

Environmental and social impact framework development

Case Study:

Responsible Commodities Facility



Responsible Commodities Facility

Name of fund:

Responsible Commodities Facility (run by Sustainable Investment Management Ltd, SIM)

Type of fund:

Provides annual crop loans to farmers in the Brazilian Cerrado. Repayment of loans happens after harvesting and sale of the soy. Potential for crop loans to be revolving. Focus on deforestation-free and conversion-free soy (DCF) with a 'cutoff' date

Impact Categories:

- Focus on the production of DCF soy – key impact is the protection of native vegetation

SDG Focus:



Life on Land - specifically indicators 15.1.1 and 15.1.2

Overview

The Responsible Commodities Facility (RCF) was conceptualised by non-profit BVRio and is now run by the spin-off Sustainable Investment Management Ltd (SIM). BVRio's mission is to design and promote innovative market-based solutions for the benefit of the economy, the environment and people. When the Cerrado Manifesto was launched in September 2017, BVRio started to assess potential financial instruments to incentivise the production of deforestation and conversion free (DCF) soy. Out of this process RCF was born. UNEP has advised BVRio and RCF since their inception, and continues to sit on the Environmental Committee for RCF.

The RCF aims to find new ways to incentivise sustainable agriculture beyond typical measures such as certification for farmers, which can be costly, by providing lower-than-market-rate loans to farmers to finance their DCF cropping cycle. These loans allow farmers to buy inputs and seeds, and they are then paid back after harvest. Ultimately, RCF hopes these loans will enable greater production of DCF soy, which will also assist companies that pledged not to source soy from deforested areas under the SOS Cerrado Manifesto.

One of the main objectives of the RCF Cerrado Programme is to immediately prevent legal and illegal conversion of native vegetation in areas controlled by the soy sector. In so doing, it creates impact by anticipating and extending the environmental impacts that would be created by implementation of the Forest Code.

SIM were keen to create a streamlined but actionable Environmental and Social (E&S) impact framework that on one hand ensures that loans are deployed in line with RCF's aim to link financing to DCF soy production – thus protecting the fund from claims of greenwashing – and on the other gains traction with farmers on the ground with a realistic ask.

Challenges

In developing the RCF impact framework, SIM faced the following challenges:

- Their lack of prior experience in developing a robust E&S impact framework called for external advice
- The framework needed to be compatible with remote monitoring, where possible, to reduce the cost of site visits and the burden on investee farmers
- As the fund was a new initiative unfamiliar to key farmers and soy buyers in the Cerrado, its asks to investees had to be realistic without compromising the facility's impact proposition
- As farmers look to secure loans for inputs only during the planting season, typically from April to July, the fund had a short timeframe to finalise policies and secure investees



UNEP and UNEP-WCMC have helped to develop the impact framework for RCF, and continue to sit on their environment committee. GEF supported the development of this case study.



The Solution

For help to develop a robust E&S impact framework, the RCF turned to UNEP, who were able to offer advice given their recent involvement in the development of AGR13's impact framework. UNEP and UNEP-WCMC created a draft impact framework, which was then passed to the RCF team for a commercial sense check and further development. This was then followed by collaborative, iterative process to reach the final impact framework.

During this process, the RCF team prioritised positive impact from the preservation of native vegetation in the Cerrado through the production of DCF soy, with a 'do no harm' approach to social issues. Through a number of iterations UNEP and SIM worked together to ensure the framework was actionable and coherent with fund objectives.

The RCF cutoff date for deforestation and conversion was set as 1st January 2020 [1], in line with the guidance of the Accountability Framework Initiative and other initiatives [2] and ahead of the EU Regulation on deforestation-free products [3]. This is compatible with the RCF's objective to create impact by protecting areas of native vegetation that are under present risk of conversion rather than simply giving a premium to farmers that converted their native vegetation years ago.

Additionally, whilst the RCF team were keen to refer to other larger initiatives or standards in their impact framework, they did not make these compulsory to align with. For example, in their E&S Framework, they state, *'The Facility will operate in line with industry benchmark standards including first and foremost the substantive content of the International Finance Corporation's (IFC) Performance Standards on Environmental and Social Sustainability (IFC PS 2-8)'*. The IFC Performance Standards are recognized as best practice for large organisations and investments, but are expensive and intensive for small businesses or projects to align with. Therefore the *'in line with'* phrasing ensures that RCF can refer to a widely recognized standard without excluding smaller investees for whom full alignment would be inaccessible.

Successful characteristics of RCF's impact framework

Creates actionable E&S aims with barrier to entry that was accessible for target farmers, but still high enough to create impact

- Monitoring based on remote sensing, vegetation focus, with additional checks based on secondary data
- Deforestation and conversion cutoff date aligned with all sector-related initiatives
- Able to reach implementation stage with an initial group of farmers involved in a Proof of Concept trial conducted in 2022-2023.

Achieved buy in from commercial investors

- Secured support from Tesco, Sainsbury's and Waitrose, as well as the Consumer Goods Forum Forest Positive Coalition and IFACC

Key Performance Indicators

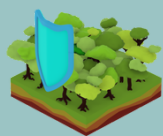
- Area of on-site Natural Habitat within RCF farms
- tCO2 conserved in on-site Natural Habitat of RCF farms

"The first crop cycle of the RCF confirmed to us that by focusing on clear, measurable and enforceable objectives, these can more easily be pursued and enforced. This initial trial gave us confidence that the RCF can be successfully scaled up in line with our plans."

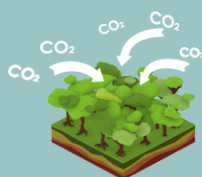
- Grace Blackham, Head of ESG and Compliance at Sustainable Investment Management

[1] 4.1.1 The area of cultivation must comply with the following conditions: i) Deforestation and conversion: the cultivation area to be financed must have been cleared of native vegetation before 1 Jan 2020.
[2] "In the event of new no-deforestation commitments issued in 2020 or later, cutoff dates should align with global goals to halt deforestation by 2020, as specified in the New York Declaration on Forests and in Target 15.2 of the United Nations Sustainable Development Goals. A cutoff date no later than January 1, 2020, would bring companies in line with these global norms." In "Operational Guidance on Cutoff Dates, Guidance for setting cutoff dates for no-deforestation and no-conversion commitments", Accountability Framework Initiative, 2019, p. 6. In addition, the other following organisations used January 2020 as a cut off date: the British Retail Consortium, the French Soy Buyers Manifestos, the UN SDG, the Forest Positive Coalition, and the Salmon Industry Suppliers group.
[3] The EU DR adopts a cut-off date of December 2020.

Results from RCF Cerrado Programme 1 (2022-2023)



8500 ha
of native vegetation
conserved



2.9 MtCO₂
carbon stocks in
native vegetation
protected by the RCF



42,000 tonnes
verified DCF soy
expected to be
produced in year 1, in
addition to **27,000t** of
DCF maize and
3,200t of DCF cotton

Results and Additionality

The resulting RCF impact framework is highly streamlined, with three key performance indicators focused on conserving the Cerrado's natural ecosystems and associated carbon stocks. These indicators are measurable using remote sensing and desk-based tools, thus minimizing the burden on investees and reducing the costs of impact measurement. These conservation objectives align with SDG 15, Life on Land.

In their initial phase, the RCF raised USD 11 million from a group of UK-based food retailers (Tesco, Sainsbury's and Waitrose) to demonstrate the mechanism to other companies. The funds raised were used to support a group of 32 farms that agreed to deforestation and conversion-free (DCF) soy cultivation.

RCF's first impact report indicates that no deforestation occurred in any of the areas financed, with investee farmers all on track to pay back in full and likely to sign up again for another loan next year. RCF will also revise its E&S framework to ensure it remains relevant and enforceable.

The team are now negotiating financial support with corporations and banks to scale up from RCF's current USD 11 million to USD 100 million by 2024.

The Positive Impact Indicators Directory

The indicators developed when preparing AGRI3 and RCF's impact frameworks have since been developed further and make up the **Positive Impact Indicators Directory**, which can be found on the **Land Use Finance Impact Hub**.

This Directory of indicators is designed to help funds to draft their own E&S impact frameworks, particularly when it comes to capturing positive impacts, and is the culmination of several years of learning from working with multiple impact funds. It should be seen as a starting point for funds looking to develop their own indicators – indicators can either be taken up wholesale or tweaked and adapted to the specific needs of individual funds.

Lessons Learned

Template resources from UNEP and other funds are really helpful in starting to draft an impact framework. The RCF team were able to draw on impact frameworks from other funds, including AGRI3. Now funds can look to the [Positive Impact Indicators Directory](#) to find a shortlist of indicators for measuring positive environmental and social impacts.

Impact funds need to ensure that they are able to action everything that is included in their impact framework, so as not to open themselves up to greenwashing claims. The RCF team focused their impact framework on their primary objective of DCF production, with other issues considered for safeguarding purposes. They were mindful of not including criteria for the sake of it and of the commercial realities to secure buy in from farmers.

Working through local credit partners was key to developing trusted relationships with potential investee farmers. Local partnerships are vital to pipeline development, and securing support from well-respected community figures in the first round of investees makes it more likely that other farmers will follow their peers and sign up.

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<http://kpi-directory.production.wordpress-linode.linode.unep-wcmc.org/content/uploads/2023/05/RCF-Case-Study-May-2023-FINAL.pdf>

For further information or queries please contact:

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