

# Environmental and social impact framework development

## Case Study: AGRI3 Fund

Name of fund:  
AGRI3 Fund



### Type of fund:

Fund that can provide guarantees, concessional loans and technical assistance, global reach (OECD DAC countries), preference for investing in low- or middle-income countries.

### Impact Categories:

- Forest protection and restoration
- Sustainable agriculture
- Improved rural livelihoods and enhanced opportunities for women

### SDG Focus:



### Overview

The concept for the AGRI3 Fund was first developed in 2017 by UNEP and Rabobank. They set out with the ambition to mobilise USD 1 billion in finance from commercial banks and other financial institutions for projects which support deforestation-free and sustainable agriculture land use.

Changing agricultural practices towards being more nature and climate positive and improving the standard of living of farmers and workers asks for a series of business and production models that that may often fall outside the credit risk appetite of a financial institution. To take away part of the risk, the AGRI3 Fund was established to provide partial risk guarantees which can catalyse different types and scale of funding i.e. by lengthening the tenor of a loan or covering certain types of risk exposures.

Given these aims, it was imperative to have an environmental and social (E&S) impact framework in place, both to qualify what an acceptable investment would look like for the fund, and to monitor positive impacts. During the design of the fund in 2018, Rabobank and UNEP worked together to develop an initial E&S framework, bringing together Rabobank's existing expertise, and the REDD+ E&S impact expertise from UNEP.

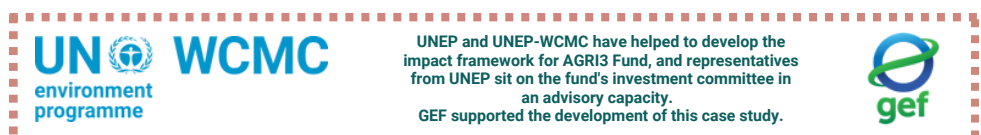
This initial E&S framework was key to establishing the investment strategy for the fund and securing anchor funds from the Dutch government. However, the intention was to reassess this initial E&S Policy and update it based on experience gained as the fund developed, and it's evolving scope.

### Challenges

AGRI3 has the broad objectives of protecting natural ecosystems, the development of sustainable agriculture and the improvement of rural livelihoods. The fund's geographical scope is global, but with a focus on low- and middle-income countries 'where forests or other natural ecosystems are at risk of being converted to agricultural production'.

Due to the fund's broad remit (many commodities, and countries) and iterative process of developing pipeline and bringing on key investors, the team faced the challenge of developing an impact framework and wider E&S Policy which was both specific enough to hold them accountable to these impact aims, but also manageable in terms of impact measurement and asks to investees. The impact framework also needed to be adaptable to the processes and needs of banks which they partner with.

Working with a range of partners from the NGO, concessionary and commercial worlds required patience when it came to aligning expectations. The inception of the idea for the fund came in 2017, the investment advisers and fund management board joined in early 2019, and the first deals were in 2020.



## The Solution

Rabobank and UNEP, with UNEP-WCMC, invested substantial time to align perspectives and build trust at the start of the development of the AGRI3 Fund, and ultimately agreed on an initial E&S impact framework. Weekly meetings over a period of 6 - 9 months allowed the respective teams to find common ground between UNEP's high environmental and social expectations, taken from REDD+ learning, and Rabobank's more commercially grounded existing sustainability policy.

Once the initial impact framework was developed by UNEP and Rabobank in 2018, it was agreed that it would need to be revisited at regular periods as the fund and its pipeline developed to see whether or not it was practically implementable. In 2021 a second version of the impact framework was developed, and a practical implementation and monitoring guide followed in 2022. Specific guidance for key issues and geographies (on the Forest Code in Brazil, for example, and on gender) was also developed. This flexible approach is important given the broad nature of AGRI3's investments and learning that the team develops as they close more deals. Other funds should expect to need to go through a similar iterative learning process and may find that having a relatively open impact framework that is then subsequently refined is a sensible approach to take.

### Successful characteristics of [AGRI3's impact framework](#)

- **Iterative process**, revisited and refined as the pipeline developed and more potential projects were reviewed
- Time spent in early stages to **align understanding and language** of key partners, and agree a Theory of Change for impact
- **Practical guidance and methodology created** to aid impact measurement as fund matured

### 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.

## Key Performance Indicators

Each AGRI3 transaction commits to several of the following KPIs:

- Natural ecosystems (forest and non-forest) under management for protection.
- Natural ecosystems (forest and non-forest) under management for restoration.
- Production forest under sustainable forest management.
- GHG sequestered through protection or restoration of natural ecosystems.
- Degraded land rehabilitated. Unit: hectares
- Agricultural area under sustainable management (defined per project). Unit: hectares
- Increase in agricultural yield through sustainable intensification. Unit: change per ha/year -disaggregated by commodity
- GHG emissions reduced from changes to farm practices. Unit: tCO<sub>2</sub>e /year
- Number of participants reporting increased income, (preferably disaggregated by gender), and where relevant by local communities.
- Number of people not included in 10 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 or more of the criteria for the 2X Challenge on Financing for Women.

## Results and Additionality

The initial impact framework, developed by UNEP and Rabobank, formed the basis of a proposal to the Dutch Government which was ultimately successful in securing \$40 million USD. This anchor contribution in the junior equity tranche of the fund as well as a smaller portion in the TA facility enabled a matching contribution from Rabobank. This development was crucial in making AGRI3 Fund a viable proposition and enabled the team to bring on investment advisers, Fount and Cardano.

Subsequent iterations of the impact framework, developed with the AGRI3 team and UNEP / UNEP-WCMC, have looked to align with the [Positive Impact Indicators Directory](#) and other resources, and add more specific definitions.

An indicator was added to align with the [2X Challenge](#), for instance: '*Client meets one or more of the criteria for the 2X Challenge on Financing for Women*'. The 2X Challenge is an existing and well-respected initiative for encouraging gender-lens investing, so by aligning with this AGRI3 helps avoid potential duplication.

Another change that was made after learnings from early investments was in a KPI which focused on the '*area of High Carbon Stock – HCS / High Conservation Value forest protected*'. This KPI proved difficult to apply in practice, particularly in Brazil, where most of the initial investments took place. The planned review of the impact framework allowed the alignment with UNEP's Positive Impact Indicator Directory and led to a change to a more widely applicable KPI focused on natural ecosystems under protection.

The impact framework allows the fund to assess additionality against KPIs. For each KPI selected on an investment they establish a baseline and expectations of how the investment is intended to perform against 'business as usual'. Impact is then monitored during the duration of the investment.

## Lessons Learned

**When a fund has broad objectives and geographical scope, it can be useful to start with a relatively broad impact framework and then refine it as partners and projects are secured.** Additional sector and geographic-specific guidance can be useful to add further granularity to a broader impact framework where specific issues arise and can capitalize on learnings from early deals in the pipeline.

**The time taken to build trust and align expectations amongst project partners should not be underestimated.** It is vital to ensure that all partners are on the same page at an early stage, and agree on a theory of change for impact, to make sure issues do not emerge down the line. As AGRI3 work through partner banks, they have had to take time to align working styles and expectations with each of these.

**Developing a robust impact framework takes considerable time and resources.** AGRI3's impact framework has been developed and refined over a matter of years, with expertise from groups of staff across several different institutions.

**The KPIs need to be 'implementable'.** Generating the necessary data to check whether or not positive impact is being achieved needs to be doable from a cost, time and technical perspective.

**“The ‘Positive Impact Indicators Directory’ was very useful when we were revising the impact KPIs because it allowed us to use definitions that we hope will become established across the sector and lead to consistent measurement across funds.”**

- Jill Shankleman, E&S  
Impact Advisor to AGRI3

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