

Developing scalable products for investing in land use finance

Case Study: Renova Pasto

Name of product:

Renova Pasto

Involved partners:



Rabobank



Product structure:

Long-term loans of 10 years with 3 years grace provided by Rabobank first to cattle farmers seeking to renovate degraded pasture, and now planned to extend to row crop farmers to restore degraded cropland.

These loans are supported by partial guarantees from AGRI3 of up to 43% in years 1-3 which then gradually increases to 100% in years 4-10. This structure enables the bank to extend its financing tenor and support non-cash-generating activities, such as forest conservation.

The product comes with a technical assistance package, provided by IDH.

Monetary value:

US\$3.9 million disbursed up to 2023.

Overview

Renova Pasto is a financial product aligned with the Innovative Finance for the Amazon, Cerrado and Chaco (IFACC) initiative. It started as a loan product created to support mid- to large-scale cattle farmers and accelerate the restoration of degraded pasturelands to increase productivity and reduce pressure on natural ecosystems in the Cerrado and Amazon biomes. There are ongoing expansion plans to target degraded land renovation for row crops as well.

The idea for Renova Pasto came from Rabobank and AGRI3's collaboration on a loan in December 2020.^[1] This loan was used by a cattle farmer to restore degraded pastureland, increase cattle carrying capacity, and accelerate Forest Code compliance (e.g. preserving native forest and restoring Permanent Preservation Areas – APPs).^[2] In principle, Rabobank would not take on this deal due to increased risks associated with allocating capital to non-revenue generating activities and its relatively long tenor. By providing a guarantee, AGRI3 was able to reduce the investment risk and extend the loan tenor to ten years.^[3]

After this transaction, both AGRI3 and Rabobank were interested in closing more deals of a similar nature. However, it became clear that negotiating bespoke loans could take a long time, given additional Environmental, Social and Governance (ESG) requirements from AGRI3. Renova Pasto was therefore conceived as a more standardized program, and its design was informed by a sector study on sustainable finance market gaps produced by AGRI3 and IDH. It is composed of a long-term loan product provided by Rabobank and technical assistance provided from the AGRI3 Technical Assistance Fund, managed by the Sustainable Trade Initiative (IDH).^[4] AGRI3 provides a partial guarantee for the loans, which makes them tenable for Rabobank.

Renova Pasto delivers financial and technical assistance with environmental and social impact criteria in a single line of credit. Crucially, it does this with commercially acceptable timeframes for all partners. It mandates zero deforestation or conversion of natural ecosystems across a client's entire land portfolio. This mandate remains true regardless of which specific farms are involved in the use of funds for a particular deal. The product offering is evolving over time to improve its efficiency and scalability. Indeed, Rabobank now has license to discuss loans unilaterally within pre-negotiated eligibility criteria and limits agreed with AGRI3.

[1] More information on this loan can be found [here](#)

[2] The Forest Code ([Federal Law No. 12,651 of 2012](#)) is a legal framework governing land use and environmental conservation in Brazil. It seeks to preserve native vegetation, regulating the nationwide protection and sustainable use of native forests and other natural ecosystems.

[3] UNEP-WCMC's case study on the AGRI3 Fund can be found [here](#).

[4] It should be noted that IDH's technical assistance (TA) is part of the blended finance arrangement for the AGRI3 Fund. To support the establishment of the Fund, the Dutch Government provided a grant of \$40 million, of which \$5 million is designated for TA.

SDG Focus:



KPIs (for AGRI3):

Forest

- Natural ecosystems (forest and non-forest) under management for protection
- Natural ecosystems (forest and non-forest) under management for restoration
- Total excess area of natural forest that could legally be deforested but isn't
- GHG sequestered through protection or restoration of natural ecosystems

Sustainable agriculture

- Degraded land rehabilitated
- Agricultural area under sustainable management (defined per project)
- Increase in agricultural yield through sustainable intensification
- GHG emissions reduced from changes to farm practices

Rural livelihoods

- Number of participants reporting increased income, (preferably disaggregated by gender), and where relevant by local communities
- Number of people not included above, benefiting directly or indirectly from Fund transactions (preferably disaggregated by gender)
- Number of people trained in, and technology transferred for, best management practices in sustainable agriculture/forest protection, preferably disaggregated by gender
- Client meets one of more of the criteria for the 2X Challenge on Financing for Women

Challenges

Balancing customization and cost-efficiency within a standardized program.

Renova Pasto was born out of an understanding that bespoke deals are expensive to research and negotiate. To acknowledge the diversity of clients' needs and capacity, it was however important to find ways to maintain a certain degree of tailoring in environmental and social goals and technical assistance. To strike a balance that met the interests of all partners, it was central to discuss and align on Key Performance Indicators (KPIs), deal restrictions and technical support.

Implementing effective monitoring systems to prove compliance with the no deforestation or conversion clause.

Many potential clients have large, geographically dispersed land holdings, sometimes owned under the name of different family members. Formerly, monitoring focused only on the Rural Environment Registry (CAR) of which the financed area is part of, rather than on the client's entire portfolio. Expanding data needs to meet this stricter requirement came with challenges and costs.

Making the no deforestation or conversion clause attractive for potential clients.

Some natural ecosystem conversion can be legally permissible under Brazil's Forest Code and many farmers do not wish to give up this possibility for the entire 10-year tenor of the loan. Getting a commitment to zero deforestation and conversion from the client is difficult as the value added to the farmer from the loan is not generally enough to offset the additional opportunity costs from the restriction.

Solutions

Pre-negotiated acceptable terms and criteria allowed Rabobank to fast-track discussions with clients.

Partners came together to determine criteria for client-eligibility such as restrictions on client size and historical deforestation/conversion, as well as financial criteria for risk exposure and loan tenor. The partners also established a process to expedite the deal flow. Within Renova Pasto, Rabobank uses pre-negotiated criteria to perform an initial assessment of the suitability of potential clients. This assessment is then presented to AGRI3, who perform a reduced number of checks on key topics (e.g. natural ecosystem conversion and embargos).

Ensuring flexibility within Renova Pasto was essential to efficiently address common challenges.

Although pre-agreed criteria allow some negotiations and due diligence to be expedited with reduced admin costs, deals are not automatically ruled out if some criteria are not met. The product was launched with an understanding between all parties that it might need adjustments to specific client's needs; this flexibility allows some case-by-case assessments of how a deal can be made viable. There is a standardized Environmental and Social Action Plan (ESAP) to address common gaps in compliance, which is integrated into the loan contract.

Standardized areas for technical assistance were designed to meet clients' financial and technical needs.^[5]

Following recommendations from the sector study, both the funding with a long tenor and technical assistance in Renova Pasto were deployed as part of the standardized loan program. This increased confidence that the clients would have the capacity to meet the impact goals of the loan, since financial and technical support could be aligned to them (e.g. achieving Forest Code compliance). Besides, the client could opt for additional .

[5] These areas are cattle management and rotational grazing techniques; water infrastructure design; pastureland renovation; the restoration of Areas of Permanent Protection (APP); legal reserve restoration; assessment of farm against a regenerative agriculture standard (e.g. SAI Farm Sustainability Assessment); and introduction and scaling of regenerative production techniques such as crop rotation, no tillage, cover/intercropping, integrated crop-livestock-forest systems, and biologicals.

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voluntary technical assistance by Produzindo Certo and non-profit [Imaflora](#) to help renovate the crop and pastureland. [6]

Steps have been taken to enhance data collection, impact management processes, and attractiveness to end users. KPIs for Renova Pasto are aligned with AGRI3's standard KPIs, and data on these is collected from clients by Rabobank to ensure that the impact created is measured and monitored. Ensuring the implementation and monitoring of no deforestation or conversion commitments across multiple farms is an ongoing topic of conversation between the partners that are validating thros through satellite monitoring and GIS. AGRI3 is also working with service provider [Produzindo Certo](#) to further strengthen on-farm impact measurement. It is proposed that Produzindo Certo would support pre-deal due diligence processes by establishing baseline data and set impact indicators and monitor the farms on an ongoing basis.

Results and Additionality

Four Renova Pasto deals have been closed since the product launched in 2023. According to AGRI3's 2023 Impact Report, these transactions have resulted in over 1600 ha of natural ecosystems under management for protection and 650 ha of excess area that could legally be deforested but is not. A further 1700 ha of degraded land has been rehabilitated. This has contributed to yield increases ranging between 1 and 5 heads per hectare. In total, the report estimates that Renova Pasto led to over half a million tonnes of carbon dioxide equivalent being sequestered through the protection of natural ecosystems.

Going forward, partners are planning to scale Renova Pasto's operations and expand its eligibility criteria. These would allow additional farms to be eligible, particularly those that convert degraded pastureland to sustainable row crop production or integrate row crops with cattle production through rotation. This common integration is positive for soil health as it provides year-round cover and grass is a good cover crop for soy and corn. Together with Produzindo Certo, the partners have developed an assessment procedure specifically for row crops, in order to provide a clear metric for good land management and establish a baseline score for each deal. This will enable partners to set clear targets for clients, while providing them with financial and technical assistance to make the loan attractive.

Lessons Learned

- **Developing a standardized product with uniform eligibility criteria, loan offerings, and technical assistance can significantly reduce time and resource overheads on a deal-by-deal basis.** Renova Pasto is an innovative instrument that brings together partners with different investment profiles and combines commercially acceptable timeframes with environmental and social impact conditions in a single credit line.
- **Partners need to collaborate on data collection and management processes and come up with coordinated solutions.** Renova Pasto is built on trust and transparent communication between partners. On complex challenges such as deforestation conditions and impact data collection, partners are committed to finding solutions that work for all parties.
- **Structuring and scaling a financial product such as Renova Pasto means carefully thinking about the financial attractiveness to end users.** It can be hard to incentivize additional reforestation and land restoration in a competitive financial environment that gives farmers other financing options. Renova Pasto's longer tenor and technical assistance provides a clear reason for farmers to engage and choose this product.

[6] These include the creation a roadmap for the transition towards a more intensified production system (developed by Produzindo Certo) and a study to estimate the farm's carbon footprint (developed by Imaflora).



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