience solutions, more entrepreneurs and innovators to adapt their existing tools to offer these solutions (or to develop new ones), and more investors to finance them. CRAFT expects to harness GCF's catalytic capital to create much greater market-level impacts through learning and market development.

Furthermore**,** the information, products, and services scaled up by CRAFT will enable the development of a pipeline of investable adaptation projects (e.g., resilient infrastructure) by demonstrating the technical feasibility, economic viability and profitability of adaptation solutions, thereby catalyzing much larger private finance flows to these investments in the future. Beyond the direct and indirect impacts from its investments, CRAFT expects to have catalytic market-level impacts in several ways: CRAFT can unlock adaptation action and investment that will continue beyond the scope and duration of the fund itself. Moreover, CRAFT's focus on information – analytics, modeling, forecasting, and engineering – as a key set of tools for resilience can yield the prerequisite data and insights needed for broader climate adaptation action and investment, including public sector adaptation finance.

Given (1) the increased need and urgency for adaptation solutions in developing countries driven by the combination of the impact of COVID-19 and the ongoing effects of climate change and (2) the increased challenge to raising additional capital for a first-time emerging markets climate adaptation investment strategy, GCF's catalytic capital commitment can have a dramatic catalytic effect in scaling up adaptation finance in developing countries. GCF's role is even more critical to overcome increased barriers created by COVID-19.

B.3. Project/programme description (max. 2000 words, approximately 4 pages)

Define the project/programme. Describe the proposed set of components, outputs and activities that lead to the expected Fund-level impact and outcome results. Components should reflect the project/programme level outcomes.

This should be consistent with the financing by component in section C.2, the results and performance indicators provided in section E.5, and the implementation timetable in annex 5.

Referring to the feasibility study, describe why this set of interventions was selected instead of alternative solutions and how the project/programme can help unlock the needed support in a sustainable manner. Also identify trade-offs of the selected interventions, if applicable.

Please note, the activities described below will lead to the programme results outlined in Section E.5, which are expressed in terms of adaptation.

Component 1 – Equity Investment

Activity 1.1 – Formation of GCF CRAFT Holdings LP and Related Entities

The Accredited Entity will form a new Delaware limited partnership to hold the GCF's interest in the co-investment vehicle ("GCF CRAFT Holdings"). GCF will be the sole limited partner and sole economic owner of GCF CRAFT Holdings. The Accredited Entity will also form a new Delaware limited liability company to serve as the general partner of GCF CRAFT Holdings ("GCF CRAFT Holdings GP"). GCF CRAFT Holdings GP will be wholly owned by the Accredited Entity. Neither GCF CRAFT Holdings nor GCF CRAFT Holdings GP will have any operations or

employees, though one or more employees of the Accredited Entity will be officers of GCF CRAFT Holdings and GCF CRAFT Holdings GP with signing authority over the entities.

Sub-Activities:

1.1.1 Procure legal services
1.1.2 Structure GCF investment vehicle and any related entities
1.1.3 Close GCF into the Fund

Indicators:

1.1.1 Number of proposals received
1.1.2 Investment vehicle created
1.1.3 USD of GCF funding raised into the Fund

Activity 1.2 – Fundraise Private Investment into Senior Tranche of CRAFT

GCF's catalytic capital enables CRAFT to continue to raise capital into the Senior layer of the fund. The main barriers to raising capital are the perceived risks of a new strategy for climate resilience and of investing in developing countries, especially during the COVID-19 pandemic and the ensuing economic crisis. If the Junior layer is completed by GCF (a minimum of $80 million to a maximum of $100 million assuming a $400 million target fund size), potential Senior investors (including several in discussions or in due diligence now) are expected to have the needed level of assurance to be able to invest.

Sub-Activities:

1.2.1 Conduct discussions with potential investors
1.2.2 Negotiate with potential investors and close on LP commitments

Indicators:

1.2.1 Number of meetings held with potential investors
1.2.2 Amount of USD raised into the senior tranche; number of LPs committing to the Fund

Activity 1.3 – Identify and Execute Investments in Climate Adaptation Companies

GCF's catalytic capital is expected to enable CRAFT to deploy capital into investments at a greater scale of climate resilience solutions companies in developing countries. During this process, CRAFT screens companies to ensure that they offer a technology, product, or service that helps its users address one or multiple key climate vulnerability/ies, risk(s), or impact(s) and build resilience (i.e., a "climate resilience solution") aligned with the Adaptation Solutions Taxonomy. To date, CRAFT has and will continue to maintain an active pipeline of promising companies that satisfies this criteria.

In addition to climate rationale, CRAFT also screens for whether the company is able to track ESG and impact metrics, and the quality of its management, among other investment criteria. The CRAFT Fund is continuously screening and adding new climate resilience investment opportunities to the pipeline. High potential investment opportunities from the pipeline then undergo CRAFT's rigorous due diligence and formal investment screening process. Investment opportunities that ultimately receive approval from CRAFT's investment committee and satisfy confirmatory due diligence thereafter are executed by the CRAFT Fund.

Sub-Activities:

1.3.1 Refine investment pipeline
1.3.2 Perform due diligence on proposed deals
1.3.3 Prepare documentation for Investment Committee and AIFM
1.3.4 Execute deals

Indicators:

1.3.1 Number of investments screened

1.3.2 Number of screening memos written
1.3.3 Number of Investment Committee Memorandums written
1.3.4 Number of equity investments made

Activity 1.4 – Manage and Report on Portfolio of Investments for Impact

After investing in companies, CRAFT will oversee its investments in accordance with industry best practices and provide ad hoc support to portfolio companies (please see Annex 22 for additional detail). CRAFT's sub-activities in Activity 1.4 to manage its investments will maximize impacts, particularly for applying climate resilience solutions to address climate vulnerabilities in developing countries and among vulnerable populations. The activity will result in improved climate adaptation outcomes (as reflected in reduced climate vulnerability experienced by beneficiaries in developing countries). The CRAFT Fund will track ESG metrics including:

- *Number of Beneficiaries:* total number of direct and indirect beneficiaries from the CRAFT Fund's investments; number of beneficiaries will be disaggregated by gender and will indicate the portion of those beneficiaries that benefit from increased resilience (reduced climate vulnerabilities) as well as the portion that are low income/vulnerable populations.
- *Number of Organizations:* total number of organizations benefiting from enhanced capacity-building or informed decision-making delivered by the company's products or services.
- *Value of Physical Assets:* total value of physical infrastructure and the built environment made more resilient to climate variability and change.

Sub-Activities:
1.4.1 Provide ad-hoc support to investees
1.4.2 Regularly monitor performance of investees
1.4.3 Prepare reporting documentation
1.4.4 Report on ESG and impacts

Indicators:

1.4.1 Number of phone calls with investees
1.4.2 Number of quarterly reports
1.4.3 Number of quarterly reports
1.4.4 Number of annual ESG and impact reports

Additional KPIs are to be agreed upon deciding to move ahead with an investment. A list of tentative indicators and KPIs (adaptation metrics) to be monitored for each type of investment is included in Annex 22. These will also be included in Annual Monitoring Reports submitted to GCF. Examples of indicators are as follows:

- volume of water saved;
- # Individuals provided new water access;
- average agricultural yield;
- # hectares covered;
- $ value of assets covered;
- # of organizations served;
- # hectares of land insured;
- # farmers extended credit, insurance or other agriculture risk mitigation product or service (disaggregated by gender)

Activity 1.5 – Exit Assets, Return Capital Plus Profit to Limited Partners, Close Out Fund

CRAFT's activities in Activity 1.5 are directed towards business success to deliver strong financial returns for its investors. CRAFT will accelerate deployment of climate resilience solutions globally (especially in developing countries), as reflected in increased sales revenues of the CRAFT Fund's investee companies and attractive financial returns for the CRAFT Fund's investors. This is essential if additional private capital is to be mobilized for climate adaptation in the future. The CRAFT Fund will track financial returns for investors, measured in dollars of capital disbursed back to investors; ratio of capital returned to capital invested (MOIC), and rate of return (IRR).

Sub-Activities:

1.5.1 Assess and negotiate exit strategies
1.5.2 Perform exits

Indicators:

1.5.1 Number of exits performed
1.5.2 Number of exits performed

Please see Annex 26 for the results framework.

Feasibility Studies
[Describe why this set of interventions was selected instead of alternative solutions
Describe how the project/programme can help unlock the needed support in a sustainable manner.]

The CRAFT Fund design and implementation is based on two previous feasibility studies and one ongoing feasibility study. These studies validated that:

- private investment in climate adaptation was a tiny fraction of overall climate finance (5% or $22 billion) and of the amount UNEP said will be needed ($300 billion per year needed for investments in adaptation in developing countries by 2030);
- there is a real opportunity to invest in climate adaptation solutions in developing countries (additional mapping has identified hundreds of climate adaptation solutions companies in developing countries);
- the CRAFT Fund would be the first private sector investment fund focused exclusively on climate adaptation and resilience; and
- the CRAFT Fund should be a blended finance fund with a minimum 20% catalytic capital layer to successfully mobilize private investment into the new area of climate adaptation.

1) Global Innovation Lab for Climate Finance – Instrument Analysis (2017)

In 2016, the Global Innovation Lab for Climate Finance (the Lab) launched a call for ideas for financial instruments aimed at addressing climate change and which are capable of mobilizing billions of dollars in private investment for climate. The CRAFT concept underwent a multistage, competitive selection process and was selected out of 175 proposals through a process involving many G7 and EU governments (UK, US, Germany, France, Netherlands, Denmark, Japan), foundations (Rockefeller, Bloomberg), MDBs (WBG, DBSA, AfDB), DFIs (FMO, BNDES), pension funds (PGGM, PensionDanmark), insurance companies (Allianz, Willis), and financial services firms (BlackRock, Bank of America, Calvert).

In 2017, CRAFT went through an intensive 9-month evaluation and stakeholder engagement process for innovation, impact, and feasibility by the Lab Secretariat (Climate Policy Initiative) and its related working group of Lab members. In September 2017, CRAFT received full endorsement of the Lab's government and financial institution members, and the Lab issued its final report, "Climate Resilience and Adaptation Finance & Technology Transfer Facility (CRAFT) – Lab Instrument Analysis" (Annex 2).

The Lab's report served as an initial feasibility study that:

- Identified the need and the opportunity for investing in climate resilience solutions, including an initial identification of potential high priority target developing countries and sectors;
- Evaluated the design of other blended finance funds, including earlier climate investment funds, and recommended feasible potential structures for the CRAFT Fund, including the use of a minimum 20% catalytic capital layer; and
- Defined a feasible implementation pathway and timeline.

2) GEF-Funded CRAFT Project – Final Report (2019)

In 2018 and 2019, the Global Environment Facility (GEF) and Nordic Development Fund (NDF) funded a much more in-depth $1.6 million, 18-month effort to design, structure, and launch the CRAFT Fund. The project, called "Structuring and Launching CRAFT: the First Private Sector Climate Resilience & Adaptation Fund for Developing Countries", focused on three main areas:

- **Investment and Impact Strategy**: Defining CRAFT's investment and impact strategy, including detailed research to help prioritize the 6 investment focus areas and to define detailed investment theses and impact

theses for each (see section D.1), and to further identify and develop the Fund's pipeline of potential investments to enable it to be launched;

- **Resource Mobilization**: Preparing for fundraising for the CRAFT Fund, including identifying categories of potentially interested investors and preparing key marketing documents and a secure data room for investor due diligence on the Fund;
- **Legal and Regulatory Structure**: Designing the legal and regulatory structure of the CRAFT Fund, including selecting the appropriate domicile, legal form, and structure of the Fund to accommodate the needs of different categories of potential investors and defining the key legal terms.

The CRAFT project produced numerous deliverables in each of the three areas and issued a final report in 2019. The detailed work through the CRAFT project successfully enabled the Fund to reach a first close with its initial set of 7 public- and private-sector investors at the end of 2019.

3) GEF-Funded ASAP Project – Ongoing (2021)

In 2019, GEF approved and funded – with some initial co-financing from the Inter-American Development Bank (IADB) – the Adaptation SME Accelerator Project (ASAP), an ecosystem-building initiative that seeks to broadly identify, integrate, and accelerate the ecosystem of small- to medium-sized companies in emerging markets across Latin America, Africa, and Asia with technologies and solutions that can help build resilience to the impacts of climate change ("Adaptation SMEs"). The program includes the identification of Adaptation SMEs in Latin America & the Caribbean, Africa, and Asia operating in sectors such as water, energy, food/agriculture, insurance, weather analytics, transportation, and infrastructure (among others) to be aggregated into a publicly searchable directory, the development of a comprehensive taxonomy to define which types of products and services are considered "climate resilience & adaptation solutions", a series of regional conferences and networking opportunities for participant Adaptation SMEs, and partnerships with existing incubator and accelerator programs to develop adaptation-, resilience- and social impact-focused curriculum for Adaptation SMEs.

The ASAP Adaptation Solutions Taxonomy (the "ASAP Taxonomy") was released in September 2020. The ASAP Taxonomy builds on existing sustainable finance definitions and frameworks to offer the first definition and eligibility criteria for identifying climate adaptation solutions offered by the private sector. In accordance with the ASAP Taxonomy, ASAP has already mapped over 300 Adaptation SMEs across the three target regions in multiple sectors and completed an adaptation solutions market study focused on Latin America. The outputs of ASAP so far have underscored the vast need and opportunity to scale private sector climate adaptation solutions. As ASAP activities continue, Lightsmith expects that additional outputs from the initiative will continue to showcase the large, existing universe of climate adaptation companies and the opportunity to connect adaptation investment and resources to the companies offering solutions with significant potential to increase the climate resilience of human and physical systems.

B.4. Implementation arrangements (max. 1500 words, approximately 3 pages plus diagrams)

Provide a description of the project/programme implementation structure, outlining legal, contractual, institutional and financial arrangements from and between the GCF, the Accredited Entity (AE) and/or the Executing Entity(ies) (EE) or any third parties (if applicable) and beneficiaries.

- *Provide information on governance arrangements (supervisory boards, consultative groups among others) set to oversee and guide project implementation. Provide a composition of the decision-making body and oversight function, particularly for Enhanced Direct Access (EDA) proposals.*
- *Provide information on the financial flows and implementation arrangements (legal and contractual) between the AE and the EE, between the EE or any third party and beneficiaries. For EEs that will administer GCF funds, indicate if a Capacity Assessment has been carried out. Where applicable, summarize the results of the assessment.*
- *Describe the experience and track record of the AE and EEs with respect to the activities (sector and country/region) that they are expected to undertake in the proposed project/programme.*

Provide a diagram(s) or organogram(s) that maps such arrangements including the governance structure, legal arrangements, and the flow and reflow of funds between entities.

Key Entities

- **Accredited Entity (AE):** Pegasus Capital Advisors, L.P. (Pegasus) – Pegasus is a private, alternative asset management firm founded by Craig Cogut that provides strategic growth capital to middle-market companies focused on the sustainability and wellness sectors. Pegasus has approximately $900 million in assets under management as of 12/31/20, across four private equity funds, and has completed over 90 private equity transactions.
- **Executing Entity (EE):** Lightsmith Climate Resilience Management LLC (the "CRAFT Investment Advisor") – The CRAFT Investment Advisor is the Investment Advisor for the CRAFT Fund and is an affiliate of Lightsmith Group, LLC (Lightsmith), which is a private, sustainable investment firm focused on climate finance. Lightsmith's co-founding senior partners are Jay Koh and Sanjay Wagle, who have over 20 years of experience in direct investing at The Carlyle Group and VantagePoint Capital Partners as well as in international development and climate finance at US OPIC, IFC/World Bank, US Department of Energy, and New York Green Bank. As the developer of CRAFT, Lightsmith won the Global Innovation Lab for Climate Finance in 2016 (out of 175 proposals) and the International Climate Finance Accelerator (ICFA) Ambassador Award in 2018 and founded and chairs the Global Adaptation & Resilience Investment (GARI) working group, a partner of UN Secretary General's A2R Climate Resilience Initiative. Other Executing Entities will include Lightsmith Climate Resilience Partners SCSp RAIF (the "CRAFT Fund"), Lightsmith Climate Resilience GP S.à r.l. (the "CRAFT GP"), GCF CRAFT Holdings, LP, a Delaware limited partnership, GCF CRAFT Holdings GP, a Delaware limited liability company, and Pegasus Capital Advisors, the AE, for its role in managing GCF CRAFT Holdings, LP.

Implementation Structure Overview

The proposed Programme is structured as an investment fund advised by the CRAFT Investment Advisor, the Executing Entity. GCF's commitment of up to $100 million to CRAFT's junior equity layer would be made to the CRAFT Fund via Pegasus Capital Advisors as the Accredited Entity to the GCF, wherein an SPV wholly owned by GCF and managed by Pegasus ("GCF CRAFT Holdings") would become a Limited Partner (LP) into a compartment of the Fund, alongside other existing and future LPs.

Pegasus will primarily serve three roles (i) administer GCF CRAFT Holdings i.e., controlling cash flows between GCF and CRAFT, (ii) act in an advisory capacity to CRAFT's investment team (a representative of the Accredited Entity will be a voting member of the CRAFT Fund's Advisory Committee) and (iii) oversee the CRAFT Fund and the other EE's to ensure compliance with the FAA. To facilitate this third role, the Accredited Entity will enter into Subsidiary Agreements with each Executing Entity that affords the Accredited Entity with sufficient rights, in its judgment, to monitor and enforce compliance with the requirements of the FAA.

GCF's commitment of up to $100 million will be invested into GCF CRAFT Holdings which will then invest as a Limited Partner in the CRAFT Fund's newly created Sub-Fund 4. Sub-Fund 4 will serve to "ringfence" GCF Proceeds so that they are invested only in NOL eligible investments. The Sub-Fund 4 ringfencing structure will be used to ensure that GCF Proceeds are deployed consistent with the NOL eligibility criteria outlined in Section 2(a) of Annex 14.

GCF Proceeds will be invested as a Junior investor alongside other Junior concessional investors, in an amount subject to a 25% Fund concentration limit, or a maximum of 25% of the total Sub-Fund 1, 2, and 3 (Junior, Senior, Parallel) investors in the CRAFT Fund plus the GCF Sub-Fund 4 amount, so that GCF's commitment is at a 1:3 co-financing ratio to other CRAFT investors.

The CRAFT Fund has held a third close, bringing total signed commitments to $132.5mm and effective commitments to $125.4mm. GCF's commitment will additionally unlock $6.8mm from existing investors currently subject to Fund concentration limits. Taking into account the GCF's 25% Fund concentration limit, the GCF can commit $44.2mm based on the current total commitments following third close. CRAFT will be eligible for an additional up to $55.8mm from GCF upon securing additional co-financing at a 1:3 ratio.

The CRAFT Fund will make direct equity investments into private companies that offer climate resilience solutions and technologies, thereby generating measurable climate adaptation impacts and supporting the UN SDGs. GCF funds may be used by the CRAFT Fund to make investments in companies that will generate substantial benefits in an NOL country, subject to specific NOL eligibility criteria detailed in Annex 14 (i.e., headquarters; majority of employees; majority of revenues; or 100% use of GCF proceeds for measurable impacts in NOL countries). CRAFT's investment into a company may generate benefits in an NOL country if it is headquartered in an NOL country or has a majority of

its employees or revenues or costs in an NOL country or if it commits to spend or invest 100% of GCF proceeds to increase employment, development impact, or measurable climate impact in an NOL country.[20] Please note that the GCF, through Sub-Fund 4, may invest in some of the same companies as the other investors in Sub-Funds 1, 2 and 3, so long as the investments meet the investment restrictions/country eligibility requirements outlined in Annex 14.

The CRAFT Fund will specifically track and report adaptation benefits generated in NOL countries to the GCF.

The specific adaptation benefits generated will be measured, tracked and reported to the GCF. Climate adaptation and other impacts will be measured for each investment in accordance with CRAFT's ESMS and IMS.[21]

Accredited Entities Implementation Arrangement

As noted above, Pegasus is serving as the Accredited Entity to the GCF and the Programme will be implemented through a Funded Activity Agreement (FAA) between GCF and Pegasus. Pegasus and CRAFT Investment Advisor will enter into an Implementation Agreement whereby Pegasus, as AE, will pass through obligations in the FAA to CRAFT Investment Advisor as the Executing Entity.

Pegasus, as per its fiduciary agreement with GCF for Equity will be responsible for:

- Overall implementation, oversight and coordination GCF's commitment to the CRAFT Fund;
- Proper use of GCF's commitment to the CRAFT Fund;
- Ensure compliance of CRAFT activities with the FAA;
- Ensure investments performed by the Fund respect GCF policies;
- Reporting and Accounting of the CRAFT Fund.

Oversight Unit

Pegasus, as Accredited Entity (AE) for the GCF, will take on the oversight role for the Equity funds received. Pegasus will manage GCF CRAFT Holdings, allowing the administration of GCF Equity funds and appropriate implementing arrangements with the CRAFT Fund. Pegasus will review progress as reported by the EE to determine how best to enhance Programme performance. Pegasus will review Programme progress against capital calls (i.e., requests for disbursement) as submitted. Pegasus will also serve as a support and resource function to the EE to discuss ways to strengthen implementation and ensure its direction enhances likelihood of achieving outcomes and impact, and efficiency.

Technical Implementation

Organization:

GCF's equity commitment will be through GCF CRAFT Holdings, an entity to be managed by Pegasus as AE, into Lightsmith Climate Resilience Partners SCSp RAIF (the "CRAFT Fund"). The fund commitment would be memorialized and bound through the execution of the CRAFT Fund's Limited Partnership Agreement (LPA) and Subscription Agreement executed by GCF CRAFT Holdings as an LP in Lightsmith Climate Resilience Partners SCSp RAIF. As governed by the LPA and Subscription Agreement, GCF's funds would be disbursed by Pegasus into the Lightsmith Climate Resilience Partners SCSp RAIF as capital is called to pay for CRAFT Fund fees and expenses and to make investments. Each capital call would be requested by Lightsmith Climate Resilience GP S.à r.l, the General Partner (GP) of the Fund, to GCF CRAFT Holdings, and GCF CRAFT Holdings would then deposit requested funds into the CRAFT Fund's accounts.

[20] For example, a water harvesting technology company could use a substantial portion of investment proceeds to hire employees to develop water projects or to deploy its water technology in an NOL country, thereby generating measurable benefits in an NOL country, even if it is not headquartered in that NOL country. The company and the Fund could track, monitor, and report on the amount of proceeds used and benefits generated in the NOL country.

[21] GCF Proceeds will be invested consistent with the country criteria to generate benefits in NOL countries. Benefits to NOL countries will be tracked, monitored, and reported by the CRAFT Fund.

The CRAFT Investment Advisor will manage the fund's operations and investment processes, providing its expertise and services for fund management, investment operations, portfolio management, and risk management services. These will be remunerated by advisory fees paid to the CRAFT Investment Advisor from the Fund, calculated as a percentage of committed funds during the Fund's commitment period, and thereafter based on a percentage of net actively invested capital (as provided for in the LPA).

During the Commitment Period, capital called to make investments will be used to purchase equity shares in investee companies offering climate adaptation solutions. The CRAFT Fund would execute legal documentation (e.g., share purchase agreement, investor rights agreement, etc.) which would govern each investment transaction. During the 10-year life of the Fund, as the Fund exits investments (i.e., by selling its stakes in investee companies), funds realized from the exits will be returned to LPs as per the distribution waterfall outlined in the LPA.

Structure:

The Fund entity, Lightsmith Climate Resilience Partners SCSp RAIF (the "CRAFT Fund"), is structured as a Luxembourg-domiciled Reserved Alternative Investment Fund (RAIF). The CRAFT Fund has engaged Lemanik Asset Management S.A., a registered Alternative Investment Fund Manager (AIFM) as the licensed fund manager, which has appointed Lightsmith Climate Resilience Management LLC (the "CRAFT Investment Advisor") as the investment advisory via an Investment Advisory Agreement. The CRAFT Investment Advisor is an affiliate of Lightsmith Group, LLC (the "Sponsor"). Lightsmith Climate Resilience GP S.à r.l. (the "CRAFT GP"), which manages and controls the Fund, is also a Luxembourg entity that is an affiliate of Lightsmith Group. The Sponsor's commitment is contributed to the CRAFT Fund and any carried interest payments flow back via Lightsmith Climate Resilience Capital LP (the "Carried Interest Partner").

GCF's equity commitment to the CRAFT Fund will be through GCF CRAFT Holdings, a newly formed company managed by Pegasus on behalf of GCF. The CRAFT GP has engaged third-party service providers to provide including legal, accounting, fund administration, depositary, and regulatory compliance services for the CRAFT Fund. Please see Annex 23 for the fund structure and visual representation of the flow of funds.

The CRAFT Fund is a Luxembourg SCSp RAIF, which currently has 3 compartments – also known as Sub-Funds 1, 2, & 3. (Hereafter, these legal compartments will be referred to as "Sub-Funds" or "compartments"). Sub-Fund 1 and Sub-Fund 2 have different tax elections (as partnership or as corporation for US tax purposes), and both may include Junior and Senior investors. Sub-Fund 3 is only for a development finance institution, which is investing as a Parallel investor. It is contemplated that GCF CRAFT Holdings would invest into Sub-Fund 4 as a Junior investor for up to the lesser of $100 million or 25% of the total amount of Sub-Funds 1, 2, and 3 plus Sub-Fund 4 (25% Fund concentration limit).

Lemanik Asset Management S.A. (Luxembourg) is a licensed alternative investment fund manager (AIFM) providing the Fund with a range of fund management, portfolio management, and risk management services, as required by AIFMD in Europe. Lemanik currently has over $30 billion in assets under management and serves as the AIFM for over 100 fund managers.

At Project Level:

The selection of projects in the Beneficiary Countries will include consultations with the NDAs of each respective country. Inputs from NDAs will be crucial to ensure alignment of objectives and enhance the results of the Programme and the cost-effectiveness of the GCF funding. Investments sourced, supported and deployed as described in this note will follow best-practice private equity investment processes and standards, including climate, development, and safeguarding guidelines.

Pegasus as the AE and the CRAFT Investment Advisor will be responsible for oversight of Programme implementation via its investment teams, third party service providers, and on-the-ground networks. Investments will be made as per the CRAFT Investment Advisor's investment processes, and for any local procurement, the CRAFT Investment Advisor's procurement policies and procedures will be followed during Programme implementation. The AE will contractually secure from the CRAFT Fund the right to observe and consult on each investment that proposes to use GCF proceeds, specifically with respect to environmental and social standards, project level gender assessment and action plans, and the assessment results of the Climate Adaptation Impact Assessment Tool, consistent with the ITAP's recommendation for observer rights. The Climate Adaptation Impact Assessment Tool will (a) identify the need for specific climate adaptation solutions to address climate vulnerabilities in each Host Country and (b) assess the potential

for adoption of the investee company's technologies, products or services in each Host Country. For avoidance of doubt, like all other limited partners and in keeping with industry best practices (avoiding the generation of GP liability), Pegasus will have no involvement in the deal-making process, due diligence, or investment committee.

A diagram outlining the Fund's structure can be found in Annex 23.

Fund Governance

The CRAFT Fund has a Limited Partner Advisory Committee (the "Advisory Committee", or "LPAC") that is comprised of representatives from some of the Fund's investors selected by Lightsmith Climate Resilience GP S.à r.l.. The Advisory Committee is comprised of representatives from five of the Fund's LPs, plus one LP representative as an observer on the Committee. The Advisory Committee (i) reviews valuations of the Fund's assets as proposed by the Investment Advisor; (ii) addresses conflicts of interest material to the Fund and known to Lightsmith Climate Resilience GP S.à r.l ; and (iii) votes on and advises Lightsmith Climate Resilience GP S.à r.l on other matters at the GP's request or as provided in the Limited Partnership Agreement. The Advisory Committee meets at least twice annually. Actions of the Advisory Committee generally require the approval of a majority of its members.

With a $100 million commitment to CRAFT, GCF CRAFT Holdings will have the right to appoint a voting member of the Advisory Committee, which is contemplated to be delegated to Pegasus as the manager of GCF CRAFT Holdings. Pegasus will provide input and oversight of the CRAFT Fund through the LPAC with the other key investors. We believe that GCF CRAFT Holdings will be able to have a strong catalytic effect for mobilizing additional capital into the Fund, creating momentum toward the $400 million maximum and GCF CRAFT Holdings commitment to $100 million.

The CRAFT Fund holds an Annual Investor Meeting, which is typically preceded by a meeting of the Fund's Strategic Advisory Board ("SAB"), comprised of the Fund's key industry and technical advisors.

Portfolio Management

Countries accruing adaptation benefits are not limited to the country where each Portfolio Company is headquartered. CRAFT's Impact Measurement System (IMS) defines the approach to identifying and measuring certain positive environmental, social, and economic impacts of the Fund's investments. The IMS defines how, for each investment, the CRAFT Fund will (1) identify the climate change-related physical risks and impacts the investment will help to assess or manage and the theory of change for how the investment will help to reduce those vulnerabilities; (2) identify other expected positive environmental and social impacts of the investment, such as GHG emissions reductions, contributions to the Sustainable Development Goals (SDGs) , economic development impacts, and improvements in gender equity; (3) define impact indicators to track these benefits and identify Key Performance Indicators (KPIs) that the investee company can report; and (4) collect ESG and impact reporting information from investee companies and analyze and report that information to investors in an Annual ESG and Impact Report.

B.5. Justification for GCF funding request (max. 1000 words, approximately 2 pages)

Explain why the project/programme requires GCF funding, i.e. Why is the project/programme not currently being financed by public and/or private sector? Which market failure is being addressed with GCF funding? Are there any other domestic or international sources of financing?

Explain why the proposed financial instruments were selected in light of the proposed activities and the overall financing package. i.e. What is the coherence between activities financed by grants and those financed by reimbursable funds? How were co-financing amounts and prices determined? How does the concessionality of the GCF financing compare to that of the co-financing? If applicable, provide a short market read on the prevailing of the pricing and/or financial markets for similar projects/programmes.

Justify why the level of concessionality of the GCF financial instrument(s) is the minimum required to make the investment viable. Additionally, how does the financial structure and the proposed pricing fit with the concept of minimum concessionality? Who benefits from concessionality?

In your answer, please consider the risk sharing structure between the public and private sectors, the barriers to investment and the indebtedness of the recipient. Please reference relevant annexes, such as the feasibility study, economic analysis or financial analysis when appropriate.

GCF's catalytic capital commitment of up to $100 million to CRAFT is needed to complete the Junior concessional layer, support the Senior non-concessional layer, and enable mobilization of the full $250 million CRAFT target size fund and to scale up ambition to support the full $400 million maximum fund size. GCF's support is even more critical in the COVID-19 environment and its aftermath, where fundraising is even more difficult and foreign direct investment into developing countries has collapsed by more than 40 percent in 2020 (GCA/CPI, 2021). CRAFT achieved first close at about $90 million of total commitments in December 2019, and third close at about $133 million of total commitments in July 2021, but still faces substantial challenges in mobilizing the full $250 million target by an extended December 2021 final close deadline, let alone the higher ambition of $400 million.

In light of the expressed interest of the GCF for up to a potential $100 million commitment to CRAFT, the existing investors have agreed to a limited extension of the mobilization period to December 2021 deadline. Because of the concern about the complexity and duration of the GCF process, it is extremely important to provide existing investors with a clear indication that GCF is moving forward and that an FAA and all related documentation can be completed immediately following the B.30 board approval. Without such a clear indication and a definitive commitment to sign and close following B.30 board approval, securing the approval to continue mobilization will be extremely difficult. Full documentation and close must be completed by December 2021.

In addition to the adaptation gap, conventional investors have failed to invest in resilience for several reasons:

1. **First Time Fund Risk.** Institutional investors perceive first-time funds – such as CRAFT with its new focus on climate resilience – as risky. According to Preqin, even though first-time funds on average financially outperform other funds, the number of first-time funds achieving closings dropped by 20% in 2017, falling to the lowest number since 2009.[22] Institutional investors are investing in a smaller number of large, established managers.[23]
2. **Developing Countries Risk.** Over the last several years, private investors have become less interested in developing country investments: funds raised for emerging markets private equity dropped 15% from 2014-2016, and only increased in 2017 due to a few large funds in China.[24] CRAFT's developing country focus, essential to its impact, makes attracting capital more difficult.
3. **COVID-19 Impact**. The COVID-19 pandemic has already begun to impact fundraising for private equity funds, with one-in-five investors expecting to make fewer commitments than their original 2020 plans and 12% reducing average size of commitment.[12] 22% of surveyed investors planned to reduce exposure to first time funds, and 12% reported they would stop all investments in first time funds.[25] COVID-19 has also caused over $100 billion of capital flight from developing countries in March 2020 alone, more than during the Global Financial Crisis.[26]

As cited above, CPI reports that adaptation receives just 5% of overall climate finance.[27] The 2017 Joint Report on Multilateral Development Banks' Climate Finance states that out of $35 billion of climate finance from the MDBs, only $7 billion (about 20%) was attributable to adaptation, and only $245 million of that involved private sector recipients (3.3%). The Global Innovation Lab for Climate Finance (the Global Lab) has concluded that CRAFT is the first and only private investment fund dedicated to climate resilience.[28]

Based on prior blended finance strategies[29] and discussions with over 50 private investors, CRAFT concluded that a 20% concessional layer ($50 million of $250 million) would be sufficient to attract the remaining 80% of non-concessional investment – ***under pre-COVID-19 conditions***. This proposed structure was validated by the first close in December 2019, re-validated at second and third close, attracting an MDB, a philanthropy, institutional investors, and family offices into the Senior non-concessional layer. The Fund is in conversations with over 20 potential private investors for a fourth close, several of whom GCF has consulted. Additionally, CRAFT has already identified more than 1,000 companies representing an actionable pipeline of 8-12 companies that fit within the Fund's climate resilience thesis.

[22] Preqin, "First-Time Fund Managers", Private Equity & Venture Capital Spotlight, February 2018.
[23] Preqin, "How Important is the First Close?", Private Equity Spotlight, May 2013.
[24] Preqin, "Private Equity in Emerging Markets," Preqin Special Report. May 2018.
[25] Isobel Markham, "One in five LPs to slow PE commitment due to covid-19", Private Equity International, April 1, 2020.
[26] U.S. Global Leadership Coalition, "COVID-19 Brief: Impact on the Economies of Developing Countries," December 2020.
[27] CPI, *Global Landscape of Climate Finance 2017*. Also see CPI 2016, 2015, and 2014.
[28] "CRAFT is the first private sector investment vehicle focused entirely on climate adaptation and resilience." Global Innovation Lab for Climate Finance, "Lab Instrument Analysis – CRAFT", August 2017.
[29] EIB's GEEREF and the Danish Climate Investment Fund both used blended finance structures to mobilize private capital for climate mitigation investment funds. *Ibid.* GEEREF (https://geeref.com/about/what-geeref-is.html) and Convergence 2017.

Following the declaration of the COVID-19 pandemic in March 2020, many private investors suspended due diligence on CRAFT to move to remote operations and re-evaluate existing portfolios and investment risk appetite. CRAFT has managed to re-engage with a number of private investors in September 2020 through the spring of 2021, but investor risk appetite has been clearly challenged by the pandemic. CRAFT is moving forward with a number of potential Senior private investors, but the need for Junior concessional capital has become even more critical – and perhaps with even greater flexibility.

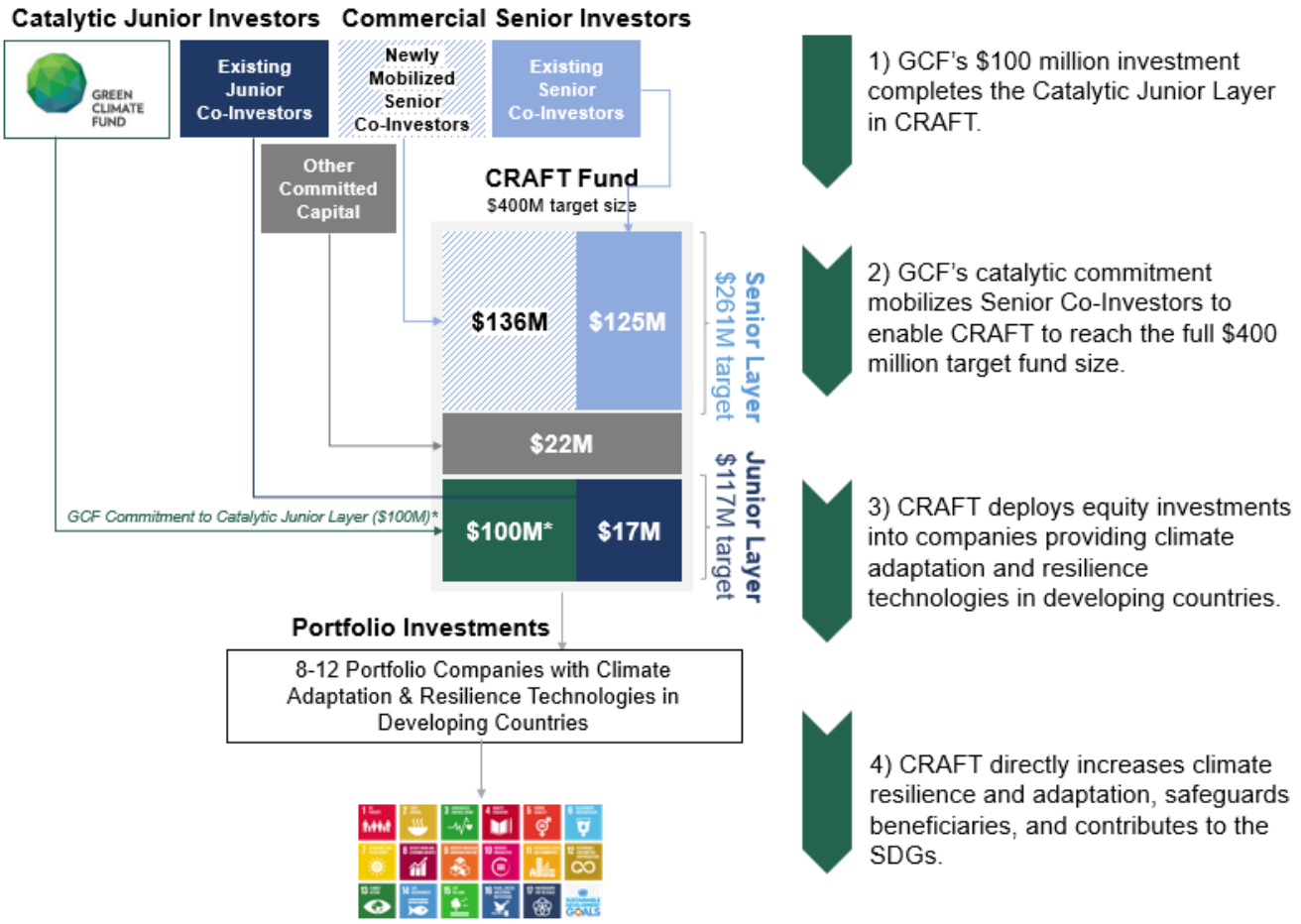
GCF's commitment to the Junior layer would be on similar terms to existing Junior investors: a multilateral development institution, government, and private global philanthropy. It is expected that GCF's commitment would be made into a sub-compartment of the Lightsmith Climate Resilience Partners SCSp RAIF fund entity.

The development of the terms of the targeted 20% Junior concessional layer was informed by the feasibility study completed by the Global Lab (2017) and based on similar structures like EIB's GEEREF and the Danish Climate Investment Fund (DKIF), and the result of review, refinement, extensive negotiations, and acceptance by a range of public sector MDBs, DFIs, and governments as well as private sector philanthropies, institutional asset managers, insurance companies, and family offices. The Global Lab analysis, the additional feasibility study conducted on CRAFT's design with the support of the GEF and NDF, and the extensive review and negotiation leading to first close among the full range of public sector and private sector investors demonstrate that the financial structure and proposed pricing fit with the concept of minimum concessionality.

COVID-19 demands a stronger catalytic capital response in adaptation from the GCF. All of the analyses on CRAFT's 20% minimum Junior concessional layer were completed pre-COVID-19. Adaptation investment has been recognized as even more critical since COVID-19. Junior concessional capital is even more important to crowd in more risk-averse private investment capital in the COVID-19 recovery environment. It should be noted that GEEREF – with a 50-50% Junior concessional layer – was launched in 2008 under the similarly challenging circumstances of the Global Financial Crisis, and that a more flexible layer of Junior concessional capital might well be considered in the COVID-19 recovery context.

The Senior layer investors benefit from concessionality through the reduction in perceived risk of a first-time strategy focused on climate adaptation and resilience and exposure to investments in developing countries, which are considered increasingly risky and out of favor, particularly given COVID-19. The presence of public, private, and philanthropic investors in both the Senior and Junior layers at first close pre-COVID-19, as well as the continued interest in additional private sector investors in being catalyzed into the CRAFT Fund by additional Junior capital during the COVID-19 crisis further validates the fact that an appropriate, market catalyzing, and fully negotiated risk/reward balance for public, private, and philanthropic investors has been achieved.

The reports of (a) the Global Lab, (b) the CRAFT launch project supported by GEF and NDF, and (c) the ASAP project supported by GEF, IDB, and Conservation International are attached for reference (Annex 2).



*GCF's commitment of up to $100 million will be invested into GCF CRAFT Holdings which will then invest as a Limited Partner in CRAFT's newly created Sub-Fund 4. GCF will invest as a Junior investor alongside other Junior concessional investors, in an amount subject to a 25% Fund concentration limit or a 1:3 co-financing ratio.

B.6. Exit strategy and sustainability (max. 500 words, approximately 1 page)

Explain how the project/programme sustainability (financial, institutional, social, gender equality, environmental) will be ensured in the long run after project closure, including how the project's results and benefits will be sustained.

Include information pertaining to the longer-term ownership, project/programme exit strategy, operations and maintenance of investments (e.g. key infrastructure, assets, contractual arrangements). In case of private sector, please describe the GCF's financial exit strategy through IPOs, trade sales, etc.

Provide information on additional actions to be undertaken by public and private sector or civil society as a consequence of the project/programme implementation for scaling up and continuing best practices.

Programme Sustainability and Monitoring

CRAFT's sustainability is ensured by its long-term fund structure and will be monitored through industry standard Limited Partner Advisory Committee (LPAC) and reporting and audit mechanisms. CRAFT is set up to have a 10-year life. Now that CRAFT has exceeded its $75 million minimum threshold, with its $81 million effective commitments from first close in December 2019, it has enough resources to operate for a full 10 years, including the cost of monitoring and reporting on its activities. CRAFT will provide all investors with quarterly and annual reporting, which includes financial statements, valuations of CRAFT's investments, updates on CRAFT's portfolio company investments, and an annual Environment and Social Monitoring System (ESMS) and Impact Measurement System (IMS) report. Overseeing a $100 million commitment from GCF, the AE will become a member of the Limited Partner Advisory Committee and

have further oversight over the sustainability of CRAFT. As described above, GCF's commitment of up to $100 million will be invested into GCF CRAFT Holdings, which will then invest as a Limited Partner in CRAFT's newly created Sub-Fund 4. GCF will invest as a Junior investor alongside other Junior concessional investors, in an amount subject to a maximum 25% of the total Sub-Fund 1, 2, and 3 (Junior, Senior, Parallel plus the GCF Sub-Fund 4 amount, so that GCF's commitment is at a 1:3 co-financing ratio to other CRAFT investors.

Now that CRAFT has been launched, a key goal is to scale up the fund and the field of climate adaptation investment. Given that up to $300 billion per year will be required for adaptation in developing countries alone by 2030, the potential to replicate and scale the strategy and the companies is very large. The CRAFT investment strategy and the field of adaptation investment can be scaled in several ways:

1. The enterprises in which CRAFT invests can scale further by attracting additional follow-on capital.
2. The demonstration effect can build the field by disseminating information about these early examples of climate adaptation investment.
3. The EE can replicate and scale the CRAFT strategy through a second fund without additional catalytic capital. The current 1,000+ company map and analysis of 20 subsectors suggests that an additional $1 billion could be invested following CRAFT's strategy.
4. Other investors could apply CRAFT's "tools" investing strategy to different stages or classes of investment, such as venture capital, PE buyouts, or public equities. The EE's market mapping has identified early stage, mature buyout, and large public companies relevant to climate resilience.
5. Other investors could apply CRAFT's strategy to extend climate resilience to real estate, infrastructure, fixed assets, and financial securities, screening each set of assets for climate risk and resilience.
6. CRAFT's investee companies can deploy their products (such as drip irrigation systems or water harvesting panels) in large-scale projects, attracting much greater amounts of debt and equity.

Capital Repayment and Duration

As typical for growth equity funds, the term of the CRAFT fund is 10 years, with the potential for two 1-year extensions with certain approvals. The term includes a 5-year investment period (with potential for one 1-year extension) and a 5-year return period. Typically, growth equity investments are each held for a period of 3-5 years and are sold to strategic acquirors. Over the life of CRAFT, investors in CRAFT will receive distributions as investments are sold. These distributions to investors – including to GCF via Pegasus as AE – will be made as defined in the Limited Partnership Agreement. Overall, growth equity funds seek to return 2-3X investors' capital over the fund's life.

C. FINANCING INFORMATION

C.1. Total financing

(a) Requested GCF funding (i + ii + iii + iv + v + vi + vii)		Total amount		Currency	
		100,000,000		million USD ($)	
GCF financial instrument		**Amount**	**Tenor**	**Grace period**	**Pricing**
(i)	Senior loans	0	n/a	n/a	n/a
(ii)	Subordinated loans	0	n/a	n/a	n/a
(iii)	Equity	100,000,000	10+1+1	n/a	Junior preferred equity return
(iv)	Guarantees	0	n/a	n/a	n/a
(v)	Reimbursable grants	0	n/a	n/a	n/a
(vi)	Grants	0	n/a	n/a	n/a
(vii)	Results-based payments	0	n/a	n/a	n/a

(b) Co-financing information	Total amount			Currency		
	300,000,000			million USD ($)		
Name of institution	**Financial instrument**	**Amount**	**Currency**	**Tenor & grace**	**Pricing**	**Seniority**

Junior Investors	Equity	16,762,750	million USD ($)	10+1+1 years 0 years	Junior preferred equity return	junior
Development Finance Institution	Equity	21,152,320	million USD ($)	10+1+1 years 0 years	Senior preferred equity return	pari passu
Senior Investors	Equity	262,084,930	million USD ($)	10+1+1 years 0 years	Senior preferred equity return	senior

Please see term sheet for preferred equity return percentages.

(c) Total financing (c) = (a)+(b)	**Amount**	**Currency**
	$400,000,000	million USD ($)

(d) Other financing arrangements and contributions (max. 250 words, approximately 0.5 page)	CRAFT has reached third close, bringing total commitments to $132.5 million USD and effective commitments to $125.4 million USD.

C.2. Financing by component (For Illustrative Purposes Only)

Please provide an estimate of the total cost per component and output as outlined in section B.3. above and disaggregate by source of financing. More than one co-financing institution can fund a single component or output. Provide the summarised cost estimates in the table below and the detailed budget plan as annex 4.

Component	**Output/Activity**	**Indicative cost** Options	**GCF financing**		**Co-financing**		
			Amount Options	**Financial Instrument**	**Amount** Options	**Financial Instrument**	**Name of Institutions**
Project Component 1	1.1 Formation of GCF CRAFT Holdings LP and Related Entities	750,000	750,000	Equity	0	Equity	(1), (2)
	1.2. Fundraise Private Investment into Senior Tranche of CRAFT	2,500,000	616,750	Equity	1,883,250	Equity	(1), (2)
	1.3. Identify and Execute Investments in Climate Adaptation Companies including opportunities for positive gender impact	373,830,000	92,223,861	Equity	281,606,139	Equity	(1), (2)
	1.4. Manage and Report on Portfolio	19,000,000	5,442,325	Equity	13,557,675	Equity	(1), (2)

	of Investments for Impact, including monitoring compliance with gender safeguards, reporting improvements in gender equity within the portfolio companies and all KPIs with a gender component						
	1.5. Exit Assets, Return Capital Plus Profit to Limited Partners, Close out Fund	3,920,000	967,064	Equity	2,952,936	Equity	(1), (2)
Indicative total cost (USD)		400,000,000	100,000,000		300,000,000		

(1) Junior: A multilateral development institution, government, private global philanthropy, and GCF
(2) Senior: A private global philanthropy, investment manager, development finance institutions, family offices, insurance companies, individual investors, other newly mobilized investors.

Note: For illustrative purposes only. Actual budget by component is subject to change. GCF's allocated financing amount for activities is equal to 24.7% of total indicative cost assuming GCF commits $100 million. For breakdown of activity 1 expenses, please see Annex 4 set-up costs.

This table should match the one presented in the term sheet and be consistent with information presented in other annexes including the detailed budget plan and implementation timetable.

In case of a multi-country/region programme, specify indicative requested GCF funding amount for each country in annex 17, if available.

C.3 Capacity building and technology development/transfer (max. 250 words, approximately 0.5 page)	
C.3.1 Does GCF funding finance capacity building activities?	Yes ☐ No ☒
C.3.2. Does GCF funding finance technology development/transfer?	Yes ☒ No ☐

If the project/programme is expected to support capacity building and technology development/transfer, please provide a brief description of these activities and quantify the total requested GCF funding amount for these activities, to the extent possible.

GCF's catalytic capital commitment helps to scale-up CRAFT's investment and impact in the extremely challenging COVID-19 recovery environment. CRAFT's theory of change is that the best way to transfer technology, knowledge, and capacity into developing countries is by supporting adoption of the technologies by local, in-country parties on a commercial basis. By investing in the best climate resilient solutions for developing countries, and by directly supporting the Fund's portfolio companies in expanding their offerings and footprints globally, CRAFT supports technology transfer for climate resilience. Through the international expansion of portfolio companies' commercial activities, CRAFT is able

to embed technology, knowledge, and capacity for climate resilience within businesses, governments, and communities in developing countries.

By providing critical support to mobilize additional Senior commitments in a post-COVID-19 environment with heightened climate change impact and reduced investor appetite both for new investment strategies like adaptation finance and for investments in developing countries, GCF's catalytic capital supports and scales-up capacity building and technology transfer.

D. EXPECTED PERFORMANCE AGAINST INVESTMENT CRITERIA

This section refers to the performance of the project/programme against the investment criteria as set out in the GCF's Initial Investment Framework.

D.1. Impact potential (max. 500 words, approximately 1 page)

Describe the potential of the project/programme to contribute to the achievement of the Fund's objectives and result areas. As applicable, describe the envisaged project/programme impact for mitigation and/or adaptation. Provide the impact for mitigation by elaborating on how the project/programme contributes to low-emission sustainable development pathways. Provide the impact for adaptation by elaborating on how the project/programme contributes to increased climate-resilient sustainable development. Calculations should be provided as an annex. This should be consistent with section E.2 reporting GCF's core indicators.

GCF's catalytic capital commitment helps scale-up CRAFT's investment capital and impact, which contributes to the GCF's objectives and results areas. CRAFT's multi-sectoral approach invests in tools and technologies in the following sub-sectors that will drive the allocation of the results in A4 through resilient infrastructure and the built environment (approximately 25%), improved food and water security (approximately 30%) and the livelihoods of people, communities and regions most vulnerable to climate change (approximately 45%).

For each investment, the CRAFT will (1) identify the climate change-related physical risks and impacts the investment will help to assess or manage and the theory of change for how the investment will help to reduce those climate-related vulnerabilities; (2) identify other expected positive environmental, social, and economic impacts of the investment, such as GHG emissions reductions, contributions to the relevant Sustainable Development Goals ("SDGs"). During due diligence, CRAFT identifies 3 to 5 Key Performance Indicators for each company that will be used to measure the climate resilience solutions offered by the portfolio companies. CRAFT will also complete an assessment of the potential adaptation impact of its investments through the CRAFT Climate Adaptation Impact Assessment Tool described in B.4. Implementation arrangements above.

CRAFT monitors both E&S risks and KPIs, including climate adaptation metrics, throughout during the holding period of the investment. This occurs primarily through company self-reporting with the Annual ESG and Impact Report. Data is measured and analysed to ensure alignment with CRAFT's impact objectives. Impact data related to activities funded through technical assistance will be incorporated into the core KPIs and captured through the annual reporting. Periodic site visits will be conducted to verify information contained in the annual report on both a routine and randomly selected basis.

Agriculture Analytics. Agricultural analytics can help farmers and the supply chain use less energy, sequester more carbon, use less energy-intensive irrigation and fertilizers – all of which both reduce GHG emissions as a co-benefit and increase resilience to climate change. Can contribute to improved food and water security and enhanced livelihoods for people, communities and regions most vulnerable to climate change. There could be a range of beneficiary types from smallholder farmers to commercial farms as well as agricultural input companies and suppliers.

Resilient Food Systems. Products and Services such as drip irrigation, micro-fertilization, and drought/salinity/storm resistant seeds and crops, cold chain storage, and efficient food processing and distribution generate reductions in GHG emissions as a co-benefit, increased and adaptive capacity and reduced exposure to climate risks. Can contribute to improved food and water security and enhanced livelihoods for people, communities and regions most vulnerable to climate change.

Water Harvesting and Drip Irrigation. Extreme weather events and changes in water cycle patterns are making it more difficult to access safe drinking water. Increased pressure on safe sources of drinking water will also increase GHGs associated with the production of water, which requires treatment prior to use, is pumped, pressurized and transported. Technology must be deployed to address water efficiency of agricultural irrigation and drinking water. Renewably powered solar hydropanels similarly both reduce GHG emissions as a co-benefit and increase resiliency to increasing water stress driven by climate change. Can contribute to improved food and water security and enhanced livelihoods for people, communities and regions most vulnerable to climate change. Water harvesting customers include bottled water brands, hotels and resorts, major grocery chains, remote communities and communities in arid locations, aid and disaster relief organizations, and homeowners.

Geospatial Mapping and Imaging. Satellite technology allows for significant scalability and reliability when monitoring sustainability, such as land-use change and agriculture management practices. For example, community-led forest

monitoring can use satellite imagery and mobile phone apps to rapidly detect and respond to illegal deforestation. Nature Based Solutions which, according to the UN, can provide over one-third of the cost-effective climate mitigation needed between now and 2030 to stabilize warming to below 2°C, require innovative tools to inform decision making and scale private sector solutions. Spatial data layers on biodiversity, protected areas, and sustainable development can provide regular consistent data necessary to mainstream nature-based solutions for reducing urgent climate and disaster risks. Can support resilient infrastructure and the built environment and improved food and water security.

Catastrophic Risk Modeling. The IPCC AR 5 has identified increasing extreme weather events such as tropical cyclones, wildfires, droughts, and windstorms. Catastrophic risk assessments can inform decision-making for businesses and governments and protect physical and natural assets by strengthening of awareness of climate threats and risk-reduction processes. According to the UNDRR, natural disasters killed 1.2 million, affected 4 billion people, and generated ~$3 trillion of losses 2000-2019. Can support resilient infrastructure and the built environment.

Supply Chain Analytics. Increasing supply chain disruptions are harming manufacturing, trade, and livelihoods, especially for developing country SMEs that form part of many global supply chains. Supply chain analytics incorporating weather to support demand forecast, inventory and supply chain management can enhance the adaptive capacity of companies, employees and goods and services across supply chains, while reducing GHGs as a co-benefit. Can support resilient infrastructure and the built environment and enhanced livelihoods for people, communities and regions most vulnerable to climate change.

D.2. Paradigm shift potential (max. 500 words, approximately 1 page)

Describe the degree to which the proposed activity can catalyze impact beyond a one-off project or programme investment. Describe the following, if applicable:

- *Potential for scaling up and replication*
- *Potential for knowledge sharing and learning*
- *Contribution to the creation of an enabling environment*
- *Contribution to the regulatory framework and policies*
- *Overall contribution to climate-resilient development pathways consistent with relevant national climate change adaptation strategies and plans*

GCF's catalytic capital commitment to CRAFT at this critical moment of COVID-19 fragility and post-COVID-19 recovery supports a substantial paradigm shift in climate adaptation investment and technologies. CRAFT uses the ASAP Adaptation Solutions Taxonomy to establish what types of technologies, products and services provide climate adaptation solutions. The first peer-reviewed set of definitions and eligibility criteria involved an extensive consultation and review process involving leading climate experts. The taxonomy builds on existing definitions and is a key tool for identifying and engaging with adaptation companies, thus enabling a platform for broader investment. This allows investors, funders, companies, governments, and policymakers to enhance the supply and uptake of climate adaptation solutions globally.

This technology transfer provides innovative solutions to make individuals, communities, and businesses more resilient to the impacts of climate change. Expanding the availability, capability and use of the climate solutions through new applications and expansion into new industries and geographies will help to develop and transform markets. CRAFT's strategy can be used to extend climate resilience to real estate, infrastructure, fixed assets, and financial securities, screening each set of assets for climate risk and resilience. CRAFT companies—particularly in analytics—can be used to screen these investments.

Through its support for financially sustainable climate adaptation solutions, CRAFT expected to provide several opportunities to efficiently scale, replicate and further catalyse private sector solutions:

- Through its direct investment activities, the Fund expects to provide growth capital and strategic assistance necessary to scale investee enterprises to meet the resilience need and opportunity.
- Many of the enterprises can scale further by attracting additional follow-on capital and growing organically or through acquisition. In addition, disseminating information about these investments may enable other enterprises to replicate and scale up the application of similar technologies and solutions to climate resilience.

- As the first private equity fund focused on climate resilience and adaptation, successful execution of the strategy will broadly demonstrate to other sponsors the replicability of the strategy, particularly in sector-specific or country-specific strategies, as the market develops.
- CRAFT's strategy could be adapted to different stages or classes of investment, such as venture capital, PE buyouts and rollups, or public equities. The Fund's market mapping has identified early stage, mature buyout, and large public companies relevant to climate resilience.
- The Fund can replicate and scale its strategy through a second fund without catalytic capital. The current mapping of over 1,000 companies and analysis of 20+ subsectors suggest the potential for an additional $1 billion follow-on fund.

CRAFT mobilizes other relevant public and private actors through its partnerships with international development organizations such as Conservation International, NDF, and EIB, and through its climate resilience network from the GARI working group, the Global Lab, and ICFA. GCF's catalytic capital commitment to CRAFT enables its full mobilization and impact in a particularly vulnerable and challenging post-COVID-19 environment.

D.3. Sustainable development (max. 500 words, approximately 1 page)

Describe the wider benefits and priorities of the project/programme in relation to the Sustainable Development Goals and provide an estimation of the impact potential in terms of:

- *Environmental co-benefits*
- *Social co-benefits including health impacts*
- *Economic co-benefits*
- *Gender-sensitive development impact*

GCF's catalytic capital commitment helps fully realize and scale up CRAFT's benefits in relation to the Sustainable Development Goals (SDGs). In addition to its climate adaptation impacts, CRAFT's investment activities generate other positive economic, social and environmental co-benefits. As a cross cutting issue, climate change undermines all 17 of the UN Sustainable Development Goals (SDGs). The Impact Measurement System (IMS) focuses on measuring the impact of investments, including the contribution to the Sustainable Development Goals in several specific contexts: adaptation and climate resilience; climate mitigation co-benefits; gender; biodiversity; and economic development. At the time of investment, the activities of each Portfolio Company will be assessed based on their expected contribution to specific Sustainable Development Goals and Targets as illustrated below:

SDG	**CRAFT Impact Goals**	**Sample Indicators (Sample Geographies)**
SDG 2: Zero Hunger	Food security and sustainable food systems from investments in resilient food, agriculture, water, supply chains	• Acres of farmland covered/served • Tonnes of food produced (or saved from spoilage) • (South Asia, Africa)
SDG 5: Gender Equality	Reducing the disproportionate impact of climate change on women and girls	• Other indicators will be disaggregated by gender • (Global)
SDG 6: Clean Water and Sanitation	More resilient water systems from investments in distributed, data-based, and efficient water technology	• Liters of water produced or saved • # households provided access to resilient water • (South Asia, Africa, Caribbean/SIDS)
SDG 7: Affordable and Clean Energy	Reduced interruption and disruption of energy systems	• # households provided access to resilient energy • (Global)
SDG 9: Industry, Innovation and Infrastructure	Investments in technology companies support scientific research and technology capacity in host countries	• # highly-skilled jobs created (by job function) • # employees trained • (South Asia, Africa)

SDG 10: Reduced Inequality	Adaptation tools applied to developing countries, vulnerable populations, LICs, SIDS	• # low-income individuals/households served • # jobs and $ of incomes for low-income individuals • (South Asia, Africa)
SDG 11: Sustainable Cities and Communities	Increased resilience of communities, infrastructure, and local economies from climate risk/adaptation planning	• # people and area served by resilience tools (urban vs. rural) • # adaptation projects enabled by investee tools • (South Asia, Africa)
SDG 12: Responsible Consumption and Production	More resilient and efficient supply chains from better risk screening, forecasting, and planning tools	• $ value of reduced waste, disruption in supply chains • (South Asia, Africa)
SDG 13: Climate Action	Investments in climate action; increased adaptation planning capacity in public and private sectors; GHG emissions reductions from more local, efficient, and data-based provision of water, food, energy	• $ Invested in climate adaptation • $ Invested dual-purpose (adaptation + mitigation) • # governments with increased adaptation capacity • # SMEs with increased adaptation capacity • Tonnes of GHG emissions avoided • (Global)

D.4. Needs of recipient (max. 500 words, approximately 1 page)

Describe the scale and intensity of vulnerability of the country and beneficiary groups and elaborate how the project/programme addresses the issue (e.g. the level of exposure to climate risks for beneficiary country and groups, overall income level, etc.). Describe how the project/programme addresses the following needs:

- *Vulnerability of the country and/or specific vulnerable groups, including gender aspects (for adaptation only)*
- *Economic and social development level of the country and the affected population*
- *Absence of alternative sources of financing (e.g. fiscal or balance of payments gap that prevents government from addressing the needs of the country; and lack of depth and history in the local capital market)*
- *Need for strengthening institutions and implementation capacity*

GCF's catalytic capital commitment enables CRAFT to address substantial vulnerabilities in developing countries to the physical risks and impacts of climate change – all of which are exacerbated by the on-going impact of COVID-19. CRAFT's investment strategy enables increased adoption of innovative and transformative private-sector technologies that support adaptation and resilience for vulnerable countries, communities and individuals. Adaptation solutions are even more important in the fragile environment resulting from COVID-19. Given the current absence of financing directed at adaptation, CRAFT is an efficient way to mobilize capital to enable vulnerable populations' ability to identify, mitigate and manage risks from climate change. To ensure visibility into how each company's technology, product, or service can assess or address the specific risk or impact affected by climate change on particularly vulnerable populations, at the time of screening, the Fund will seek to identify at-risk populations, regions, and segments with a potential nexus to the technology, product, or service. The Fund will assess the viability, potential impact, and appropriateness of technical assistance or other available donor funds to supporting vulnerable segments, engage with the company on the application of those funds, and monitor and report relevant data on an integrated basis.

Gender issues intricately intersect with climate change adaptation through social, economic, ecological, physical and institutional dimensions that are experienced at the household, community and country levels. Women are often disproportionately vulnerable to the effects to climate change and climate change can further exacerbate gender disparities. However, evidence demonstrates that opportunities to incorporate gender equality into climate action through participation in decision making around fragile natural resources can reduce GHG impacts and improve resiliency for current and future generations. CRAFT maintains a gender focus lens when assessing investment opportunities and considering how its investments do and could benefit women and takes a crossing-cutting approach

to its measurement of gender using existing relevant metrics such as the number of employees, the number of beneficiaries, vendors or suppliers, etc. disaggregated by gender.

Additionally, CRAFT provides opportunities to overcome specific financing barriers:

- Perceived lack of investible opportunities in climate adaptation, whether in technologies, companies, or infrastructure projects. CRAFT will help identify and establish an entire category of investments – companies with climate resilience solutions – as an attractive area for investment, potentially mobilizing billions of dollars of private capital for investment in the future.
- Lack of operating and financing capacity for companies to expand their climate adaptation and resilience-related business lines, including into adjacent sectors and geographies. CRAFT will help provide needed capital and expertise to help companies with climate resilience solutions scale up and expand to where these solutions are needed most, including in lower-income countries.
- Lack of actionable, asset-specific information about climate risks and impacts. In order to take specific climate adaptation and resilience measures, however, companies need to be able to make a business case for how they will ultimately deliver financial returns.
- Perceived risks of investing in developing countries generally, and difficulties transferring technologies and solutions from developed to developing countries, including barriers to market entry and deployment.

COVID-19 has exacerbated many of these risks: increasing risk aversion about and distraction from investment in climate adaptation solutions and technologies, reducing capacity and increasing vulnerability of companies and individuals – including those involved in adaptation solutions—and increasing investor perceived risk concerns about innovative investment strategies and developing countries.

CRAFT's innovative blended finance structure, with a Junior concessional layer that mitigates downside risk for Senior non-concessional investors, encourages adaptation-finance investment. Please refer to Annex 24 and the climate context table in Section B.1 where we identify each country's vulnerabilities and barriers to adaptation finance.

D.5. Country ownership (max. 500 words, approximately 1 page)

Please describe how the beneficiary country takes ownership of and implements the funded project/programme. Describe the following:

- *Existing national climate strategy*
- *Existing GCF country programme*
- *Alignment with existing policies such as NDCs, NAMAs, and NAPs*
- *Capacity of Accredited Entities or Executing Entities to deliver*
- *Role of National Designated Authority*
- *Engagement with civil society organizations and other relevant stakeholders, including indigenous peoples, women and other vulnerable groups*

GCF's catalytic capital commitment and support for CRAFT will increase its engagement and alignment with beneficiary countries. CRAFT fits in with the countries' national priorities by transferring, scaling up, and applying the technologies that can support the countries' climate resilience and adaptation strategies, which most prominently feature in the NDCs and enhanced NDCs of the almost all of CRAFT's target developing countries. CRAFT's investments in climate resilience and adaptation "tools" create the capacity in developing countries to safeguard the achievement of NDCs by providing the information, products, and services needed to make NDCs climate resilient. CRAFT can directly contribute to the countries' National Adaptation Plans (NAPs) by scaling up private sector capacity for adaptation and climate resilience. CRAFT is working with NDAs to identify specific priorities in the countries' NDCs and NAPs. CRAFT has consulted with each of the country NDAs that has issued NOLs and plans an annual ongoing consultation process with NOL-issuing countries to coordinate and align with their adaptation and climate resilience needs.

CRAFT's strategy of scaling up and transferring private sector adaptation and climate resilience technologies to developing countries is aligned with countries' climate strategies and plans, particularly their NDCs and NAPs, (IISD, 2019), and aligns with stated objectives of the UNFCCC Paris Agreement and Adaptation Committee under the Cancun Adaptation Framework. To see a detailed country-by-country assessment, please refer to the climate context table in Section B.1 and Annex 24. CRAFT will consult with NDAs and relevant country representatives to further align its investments with each country's national climate strategy or plan and national adaptation plan. To date, CRAFT has

already completed initial outreach to country NDAs and has reviewed country NDCs and NAPs in preparation for the CRAFT FP. CRAFT will brief country NDAs when making investments in their respective countries and will hold an annual consultation with country NDAs to help ensure alignment with national priorities.

CRAFT will work to ensure that investments may be undertaken in consultation with relevant subnational authorities so as to take account of each country's national climate strategy or plan and national adaptation plan. The catalytic strategy of CRAFT can have a transformative effect on their ability to assess and manage the impact of climate change. Furthermore, these geographies are characterized by specific vulnerabilities to the impacts of climate change such as increased exposure to wildfires, droughts or hurricanes. CRAFT expects to facilitate investments to scale commercial solutions and support innovative technologies to better manage these risks, thereby enhancing the country's capacity to execute on their climate adaptation goals. In addition to supporting existing national adaptation plans, the climate adaptation solutions supported by CRAFT will seek to provide additional tools, capacity and strategies that can help inform country responses and plans.

The CRAFT strategy has been developed in consultation with civil society groups and key stakeholders, including targeted communities and beneficiaries, public and industry forums, climate workshops, and regional meetings in emerging markets; partner organizations in developing countries such as Conservation International, GIZ and NDF. As part of its Environment and Social Management System (ESMS), CRAFT has a Stakeholder Engagement Plan, a Gender Mainstreaming Plan and a Grievance Mechanism. GCF's and AE Pegasus Capital Advisors' engagement will further support alignment with beneficiary countries' climate action plans.

D.6. Efficiency and effectiveness (max. 500 words, approximately 1 page)

Describe how the financial structure is adequate and reasonable in order to achieve the proposal's objectives, including addressing existing bottlenecks and/or barriers, and providing the minimum concessionality to ensure the project is viable without crowding out private and other public investments. Refer to section B.5 on the justification of GCF funding requested as necessary.

Please describe the efficiency and effectiveness of the proposed project/programme, taking into account the total financing and mitigation/ adaptation impact the project/programme aims to achieve, and explain how this compares to an appropriate benchmark.

Please specify the expected economic rate of return based on a comparison of the scenarios with and without the project/programme.

Please specify the expected financial rate of return with and without the Fund's support to illustrate the need for GCF funding to illustrate overall cost effectiveness.

Please explain how best available technologies and practices have been considered and applied. If applicable, specify the innovations/modifications/adjustments that are made based on industry best practices.

GCF's catalytic capital commitment of up to $100 million in junior equity, at a 1:3 ratio to the Fund's total commitments would be an efficient and effective instrument. Fundamentally, GCF's catalytic capital supports CRAFT's well-researched and well-designed structure. CRAFT presents a cost-effective, efficient structure to leverage additional capital alongside both public and private investors, scale private sector solutions, and ensure the long-term financial sustainability of the project. Several feasibility studies by the Global Lab, and insights at the end of the CRAFT launch project supported by GEF, NDF, and CI, further validate the design of the CRAFT instrument after benchmarking it favorably against existing blended finance strategies such as GEEREF and DKIF (see Annex 2).

First, CRAFT's blended structure – including a Junior concessional layer that mitigates downside risk for Senior non-concessional investors – enables GCF's catalytic commitment to the Junior layer to mobilize 3X as much non-concessional capital into the Fund. Second, by helping mobilize investment into the Fund, GCF's catalytic capital also helps to unlock co-investment and follow-on investment at the company level, amounting to at least about 2X CRAFT's investments, or an additional $800 million. Third, even larger amounts of debt and equity financing will be mobilized as investee companies deploy their technologies in large-scale projects, amounting to 5-10x CRAFT's investments, or $1-2.5 billion within CRAFT's life.

Moreover, the GCF commitment to the CRAFT Fund generates substantial additionality by (1) increasing the CRAFT Fund's focus on and engagement with NOL countries, (2) by deepening the impact and impact measurement of the CRAFT Fund by implementing more structured climate adaptation impact assessment and gender empowerment assessment processes, and (3) by increasing the resources for investment in NOL countries and the resources to support a deeper team to invest and support deployment of technology in NOL countries

CRAFT's commercial focus helps to ensure the long-term financial viability, sustainability, efficacy of the climate adaptation solutions supported by CRAFT. A critical component of CRAFT's value-add will be to capture new climate resilience-driven growth through the expansion of applications into new geographies and new sectors in need of resilience. GCF's support would crowd in and catalyze additional financing from a wide range of investors, including foundations and family offices, private investors, development banks and governments. GCF's catalytic commitment to CRAFT also demonstrates the efficient and effective cooperation between GCF and GEF. GEF provided initial grant funding to support the launch of CRAFT, and GCF can commit catalytic capital to scale up CRAFT.

GCF's catalytic capital commitment is critical to achieving CRAFT's impact efficiently and impactfully, particularly in the COVID-19 recovery environment. CRAFT would simply not be able to scale up beyond $134 million to reach its $400 million maximum without GCF support. GCF participation and co-financing provided by the other Junior concessional investors goes well beyond only increasing the expected ROI of Senior investors in the CRAFT Fund; without Junior investment, additional Senior investment would not be catalyzed. Further, without successful scalable investment by CRAFT – the first private investment fund for adaptation and climate resilience – the entire market for climate adaptation, resilience solutions and technologies, and private investment in such solutions will fail to launch, as it has to date. GCF participation therefore goes well beyond only increasing the ROI of Senior investors, making any comparison exercise very complicated.

The best available technologies and practices have been considered and applied through the incubation and refinement of the CRAFT strategy through the Global Lab process in 2017, the CRAFT launch project supported by GEF, NDF, and CI in 2018-2019, and the negotiation and first close of CRAFT in December 2019.

E. LOGICAL FRAMEWORK

This section refers to the project/programme's logical framework in accordance with the GCF's Performance Measurement Frameworks under the Results Management Framework to which the project/programme contributes as a whole, including in respect of any co-financing.

E.1. Paradigm shift objectives

Please select the appropriated expected result. For cross-cutting proposals, tick both.

☐ Shift to low-emission sustainable development pathways

☒ Increased climate resilient sustainable development

E.2. Core indicator targets

Provide specific numerical values for the GCF core indicators to be achieved by the project/programme. Methodologies for the calculations should be provided. This should be consistent with the information provided in section A.

E.2.1. Expected tonnes of carbon dioxide equivalent (t CO_2 eq) to be reduced or avoided (mitigation and cross-cutting only)	Annual	Click here to enter text. t CO_2 eq
	Lifetime	Click here to enter text. t CO_2 eq
E.2.2. Estimated cost per t CO_2 eq, defined as total investment cost / expected lifetime emission reductions (mitigation and cross-cutting only)	(a) Total project financing	____ Choose an item.
	(b) Requested GCF amount	____ Choose an item.
	(c) Expected lifetime emission reductions	____ t CO_2eq
	(d) Estimated cost per t CO_2eq (d = a / c)	____ Choose an item. **/ t CO_2eq**
	(e) Estimated GCF cost per t CO_2eq removed (e = b / c)	____ Choose an item. **/ t CO_2eq**
E.2.3. Expected volume of finance to be leveraged by the proposed project/programme as a result of the Fund's financing, disaggregated by public and private sources (mitigation and cross-cutting only)	(f) Total finance leveraged	____ Choose an item.
	(g) Public source co-financed	____ Choose an item.
	(h) Private source finance leveraged	____ Choose an item.
	(i) Total Leverage ratio (i = f / b)	____
	(j) Public source co-financing ratio (j = g / b)	____
	(k) Private source leverage ratio (k = h / b)	____
E.2.4. Expected total number of direct and indirect beneficiaries, (disaggregated by sex)	Direct	Over 39,000,000 30% of female 39 million individuals have enhanced their resilience becoming less vulnerable through increased awareness of climate threats; strengthened adaptive capacity and reduced exposure to climate risks and incorporate of climate information in decision making. This increased adaptive capacity occurs through the incorporation and adoption of climate adaptation solutions offered through agriculture analytics, water harvesting and water management, geospatial mapping and imaging, resilient food systems, supply chain management and disaster risk management solutions.
	Indirect	N/A – to be estimated at time of each investment Click here to enter text.% of female
	For a multi-country proposal, indicate the aggregate amount here and provide the data per country in annex 17.	
	Direct	N/A – global project (Expressed as %) of country(ies)

E.2.5. Number of beneficiaries relative to total population (disaggregated by sex)	Indirect	Click here to enter text. (Expressed as %) of country(ies)
	For a multi-country proposal, leave blank and provide the data per country in annex 17.	

E.3. Fund-level impacts

Select the appropriate impact(s) to be reported for the project/programme. Select key result areas and corresponding indicators from GCF RMF and PMFs as appropriate. Note that more than one indicator may be selected per expected impact result. The result areas indicated in this section should match those selected in section A.4 above. Add rows as needed.

Expected Results	Indicator	Means of Verification (MoV)	Baseline	Target		Assumptions
				Mid-term	Final	
A1.0 Increased resilience and enhanced livelihoods of the most vulnerable people, communities and regions	*A1.2 Number of males and females benefiting from the adoption of diversified, climate resilient livelihood options (including fisheries, agriculture, tourism, etc.)*	KPI monitored through Annual ESG and Impact Report Additional verification occurs through the implementation of the Impact Measurement System and Environmental and Social Management System.	0	613,338 (at least 184,001 female)	22,578,401 (at least 6,773,520 female)	The market for climate adaptation technologies is well established with potential for growth. A clear market exists with potential customers who are willing and able to pay. No distorting subsidies or market barriers are in place in recipient countries. Governments establish adequate regulatory frameworks. No intellectual property disputes.

E.4. Fund-level outcomes

Select the appropriate outcome(s) to be reported for the project/programme. Select key expected outcomes and corresponding indicators from GCF RMF and PMFs as appropriate. Note that more than one indicator may be selected per expected outcome. Add rows as needed.

Expected Outcomes	Indicator	Means of Verification (MoV)	Baseline	Target		Assumptions
				Mid-term)	Final	
A6.0 Increased generation and use of climate information in decision-making	*A6.1 Use of climate information products/services in decision-making in climate sensitive sectors*	KPI monitored through Annual ESG	0	493 organizations	1,010 organizations	See Annex 22 for further assumptions

		and Impact Report				
A8.0 Strengthened awareness of climate threats and risk-reduction processes	*A8.1 Number of males and females made aware of climate threats and related appropriate responses*	KPI monitored through Annual ESG and Impact Report	0	10,241,767 (at least 3,072,530 female)	14,485,332 (at least 4,345,599 female)	A clear market exists with potential customers who are willing and able to pay.
** An early warning system is perceived as a composite of four dimensions: (1) knowledge on risks, (2) monitoring and warning service, (3) dissemination and communication, (4) response capability.						

E.5. Project/programme performance indicators

The performance indicators for progress reporting during implementation should seek to measure pre-existing conditions, progress and results at the most relevant level for ease of GCF monitoring and AE reporting. Add rows as needed.

Expected Programme Results	Indicator	Means of Verification (MoV)	Baseline*	Target*		Assumptions
				Mid-term	Final	
1. increased flows of climate finance for adaptation through private sector	# of projects and transactions supported, disaggregated by type	Quarterly LP Report	0	4	8	
	$ amount of transactions supporting adaptation, disaggregated by country of origin and receipt	Quarterly LP Report	0	200 mil	400 mil	Growth in adaptation demand continues at existing pace.
	$ amount of capital mobilized	Quarterly LP Report	$26.3 million As of Q2 2021 Reporting	$150 million	300 mil	Mobilized co-investments and follow-on investments in the portfolio companies from other investors, including project finance mobilized into projects deployed by the portfolio companies using their technology.
2. Reduced risk through resilience intelligence and tailored climate services	# of farmers, producers, input providers, public institutions or other individuals or organizations accessing new agricultural analytic products	Portfolio Company reporting to CRAFT Additional verification occurs through the implementation of the IMS & ESMS.	0	10,098,382	14,485,332	There is no competition from agricultural analytic services provided for free through other projects or donors Beneficiaries demonstrate continued ability to pay and maintain services post acquisition.
	# of producers, suppliers, input providers, public institutions or other organizations accessing and using geospatial mapping and other information services to	Portfolio Company reporting to CRAFT Additional verification	0	15	30	

	inform adaptation planning	occurs through the implementation of the IMS & ESMS.				
	# of males and females reached by [or total geographic coverage of] climate-related early warning systems and other risk reduction measures established/strengthened	Public government reports, Portfolio Company reporting to CRAFT Additional verification occurs through the implementation of the IMS & ESMS.	0	N/A^ 30% female beneficiaries	N/A^ 30% female beneficiaries	Assumes gender disaggregated data is available and included in scope of assessment
3. Reduced exposure through improved access to resilient infrastructure and risk-reducing assets	# of assets made more resilient disaggregated by sector (e.g. schools, water systems, agriculture)	Public government reports, Portfolio Company reporting to CRAFT Additional verification occurs through the implementation of the IMS & ESMS.	0	169	284	Construction norms and standards for climate resilience exist
	# of supply chains adapted to climate change impacts	Portfolio Company reporting to CRAFT Additional verification occurs through the implementa	0	N/A^	N/A^	Additional indicators may include $ of supply chain value analyzed; # supply chain jobs Assumes there is capacity among supply

		tion of the IMS & ESMS.				chains and logistics providers to analyse and understand climate risk data
	# of individuals, farmers, producers, businesses or communities with improved access to water and water management solutions	Portfolio Company reporting to CRAFT Additional verification occurs through the implementation of the IMS & ESMS.	0	1,164,663 (at least 349,398 female)	2,599,376 (at least 779,812 female)	Calculation of beneficiaries based on actual liters of drinking water received from new water harvesting panels deployed; Locations mapped against WRI Aquaduct water stress index
	# of food secure individuals (in areas/periods at risk of climate change impacts)	Portfolio Company reporting to CRAFT Additional verification occurs through the implementation of the IMS & ESMS. Through the IMS, relevant project activities will be mapped against independent data on geographic areas of food insecurity such as the WFP Hunger Map.	0	10,241,767 (at least 3,072,530 female)	14,485,332 (at least 4,345,599 female)	
	# of food systems with improved resilience through Fund support	Portfolio Company	0	N/A^	N/A^	Additional indicators may include hectares

	Ha of land exhibiting improved resilience as defined through investment specific KPI	reporting to CRAFT Additional verification occurs through the implementation of the IMS & ESMS.				of land made more resilient There are no limits to working in publicly owned land. Assumes there are no land grabs.
	Total individuals (disaggregated by gender and income) benefitting from climate adaptation products / technologies / services throughout portfolio	KPI monitored through Annual ESG and Impact Report and Quarterly LP reporting Additional verification occurs through the implementation of the Impact Measurement System and Environmental and Social Management System	0	*19,831,555* *(at least 5,949,466 female)*	*39,663,109* *(at least 11,898,932 female)*	See Annex 22 for further assumptions

**Note: Baseline set to zero for Baseline Scenario; Target represents additional impacts from Alternative Scenario. Outputs highlighted in section B.3 will lead to the programme results above, expressed in terms of adaptation.*

^ This indicator will be estimated at the time of investment or when country and context specific information becomes available.

E.6. Activities

All project activities should be listed here with a description and sub-activities. Significant deliverables should be reflected in the implementation timetable. Add rows as needed.

Activity	Description	Sub-activities	Deliverables
1.1.1. Procure legal services	Activity to be completed with legal services and overseen by Fund Managers	Obtaining and retaining legal services based on value for money	Receive proposals and set up contracts for fund structuring
1.1.2. Structure GCF investment vehicle and any related entities	Activity to be completed with legal services and overseen by Fund Managers	Prepare and negotiate documents; send for external review	Legal structure of the entities / investment vehicle established

1.1.3. Close GCF into the Fund	Activity to be completed with legal services and overseen by Fund Managers	Prepare and negotiate documents; send for external review	GCF is closed into the Fund
1.2.1. Conduct discussions with potential investors	Actively engage in dialogue with investors	Update fund marketing materials; address investor questions	Additional LPs in due diligence; meetings with potential investors
1.2.2. Negotiate with potential investors and close on LP commitments	Activity to be completed with legal services and overseen by Fund Managers	Negotiate side letters	LP commitments raised into CRAFT's senior tranche
1.3.1. Refine investment pipeline	Sourcing with Fund resources and networks; initial screening vetted by the Fund's Investment Committee	Research and identify companies in the Fund's focus areas; screen high-potential investment opportunities	A list of feasible, climate resilience projects with defined performance expectations
1.3.2. Perform due diligence on proposed deals	Perform technical, legal, economic and impact review	Perform due diligence on potential investee companies that pass the initial screening	Assumptions validated and investment thesis refined; screening memos written
1.3.3. Prepare documentation for Investment Committee and AIFM	Activity to be completed with legal services and overseen by Fund Managers	Conduct detailed analysis; build detailed financial model; additional due diligence	Investment memos generated for committee
1.3.4. Execute deals	Activity to be completed with legal services and overseen by Fund Managers	Negotiate and execute investments into the companies that pass due diligence	Execution of equity investments
1.4.1. Provide ad-hoc support to investees	Supervise and add value to companies	Support investees with targeted value-add	Board of Directors[30]/ Conversations with investees
1.4.2. Regularly monitor performance of investees	Regular phone calls and site visits where necessary	Ongoing monitoring and supervision	Board of Directors / Updates from portfolio companies
1.4.3. Prepare reporting documentation	Activity to be completed with legal services and overseen by Fund Managers	Prepare quarterly and annual fund reporting for investors	Quarterly reporting; annual reporting
1.4.4. Report on ESG and impacts	Activity to be completed with legal services and overseen by Fund Managers	Prepare annual ESG and impacts reporting for investors	Annual ESG & Impact Reports
1.5.1. Assess and negotiate exit strategies	Activity to be completed with legal services, financial institutions such as investment banks and overseen by Fund Managers	Conversations with legal and financial institutions	Possible exits contemplated
1.5.2 Perform Exits	Activity to be completed with legal services, financial institutions such	Prepare and negotiate documents	Exits performed

[30] The CRAFT Fund will pursue an active investment strategy and will secure an appropriate set of active governance and engagement rights to execute its strategy with portfolio companies, including securing Board of Directors member or Board observer seats and other industry standard governance mechanisms.

	as investment banks and overseen by Fund Managers		

E.7. Monitoring, reporting and evaluation arrangements (max. 500 words, approximately 1 page)

Besides the arrangements (e.g. annual performance reports) laid out in AMA, please give a summary of the project/programme specific arrangements for monitoring and evaluation. Please provide the types of interim and final evaluations. Describe Accredited Entity (AE) project reporting relationships, including to the NDA/Focal Point and between AE and Executing Entity (EE) as relevant, identifying reporting obligations from the EE to the AE. This should relate to the frequency of reporting on project indicators, implementation challenges and financial status.

Regarding the financial reporting, typically CRAFT provides financial information to its fund limited partners on a quarterly basis along with a report/LP update call that summarizes material developments at each portfolio company owned by the fund. CRAFT has established valuation processes and procedures in accordance with IPEV Valuation Guidelines and IFRS for reporting the fair value of underlying portfolio investments. Valuations are completed on at least an annual basis as of December 31st.

The CRAFT Fund's Impact Management System (IMS) outlines the processes and activities that will be implemented in order to manage CRAFT's Portfolio Companies' performance and to track progress toward desired climate, social and environmental objectives. These activities include determining what indicators to measure; collecting and analyzing data on these indicators from the Portfolio Companies; and using the results in decision-making and reporting. The CRAFT Investment Advisor monitors both E&S risks and KPIs throughout during the holding period of the investment. This occurs primarily through company self-reporting with the Annual ESG and Impact Report. Periodic site visits will be conducted to verify information contained in the annual report on both a routine and randomly selected basis.

All portfolio companies are monitored and evaluated to ensure ongoing compliance with environmental and social requirements, including any mitigation measures, action plans and corrective actions. Information is obtained through a number of internal and external channels such as formal governance structures at the portfolio company, financial reporting from the portfolio company to the Fund, ongoing desk-based monitoring that utilizes publicly available news reports, industry insights, etc. to track changes in the operations and the local context that may affect the environment and social profile of the company.

F. RISK ASSESSMENT AND MANAGEMENT

F.1. Risk factors and mitigations measures (max. 3 pages)

Please describe financial, technical, operational, macroeconomic/political, money laundering/terrorist financing (ML/TF), sanctions, prohibited practices, and other risks that might prevent the project/programme objectives from being achieved. Also describe the proposed risk mitigation measures. Insert additional rows if necessary.

For probability: High has significant probability, Medium has moderate probability, Low has negligible probability
For impact: High has significant impact, Medium has moderate impact, Low has negligible impact
Prohibited practices include abuse, conflict of interest, corruption, retaliation against whistleblowers or witnesses, as well as fraudulent, coercive, collusive, and obstructive practices

Selected Risk Factor 1

Category	Probability	Impact
Technical and operational	Medium	Medium

Description

Please describe the risk to the best of your knowledge at this point in time.

RISK 1 – Inability to identify appropriate investments:

While the need for adaptation is significant, the market for adaptation and climate resilience solutions is still emerging; there is a risk that CRAFT may struggle to identify sound investments within the project timeframe.

Mitigation Measure(s)

Please describe how the identified risk will be mitigated or managed. Do the mitigation measures lower the probability of risk occurring? If so, to what level?

Risk mitigation:

(1) EE CRAFT Investment Advisor already has identified over 1,000 companies in its database and is engaged in active discussion with an actionable pipeline of 8-12 promising climate resilience companies for potential investments by the fund;
(2) The ASAP project has identified over 300 more companies and established a harmonized taxonomy and global online network for identifying many more that could be investment candidates for CRAFT;
(3) CRAFT has already completed its first investment; and
(4) EE CRAFT Investment Advisor's partners have over 25 years of relevant investment and company operating experience directly applicable to the Fund as well as strong networks for identifying climate resilience solutions companies.

These mitigation measures reduce this Risk to Low.

Selected Risk Factor 2

Category	Probability	Impact
Technical and operational	Medium	Medium

Description

Please describe the risk to the best of your knowledge at this point in time.

RISK 2 – Failure to achieve developmental and climate resilience outcomes:

The focus on commercially successful investment could detract from the goals of achieving developmental impact and greater climate resilience and adaptation in developing countries. In addition, it can be risky and difficult to transfer technologies and achieve successful market entry and uptake in developing countries.

Mitigation Measure(s)

Please describe how the identified risk will be mitigated or managed. Do the mitigation measures lower the probability of risk occurring? If so, to what level?

Risk mitigation:

(1) EE CRAFT Investment Advisor has developed a full Environmental and Social Management System (ESMS) to identify and manage ESG risks effectively, along with a parallel Impact Measurement System (IMS) to identify the climate vulnerabilities being addressed and define the theory of change for each investment and to measure and track 3-5 Key Performance Indicators per investment that can help measure results and inform stakeholders of the developmental and climate adaptation and resilience impacts;
(2) EE CRAFT Investment Advisor has hired a Director of Sustainability and Impact with over 15 years of experience to develop the ESMS and IMS, to manage their expert review, and to oversee their implementation;
(3) EE CRAFT Investment Advisor has already implemented the ESMS and IMS in CRAFT's first investment.

These mitigation measures reduce the Risk to Low.

Selected Risk Factor 3

Category	Probability	Impact
Governance	Medium	Medium

Description

Please describe the risk to the best of your knowledge at this point in time.

RISK 3 – Challenges with Long-Term Governance of Multi-Stakeholder Investment Fund Vehicle

As a 10-year life investment instrument with diverse public, private, and philanthropic investors and stakeholders and a multi-sector and multi-regional investment strategy, CRAFT presents challenges of governance complexity over the duration, diverse interests, sectors, and geographies of its investments.

Mitigation Measure(s)

Please describe how the identified risk will be mitigated or managed. Do the mitigation measures lower the probability of risk occurring? If so, to what level?

Risk mitigation:

(1) CRAFT is structured according to industry best practices for 10-year fund management and governance, including legal provisions in the Limited Partner Agreement (LPA) and side letters, monitoring and reporting requirements of the ESMS and IMS, and established governance requirements for private investment vehicles. These legal and governance provisions and structures were developed, refined, and evaluated through the CRAFT launch project supported by GEF, NDF, and CI;
(2) CRAFT has industry best practice governance mechanisms, including the LPAC and limited partner governance mechanisms, which AE PCA will engage through on behalf of GCF;
(3) EE CRAFT Investment Advisor's team and AE PCA's team have extensive experience managing private investment vehicles for public sector DFI and MDBs as well as for private institutional investors over 20+ year individual careers at leading MDB and DFIs as well as private institutional investors; and
(4) CRAFT's governance legal provisions and structure, governance mechanisms, and EE CRAFT Investment Advisor team have been successfully operating and governing CRAFT since its first close in December 2019.
(5) CRAFT also has a Anti-Money Laundering Policy as well as procedures for handling the Fund's AML/KYC in the Compliance Manual (Annex 21).

These mitigation measures reduce the Risk to Low.

Selected Risk Factor 4

Category	Probability	Impact
ML/FT	Low	Medium

Description

Please describe the risk to the best of your knowledge at this point in time.

RISK 3 – Risks associated with money laundering and financial terrorism.

During fundraising and investing, the Fund may come across potential portfolio companies or investors who are not in compliance with money laundering and financial terrorism regulations.

Mitigation Measures

Please describe how the identified risk will be mitigated or managed. Do the mitigation measures lower the probability of risk occurring? If so, to what level?

Risk mitigation:

(1) CRAFT has an AML/KYC policy in place and other compliance mechanisms to mitigate the risk of money laundering, terrorist financing, or prohibited practices. All employees undergo compliance training annually and must provide an acknowledgement of the firm's compliance policies. The firms also conducts rigorous due diligence to help prevent such activities
(2) In conjunction with the Fund's service providers – including AIFM Management Co, Fund Administrator, and Depositary Bank – CRAFT has also developed a detailed set of internal cash controls policies and procedures to prevent the Fund from being used to launder money, finance terrorist activities, and be used for personal gain.
(3) The Fund will undertake investments only after thorough screening and diligence, including AML/KYC procedures. Any violations of international standards regarding anti-money laundering ("AML"), know your customer ("KYC"), and environmental, social, and governance ("ESG") will be grounds to cease consideration of an investment. The deal team may work with third-party background screening companies to complete KYC/AML analysis on key management team personnel during investment consideration.
(4) The subscription agreement requires Investors to affirmatively make representations confirming e.g., that the source of the capital of their investment in the fund does not come from prohibited sources.
(5) On an ongoing basis, any unusual and suspicious activity is flagged and a Suspicious Activity Report will be filed in the relevant jurisdiction

These mitigation measures reduce the Risk to very Low.

G. GCF POLICIES AND STANDARDS

G.1. Environmental and social risk assessment (max. 750 words, approximately 1.5 pages)

Provide the environmental and social risk category assigned to the proposal as a result of screening and the rationale for assigning such category. Present also the environmental and social assessment and management instruments developed for the proposal (for example, ESIA, ESMP, ESMF, ESMS, environmental and social audits, etc.). Provide a summary of the main outcomes of these instruments. Present the key environmental and social risks and impacts and the measures on how the project/programme will avoid, minimize and mitigate negative impacts at each stage (e.g. preparation, implementation and operation), in accordance with GCF's ESS standards. If the proposed project or programme involves investments through financial intermediations, describe the due diligence and management plans by the Executing Entities (EEs) and the oversight and supervision arrangements. Describe the capacity of the EEs to implement the ESMP and ESMF and arrangements for compliance monitoring, supervision and reporting. Include a description of the project/programme-level grievance redress mechanism, a summary of the extent of multi-stakeholder consultations undertaken for the project/programme, the plan of the Accredited Entity (AE) and EEs to continue to engage the stakeholders throughout project implementation, and the manner and timing of disclosure of the applicable safeguards reports following the requirements of the GCF Information Disclosure Policy and Environmental and Social Policy.

Describe any potential impacts on indigenous peoples and the measures to address these impacts including the development of an Indigenous Peoples Plan and the process for meaningful consultation leading to free, prior and informed consent, pursuant to the GCF Indigenous Peoples Policy.

Attach the appropriate assessment and management instruments or other applicable studies, depending on the environmental and social risk category as annex 6.

The CRAFT Programme has been classified as Category I-2 and will use of GCF's funds to invest in portfolio companies that meet environmental and social eligibility criteria and investment guidelines as outlined in the Fund's Environmental and Social Management System (ESMS).

CRAFT's existing ESMS defines its approach to integrating E&S risks management and value creation opportunities into investments made through the Fund. The ESMS includes processes for screening, categorizing, appraisal, contracting and monitoring of investments supported by the Accredited Entity, the Environmental and Social Exclusion List, regulatory requirements in the jurisdictions of operation and the application of the IFC Performance Standards (2012) in its review of potential portfolio companies. In addition to the ESMS, the Fund Manager also has an existing Impact Measurement System (IMS) for assessing and managing climate-change related impact, and translation of these impacts into commercial opportunities in climate mitigation and resilience. The IMS includes guidelines on impact reporting disaggregated by gender, income, and sector profiles, as applicable, for each portfolio company from initial investment through exit.

All investment professionals are familiar with ESG issues and the frameworks for assessing, managing, and reporting risks and impacts. CRAFT Investment Advisor has appointed an experienced sustainability professional, the Director of Sustainability and Impact, as part of the Fund's management team responsible for day-to-day implementation of the ESMS and to continuously engage with and monitor portfolio companies. The Director of Sustainability and Impact has over 15 years of experience conducting labor, environmental, social, developmental, and human rights impact assessments globally including field experience in over 40+ countries around the world as well as experience in stakeholder engagement with the NGO community, corporations, government agencies and Project Affected People.

CRAFT's investment strategy reduces the likelihood of investments in companies potentially inducing significant E&S risks and potential adverse impacts, including: (i) significant adverse impacts to community health and safety as a result of construction/operation of the assets; (ii) significant number of serious injuries and/or fatal accidents during construction and/or operation of the assets; (iii) involuntary resettlement of people; and (iv) impacts on critical habitat, indigenous peoples and cultural resources.

CRAFT Investment Advisor's ESMS policy adopts, as a standard for its environmental and social review process, the International Finance Corporation's (IFC) Performance Standards on Social and Environmental Sustainability and IFC's Industry Sector Guidelines and any subsequent revisions to those standards. The applicability of each Performance Standard will be established during the environmental and social risks and impacts identification process. The

implementation of the actions necessary to meet the requirements of this Performance Standard is managed through the CRAFT's ESMS.

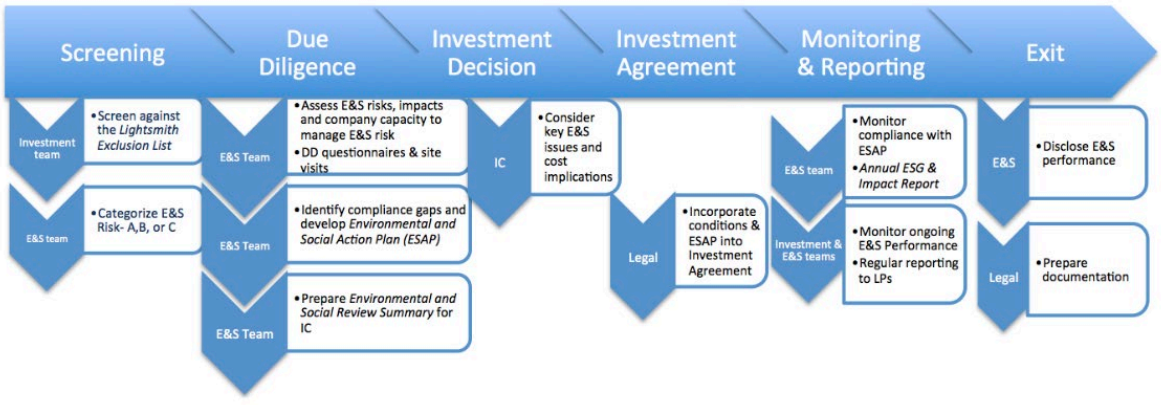
As early as possible in the investment process, CRAFT Investment Advisor screens potential Portfolio Companies to identify possible adverse environmental and social impacts of its business activities. This includes screening activities against CRAFT's Exclusion List to determine eligibility for investment. Categorization helps to ensure that the extent of the review is commensurate with the risks posed by a potential investment.

CRAFT categorizes potential investments based on an assessment of the potential environmental and social risks and impacts within a project's Area of Influence and the Portfolio Company's capacity to effectively manage risks and impacts, including the ability to implement any required mitigation. The CRAFT Fund will not invest in any "high risk" projects classified as Category A as assessed against the IFC Performance Standards.

The CRAFT Fund will require the establishment of a portfolio company-level ESMS proportionate to the E&S risks and impacts of its activities and, where applicable, appropriate processes for timely disclosure of E&S information, conduct of stakeholder engagement activities, and establishment of portfolio company-level Grievance Redress Mechanisms ("GRMs") to address concerns and grievances from Project-affected people. CRAFT will define these aspects in its investment documentation and monitor them as part of its portfolio monitoring process. CRAFT has created an external grievance mechanism to address views of affected people, enquiries or concerns regarding its own E&S processes and outcomes as well as E&S impacts and performances of the CRAFT Fund's portfolio companies. Stakeholders may raise a grievance at any time about CRAFT's activities, including the application of the ESMS and issues related to the business activities of the Portfolio Companies. While the CRAFT Investment Advisor serves as the first point of contact in the Grievance Mechanism, stakeholders may also contact the Director of Compliance at Conservation International. Conservation International is a U.S.-based non-profit whose conservation and advocacy work focuses on science, policy, and partnership with businesses and communities and responsible for responding to project-affected stakeholders about the grievance provisions described in the Safeguard Policies and Processes section of the CI-ESMF. The CRAFT Investment Advisor will make stakeholders aware of the Grievance Mechanism through their public website, during project start-up workshops, and during relevant project-related meetings.

Pegasus will receive an annual E&S monitoring report on the E&S performance of the Fund's portfolio companies with the opportunity to conduct regular monitoring of the Fund's activities, including visits to selected portfolio companies where required.

Environment & Social Safeguards Process



CRAFT recognizes that its ESG policies and processes are ongoing and dynamic in nature and the firm seeks continual improvement in ESG performance both in its own operations and at the Portfolio Companies. Information obtained through Portfolio Company reporting and compliance monitoring will inform strategic and operational decisions and ongoing investment activities.

G.2. Gender assessment and action plan (max. 500 words, approximately 1 page)

Provide a summary of the gender assessment and project/programme-level gender action plan that is aligned with the objectives of GCF's Gender Policy. Confirm a gender assessment and action plan exists describing the process used to develop both documents. Provide information on the key findings (who is vulnerable and why) and key recommendations (how to address the vulnerability identified) of the gender assessment. Indicate if stakeholder consultations have taken place and describe the key inputs integrated into the action plan, including: how addressing the vulnerability will ensure equal participation and benefits from funds investment; key gender-related results to be expected from the project/programme with targets; implementation arrangements that the AE has put in place to ensure activities are implemented and expected outcomes will be achieved, monitored and evaluated.

Provide the full gender assessment and project-level gender action plan as annex 8.

Gender gaps intricately intersect with climate change adaptation through social, economic, ecological, physical and institutional dimensions that are experienced at the household, community and country levels. Women are often disproportionately vulnerable to the effects of climate change, which can further exacerbate gender disparities. However, evidence demonstrates that the application of a gender-lens in approaching climate action by ensuring inclusive participation in decision-making around key natural resources can reduce greenhouse gas impacts, improve resiliency, and concurrently shrink gender gaps for current and future generations.

CRAFT commits to maintaining a gender-lens when assessing investment opportunities, evaluating the impact of its investments, particularly among the underserved, including women. To assess and facilitate the potential for positive gender impact in our portfolio, CRAFT will:

- Consider whether a portfolio company provides a new source of income for women in climate-vulnerable communities and facilitates employment opportunities for women, particularly those operating in traditionally male-dominated industries
- Consider if a portfolio company is developing climate- smart products or services that are engaging women as key beneficiaries
- Consider the implementation of inclusive corporate policies to increase the quantity and quality of jobs held by women, improve working conditions and close gender pay gaps
- Endeavor to incorporate a gender focus when considering technical assistance / donor funding programs

In establishing the impact of its investments on communities, CRAFT takes a crossing-cutting approach to tracking and using existing relevant metrics such as: i) the number of employees, ii) the number of beneficiaries, and iii) vendors or suppliers. CRAFT is committed to applying a gender-lens in delving deeper into its impact metrics by, to the extent possible, disaggregating its data by gender. These metrics will be incorporated during due diligence and tracked throughout the holding period of portfolio company and help provide granularity on the gendered impacts of its investments.

With the aim of mitigating any potential exacerbation of gender disparities through its investment activities, The Fund commits to incorporating gender safeguards at all stages of the investment process. This includes the following:

- Conduct an assessment to identify individuals and groups that may be directly and differentially or disproportionately affected by the business activity because of their disadvantaged or vulnerable status, including women.
- When there are impacts on lands and natural resources subject to traditional ownership or under customary use, the assessment should be gender inclusive and, specifically, consider women's role in the management and use of these resources.
- Portfolio Companies will not make employment decisions on the basis of personal characteristics, such as gender, unrelated to inherent job requirements. The employment relationship will be based on the principle of equal opportunity and fair treatment, and will not discriminate with respect to any aspects of the employment relationship, as recruitment and hiring, compensation (including wages and benefits), working conditions and terms of employment, access to training, job assignment, promotion, termination of employment or retirement,

and disciplinary practices. Portfolio Companies will take measures to prevent and address harassment, intimidation, and/or exploitation, especially in regard to women.

With regard to its own activities, Lightsmith has developed a Gender Mainstreaming Policy to ensure that both men and women receive fair access to social and economic benefits; do not suffer adverse effects; and receive full respect for their dignity and human rights. Specific measures work towards equitable participation of women and men in the following aspects: i) Recruitment and Procurement; ii) Meetings and Events; iii) Project Governance; iv) Strategies and Plans; and v) Monitoring & Evaluation.

Diversity and inclusion are extremely important to Lightsmith. Accordingly, Lightsmith is an Affirmative Action/ Equal Opportunity Employer of minorities, women, veterans, and individuals with disabilities, and will afford equal employment opportunity to all employees and applicants for employment. Lightsmith seeks to include women in decision-making roles within the firm.

Lightsmith expects to engage with stakeholders and beneficiaries in a number ways, which will mainstream gender considerations and will collect gender-disaggregated information from key stakeholder meetings to track gender participation and engagement.

G.3. Financial management and procurement (max. 500 words, approximately 1 page)

Describe the project/programme's financial management including the financial monitoring systems, financial accounting, auditing, and disbursement structure and methods. Refer to section B.4 on implementation arrangements as necessary.

Articulate any procurement issues that may require attention, e.g. procurement implementation arrangements and the role of the AE under the respective proposal, articulation of procurement risk assessment undertaken and how that will be managed by the AE or the implementing agency. Provide a detailed procurement plan as annex 10.

The CRAFT Investment Advisor and the CRAFT Fund are managed in accordance with private equity industry best practices. The CRAFT Investment Advisor maintains an Internal Controls Policy to ensures that all financial transactions are properly reviewed, authorized, documented, and executed. The CRAFT Investment Advisor also maintains a Compliance Manual (please refer to Annex 21) that covers recordkeeping requirements, proper promotional activities, insider trading restrictions, USA Patriot Act / AML policy and procedures, among others.

EAS Accounting, a New York-based accounting firm serving other growth equity investment funds, provides accounting services to the CRAFT Investment Advisor. The CRAFT Investment Advisor's internal controls policy has already been rigorously vetted by the CRAFT Fund's existing investors. SS&C Luxembourg serves as the Fund Administrator, maintaining the CRAFT Fund's books and records, providing financial reporting to investors, overseeing AML/KYC processes, among other typical fund administration services. Quintet Private Bank serves as the Fund Depositary, monitoring the CRAFT Fund's cash position and any cash movements. The Fund is externally audited on an annual basis.

All cash movements and disbursements (e.g., for funding investments and paying fees/invoices) are subject to review by multiple parties and subject to specific approval thresholds and processes depending on type of disbursement. SS&C as Fund Administrator uses its own electronic payment platform to execute cash payments outside of the CRAFT Fund, which includes controls (e.g., independent call-backs) and predefined levels of authorizations (depending on payment size) to approve a payment. For cash payments outside of the CRAFT Fund, an invoice can be created by a Managing Director of the CRAFT Investment Advisor or EAS Accounting and sent to SS&C. SS&C inputs invoices into their system, which then needs to be approved by an authorized signatory at CRAFT Investment Advisor and require a call-back to an independent individual at CRAFT Investment Advisor or EAS Accounting. Once the call-back is confirmed, then a payment may be released. Payments above EUR10,000 are also required by Lemanik as AIFM and require the approval of two CRAFT Investment Advisor Managing Directors to be released. Payments below that threshold only require one. All cash movements out of the Fund require an independent call-back to be performed.

Please see Section 6 of Annex 21 for the firm's full Cash Management Policies, which outlines the policies and procedures for each type of cash movement from the Fund.

Please note that the procurement policy included in the same Annex refers to the operations of the EE (CRAFT Investment Advisor), not the AE (Pegasus Capital Advisors). The Procurement Plan is being implemented by the EE

(CRAFT Investment Advisor) and has been reviewed and accepted by CRAFT's current investors, who include several multilateral development banks, sovereign governments, philanthropic and institutional investors. The EE (CRAFT Investment Advisor) is a small-medium sized enterprise and the Procurement Plan has been accepted as appropriate for its operational capacity.

G.4. Disclosure of funding proposal

Note: The Information Disclosure Policy (IDP) provides that the GCF will apply a presumption in favour of disclosure for all information and documents relating to the GCF and its funding activities. Under the IDP, project and programme funding proposals will be disclosed on the GCF website, simultaneous with the submission to the Board, subject to the redaction of any information that may not be disclosed pursuant to the IDP. Information provided in confidence is one of the exceptions, but this exception should not be applied broadly to an entire document if the document contains specific, segregable portions that can be disclosed without prejudice or harm.

Indicate below whether or not the funding proposal includes confidential information.

☐ No confidential information: The accredited entity confirms that the funding proposal, including its annexes, may be disclosed in full by the GCF, as no information is being provided in confidence.

☒ With confidential information: The accredited entity declares that the funding proposal, including its annexes, may not be disclosed in full by the GCF, as certain information is being provided in confidence. Accordingly, the accredited entity is providing to the Secretariat the following two copies of the funding proposal, including all annexes:

- full copy for internal use of the GCF in which the confidential portions are marked accordingly, together with an explanatory note regarding the said portions and the corresponding reason for confidentiality under the accredited entity's disclosure policy, and
- redacted copy for disclosure on the GCF website.

The funding proposal can only be processed upon receipt of the two copies above, if containing confidential information.

H. ANNEXES

H.1. Mandatory annexes

☒	Annex 1	NDA no-objection letter(s) **(template provided)**
☒	Annex 2	Feasibility study - and a market study, if applicable
☒	Annex 3	Economic and/or financial analyses in spreadsheet format
☒	Annex 4	Detailed budget plan **(template provided)**
☒	Annex 5	Implementation timetable including key project/programme milestones **(template provided)**
☒	Annex 6	E&S document corresponding to the E&S category (A, B or C; or I1, I2 or I3): **(ESS disclosure form provided)** ☐ Environmental and Social Impact Assessment (ESIA) or ☐ Environmental and Social Management Plan (ESMP) or ☒ Environmental and Social Management System (ESMS) ☐ Others (please specify – e.g. Resettlement Action Plan, Resettlement Policy Framework, Indigenous People's Plan, Land Acquisition Plan, etc.)
☒	Annex 7	Summary of consultations and stakeholder engagement plan
☒	Annex 8	Gender assessment and project/programme-level action plan **(template provided)**
☒	Annex 9	Legal due diligence (regulation, taxation and insurance)
☒	Annex 10	Procurement plan **(template provided)**
☒	Annex 11	Monitoring and evaluation plan **(template provided)**
☒	Annex 12	AE fee request **(template provided)**
☒	Annex 13	Co-financing commitment letter, if applicable **(template provided)**
☒	Annex 14	Term sheet including a detailed disbursement schedule and, if applicable, repayment schedule

H.2. Other annexes as applicable

☒	Annex 15	Evidence of internal approval **(template provided)**
☒	Annex 16	Map(s) indicating the location of proposed interventions
☒	Annex 17	Multi-country project/programme information **(template provided)**
☒	Annex 18	Appraisal, due diligence or evaluation report for proposals based on up-scaling or replicating a pilot project
☒	Annex 19	Procedures for controlling procurement by third parties or executing entities undertaking projects financed by the entity
☒	Annex 20	First level AML/CFT (KYC) assessment
☒	Annex 21	Operations manual (Operations and maintenance)
☒	Annex 22	Impact Calculations and Narrative
☒	Annex 23	Fund structure diagram

** Please note that a funding proposal will be considered complete only upon receipt of all the applicable supporting documents.*