

# Environmental and social impact framework development

## Case Study:

# eco.business Fund

### Name of fund:

eco.business Fund



### Advised by



### Type of fund:

the eco.business Fund supports sustainable operations in agriculture and agri-processing, fishery and aquaculture, forestry, and sustainable tourism. It provides debt financing to i) local financial institutions and ii) companies, agricultural producers or intermediaries.

The fund deploys blended finance through two region-focused sub-funds in i) Latin America and the Caribbean, and ii) sub-Saharan Africa. Each sub-fund operates its own development facility, in charge of supplying technical assistance to investees.

## Overview

The eco.business Fund was initiated in 2014 by Germany's KfW Development Bank, environmental non-profit Conservation International, and asset manager Finance in Motion. It received financial support from the German Federal Ministry for Economic Cooperation and Development (BMZ), the European Union and UK Government's Department for Environment, Food and Rural Affairs (Defra). The fund leverages a blended finance approach to mobilize private financing for its impact objective.

The goal of the eco.business Fund is fostering sustainability across four priority sectors: agriculture and agri-processing, fisheries and aquaculture, forestry, and sustainable tourism. The fund has deployed financing to local financial institutions and businesses that intend to implement activities that meet the fund's sustainability criteria, particularly in biodiversity-rich regions. It has initially invested in Latin America and the Caribbean and, since 2020, expanded its operations to sub-Saharan Africa. Its sub-funds are supported by region-focused development facilities that provide technical assistance to the fund's investees.

To advance its impact mission, the investment strategy defines clear selection criteria for investees and use of proceeds. Additionally, the fund has established an impact monitoring and management system to steer its impact in line with its Theory of Change, as well as defining key performance indicators (KPIs) and contributions to the Sustainable Development Goals (SDGs). Results against these KPIs are reported on the fund's website and in annual impact reports.

## Challenges for impact measurement and management

**Considering its intermediated investment approach, the eco.business Fund had to define eligibility criteria for investees and use-of-proceeds [1].** This was essential to efficiently allocate funding towards the fund's impact targets.

**Due to the fund's geographical expansion, another challenge has centered around incorporating context-specific impact criteria into standardized processes.** As the eco.business Fund broadened its impact framework to cover both of its sub-funds, it had to apply consistent impact principles across all of its operations, while allowing for regional tailoring where relevant.

[1] Eligibility criteria define the investment universe by setting minimum conditions potential clients need to satisfy to be considered for investment.

## Mission Statement:

The eco.business Fund aims to promote business and consumption practices that contribute to biodiversity conservation and the sustainable use of natural resources as well as to mitigating climate change and adapting to its effects.

## SDG Focus:



## Core Key Performance Indicators\*:

- Hectares of farmland under sustainable management
- Net metric tons of CO2 stored by agroforestry activities
- Hectares of agroforestry promoted
- Number of indirect direct jobs supported by end-borrowers receiving financing through partner institutions
- People who benefited from technical assistance
- Volume of sub-loans enabled for end-borrowers for sustainable production practices

\*For a complete overview, refer to: <https://www.ecobusiness.fund/en/impact>

**A final challenge for the eco.business Fund has been to ensure consistency and efficiency in impact reporting as it gains scale.** This has involved fine-tuning its approach to data collection, in order to align impact reporting across investees with very different internal systems. At the end of 2022, more than 46,000 sub-loans were disbursed in partnership with 43 financial intermediaries as well as a small number of corporates.

## Solutions

To steer financing towards sustainable practices aligned with the impact objective, the eco.business Fund **defines clear use-of-proceeds criteria**. End-borrowers must either hold an eligible sustainability certification or carry out practices featured in the fund's Green List (e.g. agroforestry or installation of water-saving irrigation systems). Eligible certifications and practices are selected based on a review of the scientific evidence and documented benefits of their implementation on impact targets. This approach enables the fund to reach out to a wider client base and support producers and companies with different levels of sustainability expertise and capacity. For instance, a producer that engages in Green List activities but does not have internal capacity to obtain a certification can still be eligible.

Given the fund's recent expansion into new landscapes, fund advisor Finance in Motion has **developed region-specific impact measurement methodologies** building on primary data collected by the investees and third-party sources which reflect the investment regions characteristics. In addition, an internal Impact Scoring Tool enables a consistent ex-ante assessment of each investment's impact and facilitates the tracking of outcome-level changes throughout the investment lifecycle [2]. This approach allows for a tailored yet standardized impact monitoring, measurement and management across the fund's portfolio.

As part of these standardization efforts, Finance in Motion ensures alignment of the eco.business Fund's impact framework with best industry standards on impact principles and with regulatory requirements. For example, it is a signatory to the Operating Principles for Impact Management, disclosing regularly against the Principles and undergoing external verification of its impact management systems and practices. The fund advisor also complies with the Sustainable Finance Disclosure Regulation (SFDR), by ensuring the impact information on the eco.business Fund is in line with requirements of an Article 9 fund [3]. This approach promotes transparency in impact reporting and greater accountability, which is particularly important for blended finance funds.

The eco.business Fund also **actively engages with the local financial institutions that receive the fund's investments to facilitate data collection**, highlighting the financial and operational benefits of gathering non-financial data and conducting impact assessments. Through its regional development facilities, the fund supports investees in enhancing their internal capacity to monitor impacts and E&S risks. This is accomplished through specialized reporting-related trainings and assistance in building E&S management systems. The eco.business Fund is also currently developing a dedicated Theory of Change and a set of specific indicators for its regional development facilities, in order to enhance the assessment of their direct and indirect impacts and feed insights back into the fund's strategic orientation.

[2] Also applied in other funds advised by Finance in Motion.

[3] The SFDR is a framework established by the European Union to promote transparency in sustainable finance transactions. It sets mandatory ESG disclosure requirements for financial market participants based on a classification system. Funds that are classified as Article 9 funds are those that have a clear objective of generating a positive sustainable impact, adhering to specific E&S goals.

## Successful characteristics of ABF's impact framework

- **The use-of proceeds approach** enables the consistent channelling of direct funding to sustainable businesses and practices.
- **Active engagement with investees** encourages them to scale up their own sustainable investments.
- **The integration of a technical assistance component to each sub-fund** plays an important role in building investees' capacity to enhance their impact monitoring data.
- **Alignment of the impact framework with impact investing industry standards and best practices** facilitates transparency and accountability.

**"As an impact asset manager, it is imperative for us to measure and manage the impact alongside the financial returns of investments.**

**This not only ensures accountability and transparency towards investors, ultimately enabling us to mobilize additional capital.**

**A comprehensive impact and E&S framework also provides insights into our portfolio, guiding strategy development and supporting risk management."**

- Sarah Hessel,  
Senior Manager Impact &  
Sustainability

## Results and Additionality

The eco.business Fund and its advisor Finance in Motion have invested significant time and resources on establishing an impact framework that is aligned with best practice in the impact management space. Results of these efforts are highlighted in the fund's latest and fifth [Impact Report](#) covering the year 2022 and in Finance in Motion's [externally verified](#) strong alignment with the Operating Principles for Impact Management. These efforts to establish a robust impact framework have been fundamental to demonstrate positive outcomes, support mobilizing resources, and scale the fund. At the end of 2023, for the Latin America and the Caribbean sub-fund, private investors made up nearly 50% of the cumulative funding. Examples of results outlined in the fund's 2022 report include 6.3 million tons of net CO2 stored by agroforestry activities, 5.2 million m3 of irrigation water saved, and 4800 people trained.

On the investees' side, the eco.business Fund's strong focus and expertise on environmental impact have attracted financial intermediaries looking to build up their sustainability credentials in the fund's target regions. In addition, the hands-on and supportive approach provided through the development facilities has increased investees' awareness and capacities, and in turn generated additional impact and value for the fund. As a result of this engagement approach, the eco.business Fund has built a long-lasting partnership with its financial intermediaries.

## Lessons Learned

- **Consider how recent developments of relevant international frameworks can help to inform impact objectives.** For instance, the eco.business Fund links its impact objectives to selected Sustainable Development Goals, which helps the fund align with international impact priorities.
- **Allocate time and resources on impact framework development, implementation and continuous refinement.** The eco.business Fund is aware that standards and best practices in the impact investing space are continuously evolving. It is thus important to build capacity and awareness around the importance and benefits of impact assessment and reporting, both with investees and investors.
- **Steer the allocation of funding by developing eligibility criteria that ensure comparability and a streamlined investment process.** This is particularly relevant for an intermediate investment approach that directs financing through financial institutions, as is the case with the eco.business Fund.

- **Documenting and systematizing impact processes is useful** in delivering management consistency and efficiency, as well as building trust with fund's investors and investees, and promoting accountability.
- **Integrating technical assistance into the fund's service offering** can strengthen the financing impact by building both the capacities and systems of investees in parallel.

**Prepared by:** Giacomo Ascenzi and Joanna Wolstenholme, UNEP-WCMC, 2024.

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**For further information or queries please contact:**  
[luf-impacthub@unep-wcmc.org](mailto:luf-impacthub@unep-wcmc.org)

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E DELLA SICUREZZA ENERGETICA

