



# GEF-7 PROJECT IDENTIFICATION FORM (PIF)

PROJECT TYPE: (choose project type)

TYPE OF TRUST FUND:(choose fund type)

## PART I: Project Information

Project Title:	AGRI3 A Forest Conservation and Sustainable Agriculture Fund for Developing Countries		
Country(ies):	Global emerging markets	GEF Project ID:	
GEF Agency(ies):	Conservation International	GEF Agency Project ID:	
Project Executing Entity(s):	Mirova Althelia, Rabobank a.o.	Submission Date:	Feb 27, 2020
GEF Focal Area(s):	Multi-focal areas	Project Duration (Months)	240

## A. INDICATIVE FOCAL/NON-FOCAL AREA ELEMENTS

Programming Directions	Trust Fund	(in \$)	
		GEF Project Financing	Co-financing
Climate Change Focal Area	GEFTF	10,263,468	115,000,000
Land Degradation Focal Area 1-1	GEFTF	866,000	9,000,000
Land Degradation Focal Area 1-2	GEFTF	866,000	9,000,000
Land Degradation Focal Area 1-3	GEFTF	866,000	9,000,000
Biodiversity Focal Area	GEFTF	600,000	4,000,000
<b>Total Project Cost</b>		13,461,468	146,000,000

## B. INDICATIVE PROJECT DESCRIPTION SUMMARY

**Project Objective:** AGRI3 will de-risk USD 1 billion of private sector financing and provide USD 15 million in technical assistance for forest conservation and sustainable agriculture in developing countries and emerging markets to address climate change and land degradation.

Project Components	Component Type	Project Outcomes	Project Outputs	Trust Fund	(in \$)	
					GEF Project Financing	Co-financing
Component 1: Forest conservation/transformation to sustainable and climate-smart agriculture	Investment	<p>Outcome 1.1: Forested lands are protected and sustainably managed<sup>1</sup></p> <p>Indicator 1.1.1: Number of ha of forested lands under improved management (GCI 3.2)</p> <p>Target 1.1.1: 41,000 ha's of forest under improved mngt</p> <p>Indicator 1.1.2: MT CO<sub>2</sub>eq of carbon emission avoided/ sequestered (GCI 6.1)</p>	<p>Output 1<sup>2</sup>: Plans for forest conservation and restoration, i.e. transition to agroforestry models, enrichment of agricultural land with trees, special biodiversity zones adjacent to agricultural land are developed</p>	GEFTF	13,461,468	145,350,000

- <sup>1</sup> Forested lands are protected and sustainably managed; agroforestry is introduced, agricultural land is enriched with trees and special biodiversity zones adjacent to agricultural lands are developed
- <sup>2</sup> Project Output 1 applies to Outcome 1.1

		<p>Target 1.1.2: 12,000,000 MT CO<sub>2</sub>eq of carbon emission avoided/ sequestered</p> <p>Outcome 1.2 Agricultural areas implement sustainable/ climate-smart agriculture practices</p> <p>Indicator 1.2.1: ha's of agricultural lands under sustainable management (GCI 4.3)</p> <p>Target 1.2.1: 650,000 ha's of agricultural lands under sustainable management</p> <p>Indicator 1.2.2: ha's of degraded lands revitalized (GCI 3.1)</p> <p>Target 1.2.2: 50,000 ha's revitalized</p> <p>Indicator 1.2.3: MT CO<sub>2</sub>eq of carbon emission avoided/ sequestered (GCI 6.1)</p> <p>Target 1.2.3: 6,400,000 MT CO<sub>2</sub>eq of carbon emission avoided/ sequestered</p>	<p>Output 2<sup>3</sup>: Plans for at least 48 companies<sup>4</sup> for the transition to sustainable and climate-smart agriculture are developed</p> <p>Output 3<sup>5</sup>: USD 1B of financing for sustainable agriculture and forest conservation is de-risked and/or delivered with tailored conditions</p> <p>Output 4: A total value of USD 15M of Technical Assistance to implement the transitions is made available</p> <p>Output 5: At least 300,000 farmers and farm workers, with an estimated 40% female, are trained in sustainable forest management and sustainable ag practices<sup>6</sup></p> <p>Output 6: At least 48 companies implement forestry conservation practices and/or</p>			
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<sup>3</sup> Project Output 2 applies to Outcome 1.2

<sup>4</sup> Companies: farms, groups of farmers or conglomerate of group of farmers plus downstream processors/ aggregators

<sup>5</sup> Project Outputs 3 thru 6 apply to both Outcomes 1.1 and 1.2

<sup>6</sup> The AGR13 E&S Policy Framework contains an array of additional KPIs in the field of Benefitting Rural Communities, safeguarding that conditions in rural communities (e.g. farmer income etc.) do never deteriorate and will typically improve as a result of the programme.

			implement sustainable and climate-smart agricultural practices through AGRI3 loans			
			Subtotal	GEFTF	13,461,468	145,350,000
			Project Management Cost (PMC)	GEFTF		650,000
			<b>Total Project Cost</b>		13,461,468	146,000,000

At this point in the project, it is impossible to make hard commitments on the exact allocation of the GEF investment over the 2 outcomes 1.1 and 1.2. Based on the preliminary pipeline, our expectation is that the majority of the investment (75%+) will go into agricultural production land under sustainable management; this includes landscape models that actively manage or conserve forest including HCV and/or HCS areas. The remainder will go into protection and sustainable management implementation of plain forest areas.

As the AGRI3 Fund is revolving by definition, with guarantees expiring and sub-ordinated loans being paid back, all investments of the Fund can be supported with GEF non-grant. The only exception is the TA Fund, which is non-revolving and which therefore should be entirely grant-funded. This application focuses exclusively on a GEF contribution from the non-grant window as investment in the AGRI3 Fund. As a consequence, the GEF contribution will contribute directly to Output 3 and as a consequence also to Outputs 1, 2 and 6. It will not be used to fund Technical Assistance (Outputs 4 and 5).

For multi-trust fund projects, provide the total amount of PMC in Table B, and indicate the split of PMC among the different trust funds here: ( )

#### C. INDICATIVE SOURCES OF CO-FINANCING FOR THE PROJECT BY NAME AND BY TYPE, IF AVAILABLE

Sources of Co-financing	Name of Co-financier	Type of Co-financing	Investment Mobilized	Amount (\$)
Donor Agency	Government of The Netherlands	Public Investment	Investment mobilized	35,000,000
Donor Agency	Government of The Netherlands for Technical Assistance Expenses	Grant	Recurrent Expenses	5,000,000
Private Sector	Rabobank	Loan	Investment mobilized	50,000,000
Other / Private Sector	To be mobilized after GEF grant	Equity		26,000,000
Private Sector	To be mobilized after GEF grant	Loan		20,000,000
Other	To be mobilized after GEF grant for Technical Assistance Expenses	Grant		10,000,000
<b>Total Co-financing</b>				146,000,000

Describe how any "Investment Mobilized" was identified.

- NL Government: final grant decision Febr 11, 2020
- Rabobank: oral commitment and internal in-principle approval, contract details to be agreed

AGRI3 seeks to secure investment in the AGRI3 Fund to the amount of USD 144 mln and to secure grant funding of the TA Fund to the amount of USD 15 mln. The AGRI3 balance sheet of USD 144 mln suffices to secure (off-balance sheet) guarantees to a total of USD 306 mln, issued to participating banks. The USD 306 mln suffices to de-risk a total of USD 1 bln of loans of participating banks to their clients to finance their investments in forest conservation and sustainable agriculture.

Table C adds up to USD 146 mln. Taken together with the net investment by GEF of ca. USD 13 mln. (USD 13,461,468) this makes USD 159 mln which equals the targeted size of the AGRI3 Fund (USD 144 mln) plus the targeted size of the TA Fund (USD 15 mln).

The funding for the TA Facility is included in Table C (Government of Netherlands \$5M and \$10M to be mobilized during the life of the project).

**D. INDICATIVE TRUST FUND RESOURCES REQUESTED BY AGENCY(IES), COUNTRY(IES), FOCAL AREA AND THE PROGRAMMING OF FUNDS**

GEF Agency	Trust Fund	Country/ Regional/ Global	Focal Area	Programming of Funds	(in \$)		
					GEF Project Financing (a)	Agency Fee (b)	Total (c)=a+b
CI	GEFTF	Global	Multi-focal area	Non-Grant	13,461,468	1,211,532	14,031,978
<b>Total GEF Resources</b>					13,461,468	1,211,532	14,031,978

**E. PROJECT PREPARATION GRANT (PPG)**

Is Project Preparation Grant requested? Yes X No  If no, skip item E.

**PPG AMOUNT REQUESTED BY AGENCY(IES), TRUST FUND, COUNTRY(IES) AND THE PROGRAMMING OF FUNDS**

GEF Agency	Trust Fund	Country/ Regional/Global	Focal Area	Programming of Funds	(in \$)		
					PPG (a)	Agency Fee (b)	Total c = a + b
CI	GEFTF	Global	Multi-focal area	Non-grant	300,000	27,000	327,000
<b>Total PPG Amount</b>					300,000	27,000	327,000

## F. PROJECT'S TARGET CONTRIBUTIONS TO GEF 7 CORE INDICATORS

Provide the relevant sub-indicator values for this project using the methodologies indicated in the Core Indicator Worksheet provided in Annex B and aggregating them in the table below. Progress in programming against these targets is updated at the time of CEO endorsement, at midterm evaluation, and at terminal evaluation. Achieved targets will be aggregated and reported at anytime during the replenishment period. There is no need to complete this table for climate adaptation projects financed solely through LDCF and SCCF.

Project Core Indicators		Expected at PIF
1	<b>Terrestrial protected areas</b> created or under improved management for conservation and sustainable use (Hectares)	n/a
2	<b>Marine protected areas</b> created or under improved management for conservation and sustainable use (Hectares)	n/a
3	Area of <b>land restored</b> (Hectares)	91,000
4	Area of <b>landscapes under improved practices</b> (excluding protected areas)(Hectares)	650,000
5	Area of <b>marine habitat under improved practices</b> (excluding protected areas) (Hectares)	n/a
6	<b>Greenhouse Gas Emissions Mitigated</b> (tons of CO <sub>2</sub> e)	18,400,000
7	<b>Number of shared water ecosystems</b> (fresh or marine) under new or improved cooperative management	n/a
8	Globally over-exploited <b>marine fisheries</b> moved to more sustainable levels (metric tons)	n/a
9	<b>Reduction, disposal/destruction, phase out, elimination</b> and avoidance of <b>chemicals of global concern</b> and their waste in the environment and in processes, materials and products (metric tons of toxic chemicals reduced)	n/a
10	Reduction, avoidance of emissions of <b>POPs to air</b> from point and non-point sources (grams of toxic equivalent gTEQ)	n/a
11	Number of <b>direct beneficiaries disaggregated by gender</b> as co-benefit of GEF investment <sup>1</sup>	Female 120,000 Male 180,000

Provide additional explanation on targets, other methodologies used, and other focal area specifics (i.e., Aichi targets in BD) including justification where core indicators targets are not provided.<sup>2</sup>

<sup>1</sup> This is a reporting effort, not an ambition, in order to respect socio-economic factors by UN recommendation.

<sup>2</sup> Reference is made to the AGRI3 overall E&S framework which links our ambitions to international standards.

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(\*1) The way our estimate of CO<sub>2</sub>eq emissions avoided/reduced for forest has been derived is the following:

- We have used 6 actual case studies on a 10 years basis
- We have extrapolated the results to 91,000 ha 6,000,000 Mton
- We have re-scaled 10 to 20 years 12,000,000 Mton
- We have validated these results with IPCC-based models including FAO Ex-Act.

This model has been applied to a number of sample forest projects. The full model includes calculations based on baseline data for 6 case studies (including soy large producer, soy by Farmer Organization of smallholder farmers, maize and palm oil).

(\*2) The way our estimate of CO<sub>2</sub>eq emissions avoided/reduced for farms has been derived is the following:

- We have used the FAO Ex-Act model for different crops (rice, soy, sugar cane)

- We have used the intermediate scenario
- We have calculated the results for a crop mix on 650,000 ha 4,000,000 Mton
- We have re-scaled 10 to 20 years 8,000,000 Mton
- We have subtracted 20% allowing for less than 100% success rate 6,400,000 Mton

While the amount of CO<sub>2</sub>e emissions avoided/reduced per ha for agriculture land will be considerably lower than for forest, the area over which this is realized is of course considerably higher than for forest (650,000 ha instead of 91,000 ha).

### G. PROJECT TAXONOMY

Please fill in the table below for the taxonomic information required of this project. Use the GEF Taxonomy Worksheet provided in Annex C to help you select the most relevant keywords/ topics/themes that best describe this project.

Level 1	Level 2	Level 3	Level 4
Influencing Models	(multiple selection)	(multiple selection)	(multiple selection)
Stakeholders	(multiple selection)	(multiple selection)	(multiple selection)
Capacity, Knowledge and Research	(multiple selection)	(multiple selection)	(multiple selection)
Gender Equality	(multiple selection)	(multiple selection)	(multiple selection)
Focal Area/Theme	(multiple selection)	(multiple selection)	(multiple selection)
Rio Marker	(multiple selection)		

## **PART II: PROJECT JUSTIFICATION**

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

Increases in human population and consumption have led to a rapid expansion of agricultural production, which continues to be among the most powerful drivers of environmental degradation. As more land has been brought under cultivation and production is increasingly industrialised, agricultural production has been a major cause of deforestation, habitat loss, greenhouse gas emissions, soil and water pollution, and other environmental impacts. Ultimately, this degradation threatens agricultural production itself, as evidenced by stagnating yields, increasing climate risk, and loss of livelihoods for many – and especially smallholder farmers. On top of this large scale deforestation is threatening to accelerate climate change.

Meanwhile, despite the ever-increasing footprint of agricultural production, undernutrition continues to affect nearly 850 million people worldwide and demand for resources (food, water, energy) will further increase with forecasted growth in both population and income levels. By 2030, expected demand for food will increase by 35%, water by 40% and energy by 50%<sup>7</sup>. The resulting expansion in agricultural production, if it were to happen under current practices, would increase agriculture’s negative impacts on the environment by 50 to 90%<sup>8</sup>.

Climate change is closely connected to demand. Indeed, agriculture and forestry together account for nearly a quarter of all greenhouse gas emissions, mostly due to forests and other ecosystem conversion – including peatlands that naturally capture and store carbon dioxide. Agricultural production, however, is also facing the negative effects of climate change through changes in temperature and precipitation patterns. At the same time there are limited business models for afforestation and forest conversation in the agricultural sector; AGRI3 aims to come with solutions to this end. This may be a combination of recovering degraded land and including agroforestry components, refraining from deforestation as degraded land is made productive elsewhere or allocating land for forest replanting.

The transition to a more sustainable and climate-smart agricultural system that can meet future demand without exacerbating environmental degradation and climate change is an urgent priority. Such a largescale transformation of agricultural production systems will require significant amounts of financing. While some public financing and private investment is currently available and dedicated to such a transition, the amount of funding remains far below what is needed to achieve a systemic transformation.

There are a number of barriers that currently impede the deployment of sustainable agricultural production private investment at scale including a lack of access to markets for sustainably produced products, a lack of access to technology and a lack of access to appropriate and affordable financing. Meanwhile, the transition to new modes of production can involve large investments and long timescales, notably due to the need for training, which imply risk levels that are beyond what private capital providers are comfortable with. This situation leads to the agricultural sector having access to limited finance, leaving small farmers, in particular, clearly underserved.

The urgency of the need for a transition towards more sustainable agricultural production makes it imperative to overcome the barriers that are impeding the growth of private investment. Public and other concessional sources of finance can play a catalytic role to help achieve this and thereby accelerate this much needed systemic shift. By blending public finance with private investment, it becomes possible to provide the funding needed to achieve the transition towards sustainable agricultural production in combination with forest conservation at conditions that meet the producers’ needs and that are acceptable to the private finance institutions.

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<sup>7</sup> “The Future of Food and Agriculture: Trends and Challenges”, FAO (2017)

<sup>8</sup> Springman, M. et al., 2018. Options for keeping the food system within environmental limits. Nature 562 (7728).

## 2) the baseline scenario and any associated baseline projects

PROJECT NAME	YEARS (START-END)	BUDGET (USD)	DONOR(S)	OBJECTIVES/BRIEF DESCRIPTION OF HOW IT IS LINKED TO THIS GEF PROJECT
Partnership for Forest Protection and Sustainable Agriculture	2017	Tbd	n/a	UN Environment / Rabobank partnership aiming to enhance public/private partnerships in Forest Protection and Sustainable Agriculture; the “cradle” of AGRI3
Farm Fit Fund	2020	100M	Unilever, Mondelez, Rabobank	Exclusively smallholder-focussed finance fund with which AGRI3 may collaborate
&Green Fund	2019	100M	Government of Norway	Impact Fund with which AGRI3 may syndicate
Mastercard – Rabobank	2019	Tbd	n/a	Initiative for digitising agricultural supply chains; may provide digital infrastructure
Food Loss Facility	2020	Tbd	Tbd	Initiative by World Bank, Rockefeller Foundation, IFAD, FAO, Netherlands Government and Rabobank to reduce food losses; may have overlapping projects with AGRI3

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

The UN Environment Programme and Rabobank have announced the ambitious partnership for Forest Protection and Sustainable Agriculture (FPSA) with the aim to unlock up to USD 1 billion in financing towards deforestation-free, sustainable agriculture and land use. The AGRI3 fund has been created as the delivery mechanism for this partnership. The goal of the Fund is to develop investments in agriculture that demonstrate the financial viability of business models that guarantee forest protection and sustainable agricultural production. These investments will serve as proof of concept to the wider community of banks, other financial institutions, and value chain partners, with the aim to ultimately mainstream such sustainable practices across the agricultural and financial value chains.

The AGRI3 Fund will provide blended finance instruments – mostly guarantees to cover the special risks associated with impact financing of forest conservation and sustainable agriculture projects. These guarantees – to a total of USD 300 million will be used to de-risk and catalyze private commercial debt and create projects and transactions which, due to their high-risk profile, would not be possible without the availability of a blended finance mechanism. The Fund thus cover those aspects of projects that are considered too risky by commercial banks.

The types of land that are expected to be transformed, are:

1. Agricultural Land: Agricultural production land with potential for improvement of: productivity, landscape integration and biodiversity conservation. This will lead towards: higher production (reducing land pressure and avoiding deforestation of additional land), better integration in landscapes and adding tree- or biodiversity zones.
2. Degraded land: land in use or not in use - utilizing national definitions of degraded land, e.g. potentially applying EMBRAPA's definition in Brazil - with severely reduced productivity and fertility. This will lead towards restoration of fertility and soil quality, preparing for use of agricultural production or cattle breeding, reducing land pressure and avoiding deforestation of additional land elsewhere, adding tree- or biodiversity zones.
3. Degraded forest: Passive upgrading: protecting it. Active upgrading: replanting. Active upgrading can also include upgrading to more productive combined agricultural / forestry systems. Typically, replantation is done with native species (one of the transactions already executed includes replanting of native species) and in case of use of the GEF investment, exclusively native species will be planted.

Basically, the structure works as follows: AGRI3 collaborates with “partner banks”, commercial banks that subscribe to AGRI3 goals. Rabobank is – as co-founding partner – the first among these but AGRI3 is positioned



independently of Rabobank. This “open architecture” design will ensure largest possible impact, benefitting forest conservation, sustainable agriculture, and rural farmers in developing countries around the world.

The partner bank leverages its client network to identify farmers and other projects who are candidates for transition to forest conservation and sustainable agricultural production models. Thus, project origination is performed by these partner FIs. The banks source projects with impact loans financing the transition to sustainable agriculture and forest under sustainable management for a total loan value of USD 1 bln. Parts of these finance structure fall outside the risk appetite and risk acceptance criteria of the bank (e.g., higher project risk or extended tenors) and the banks therefore can not extend these loans without AGRI3 support. AGRI3 provides support in the form of bank guarantees derisking specific parts of the project or finance structure – e.g. by providing a first loss guarantee, subordinated debt or a tenor extension. These instruments are given up to an amount of USD 300 mln – hence 70% of the exposure is still the risk of the bank itself. Hence it can be concluded the AGRI3 does not provide a “free ride” for local banks or would stimulate adverse selection. It also helps to secure that the interests of AGRI3 and the partner banks in limiting losses in case of default, are aligned. Partner banks and AGRI3 align their interests in default management through a “strategic cooperation agreement” framework.

Both the partner bank and AGRI3 are responsible for doing their own CDD, credit assessment and screening projects in terms of E&S policies and results framework. Data may be shared as far as allowed by privacy and confidentiality regulations allow. Partner banks will submit their request for AGRI3 support through a Project Opportunity Note (PON), a copy of which has been made available to GEF.

A guarantee is on off-balance sheet instrument. In many cases, especially in the early years of AGRI3 when the Fund has not yet established a track record of its own, banks will require the guarantees to be cash- (or otherwise) collateralized. This does not require additional collateral from farmers but does require AGRI3 to deposit cash at banks to (partially) secure its guarantees. The percentage to which guarantees need to be collateralized is estimated at just under 50%. AGRI3 expects to be able, with a balance sheet of USD 144 mln, to be able to write and partially collateralize USD 306 mln of guarantees that help to unlock USD 1 bln of impact financing by the partner banks.

Any projects financed through the AGRI3 Fund should contribute to forest protection and reforestation and/or sustainable land use. This is the goal of AGRI3. As a sanity check, projects funded by AGRI3 must also contribute to improved rural livelihoods. This is not the primary goal of AGRI3 but obviously and environmental project cannot afford to devalue the life of rural communities – by causing lower farmer incomes, decreasing employment etc.

While human, plant, animal species around the world will indirectly benefit from AGRI3 forest and sustainable agriculture initiatives, farmers (large and small) will be direct project beneficiaries. Positive impacts will be measured based on a comprehensive Environmental and Social (‘E&S’) framework. A few transactions are already under review, for example a project to make sugar cane production more sustainable or another one on sustainable soy production in Brazil for which financing is not currently available. More detailed examples are presented in Annex A.

Aside from the AGRI3 Finance Fund, a separate USD 15M Technical Assistance (TA) Facility will be established to enhance transition towards sustainable land use through support of transactions and investees of the Finance Fund. The TA facility will also be used to ensure the scaling-up of innovation in sustainable agriculture practices to other farmers. Details of the TA Facility are provided in Annex B.

As investments into Forest Protection and Sustainable Agriculture are still largely unknown by commercial banks, private equity funds, and institutional investors, it is important to provide ‘proof of concept’ as quickly as possible. The AGRI3 Fund distinguishes between 4 asset classes in its funding mix:

- “Capital preservation” grantors like the Dutch Government – providing first loss, thus highest risk category
- Junior participants, investing equity with second loss risk appetite
- Senior participants, investing equity with third loss risk appetite
- Debt providers like Rabobank.

Currently, commitments have been made in the first and fourth category. The gap needs to be closed by impact investors investing junior or senior equity. GEF could play an anchor investor role in this regard by making the first investment in these categories (as senior participant) and lead other equity investors (junior and senior participants) to invest in forest conservation and sustainable agriculture. GEF provides clearly demonstrable additionality by becoming the first investor in these asset classes.

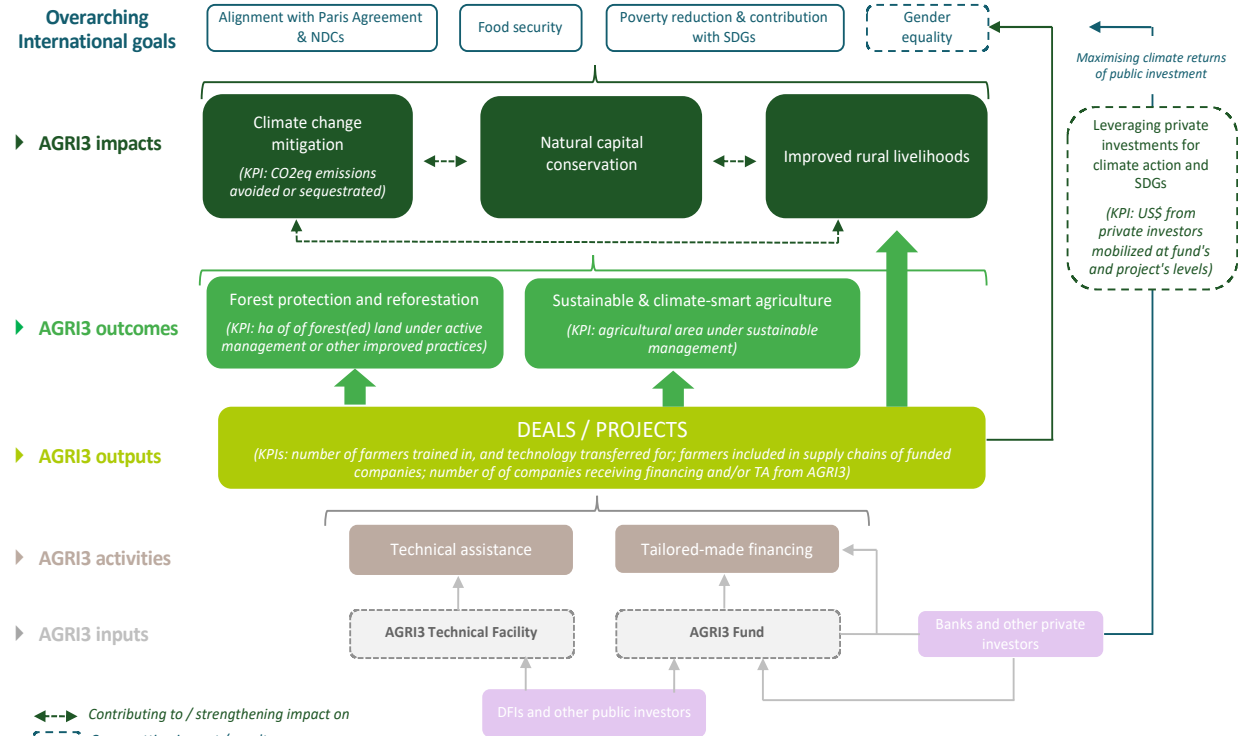
GEF is kindly requested for a senior participation with a targeted return of 5% per annum (upon full investment of the Fund). This return is similar to the targeted return of other participants. The additionality of GEF is in the fact that GEF will be the first investor in this asset class, after investments of the NL Government and Rabobank in different asset classes. In our expectation, this anchor investment by GEF will help other investors to come in as junior or senior participant as well. The reason to ask for an investment as senior participant, rather than junior, is because the need for investment in this asset class is highest. Depending on other public investment coming in, AGR13 may choose to merge “junior participant” and “senior participant” asset classes into one. These asset classes will always be senior to the “capital preservation” asset class in which the NL Government has invested.

The Fund has a foreseen lifetime of 20 years. The investment would have a lock-up period of 10 years, after which the participation can be sold with Fund Manager’s consent; the GEF agent CI can exit after 10 years when reporting is fully established.

During the initial phase the Fund will build up a diversified portfolio of investments and a related track record. While a strong emphasis will be placed on closing transactions that deliver the anticipated positive social and environmental impact and provide ‘proof of concept’, the partnership will in parallel aim to further « scale up » contributions from both public donors, as well as private entities including development finance institutions, commercial banks and investors to the target value of 1 billion USD of financing. Ultimately, after a number of years and documented successes the Fund will work towards obtaining a rating, thereby further lowering collateral requirements but also providing opportunities for a significant larger pool of investors to participate in the Fund.

As a next step after initial commitments by the Dutch Government and Rabobank, the AGR13 Fund consortium is submitting the present request to GEF for funding to make an anchor investment of gross USD 15M, net USD 13,461,468 into the Finance Fund.

**FIGURE 1: THEORY OF CHANGE**



## AGRI3's objectives

**Overarching Goal.** Halting the loss of the more than seven million hectares of tropical forests that disappear annually<sup>9</sup>, tackling climate change, while growing sustainable agricultural production to feed the estimated nine billion people that will be on the planet by 2050, are among the most defining challenges of the 21st century. At present, the global community is not on track to meet the Paris climate agreement to hold global temperature well below 2 degrees Celsius rise this century, and to drive efforts to limit the temperature increase to 1.5 degrees Celsius above pre-industrial levels. Whether the UN's Sustainable Development Goals' objectives can be achieved by 2030 is dependent on the way agricultural land and forests are managed in the years to come. The overarching goal of AGRI3 is thus *to contribute to sustainable land use practices at scale by combining sustainable and efficient agricultural production with forest protection, reforestation and reduction of CO2 emissions*. As these activities take place mostly in rural setting, AGRI3 also aims to contribute to improved rural livelihoods to avoid negative side effects for rural communities.

**AGRI3 Objective.** The mission of AGRI3 Fund is to mobilise additional public and private capital *at scale*, including commercial banks, development finance institutions (DFIs), impact investors and institutional investors to: actively prevent deforestation; stimulate reforestation; contribute to efficient sustainable agricultural production and value chains; and reduce carbon emissions. A longer-term objective of the Partnership is to ensure business models that are based on deforestation-free, low carbon, and sustainable commodity production that is equitable, and which ultimately becomes the norm, not the exception.

The key objectives of the Fund are to:

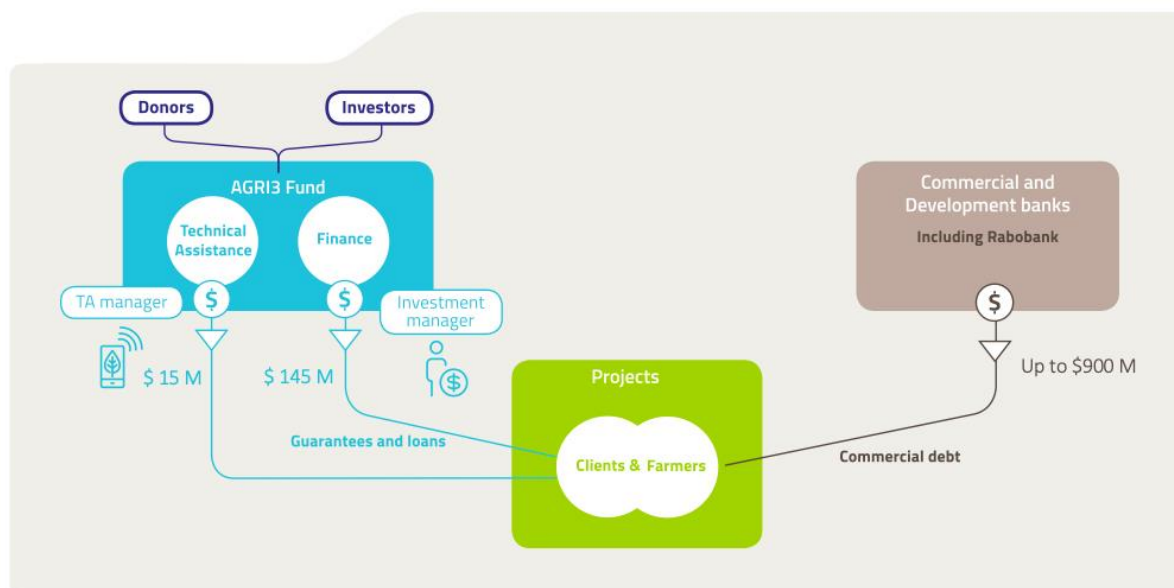
- Contribute to sustainable land use practices at scale, which means balancing enhanced sustainable agricultural output with forest protection, reforestation and establishment of bio-diversity zones;
- Provide credit enhancement tools (such as grants, soft loans, guarantees) to catalyse private funding from commercial banks and their eligible partners to qualified initiatives;
- Stimulate initiatives that contribute to existing and innovative best practices in order to lower agriculture's footprint and restore land use for agriculture and forest protection;
- Reach farmers as priority beneficiaries / target group; each investment should improve rural livelihoods and on top of that focus on at least one of the two following objectives: (i) sustainable land use and (ii) forest protection and reforestation;
- Protect or improve biodiversity by (GCI 4.1) bringing landscapes under improved management to benefit biodiversity; by (GCI 4.2) financing landscapes that meet national or international third-party certification that incorporates biodiversity conservation; and by (GCI 4.3) bringing landscapes under sustainable management in production systems;
- Generate substantial, measurable environmental and social ('E&S') impact by meeting the key performance targets as specified in the E&S policy framework.

AGRI3 will also have an impact on cross-cutting areas, particularly gender equality for which specific activities will be conducted within the TA Facility.

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<sup>9</sup> WWF

**FIGURE 2: OVERALL AGRI3 STRUCTURE**



**Strategic Pillars.** AGRI3 is built on a number of strategic pillars that make the Fund unique and fully additional in the impact investing space targeting sustainable agriculture and forest protection.

**Unlocking Private Capital at Scale:** The AGRI3 model balance sheet assumptions are conservative and are expected to be improved on during the life of the Fund:

- During the initial phase, the Fund will build a diversified portfolio of investments (primarily guarantees) and a related track record which will reflect Rabobank’s track record in originating safe assets. This scenario will allow a better understanding of the portfolio’s risk profile and reduce the cash collateral requirements for the Fund’s guarantees. Ultimately, after a number of years, the Fund will work towards obtaining a solid rating, thereby further lowering collateral requirements and thus increasing leverage.
- The same track record will reduce the first loss requirements for senior funders, and thereby allow for a larger mobilization of senior debt than currently assumed in the model.
- Similar funds currently active in the market have secured the participation of financial investors in the form of unfunded counter guarantees rather than funded capital, which allow for more efficient leverage and reduced weighted average cost of capital. The AGRI3 Fund would be an ideal candidate a number of development finance institutions. Hence, the leverage and potential pool of investors of the Fund is expected to increase significantly within a number of years.

**Open Architecture:** The open architecture of AGRI3 is a key feature of the proposed structure as it will enhance the public finance leverage, allow for scaling-up, and ensure last longing effects. The Fund will be open to financial institutions, also called “partner banks”, in search of sustainable solutions for their clients. To warrant a maximum commitment of the banks to the Fund, it is expected that all banks that apply for funding from the Fund on behalf of their clients will also contribute funding to the Fund itself. The open architecture structure allows for increased leverag, at both the fund level and project level. This structure will ultimately lead to an expansion at scale: the unlocking of USD 1 billion, while at the same time mainstreaming finance for projects in the agricultural value chain which contribute to forest protection and sustainable agriculture. Another benefit of the open architecture is that the financial institutions’ country focus will be (partially) complementary. The Fund will function independently from any of its founders or participating financial institutions.

**Revolving Fund:** The AGRI3 Fund is a revolving fund, i.e. a fund that has an indefinite fund life with investors that can come and go throughout the life of the fund. Senior equity investors are expected to have a definite funding term (possibly varying somewhat dependent on available cash flows), after which new senior debt and senior equity can be raised, either from the same or from other investors. For junior equity investors, funding will be revolving, i.e. the capital will be kept in the AGRI3 Fund with the goal of capital preservation in the long term.

**Sustainable business models:** Another long-term effect of AGRI3 will be to ensure business models that are based on deforestation-free, low carbon, and sustainable commodity production that is equitable, and which ultimately becomes the ‘norm’ for forest and agricultural production and not the exception.

**Achieving financial and E&S additionality:** The Fund must remain complementary and additional to commercial lending opportunities, whilst acting within the financial parameters set by investors that represent market standards. AGRI3’s aim is not to create market distortions by crowding out private sector investments, but it will focus funding on projects that have a strong potential to achieve positive environmental and social impact, as outlined in the E&S Policy Framework.

**Best-in-class ESG:** Projects under the Fund are required to aim to operate in line with the International Finance Corporation’s Performance Standards on Environmental and Social Sustainability (IFC PS). All projects receiving debt from commercial banks, as part of a Fund project, need to be compliant with the Fund’s determined Sustainability Policy Framework, in addition to the co-investing commercial bank’s frameworks. The Fund will also reference the E&S and corporate social responsibility policies of Funding partners, where relevant and applicable, to the assessment of projects during the initial project assessment phase, and during ongoing project evaluation. All projects will need to comply with all applicable policies, laws and regulations, related to environmental and social aspects of operations, in the jurisdictions and countries in which they operate. Furthermore project-level monitoring of adherence to relevant industry best practice standards, minimum requirements, as set out by the E&S framework, and the relevant applicable commercial bank’s E&S policies will take place.

**Targeting:** The ultimate beneficiaries / target group of all transactions of AGRI3 will be farmers. The farmers can be approached either directly, through input suppliers, cooperatives or through off-takers (direct and indirect). Farmers will include large, medium, small and smallholder farmers.

**Transaction Sourcing:** Transactions will largely be sourced with existing clients of commercial banks, such as large traders and corporations in the agricultural value chain, which are intrinsically motivated to strengthen sustainable supply chains, down to the farmer level. Rabobank, as a cornerstone of the Partnership, will provide most of the transaction sourcing during the “kick-start” phase of the Fund. Rabobank’s ability to leverage existing client relationships, thus lowering the entrance barrier for funding eligible business, a strongpoint unrivalled by other funds. A second wave of transactions is expected to come from other commercial banks and potentially from impact funds or DFIs. The Fund will seek to identify projects in the early years of the Fund, which can be scaled up to similar farmers later on during the “scaling-up phase”.

**Achieving Impacts at Scale:** To create impact, the Fund will concentrate on projects that provide a maximum contribution to the 3 specific objectives mentioned above and with projects that provide significant upscaling potential of new production methods to farmers. Priority will be given to large scale farming and land use projects, especially those where the environmental and social impact is highest. Fund investment could support projects that assist large scale farmers in their transition to deforestation-free or more sustainable production. Since it will be highly inefficient to organize outreach to smaller farmers individually, the project will also seek out structures that will leverage value chain partners downstream.

**Innovation:** The Fund will look at innovation from various angles, including innovation for monitoring and evaluation (data collection, etc.) and innovation through agtech solutions for smallholders such as satellite-based insurance programs, data analytics and remote sensing to optimize production, digital and social media footprint to improve access to financing and financial inclusion, reduced post-harvest losses, water-efficient irrigation technologies, etc.

## Finance Fund's Investment strategy

Commodities. The AGR13 Fund will lend to projects that include forest protection and restoration and sustainable agriculture. The Fund will undertake transactions in a wide range and combination of agricultural crops. Initial sustainable agricultural investments are likely to cover sugarcane, dairy, rice, soy, and cotton. Overtime and with experience, the Fund will look to invest in more complex sectors, such as palm oil, cocoa or vanilla, although sustainability issues for these crops is and takes more time. The link between AGR13's theory of change and key crops is presented in Annex A.

## Countries

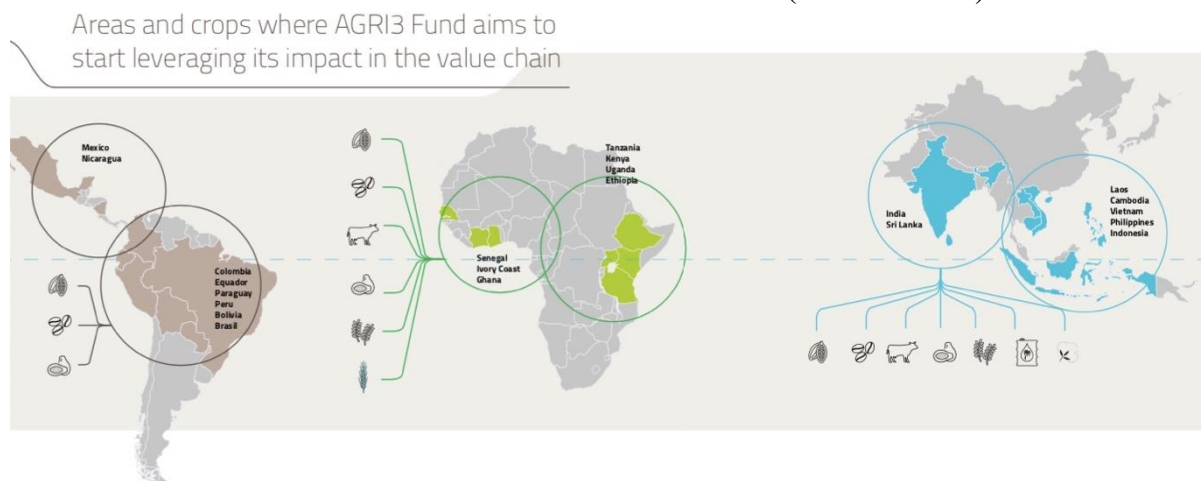
The AGR13 Fund has a global scope and ambition, but with a focus on middle income (MICs) and lower income countries (LICs)<sup>10</sup>. In line with the strategy to create impact efficiently, the Fund will initially focus on Brazil, Indonesia and India, as those are countries likely to yield the best impact returns on time and resources invested. Other jurisdictions – particularly in South-East Asia, Sub-Saharan Africa and Latin America – will be considered contingent on the availability of eligible transactions. Best efforts will be made to include transactions in LICs within 2 years of the funds inception<sup>11</sup>.

In order to maximize the chances of success in terms of E&S benefits, climate impacts, minimize risks and foster links with the Fund's objectives, there is a preference for countries and jurisdictions which have made significant progress under the UNFCCC REDD+ mechanism as a priority for investment<sup>12</sup>.

Transactions outside MICs and LICs may be considered in consultation with the Stichting Board and the Steering Committee. However transactions taking place within countries that are subject to financial or banking sanctions will not be eligible for investment. In addition, partner banks will have their own country selection criteria based on political risk assessment, sovereign risk rating, stability of the currency etc. For now, this means that major forest countries e.g. Brazil, Indonesia, Colombia, India, West African countries are in scope – but that for instance DRC or Congo Brazzaville may be an issue because of political risk assessment.

Given that the requested GEF investment is a larger mix of investors, it is possible to secure that the GEF investment is only used for GEF-eligible countries – even with a minimum guaranteed leverage of 1:2. This same structure will also be used should multilateral development banks or DFIs with a regional focus come in. Risk-wise, risks will be pooled globally to avoid geographical risk concentration.

**FIGURE 4: TARGETED COUNTRIES AND COMMODITIES (INDICATIVE)**



In countries where the GEF-funded FOLUR program is active, synergies will be explored, yet double investment and/or double impact accounting is prohibited by the AGR13 investment guidelines. It should be noted that the way

<sup>10</sup> As defined by the OECD

<sup>11</sup> As required by the terms of the Dutch government grant. LICs as defined by the OECD

<sup>12</sup> Defined as those countries that have made progress as part of the World Bank Forest Carbon Partnership and the UNREDD programme

of project sourcing of AGRI3 is basically a demand-driven, in the sense that both client and partner banks need to be buying in to a project idea for it to materialize. Therefore we see the coordination with FOLUR primarily in sharing networks and knowledge and referring project opportunities to one another – again, avoiding double investment or accounting.

**Project Counterparts.** Efficient execution will be achieved by using existing relations between participating commercial banks and actors in the agricultural value chain. Working with farmers, input providers, traders, corporates and local financial institutions will ensure that projects are embedded in local (economic) ecosystems.

**Financial Instruments.** The Fund aims to de-risk and facilitate eligible investments for execution partners. Investment instruments include:

- Guarantees to execution partners to achieve the same result. These can be for tenor extension, (partial) credit guarantees, as well as first loss risk mitigation.
- Subordinated and other risk-mitigating loans to execution partners in order to reduce the risk towards farmers, their suppliers and off-takers.
- Equity or equity-like instruments are not allowed upon initiation of a project, but profit-sharing arrangements can be used to enable and reduce financing costs for high risk projects.
- Technical assistance through the TA Facility is related to pre-investment support, designing projects so that their positive impact on rural livelihoods, sustainable land use and forest protection are maximized, as well as post-investment capacity development, including farmer training, and knowledge sharing.

### **Deal sourcing**

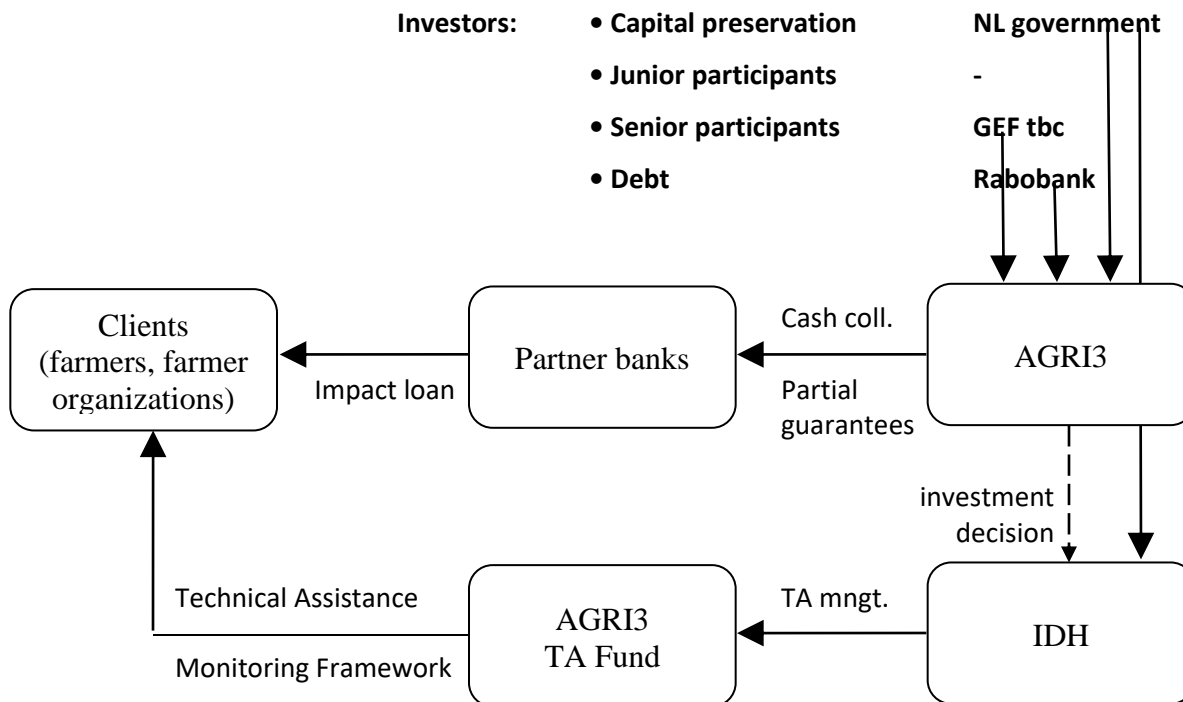
- Deals will largely be sourced with existing clients of commercial banks, such as large traders and corporations in the agricultural value chain, which are intrinsically motivated to strengthen sustainable supply chains, all the way down to the farmers.
- Rabobank, as a cornerstone of the Partnership, is to provide most of the deal sourcing in the “kick-start” phase of the Fund.

### **Investment process, Funding flows**

- As the first originator of deals at country office level, Rabobank will set up a separate facility within Rabobank to receive the guarantees.
- The collateralisation of these guarantees is expected to be 100% of guarantee exposure<sup>13</sup> to begin and will fall to 50% average over the lifetime of the fund.
- The current flow of loans and guarantees to Rabo and Agri3 is provided below.

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<sup>13</sup> Guarantee exposure = the maximum nominal amount that can be drawn under the guarantee. In case of a group of guarantees, the guarantee exposure is the sum of the exposures of individual guarantees.



The Fund aims to de-risk and facilitate eligible investments for execution partners. In this light, the Fund will focus on risk mitigation products (partial guarantees) rather than on liquidity instruments (like sub-ordinated loans). Although the latter may in some cases be (partly) required because of local regulatory issues. In this respect, investment instruments of the Fund are:

- **Pari passu risk participation** - Losses on a transaction with a single counterparty (or portfolio) are split between the bank and the Fund according to a pre-defined ratio (typically 50/50 but can vary). Both parties rank equal on the repayment waterfall.
- **Tenor extension** - The guarantee only kicks in at a given date in the future after which AGRI3 provides a full guarantee absorbing the 100% of the risk after that given date. This type of transaction will be provided where partnerbanks are fully comfortable with the client and transaction risk but has a hard stop on tenor of the loan exposure.
- **Maturity subordination** - Combination of tenor extension and pari passu, in which the Fund guarantees the same absolute amount during the lifetime of the loan, which covers 100% of the credit risk after a given date.
- **Subordinated guarantee** - A guarantee on a bank's loan facility that is provided to a company with equity capitalization. This guarantee is more comparable to regular subordinated debt, as the equity providers take the first loss position. Agri3 provides a guarantee and has a subordinated position compared to the bank's facility.
- **First loss risk participation** - Agri3 provides first loss guarantees, i.e. where all of the loss is covered by the Agri3 guarantee, up to an agreed maximum amount. First loss guarantees can cover all losses, or principal-only, excluding the interest.

The terms of the guarantees for each individual transaction, including duration and coverage, will be determined in consultation with the partnerbank and AGRI3 during the investment.

**Currency.** The Fund is expected to predominantly transact in USD, the same currency as its obligations to its investors, where the balance provides a natural hedge.



Guarantees that are provided in local currencies – e.g. for locally marketed produce – have an FX risk that is contingent until there is a call, at which point it may be exposed directly to FX risk if the loan is not in USD (which will then drive the need to hedge the FX risk, which may or may not be possible at reasonable rates). The expected decrease in guarantee fees for local currency guarantees, as a result of expected depreciations, are not currency risks as there is a commensurate reduction in exposure. Apart from that, the Fund aims to build up a diversified portfolio of various currencies which can be expected to further mitigate this risk.

**Investment Size.** The typical AGRI3 contribution (guarantee exposure) will range from USD 3 to 15 million per project with most projects having a total cost (loan exposure) of USD 5 to 50 million. Exceptions may apply when projects are smaller but scalable.

### **Finance Fund's Investment criteria**

**Impact.** In order to realize the foreseen environmental benefits, eligible projects should focus on at least one of these objectives:

1. *Forest protection and reforestation:* acceleration of sustainable management of forests and legal reforestation obligations, transition to agroforestry as well as protection of high conservation/high carbon stock forests that enhance soil fertility, carbon sequestration, water management, and biodiversity.
2. *Sustainable land use:* implementing innovative agricultural solutions such as Integrated Crop, Livestock and Forestry (ICLF) practices that have an impact on lowering GHG emissions, restoring degraded land, enhancing water management, improving soil fertility, sequestering carbon, building climate change resilience and/or protecting biodiversity while maintaining or substantially increasing yield for local farmers including smallholders.

Furthermore, in order to avoid negative social impact, an eligibility criterion is that projects realize

3. *Improved rural livelihoods:* improving the living standards of farmers, including smallholders, in order to reach sustainable inclusive growth, with particular attention paid to gender equality, eradicating child labour, promoting fair labour and wages, and alleviating poverty.

Anticipated targets in terms of concrete environmental and social impact achieved with the GEF contribution are reflected in the E&S Policy Framework.

**ESG.** Best-in-class Environmental, Social and Governance (ESG) standards will be applied to projects, building on the Investment Advisor's track record in designing and enforcing a proprietary ESG policy and management system. The AGRI3's Environmental and Social Framework will be used as a core policy, with additional guidance from the Althelia Funds' ESG Policy and Rabobank's Sustainability Framework. In case of conflict between the latter two, Rabobank's policy will prevail for Rabobank clients.

**Additionality.** To receive financing from AGRI3, any application for financing must pass a strict additionality test. This tool comprises of two additionality tests: (1) Beyond business as usual, demonstrating that in the impact fields targeted by the client's use of funds, of sustainable agriculture, forest protection and rural livelihoods, are beyond BAU practices in the country/sector; and (2) Lack of available commercial finance. To be successful an applicant must meet the required criteria under each of the two tests.

AGRI3 has an investment process that includes various steps assessing investment and TA potential, that looks strictly at both impact and financial additionality to ensure that we avoid cases of duplication - either in impact attribution or financial declaration. Various governance bodies (such as the TA Foundation Board, which includes a senior IDH representative) exist to ensure this strict separation. Of course, AGRI3 also aims to build on existing work, resources and lessons learned of IDH which provide opportunities for scale and cost efficiencies, however has its own, strictly separate transaction pipeline.

**Eligibility and Exclusion List.** A schedule of indicative eligible projects and a schedule of excluded activities will guide the selection of bankable projects that are likely to fulfil the impact framework. Screening of projects will

entail a preliminary identification and assessment of eligibility against the Fund's investment criteria and E&S impact framework.

**Exclusion of GEF-funded projects.** AGRI3 will not invest in projects funded through other initiatives supported by GEF. AGRI3 will also, on a best-efforts basis, prohibit double-accounting of results realized by otherwise GEF-funded projects.

**Client Due Diligence and credit assessment.** AGRI3 will manage its KYC and credit risks on a client and portfolio basis.

Due to its integrated approach to forest conservation and sustainable agriculture, AGRI3 consists of 1 component with the following outcomes:

**Outcome 1.1: Forested lands are protected and sustainably managed:** Direct forest protection occurs by bringing existing forested lands under protection and sustainable management, by introducing sustainable agroforestry models, by planting tree and biodiversity zones around agricultural land and by allocating land for reforestation. The indirect – but equally effective – way of forest and biodiversity conservation is by reducing pressure on land because of expansion of food production as an economic activity. This is not only the consequence of increasing global population and changing diets, but equally driven by degrading lands and climate change, threatening agricultural production as evidenced by stagnating yields, increasing climate risk, and loss of livelihoods for many – and especially smallholder farmers. On top of this large scale deforestation is threatening to accelerate climate change.

An example of the kind of projects that AGRI3 would consider to lead to this outcome, could be farmers that are willing to refrain from (legally) deforesting land, as well as reforesting land they own and bring this forest under sustainable management, because they are able to receive funding to develop degraded agricultural land elsewhere. Although normally unable to finance such a transaction via regular commercial debt, the risk structure of AGRI3 allows for such a project with additionality. The hectares of forest land now under protection/sustainable management is one of the impact KPIs in the E&S Framework resulting in this outcome.

**Outcome 1.2: Agricultural areas implement sustainable/ climate-smart agriculture practices:** Sustainable and climate-smart agriculture aims to decrease the environmental footprint of agricultural production in terms of GHG emissions, soil degradation, loss of biodiversity, excessive water utilization and leakage of synthetic chemicals and to turn these negative environmental effects into positive ones: reducing emissions or even turning agricultural production into a carbon sink; gradually restoring soil quality and revitalizing degraded lands; making room for preservation of biodiversity and forest; reducing ground water utilization; minimizing the use of synthetic chemicals; promoting organic and regenerative farming; and optimizing yields within existing boundaries of farm lands. This is reflected in Outcome 1.2.

An example of the kind of projects leading to this outcome, could be the financing of micro-irrigation systems enabling smallholder farmers in India to drastically reduce their water usage up to 70%, reducing fertilizer and increasing their crop yield substantially. This will be reflected in impact KPIs on agricultural land under sustainable management and be reported and monitored upon. Other examples may include integrated crop livestock models (ICLF) whereby agroforestry is combined with crop rotation and limited cattle stock resulting in higher yield from the land, less emissions and increased tree cover.

**Outcome monitoring and evaluation:** To come to these outcomes projects will be thoroughly assessed and evaluated based on the E&S and impact criteria as set in the AGRI3 E&S Framework. This implies validating if the projects are compliant to the E&S policies applicable as well as an independent due diligence process performed on behalf of or by the Fund Manager. This will determine if the projects are additional from an E&S perspective as well as meeting the required impact KPIs. They will further set specific project KPIs to ensure that the intended positive impact will be met. The KPIs will then have baseline measurements and progress on these KPIs will be monitored and reported. In case the performance on the impact KPIs is deviant from the expectation, improvement actions will be set and monitored.

The set of project outputs 1 through 6 basically implement a Plan Do Check Act (PDCA) cycle for implementation of sustainable forest management and sustainable agricultural production practices, aiming at forest conservation, degraded land restoration and biodiversity conservation. Outcomes 1.1 and 1.2 will be delivered by the following outputs:

1. Plans for forest conservation and restoration. These plans are agreed between partner bank and client (farmer, farmer organization, forest manager, agroforestry producer), possibly with input from IDH-managed technical assistance, Mirova/Althelia and/or external environmental agencies. Plans typically describe the foreseen transition from existing situation (degraded land, degraded forest, suboptimal production, monoculture etc.) to a landscape approach including agro-forestry models, enrichment of agricultural land with trees, special biodiversity zones adjacent to agricultural land, improved soil quality management by organic/regenerative farming and minimal tillage techniques, reduction of the use of synthetic chemicals, are developed. For specific soft commodities it may include certification from an external national or international agency including biodiversity considerations. The plans will often act as an alternative to expanding the agricultural production by expanding agricultural areale – which either directly results in deforestation or increases pressure on available land which indirectly leads to deforestation. Plans may also include the client waiving on legal deforestation rights – in exchange for (financing) support to implement the alternative, more sustainable production model. The plans, once agreed and once other eligibility criteria are satisfied, lead to unlocking the financing, the technical assistance, the implementation phase and the monitoring and reporting of environmental impacts. Examples are given on the previous page and in Annex A.
2. Plans for at least 48 companies<sup>14</sup> for the transition to sustainable and climate-smart agriculture are developed. These plans are basically similar to the plans under 1, but focus on companies rather than primary producers. In many cases, primary producers are aggregated under one and the same company – e.g. sugar cane farmers under the mill they're providing the cane to. While in principle independent, in reality there is a co-dependency relationship because transporting the cane to a mill further away is too expensive for farmers – en vice versa, the mill can only exist when utilized to capacity, e.g. is dependent on sufficient supply of cane. This system of sugar can farmers and mill can therefore be treated as an entity and the plan to convert to more sustainable production (including forest conservation, land restoration and biodiversity conservation measures) can be made on the company level. Often there will be a form of on-lending to primary producers related to supplied volumes. In addition to financing the transition to more sustainable production at primary producer level, the milling or similar company operations may also be made more sustainable themselves (e.g. productivity, power or water consumption, reducing losses etc.)
3. USD 1B of financing for sustainable agriculture and forest conservation is de-risked and/or delivered with tailored conditions. As described before, the targeted USD 1 bln financing of transition to forest conservation and sustainable agricultural production models is unlocked by AGRI3 guarantees that secure parts of the finance structure – e.g. the most risky part by a first loss guarantee or the tail end of the loan through a tenor extension. The use of the loan(s) is typically monitored so that the money is actually used for implementing the sustainable management and practices and for realizing the foreseen environmental benefits. To this end, there is a monitoring and reporting framework attached to the AGRI3 guarantees and the bank loan(s) that does a baseline measurement and reports on the progress in realizing the environmental benefits. Underperformance on the foreseen environmental benefits will in principle be flagged and lead to corrective action – e.g. provision of additional TA – but can eventually lead to early termination of the loan(s), especially in case of insufficient cooperation by the recipient borrower.
4. A total value of USD 15M of Technical Assistance to implement the transitions is made available. The technical assistance is used to
  - Train the borrower and his/her staff
  - Guide the implementation of the agreed sustainable management and practices with expert advice
  - Develop the monitoring framework
  - Help implement the actual results measurement and reporting
  - Provide advice for corrective action where needed.

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<sup>14</sup> Companies: farms, groups of farmers or conglomerate of group of farmers plus downstream processors/aggregators

Thus, the technical assistance basically helps implement a Plan Do Check Act cycle for forest conservation and sustainable agriculture implementation.

5. At least 300,000 farmers and farm workers, with an estimated 40% female, are trained in sustainable forest management and sustainable agricultural practices<sup>15</sup>. Part of the technical assistance is providing training with regard to sustainable forest management and sustainable agricultural practices to farmers and their workers. This helps these workers to actively contribute to implement the agreed sustainable management and practices – e.g. by on-farm or in-forest executing of agreed measures, e.g. planting trees, developing biodiversity zones, refraining from mowing in certain zones, responsible use of chemicals, different ways of plowing etc. The content of the training is obviously aligned with the content of the plans (1. and 2.) and the Technical Assistance (4.).
6. At least 48 companies implement forestry conservation practices and/or implement sustainable and climate-smart agricultural practices through AGRI3 loans. With this output, we basically mean to indicate that the entire up-stream part of the value chain – linked to the 48 companies – is transformed to sustainable forest management and/or sustainable agricultural production. Per “company” (or supply chain) this includes 1 or more (up to several thousands of) farms or forest management companies, depending on their size.

#### 4) alignment with GEF Focal Area and/or Impact Program strategies;

AGRI3 and the Partnership for Forest Protection and Sustainable Agriculture are aligned with the following GEF Focal Areas:

- Climate Change Focal Area. Both AGRI3’s focus on forest conservation, strategies that combine food production and forest conservation (agroforestry, enrichment of agricultural areas with trees or biodiversity zones), as well as its focus on sustainable and climate-smart agriculture and sustainable intensification, are a direct implementation of GEF’s Climate Change Objective 3<sup>16</sup>: Foster enabling conditions for mainstreaming mitigation concerns into sustainable development strategies. AGRI3’s contribution to this objective is expressed in Core KPIs such as Area of land restored (ha), Area of landscapes under improved practices (ha) – both forest and agricultural land – and of course GHG emissions mitigated (tons of CO<sub>2</sub>e).
- Land Degradation Focal Area. One of the very practical ways AGRI3 supports farmers is by revitalizing degraded land, e.g. infertile lands into grass land for cattle breeding. Not only does this have a direct effect on available areale of land, thus reducing the pressure for further deforestation – it also increases CO<sub>2</sub> sequestration capability and paves the way for ongoing improvement of soil health and preservation of biodiversity. The initial transaction pipeline of AGRI3 already contains examples of efforts towards revitalization of degraded lands.
- Biodiversity Focal Area. AGRI3’s approach on landscape management includes frequent discussion of adding tree or biodiversity zones to agricultural production landscapes. This is a direct implementation of GEF’s Biodiversity Objective 1 to “Mainstream biodiversity across sectors as well as landscapes and seascapes.” AGRI3 aims to operate in line with IFC Performance Standard 6 including the clause on Biodiversity preservation. Sustainable intensification by sustainable soil management, crop rotation and reduced and precise application of synthetic chemicals, has the potential of boosting yields in a sustainable manner, which not only reduces pressure on forest but also on land in regions like the Cerrado in Brazil, where biodiversity is under great pressure. AGRI3 does not have the capability to demonstrate direct preservation of species but can indicate where sustainable management is applied in biodiversity-sensitive regions. The contribution to biodiversity protection is mainly based on the results in GCI 4.1, 4.2 and 4.3 and on the definition of Indicator 4:

*“This indicator captures the total area of landscapes under improved practices, including in production sectors (e.g., agriculture, rangeland, forestry, aquaculture, tourism, extractives [oil and gas]) that lead to*

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<sup>15</sup> The AGRI3 E&S Policy Framework contains an array of additional KPIs in the field of Benefitting Rural Communities, safeguarding that conditions in rural communities (e.g. farmer income etc.) do never deteriorate and will typically improve as a result of the programme.

<sup>16</sup> [https://www.thegef.org/sites/default/files/council-meeting-documents/GEF-7%20Programming%20Directions%20-%20GEF\\_R.7\\_19.pdf](https://www.thegef.org/sites/default/files/council-meeting-documents/GEF-7%20Programming%20Directions%20-%20GEF_R.7_19.pdf)

*improved environmental conditions and/or for which management plans have been prepared and endorsed and are under implementation. This indicator is directly related to Aichi Biodiversity Target 7 of the Convention on Biological Diversity, whereby areas under agriculture, aquaculture and forestry, by 2020, are managed sustainably, ensuring conservation of biodiversity (CBD, undated). It is, in addition, directly related to country Land Degradation Neutrality targets under the Convention to Combat Desertification.”*

## 6) global environmental benefits (GEFTF) and/or adaptation benefits (LDCF/SCCF);

The Project Outcomes as listed in Table B. – in relation to the GEF Core Indicators and Impact Programs – are:

Project Outcome	GEF Core Indicator/ Impact Program	Comment
Forest is protected and brought under sustainable forest management	3.2 (ha) 6.1 (Mton CO <sub>2</sub> eq) 4.1, 4.4 (ha)	Key KPI of AGRI3 Key KPI of AGRI3 Area of HCVF loss avoided – for registration purposes only
Agricultural areas implement sustainable / climate-smart agriculture practices	4.3 (ha) 3.1 (ha) 4.1, 4.2 (ha)	Key KPI of AGRI3 Degraded land revitalized Area of land with certified production
Number of direct beneficiaries disaggregated by gender	11	Direct beneficiaries will be registered, yet there is no gender-specific ambition, in order to respect socio-economic factors by UN recommendation; we estimate at least 40% of beneficiaries will be female
Number of companies receiving impact financing	IP Private Sector Engagement	Key KPI of AGRI3
Total amount financed with GEF support	IP Private Sector Engagement	Key KPI of AGRI3

The relationship between Project Outputs and Project Outcomes is as follows:

- Plans for forest conservation and restoration, introduction of agroforestry models, enrichment of agricultural lands with tree and biodiversity zones are developed in collaboration with the client and with expert input from the TA facility. The bank will play a role in the related investment and finance plan and in risk management and provide the final financing de-risked by AGRI3. Training in sustainable forest management is offered. AGRI may also provide direct financing in the form of sub-debt. Hence, Project Outputs 1.1.1 and 1.1. thru 1.1.6 contribute to Project Outcome 1.1. The results will be measured in terms of ha under sustainable forest management (GEF Core Indicator 3.2) and MT of CO<sub>2</sub>eq emissions avoided or sequestered (GCI 6.1). There is no separate target for the Area HCVF loss avoided (GCI 4.1, 4.4) but this may be registered for reporting purposes. On the next page we describe the basis for our estimate of CO<sub>2</sub>eq emissions avoided or sequestered.
- Plans for implementation of sustainable agricultural practices, climate-smart agriculture and landscape management agricultural production areas, are developed in collaboration with the client and with expert input from the TA facility. Plans may be specific in their focus on revitalization of degraded lands or certification of sustainable production. Sustainable intensification<sup>17</sup> may play a role in reducing pressure on forest caused by agricultural expansion. The bank will play a role in the related investment and finance plan and in risk management and provide the final financing de-risked by AGRI3. Training in sustainable management of agricultural lands is offered to farmers and farm workers. AGRI may also provide direct financing in the form of sub-debt. Hence, Project Outputs 1.1.2 thru 1.1.6 contribute to Project Outcome 1.2. The results will be measured in terms of ha agricultural area under sustainable management (GEF Core Ind. 4.3), ha of degraded lands revitalised and MT of CO<sub>2</sub>eq emissions avoided or sequestered (GCI 6.1).

<sup>17</sup>

The Montpellier Panel, 2013, Sustainable Intensification: A New Paradigm for African Agriculture, London

On the next page we describe how we have based our estimate of CO<sub>2</sub>eq emissions avoided or sequestered on the FAO Ex-Act model. In the upcoming year, we aim to validate this approach for agriculture land in the same way as we have already done for the emissions avoided or sequestered by forest.

The Project Preparation Grant can partially be addressed to support this validation. Using the PPG, we suggest to look at applying a range of existing methodologies for agricultural carbon in our network (e.g. VCS standard <https://verra.org/wp-content/uploads/2018/03/VM0017-SALM-Methodolgy-v1.0.pdf> and Indigo Ag technology). Even when doing so, it should be noted that the Fund can only implement projects as these become available. AGRI3 is not a grant mechanism that can choose where to spend its budget, instead it relies on its internal processes/policies to ensure it gets the highest impact deals.

There is no separate target for Landscapes meeting international 3rd party certification including biodiversity considerations (GCI 4.1, 4.2) but again this may be registered for reporting purposes.

To demonstrate achievement of the Fund's objectives, to contribute to the high-level policy goals, and to bring guidance to activities, a fund-level Environmental & Social (E&S) impact framework allows partners and stakeholders to comprehensively assess impacts of the Fund against pre-established E&S baseline targets. The Fund's E&S impact framework comprises a hierarchical structure of objectives, impacts, key performance indicators (KPIs) and methods of monitoring progress towards KPIs. Fund-level E&S KPIs have been established jointly by Rabobank and UN Environment within the AGRI3 Fund Environmental and Social (E&S) Framework to reflect and contribute to the global goals and indicators of the SDGs, wherever relevant and possible. For each project, to the extent possible, the Fund will apply all relevant primary KPIs per identified objective, with a minimum of one KPI per objective that must be met. Depending on relevance, project size and data availability, one or more of the secondary KPIs will also be applied.

The AGRI3 results framework include indicators that are relevant for the following areas:

- (i) Climate Change
- (ii) Land Degradation
- (iii) Biodiversity
- (iv) Food and Nutrition
- (v) Private Sector Development.

These indicators are presented in Figure 6 below. Based on a preliminary pipeline, ambitions in terms of targets have been set for the AGRI3 KPIs. These impact figures are ambitions, which have come from calculations based on (partly) theoretical cases for indicative purposes; no legal rights may be derived from this. They draw from a wider set of theoretical transactions compared to the financial model for modelling purposes. Acknowledging the complexity and innovative nature of the Fund's ambitions, these ambitions are "aspirational" and will be reviewed after two, five and ten years based on the pipeline of projects to provide altered and more fine-tuned ambitions based on executed transactions. Project-level KPIs will also be developed for each transaction, where relevant.

Additionally, relevant Project-specific indicators can be defined for individual projects. Aggregation of these project-specific indicators, at the Fund level, will demonstrate contribution to relevant Fund-level objectives. The Fund will monitor land use change in an area surrounding each project and, together with the borrower, demonstrate that there is no direct causal link of the project, or the borrower, to any unauthorized deforestation occurring in the defined area around the project. In this way, the Fund will contribute to minimizing the risk of displaced deforestation and forest degradation or 'leakage'.

Figure 6: AGRI3 KPIs relevant to GEF's results framework

AGRI3 KPIs	Unit	Target	Means of verification
<b>IMPACT LEVEL</b>			
CO2 emissions from avoided deforestation/forest degradation; and/or CO2 sequestered by forests	t CO2eq	12,000,000 (*1)	Borrower reporting, potentially remote sensing, calculating emissions with conversion factors
CO2 emissions from farms avoided sequestered by farms, per year, by funded projects	t CO2eq	6,400,000 (*2) (*3)	Fund Manager reporting based on calculating emissions with conversion factors
US\$ from private investors mobilized at fund's and project's levels (not yet in E&S Framework but included in the Fund's annual reports to investors)	US\$ M	1,000	Fund reporting on investors' contribution
<b>OUTCOME LEVEL</b>			
Agricultural area under sustainable management (to be defined per project)	Ha	650,000	Borrower reporting and potentially remote sensing
Hectares of forest(ed) land under active management or other improved practices (adjusted KPI)	Ha	91,000	Borrower reporting and potentially remote sensing
<b>OUTPUT LEVEL</b>			
Number of companies receiving financing and/or TA from AGRI3 (not yet in E&S Framework but included in the Fund's annual reports to investors)	Companies	48	Number of transactions in the Fund
Farmers included in supply chains of funded companies; this may include jobs and disaggregated by gender, where possible	Households	65,000	Borrower reporting
Gender division (based on FAO report stating 43% in F&A globale is female labour; here we maintain 40% figure); this is a reporting effort, not an ambition, in order to respect socio-economic factors, by recommendation of UN	% female famers and/or employees	26,000	Borrower reporting
Farmers trained in, and technology transferred for, best management practices in sustainable agriculture/forest protection	People	300,000	Borrower reporting

(\*1) The way our estimate of CO2eq emissions avoided/reduced for forest has been derived is the following:

- We have used 6 actual case studies on a 10 years basis
- We have extrapolated the results to 91,000 ha 6,000,000 Mton
- We have re-scaled 10 to 20 years 12,000,000 Mton
- We have validated these results with IPCC-based models including FAO Ex-Act.

This model has been applied to a number of sample forest projects. The full model includes calculations based on baseline data for 6 case studies (including soy large producer, soy by Farmer Organization of smallholder farmers, maize and palm oil).

(\*2) The way our estimate of CO2eq emissions avoided/reduced for farms has been derived is the following:

- We have used the FAO Ex-Act model for different crops (rice, soy, sugar cane)
- We have used the intermediate scenario
- We have calculated the results for a crop mix on 650,000 ha 4,000,000 Mton
- We have re-scaled 10 to 20 years 8,000,000 Mton
- We have subtracted 20% allowing for less than 100% success rate 6,400,000 Mton

While the amount of CO<sub>2</sub>eq emissions avoided/reduced per ha for agriculture land will be considerably lower than for forest, the area over which this is realized is of course considerably higher than for forest (650,000 ha instead of 91,000 ha).

We aim to use the Project Preparation Grant a.o. to validate the estimates for agriculture land. The preliminary Fund pipeline for farm land does not permit robust extrapolation to allow for meaningful target-setting at this stage – as it does for forest. While being moderately conservative in our use of the models, we note that the estimates show a significant sensitivity to:

- The actual crop mix in our portfolio
- The chosen scenario in the FAO Ex-Act model
- The actual amounts of forest land under sustainable management (estimated at 91,000 ha) and agriculture land under sustainable management (estimated at 650,000 ha).

The Fund is also exploring validity and cost-feasibility of alternative on-farm climate KPIs, in alignment with the evolving EU classification system – or taxonomy – for sustainable investment, e.g. % area over which appropriate management practices are deployed on the farm; emission intensity of production (g CO<sub>2</sub>eq/Mton); emissions per hectare (g CO<sub>2</sub>eq/ha); % GHG emission reductions from baseline.

Consequently we need to indicate that we provide these estimates at this point in time to the best of our knowledge but can not turn them into commitments until we are able to validate them with real life projects or more precise models and assumptions.

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

GEF is kindly requested for a senior participation with a targeted return of 5% per annum (upon full investment of the Fund). This return is similar to the targeted return of other participants. The additionality of GEF is in the fact that GEF will be the first investor in this asset class, after investments of the NL Government and Rabobank in different asset classes. In our expectation, this anchor investment by GEF will help other investors to come in as junior or senior participant as well. The reason to ask for an investment as senior participant, rather than junior, is because the need for investment in this asset class is highest. Depending on other public investment coming in, AGRI3 may choose to merge “junior participant” and “senior participant” asset classes into one. These asset classes will always be senior to the “capital preservation” asset class in which the NL Government has invested.

AGRI3 has been established as guarantee fund of impact investors meant to de-risk investment in forest conservation and sustainable agriculture. Concessional finance from governments and impact facilities such as GEF, blended with MDB/DFI funds and commercial bank loans, builds a USD 144M capitalized fund that can extend up to USD 306M of bank guarantees and sub-debt, which in turn will unlock a total of USD 1B of impact financing on commercial conditions.

AGRI3 knows 4 categories of investors, presented in order of the risk waterfall of the Fund:

- Capital preservation impact investors (with 0% RoI target) – a first loss tranche of USD 35M is provided by the NL Government
- Junior participants will absorb losses superseding the first loss. The Fund is willing to agree an RoI target in the range of 4 – 9% with junior participants. Instead of having junior participants, the Fund may choose to increase the number of Capital preservation impact investors
- Senior participants investors will absorb losses superseding the first and second loss. The Fund is willing to agree an RoI target in the range of 2 – 7% with senior participants
- Lastly, debt will be provided by debt providers (typically, commercial bank) at rates between 1 – 5%.



AGRI3 has attracted investors in the first and fourth category and is currently looking for an anchor investor – either as junior or senior participant. The investment of GEF would help unlock these categories.

## **7) innovation, sustainability and potential for scaling up.**

With its scale, public-private partnership model, and way of sourcing transactions. AGRI3 is a clear innovation in impact financing. AGRI3 can help banks innovate their risk appetite and risk models and cater impact financing with different product conditions and financial as well as environmental and social benefits.

Because of its strong anchoring in private sector companies and alignment with government policy and international agreements and goals, AGRI3 has a strong own sustainability profile that is expressed in its forecast 20 year lifetime. This long timespan allows AGRI3 to be established as a revolving fund in which initial investment and proceeds are used repeatedly to unlock additional impact deals. While AGRI3 with its USD 1B of impact financing is already a unique program, the model allows for scaling up for additional forest conservation and sustainable agricultural initiatives as well as expansion into other initiatives such as food loss reduction, protein transition etc.

The AGRI3 fund will enable ambitious and impactful investments by sharing risks with commercial lenders through mechanisms such as partial guarantee provision, subordinated lending on a non-concessional basis, and provide grants for technical assistance on a needs-basis. The AGRI3 Fund – which itself is a form of a ‘blended finance fund’ and which is already leveraged through private capital - will only invest in projects alongside a commercial finance provider, thereby further leveraging public or concessional funding. Over time, the number of successful projects will increase market transparency about sustainable land-use business models knowledge and provide a wealth of lessons learned for similar funding initiatives. By understanding what business models (for given commodities and in given countries) work or do not work, AGRI3’s hypothesis that by providing funding for forest conservation, sustainable agriculture and farmer training, perceived risk will be lowered over time and thereby the need for public funding for such initiatives will decrease as private funding becomes more comfortable and assured of the potential for success of these projects. AGRI3 Fund’s aim is therefore to play a catalytic role in unlocking private finance for sustainable land-use.

**Sustainability and Long-lasting Effect.** It is highly desirable for the Fund that, upon exit of the deals, the projects continue to perform well and maintain at least the same standards as during the Fund’s investment, against its ESG policy. Although the Fund cannot be expected to be responsible for a project’s performance post exit, the Fund will in all cases consider what the implications for E&S performance will be, and how it may be affected. If there is a change in project management, the Fund will conduct a due diligence on the new management to discover their reputation regarding E&S, the quality of management and their potential for upholding the Fund’s E&S standards. These findings will be reported in the Investment Memorandum. On a deal level, AGRI3 looks for scale and repeatability to maximize sustainability impact over time. AGRI3 has an open architecture in that it is open to other banks than Rabobank by design. This will maximize deal flow and impact even more. The intent is that investments and projects will grow into a stage where blended finance and public funding support is not needed anymore and can be picked up by regular commercial finance/private capital going forward as “business as usual”. Finally, it is envisaged that the front runner role of the transactions done by AGRI3 and commercial banks will be viewed as leading examples for the sector. Innovative sustainable agricultural development will have been proven and can be rolled out to other farmers. In addition, the commercial banks build up a track record with these (often longer terms) transactions and will feel more comfortable entering into the transactions without the support of a Fund.

1b. *Project Map and Coordinates.* Please provide geo-referenced information and map where the project interventions will take place. Global, developing countries and emerging economies.

Geographical scope of AGRI3 projects and country selection guidelines are described on pages 11 and 12 of this document. These show a significant overlap with GEF recipient countries as indicated on thegef.org website. As a consequence, it is possible to secure that the GEF investment is only used in GEF-eligible countries – even with a

minimum guaranteed leverage of 1:2. This same structure will also be used should multilateral development banks or DFIs with a regional focus come in. Risk-wise, risks will be pooled globally to avoid geographical risk concentration.

2. *Stakeholders*. Select the stakeholders that have participated in consultations during the project identification phase:

**Indigenous Peoples and Local Communities;**

**Civil Society Organizations;**

**Private Sector Entities;**

**If None of the above, please explain why.** In the design phase, there were multiple discussions with CSOs. Specifically with WWF – with which Rabobank has an ongoing strategic partnership and the Tropical Forest Alliance. In addition, there were consultations with CSOs in the UN Environment Network. In terms of engagement with the private sector, Rabobank discussed an idea of a large scale fund and its various products with farmers, farmer organizations, food companies, logistics providers, traders and regional competitor banks in Brazil, India and Indonesia. Consultations with Indigenous Peoples were not done during the design phase. However, it is expected that there will be consultations during the PPG phase in line with CI-GEF policies on engagement with Indigenous Peoples.

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

STAKEHOLDER	MEANS OF CONSULTATION/INVOLVEMENT DURING PROJECT EXECUTION	THE MEANS AND TIMING OF ENGAGEMENT	THE MEANS OF INFORMATION DISSEMINATION
UN Environment	Founding partner, public sector voice and decisive on impact assessment and E&S framework	Continually during inception / founding, part of the Funding Cie	Orally, key inception reports, bi-weekly calls
IDH, Institute for Sustainable Trade	Founding partner, TA manager	Continually during inception / founding, link between Investment Committee and TA Mngr	Orally, TA agreement (under development), IDH presentations on TA approach
Rabobank	Founding partner, anchor investor on private sector side	Continually during inception / founding, pipeline building, generation of funding leads, AGR13 foundation	Orally, investor slide deck, indicative term sheet (ITS) of Rabobank debt, pipeline info, project opportunity note (= application for AGR13 support)
FMO Development Bank	Founding partner	Frequent during inception / founding, sounding board and network sharing	Mostly orally

3. *Gender Equality and Women’s Empowerment*. Briefly include below any gender dimensions relevant to the project, and any plans to address gender in project design (e.g. gender analysis). Does the project expect to include any gender-responsive measures to address gender gaps or promote gender equality and women empowerment? yes X /no  / tbd  ; If possible, indicate in which results area(s) the project is expected to contribute to gender equality:

- closing gender gaps in access to and control over natural resources;
- improving women’s participation and decision-making; and/or
- generating socio-economic benefits or services for women.

Will the project’s results framework or logical framework include gender-sensitive indicators? Yes X /no  / tbd

As a reporting effort, not an ambition, in order to respect socio-economic factors by UN recommendation.

We adhere to human rights as defined by UN Declaration of Human Rights.

AGRI3 objective 3 actively states promoting gender quality:

“Improved rural livelihoods: improving the living standards of land owners, which may include local farmers and smallholders in order to reach sustainable inclusive growth, with particular attention paid to gender equality, eradicating child labor, promoting fair labor and wages, and alleviating poverty.”

Specific attention will be paid to gender aspects of proposed projects, in line with the IDH’s Gender Toolkit and the GEF Gender Policy aiming at integrating gender aspects into supply chain approaches. The toolkit explores opportunities to integrate gender aspects in different programming steps of projects and inventions. Following these steps may positively influence project or intervention and leverage greater impact. Where appropriate, clients can be assisted by the TA Facility to identify opportunities and barriers that female workers, farmers, and managers face, to raise their awareness and design mitigates / specific interventions to overcome these.

4. *Private sector engagement.* Will there be private sector engagement in the project? (yes X /no ). Please briefly explain the rationale behind your answer. The project is co-initiated by a private sector entity (Rabobank); targets private sector entities (farmers, farmer groups, value chain actors) as implementors of forestry conservation and sustainable agriculture practices; and employs an open architecture to allow other private sector financiers to engage and use the Fund.

4. *Risks.* Indicate risks, including climate change, potential social and environmental risks that might prevent the project objectives from being achieved or may be resulting from project implementation, and, if possible, propose measures that address these risks to be further developed during the project design (table format acceptable).
- 5.

RISKS	DESCRIPTION	RISK RATING (HIGH, SUBSTANTIAL, MODEST, LOW)	RISK MITIGATION MEASURES
<b>Transaction flow risk</b>	Inability to deploy capital in a swift manner.	L	AGRI3 and Rabobank work closely together. Rabobank has a strong pipeline of potential transactions, with strong sectorial and investment knowledge. Gradually, respectable additional banks and/or other financial institutions are expected to provide a strong pipeline.
<b>Operational risk</b>	Risk of loss incurred for failed internal processes.	L	Mirova and Natixis IM’s internal controls, support functions, and AIFM-quality processes will be used by Mirova Natural Capital as Lead Investment Advisor of AGRI3, including anti-bribery and anti-corruption policies and procedures, etc.
<b>Liquidity risk</b>	Financial difficulty in meeting obligations associated with financial liabilities.	L	AGRI3 will start with providing guarantees which are 100% backed by deposits, which will minimize liquidity risk. This will be the situation in the first years, after which AGRI3 may be able to reduce its cash requirements, through counter guarantees and in an even later stage through portfolio diversification and based on a proven track record.  In general terms, liquidity risk can be mitigated by careful cash flow management, which includes (i) maintaining sufficient cash and available funding in relation to

			committed guarantees or contingent credit facilities, and (ii) the ability of AGRI3 to meet its financial liabilities on time, under both normal and stressed conditions; without incurring unacceptable losses or risking damage to AGRI3's reputation.
<b>Interest rate risk</b>	Risk that the value of future cash flows of an asset/ financial instrument fluctuates due to changes in market interest rates.	L	AGRI3's interest rate exposure on the guaranteed portfolio is contingent in nature and only crystallises upon the occurrence of a guarantee being called. Given that calls are not expected to happen, it is therefore no expected to be a material risk.
<b>Country risk</b>	Financial risk that a country's government will suddenly change its policies (e.g. capital controls) or is linked to instability in a country. Economic and political disruptions (exchange rate controls, regulatory change, corruption, etc.) or financial crises may adversely affect the activities of investee companies and hence, AGRI3's portfolio returns.	L	AGRI3's investments will be spread over a number of countries to diversify the risks. A loss due to political or country risks will thereby not significantly affect AGRI3's portfolio.
<b>Market risk</b>	Risk of losses for the Fund arising from a fluctuation in the market value of the positions in its portfolio, attributable to a change in the market variables.	M	Strict hedging rules and controls over "open" sales positions will be required together with strong management capabilities and knowledgeable staff/agents/brokers. The team will favour sales to reliable offtakers willing to commit to forward purchases.
<b>Regulatory risk</b>	Sudden changes in local legislation could negatively affect business operations.	L	Country limits will result in portfolio diversification
<b>Currency risk</b>	Risk that the value of future cash flows of AGRI3 transactions fluctuates because of changes in FX rate, and currency risk – related credit risk at the level of the Rabobank and other banks' clients.	M	The Fund is expected to predominantly transact in USD, the same currency as its obligations to its investors, where the balance provides a natural hedge.  Guarantees that are provided in local currencies have an FX risk that is contingent until there is a call, at which point it may be exposed directly to FX risk if the loan is not in USD (which will then drive the need to hedge the FX risk, which may or may not be possible at reasonable rates). The expected decrease in guarantee fees for local currency guarantees, as a result of expected depreciations, are not currency risks as there is a commensurate reduction in exposure. Apart from that, the Fund aims to build up a diversified portfolio of various currencies which can be expected to further mitigate this risk.
<b>Credit / default risk</b>	Credit or default risk is the risk that an obligor company defaults which will trigger guarantee payments by AGRI3.	S	Mitigated through: Detailed analysis and calculation of probability of default and expected loss; Reservation for expected loss pro rata to the probability of default; a portfolio of guarantees which will provide more and more diversification; Alignment of interests: Rabobank is equally incentivized to minimize losses, as the Fund is only providing partial guarantees; In case of first loss guarantee: Rabobank typically aims to allocate (part of)

			the first loss exposure to various parties in the value chain such as off-takers, which increases the commitment to make the transaction a success; and Security: recourse to the assets of the client, for instance land.
<b>Project risk</b>	The risk of losses related to operation incidents arising on the project.	S	Main project risks are examined in advance during a thorough due diligence process, using a risk matrix developed in-house and third-party consulting firms.
<b>ESG risk</b>	Working mainly with farmers, including smallholders, in countries with weak rule of law, E&S risks are enhanced which can feed into operational and project risks listed above. E&S risks can also trigger reputation risks.	L	E&S risks are examined in advance during a thorough due diligence process to our E&S Standards, using a risk matrix developed in-house and, where required, third-party consulting firms.
<b>Reputation risk</b>	The partners involved in AGR13 bring solid reputations in the fields of environmental and social performance. Such a reputation is fragile and actual or perceived failings of the Fund to achieve its mission at a micro or macro scale could damage the ability of the Fund to raise future rounds of finance and attract new partners.	L	The objectives of the Fund and how it differs from other 'green' agricultural funds needs to be clearly communicated consistently in all materials.  The client screening already done by the commercial bank partners is one layer of protection against entering into transactions with undesirable counterparties. The Investment Advisor will be responsible for conducting a screening assessment looking out for potential reputational issues of the clients.  On an ongoing basis the combined monitoring of operations for the bank and AGR13 fund investment advisor will keep the fund alerted of any emerging issues and the investment advisor will use their experience to manage such situations and the reporting of them.
<b>COVID19</b>	The project recognises that the Corona Virus Pandemic (COVID19) may cause delays and/or slow down implementation of project activities due to delays in stakeholder consultations, in ability to travel, in recruiting staff and consultants.	H	During the PPG phase, the project will prepare and implement relevant safeguard plans which will clearly indicate activities being put in place to address risks triggered by COVID19. These safeguards include risks for project staff, risks for project progress, budgetary consequences and communications strategy.

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

The AGR13 Fund was born out of partnership of organisations striving to design a way to deliver sustainable financing to the challenges of sustainable agriculture and forest protection at scale. Over the course of 2018, the Partnership for Forest Protection and Sustainable Agriculture Partnership (“the Partnership”) expanded to include UN Environment, Rabobank, the Dutch Development Bank (FMO) and the Sustainable Trade Initiative (IDH).

These four parties share the belief that a transition towards more sustainable food systems can be made in a public private partnership when focusing on impactful supply chains involving all major stakeholders, ranging from primary farmers to consumers.

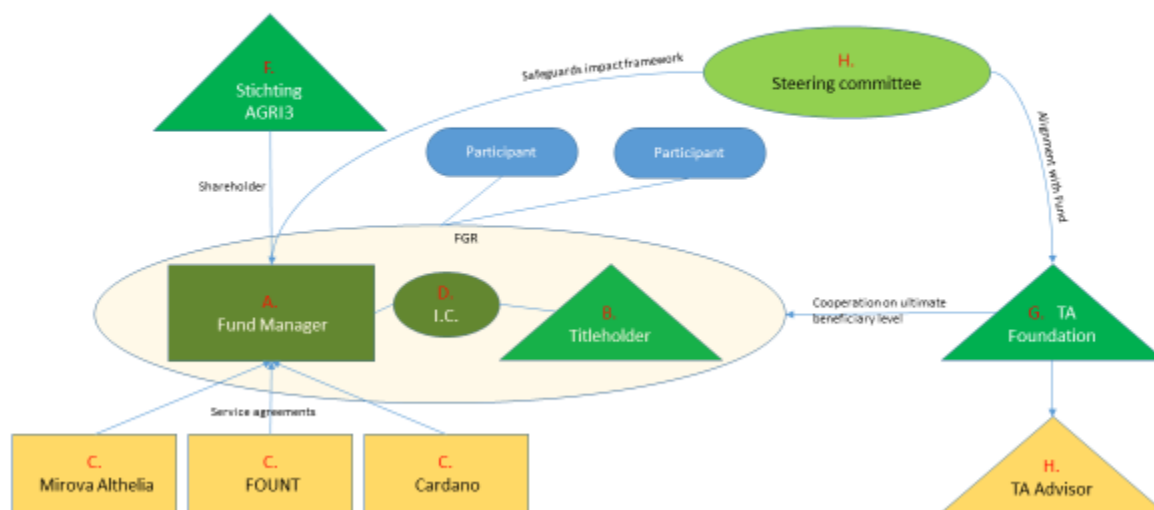
Overall, these parties want to contribute to sustainable land use practices at scale, which means balancing enhanced and more sustainably produced agricultural output with forest protection, reforestation and improved rural livelihoods.

The partnership aims to involve as many interested parties as possible, including commercial and development banks that subscribe to these ambitions. This “open architecture” design will ensure largest possible impact.

The roles of each partner in the AGRI3 Fund design are detailed in the governance structure, statutes and contracts. Following a request for proposals, Mirova Natural Capital was selected as Investment Advisor and Fount while Cardano were selected as Board Members for the fund. This arrangement was further refined during the design phase and has concluded with MNC, Fount and Cardano sharing Investment Advisor responsibilities (with MNC being the Lead Advisor), as well as each taking a seat on the Management Board. During the operationalization of the initiative, additional actors came on-board to fulfil specific roles for the implementation.

AGRI3 Fund is incorporated as an FGR (Fund for Joint Account) structure. Information on the FGR structure can a.o. be found in <https://www.cliffordchance.com/content/dam/cliffordchance/briefings/2012/03/dutch-law-funds-for-joint-account.pdf>. The Fund itself, in terms of liabilities (equity, debt), assets (cash collateral posted at participating banks and liquidity) and of-balance-sheet liabilities (guarantees) is administered in Stichting Titleholder AGRI3. The Fund Manager is Fund Manager BV - populated by Mirova/Althelia and 2 other fund managers. Legal DD will be completed by CI Legal during the PPG phase.<sup>20</sup>

### Legal and Governance structure AGRI3



Members of the AGRI3 Steering Committee include:

**The United Nations Environment Programme** is the leading global environmental authority that sets the global environmental agenda, promotes the coherent implementation of the environmental dimension of sustainable development within the United Nations system, and serves as an authoritative advocate for the global environment. Its mission is to provide leadership and encourage partnership in caring for the environment by inspiring, informing, and enabling nations and peoples to improve their quality of life without compromising that of future generations.

**Rabobank** is a bank by and for customers, a cooperative bank, a socially- responsible bank. Next to its ambitions as a general bank in the Netherlands, Rabobank is committed to be a leading bank in the field of food and agriculture worldwide. Embracing the “Growing a Better World Together” mission, as well as the “Banking for Food” strategy for its international activities, the bank is continuously exploring ways to support its clients in food and agriculture value chains to change to more sustainable practices. Its large client base and international knowledge networks are considered strong assets in sourcing viable and impactful transition projects.

**The Dutch Development Bank (FMO)** is committed to helping transform food systems in developing countries. In this respect, FMO increasingly focuses on Low-Income-Food-Deficient-Countries (LIFDCs) in Sub-Sahara Africa, Southeast Asia and Latin America. In addition to food security, FMO also focuses on forest protection and agro-forestry, engaging smallholders and women in inclusive value chain models and labour intensive agro-sectors.

**The Sustainable Trade Initiative (IDH)** convenes companies, Civil Society Organizations, governments and others in public-private partnerships. IDH promotes sustainable agriculture and forest protection through its Landscapes program, supporting land use planning for production, protection and inclusion. It also mobilizes investments and learning around business models that for smallholder inclusion and business models that combine land use intensification with forest and ecosystems conservation.

Coordination with other relevant GEF-financed projects and other initiatives:

INITIATIVE	COORDINATION
CPIC Conservation Finance Initiative - Scaling up and Demonstrating the Value of Blended Finance in Conservation	Exchange of state-of-the-art experience and models in blended finance
Risk Mitigation Instrument for Land Restoration	Potential collaboration in de-risking land restoration initiatives in LatAm
Food Securities Fund	Potential collaboration in shared financing and knowledge sharing
Brazil Country Operations finance by GEF grant window	Given strong presence of Brazilian projects in transaction pipeline

7. *Consistency with National Priorities.* Is the project consistent with the National strategies and plans or reports and assessments under relevant conventions? (yes X /no  ). If yes, which ones and how:

- National Bio Strategy Action Plan (NBSAP)
- CBD National Report
- Cartagena Protocol National Report
- Nagoya Protocol National Report
- UNFCCC National Communications (NC)
- UNFCCC Biennial Update Report (BUR)
- UNFCCC National Determined Contribution
- Paris Agreement (see below under point 2. and page 13)
- UNFCCC Technology Needs Assessment

- UNCCD Reporting
- SDGs, notably SDG 2 (zero hunger), 13 (climate action) and 15 (life on land) and to limited extent also SDG 5 (gender equality) and 12 (responsible consumption and production).

AGRI3 will contribute to a set of international policy commitments of governments and industry as per the following hierarchy:

1. **Sustainable Development Goals** of the United Nations (SDGs), goals 2 (end hunger), 13 (climate change), 15 (life on land) and 17 (partnerships);
2. **Paris Climate Agreement** of the United Nations Framework Convention on Climate Change (UNFCCC), as implemented through nationally determined contributions (NDCs) in land use and land use change sectors. AGRI3 has a strong focus on forest conservation and restoration and implementation of climate-smart agriculture and sustainable agricultural practices which aim to reduce pressure on land expansion and thus deforestation. See also our comments on realizing the Paris agreement on page 13.
3. **New York Declaration on Forests** of the United Nations Secretary- General’s Climate Summit, through elements of the Action Agenda for Companies and Business Associations and against the goals, criteria and indicators of the progress assessment.
4. **Bonn Challenge** to bring 150 million hectares of the world’s deforested and degraded land into restoration, as implemented through national and regional commitments.
5. **Consumer Goods Forum (CGF)** resolution pledging to mobilize resources within their respective businesses to help achieve zero net deforestation.
6. **UNCCD:** The AGRI3 fund will directly contribute to the UNCCD, specifically to the “The future strategic framework of the Convention (Decision 7/COP.13). Within the Fund’s E&S and Impact framework, Primary Indicator 2.1a (Area of degraded land restored within concessions of funded projects) is specifically focused on supporting financing of transactions to restore degraded land. The Fund will support farmers that aim to improve land and forest productivity and protect existing natural capital. This will support the achievement of the following objectives in the UNCCD strategic framework:
  - Strategic objective 1: To improve the condition of affected ecosystems, combat desertification/land degradation, promote sustainable land management and contribute to land degradation neutrality:
  - Strategic objective 2: To improve the living conditions of affected populations
  - Strategic objective 5: To mobilize substantial and additional financial and non-financial resources to support the implementation of the Convention by building effective partnerships at global and national level

The Fund will work with private sector and NGOs to support these efforts. Where relevant and applicable, AGRI3 will also contribute to land degradation targets and national plans as set under the LDN target setting process.

Of the countries most imminent in AGRI3’s pipeline development (Brazil, Indonesia and India), to date only Indonesia has set and published LDN targets on the UNCCD website<sup>18</sup>. These are targets on forest conservation, forest rehabilitation and sustainable agricultural production including soil and water conservation. Of course, AGRI3 is not a public sector instrument - and as such, not responsible for realising government-set targets. However, almost all of the Indonesian targets in principle qualify under AGRI3 eligibility criteria and results framework. Thus, we do see a strong overlap with UNCCD LDN targets.

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<sup>18</sup> [https://knowledge.unccd.int/sites/default/files/inline-files/indonesia\\_ldn\\_country\\_report.pdf](https://knowledge.unccd.int/sites/default/files/inline-files/indonesia_ldn_country_report.pdf)



**FIGURE 2: AGR13'S CONTRIBUTION TO INTERNATIONAL POLICY COMMITMENTS**



8. *Knowledge Management.* Outline the “Knowledge Management Approach” for the project and how it will contribute to the project’s overall impact, including plans to learn from relevant projects, initiatives and evaluations.

**Learning and knowledge sharing.** The AGRI3 Fund will seek to spread the lessons learned and knowledge gained on a sectoral, national and international basis. This will involve taking insights from the application of technologies, financing modalities, transaction structures and impact generation and publicising them in a variety of formats including workshops, publications and tools.

The project is a flagship project to private sector banks and NBFIs in Impact Finance. The project allows both partner banks (Rabobank and others) to update their risk assessment of impact finance projects and to collect data for risk modelling. The scale of the project also supposes “replication” of sample projects and hence testing of standardization of finance approaches. By developing viable business cases which we can share, we hope to unlock more funding and turn it into business as usual in the end.

One of the crucial aspects of AGRI3 Fund’s operation is the provision of knowledge and capacity development to overcome the information barriers that impede the transition to sustainable land-use production. AGRI3 Fund’s supported transactions will consider the whole value chain and provide training and guidance to key stakeholders, from boardroom to smallholder farmers, to maximise the long term public good impacts of its investments. To achieve this, a grant making technical assistance (TA) facility will be set up to make the relevant knowledge and expertise available to farmers and other project stakeholders to help them get on the path to more sustainable agriculture.

Plans to learn from relevant projects during the project implementation have already been put in place. On April 23, 2020, the first major evaluation of lessons learned and effect of key project design choices is taking place under guidance of an external consultant. The same has also been initiated on the financial modelling (to take place in the upcoming 4 weeks). In general, the AGRI3 partnership, with very diverse partners such as UN environment,

Rabobank, IDH, FMO, Mirova Althelia and other fund advisers and recently the NL Government, leads to frequent evaluations of design choices and lessons learned during implementation. Furthermore, the project Steering Committee is anchored in the governance to secure these learnings.

Proposed processes to capture, assess and document info, lessons, best practice & expertise generated during implementation: the way of capturing and assessing these learnings, best practice and expertise is described above. Documentation will internally be done through minutes of the Steering Committee, updates of strategic documents and financial models. Externally, reporting on lessons learned will be include in reporting to impact investors and – given the high public profile of AGRI3 – through presentations on (side) meetings during UNGA, WEF, IMF World Bank annual meetings etc.

Proposed knowledge outputs are the description of lessons learned, best practice & expertise in updates of strategy documents and presentations as described above. As yet no publications in international magazines or on websites have been planned yet but this may become relevant once AGRI3 has collected a significant knowledge base.

Plans for strategic communications to reach out to the whole value chain and provide training and guidance to key stakeholders are included in the TA plans that accompany AGRI3 Fund investments, both to value chain actors and farmers.

The Knowledge Management Approach will be strengthened during the PPG phase, taking into account information that can be shared with the general public vs information that is subject to privacy legislation.

## Financial model

### AGRI3 gross portfolio forecast

		2019	2020	2021	2022	2023
AGRI3 capital requirement	m US\$	10	17	28	37	50
<i>Cumulative</i>		10	27	53	91	141
AGRI3 exposure	m US\$	20	36	57	82	112
<i>Cumulative</i>		20	56	112	194	306
Portfolio - Total financing (cumulative)	m US\$	74	207	415	716	1 125
<i>of which Agri3</i>		10	27	53	91	141
<i>of which commercial banks</i>		64	180	362	626	984

AGRI3 derives its income from:

- Guarantee fees paid by partner banks. These fees differ from one guarantee product to the other, and are usually expressed as a percentage of the commercial margin the bank realizes.
- Interest on cash collateral deposited at partner banks.
- Interest on liquid assets.
- Interest on funded assets, e.g. subordinated loans.

AGRI3 has the following expense categories:

- Operating costs including fund management fee.
- Interest on bank loans.
- Fees on unfunded risk participations of third parties (if any).
- Fund management profit sharing (20% of net profit).
- Allocation of (80% of) net profit to junior and senior participants and capital preservation accounts for governments. This net profit is allocated and added to the value of the participation. It is paid out at dissolution of the fund and captured in the value of the participation in case of sale of the participation from one investor to another.

AGRI3's overall net IRR will, once the Fund is fully invested, be modest – below 3%. By managing the funding mix of different asset classes, AGRI3 aims to realise targeted IRRs for junior and senior participants that are modest, yet above debt interest rates, and fitting for impact investors. It should be noted that these targets will not be realized in the initiation phase of the Fund and that investors have no certainty about realization of these targets.

The Remuneration of Fund Manager will be:

- Year 1-5: tailored, fixed remuneration scheme
- Year 6 ff.: agreed percentage in the 0.5 – 1.0% range of guarantee exposure plus 20% profit sharing

Guarantee exposure = the sum of maximum nominal amounts that can be drawn under guarantees outstanding. For AGRI3 at the top of its portfolio, this amount will be up to USD 306 mln. in year 6 ff.

**PART III: APPROVAL/ENDORSEMENT BY GEF OPERATIONAL FOCAL POINT(S)**

**A. RECORD OF ENDORSEMENT OF GEF OPERATIONAL FOCAL POINT (S) ON BEHALF OF THE GOVERNMENT(S):**

(Please attach the Operational Focal Point endorsement letter(s) with this template. For SGP, use this SGP OFP endorsement letter).

<b>NAME</b>	<b>POSITION</b>	<b>MINISTRY</b>	<b>DATE (MM/dd/yyyy)</b>

## Annex A

### ANNEX A: Transaction Examples

**Portfolio ramp-up.** The AGR13 Fund targets to invest an estimated amount of capital of around USD144m during the coming 5-year period from 2019-2023, of course based on factors such as available funds and available investment opportunities, amongst other.

**TABLE 3: ANTICIPATED SCALING UP OF AGR13 FUND'S INVESTMENT PORTFOLIO**

		2019	2020	2021	2022	2023
Portfolio - number of deals	deals	5	7	10	12	14
<i>Cumulative</i>		5	12	22	34	48
AGR13 Capital	m US\$	10	17	28	37	50
<i>Cumulative capital</i>		10	27	53	91	141
Agri3 Exposure (Cumulative)	m US\$	20	56	112	194	306

(the actual amount of cumulative capital in 2023 has been re-calculated at USD 144 mln)

**Financing instruments.** The Fund's investment portfolio will mainly consist of guarantees, including: (i) tenor extension guarantees, transacted primarily to cover a longer maturity tranche (most recent estimate: ~40% of the number of transactions); (ii) first loss guarantees transacted to reduce Rabobank's more senior ranking exposure (~40%) or that of other banks that propose projects to the AGR13 Fund, with the additional possibility to invest in other guarantees and subordinated loans; and (iii) "longer tenor" guarantees, a composite form of the tenor extension under (i) above and a form of pari passu risk sharing during the earlier years of the tenor (~20%). These three types of guarantees will mitigate certain risks in the loans provided by commercial banks that exceed the lenders' own risk appetite. These loans could be to parties across the entire agriculture value chain such as primary producers, processors, traders, wholesalers, technology providers (e.g. irrigation) and more. As the risk profile of these loans is typically beyond the usual risk appetite of banks (due to the innovative nature and related longer payback period and/or higher risk profile of the specific projects), it is most logical for AGR13 to focus on risk mitigation products (guarantees) instead of liquidity instruments (like sub-ordinated loans). Although the latter may in some cases be (partly) required because of local regulatory issues.

**Typology of transactions.** Current pipeline transactions are generally characterized as follows (see for some specific examples in later sections):

- **Instrument type:** mainly guarantees, being either partial risk guarantees, tenor extension guarantees, first loss guarantees, longer tenor guarantees and potentially – in a few cases – partial risk guarantees or subordinated loans. Partial risk guarantees are pari-passu guarantees on a portion of the loan, (e.g. the longer maturities), with exposure from the start.
- **Borrowers:** borrowers will in first instance in principle be existing Rabobank clients, that will use the fund for projects that are beyond the usual risk appetite. The aim however is to stimulate other banks to put forward projects to be considered by the AGR13 Fund, by bringing in their own clients.
- **Use of funds:** the projects will focus on forest protection and sustainable agriculture as described in more detail in other sections of this document. Improvement of rural livelihoods

needs to be demonstrated to avoid adverse side-effects for rural communities. See for several examples further below.

- **Sub-sectors:** this could for instance be soybeans, cotton, corn, cattle, horticulture, and several other crops (see Investment Criteria in Section **Error! Reference source not found.**).
- **Value chains:** borrowers can be parties across the entire value chain, such as primary producers, processors, traders, wholesalers, technology providers (e.g. irrigation), etc.

### Transaction examples

An overview of 3 transactions from the pipeline is presented below. Further information on each of the transactions can be found in 4.3. In this selective, but indicative pipeline, two of the transactions involve medium to large scale farmers. AGR13 will work with these types of farmers as they have the capacity to push boundaries in terms of technology and will be able to achieve great scale in terms of impact. They can also serve as demonstration clients, that will influence practices in their industry and region. Such transactions will aim to integrate a TA component so that the lessons learned to can passed to smaller farmers in the rein/supply chain.

**TABLE 4: PIPELINE EXAMPLES**

Deal example (1): Large farmer in Brazil



## Deal example (2): Brazilian sugar-cane mill

Optimize **sustainable sugarcane** production and S&E mill's improvement.

### E&S Impact

- Increased areas under sustainable management (52k ha)
- Reduced GHG emission
- Reforestation with native tree species
- Biological pest control

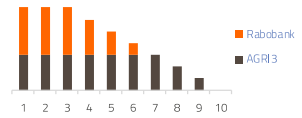
Additionally: outside of RAS

- 10 yr loans are not available in commercial market in Brazil
- 3 yrs grace period longer than accepted within Rabo Risk Appetite Statement
- Financing of projects that are not cash flow generating



Sao Paulo State

Pari passu risk sharing



### Financing flow

**Amount**  
BLR 50 mln  
**Tenor**  
10 yrs (amortizing)  
**AGRI3 Participation**  
BRL 21.5 risk sharing with Rabobank, year 8,9 and 10  
**Instrument**  
guarantee to Rabo Brazil  
**Funding**  
either in BRL, USD, EUR (plus offered swap) depending on the rates

## Prospect example (3): Sugar-cane in South Africa

Smaller sugar cane growers need to invest in (micro or drip) irrigation schemes to ensure continuous sugar cane production also during dry periods. They need to replace aging sprinkler irrigation systems.

### Solution

Financing structure that allows the smaller farmers to borrow and repay in kind (irrigation equipment delivered, repaid with sugar cane), while risk on smaller farmers is shared between AGRI3, corporate client and Rabobank.



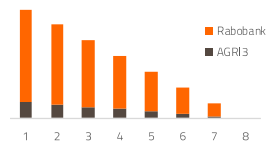
South Africa

774 farmers

### E&S Impact

Higher and stable sugarcane yields, reduced water usage and reduced electricity usage. And overall improved income proposition for sugarcane growers.

15% first-loss risk sharing



### Financing flow

Working capital facility and long term capex facility dedicated for irrigation investments

Additional transaction examples (beef, palm oil, coffee, cotton, rice) are available upon request.

## Transaction example details

### Pipeline Transaction A

Transaction Name	Sub-Soil Improvements		
Overview	A family owned farming group with over 120k ha of land under ownership of lease for soy, cotton and corn wishes to implement a new sub-soiling technology across 15k ha of land, which a 2.5k ha trial has shown can boost yields 15% as well as increase soil carbon. The improved soil structure also reduces drought in the future. The investment will demonstrate the technology can work at scale, increasing its financability and uptake in the sector. The client is committed to zero deforestation on the farms as well as increase of legal reserve (via compensation) 15% above the legal requirements. By increasing yields and area of forest under conservation the activities will contribute national and state-wide production/protection goals.		
Country	Brazil		
Counterparty	Family owned farming group		
Investment need	<p>The client requires \$5m to implement the new technology over 15k ha, with the funds going primarily towards:</p> <ul style="list-style-type: none"> <li>• Soil preparation and analysis;</li> <li>• Cultivation using new subsoiling and rilling technology;</li> <li>• Inputs (fertiliser, seeds, defensives).</li> </ul>		
Transaction Structure	Loan from Rabobank as a commercial lender.		
Role of AGRI3	<p>Provision of tenor extension guarantee, without which the loan would not be possible due to payback period.</p> <p>The guarantee will require, c. EUR2.1m cash set-a-side and will come at a cost to be negotiated. The position could be exited once the remaining loan tenor falls within commercial lending requirements or held to maturity.</p>		
Transaction Impact	Rural Livelihoods	Forest Protection and Restoration	Sustainable Agriculture
	<ul style="list-style-type: none"> <li>• 105 general farm employees, 10 technical employees trained on the technology.</li> <li>• 150 attendees on farmer field day to spread knowledge to others in region.</li> </ul>	<ul style="list-style-type: none"> <li>• 2.3k ha of additional legal reserve beyond legal requirements set a side via compensation</li> </ul>	<ul style="list-style-type: none"> <li>• 10k ha of land with improved productivity (15%) and soil carbon.</li> </ul>



Pipeline Transaction B

Transaction Name	Sugar and Ethanol		
Overview	A high sustainability performance Sugar and Ethanol wishes to embark on an investment program to further improve its sustainable agricultural performance, whilst also improving the capacity of its staff in new and innovative agricultural practices such as integrated pest management that reduces fertiliser use. The investment will demonstrate the profitability of these new practices, allowing for wider replication, and eventually the provision of pure commercial finance for such activities.		
Country	Brazil		
Counterparty	Sugar and Ethanol Company		
Investment need	<p>The Sugar and Ethanol company grows sugar cane and processes it to produce ethanol to high environmental and social standards. The seek EUR12m capital to invest in further improving the sustainability of their operations including:</p> <ul style="list-style-type: none"> <li>- Repairing a road to reduce transport emissions for themselves and improve the cost to market for neighbouring communities and farmers.</li> <li>- Use of measurement equipment (on-board computers) throughout the agricultural fleet to monitor operations and find improvement points.</li> <li>- Application of integrated pest management (IPM) techniques with preference for biological or cultural controls. This practice consists of a system of controls, procedures and operations that aim to control sugarcane pests with minimal environmental and social impact.)</li> <li>- Putting in place infrastructure for distribution of vinasse (a by-product derived from the ethanol production) as a natural fertilizer, with coated channels allowing the distribution of this product by gravity</li> <li>- Construction of a Liquid Fertilizer Plant Quantification of the KPI's in terms of the project</li> <li>- Plant 90ha of native forest species to preserve ecological corridors, that is, to unify fragments of native vegetation in bigger fragments, to reinforce the essential role that vegetation plays in ecosystems.</li> </ul>		
Transaction Structure	Loan from Rabobank as a commercial lender.		
Role of AGR13	<p>Provision of tenor extension guarantee, without which the loan would not be possible.</p> <p>The guarantee will require, c. EUR5.8m cash set-a-side and will come at a cost to be negotiated. The position could be exited once the remaining loan tenor falls within commercial lending requirements or held to maturity.</p>		
Transaction Impact	Rural Livelihoods	Forest Protection and Restoration	Sustainable Agriculture
	<ul style="list-style-type: none"> <li>• 50 qualified beekeepers trained for IPM</li> <li>• 2,000 hours (at least) for 800 employees trained on sustainable agricultural practices</li> <li>• 50 employees trained 3 hours each to manage restored forest areas.</li> <li>• 7,000km of roads improved, benefiting 110 suppliers and 380,000 local people</li> </ul>	<ul style="list-style-type: none"> <li>• 90 hectares of forest land restored using a mix of 80 native species of the Biome</li> </ul>	<ul style="list-style-type: none"> <li>• 18,000 hectares of improved fertiliser application through tubes / channels for vinasse distribution.</li> <li>• 7,000 tonnes of reduced fertiliser use</li> <li>• 1.7 tonnes of reduced insecticide use per year due to integrated pest management approach.</li> </ul>

Pipeline Transaction C

Transaction Name	Smallholder Loan Finance		
Overview	A non-bank financial institution in India provides short- and long-term agricultural loans to smallholder horticultural/vegetable farmers for installation of MIS (micro irrigation systems). It also extends credit for installation of lift irrigation, solar pumps, dairy & dealer/small loans.		
Country	India		
Counterparty	Non-Bank Financial Institution (NBFI)		
Investment need	<p>The NBFI seeks a 6-year loan facility of \$7m to provide it working capital and longer-term finance to build up its long-term asset book.</p> <p>The financing offered to smallholder farmers includes:</p> <ul style="list-style-type: none"> <li>• MIS Financing</li> <li>• Farm equipment financing</li> <li>• Financing of solar equipment</li> <li>• Financing pipes and or motoes / pumps for lift irrigation</li> <li>• Special lending financing for widows</li> <li>• Dairy project financing</li> <li>• Short term crop loans</li> <li>• Personal loans</li> </ul> <p>The financing provided by AGR13 will focus on the irrigation financing solar panels, mechanization of the agricultural production and working capital.</p>		
Transaction Structure	Loan from Rabobank as a commercial lender.		
Role of AGR13	AGR13 will provide a first loss risk sharing facility up to 50% of the overall facility at fees to be negotiated. This will require set-a-side of \$3.5m from the AGR13 fund.		
Transaction Impact	Rural Livelihoods	Forest Protection and Restoration	Sustainable Agriculture
	<ul style="list-style-type: none"> <li>• [TBD] recipients of training on the transition sustainable agriculture in the form of irrigation and / or micro renewable energy.</li> <li>• Increase in household income of loan beneficiaries.</li> </ul>	<ul style="list-style-type: none"> <li>• NA</li> </ul>	<ul style="list-style-type: none"> <li>• [TBD] Ha's transitioned to higher productivity, more resilient sustainable agriculture in the form of irrigation and / or micro renewable energy.</li> </ul>

## AGRI3's theory of change applied to key commodities

### **Crop focus: rice**

Rice is one of the world's key staple cereals, feeding an estimated 3.5 billion people daily and providing 19% of total dietary energy. Increasing populations mean that demand for rice is forecast to increase by 25% in the next 25 years. This makes it all the more important that yields are improved sustainably and that the negative environmental impacts of production are reduced. Failing to do so would mean increasing land conversion, worsening environmental impacts, stagnating or falling yields, deteriorating livelihoods, and worsening malnutrition.

#### Main environmental impacts:

- Water use, erosion
- Methane emissions
- Pollution due to agrochemical use

#### Sustainable production practices:

- Efficient production methods to increase production while minimising environmental impacts from e.g. water use
- Responsible expansion: no deforestation
- Management of erosion and soil quality
- Water management, including limiting methane emissions by better irrigation management
- Integrated crop production: e.g. rice/duck, rice/fish, or rice/wheat
- Integrated pest management
- Avoidance of crop loss through e.g. improved drying and stocking practices
- Improved climate change resilience through e.g. selection of drought and/or salinity resistant strands

#### How concessional finance can help the transition:

- Training
- Piloting of innovative production methods and business models
- Capital investments e.g. precision terracing, irrigation improvements

### **Crop focus: soy**

Issue: Demand for soy continues to increase for direct consumption, animal feed and biodiesel production. Global soy production has increased 15 times over since the 1950s. Sustainable intensification of production will be needed to reduce these impacts.

#### Main environmental impacts:

- Largescale deforestation and habitat loss

- Greenhouse gas from land conversion
- Degradation of water quality
- Soil erosion, compaction, and degradation

Sustainable production practices:

- Responsible expansion: no conversion of primary forest or high conservation value ecosystems.
- Protection of biodiversity
- Reduced use of agrochemicals
- Improved management of soil quality through erosion control, conservation tillage, organic matter cover, reduced soil compaction.

How concessional finance can help the transition:

- Training
- Capital investments (new equipment, etc.)

**Crop focus: palm oil**

Issue: Palm oil has become ubiquitous across the world, being consumed as cooking oil or as an ingredient in a broad range of products from foodstuffs to cosmetics. Its versatility and the high yields per hectare make it likely that demand for palm oil will continue to grow in the short to medium term. It is therefore essential to focus on reducing the negative environmental impacts of its production.

Main environmental impacts:

- Deforestation and habitat loss
- Greenhouse gas emissions from land conversion, especially peatlands
- Soil and water pollution

Sustainable production practices:

- Responsible expansion: no deforestation of primary or high value forests, respect for rights of traditional land holders
- Replanting and rehabilitation of degraded land
- Biodiversity protection on and around oil palm plantations
- Reduction in greenhouse gas emissions from land conversion and from production
- Reduction in industrial pollution from growing and processing

How concessional finance can help the transition:

- Training
- Capital expenditure
- Cover for replanting period/rehabilitation of soils.

## Annex B: TA Facility Strategy

**Strategy.** Projects seeking lending from the Fund must meet the Fund’s investment criteria. In pushing boundaries beyond business as usual, potential investees in some cases will be need of support in designing and articulating an investable proposal, and in implementing the project to maximises on its impacts on rural livelihoods, sustainable agriculture and forest protection. Examples are the design and roll out of innovative ‘incentive schemes’ as part of AGRI3 financing projects, to incentivise commodity producers to comply with zero deforestation criteria, or capacity building of farmers on sustainable land management practices, beyond what can be commercially financed. Likewise, as the AGRI3 fund and its investees are pioneering innovations, measuring and reporting the impact of these investments will be required to proof impact of investments and enable scaling up and crowding in of new actors in the sustainable land use investment space.

The TA Facility will aim to address these needs through four main functions which are described below: (i) Pre-investment support and (ii) post-investment support; (iii) Learning, knowledge sharing and (iv) impact monitoring. By playing this role, the TA facility will accelerate the development of investable opportunities and maximise their impacts, as well as derisks the Fund, therefore protecting the junior capital. The targeted TA facility capital taking industry benchmarks into account is 10% of the fund size.

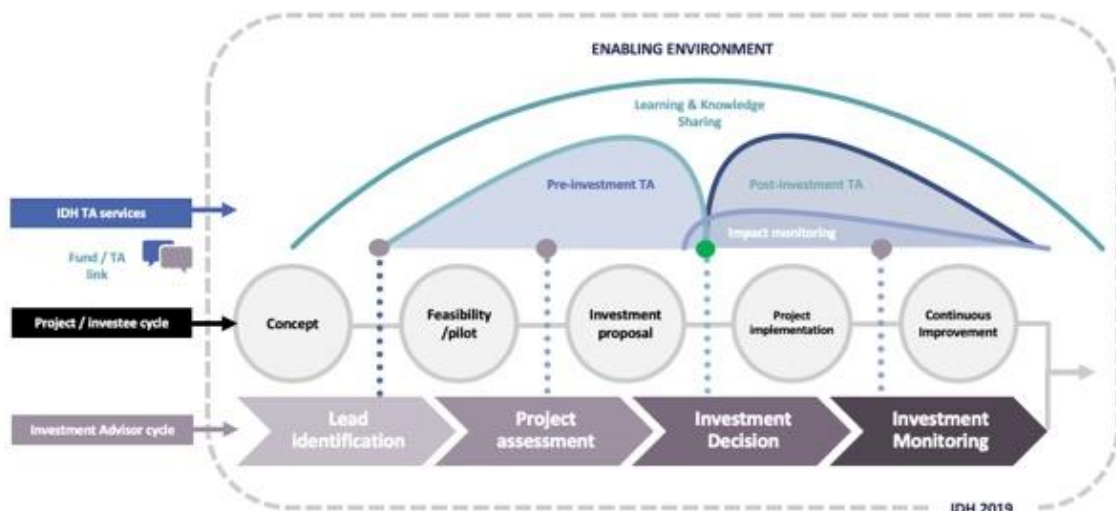
With IDH as manager of the TA Facility, the TA Facility will be managed according to the best practices in the sector, in terms of transparency, additionality and accountability. The TA facility will be set up as a separately managed facility, but inextricably ‘linked’ to the Finance Fund. Disbursement of the TA funding can be prior to, in parallel or post investment by the Finance Fund.

In line with the Fund, the focus of the TA Facility will be initially on Brazil, India and Indonesia. In these countries, the TA facility will have part time team members based out of the IDH offices in these countries. This way, the AGRI3 partnership builds on their knowledge and networks in the space of inclusive supply chains, deforestation, land governance and sustainable land use. Over time however, the AGRI3 fund seeks to develop an innovative and diversified portfolio also covering low income countries, as well as projects with a higher financial risk. The TA facility will also be there to support development and implementation of these projects.

The TA facility will offer the following support:

**Pre-investment support.** Eligible TA to support project investment readiness can be roughly divided into two categories (although in many cases operational, financial and ESG aspects will be closely linked): (i) Enhancing operational and financial structures; and (ii) Project preparation support related to social and environmental impact.

**FIGURE 5: TECHNICAL ASSISTANCE STRATEGY**



Examples of the type of activities that will be eligible for funding include:

- Enhancing operational and financial structures: Support in conceptualizing and engaging in meaningful stakeholder consultation in the development of their project concept; TA for the design of innovative financing structures, overall contractual scheme and risk management process of the project; Analysis of Service Delivery Mechanism to design/improve operational and financial arrangements of services to farmers, including outgrower schemes; Independent technical and legal support for negotiating terms of the main project contracts (especially in case of a power imbalance between the clients and smallholders or communities);
- Project preparation support related to social and environmental impact: Improving the management and monitoring setup of social and environmental impact; Design of ‘incentive schemes’ for deforestation free supply chains; Support for executing Free Prior and Informed Consent processes with local stakeholders, Voluntary Guidelines on the Responsible Governance of Tenure, High Conservation Value and High Carbon Stock, other landscape level issues, e.g., on watersheds or biodiversity corridors; Analysis and training to help strengthen the approach to land governance and tenure in the project; Scope for site/project-specific opportunities to maximise social and environmental impact within the investment on forest conservation and rural livelihoods, including conservation management and monitoring, climate change resilience, sustainable land and water management, biodiversity, inclusive business models and gender.

**Post-investment TA.** As part of the post investment implementation support, the TA facility will provide grants to enhance the impact of the investment, reduce risk, and support sustainable productivity, profitability and sustainability of operations. To this end, the TA facility can support: (i) Enhancing operational and financial structures and capacities; (ii) Increasing social impact through innovations; (iii) Sustainable land and water management (on-site environmental impacts); and (iv) Landscape management and biodiversity conservation (off site environmental impacts).

Examples of the type of activities that will be eligible for funding include:

- Enhancing operational processes and financial structures: support roll out of innovative financing structures and risk management procedures; capacity building to improve operational processes.
- Rural livelihoods and social impacts and innovations: supporting (farmers / forest owner / local community) land and tree tenure rights; capacity building with local SMEs, smallholders, forest owners; outgrower schemes; gender inclusion; staff training to enhance hiring of local staff, hiring of youth and gender balance.
- On-site environmental impacts: capacity building on best agronomy practices, including efficient fertilizer and water use, soil management & erosion control techniques, including Sustainable Land Management (SLM) practices, fight diseases, pests and weeds, adaptation to changing climatic conditions, harvesting and post-harvest management.
- Landscape management and biodiversity conservation: capacity building for landscape interventions and partnerships; Forest conservation activities, including establishment of conservation areas, wildlife corridors; Biodiversity measures.

Capacity building to stakeholders and supporting the enabling environment scaling up project impact on forest conservation and rural livelihoods.

**Enhanced Impact Monitoring.** The AGRI3 Fund will report to its investors, partners and stakeholders on its impact in a comprehensive way. The Lead Investment Advisor will be responsible for the impact report and will base such reporting on the approaches it has developed for the Althelia Climate Fund, where appropriate and as far as in alignment with the goals of the AGRI3 fund<sup>19</sup>. It is the ambition of AGRI3 Fund to improve on limit the burden of reporting on clients, obtain scientifically defensible impact data that goes beyond normal reporting modalities. As

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<sup>19</sup> Report available for download from <https://althelia.com/mission/our-impacts-monitoring/>

such, a small portion of the TA Facility will be dedicated to supporting the Lead Investment Advisor pushing the boundaries of Impact Reporting.

Such support, could extend to:

- 3rd party field data collection / verification to check self-reported findings
- Deep dive 3rd party studies into secondary impacts
- Design and implementation of GIS based data collection, analysis and reporting system
- Production of interactive impact monitoring reporting.

**GEF 7 Core Indicator Worksheet**

Use this Worksheet to compute those indicator values as required in Part I, item F to the extent applicable to your proposed project. Progress in programming against these targets for the project will be aggregated and reported at anytime during the replenishment period. There is no need to complete this table for climate adaptation projects financed solely through LDCF and SCCF.



**Project Taxonomy Worksheet**

Use this Worksheet to list down the taxonomic information required under Part I, item G by ticking the most relevant keywords/ topics/themes that best describe this project.

## Annex E: List of Acronyms

AML	Anti-Money Laundering
CGF	Consumer Goods Forum
CSO	Civil Society Organizations
DFI	Development Finance Institution
ESG	Environmental and Social Governance
ESMS	Environmental and Social Management System
E&S	Environmental and Social
FMO	Dutch Development Bank
GHG	Greenhouse Gas
ICLF	Integrated Crop, Livestock and Forestry
IDH	The Sustainable Trade Initiative
IFC PS	International Finance Corporation's Performance Standards
KPI	Key Performance Indicator
KYC	Know Your Customer
LDCs	Least Developed Countries
MFA	Ministry of Foreign Affairs of the Netherlands
MNC	Mirova Natural Capital Limited
NDC	Nationally Determined Contributions
ORIA	Organisational Risk and Integrity Assessment
REDD+	Reducing Emissions from Deforestation and forest Degradation
SDG	Sustainable Development Goals
SLM	Sustainable Land Management
TA	Technical Assistance
UNFCCC	United Nations Framework Convention on Climate Change