

Fund: Livelihoods Carbon Fund 3

Full Description

FORESIGHT SUSTAINABLE FORESTRY (FSF)

<p>Issuer</p> <p>Livelihoods Funds</p>	<p>Key Lessons</p> <ol style="list-style-type: none"> 1. LCF3 leverages synergies between corporates seeking secured access to a source of high-quality ERCs and financial investors seeking to engage in ERC markets with minimal risk. 2. Portfolio diversification across project types and jurisdictions helps to reduce the overall credit risk and operational risks for LCF3 investors, complemented by a partial credit guarantee from U.S. DFC. 3. LCF3’s structure is particularly suitable for small or mid-size ERC buyers who do not necessarily have the resources or expertise to engage with ERC activities directly (e.g., extensive project and credit purchasing due diligence).
<p>Instrument</p> <p>Fund</p>	
<p>Return</p> <p>Depending on the type of share held (Class A, B, or C), LCF3 investors may receive ERCs or receive cash returns that are dependent on the sale of ERCs through long-term offtake agreements.</p>	

The Livelihoods Carbon Fund 3 (LCF3) combines equity capital from some international investors seeking ERC returns and others seeking financial returns to provide upfront financing for ERC activities (Figure 9). Launched in 2021, LCF3 is a \$150 million fund that invests in large-scale natural ecosystem restoration, agroforestry, and rural energy projects in developing countries across Africa, Asia, and Latin America. LCF3 is the third in a series of progressively larger and more impactful funds.

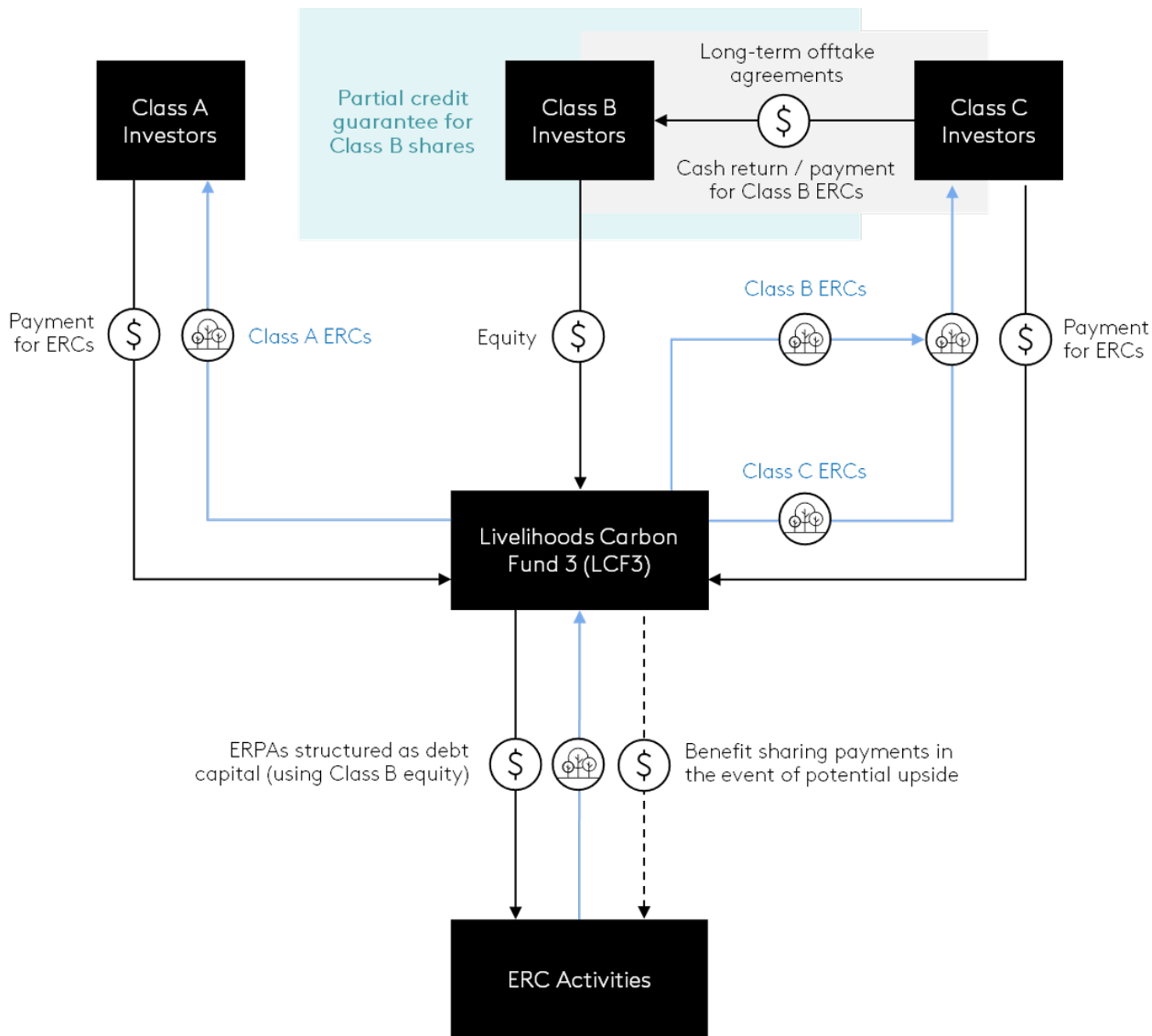
LCF3 structures ERPA as debt transactions with an obligation to repay in the form of ERCs. There are three types of shareholders in LCF3¹:

- Class A shareholders, primarily corporates, make an equity commitment in exchange for future delivery of ERCs, starting in years 2-3 of the fund. The ERCs that are delivered to Class A shareholders will gradually draw down their equity holding until it is fully redeemed.
- Class B shareholders, primarily financial institutions, make an equity commitment in exchange for future cash returns (est. >5% IRR) that are dependent on the sale of ERCs through long-term, pre-negotiated offtake agreements with Class C shareholders. The dividends that are distributed to Class B shareholders will gradually draw down their equity holding until it is fully redeemed.
- Class C shareholders, primarily corporates, make an equity commitment in exchange for future delivery of ERCs, in addition to entering into long-term offtake agreements with Class B shareholders.

LCF3's investors comprise Bel Group, Chanel, Danone, DEG Invest, Eurofins, Global Environmental Facility, Hermès, L'Occitane Group, Mars, Mauritius Commercial Bank, McCain Foods, Orange, SAP, Schneider Electric, and Voyageurs du Monde.²

LCF3 creates synergies between the interests and preferred level of ERC market exposure of investors that want to receive ERC returns and those that want to receive financial returns, which is a key element among a package of risk mitigation elements. Portfolio diversification across project types and jurisdictions helps to reduce the overall credit risk and operational risks for LCF3 investors. Class A and Class C shareholders, mainly corporates, are exposed to ERC market risk in exchange for access to a supply of ERCs. Class B shareholders, mainly financial institutions, can tap into the increasing value of ERC markets through a diversified portfolio of ERC activities managed by an experienced impact investment fund manager but are insulated from market risk by the long-term offtake agreements and credit enhancement through a partial credit guarantee from U.S. DFC (originally agreed through USAID's Development Credit Authority).

Figure 9. Financial structure of Livelihoods Carbon Fund 3



Footnote 1: GEF, [Livelihoods Carbon Fund 3 \(LCF3\)](#), 2023.

Footnote 2: Livelihoods Funds, [The Livelihoods Carbon Funds](#), 2023.

Additional Resources

[Carbon Capture and Storage](#)

[Renewable Energy Toolkits](#)

[PPP Reference Guide 3.0 \(Full version\)](#)

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