

MONITORING FOR IMPACT IN SUSTAINABLE LAND USE FINANCE

Guidance for funds on creating robust
environmental and social impact
management frameworks

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Contents

Executive Summary	4
Introduction	5
Building block 1: Setting sustainable land use impact objectives.....	6
Considering geographical scope	8
Building block 2: Minimum requirements (or eligibility criteria)	11
Building block 3: Establishing the risk screening process.....	15
Building Block 4: Constructing a Due Diligence process	17
Developing an Environmental and Social Action Plan	18
Building block 5: Defining positive impact indicators.....	19
Balancing cost of measurement with scientific robustness.....	19
Implementing an impact monitoring framework	21
Creating appropriate monitoring systems	21
Planning for issues.....	22
Disclosure of impacts.....	22
Annex A – Examples of Eligibility Criteria.....	24

Executive Summary

In this guidance document, and the accompanying case studies, we set out recommendations for impact funds that are looking to create robust impact frameworks. The guidance is based on UNEP and UNEP-WCMC's experience with helping funds and facilities advance environmental and social impact management in sustainable land investment. It runs through five key stages, or building blocks, for developing a sound environmental and social impact management framework for a new fund.

Building block 1: setting sustainable land use impact objectives. These define the 'reason for being' for the fund and set out areas for impact tracking. Five relevant impact areas in the context of sustainable land use finance are: biodiversity, forests, climate action, livelihoods and sustainable production. Impact funds investing in sustainable land use may select one or more of these objectives as part of their core impact focus but should also incorporate safeguards to ensure no significant harm is caused to any of the others. The geographical scope of investments for a nascent fund should be tightly linked to the impact focus identified.

Building block 2: minimum requirements, or eligibility criteria. Clear minimum requirements will allow informed decisions on which clients and investments should be screened in or out, depending on the fund's ambitions and impact objectives. They set the fund's threshold of what is considered acceptable in the context of the fund's risk appetite and impact objectives. These criteria are based on the existence of a risk in an area. To create true impacts, funds need to be willing to provide the right incentives to effect change in risky areas.

Building block 3: risk screening process. This is the process of checking a proposed deal against established eligibility criteria, both to provide an indication of alignment and to flag any issues that will need to be explored in further detail as part of a due diligence process. Many funds use the risk screening process to identify opportunities for improvement in potential investee projects rather than to 'screen out' potential deals.

Building block 4: due diligence process. Issues flagged as of greater concern during risk screening and classification should be scrutinized in more detail, through further conversations with the investee, greater checks of existing policies and processes, and where possible, site visits. Where deals are found to be lacking in terms of compliance with eligibility criteria, investees can be supported to put an Environmental and Social Action Plan (ESAP) or other risk mitigation plan in place.

Building block 5: positive impact indicators. The potential costs associated with measuring impact need to be weighed against the value the fund places on gathering detailed impact information. We suggest the Positive Impact Indicators Directory as a useful starting point to define indicators. Positive impact indicators are important for showcasing and reporting progress towards the fund's impact objectives.

Finally, once the impact framework is in place and deals come through, impact needs to be monitored over the course of investments. This presents a new challenge, and funds may require external support. Funds should allow sufficient budget for implementing an impact monitoring system, and plan ahead in case of issues arising. Impact reports should be publicly released.

Introduction

Since 2018, UNEP, in collaboration with UNEP-WCMC, has supported initiatives to address barriers to scaling up public and private finance for sustainable commodity production, and sustainable land use more broadly. This involved support to various funds and facilities that aim to demonstrate a convincing ‘proof of concept’ that financial institutions can support agricultural production and other land-based economic activities in a way that has significant positive impacts on the environment and society.

One key component of this collaborative work focused on developing and mainstreaming environmental and social (E&S) good practices to minimize risks and ensure positive impacts of investments on the climate, forests, biodiversity, and people. This is central to the establishment and support of these sustainable land-use finance impact funds and efforts towards redirecting private finance to sustainable land use.

In this guidance document, and the accompanying case studies,¹ we set out recommendations for impact funds that are looking to create robust impact frameworks. The guidance is based on UNEP and UNEP-WCMC’s experience in supporting blended capital funds and facilities advance environmental and social impact management in sustainable land investment. It has also benefited from a close engagement with a broader community of practice, the Environmental and Social Knowledge Exchange Network – ESKEN.² Over time, this has generated a body of knowledge and learning products which can be found in the [Land Use Finance Impact Hub](#).

The present guidance document is intended to help impact funds create and measure positive impacts in their land use investments. It is expected that other financial institutions, such as responsible investors, will also benefit from the learning shared here. The guidance runs through five key stages, or building blocks, of developing an environmental and social impact management framework for a new fund. These run from identifying your focus, managing social and environmental risks, optimizing for positive impacts, and then tracking investments over time. Together with additional resources available in the Land Use Finance Impact Hub, it provides valuable steppingstones for new impact funds to develop robust, measurable and effective E&S impact management frameworks.

¹ The case studies can be found on the Land Use Finance Impact Hub: [AGRI3](#) and [RCF](#).

² The Environmental and Social Knowledge Exchange Network (ESKEN) is a Community of Practice for those involved in the environmental and social aspects of sustainable land use, run by UNEP and UNEP-WCMC. The community comprises representatives of facilities and funds, service providers, commercial banks, environmental experts and impact advisors. There is a LinkedIn group that serves as a platform for sharing and discussing relevant materials and hosting online events such as webinars, expert sessions and consultations. If you are interested in joining this Community of Practice, please email luf-impacthub@unep-wcmc.org, or visit the LinkedIn group: <https://www.linkedin.com/groups/12693747/>.

Building block 1: Setting sustainable land use impact objectives

Well-defined impact objectives represent the first building block for the impact framework of a fund investing in sustainable land use. If these objectives are too broadly defined, the narrative and the reporting of impact is unlikely to be compelling, potentially leading to a lack of a clear “reason for being” for the fund. Impact measurement can be expensive and time-consuming. Funds may put themselves at risk of greenwashing claims if they set out with too many areas where they aim to generate impact without sufficient plans to actually monitor and track impact. However, if impact objectives are too narrowly defined, the fund might be seen as too niche to attract interested investors and blended capital or lack the necessary flexibility to pursue transactions based on opportunity.

The defined impact objectives will shape all the other building blocks of the fund’s impact management framework. As highlighted in the [Land Use Finance Impact Hub](#), the following potential impact areas have been identified for funds and facilities operating in the sustainable land use space:

- **Biodiversity.** Protecting and restoring biodiversity across a range of ecosystems is of critical importance for maintaining ecosystem services and ensuring we are on track to meet the Sustainable Development Goals (SDGs) and the targets of the Kunming-Montreal Global Biodiversity Framework. Considering that unsustainable land use is the major cause of biodiversity loss³, there is a clear case for impact funds operating in the land use space to incorporate biodiversity within its impact objectives.
- **Forests.** The protection and restoration of forests is pulled out in a separate impact area, due to the additional co-benefits of carbon sequestration from forest restoration and protection, and the global interest from funders and investors in forests and deforestation. Again, land-based sectors, such as agriculture and forestry, are major drivers of forest loss, adding to the case for action.
- **Climate Action.** Land use and land use change represent about a quarter of the global GHG emissions⁴, while land-based sectors are particularly exposed to the risks associated with climate change (e.g. droughts, changing weather patterns, etc). This creates a clear case for sustainable use investments to support mitigation and adaptation to the effects of climate change.
- **Livelihoods.** Investing in land use will only be sustainable if the livelihoods of local people are considered. The creation of sustainable jobs and income streams, with equitable impacts

³ <https://livingplanet.panda.org/en-GB/causes/>

⁴ ‘An estimated 23% of total anthropogenic greenhouse gas emissions (2007-2016) derive from Agriculture, Forestry and Other Land Use (AFOLU),’ IPCC, 2019. https://www.ipcc.ch/site/assets/uploads/2019/08/4.-SPM_Approved_Microsite_FINAL.pdf

across all communities and genders, is a vital element of sustainable land use. Sufficient economic incentives to enable sustainable land management are vital.

- **Sustainable production.** Some funds may look to invest in productive forms of land use which yield crops for consumption or sale, such as agriculture, agroforestry, and forestry. Those activities often adopt unsustainable practices that degrade soils, negatively impact biodiversity, and, eventually, reduce yields. Promoting agricultural and forestry interventions that avoid and reduce such impacts, potentially also delivering environmental and social benefits, can change this pattern. Here ensuring that production systems are both sustainable and yield well is important to avoid leakage effects (whereby negative impacts may be created elsewhere to meet production needs).



It is expected that impact funds investing in sustainable land use will select one or more of the objectives above as part of their core impact focus, but also incorporate necessary safeguards to ensure no significant harm is caused to any of the others.

Examples of funds supported by UNEP include a diverse range of impact objectives:

- The [Responsible Commodities Facility](#) (RCF), managed by Sustainable Investment Management (SIM), has taken the approach to initially focus on just one key impact – the prevention of deforestation and conversion of natural habitats - with a ‘do no harm’ approach to social issues. In later years, and later funds, once RCF have proof of concept established and a core group of committed investees who are willing to advocate for them, they may widen their impact aims to include generating and tracking positive social impacts.
- [AGRI3](#) identifies three core impact areas: 1) Protection of existing natural forests and restoration of natural ecosystems; 2) Sustainable Agriculture; and 3) Improved Rural Livelihoods. AGRI3’s [E&S Policy Statement](#) requires all its investments to achieve positive impacts on livelihoods, and on at least one of the other objectives.
- [&Green](#) has a mission to “delink deforestation from major commodity supply chains”, and within this they monitor the impact of their investments by measuring environmental returns (hectares of forest conserved or restored and avoided deforestation) and social impact (households and smallholder farmers benefitting).
- The former Tropical Landscapes Finance Facility (TLFF) is an example of a platform with impact objectives that were broadly defined, ranging from renewable energy to forests-related aspects. This was identified as a limitation for the development of the facility’s impact management framework, as this called for a complex setting of impact measures and risk screening requirements.

Examples of impact objectives of other sustainable land use finance-focused funds, beyond those supported by UNEP, include:

- The Land Degradation Neutrality Fund provides finance for the rehabilitation of degraded land and sustainable business models used on land affected by or at risk of degradation.
- [Colibri Catalyst](#) are a fund of funds, and act one step removed from investments on the ground. They “prioritize investments in emerging markets that contribute to climate mitigation and adaptation in the following sectors: Food production; Timber and fiber production; Conservation and restoration.”
- The [IDH Farmfit Fund](#) have social impact at their core. Their key requirement for their investments is attributable benefit to smallholder farmers, and the fund “de-risks investments in smallholder farming and helps drive sustainable impact by lowering risks and costs for both farmers and investors.”

Considering geographical scope

The geographical scope of investments for a nascent fund should be strongly linked to the impact focus identified. For example, if the fund has a focus on preventing deforestation, then focusing investments in areas under high deforestation pressure would generate the greatest impacts. For poverty alleviation, then a focus on developing countries (for example, aligning with the DAC list of ODA recipients, like the [IDH Farmfit Fund](#)) is important.

Geographic scope is also likely to be strongly guided by the fund team’s existing expertise and relationships. When the team is in a different area to the fund’s investment focus, strong in-country partners are key to identifying potential investees, building trust, and identifying a viable pipeline of investments. AGRI3, for example, has relied on the already established relationships its first partner bank, Rabobank, had within the agricultural sector in Brazil to secure many of its initial deals.

Box 1 - Understanding your leverage – type of financial instruments and impact

It is important that impact objectives are realistic and to consider the leverage the fund will have to drive change in a meaningful and additional manner. This guidance is mainly focused on developing an impact monitoring framework, not on financial structuring. However, the type of financial instrument used has a large bearing on the influence it holds over investees and the impact management framework they put in place. Here we will run through three examples of different financial instruments, running from most to least influence.

Equity

Some funds buy equity in their investee companies / projects. This is the case for the Restoration Seed Capital Facility, for instance. In this structure, given that the fund manager is a part-owner of the investee company, and sits on the company board, they can have a strong influence on the impact monitoring processes that the investee puts in place, helping align them with their expectations.

Loan

Some impact funds work on the basis of offering loans to investees, often at a preferential rate of interest, in order to incentivize impactful behaviour which goes beyond 'business as usual'. This is the case for the Responsible Commodities Facility, which offers better-than-market rate loans to farmers in the Cerrado who produce deforestation- and conversion-free soy. However, in this structure impact funds have to balance the incentive they can offer to potential investees from better rates of interest, against any greater-than usual requests for impact monitoring and behaviour changes. This can be a delicate balance, especially for a nascent fund looking to onboard their first investees.

Guarantee Fund

Guarantee funds work with partner banks to help them de-risk investments, enabling the partner bank to invest in propositions that they otherwise might have considered too risky, sometimes on a longer tenor of loan. AGRI3 Fund is a guarantee fund, that initially worked with Rabobank as their key partner bank, and have subsequently brought on board several more regional partner banks. This structure can enable an impact fund to leverage much greater financial flows than they might have been able to do so alone. However, not only does the fund need to align their ways of working and theory of change with each partner bank, but they are also a further step removed from investees as the partner bank acts as a mediator. This can be problematic when it comes to setting the bar for impact and monitoring.

Building Block 1 – Key Resources

GIIN [An Introduction to Impact Measurement and Management](#) (2023)

Impact Institute [Guide for Funders to Assess and Value Impact](#) (2022)

WWF [Blueprint for Nature Based Solutions](#) (2020)

WWF and South Pole [Common Success Factors for Bankable NBS](#) (2022)

WBCSD [Natural Climate Solutions in Action](#) (2023)

Earth Security [The Blended Finance Playbook for NBS](#) (2021)

Forest 500 [Country Selection Methodology](#) (2022)

Nature [Global Priority Areas for Ecosystem Restoration](#) (2020)

IFACC [Finance for a Forest-Positive Future](#) (2022)

WEF [Green Returns Unleashing Power of Finance for Sustainable Food Systems](#) (2023)

Building block 2: Minimum requirements (or eligibility criteria)

The next building block is setting the fund's minimum requirements (or eligibility criteria). Clear minimum requirements will allow informed decisions on which clients and investments should be screened in or out, depending on the fund's ambitions and impact objectives. They set the fund's threshold of what is considered acceptable in the context of the fund's risk appetite and impact objectives. For example, if a fund aims to protect and restore natural ecosystems, then an obvious minimum requirement is for no deforestation or conversion.

Setting the bar too high in eligibility criteria for investees may prevent funds from engaging with projects where they could have a good impact if a little more support is given. Many impact funds aim to 'screen in' rather than screen out potential deals, and to engage with potential investees to help them improve their processes and meet the criteria. Impact funds that can offer technical assistance to project developers can engage with projects to bring them up to an investable condition, before formal investment.

Funds are conscious of the differing levels of resourcing and capability across small and large players in their target geographies, resulting in varying levels of compliance on a few aspects of eligibility criteria. For example, the [IFC Performance Standards on Environmental and Social Sustainability](#) are a commonly referenced standard in this space, but full compliance can be time-consuming and costly, as the standards were designed for use on large infrastructure projects. Smaller businesses could therefore be given more time to reach compliance, or alternatively, could just be asked to apply the overall principles rather than insisting on full compliance which can be very burdensome. Indeed, in AGRI3's impact framework, they state that they aim "to operate consistently (commensurate to size and risk) with international standards... notably the IFC Performance Standards."

Eligibility criteria are often imposed by the providers of concessional funding who have invested in blended finance funds. New funds may, therefore, need to include certain minimum standards in their impact framework that have been set by funders, and may find themselves needing to align with multiple different requests if they have a mix of blended funds. The challenges of incorporating and aligning with the differing requirements from investors and blended capital providers should not be ignored. This is something that has been flagged by funds supported by UNEP or through ESKEN, pointing to the fact that **a potential alignment and/or standardization between concessional fund providers would be a welcome development.**

Box 3: Deforestation and conversion cut-off dates

Cut-off dates are essential to no-conversion and no-deforestation commitments set by companies and financial institutions. The cut-off date provides a timepoint from which the company or financial institution can claim that deforestation or conversion hasn't taken place. Deciding on when to set this date is an important decision for many funds in the land use finance space. An earlier cut-off date reduces the risk of engaging with producers who have recently deforested or converted, but also potentially reduces the impact of the fund, as it rules out working with land managers who may have converted land in recent years but could be incentivised to not convert any further land.

The Accountability Framework initiative provides [guidelines](#) on setting no-deforestation and no-conversion cut-off dates. They advise that cut-off dates should be set in the past and align with sector-practices and existing regulation. Communicating the cut-off date with producers is essential to ensure that producers can adapt their practices, rather than driving producers to sell to buyers without these commitments.

Common general eligibility criteria established by impact funds operating in the sustainable land use space are listed below. It is important to highlight that all these criteria are based on the existence of a risk in an area. Being risk adverse reduces the fund's scope to create true impacts. Funds need to be willing to provide the right incentives to effect change in risky areas. While such investments are seen as risky, these are the ones that can potentially have the biggest impact.

- **Deforestation and conversion free⁵** – no deforestation or conversion of natural ecosystems allowed within the portfolio area from the start of the project, or from a point prior to the project start which is called the 'cut-off date.' A commonly used reference is the general cut-off date suggested by AFI, no later than 1st January 2020, which has been used as a reference by some funds (e.g., Agri3 and RCF).⁶
- **Compliance with national and international laws** – as a minimum standard, investees should be able to show evidence of compliance with all relevant national and international laws that apply to their remit. This is particularly important for labour laws and workers' rights whereby compliance with national and International Labour Organisation standards is expected. A well-defined geographical scope allows better understanding of the national or regional compliance requirements to be checked. In the case of legal compliance, some consideration should be given to cases where the fund can promote improved legal compliance (i.e., when the fund intervention can help remediate such issues).
- **Land tenure established** – the tenure of the land on which the project is proposed should usually be clearly delineated, should have been achieved with free, prior and informed consent

⁵ The Accountability Framework Initiative define this as: '**No-deforestation.** (Synonym: **deforestation-free**): Commodity production, sourcing, or financial investments that do not cause or contribute to deforestation (as defined by the Accountability Framework). No-deforestation refers to no gross deforestation of natural forests, which the Accountability Framework specifies as the appropriate policy and goal on this topic for companies and supply chains. In the context of the Accountability Framework, deforestation refers to the loss of natural forest (see definition of deforestation). The AFI recognizes the High Carbon Stock Approach (HCSA) as a practical tool to implement no-deforestation in the tropics, in contexts where the tool has been validated. The terms "no-deforestation" and "deforestation-free" are used in favour of "zero deforestation" because "zero" can imply an absolutist approach that may be at odds with the need sometimes to accommodate minimal levels of conversion at the site level in the interest of facilitating optimal conservation and production outcomes (see definition for minimal level [of deforestation or conversion]).' <https://accountability-framework.org/the-framework/contents/definitions/>

⁶ <https://accountability-framework.org/operational-guidance/cutoff-dates/>

(when applicable), and must not have any overlapping claims or conflicts. However, this will not always be the case and the fund should consider the reality of the geographies where it is investing, the risks it would be open to take and the impacts it is trying to achieve. There might be cases where the fund's intervention could support investees in resolving land tenure issues (e.g., guarantying use rights to local communities that have been historically using an area). The scope for remediation is again key.

- **No negative impact on protected areas⁷ or internationally recognized areas** – protected areas (as defined by national or international mapping) and internationally recognized areas (such as UNESCO World Heritage sites⁸, Ramsar sites⁹ and Biosphere Reserves¹⁰) should not be damaged by the actions of the project. Any project within these areas should align with local laws around which actions are permitted within these areas and be consistent with any government recognized management plans, as well as principles and guidelines of international conventions. Protected area managers should be consulted on the project, alongside Affected Communities, Indigenous Peoples and other stakeholders, as appropriate.
 - Some funds have exclusions linked to certain protected area management categories (eg. IUCN I-II or I-III) or types (e.g, UNESCO World Heritage Sites). For example, AGRI3 state in their Exclusion List, *“The Fund does not engage with parties that are substantially involved in: 1. Operations in nationally and internationally legally protected or preserved areas including but not limited to UNESCO World Heritage Sites, IUCN category Ia, Ib and II sites and Wetlands on the Ramsar list.”*
- Investment in **fragile, conflict intense and volatile (FCV) countries¹¹** is a red line for some funds - but others have enough risk appetite to consider investments in these countries to mitigate social and environmental issues.
- **Avoidance of impacts on Threatened and protected species** – a measure to ensure that project interventions do not have a negative impact on biodiversity and ecological processes underpinning biodiversity. Data on the distribution of Threatened species can be found via [IBAT](#), which holds the IUCN Red List of Threatened Species (also known as the IUCN Red List) and complemented via national and regional Threatened Species lists where relevant. Funds should not avoid areas with Threatened or protected species (otherwise this could cause investment to move away from the areas of high biodiversity importance where there is the greatest opportunity for positive impact), but rather give consideration to how to continue to protect these species, and not cause any inadvertent harms through the investment.

Apart from those general criteria, the fund or facility should also include specific criteria in line with its core impact objectives or relevant in the context of its geographical scope. Not all funds make their eligibility criteria explicit on their websites, but some that do include:

⁷ IUCN defines a protected area as: A clearly defined geographical space, recognized, dedicated and managed, through legal or other effective means, to achieve the long-term conservation of nature with associated ecosystem services and cultural values. See more at: <https://portals.iucn.org/library/sites/library/files/documents/pag-021.pdf>

⁸ See the list: <https://whc.unesco.org/en/list/>

⁹ A wetland site designated to be of international importance under the Ramsar Convention. See locations: <https://rsis.ramsar.org/>

¹⁰ Biosphere reserves are ‘learning places for sustainable development’. They are sites for testing interdisciplinary approaches to understanding and managing changes and interactions between social and ecological systems, including conflict prevention and management of biodiversity. See: <https://en.unesco.org/biosphere>

¹¹ <https://www.worldbank.org/en/topic/fragilityconflictviolence/brief/harmonized-list-of-fragile-situations>

- Responsible Commodities Facility - [Eligibility Criteria for Cerrado Programme 1](#)
- AGRI3 – included within their [E&S Policy Statement](#)
- &Green – see the [ESG Safeguards section](#)

Some examples of these criteria, and their similarities between funds, are shown in the table in Annex 1.

Box 4: Exclusion Lists

In addition to eligibility criteria, funds may also develop and implement an exclusion list of activities that they will never fund. The activities on the exclusion list may also apply to activities by the investee company that are outside the scope of the deal in hand. These exclusions are often set by institutional investors, who may start negotiations with funds based on a list of activities they will not consider funding.

As an example, see AGRI3's exclusion list as Annex 1 in their [E&S Policy Statement](#).

Building block 2 – Key Resources

Accountability Framework Initiative [Guidelines](#) (2023)

UNEP FI, [Recommended Exclusions for Financing a Sustainable Blue Economy](#) (2021)

TNFD, [Risk Assessment Methods](#) (2023)

FAO, [Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests in the Context of National Food Security](#) (2022)

[Integrated Biodiversity Assessment Tool](#) (IBAT), which holds the IUCN Red List of Threatened Species, World Database on Protected Areas, and the World Database of Key Biodiversity Areas

Building block 3: Establishing the risk screening process

Risk screening is the process of checking a proposed deal against established eligibility criteria at a high level, both to provide an indication of alignment and to flag any issues that will need to be explored in further detail as part of a due diligence process. The risk screening process can be seen as a 'light touch' due diligence, allowing the fund to highlight areas where more work is needed by the investee, or where technical assistance could be provided, in advance of the more detailed and costly due diligence process. Funds should agree a procedure for how they will undertake risk screening, and closely align this screen with their agreed eligibility criteria, and overall risk appetite.

Many funds use the risk screening process to identify opportunities for improvement in potential investee projects rather than to 'screen out' potential deals. The risk screening process is increasingly seen as an opportunity to identify and leverage areas for capacity building of potential investees, ensuring they can comply with developing the necessary procedures (e.g., Gender policy or action plans for the protection of biodiversity) and can gather and process necessary data to track their progress.

Working with potential investees to strengthen their investment proposition via technical assistance ahead of investment is seen by some funds as the best way to achieve true impact. This more 'patient' approach – often supported by blended capital – allows some funds to engage with early stage but highly impactful projects which are out of reach of other financial institutions and bring them to an investable point.

Risk classification should be undertaken to codify the severity of key risks and rate the overall risk level associated with the potential investment. This should then be aligned with the overall risk appetite of the fund – some funds, for example, will purposely not invest in very low risk opportunities, as they do not see them as aligned with their impact objectives. Some funds look to purposely engage with investees or geographies that could be seen as riskier (to create greater impact) and the risk screening process allows these funds to assess whether a potential deal aligns with their greater risk appetite.

Various data sources will be needed to inform the risk screening process. A number of tools are outlined below that hold global or national level data, but funds will need to identify further resources tailored to the needs of their fund focus and may also need to develop some internal tools. The costs of commercial licences for databases such as IBAT and Global Forest Watch Pro should be worked into a budget for risk screening.

Building block 3 – Key Resources

There are a range of valuable tools available to investors to use to conduct an initial screen of a proposed investment, many of which are free to use. Below are a selection of tools which might be of help – both global, and some for specific jurisdictions. Tools are free for commercial use unless marked with *.

[Global Forest Watch](#) – open-source database which allows the user to track tree cover loss, fire alerts and other land use changes. Recent deforestation prior to investment may be a red flag if not previously declared.

[Critical Habitat Screening Layer](#) - this screening layer shows the global spatial distribution of likely or potential Critical Habitat, as defined by the International Finance Corporation's Performance Standard 6 (IFC PS6) criteria.

Protected Areas, Key Biodiversity Areas database – [IBAT*](#) - checking the spatial data on a proposed investment against this database to see if investments are situated in protected areas is a good initial screen. Investments situated in protected areas should undergo closer due diligence – but could have potential to have greater impact if carefully managed.

[Global Canopy: Due diligence towards Deforestation-Free Finance](#) - provides steps to help financial institutions perform due diligence to identify, prevent and mitigate the risk that their clients or holdings could be exposed to deforestation, conversion and associated human rights abuses. It supplements and is aligned to Global Canopy's [Finance Sector Roadmap](#), which recommends key steps needed for financial institutions to eliminate commodity-driven deforestation, conversion, and associated human rights abuses from their portfolio by 2025.

[MapBiomas](#) – holds annual maps of land cover and land use for a number of geographies, as well as datasets on water, soil organic carbon and degraded areas in Brazil.

Building Block 4: Constructing a Due Diligence process

Once a proposed deal has been deemed well aligned enough with the fund's objectives to pass through risk screening, it should then undergo a more thorough due diligence check. Issues flagged as of greater concern during risk screening and classification should be scrutinized in more detail, through further conversations with the investee, greater checks of existing policies and processes, and where possible, site visits.

Key risks to assess during due diligence should be identified from the fund's eligibility criteria and risk screening process. These risks can include both the tangible – for example, the risk of project financing driving deforestation, or poor worker protection – and wider reputational risks for investors themselves – for example, supporting a company that has a poor history on social or environmental issues. Funds should also consider checking for the potential to generate positive impacts through greater scrutiny of business plans. Proposed routes to additionality are important at this stage to ensure that the investment will not only avoid unwanted levels of risk, but also that it is likely to deliver the positive impacts proposed.

Defining the scope of the due diligence process is an important and non-trivial point. For projects wanting to generate impact down the supply chain from the initial project intervention site, it is important to think through and set boundaries on how far down the supply chain the fund wishes initial due diligence and subsequent monitoring to go.

Carrying out a thorough due diligence process for a land use project – which may be in a remote and inaccessible area, cover many thousands of hectares, and involve a coalition of partners – is neither cheap nor straightforward. There are a range of approaches to due diligence. Some funds have an in-country presence near their project areas, or send in-house teams on mission to the investment site. Other funds choose to use external consultancies to help with due diligence. Some funds use larger consultancies to run an initial scan of the project, then employ specialist in-country consultants to investigate further if risks are flagged. Once all the various aspects of the due diligence searches are completed, compiling and reviewing the final report can be time consuming for the investor team. All of this adds up to a large sunk cost, which may be lost if the due diligence exposes risks too great for the project to go ahead, hence the need for a robust risk screening process.

Trust, as well as capacity, must be built with investees, and so framing the due diligence process as a method of making the project as good as it can be – rather than a way of 'checking up' on the investee – can be important. Trust between partners is important to reduce risks through achieving greater transparency – both sides need to feel comfortable raising issues and resolving them amicably. This is particularly important where the impact fund is designed to address risks in an area (for example, engaging in areas with high deforestation rates, to reduce deforestation), and therefore understanding of that risk is important for their approach to generating impact. Lack of trust on the side of the investee can also result in data hiding or obfuscation, which would be unhelpful for both the project and investor.

Developing an Environmental and Social Action Plan

Where deals are found to be lacking in terms of compliance with eligibility criteria, investees can be supported to put an Environmental and Social Action Plan (ESAP) or other risk mitigation plan in place, to keep the deal on the table.

An ESAP allows the fund to specify how an investee will strengthen safeguards or other policies over the course of the investment, to ensure that they become aligned with the eligibility criteria. A Gender Action Plan may also be drafted to accompany the ESAP. This process allows funds to flex their risk appetite and invest in investees who have great potential for impact but need to be supported to avoid generating environmental and social risks. The ESAP can be contractually agreed upon as a condition of investment, formalizing these areas for improvement and giving the fund legal recourse if improvements are not made.

Building block 4 – Key Resources

Global Canopy, [Due diligence towards Deforestation-Free Finance](#) (2023) – guidance aimed more at large financial institutions such as commercial banks and asset managers, but still holds useful resources and advice of interest to impact funds.

FAO/OECD, [Business Handbook on Deforestation and Due Diligence in Agricultural Supply Chain](#) (2023).

OECD/FAO, [Guidance for Responsible Agricultural Supply Chains](#) (2016)

Building block 5: Defining positive impact indicators

Measuring, verifying and reporting on positive impacts from investments is important for impact funds to be able to prove that they are acting in line with their values, delivering impact, and/or bringing additionality through their investment. However, setting out a robust framework for measuring impact, which is not only scientifically sound, but also cost effective, is not an easy task.

Based on what has been learned from working with impact funds over the past years, UNEP and UNEP-WCMC have developed the [Positive Impact Indicators Directory](#), a shortlist of 25 indicators designed for impact funds to use to measure their positive impacts. The indicators are organized under the five impact areas discussed earlier: Biodiversity, Forests, Climate Action, Sustainable Production, and Livelihoods and Gender.

The Directory aims to provide some standardization to impact measurement, so that project managers and developers are not required to report on many different indicators for different investors. It aims to stop each fund from having to reinvent the wheel when it comes to designing indicators: the Directory is designed to be used and copied by funds in their E&S impact frameworks. Indicators can either be taken up wholesale or tweaked and adapted to the specific needs of individual funds.

Balancing cost of measurement with scientific robustness

The potential costs associated with measuring impact need to be weighed against the value the fund places on gathering detailed impact information. For example, if *'Fund A'* has framed an impact focus around increasing the level of biodiversity in their investments, then it is more important for them to invest in thorough biodiversity tracking than *'Fund B'* where carbon sequestration through the prevention of deforestation is the aim. *'Fund B'* will still need to be aware of biodiversity impacts in their investment areas, but to a lesser extent – being aware of any overlap with protected or key biodiversity areas on their sites would suffice, and allow *Fund B* to maximize potential co-benefits by ensuring that no conversion is prioritized in areas of high biodiversity, without the need to measure these biodiversity outcomes.

Cost of measurement is a particular issue when it comes to tracking impacts of an investment on biodiversity. Sending a consultant into the field to carry out an ecological baseline assessment is costly, especially when investments cover a large area or are split across multiple packages of land which are spatially disparate. Given this, many funds have turned to using pressure or response indicators as a proxy for biodiversity impacts, such as tracking the amount of land under management for restoration, the amount of invested land in protected areas, and the extent of land managed under sustainable agriculture principles. Other proxies such as the amount of pesticide used and the soil organic carbon in invested areas are also considered. These cost restrictions were considered during the development of the indicators in the Positive Impact Indicators Directory.

Increasingly, scalable technological solutions are also being developed for monitoring changes in biodiversity on site – for example, eDNA and bioacoustics. However, while both technologies are certainly promising, they should not be seen as a silver bullet and should only be used alongside other

proxies for biodiversity and on the ground surveys where possible. Other global models and secondary data can also be used to estimate biodiversity value and ecosystem condition related to response or pressure indicators.

As mentioned above, the financial structure of the fund has a large bearing on the degree of influence over the generation and monitoring of positive impacts – i.e., going beyond a ‘do no harm’ approach into impact that is above ‘business as usual’. Equity investors have much more power to push for greater additionality than guarantee funds or lenders.

Building block 5 - Key Resources

UNEP and UNEP-WCMC [Positive Impact Indicator Directory](#) (2022)

IFACC [Impact Indicators Guidelines](#) (2022)

GIIN [Agriculture Performance Impact Benchmark](#) (2023)

Implementing an impact monitoring framework

Once the fund has developed an impact monitoring framework, it is time to apply it to deals and monitor those deals over the course of the investment period.

It is vital that impact management is given adequate resourcing, especially within impact funds. Environmental and social (E&S) impacts are typically the key concern for investors in impact funds, even ahead of the financial aspects. Similarly, when it comes to the development and implementation of deals, E&S impacts are typically the most complex and time-consuming issue. Accordingly, E&S management should be central to any impact fund management and this should be reflected in budgets and human resources.

Creating appropriate monitoring systems

Throughout the period of the investment, continued monitoring is required to assess both emerging risks and the generation of positive impacts. There should be a continued assessment of whether the investment continues to align with the eligibility criteria, this will ensure that negative impacts are accounted for. Positive impacts should be tracked over time against the set positive impact indicators. Further, policies should be in place for how to deal with any issues that arise in the process of this monitoring, and these should be agreed on in advance of investment and then assessed and adjusted if needed.

The move from impact framework development to impact monitoring is quite large in terms of the expertise required. Funds may find the need to turn to external consultants for input on certain topics, to create tailored, practical guidance for monitoring processes while they build their expertise. For example, once AGRI3 secured the first few deals in their pipeline, and started tracking impacts from these investments, they realized that they required further guidance on how to practically implement their impact framework. They called on the help of external consultants to provide targeted expert input, for example, on the use of satellite monitoring.

Measuring the positive impacts of investment over time – whether they are environmental or social – can be costly. Funds should consider who will be responsible for bearing these monitoring costs, and how they will be covered. There are two approaches to cover the cost of impact monitoring. Either the fund bears the cost of monitoring, which is usually the case where there is a particular incentive for the fund – for example, where they are selling certified products (for example, food or fiber) sourced from investees, or generating carbon or biodiversity credits from their investments. Alternatively, the fund might expect investees to provide evidence of their impacts, as a criterion for accessing that investment and proving that it is being used in a way that aligns with the fund's expectations, in which case they are responsible for the associated monitoring costs.

The budget for impact monitoring, and who provides it, should influence which indicators are most feasible to monitor for a given investment. Monitoring impacts of investment can be costly and time consuming, and there is a risk of alienating potential investees by setting monitoring expectations too high. However, if expectations are set too low, investors are put at risk of greenwashing claims and not truly being able to track the impacts of their investments.

Box 4: Long term thinking

Sustainable investment in the land use space is often accompanied by relatively long tenures of investment. Therefore, it is important to consider long term planning when setting out on such investments – does the fund have systems in place to track impacts right the way through the investment?

This is a fast-developing space, and technologies are changing and improving all the time. It is important to consider how changes in technology, and understanding of what best practice is, might change over the course of an investment, and how that will be reflected in the fund's impact monitoring. For example, is the fund using any external tools which might be updated over time, and if so, how will they address potential inconsistencies in the data collected if methodologies change? Is the fund planning to update its impact frameworks as best practice evolves, and if so, will and how might they compare impacts either side of these changes?

Institutional memory may also prove an issue for longer term investments, with staff moving between institutions as the job market in this sector grows. It is imperative therefore, to ensure that key decisions, and the reasons for them, are documented throughout the investment process, so that the full picture is available to whoever is tasked with closing down the investment and collating total impacts over time, and potentially also reporting back to donors if it is a blended fund.

Permanence of impact is also an important issue to consider. How can the fund ensure that the positive impact of their investment will persist once they have no contractual relationship after the course of the investment? It is important to find other ways to formalise important elements of the investment past the end of the investment period. For example, to enable long term management of areas set aside there is potential to work with national governments to enable legal protection status to be implemented where appropriate.

Planning for issues

Ahead of an investment going live, it is important to have thought through a process for dealing with any issues that arise throughout its course. Consider what the situation is like on the ground. Are there strong institutions that the fund can rely on to police any instance of illegal actions? Does the fund have strong in-country partners? Can the fund team easily access the site?

Prevention is better than cure. Building a trusted relationship with the investee is important to help prevent any potential issues being hidden – investees should feel comfortable in coming forward and raising issues and problem solving together. Yearly review meetings would be helpful to talk through the state of the investment and discuss any risks that investor and/or investee might have identified.

Disclosure of impacts

Impact funds need to disclose some level of detail on their impacts to ensure accountability to their funders and other partners. Releasing impact reports on a yearly basis is most common, with impact tracked across the portfolio, and if relevant, compared to previous years. For high-risk projects,

disaggregated information on risks and risk management should be disclosed - otherwise it becomes very difficult to understand how particular risks in particular geographies have been handled.

Impact reports can take a range of forms. Some examples from impact funds in the sustainable land use space are listed below:

- [&Green's Annual Report, 2022](#)
- [AGRI3 Impact monitoring: Summary 2021](#)
- [RCF Annual Report, Crop Season 2022:2023](#)
- [eco.business Fund: Conserving Biodiversity – Impact Report 2022](#)

Annex A – Examples of Eligibility Criteria

Theme	RCF	AGRI3	&Green
Land use	<ul style="list-style-type: none"> The area of cultivation must not have had any deforestation and conversion of native vegetation since 1 Jan 2020*. Preference will be given to areas converted from abandoned pastureland to soy cultivation after 2008. 	<ul style="list-style-type: none"> Commits to NPDE (no deforestation, no development on peatland, no exploitation). 	<ul style="list-style-type: none"> Clients must make a commitment to No Deforestation, No Development of Peatlands, and No Exploitation (NDPE) at organizational level.
Land Standards	<ul style="list-style-type: none"> Farmland must be registered with the Cadastro Ambiental Rural (CAR). The farm must contain and maintain areas of native vegetation equivalent to those required for Legal Reserve and Areas of Permanent Protection (APPs) determined by the Forest code or have formally adhered to a Programme of Environmental Regularization (PRA) established by the state environmental agency**. The farm area must not overlap with public protected areas, indigenous lands and other traditional people and community lands (including 'quilombolas territories'). 	<ul style="list-style-type: none"> Respects the land, cultural, and natural resource rights of indigenous peoples, whether legally recognized or otherwise. 	<ul style="list-style-type: none"> The project area forest and peatland must be covered by a long term Landscape Protection Plan (LPP). Co-investors in a project must comply with ESG standards, specifically the IFC PS or the Equator Principles
Legal Compliance	<ul style="list-style-type: none"> Farmers must demonstrate that they and their farms do not contravene any environmental or legal requirements, such as embargoes, environmental irregularities, contraventions of the labour legislation (including slave and child labour), non-compliance with the Soy Moratorium (if applicable), and internationally-accepted rules for the use of agrochemicals. 	<ul style="list-style-type: none"> Aims to operate consistently (commensurate with size and risk) with international standards that set benchmarks for environmental and social performance and respect for human rights, notably the IFC Social and Environmental Performance Standards. Complies with applicable national and local ESG laws and standards. Operates in a way that respects the ILO Fundamental Conventions. Guarantees that WHO Class Ia (Extremely hazardous) and Ib (Highly hazardous) pesticides will not be used; and Class II pesticides (Moderately hazardous) will only be used where the client has appropriate controls in place. 	<ul style="list-style-type: none"> Investments must follow the International Finance Corporation Performance Standards (IFC PS), or equivalent; Clients must implement an Environmental and Social Action Plan (ESAP) in order to address gaps with the IFC PS and the E&S risks identified;
Land title	<ul style="list-style-type: none"> Farmers must have unquestionable right to use the land, be it as land title, land lease agreement, or another legally recognized form of land tenure (e.g., 'posse') 	-	-