



## **AGRI3 A Forest Conservation and Sustainable Agriculture Fund for Developing Countries**

### **Part I: Project Information**

#### **GEF ID**

10497

#### **Project Type**

FSP

#### **Type of Trust Fund**

GET

#### **CBIT/NGI**

☐CBIT

☐NGI

#### **Project Title**

AGRI3 A Forest Conservation and Sustainable Agriculture Fund for Developing Countries

#### **Countries**

Global

#### **Agency(ies)**

CI

#### **Other Executing Partner(s)**

#### **Executing Partner Type**

**Other Executing Partner(s)**

Mirova Althelia, Rabobank a.o.

**Executing Partner Type**

Private Sector

**GEF Focal Area**

Multi Focal Area

**Taxonomy**

Land Productivity, Land Degradation Neutrality, Land Degradation, Focal Areas, Food Security, Sustainable Land Management, Sustainable Livelihoods, Income Generating Activities, Sustainable Agriculture, Restoration and Rehabilitation of Degraded Lands, Sustainable Forest, Biodiversity, Gender Equality, Access and control over natural resources, Gender results areas, Gender Mainstreaming, Sex-disaggregated indicators, Gender-sensitive indicators, Climate Change

**Rio Markers****Climate Change Mitigation**

Climate Change Mitigation 1

**Climate Change Adaptation**

Climate Change Adaptation 0

**Duration**

240 In Months

**Agency Fee(\$)**

1,211,532

**Submission Date**

2/27/2020

A. Indicative Focal/Non-Focal Area Elements

Programming Directions	Trust Fund	GEF Amount(\$)	Co-Fin Amount(\$)
CCM-2-6	GET	10,263,468	115,000,000
LD-1-1	GET	866,000	9,000,000
LD-1-2	GET	866,000	9,000,000
LD-1-3	GET	866,000	9,000,000
BD-1-1	GET	600,000	4,000,000
Total Project Cost (\$)		13,461,468	146,000,000

**B. Indicative Project description summary**

**Project Objective**

AGRI3 will de-risk USD 1 billion of private sector financing and provide USD 15 million in technical assistance for forest conservation and sustainable agriculture in developing countries and emerging markets to address climate change and land degradation.

Project Component	Financing Type	Project Outcomes	Project Outputs	Trust Fund	GEF Amount(\$)	Co-Financing Amount
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Project Component	Financing Type	Project Outcomes	Project Outputs	Trust Fund	GEF Amount(\$)	Co-Financing Amount
Component 1: Forest conservation/transformation to sustainable and climate-smart agriculture	Investment	Outcome 1.1: Forested lands are protected and sustainably managed[1]	Output 1[1]:  Plans for forest conservation and restoration, i.e. transition to agro-forestry models, enrichment of agricultural land with trees, special biodiversity zones adjacent to agricultural land are developed	GET	13,461,468	146,000
		Indicator 1.1.1: Number of ha of forested lands under improved management (GCI 3.2)				
		Target 1.1.1: 41,000 ha's of forest under improved mngt				
		Indicator 1.1.2: MT CO2eq of carbon emission avoided/sequestered (GCI 6.1)				
		Target 1.1.2: 12,000,000 MT CO2eq of carbon emission avoided/ sequestered				
		Outcome 1.2	Output 2[2]:			
		Agricultural areas implement sustainable/ climate-smart agriculture practices	Plans for at least 48 companies[3] for the transition to sustainable and climate-smart agriculture are developed			
		Indicator 1.2.1: ha's of agricultural lands under sustainable management (GCI 4.3)	Output 3[4]:			
		Target 1.2.1: 650,000 ha's of agricultural lands under sustainable management	USD 1B of financing for sustainable agriculture and forest conservation is de-risked and/or delivered with tailored conditions			
		Indicator 1.2.2: ha's of degraded lands revitalized (GCI 3.1)	Output 4:			

Project Component	Financing Type	Project Outcomes	Project Outputs	Trust Fund	GEF Amount(\$)	Co-Financing Amount(\$)
				Sub Total (\$)	13,461,468	146,000,000
Project Management Cost (PMC)						
GET						
Sub Total(\$)				0	0	
Total Project Cost(\$)				13,461,468	146,000,000	

**C. Indicative sources of Co-financing for the Project by name and by type**

<b>Sources of Co-financing</b>	<b>Name of Co-financier</b>	<b>Type of Co-financing</b>	<b>Investment Mobilized</b>	<b>Amount(\$)</b>
Donor Agency	Government of The Netherlands	Equity	Investment mobilized	35,000,000
Donor Agency	Government of The Netherlands	Grant	Recurrent expenditures	5,000,000
Private Sector	Rabobank	Unknown at this stage	Investment mobilized	50,000,000
Private Sector	To be mobilized during implementation	Equity	Investment mobilized	26,000,000
Others	To be mobilized during implementation	Grant	Investment mobilized	10,000,000
Private Sector	To be mobilized during implementation	Loans	Investment mobilized	20,000,000
<b>Total Project Cost(\$)</b>				<b>146,000,000</b>

**Describe how any "Investment Mobilized" was identified**

NL Government: final grant decision Feb 11, 2020 Rabobank: oral commitment and internal in-principle approval, contract details to be agreed. Type of financing is Debt Funding for the TA facility \$5M from the Government of the Netherlands and \$10M that will be mobilized during implementation For the \$42M of funding that will be mobilized during implementation, co-financing will be in the form of equity or debt. AGRI3 seeks to secure investment in the AGRI3 Fund to the amount of USD 144 mln and to secure grant funding of the TA Fund to the amount of USD 15 mln. The AGRI3 balance sheet of USD 144 mln suffices to secure (off-balance sheet) guarantees to a total of USD 306 mln, issued to participating banks. The USD 306 mln suffices to de-risk a total of USD 1 bln of loans of participating banks to their clients to finance their investments in forest conservation and sustainable agriculture. Table C adds up to USD 146 mln. Taken together with the net investment by GEF of ca. USD 13 mln. (USD 13,461,468) this makes USD 159 mln which equals the targeted size of the AGRI3 Fund (USD 144 mln) plus the targeted size of the TA Fund (USD 15 mln). The funding for the TA Facility is included in Table C above (Government of Netherlands \$5M and \$10M to be mobilized during the life of the project).

D. Indicative Trust Fund Resources Requested by Agency(ies), Country(ies), Focal Area and the Programming of Funds

Agency	Trust Fund	Country	Focal Area	Programming of Funds	Amount(\$)	Fee(\$)	Total(\$)
CI	GET	Global	Multi Focal Area	NGI	13,461,468	1,211,532	14,673,000
Total GEF Resources(\$)					13,461,468	1,211,532	14,673,000



E. Project Preparation Grant (PPG)

PPG Required

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PPG Amount (\$)

300,000

PPG Agency Fee (\$)

27,000

Agency	Trust Fund	Country	Focal Area	Programming of Funds	Amount(\$)	Fee(\$)	Total(\$)
CI	GET	Global	Multi Focal Area	NGI	300,000	27,000	327,000
Total Project Costs(\$)					300,000	27,000	327,000

## Core Indicators

### Indicator 3 Area of land restored

Ha (Expected at PIF)	Ha (Expected at CEO Endorsement)	Ha (Achieved at MTR)	Ha (Achieved at TE)
91000.00	0.00	0.00	0.00

### Indicator 3.1 Area of degraded agricultural land restored

Ha (Expected at PIF)	Ha (Expected at CEO Endorsement)	Ha (Achieved at MTR)	Ha (Achieved at TE)
50,000.00			

### Indicator 3.2 Area of Forest and Forest Land restored

Ha (Expected at PIF)	Ha (Expected at CEO Endorsement)	Ha (Achieved at MTR)	Ha (Achieved at TE)
41,000.00			

### Indicator 3.3 Area of natural grass and shrublands restored

Ha (Expected at PIF)	Ha (Expected at CEO Endorsement)	Ha (Achieved at MTR)	Ha (Achieved at TE)

### Indicator 3.4 Area of wetlands (incl. estuaries, mangroves) restored

Ha (Expected at PIF)	Ha (Expected at CEO Endorsement)	Ha (Achieved at MTR)	Ha (Achieved at TE)

### Indicator 4 Area of landscapes under improved practices (hectares; excluding protected areas)

Ha (Expected at PIF)	Ha (Expected at CEO Endorsement)	Ha (Achieved at MTR)	Ha (Achieved at TE)
650000.00	0.00	0.00	0.00

### Indicator 4.1 Area of landscapes under improved management to benefit biodiversity (hectares, qualitative assessment, non-certified)

Ha (Expected at PIF)	Ha (Expected at CEO Endorsement)	Ha (Achieved at MTR)	Ha (Achieved at TE)
50,000.00			

### Indicator 4.2 Area of landscapes that meets national or international third party certification that incorporates biodiversity considerations (hectares)

Ha (Expected at PIF)	Ha (Expected at CEO Endorsement)	Ha (Achieved at MTR)	Ha (Achieved at TE)
100,000.00			

Type/Name of Third Party Certification

Indicator 4.3 Area of landscapes under sustainable land management in production systems

Ha (Expected at PIF)	Ha (Expected at CEO Endorsement)	Ha (Achieved at MTR)	Ha (Achieved at TE)
500,000.00			

Indicator 4.4 Area of High Conservation Value Forest (HCVF) loss avoided

Ha (Expected at PIF)	Ha (Expected at CEO Endorsement)	Ha (Achieved at MTR)	Ha (Achieved at TE)

### Documents (Please upload document(s) that justifies the HCVF)

Title	Submitted			
Indicator 6 Greenhouse Gas Emissions Mitigated				
Total Target Benefit	(At PIF)	(At CEO Endorsement)	(Achieved at MTR)	(Achieved at TE)
Expected metric tons of CO <sub>2</sub> e (direct)	18400000	0	0	0
Expected metric tons of CO <sub>2</sub> e (indirect)	0	0	0	0

Indicator 6.1 Carbon Sequestered or Emissions Avoided in the AFOLU (Agriculture, Forestry and Other Land Use) sector

Total Target Benefit	(At PIF)	(At CEO Endorsement)	(Achieved at MTR)	(Achieved at TE)
Expected metric tons of CO <sub>2</sub> e (direct)	18,400,000			
Expected metric tons of CO <sub>2</sub> e (indirect)				
Anticipated start year of accounting	2021			
Duration of accounting	20			

Indicator 6.2 Emissions Avoided Outside AFOLU (Agriculture, Forestry and Other Land Use) Sector

Total Target Benefit	(At PIF)	(At CEO Endorsement)	(Achieved at MTR)	(Achieved at TE)
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Total Target Benefit	(At PIF)	(At CEO Endorsement)	(Achieved at MTR)	(Achieved at TE)
Expected metric tons of CO <sub>2</sub> e (direct)				
Expected metric tons of CO <sub>2</sub> e (indirect)				
Anticipated start year of accounting				
Duration of accounting				

Indicator 6.3 Energy Saved (Use this sub-indicator in addition to the sub-indicator 6.2 if applicable)

Total Target Benefit	Energy (MJ) (At PIF)	Energy (MJ) (At CEO Endorsement)	Energy (MJ) (Achieved at MTR)	Energy (MJ) (Achieved at TE)
Target Energy Saved (MJ)				

Indicator 6.4 Increase in Installed Renewable Energy Capacity per Technology (Use this sub-indicator in addition to the sub-indicator 6.2 if applicable)

Technology	Capacity (MW) (Expected at PIF)	Capacity (MW) (Expected at CEO Endorsement)	Capacity (MW) (Achieved at MTR)	Capacity (MW) (Achieved at TE)
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Indicator 11 Number of direct beneficiaries disaggregated by gender as co-benefit of GEF investment

	Number (Expected at PIF)	Number (Expected at CEO Endorsement)	Number (Achieved at MTR)	Number (Achieved at TE)
Female	120,000			
Male	180,000			
Total	300000	0	0	0

Provide additional explanation on targets, other methodologies used, and other focal area specifics (i.e., Aichi targets in BD) including justification where core indicator targets are not provided

**1 This is a reporting effort, not an ambition, in order to respect socio-economic factors by UN recommendation. 2 Reference is made to the AGRI3 overall E&S framework which links our ambitions to international standards. (\*1) The way our estimate of CO<sub>2</sub>eq emissions avoided/reduced for forest has been derived is the following: • We have used 6 actual case studies on a 10 years basis • We have extrapolated the results to 91,000 ha 6,000,000 Mton • We have re-scaled 10 to 20 years 12,000,000 Mton • We have validated these results with IPCC-based models including FAO Ex-Act. This model has been applied to a number of sample forest projects. The full model includes calculations based on baseline data for 6 case studies (including soy large producer, soy by Farmer Organization of smallholder farmers, maize and palm oil). (\*2) The way our estimate of CO<sub>2</sub>eq emissions avoided/reduced for farms has been derived is the following: • We have used the FAO Ex-Act model for different crops (rice, soy, sugar cane) • We have used the intermediate scenario • We have calculated the results for a crop mix on 650,000 ha 4,000,000 Mton • We have**

re-scaled 10 to 20 years 8,000,000 Mton • We have subtracted 20% allowing for less than 100% success rate 6,400,000 Mton While the amount of CO<sub>2</sub>eq emissions avoided/reduced per ha for agriculture land will be considerably lower than for forest, the area over which this is realized is of course considerably higher than for forest (650,000 ha instead of 91,000 ha).

## Part II. Project Justification

### 1a. Project Description

#### 1) the global environmental and/or adaptation problems, root causes and barriers that need to be addressed (systems description);

Increases in human population and consumption have led to a rapid expansion of agricultural production, which continues to be among the most powerful drivers of environmental degradation. As more land has been brought under cultivation and production is increasingly industrialized, agricultural production has been a major cause of deforestation, habitat loss, greenhouse gas emissions, soil and water pollution, and other environmental impacts. Ultimately, this degradation threatens agricultural production itself, as evidenced by stagnating yields, increasing climate risk, and loss of livelihoods for many – and especially smallholder farmers. On top of this, large scale deforestation is threatening to accelerate climate change.

Meanwhile, despite the ever-increasing footprint of agricultural production, undernutrition continues to affect nearly 850 million people worldwide and demand for resources (food, water, energy) will further increase with forecasted growth in both population and income levels. By 2030, expected demand for food will increase by 35%, water by 40% and energy by 50%<sup>[1]</sup>. The resulting expansion in agricultural production, if it were to happen under current practices, would increase agriculture's negative impacts on the environment by 50 to 90%<sup>[2]</sup>.

Climate change is closely connected to demand. Indeed, agriculture and forestry together account for nearly a quarter of all greenhouse gas emissions, mostly due to forests and other ecosystem conversion – including peatlands that naturally capture and store carbon dioxide. Agricultural production, however, is also facing the negative effects of climate change through changes in temperature and precipitation patterns. At the same time, there are limited business models for afforestation and forest conservation in the agricultural sector; AGRI3 aims to come with solutions to this end. This may be a combination of recovering degraded land and including agroforestry components, refraining from deforestation as degraded land is made productive elsewhere or allocating land for forest replanting.

The transition to a more sustainable and climate-smart agricultural system that can meet future demand without exacerbating environmental degradation and climate change is an urgent priority. Such a largescale transformation of agricultural production systems will require significant amounts of financing. While some public financing and private investment is currently available and dedicated to such a transition, the amount of funding remains far below what is needed to achieve a systemic transformation.

There are a number of barriers that currently impede the deployment of sustainable agricultural production private investment at scale including a lack of access to markets for sustainably produced products, a lack of access to technology and a lack of access to appropriate and affordable financing. Meanwhile, the transition to new modes of production

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can involve large investments and long timescales, notably due to the need for training, which implies risk levels that are beyond what private capital providers are comfortable with. This situation leads to the agricultural sector having access to limited finance, leaving small farmers, in particular, clearly underserved.

The urgency of the need for a transition towards more sustainable agricultural production makes it imperative to overcome the barriers that are impeding the growth of private investment. Public and other concessional sources of finance can play a catalytic role to help achieve this and thereby accelerate this much needed systemic shift. By blending public finance with private investment, it becomes possible to provide the funding needed to achieve the transition towards sustainable agricultural production in combination with forest conservation at conditions that meet the producers' needs and that are acceptable to the private finance institutions.

## 2) the baseline scenario and any associated baseline projects

PROJECT NAME	YEARS (START-END)	BUDGET (USD)	DONOR(S)	OBJECTIVES/BRIEF DESCRIPTION OF HOW IT IS LINKED TO THIS GEF PROJECT
Partnership for Forest Protection and Sustainable Agriculture	2017	Tbd	n/a	UN Environment / Rabobank partnership aiming to enhance public/private partnerships in Forest Protection and Sustainable Agriculture; the “cradle” of AGRI3
Farm Fit Fund	2020	100M	Unilever, Mondelez, Rabobank	Exclusively smallholder-focussed finance fund with which AGRI3 may collaborate
&Green Fund	2019	100M	Government of Norway	Impact Fund with which AGRI3 may syndicate
Mastercard – Rabobank	2019	Tbd	n/a	Initiative for digitising agricultural supply chains; may provide digital infrastructure
Food Loss Facility	2020	Tbd	Tbd	Initiative by World Bank, Rockefeller Foundation, IFAD, FAO, Netherlands Government and Rabobank to reduce food losses; may have overlapping projects with AGRI3

## 3) the proposed alternative scenario with a brief description of expected outcomes and components of the project;

The UN Environment Programme and Rabobank have announced the ambitious partnership for Forest Protection and Sustainable Agriculture (FPSA) with the aim to unlock up to USD 1 billion in financing towards deforestation-free, sustainable agriculture and land use. The AGRI3 fund has been created as the delivery mechanism for this partnership. The goal of the Fund is to develop investments in agriculture that demonstrate the financial viability of business models that guarantee forest protection, sustainable production, and improved livelihoods for farmers. These investments will serve as proof of concept to the wider community of banks, other financial institutions, and value chain partners, with the aim to ultimately mainstream such sustainable practices across the agricultural and financial value chains.

The AGRI3 Fund will provide blended finance instruments for a total of USD 144 million (“Fund’s cash collateral”) corresponding to approximately USD 300 million in investments (“Fund’s exposure”), which will be used to catalyze additional private commercial debt and create projects and transactions which, due to their high-risk profile, would not be possible without the availability of a blended finance mechanism. The Fund will finance those aspects of projects that are considered too risky by commercial banks. AGRI3 aims to involve as many interested parties as possible, including commercial and development banks that subscribe to AGRI3 goals. This “open architecture” design will ensure the largest possible impact, benefitting forest conservation, sustainable agriculture, and rural farmers in developing countries around the world.

The types of land that are expected to be transformed, are:

1. Agricultural Land: Agricultural production land with potential for improvement of: productivity, landscape integration and biodiversity conservation. This will lead towards: higher production (reducing land pressure and avoiding deforestation of additional land), better integration in landscapes and adding tree-or biodiversity zones.
2. Degraded land: land in use or not in use - utilizing national definitions of degraded land, e.g. potentially applying EMBRAPA's definition in Brazil - with severely reduced productivity and fertility. This will lead towards restoration of fertility and soil quality, preparing for use of agricultural production or cattle breeding, reducing land pressure and avoiding deforestation of additional land elsewhere, adding tree- or biodiversity zones.
3. Degraded forest: Passive upgrading: protecting it. Active upgrading: replanting. Active upgrading can also include upgrading to more productive combined agricultural / forestry systems. Typically, replantation is done with native species (one of the transactions already executed includes replanting of native species) and in case of use of the GEF investment, exclusively native species will be planted.

Basically, the structure works as follows: AGRI3 collaborates with “partner banks”, commercial banks that subscribe to AGRI3 goals. Rabobank is – as co-founding partner – the first among these but AGRI3 is positioned independently of Rabobank. This “open architecture” design will ensure largest possible impact, benefitting forest conservation, sustainable agriculture, and rural farmers in developing countries around the world.

The partner bank leverages its client network to identify farmers and other projects who are candidates for transition to forest conservation and sustainable agricultural production models. Thus, project origination is performed by these partner FIs. The banks source projects with impact loans financing the transition to sustainable agriculture and forest under sustainable management for a total loan value of USD 1 bln. Parts of these finance structure fall outside the risk appetite and risk acceptance criteria of the bank (e.g., higher



project risk or extended tenors) and the banks therefore can not extend these loans without AGRI3 support. AGRI3 provides support in the form of bank guarantees derisking specific parts of the project or finance structure – e.g. by providing a first loss guarantee, subordinated debt or a tenor extension. These instruments are given up to an amount of USD 300 mln – hence 70% of the exposure is still the risk of the bank itself. Hence it can be concluded the AGRI3 does not provide a “free ride” for local banks or would stimulate adverse selection. It also helps to secure that the interests of AGRI3 and the partner banks in limiting losses in case of default, are aligned. Partner banks and AGRI3 align their interests in default management through a “strategic cooperation agreement” framework.

Both the partner bank and AGRI3 are responsible for doing their own CDD, credit assessment and screening projects in terms of E&S policies and results framework. Data may be shared as far as allowed by privacy and confidentiality regulations allow. Partner banks will submit their request for AGRI3 support through a Project Opportunity Note (PON), a copy of which has been made available to GEF.

A guarantee is on off-balance sheet instrument. In many cases, especially in the early years of AGRI3 when the Fund has not yet established a track record of its own, banks will require the guarantees to be cash- (or otherwise) collateralized. This does not require additional collateral from farmers but does require AGRI3 to deposit cash at banks to (partially) secure its guarantees. The percentage to which guarantees need to be collateralized is estimated at just under 50%. AGRI3 expects to be able, with a balance sheet of USD 144 mln, to be able to write and partially collateralize USD 306 mln of guarantees that help to unlock USD 1 bln of impact financing by the partner banks.

Any projects financed through the AGRI3 Fund should contribute to forest protection and reforestation and/or sustainable land use. This is the goal of AGRI3. As a sanity check, projects funded by AGRI3 must also contribute to improved rural livelihoods. This is not the primary goal of AGRI3 but obviously an environmental project cannot afford to devalue the life of rural communities – by causing lower farmer incomes, decreasing employment etc.

While human, plant, animal species around the world will indirectly benefit from AGRI3 forest and sustainable agriculture initiatives, farmers (large and small) will be direct project beneficiaries. Positive impacts will be measured based on a comprehensive Environmental and Social (‘E&S’) framework. A few transactions are already under review, for example a project to make sugar cane production more sustainable or another one on sustainable soy production in Brazil for which financing is not currently available. More detailed examples are presented in Annex A.

Aside from the AGRI3 Finance Fund, a separate USD 15M Technical Assistance (TA) Facility will be established to enhance transition towards sustainable land use through support of transactions and investees of the Finance Fund. The TA facility will also be used to ensure the scaling-up of innovation in sustainable agriculture practices to other farmers. Details of the TA Facility are provided in an Annex.

As investments into Forest Protection and Sustainable Agriculture are still largely unknown by commercial banks, private equity funds, and institutional investors, it is important to provide ‘proof of concept’ as quickly as possible.

The AGRI3 Fund distinguishes between 4 asset classes in its funding mix:

- “Capital preservation” grantors like the Dutch Government – providing first loss, thus highest risk category
- Junior participants, investing equity with second loss risk appetite
- Senior participants, investing equity with third loss risk appetite
- Debt providers like Rabobank.

Currently, commitments have been made in the first and fourth category. The gap needs to be closed by impact investors investing junior or senior equity. GEF could play an anchor investor role in this regard by making the first investment in these categories (as senior participant) and lead other equity investors (junior and senior participants) to invest in forest conservation and sustainable agriculture. GEF provides clearly demonstrable additionality by becoming the first investor in these asset classes.

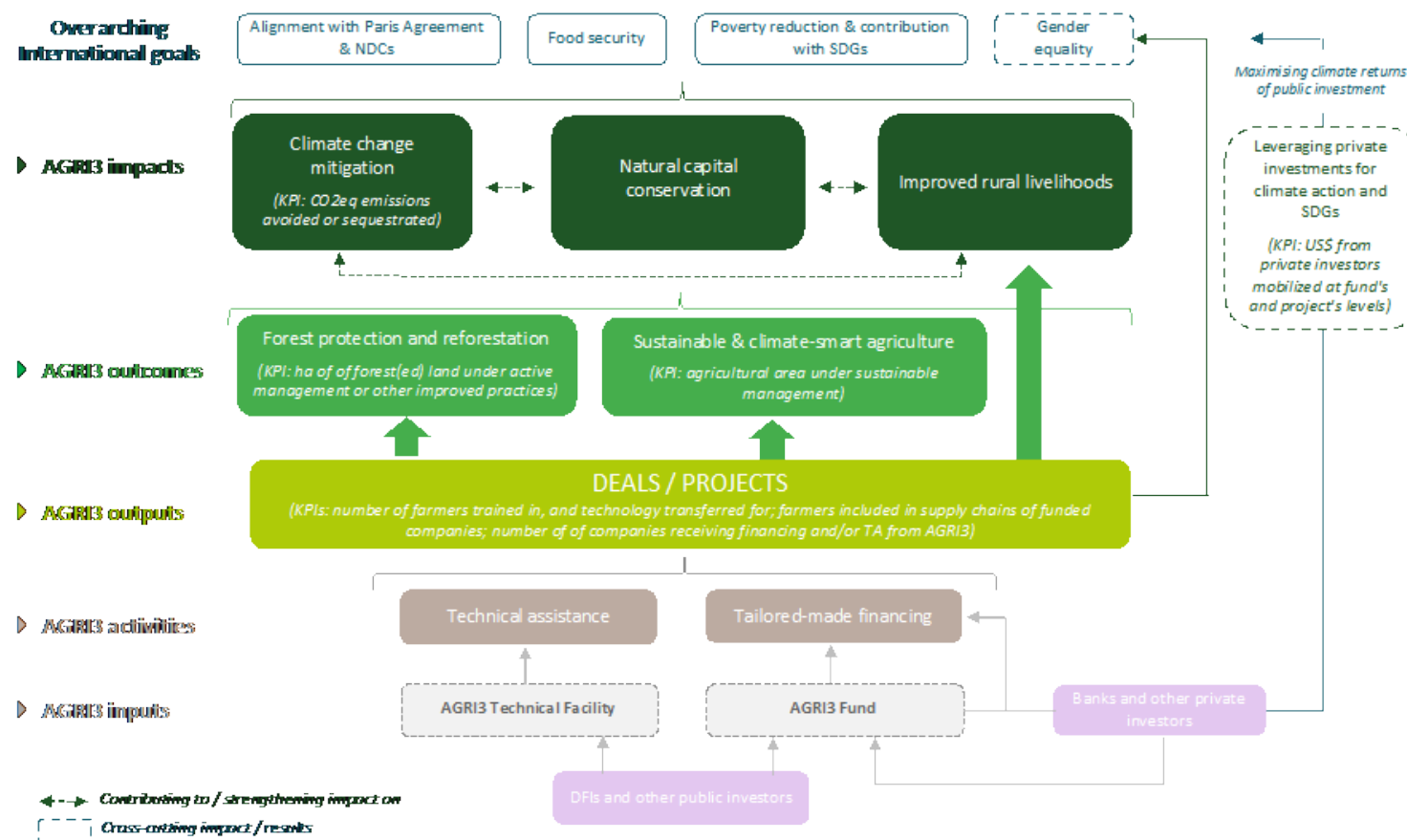
GEF is kindly requested for a senior participation with a targeted return of 5% per annum (upon full investment of the Fund). This return is similar to the targeted return of other participants. The additionality of GEF is in the fact that GEF will be the first investor in this asset class, after investments of the NL Government and Rabobank in different asset classes. In our expectation, this anchor investment by GEF will help other investors to come in as junior or senior participant as well. The reason to ask for an investment as senior participant, rather than junior, is because the need for investment in this asset class is highest. Depending on other public investment coming in, AGRI3 may choose to merge “junior participant” and “senior participant” asset classes into one. These asset classes will always be senior to the “capital preservation” asset class in which the NL Government has invested.

The Fund has a foreseen lifetime of 20 years. The investment would have a lock-up period of 10 years, after which the participation can be sold with Fund Manager’s consent; the GEF agent CI can exit after 10 years when reporting is fully established.

During the initial phase the Fund will build up a diversified portfolio of investments and a related track record. While a strong emphasis will be placed on closing transactions that deliver the anticipated positive social and environmental impact and provide ‘proof of concept’, the partnership will in parallel aim to further « scale up » contributions from both public donors, as well as private entities including development finance institutions, commercial banks and investors to the target value of 1 billion USD of financing. Ultimately, after a number of years and documented successes the Fund will work towards obtaining a rating, thereby further lowering collateral requirements but also providing opportunities for a significant larger pool of investors to participate in the Fund.

As a next step after initial commitments by the Dutch Government and Rabobank, the AGRI3 Fund consortium is submitting the present request to GEF for funding to make an anchor investment of gross USD 15M, net USD 13,461,468 into the Finance Fund.

Figure 1: Theory of change



## AGRI3's objectives

**Overarching Goal.** Halting the loss of the more than seven million hectares of tropical forests that disappear annually<sup>[3]</sup>, tackling climate change, while growing sustainable agricultural production to feed the estimated nine billion people that will be on the planet by 2050, are among the most defining challenges of the 21st century. At present, the global community is not on track to meet the Paris climate agreement to hold global temperature well below 2 degrees Celsius rise this century, and to drive efforts to limit the temperature increase to 1.5 degrees Celsius above pre-industrial levels. Whether the UN's Sustainable Development Goals' objectives can be achieved by 2030 is dependent on the way agricultural land and forests are managed in the years to come. The overarching goal of AGRI3 is thus *to contribute to sustainable land use practices at scale by combining sustainable and efficient agricultural production with forest protection, reforestation and reduction of CO2 emissions while also contributing to improved rural livelihoods*.

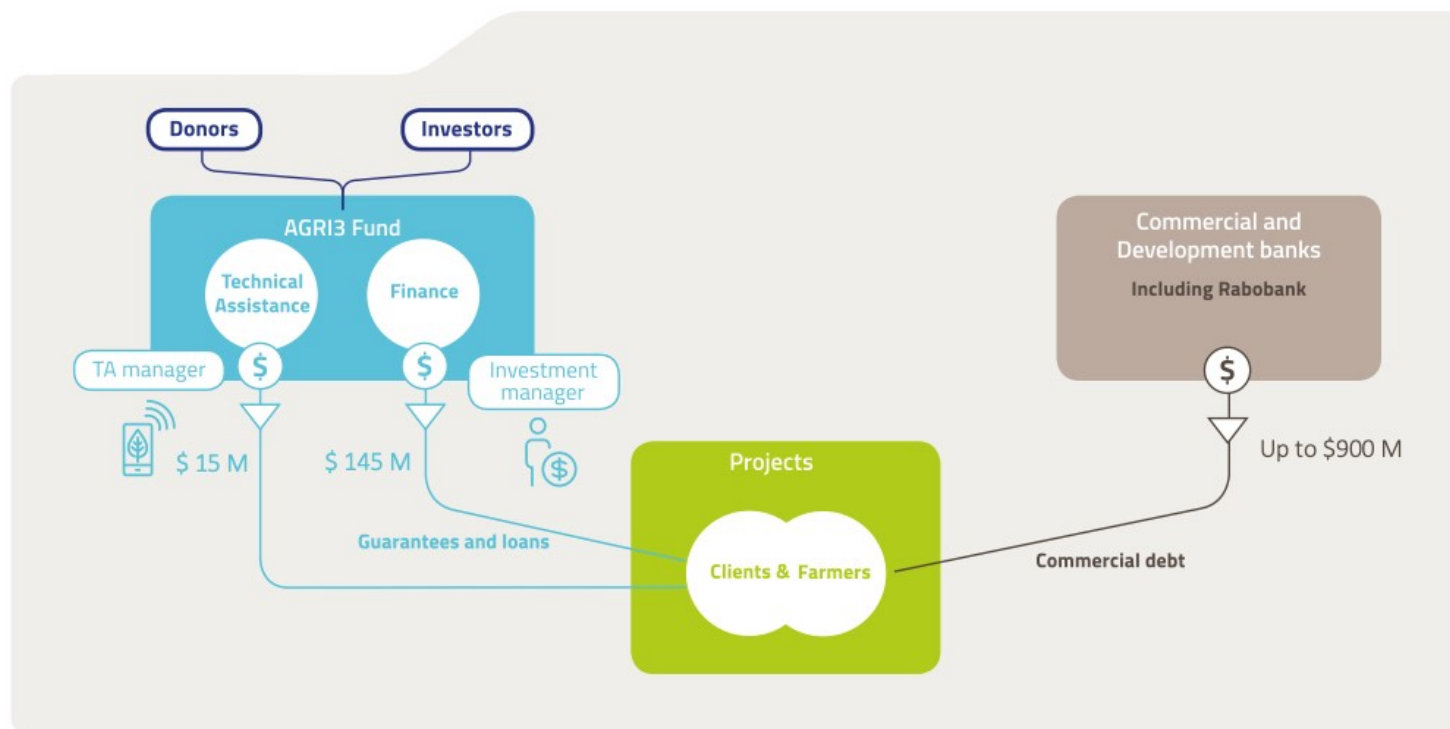
**AGRI3 Objective.** The mission of AGRI3 Fund is to mobilize additional public and private capital *at scale*, including commercial banks, development finance institutions (DFIs), impact investors and institutional investors to: actively prevent deforestation; stimulate reforestation; contribute to efficient sustainable agricultural production and value chains; and reduce carbon emissions and improve rural livelihoods. A longer-term objective of the Partnership is to ensure business models that are based on deforestation-free, low carbon, and sustainable commodity production that is equitable, and which ultimately becomes the norm, not the exception.

The key objectives of the Fund are to:

- Contribute to sustainable land use practices at scale, which means balancing enhanced sustainable agricultural output with forest protection, reforestation as well as improving rural livelihoods;
  - Provide credit enhancement tools (such as grants, soft loans, guarantees) to catalyze private funding from commercial banks and their eligible partners to qualified initiatives;
  - Stimulate initiatives that contribute to existing and innovative best practices in order to lower agriculture's footprint and restore land use for agriculture and forest protection;
  - Reach farmers as priority beneficiaries/target group; each investment should improve rural livelihoods and on top of that focus on at least one of the two following objectives: (i) sustainable land use and (ii) forest protection and reforestation;
  - Generate substantial, measurable environmental and social ('E&S') impact by meeting the key performance targets as specified in the E&S policy framework.
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AGRI3 will also have an impact on cross-cutting areas, particularly gender equality for which specific activities will be conducted within the TA Facility.

**Figure 2: Overall AGRI3 structure**



**Strategic Pillars.** AGRI3 is built on a number of strategic pillars that make the Fund unique and fully additional in the impact investing space targeting sustainable agriculture and forest protection.

Unlocking Private Capital at Scale: The AGRI3 model balance sheet assumptions are conservative and are expected to be improved on during the life of the Fund:

- During the initial phase, the Fund will build a diversified portfolio of investments (primarily guarantees) and a related track record which will reflect Rabobank's track record in originating safe assets. This scenario will allow a better understanding of the portfolio's risk profile and reduce the cash collateral requirements for the Fund's guarantees. Ultimately, after a number of years, the Fund will work towards obtaining a solid rating, thereby further lowering collateral requirements and thus increasing leverage.
- The same track record will reduce the first loss requirements for senior funders, and thereby allow for a larger mobilization of senior debt than currently assumed in the model.
- Similar funds currently active in the market have secured the participation of financial investors in the form of unfunded counter guarantees rather than funded capital, which allow for more efficient leverage and reduced weighted average cost of capital. The AGRI3 Fund would be an ideal candidate for a number of development finance institutions. Hence, the leverage and potential pool of investors of the Fund is expected to increase significantly within a number of years.

Open Architecture: The open architecture of AGRI3 is a key feature of the proposed structure as it will enhance the public finance leverage, allow for scaling-up, and ensure lasting effects. The Fund will be open to all financial institutions, called "partner banks", in search of sustainable solutions for their clients. To warrant a maximum commitment of the banks to the Fund, it is expected that all banks that apply for funding from the Fund on behalf of their clients will also contribute funding to the Fund itself. The open architecture structure allows for increased leverage, at both the fund level and project level. This structure will ultimately lead to an expansion at scale: the unlocking of USD 1 billion, while at the same time mainstreaming finance for projects in the agricultural value chain which contribute to forest protection and sustainable agriculture. Another benefit of the open architecture is that the financial institutions' country focus will be (partially) complementary. The Fund will function independently from any of its founders or participating financial institutions.

Revolving Fund: The AGRI3 Fund is a revolving fund, i.e. a fund that has an indefinite fund life with investors that can come and go throughout the life of the fund. Senior equity investors are expected to have a definite funding term (possibly varying somewhat dependent on available cash flows), after which new senior debt and senior equity can be raised, either from the same or from other investors. For junior equity investors, funding will be revolving, i.e. the capital will be kept in the AGRI3 Fund with the goal of capital preservation in the long term.

Sustainable business models: Another long-term effect of AGRI3 will be to ensure business models that are based on deforestation-free, low carbon, and sustainable commodity production that is equitable, and which ultimately becomes the 'norm' for forest and agricultural production and not the exception.

Achieving financial and E&S additionality: The Fund must remain complementary and additional to commercial lending opportunities, whilst acting within the financial parameters set by investors that represent market standards. AGRI3's aim is not to create market distortions by crowding out private sector investments, but it will focus funding on projects that have a strong potential to achieve positive environmental and social impact, as outlined in the E&S Policy Framework.

Best-in-class ESG: Projects under the Fund are required to aim to operate in line with the International Finance Corporation's Performance Standards on Environmental and Social Sustainability (IFC PS). All projects receiving debt from commercial banks, as part of a Fund project, need to be compliant with the Fund's determined Sustainability Policy Framework, in addition to the co-investing commercial bank's frameworks. The Fund will also reference the E&S and corporate social responsibility policies of Funding partners, where relevant and applicable, to the assessment of projects during the initial project assessment phase, and during ongoing project evaluation. All projects will need to comply with all applicable policies, laws, and regulations, related to environmental and social aspects of operations, in the jurisdictions and countries in which they operate. Furthermore, project-level monitoring of adherence to relevant industry best practice standards, minimum requirements, as set out by the E&S framework, and the relevant applicable commercial bank's E&S policies will take place.

Targeting: The ultimate beneficiaries/target group of all transactions of AGRI3 will be farmers. The farmers can be approached either directly, through input suppliers, cooperatives or through off-takers (direct and indirect). Farmers will include large, medium, small and smallholder farmers.

Transaction Sourcing: Transactions will largely be sourced with existing clients of commercial banks, such as large traders and corporations in the agricultural value chain, which are intrinsically motivated to strengthen sustainable supply chains, down to the farmer level. Rabobank, as a cornerstone of the Partnership, will provide most of the transaction sourcing during the "kick-start" phase of the Fund. Rabobank's ability to leverage existing client relationships, thus lowering the entrance barrier for funding eligible business, a strongpoint unrivaled by other funds. A second wave of transactions is expected to come from other commercial banks and potentially from impact funds or DFIs. The Fund will seek to identify projects in the early years of the Fund, which can be scaled up to similar farmers later on during the "scaling-up phase".

Achieving Impacts at Scale: To create impact, the Fund will concentrate on projects that provide a maximum contribution to the 3 specific objectives mentioned above and with projects that provide significant upscaling potential of new production methods to farmers. Priority will be given to large scale farming and land use projects, especially those where the environmental and social impact is highest. Fund investment could support projects that assist large scale farmers in their transition to deforestation-free or more sustainable production. Since it will be highly inefficient to organize outreach to smaller farmers individually, the project will also seek out structures that will leverage value chain partners downstream.



Innovation: The Fund will look at innovation from various angles, including innovation for monitoring and evaluation (data collection, etc.) and innovation through agtech solutions for smallholders such as satellite-based insurance programs, data analytics, and remote sensing to optimize production, digital and social media footprint to improve access to financing and financial inclusion, reduced post-harvest losses, water-efficient irrigation technologies, etc.

### **Finance Fund's Investment strategy**

**Commodities.** The AGRI3 Fund will lend to projects that include forest protection and restoration and sustainable agriculture. The Fund will undertake transactions in a wide range and combination of agricultural crops. Initial sustainable agricultural investments are likely to cover sugarcane, dairy, rice, soy, and cotton. Over time and with experience, the Fund will look to invest in more complex sectors, such as palm oil, cocoa or vanilla, although sustainability issues for these crops is and takes more time. The link between AGRI3's theory of change and key crops is presented in Annex A.

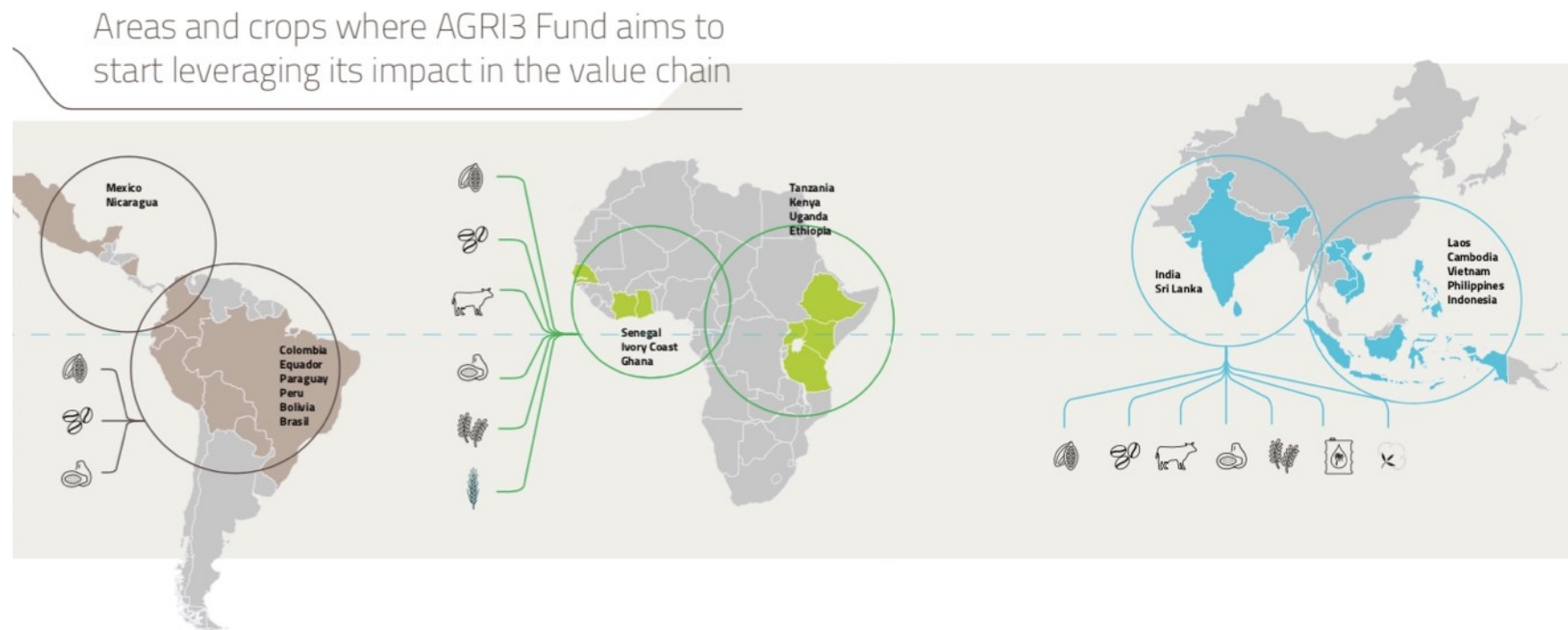
**Countries.** The AGRI3 Fund has a global scope and ambition, but with a focus on middle income (MICs) and lower income countries (LICs) [4]. In line with the strategy to create impact efficiently, the Fund will initially focus on Brazil, Indonesia and India, as those are countries likely to yield the best impact returns on time and resources invested. Other jurisdictions – particularly in South-East Asia, Sub-Saharan Africa and Latin America – will be considered contingent on the availability of eligible transactions. Best efforts will be made to include transactions in LICs within 2 years of the funds inception [5]. In order to maximize the chances of success in terms of E&S benefits, climate impacts, minimize risks and foster links with the Fund's objectives, there is a preference for countries and jurisdictions which have made significant progress under the UNFCCC REDD+ mechanism as a priority for investment.

In order to maximize the chances of success in terms of E&S benefits, climate impacts, minimize risks and foster links with the Fund's objectives, there is a preference for countries and jurisdictions which have made significant progress under the UNFCCC REDD+ mechanism as a priority for investment [6].

Transactions outside MICs and LICs may be considered in consultation with the Stichting Board and the Steering Committee. However transactions taking place within countries that are subject to financial or banking sanctions will not be eligible for investment. In addition, partner banks will have their own country selection criteria based on political risk assessment, sovereign risk rating, stability of the currency etc. For now, this means that major forest countries e.g. Brazil, Indonesia, Colombia, India, West African countries are in scope – but that for instance DRC or Congo Brazzaville may be an issue because of political risk assessment.

Given that the requested GEF investment is a larger mix of investors, it is possible to secure that the GEF investment is only used for GEF-eligible countries – even with a minimum guaranteed leverage of 1:2. This same structure will also be used should multilateral development banks or DFIs with a regional focus come in. Risk-wise, risks will be pooled globally to avoid geographical risk concentration.

**Figure 4: Targeted countries and commodities (indicative)**



In countries where the GEF-funded FOLUR program is active, synergies will be explored, yet double investment and/or double impact accounting is prohibited by the AGRI3 investment guidelines. It should be noted that the way of project sourcing of AGRI3 is basically a demand-driven, in the sense that both clients and partner banks need to be buying in to a project idea for it to materialize. Therefore we see the coordination with FOLUR primarily in sharing networks and knowledge and referring project opportunities to one another – again, avoiding double investment or accounting.

**Project Counterparts.** Efficient execution will be achieved by using existing relations between participating commercial banks and actors in the agricultural value chain. Working with farmers, input providers, traders, corporates and local financial institutions will ensure that projects are embedded in local (economic) ecosystems.

**Financial Instruments.** The Fund aims to de-risk and facilitate eligible investments for execution partners. Investment instruments include:

- Guarantees to execution partners to achieve the same result. These can be for tenor extension, (partial) credit guarantees, as well as first loss risk mitigation.

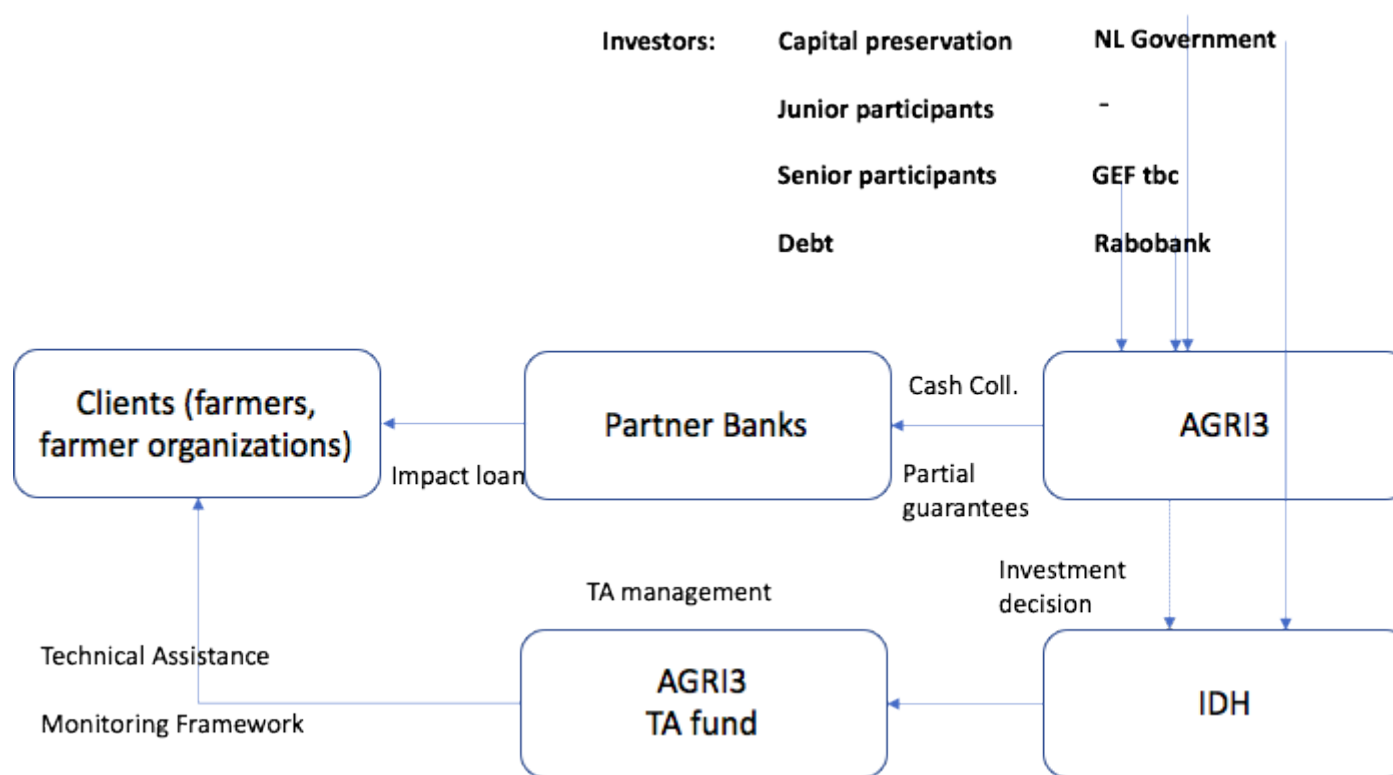
- Subordinated and other risk-mitigating loans to execution partners in order to reduce the risk towards farmers, their suppliers and off-takers.
- Equity or equity-like instruments are not allowed upon initiation of a project, but profit-sharing arrangements can be used to enable and reduce financing costs for high-risk projects.
- Technical assistance through the TA Facility is related to pre-investment support, designing projects so that their positive impact on rural livelihoods, sustainable land use, and forest protection are maximized, as well as post-investment capacity development, including farmer training, and knowledge sharing.

### **Deal sourcing**

- Deals will largely be sourced with existing clients of commercial banks, such as large traders and corporations in the agricultural value chain, which are intrinsically motivated to strengthen sustainable supply chains, all the way down to the farmers.
- Rabobank, as a cornerstone of the Partnership, is to provide most of the deal sourcing in the “kick-start” phase of the Fund.

### **Investment process, Funding flows**

- As the first originator of deals at country office level, Rabobank will set up a separate facility within Rabobank to receive the guarantees.
- The collateralisation of these guarantees is expected to be 100% of guarantee exposure [7] to begin and will fall to 50% average over the lifetime of the fund.
- The current flow of loans and guarantees to Rabo and Agri3 is provided below.



The Fund aims to de-risk and facilitate eligible investments for execution partners. In this light, the Fund will focus on risk mitigation products (partial guarantees) rather than on liquidity instruments (like sub-ordinated loans). Although the latter may in some cases be (partly) required because of local regulatory issues. In this respect, investment instruments of the Fund are:

- **Pari passu risk participation** - Losses on a transaction with a single counterparty (or portfolio) are split between the bank and the Fund according to a pre-defined ratio (typically 50/50 but can vary). Both parties rank equal on the repayment waterfall.
- **Tenor extension** - The guarantee only kicks in at a given date in the future after which AGRI3 provides a full guarantee absorbing the 100% of the risk after that given date. This type of transaction will be provided where partnerbanks are fully comfortable with the client and transaction risk but has a hard stop on tenor of the loan exposure.

- **Maturity subordination** - Combination of tenor extension and *pari passu*, in which the Fund guarantees the same absolute amount during the lifetime of the loan, which covers 100% of the credit risk after a given date.
- **Subordinated guarantee** - A guarantee on a bank's loan facility that is provided to a company with equity capitalization. This guarantee is more comparable to regular subordinated debt, as the equity providers take the first loss position. Agri3 provides a guarantee and has a subordinated position compared to the bank's facility.
- **First loss risk participation** - Agri3 provides first loss guarantees, i.e. where all of the loss is covered by the Agri3 guarantee, up to an agreed maximum amount. First loss guarantees can cover all losses, or principal-only, excluding the interest.

The terms of the guarantees for each individual transaction, including duration and coverage, will be determined in consultation with the partnerbank and AGRi3 during the investment.

**Investment Size.** The typical AGRi3 contribution (guarantee exposure) will range from USD 3 to 15 million per project with most projects having a total cost (loan exposure) of USD 5 to 50 million. Exceptions may apply when projects are smaller but scalable.

**Currency:** The Fund is expected to predominantly transact in USD, the same currency as its obligations to its investors, where the balance provides a natural hedge. Guarantees that are provided in local currencies – e.g. for locally marketed produce – have an FX risk that is contingent until there is a call, at which point it may be exposed directly to FX risk if the loan is not in USD (which will then drive the need to hedge the FX risk, which may or may not be possible at reasonable rates). The expected decrease in guarantee fees for local currency guarantees, as a result of expected depreciations, are not currency risks as there is a commensurate reduction in exposure. Apart from that, the Fund aims to build up a diversified portfolio of various currencies which can be expected to further mitigate this risk.

### **Finance Fund's Investment criteria**

**Impact.** Eligible projects should focus on at least one of the first two objectives:

1. *Forest protection and reforestation:* acceleration of sustainable management of forests and legal reforestation obligations, transition to agroforestry as well as protection of high conservation/high carbon stock forests that enhance soil fertility, carbon sequestration, water management, and biodiversity.
2. *Sustainable land use:* implementing innovative agricultural solutions such as Integrated Crop, Livestock and Forestry (ICLF) practices that have an impact on lowering GHG emissions, restoring degraded land, enhancing water management, improving soil fertility, sequestering carbon, building climate change resilience and/or protecting biodiversity while maintaining or substantially increasing yield for local farmers including smallholders.

Furthermore, in order to avoid negative social impact, an eligibility criterion is that projects realize

3. *Improved rural livelihoods*: improving the living standards of farmers, including smallholders, in order to reach sustainable inclusive growth, with particular attention paid to gender equality, eradicating child labour, promoting fair labour and wages, and alleviating poverty.

Anticipated targets in terms of concrete environmental and social impact achieved with the GEF contribution are reflected in the E&S Policy Framework.

**ESG.** Best-in-class Environmental, Social and Governance (ESG) standards will be applied to projects, building on the Investment Advisor's track record in designing and enforcing a proprietary ESG policy and management system. The AGRI3's Environmental and Social Framework will be used as a core policy, with additional guidance from the Althelia Funds' ESG Policy and Rabobank's Sustainability Framework. In case of conflict between the latter two, Rabobank's policy will prevail for Rabobank clients.

**Additionality.** To receive financing from AGRI3, any application for financing must pass a strict additionality test. This tool comprises of two additionality tests: (1) Beyond business as usual, demonstrating that in the impact fields targeted by the client's use of funds, of sustainable agriculture, forest protection, and rural livelihoods, are beyond BAU practices in the country/sector; and (2) Lack of available commercial finance. To be successful an applicant must meet the required criteria under each of the two tests.

AGRI3 has an investment process that includes various steps assessing investment and TA potential, that looks strictly at both impact and financial additionality to ensure that we avoid cases of duplication - either in impact attribution or financial declaration. Various governance bodies (such as the TA Foundation Board, which includes a senior IDH representative) exist to ensure this strict separation. Of course, AGRI3 also aims to build on existing work, resources and lessons learned of IDH which provide opportunities for scale and cost efficiencies, however has its own, strictly separate transaction pipeline.

**Eligibility and Exclusion List.** A schedule of indicative eligible projects and a schedule of excluded activities will guide the selection of bankable projects that are likely to fulfill the impact framework. Screening of projects will entail a preliminary identification and assessment of eligibility against the Fund's investment criteria and E&S impact framework.

Due to its integrated approach to forest conservation and sustainable agriculture, AGRI3 consists of 1 component with the following outcomes:

**Outcome 1.1:** Forested lands are protected and sustainably managed: Direct forest protection occurs by bringing existing forested lands under protection and sustainable management, by introducing sustainable agroforestry models, by planting tree and biodiversity zones around agricultural land and by allocating land for reforestation. The indirect – but equally effective – way of forest and biodiversity conservation is by reducing pressure on land because of expansion of food production as an economic activity. This is not

only the consequence of increasing global population and changing diets, but equally driven by degrading lands and climate change, threatening agricultural production as evidenced by stagnating yields, increasing climate risk, and loss of livelihoods for many – and especially smallholder farmers. On top of this large scale deforestation is threatening to accelerate climate change.

An example of the kind of projects that AGRI3 would consider to lead to this outcome, could be farmers that are willing to refrain from (legally) deforesting land, as well as reforesting land they own and bring this forest under sustainable management, because they are able to receive funding to develop degraded agricultural land elsewhere. Although normally unable to finance such a transaction via regular commercial debt, the risk structure of AGRI3 allows for such a project with additionality. The hectares of forest land now under protection/sustainable management is one of the impact KPIs in the E&S Framework resulting in this outcome.

**Outcome 1.2:** Agricultural areas implement sustainable/ climate-smart agriculture practices: Sustainable and climate-smart agriculture aims to decrease the environmental footprint of agricultural production in terms of GHG emissions, soil degradation, loss of biodiversity, excessive water utilization and leakage of synthetic chemicals and to turn these negative environmental effects into positive ones: reducing emissions or even turning agricultural production into a carbon sink; gradually restoring soil quality and revitalizing degraded lands; making room for preservation of biodiversity and forest; reducing ground water utilization; minimizing the use of synthetic chemicals; promoting organic and regenerative farming; and optimizing yields within existing boundaries of farm lands. This is reflected in Outcome 1.2.

An example of the kind of projects leading to this outcome, could be the financing of micro-irrigation systems enabling smallholder farmers in India to drastically reduce their water usage up to 70%, reducing fertilizer and increasing their crop yield substantially. This will be reflected in impact KPIs on agricultural land under sustainable management and be reported and monitored upon. Other examples may include integrated crop livestock models (ICLF) whereby agroforestry is combined with crop rotation and limited cattle stock resulting in higher yield from the land, less emissions and increased tree cover.

**Outcome monitoring and evaluation:** To come to these outcomes projects will be thoroughly assessed and evaluated based on the E&S and impact criteria as set in the AGRI3 E&S Framework. This implies validating if the projects are compliant to the E&S policies applicable as well as an independent due diligence process performed on behalf of or by the Fund Manager. This will determine if the projects are additional from an E&S perspective as well as meeting the required impact KPIs. They will further set specific project KPIs to ensure that the intended positive impact will be met. The KPIs will then have baseline measurements and progress on these KPIs will be monitored and reported. In case the performance on the impact KPIs is deviant from the expectation, improvement actions will be set and monitored.

The set of project outputs 1 through 6 implement basically a Plan Do Check Act (PDCA) cycle for implementation of sustainable forest management and sustainable agricultural production practices, aiming at forest conservation, degraded land restoration and biodiversity conservation. Outcomes 1.1 and 1.2 will be delivered by the following outputs:

1. Plans for forest conservation and restoration. These plans are agreed between partner bank and client (farmer, farmer organization, forest manager, agroforestry producer), possibly with input from IDH-managed technical assistance, Mirova/Althelia and/or external environmental agencies. Plans typically describe the foreseen transition from existing

situation (degraded land, degraded forest, suboptimal production, monoculture etc.) to a landscape approach including agro-forestry models, enrichment of agricultural land with trees, special biodiversity zones adjacent to agricultural land, improved soil quality management by organic/regenerative farming and minimal tillage techniques, reduction of the use of synthetic chemicals, are developed. For specific soft commodities it may include certification from an external national or international agency including biodiversity considerations. The plans will often act as an alternative to expanding the agricultural production by expanding agricultural areale – which either directly results in deforestation or increases pressure on available land which indirectly leads to deforestation. Plans may also include the client waiving on legal deforestation rights – in exchange for (financing) support to implement the alternative, more sustainable production model. The plans, once agreed and once other eligibility criteria are satisfied, lead to unlocking the financing, the technical assistance, the implementation phase and the monitoring and reporting of environmental impacts. Examples are given on the previous page.

2. Plans for at least 48 companies [8] for the transition to sustainable and climate-smart agriculture are developed. These plans are basically similar to the plans under 1, but focus on companies rather than primary producers. In many cases, primary producers are aggregated under one and the same company – e.g. sugar cane farmers under the mill they're providing the cane to. While in principle independent, in reality there is a co-dependency relationship because transporting the cane to a mill further away is too expensive for farmers – en vice versa, the mill can only exist when utilized to capacity, e.g. is dependent on sufficient supply of cane. This system of sugar cane farmers and mill can therefore be treated as an entity and the plan to convert to more sustainable production (including forest conservation, land restoration and biodiversity conservation measures) can be made on the company level. Often there will be a form of on-lending to primary producers related to supplied volumes. In addition to financing the transition to more sustainable production at primary producer level, the milling or similar company operations may also be made more sustainable themselves (e.g. productivity, power or water consumption, reducing losses etc.)

3. USD 1B of financing for sustainable agriculture and forest conservation is de-risked and/or delivered with tailored conditions. As described before, the targeted USD 1 bln financing of transition to forest conservation and sustainable agricultural production models is unlocked by AGRI3 guarantees that secure parts of the finance structure – e.g. the most risky part by a first loss guarantee or the tail end of the loan through a tenor extension. The use of the loan(s) is typically monitored so that the money is actually used for implementing the sustainable management and practices and for realizing the foreseen environmental benefits. To this end, there is a monitoring and reporting framework attached to the AGRI3 guarantees and the bank loan(s) that does a baseline measurement and reports on the progress in realizing the environmental benefits. Underperformance on the foreseen environmental benefits will in principle be flagged and lead to corrective action – e.g. provision of additional TA – but can eventually lead to early termination of the loan(s), especially in case of insufficient cooperation by the recipient borrower.

4. A total value of USD 15M of Technical Assistance to implement the transitions is made available. The technical assistance is used to

- Train the borrower and his/her staff
- Guide the implementation of the agreed sustainable management and practices with expert advice
- Develop the monitoring framework
- Help implement the actual results measurement and reporting



- Provide advice for corrective action where needed.

Thus, the technical assistance basically helps implement a Plan Do Check Act cycle for forest conservation and sustainable agriculture implementation.

5. At least 300,000 farmers and farm workers, with an estimated 40% female, are trained in sustainable forest management and sustainable agricultural practices[9] . Part of the technical assistance is providing training with regard to sustainable forest management and sustainable agricultural practices to farmers and their workers. This helps these workers to actively contribute to implement the agreed sustainable management and practices – e.g. by on-farm or in-forest executing of agreed measures, e.g. planting trees, developing biodiversity zones, refraining from mowing in certain zones, responsible use of chemicals, different ways of plowing etc. The content of the training is obviously aligned with the content of the plans (1. and 2.) and the Technical Assistance (4.).

6. At least 48 companies implement forestry conservation practices and/or implement sustainable and climate-smart agricultural practices through AGRI3 loans. With this output, we basically mean to indicate that the entire up-stream part of the value chain – linked to the 48 companies – is transformed to sustainable forest management and/or sustainable agricultural production. Per “company” (or supply chain) this includes 1 or more (up to several thousands of) farms or forest management companies, depending on their size.

#### **4) alignment with GEF Focal Area and/or Impact Program strategies;**

AGRI3 and the Partnership for Forest Protection and Sustainable Agriculture are aligned with the following GEF Focal Areas:

- Climate Change. Both AGRI3’s focus on forest conservation, strategies that combine food production and forest conservation (agroforestry, enrichment of agricultural areas with trees or biodiversity zones), as well as its focus on sustainable and climate-smart agriculture and sustainable intensification, are a direct implementation of GEF’s Climate Change Objective 3[10]: Foster enabling conditions for mainstreaming mitigation concerns into sustainable development strategies. AGRI3’s contribution to this objective is expressed in Core KPIs such as Area of land restored (ha), Area of landscapes under improved practices (ha) – both forest and agricultural land – and of course GHG emissions mitigated (tons of CO<sub>2</sub>e).
- Degraded Land. One of the very practical ways AGRI3 supports farmers is by revitalizing degraded land (GEF Objective 7), e.g. into grassland for cattle breeding. Not only does this have a direct effect on available area of land, thus reducing the pressure for further deforestation – it also increases CO<sub>2</sub> sequestration capability and paves the way for ongoing improvement of soil health and preservation of biodiversity. The initial transaction pipeline of AGRI3 already contains examples of efforts towards the revitalization of degraded lands.
- Biodiversity. AGRI3’s approach to landscape management includes frequent discussion of adding trees or biodiversity zones to agricultural production landscapes. This is a direct implementation of GEF’s Biodiversity Objective 1 to “Mainstream biodiversity across sectors as well as landscapes and seascapes.” AGRI3 aims to operate in line with IFD Performance Standard 6 including the clause on Biodiversity preservation. Sustainable intensification by sustainable soil management, crop rotation and reduced and precise

application of synthetic chemicals, has the potential of boosting yields in a sustainable manner, which not only reduces pressure on forest but also on land in regions like the Cerrado in Brazil, where biodiversity is under great pressure. AGRI3 does not have the capability to demonstrate direct preservation of species but can indicate where sustainable management is applied in biodiversity-sensitive regions. AGRI3 does not have the capability to demonstrate direct preservation of species but can indicate where sustainable management is applied in biodiversity-sensitive regions. The contribution to biodiversity protection is mainly based on the results in the Core Indicators 4.1, 4.2 and 4.3 and on the definition of Indicator 4:

“This indicator captures the total area of landscapes under improved practices, including in production sectors (e.g., agriculture, rangeland, forestry, aquaculture, tourism, extractives [oil and gas]) that lead to improved environmental conditions and/or for which management plans have been prepared and endorsed and are under implementation. This indicator is directly related to Aichi Biodiversity Target 7 of the Convention on Biological Diversity, whereby areas under agriculture, aquaculture and forestry, by 2020, are managed sustainably, ensuring conservation of biodiversity (CBD, undated). It is, in addition, directly related to country Land Degradation Neutrality targets under the Convention to Combat Desertification.”

#### 6) global environmental benefits (GEFTF) and/or adaptation benefits (LDCF/SCCF);

The Project Outcomes as listed in Table B. – in relation to the GEF Core Indicators and Impact Programs – are:

Project Outcome	GEF Core Indicator/ Impact Program	Comment
Forest is protected and brought under sustainable forest management	3.2 (ha)	Key KPI of AGRI3
	6.1 (Mton CO2eq)	Key KPI of AGRI3
	4.1, 4.4 (ha)	Area of HCVF loss avoided – for registration purposes only
Agricultural areas implement sustainable / climate-smart agriculture practices	4.3 (ha)	Key KPI of AGRI3
	3.1 (ha)	Degraded land revitalized
	4.1, 4.2 (ha)	Area of land with certified production
Number of direct beneficiaries disaggregated by gender	11	Direct beneficiaries will be registered, yet there is no gender-specific ambition, in order to respect socio-economic factors by UN recommendation; we estimate at least 40% of beneficiaries will be female
Number of companies receiving impact financing	IP Private Sector Engagement	Key KPI of AGRI3

Total amount financed with GEF support	IP Private Sector Engagement	Key KPI of AGRI3
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The relationship between Project Outputs and Project Outcomes is as follows:

- Plans for forest conservation and restoration, introduction of agroforestry models, enrichment of agricultural lands with tree and biodiversity zones are developed in collaboration with the client and with expert input from the TA facility. The bank will play a role in the related investment and finance plan and in risk management and provide the final financing de-risked by AGRI3. Training in sustainable forest management is offered. AGRI may also provide direct financing in the form of sub-debt. Hence, Project Outputs 1.1.1 and 1.1. thru 1.1.6 contribute to Project Outcome 1.1. The results will be measured in terms of ha under sustainable forest management (GEF Core Indicator 3.2) and MT of CO<sub>2</sub>eq emissions avoided or sequestered (GCI 6.1). There is no separate target for the Area HC VF loss avoided (GCI 4.1, 4.4) but this may be registered for reporting purposes. On the next page we describe the basis for our estimate of CO<sub>2</sub>eq emissions avoided or sequestered.

- Plans for implementation of sustainable agricultural practices, climate-smart agriculture, and landscape management agricultural production areas, are developed in collaboration with the client and with expert input from the TA facility. Plans may be specific in their focus on the revitalization of degraded lands or certification of sustainable production. Sustainable intensification [11] may play a role in reducing pressure on forests caused by agricultural expansion. The bank will play a role in the related investment and financial plan and in risk management and provide the final financing de-risked by AGRI3. Training in sustainable management of agricultural lands is offered to farmers and farmworkers. AGRI may also provide direct financing in the form of sub-debt. Hence, Project Outputs 1.1.2 thru 1.1.6 contribute to Project Outcome 1.2. The results will be measured in terms of ha agricultural area under sustainable management (GEF Core Ind. 4.3), ha of degraded lands revitalised and MT of CO<sub>2</sub>eq emissions avoided or sequestered (GCI 6.1).

The estimate of CO<sub>2</sub>eq emissions avoided or sequestered on the FAO Ex-Act model is included (below Figure 6). In the upcoming year, the project aims to validate this approach for agriculture land in the same way as we have already done for the emissions avoided or sequestered by forest.

The Project Preparation Grant can partially be used to support this measurement and the consequent calculations. Using the PPG, we suggest to look at applying a range of existing methodologies for agricultural carbon in our network (e.g. VCS standard <https://verra.org/wp-content/uploads/2018/03/VM0017-SALM-Methodolgy-v1.0.pdf> and Indigo Ag technology). Even when doing so, it should be noted that the Fund can only implement projects as these become available. AGRI3 is not a grant mechanism that can choose where to spend its budget, instead it relies on its internal processes/policies to ensure it gets the highest impact deals.

There is no separate target for Landscapes meeting international 3rd party certification including biodiversity considerations (GCI 4.1, 4.2) but again this may be registered for reporting purposes.

To demonstrate achievement of the Fund’s objectives, to contribute to the high-level policy goals, and to bring guidance to activities, a fund-level Environmental & Social (E&S) impact framework allows partners and stakeholders to comprehensively assess impacts of the Fund against pre-established E&S baseline targets. The Fund’s E&S impact framework comprises a hierarchical structure of objectives, impacts, key performance indicators (KPIs) and methods of monitoring progress towards KPIs. Fund-level E&S KPIs have been established jointly by Rabobank and UN Environment within the AGRI3 Fund Environmental and Social (E&S) Framework to reflect and contribute to the global goals and indicators of the SDGs, wherever relevant and possible. For each project, to the extent possible, the Fund will apply all relevant primary KPIs per identified objective, with a minimum of one KPI per objective that must be met. Depending on relevance, project size and data availability, one or more of the secondary KPIs will also be applied.

The AGRI3 results framework include indicators that are relevant for the following areas:

- (i) Climate Change
- (ii) Land Degradation
- (iii) Biodiversity
- (iv) Food and Nutrition
- (v) Private Sector Development.

These indicators are presented in Figure 6 below. Based on a preliminary pipeline, ambitions in terms of targets have been set for the AGRI3 KPIs. These impact figures are ambitions, which have come from calculations based on (partly) theoretical cases for indicative purposes; no legal rights may be derived from this. They draw from a wider set of theoretical transactions compared to the financial model for modeling purposes. Acknowledging the complexity and innovative nature of the Fund’s ambitions, these ambitions are “aspirational” and will be reviewed after two, five and ten years based on the pipeline of projects to provide altered and more fine-tuned ambitions based on executed transactions. Project-level KPIs will also be developed for each transaction, where relevant.

Additionally, relevant Project-specific indicators can be defined for individual projects. Aggregation of these project-specific indicators, at the Fund level, will demonstrate contribution to relevant Fund-level objectives. The Fund will monitor land-use change in an area surrounding each project and, together with the borrower, demonstrate that there is no direct causal link of the project, or the borrower, to any unauthorized deforestation occurring in the defined area around the project. In this way, the Fund will contribute to minimizing the risk of displaced deforestation and forest degradation or ‘leakage’.

**Figure 6: AGRI3 KPIs relevant to GEF’s results framework**

AGRI3 KPIs	Unit	Target	Means of verification
<b>IMPACT LEVEL</b>			
CO2 emissions from avoided deforestation/forest degradation; and/or CO2 sequestered by forests	t CO2eq	12,000,000 (*1)	Borrower reporting, potentially remote sensing, calculating emissions with conversion factors
CO2 emissions from farms avoided sequestered by farms, per year, by funded projects	t CO2eq	6,400,000 (*2) (*3)	Fund Manager reporting based on calculating emissions with conversion factors
US\$ from private investors mobilized at fund's and project's levels (not yet in E&S Framework but included in the Fund's annual reports to investors)	US\$ M	1,000	Fund reporting on investors' contribution
<b>OUTCOME LEVEL</b>			
Agricultural area under sustainable management (to be defined per project)	Ha	650,000	Borrower reporting and potentially remote sensing
Hactares of forest(ed) land under active management or other improved practices (adjusted KPI)	Ha	91,000	Borrower reporting and potentially remote sensing
<b>OUTPUT LEVEL</b>			
Number of companies receiving financing and/or TA from AGRI3 (not yet in E&S Framework but included in the Fund's annual reports to investors)	Companies	48	Number of transactions in the Fund
Farmers included in supply chains of funded companies; this may include jobs and disaggregated by gender, where possible	Households	65,000	Borrower reporting

Gender division (based on FAO report stating 43% in F&A globale is female labour; here we maintain 40% figure); this is a reporting effort, not an ambition, in order to respect socio-economic factors, by recommendation of UN	% female famers and/or employees	26,000	Borrower reporting
Farmers trained in, and technology transferred for, best management practices in sustainable agriculture/forest protection	People	300,000	Borrower reporting

(\*1) The way our estimate of CO2eq emissions avoided/reduced for forest has been derived is the following:

- We have used 6 actual case studies on a 10 years basis
- We have extrapolated the results to 91,000 ha 6,000,000 Mton
- We have re-scaled 10 to 20 years 12,000,000 Mton
- We have validated these results with IPCC-based models including FAO Ex-Act.

This model has been applied to a number of sample forest projects. The full model includes calculations based on baseline data for 6 case studies (including soy large producer, soy by Farmer Organization of smallholder farmers, maize and palm oil).

(\*2) The way our estimate of CO2eq emissions avoided/reduced for farms has been derived is the following:

- We have used the FAO Ex-Act model for different crops (rice, soy, sugar cane)
- We have used the intermediate scenario
- We have calculated the results for a crop mix on 650,000 ha 4,000,000 Mton
- We have re-scaled 10 to 20 years 8,000,000 Mton
- We have subtracted 20% allowing for less than 100% success rate 6,400,000 Mton

While the amount of CO<sub>2</sub>eq emissions avoided/reduced per ha for agriculture land will be considerably lower than for forest, the area over which this is realized is of course considerably higher than for forest (650,000 ha instead of 91,000 ha).

We aim to use the Project Preparation Grant a.o. to validate the estimates for agriculture land. The preliminary Fund pipeline for farm land does not permit robust extrapolation to allow for meaningful target-setting at this stage – as it does for forest. While being moderately conservative in our use of the models, we note that the estimates show a significant sensitivity to:

- The actual crop mix in our portfolio
- The chosen scenario in the FAO Ex-Act model
- The actual amounts of forest land under sustainable management (estimated at 91,000 ha) and agriculture land under sustainable management (estimated at 650,000 ha).

The Fund is also exploring validity and cost-feasibility of alternative on-farm climate KPIs, in alignment with the evolving EU classification system – or taxonomy – for sustainable investment, e.g. % area over which appropriate management practices are deployed on the farm; emission intensity of production (g CO<sub>2</sub>eq/Mton); emissions per hectare (g CO<sub>2</sub>eq/ha); % GHG emission reductions from baseline.

Consequently we need to indicate that we provide these estimates at this point in time to the best of our knowledge but can not turn them into commitments until we are able to validate them with real life projects or more precise models and assumptions.

#### **5) incremental/additional cost reasoning and expected contributions from the baseline, the GEFTF, LDCF, SCCF, and co-financing;**

GEF is kindly requested for a senior participation with a targeted return of 5% per annum (upon full investment of the Fund). This return is similar to the targeted return of other participants. The additionality of GEF is in the fact that GEF will be the first investor in this asset class, after investments of the NL Government and Rabobank in different asset classes. In our expectation, this anchor investment by GEF will help other investors to come in as junior or senior participant as well. The reason to ask for an investment as senior participant, rather than junior, is because the need for investment in this asset class is highest. Depending on other public investment coming in, AGR13 may choose to merge “junior participant” and “senior participant” asset classes into one. These asset classes will always be senior to the “capital preservation” asset class in which the NL Government has invested.

AGR13 has been established as a guarantee fund of impact investors meant to de-risk investment in forest conservation and sustainable agriculture. Concessional finance from governments and impact facilities such as GEF, blended with MDB/DFI funds and commercial bank loans, builds a USD 140M capitalized fund that can extend up to USD 300M of bank guarantees and sub-debt, which in turn will unlock a total of USD 1B of impact financing on commercial conditions.

AGR13 knows 4 categories of investors, presented in order of the risk waterfall of the Fund:

- Capital preservation impact investors (with 0% RoI target) – a first loss tranche of USD 35M is provided by the NL Government
- Junior participants will absorb losses superseding the first loss. The Fund is willing to agree an RoI target in the range of 4 – 9% with junior participants. Instead of having junior participants, the Fund may choose to increase the number of Capital preservation impact investors
- Senior participants investors will absorb losses superseding the first and second loss. The Fund is willing to agree an RoI target in the range of 2 – 7% with senior participants
- Lastly, debt will be provided by debt providers (typically, commercial bank) at rates between 1 – 5%.

AGRI3 has attracted investors in the first and fourth category and is currently looking for an anchor investor – either as junior or senior participant. The investment of GEF would help unlock these categories.

### **Financial model**

AGRI3 gross portfolio forecast

		2019	2020	2021	2022	2023
AGRI3 capital requirement	m US\$	10	17	28	37	50
<i>Cumulative</i>		10	27	53	91	141
AGRI3 exposure	m US\$	20	36	57	82	112
<i>Cumulative</i>		20	56	112	194	306
Portfolio - Total financing (cumulative)	m US\$	74	207	415	716	1 125
<i>of which Agri3</i>		10	27	53	91	141
<i>of which commercial banks</i>		64	180	362	626	984

AGRI3 derives its income from:

- Guarantee fees paid by partner banks. These fees differ from one guarantee product to the other, and are usually expressed as a percentage of the commercial margin the bank realizes.
- Interest on cash collateral deposited at partner banks.



- Interest on liquid assets.
- Interest on funded assets, e.g. subordinated loans.

AGRI3 has the following expense categories:

- Operating costs including fund management fee.
- Interest on bank loans.
- Fees on unfunded risk participations of third parties (if any).
- Fund management profit sharing (20% of net profit).
- Allocation of (80% of) net profit to junior and senior participants and capital preservation accounts for governments. This net profit is allocated and added to the value of the participation. It is paid out at dissolution of the fund and captured in the value of the participation in case of sale of the participation from one investor to another.

AGRI3's overall net IRR will, once the Fund is fully invested, be modest – below 3%. By managing the funding mix of different asset classes, AGRI3 aims to realise targeted IRRs for junior and senior participants that are modest, yet above debt interest rates, and fitting for impact investors. It should be noted that these targets will not be realized in the initiation phase of the Fund and that investors have no certainty about realization of these targets.

The Remuneration of Fund Manager will be:

- Year 1-5: tailored, fixed remuneration scheme
- Year 6 ff.: agreed percentage in the 0.5 – 1.0% range of guarantee exposure plus 20% profit sharing

Guarantee exposure = the sum of maximum nominal amounts that can be drawn under guarantees outstanding. For AGRI3 at the top of its portfolio, this amount will be up to USD 306 mln. in year 6 ff.

## **7) innovation, sustainability and potential for scaling up.**

With its scale, public-private partnership model, and way of sourcing transactions. AGRI3 is a clear innovation in impact financing. AGRI3 can help banks innovate their risk appetite and risk models and cater impact financing with different product conditions and financial as well as environmental and social benefits.

Because of its strong anchoring in private sector companies and alignment with government policy and international agreements and goals, AGRI3 has a strong own sustainability profile that is expressed in its forecast 20 year lifetime. This long timespan allows AGRI3 to be established as a revolving fund in which initial investment and proceeds are used repeatedly to unlock additional impact deals. While AGRI3 with its USD 1B of impact financing is already a unique program, the model allows for scaling up for additional forest conservation and sustainable agricultural initiatives as well as expansion into other initiatives such as food loss reduction, protein transition, etc.

The AGRI3 fund will enable ambitious and impactful investments by sharing risks with commercial lenders through mechanisms such as partial guarantee provision, subordinated lending on a non-concessional basis, and provide grants for technical assistance on a needs-basis. The AGRI3 Fund – which itself is a form of a ‘blended finance fund’ and which is already leveraged through private capital - will only invest in projects alongside a commercial finance provider, thereby further leveraging public or concessional funding. Over time, the number of successful projects will increase market transparency about sustainable land-use business models knowledge and provide a wealth of lessons learned for similar funding initiatives. By understanding what business models (for given commodities and in given countries) work or do not work, AGRI3’s hypothesis that by providing funding for forest conservation, sustainable agriculture and farmer training, perceived risk will be lowered over time and thereby the need for public funding for such initiatives will decrease as private funding becomes more comfortable and assured of the potential for success of these projects. AGRI3 Fund’s aim is, therefore, to play a catalytic role in unlocking private finance for sustainable land-use.

**Sustainability and Long-lasting Effect.** It is highly desirable for the Fund that, upon exit of the deals, the projects continue to perform well and maintain at least the same standards as during the Fund’s investment, against its ESG policy. Although the Fund cannot be expected to be responsible for a project’s performance post-exit, the Fund will in all cases consider what the implications for E&S performance will be, and how it may be affected. If there is a change in project management, the Fund will conduct due diligence on the new management to discover their reputation regarding E&S, the quality of management and their potential for upholding the Fund’s E&S standards. These findings will be reported in the Investment Memorandum. On a deal level, AGRI3 looks for scale and repeatability to maximize sustainability impact over time. AGRI3 has an open architecture in that it is open to other banks than Rabobank by design. This will maximize deal flow and impact even more. The intent is that investments and projects will grow into a stage where blended finance and public funding support is not needed anymore and can be picked up by regular commercial finance/private capital going forward as “business as usual”. Finally, it is envisaged that the front runner role of the transactions done by AGRI3 and commercial banks will be viewed as leading examples for the sector. Innovative sustainable agricultural development will have been proven and can be rolled out to other farmers. In addition, the commercial banks build up a track record with these (often longer terms) transactions and will feel more comfortable entering into the transactions without the support of a Fund.

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[1] “The Future of Food and Agriculture: Trends and Challenges”, FAO (2017)

[2] Springman, M. et al., 2018. Options for keeping the food system within environmental limits. Nature 562 (7728).

[3] WWF

[4] As defined by the OECD

[5] As required by the terms of the Dutch government grant. LICs as defined by the OECD

[6] Defined as those countries that have made progress as part of the World Bank Forest Carbon Partnership and the UNREDD programme

[7] Guarantee exposure = the maximum nominal amount that can be drawn under the guarantee. In case of a group of guarantees, the guarantee exposure is the sum of the exposures of individual guarantees

[8] Companies: farms, groups of farmers or conglomerate of group of farmers plus downstream processors/ aggregators

[9] The AGRI3 E&S Policy Framework contains an array of additional KPIs in the field of Benefitting Rural Communities, safeguarding that conditions in rural communities (e.g. farmer income etc.) do never deteriorate and will typically improve as a result of the programme.

[10] [https://www.thegef.org/sites/default/files/council-meeting-documents/GEF-7%20Programming%20Directions%20-%20GEF\\_R.7\\_19.pdf](https://www.thegef.org/sites/default/files/council-meeting-documents/GEF-7%20Programming%20Directions%20-%20GEF_R.7_19.pdf)

[11] The Montpellier Panel, 2013, Sustainable Intensification: A New Paradigm for African Agriculture, London

#### **1b. Project Map and Coordinates**

**Please provide geo-referenced information and map where the project interventions will take place.**

Geographical scope of AGRI3 projects and country selection guidelines are described in the Alternative Scenario section. These show a significant overlap with GEF recipient countries as indicated on thegef.org website. As a consequence, it is possible to secure that the GEF investment is only used in GEF-eligible countries – even with a minimum guaranteed leverage of 1:2. This same structure will also be used should multilateral development banks or DFIs with a regional focus come in. Risk-wise, risks will be pooled globally to avoid geographical risk concentration.

#### **2. Stakeholders**

**Select the stakeholders that have participated in consultations during the project identification phase:**

##### **Indigenous Peoples and Local Communities**

**Civil Society Organizations** Yes

**Private Sector Entities** Yes

**If none of the above, please explain why:**

In the design phase, there were multiple discussions with CSOs. Specifically with WWF – with which Rabobank has an ongoing strategic partnership and the Tropical Forest Alliance. In addition, there were consultations with CSOs in the UN Environment Network. In terms of engagement with the private sector, Rabobank discussed an idea of a large scale fund and its various products with farmers, farmer organizations, food companies, logistics providers, traders and regional competitor banks in Brazil, India and Indonesia. Consultations with Indigenous Peoples were not done during the design phase. However, it is expected that there will be consultations during the PPG phase in line with CI-GEF policies on engagement with Indigenous Peoples.

**In addition, provide indicative information on how stakeholders, including civil society and indigenous peoples, will be engaged in the project preparation, and their respective roles and means of engagement.**

STAKEHOLDER	MEANS OF CONSULTATION/INVOLVEMENT DURING PROJECT EXECUTION	THE MEANS AND TIMING OF ENGAGEMENT	THE MEANS OF INFORMATION DISSEMINATION
UN Environment	Founding partner, public sector voice and decisive on impact assessment and E&S framework	Continually during inception/founding, part of the Funding Committee	Orally, key inception reports, bi-weekly calls
IDH, Institute for Sustainable Trade	Founding partner, TA manager	Continually during inception/founding, link between Investment Committee and TA Manager	Orally, TA agreement (under development), IDH presentations on TA approach
Rabobank	Founding partner, anchor investor on private sector side	Continually during inception/founding, pipeline building, generation of funding leads, AGRI3 foundation	Orally, investor slide deck, indicative term sheet (ITS) of Rabobank debt, pipeline info, project opportunity note (= application for AGRI3 support)
FMO Development Bank	Founding partner	Frequent during inception/founding, sounding board and network sharing	Mostly orally

### **3. Gender Equality and Women's Empowerment**

**Briefly include below any gender dimensions relevant to the project, and any plans to address gender in project design (e.g. gender analysis).**

As a reporting effort, not an ambition, in order to respect socio-economic factors by UN recommendation.

We adhere to human rights as defined by UN Declaration of Human Rights.

AGRI3 objective 3 actively states promoting gender quality:

“Improved rural livelihoods: improving the living standards of landowners, which may include local farmers and smallholders in order to reach sustainable inclusive growth, with particular attention paid to gender equality, eradicating child labor, promoting fair labor and wages, and alleviating poverty.”

Specific attention will be paid to gender aspects of proposed projects, in line with the IDH’s Gender Toolkit and the GEF Gender Policy aiming at integrating gender aspects into supply chain approaches. The toolkit explores opportunities to integrate gender aspects in different programming steps of projects and inventions. Following these steps may positively influence project or intervention and leverage greater impact. Where appropriate, clients can be assisted by the TA Facility to identify opportunities and barriers that female workers, farmers, and managers face, to raise their awareness and design mitigates / specific interventions to overcome these.

A comprehensive gender plan will be developed by CEO ER (Section IV of the Safeguard Analysis)

**Does the project expect to include any gender-responsive measures to address gender gaps or promote gender equality and women empowerment? Yes**

**closing gender gaps in access to and control over natural resources; Yes**

**improving women's participation and decision-making; and/or**

**generating socio-economic benefits or services for women.**

**Will the project’s results framework or logical framework include gender-sensitive indicators?**

Yes

#### 4. Private sector engagement

##### Will there be private sector engagement in the project?

Yes

##### Please briefly explain the rationale behind your answer.

The project is co-initiated by a private sector entity (Rabobank); targets private sector entities (farmers, farmer groups, value chain actors) as implementers of forestry conservation and sustainable agriculture practices; and employs an open architecture to allow other private sector financiers to engage and use the Fund.

#### 5. Risks

##### Indicate risks, including climate change, potential social and environmental risks that might prevent the Project objectives from being achieved, and, if possible, propose measures that address these risks to be further developed during the Project design (table format acceptable)

The project recognises that the Corona Virus Pandemic (COVID19) may cause delays and/or slow down implementation of project activities due to delays in stakeholder consultations, in ability to travel, in recruiting staff and consultants. At the beginning of the PPG phase, the project will design appropriate mitigation measures to address COVID-19. During the PPG phase, the project will prepare and implement relevant safeguard plans which will clearly indicate activities being put in place to address risks triggered by COVID19. These safeguards include risks for project staff, risks for project progress, budgetary consequences and communications strategy.

RISKS	DESCRIPTION	RISK RATING (HIGH, SUBSTANTIAL, MODEST, LOW)	RISK MITIGATION MEASURES
Transaction flow risk	Inability to deploy capital in a swift manner.	L	AGRI3 and Rabobank work closely together. Rabobank has a strong pipeline of potential transactions, with strong sectorial and investment knowledge. Gradually, respectable additional banks and/or other financial institutions are expected to provide a strong pipeline.
Operational risk	Risk of loss incurred for failed internal processes.	L	Mirova and Natixis IM's internal controls, support functions, and AIFM-quality processes will be used by Mirova Natural Capital as Lead Investment Advisor of AGRI3, including anti-bribery and anti-corruption policies and procedures, etc.

\*\*Safeguard risk analysis included as separate attachment. CI's assessment of the EA and further analysis of risks related to safeguards will be completed during the PPG phase.

<b>Liquidity risk</b>	Financial difficulty in meeting obligations associated with financial liabilities.	L	<p>AGRI3 will start with providing guarantees which are 100% backed by deposits, which will minimize liquidity risk. This will be the situation in the first years, after which AGRI3 may be able to reduce its cash requirements, through counter guarantees and in an even later stage through portfolio diversification and based on a proven track record.</p> <p>In general terms, liquidity risk can be mitigated by careful cash flow management, which includes (i) maintaining sufficient cash and available funding in relation to committed guarantees or contingent credit facilities, and (ii) the ability of AGRI3 to meet its financial liabilities on time, under both normal and stressed conditions; without incurring unacceptable losses or risking damage to AGRI3's reputation.</p>
<b>Interest rate risk</b>	Risk that the value of future cash flows of an asset/ financial instrument fluctuates due to changes in market interest rates.	L	AGRI3's interest rate exposure on the guaranteed portfolio is contingent in nature and only crystallizes upon the occurrence of a guarantee being called. Given that calls are not expected to happen, it is, therefore, no expected to be a material risk.
<b>Country risk</b>	Financial risk that a country's government will suddenly change its policies (e.g. capital controls) or is linked to instability in a country. Economic and political disruptions (exchange rate controls, regulatory change, corruption, etc.) or financial crises may adversely affect the activities of investee companies and hence, AGRI3's portfolio returns.	L	AGRI3's investments will be spread over a number of countries to diversify the risks. A loss due to political or country risks will thereby not significantly affect AGRI3's portfolio.
<b>Market risk</b>	Risk of losses for the Fund arising from a fluctuation in the market value of the positions in its portfolio, attributable to a change in the market variables.	M	Strict hedging rules and controls over "open" sales positions will be required together with strong management capabilities and knowledgeable staff/agents/brokers. The team will favor sales to reliable off-takers willing to commit to forward purchases.
<b>Regulatory risk</b>	Sudden changes in local legislation could negatively affect business operations.	L	Country limits will result in portfolio diversification

<b>Currency risk</b>	Risk that the value of future cash flows of AGRI3 transactions fluctuates because of changes in FX rate, and currency risk – related credit risk at the level of the Rabobank and other banks' clients.	M	<p>The Fund is expected to predominantly transact in USD, the same currency as its obligations to its investors, where the balance provides a natural hedge.</p> <p>Guarantees that are provided in local currencies have an FX risk that is contingent until there is a call, at which point it may be exposed directly to FX risk if the loan is not in USD (which will then drive the need to hedge the FX risk, which may or may not be possible at reasonable rates). The expected decrease in guarantee fees for local currency guarantees, as a result of expected depreciations, are not currency risks as there is a commensurate reduction in exposure. Apart from that, the Fund aims to build up a diversified portfolio of various currencies which can be expected to further mitigate this risk.</p>
<b>Credit / default risk</b>	Credit or default risk is the risk that an obligor company defaults which will trigger guarantee payments by AGRI3.	S	<p>Mitigated through: Detailed analysis and calculation of probability of default and expected loss; Reservation for expected loss pro-rata to the probability of default; a portfolio of guarantees which will provide more and more diversification; Alignment of interests: Rabobank is equally incentivized to minimize losses, as the Fund is only providing partial guarantees; In case of first loss guarantee: Rabobank typically aims to allocate (part of) the first loss exposure to various parties in the value chain such as off-takers, which increases the commitment to make the transaction a success; and Security: recourse to the assets of the client, for instance, land.</p>
<b>Project risk</b>	The risk of losses related to operation incidents arising on the project.	S	<p>Main project risks are examined in advance during a thorough due diligence process, using a risk matrix developed in-house and third-party consulting firms.</p>
<b>ESG risk</b>	Working mainly with farmers, including smallholders, in countries with weak rule of law, E&S risks are enhanced which can feed into operational and project risks listed above. E&S risks can also trigger reputation risks.	L	<p>E&amp;S risks are examined in advance during a thorough due diligence process to our E&amp;S Standards, using a risk matrix developed in-house and, where required, third-party consulting firms.</p>



<b>Reputation risk</b>	The partners involved in AGRI3 bring solid reputations in the fields of environmental and social performance. Such a reputation is fragile and actual or perceived failings of the Fund to achieve its mission at a micro or macro scale could damage the ability of the Fund to raise future rounds of finance and attract new partners.	L	<p>The objectives of the Fund and how it differs from other ‘green’ agricultural funds needs to be clearly communicated consistently in all materials.</p> <p>The client screening already done by the commercial bank partners is one layer of protection against entering into transactions with undesirable counterparties. The Investment Advisor will be responsible for conducting a screening assessment looking out for potential reputational issues of the clients.</p> <p>On an ongoing basis, the combined monitoring of operations for the bank and AGRI3 fund investment advisor will keep the fund alerted of any emerging issues and the investment advisor will use their experience to manage such situations and the reporting of them.</p>
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## 6. Coordination

### **Outline the institutional structure of the project including monitoring and evaluation coordination at the project level. Describe possible coordination with other relevant GEF-financed projects and other initiatives.**

The AGRI3 Fund was born out of a partnership of organizations striving to design a way to deliver sustainable financing to the challenges of sustainable agriculture and forest protection at scale. Over the course of 2018, the Partnership for Forest Protection and Sustainable Agriculture Partnership (“the Partnership”) expanded to include UN Environment, Rabobank, the Dutch Development Bank (FMO) and the Sustainable Trade Initiative (IDH).

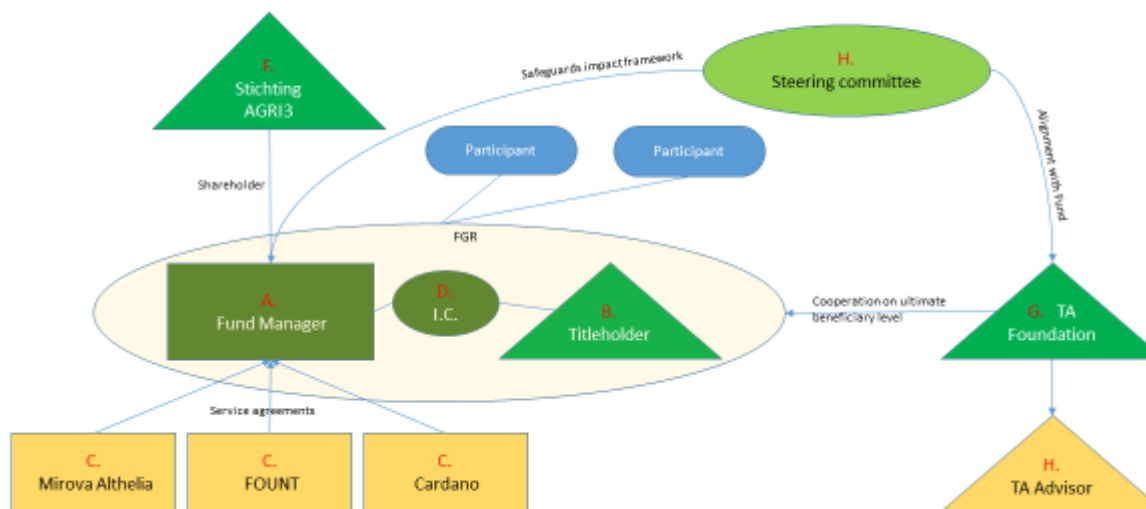
These four parties share the belief that a transition towards more sustainable food systems can be made in a public-private partnership when focusing on impactful supply chains involving all major stakeholders, ranging from primary farmers to consumers.

Overall, these parties want to contribute to sustainable land-use practices at scale, which means balancing enhanced and more sustainably produced agricultural output with forest protection, reforestation and improved rural livelihoods.

The partnership aims to involve as many interested parties as possible, including commercial and development banks that subscribe to these ambitions. This “open architecture” design will ensure the largest possible impact.

The roles of each partner in the AGRI3 Fund design are detailed in the governance structure, statutes and contracts. Following a request for proposals, Mirova Natural Capital was selected as Investment Advisor and Fount while Cardano was selected as Board Members for the fund. This arrangement was further refined during the design phase and has concluded with MNC, Fount, and Cardano sharing Investment Advisor responsibilities (with MNC being the Lead Advisor), as well as each taking a seat on the Management Board. During the operationalization of the initiative, additional actors came on-board to fulfill specific roles for the implementation.

## Legal and Governance structure AGRI3



Members of the AGRI3 Steering Committee include:

**The United Nations Environment Programme** is the leading global environmental authority that sets the global environmental agenda, promotes the coherent implementation of the environmental dimension of sustainable development within the United Nations system, and serves as an authoritative advocate for the global environment. Its mission is to provide leadership and encourage partnership in caring for the environment by inspiring, informing, and enabling nations and peoples to improve their quality of life without compromising that of future generations.

**Rabobank** is a bank by and for customers, a cooperative bank, a socially- responsible bank. Next to its ambitions as a general bank in the Netherlands, Rabobank is committed to being a leading bank in the field of food and agriculture worldwide. Embracing the “Growing a Better World Together” mission, as well as the “Banking for Food” strategy for its international activities, the bank is continuously exploring ways to support its clients in food and agriculture value chains to change to more sustainable practices. Its large client base and international knowledge networks are considered strong assets in sourcing viable and impactful transition projects.

**The Dutch Development Bank (FMO)** is committed to helping transform food systems in developing countries. In this respect, FMO increasingly focuses on Low-Income-Food-Deficient-Countries (LIFDCs) in Sub-Sahara Africa, Southeast Asia, and Latin America. In addition to food security, FMO also focuses on forest protection and agro-forestry, engaging smallholders and women in inclusive value chain models and labor-intensive agro-sectors.

**The Sustainable Trade Initiative (IDH)** convenes companies, Civil Society Organizations, governments, and others in public-private partnerships. IDH promotes sustainable agriculture and forest protection through its Landscapes program, supporting land use planning for production, protection, and inclusion. It also mobilizes investments and learning around business models that for smallholder inclusion and business models that combine land-use intensification with forest and ecosystems conservation.

Coordination with other relevant GEF-financed projects and other initiatives:

INITIATIVE	COORDINATION
CPIC Conservation Finance Initiative - Scaling up and Demonstrating the Value of Blended Finance in Conservation	Exchange of state-of-the-art experience and models in blended finance
Risk Mitigation Instrument for Land Restoration	Potential collaboration in de-risking land restoration initiatives in LatAm

Food Securities Fund	Potential collaboration in shared financing and knowledge sharing
Brazil Country Operations finance by GEF grant window	Given strong presence of Brazilian projects in transaction pipeline

## 7. Consistency with National Priorities

### Is the Project consistent with the National Strategies and plans or reports and assesments under relevant conventions

Yes

**If yes, which ones and how: NAPAs, NAPs, ASGM NAPs, MIAs, NBSAPs, NCs, TNAs, NCSAs, NIPs, PRSPs, NPFE, BURs, INDCs, etc**

- National Bio Strategy Action Plan (NBSAP)
- CBD National Report
- Cartagena Protocol National Report
- Nagoya Protocol National Report
- UNFCCC National Communications (NC)
- UNFCCC Biennial Update Report (BUR)
- UNFCCC National Determined Contribution
- Paris Agreement (see below under point 2. and page 13)
- UNFCCC Technology Needs Assessment
- UNCCD Reporting
- SDGs, notably SDG 2 (zero hunger), 13 (climate action) and 15 (life on land) and to limited extent also SDG 5 (gender equality) and 12 (responsible consumption and production).

AGRI3 will contribute to a set of international policy commitments of governments and industry as per the following hierarchy:

1. **Sustainable Development Goals** of the United Nations (SDGs), goals 2 (end hunger), 13 (climate change), 15 (life on land) and 17 (partnerships);

2. **Paris Climate Agreement** of the United Nations Framework Convention on Climate Change (UNFCCC), as implemented through nationally determined contributions (NDCs) in land use and land-use change sectors. AGRI3 has a strong focus on forest conservation and restoration and implementation of climate-smart agriculture and sustainable agricultural practices which aim to reduce pressure on land expansion and thus deforestation. See also our comments on realizing the Paris agreement on page 13.
3. **New York Declaration on Forests** of the United Nations Secretary- General's Climate Summit, through elements of the Action Agenda for Companies and Business Associations and against the goals, criteria, and indicators of the progress assessment.
4. **Bonn Challenge** to bring 150 million hectares of the world's deforested and degraded land into restoration, as implemented through national and regional commitments.
5. **Consumer Goods Forum (CGF)** resolution pledging to mobilize resources within their respective businesses to help achieve zero net deforestation.
6. UNCCD: The AGRI3 fund will directly contribute to the achievement of the "The future strategic framework of the Convention (Decision 7/COP.13). Within the Fund's E&S and Impact framework, primary Indicator 2.1a is specifically focused on supporting financing of transactions to restore degraded land (Area of degraded land restored within concessions of funded projects). The Fund will support farmers that aim to improve land and forest productivity and protect existing natural capital. This will support the achievement of the following objectives in the UNCCD strategic framework:
  - Strategic objective 1: To improve the condition of affected ecosystems, combat desertification/land degradation, promote sustainable land management and contribute to land degradation neutrality:
  - Strategic objective 2: To improve the living conditions of affected populations
  - Strategic objective 5: To mobilize substantial and additional financial and non-financial resources to support the implementation of the Convention by building effective partnerships at global and national level

The Fund will work with private sector and NGOs to support these efforts. Where relevant and applicable, AGRI3 will also contribute to land degradation targets and national plans as set under the LDN target setting process.

Of the countries most imminent in AGRI3's pipeline development (Brazil, Indonesia and India), to date only Indonesia has set and published LDN targets on the UNCCD website [12] . These are targets on forest conservation, forest rehabilitation and sustainable agricultural production including soil and water conservation. Of course, AGRI3 is not a public sector instrument - and as such, not responsible for realising government-set targets. However, almost all of the Indonesian targets in principle qualify under AGRI3 eligibility criteria and results framework. Thus, we do see a strong overlap with UNCCD LDN targets.

AGRI3's contribution to international policy commitments is included in Figure 2.

**Figure 2: AGRI3's Contribution to International Policy Commitments**



[12] [https://knowledge.unccd.int/sites/default/files/inline-files/indonesia\\_ldn\\_country\\_report.pdf](https://knowledge.unccd.int/sites/default/files/inline-files/indonesia_ldn_country_report.pdf)

## 8. Knowledge Management

**Outline the Knowledge management approach for the Project, including, if any, plans for the Project to learn from other relevant Projects and initiatives, to assess and document in a user-friendly form, and share these experiences and expertise with relevant stakeholders.**

Learning and knowledge sharing. The AGRI3 Fund will seek to spread the lessons learned and knowledge gained on a sectoral, national and international basis. This will involve taking insights from the application of technologies, financing modalities, transaction structures, and impact generation and publicizing them in a variety of formats including workshops, publications, and tools.

The project is a flagship project to private sector banks and NBFIs in Impact Finance. The project allows both partner banks (Rabobank and others) to update their risk assessment of impact finance projects and to collect data for risk modeling. The scale of the project also supposes the “replication” of sample projects and hence testing of standardization of finance approaches. By developing viable business cases that we can share, we hope to unlock more funding and turn it into business as usual in the end.

One of the crucial aspects of AGRI3 Fund’s operation is the provision of knowledge and capacity development to overcome the information barriers that impede the transition to sustainable land-use production. AGRI3 Fund’s supported transactions will consider the whole value chain and provide training and guidance to key stakeholders, from the boardroom to smallholder farmers, to maximizing the long term public good impacts of its investments. To achieve this, a grant-making technical assistance (TA) facility will be set up to make the relevant knowledge and expertise available to farmers and other project stakeholders to help them get on the path to more sustainable agriculture.

Plans to learn from relevant projects during the project implementation have already been put in place. On April 23, 2020, the first major evaluation of lessons learned and effect of key project design choices is taking place under guidance of an external consultant. The same has also been initiated on the financial modelling (to take place in the upcoming 4 weeks). In general, the AGRI3 partnership, with very diverse partners such as UN environment, Rabobank, IDH, FMO, Mirova Althelia and other fund advisers and recently the NL Government, leads to frequent evaluations of design choices and lessons learned during implementation. Furthermore, the project Steering Committee is anchored in the governance to secure these learnings.

Proposed processes to capture, assess and document info, lessons, best practice & expertise generated during implementation: the way of capturing and assessing these learnings, best practice and expertise is described above. Documentation will internally be done through minutes of the Steering Committee, updates of strategic documents and financial models. Externally, reporting on lessons learned will be include in reporting to impact investors and – given the high public profile of AGRI3 – through presentations on (side) meetings during UNGA, WEF, IMF World Bank annual meetings etc.

Proposed knowledge outputs are the description of lessons learned, best practice & expertise in updates of strategy documents and presentations as described above. As yet no publications in international magazines or on websites have been planned yet but this may become relevant once AGRI3 has collected a significant knowledge base.

Plans for strategic communications to reach out to the whole value chain and provide training and guidance to key stakeholders are included in the TA plans that accompany AGRI3 Fund investments, both to value chain actors and farmers.

The Knowledge Management Approach will be strengthened during the PPG phase, taking into account information that can be shared with the general public vs information that is subject to privacy legislation.

## Annex A

### ANNEX A: Transaction Examples

**Portfolio ramp-up.** The AGRI3 Fund targets to invest an estimated amount of capital of around USD144m during the coming 5-year period from 2019-2023, of course based on factors such as available funds and available investment opportunities, amongst other.

**TABLE 3: ANTICIPATED SCALING UP OF AGRI3 FUND'S INVESTMENT PORTFOLIO**

		2019	2020	2021	2022	2023
<b>Portfolio - number of deals</b>	<b>deals</b>	5	7	10	12	14
<i>Cumulative</i>		5	12	22	34	48
<b>AGRI3 Capital</b>	<b>m US\$</b>	10	17	28	37	50
<i>Cumulative capital</i>		10	27	53	91	141
<b>Agri3 Exposure (Cumulative)</b>	<b>m US\$</b>	20	56	112	194	306

the actual amount of cumulative capital in 2023 has been re-calculated at USD 144 mln)

Financing instruments. The Fund's investment portfolio will mainly consist of guarantees, including: (i) tenor extension guarantees, transacted primarily to cover a longer maturity tranche (most recent estimate: ~40% of the number of transactions); (ii) first loss guarantees transacted to reduce Rabobank's more senior ranking exposure (~40%) or that of other banks that propose projects to the AGRI3 Fund, with the additional possibility to invest in other guarantees and subordinated loans; and (iii) "longer tenor" guarantees, a composite form of the tenor extension under (i) above and a form of pari passu risk sharing during the earlier years of the tenor (~20%). These three types of guarantees will mitigate certain risks in the loans provided by commercial banks that exceed the lenders' own risk appetite. These loans could be to parties across the entire agriculture value chain such as primary producers, processors, traders, wholesalers, technology providers (e.g. irrigation) and more. As the risk profile of these loans is typically beyond the usual risk appetite of banks (due to the innovative nature and related longer payback period and/or higher risk profile of the specific projects), it is most logical for AGRI3 to focus on risk



mitigation products (guarantees) instead of liquidity instruments (like sub-ordinated loans). Although the latter may in some cases be (partly) required because of local regulatory issues.

Typology of transactions. Current pipeline transactions are generally characterized as follows (see for some specific examples in later sections):

- Instrument type: mainly guarantees, being either partial risk guarantees, tenor extension guarantees, first loss guarantees, longer tenor guarantees and potentially – in a few cases – partial risk guarantees or subordinated loans. Partial risk guarantees are pari-passu guarantees on a portion of the loan, (e.g. the longer maturities), with exposure from the start.
- Borrowers: borrowers will in first instance in principle be existing Rabobank clients, that will use the fund for projects that are beyond the usual risk appetite. The aim however is to stimulate other banks to put forward projects to be considered by the AGRI3 Fund, by bringing in their own clients.
- Use of funds: the projects will focus on forest protection and sustainable agriculture as described in more detail in other sections of this document. Improvement of rural livelihoods needs to be demonstrated to avoid adverse side-effects for rural communities. See for several examples further below.
- Sub-sectors: this could for instance be soybeans, cotton, corn, cattle, horticulture, and several other crops (see Investment Criteria in Section)
- Value chains: borrowers can be parties across the entire value chain, such as primary producers, processors, traders, wholesalers, technology providers (e.g. irrigation), etc.

#### Transaction examples

An overview of 3 transactions from the pipeline is presented below. Further information on each of the transactions can be found in 4.3. In this selective, but indicative pipeline, two of the transactions involve medium to large scale farmers. AGRI3 will work with these types of farmers as they have the capacity to push boundaries in terms of technology and will be able to achieve great scale in terms of impact. They can also serve as demonstration clients, that will influence practices in their industry and region. Such transactions will aim to integrate a TA component so that the lessons learned to can passed to smaller farmers in the rein/supply chain.

## Deal example (1): Large farmer in Brazil

### E&S Impact

Mato Grosso grains usually planted with no-tillage system. Soil compaction and intensive utilisation result in yield reduction.

Pilot to test subsoiling, railing of land and one time additional fertilizer once every 5 yrs to ensure continuous high yields and avoids degraded land.

### Additionally: outside of RAS

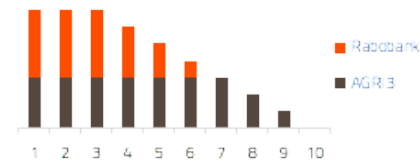
- 10 yr tenor loans are not available in the commercial market in Brazil
- 3 yrs grace period longer than accepted within Rabo Risk Appetite Statement
- Input finance at higher level than R&R guidelines/ portfolio average

Brazilian  
Cerrado  
region



Making **soy production** more sustainable at scale using a company as an aggregator

### Pari passu risk sharing



### Financing flow

#### Amount

USD 5 mln (pilot phase)

#### Tenor

10 yrs, 3 yrs grace period

#### Used funding

AGRI3 parri passu risk sharing  
USD 2.1 mln

### Transaction example details

#### Pipeline Transaction A

Transaction Name

Sub-Soil Improvements

Overview	A family owned farming group with over 120k ha of land under ownership of lease for soy, cotton and corn wishes to implement a new sub-soiling technology across 15k ha of land, which a 2.5k ha trial has shown can boost yields 15% as well as increase soil carbon. The improved soil structure also reduces drought in the future. The investment will demonstrate the technology can work at scale, increasing its financability and uptake in the sector. The client is committed to zero deforestation on the farms as well as increase of legal reserve (via compensation) 15% above the legal requirements. By increasing yields and area of forest under conservation the activities will contribute national and state-wide production/protection goals.		
Country	Brazil		
Counterparty	Family owned farming group		
Investment need	<p>The client requires \$5m to implement the new technology over 15k ha, with the funds going primarily towards:</p> <ul style="list-style-type: none"> <li>· Soil preparation and analysis;</li> <li>· Cultivation using new subsoiling and railing technology;</li> <li>· Inputs (fertiliser, seeds, defensives).</li> </ul>		
Transaction Structure	Loan from Rabobank as a commercial lender.		
Role of AGRI3	<p>Provision of tenor extension guarantee, without which the loan would not be possible due to payback period.</p> <p>The guarantee will require, c. EUR2.1m cash set-a-side and will come at a cost to be negotiated. The position could be exited once the remaining loan tenor falls within commercial lending requirements or held to maturity.</p>		
Transaction Impact	Rural Livelihoods	Forest Protection and Restoration	Sustainable Agriculture
	<ul style="list-style-type: none"> <li>· 105 general farm employees, 10 technical employees trained on the technology.</li> <li>· 150 attendees on farmer field day to spread knowledge to others in region.</li> </ul>	<ul style="list-style-type: none"> <li>· 2.3k ha of additional legal reserve beyond legal requirements set a side via compensation</li> </ul>	<ul style="list-style-type: none"> <li>· 10k ha of land with improved productivity (15%) and soil carbon.</li> </ul>

Transaction Name	Sugar and Ethanol
Overview	A high sustainability performance Sugar and Ethanol wishes to embark on an investment program to further improve its sustainable agricultural performance, whilst also improving the capacity of its staff in new and innovative agricultural practices such as integrated pest management that reduces fertiliser use. The investment will demonstrate the profitability of these new practices, allowing for wider replication, and eventually the provision of pure commercial finance for such activities.
Country	Brazil
Counterparty	Sugar and Ethanol Company

Investment need	<p>The Sugar and Ethanol company grows sugar cane and processes it to produce ethanol to high environmental and social standards. The seek EUR12m capital to invest in further improving the sustainability of their operations including:</p> <ul style="list-style-type: none"> <li>- Repairing a road to reduce transport emissions for themselves and improve the cost to market for neighbouring communities and farmers.</li> <li>- Use of measurement equipment (on-board computers) throughout the agricultural fleet to monitor operations and find improvement points.</li> <li>- Application of integrated pest management (IPM) techniques with preference for biological or cultural controls. This practice consists of a system of controls, procedures and operations that aim to control sugarcane pests with minimal environmental and social impact.)</li> <li>- Putting in place infrastructure for distribution of vinasse (a by-product derived from the ethanol production) as a natural fertilizer, with coated channels allowing the distribution of this product by gravity</li> <li>- Construction of a Liquid Fertilizer Plant Quantification of the KPI's in terms of the project</li> <li>- Plant 90ha of native forest species to preserve ecological corridors, that is, to unify fragments of native vegetation in bigger fragments, to reinforce the essential rule that vegetation plays in ecosystems.</li> </ul>		
Transaction Structure	Loan from Rabobank as a commercial lender.		
Role of AGR13	<p>Provision of tenor extension guarantee, without which the loan would not be possible.</p> <p>The guarantee will require, c. EUR5.8m cash set-a-side and will come at a cost to be negotiated. The position could be exited once the remaining loan tenor falls within commercial lending requirements or held to maturity.</p>		
Transaction Impact	Rural Livelihoods	Forest Protection and Restoration	Sustainable Agriculture

	<ul style="list-style-type: none"> <li>· 50 qualified beekeepers trained for IPM</li> <li>· 2,000 hours (at least) for 800 employees trained on sustainable agricultural practices</li> <li>· 50 employees trained 3 hours each to manage restored forest areas.</li> <li>· 7,000km of roads improved, benefiting 110 suppliers and 380,000 local people</li> </ul>	<ul style="list-style-type: none"> <li>· 90 hectares of forest land restored using a mix of 80 native species of the Biome</li> </ul>	<ul style="list-style-type: none"> <li>· 18,000 hectares of improved fertiliser application through tubes / channels for vinasse distribution.</li> <li>· 7,000 tonnes of reduced fertiliser use</li> <li>· 1.7 tonnes of reduced insecticide use per year due to integrated pest management approach.</li> </ul>
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Transaction Name	Smallholder Loan Finance
Overview	A non-bank financial institution in India provides short- and long-term agricultural loans to smallholder horticultural/vegetable farmers for installation of MIS (micro irrigation systems). It also extends credit for installation of lift irrigation, solar pumps, dairy & dealer/small loans.
Country	India
Counterparty	Non-Bank Financial Institution (NBFI)
Investment need	<p>The NBFI seeks a 6-year loan facility of \$7m to provide it working capital and longer-term finance to build up its long-term asset book. The financing offered to smallholder farmers includes:</p> <ul style="list-style-type: none"> <li>· MIS Financing</li> <li>· Farm equipment financing</li> <li>· Financing of solar equipment</li> <li>· Financing pipes and or motoes / pumps for lift irrigation</li> <li>· Special lending financing for widows</li> <li>· Dairy project financing</li> <li>· Short term crop loans</li> <li>· Personal loans</li> </ul> <p>The financing provided by AGRI3 will focus on the irrigation financing solar panels, mechanization of the agricultural production and working capital.</p>
Transaction Structure	Loan from Rabobank as a commercial lender.

Role of AGRI3	AGRI3 will provide a first loss risk sharing facility up to 50% of the overall facility at fees to be negotiated. This will require set-a-side of \$3.5m from the AGRI3 fund.		
Transaction Impact	Rural Livelihoods	Forest Protection and Restoration	Sustainable Agriculture
	<ul style="list-style-type: none"> <li>· [TBD] recipients of training on the transition sustainable agriculture in the form of irrigation and / or micro renewable energy.</li> <li>· Increase in household income of loan beneficiaries.</li> </ul>	<ul style="list-style-type: none"> <li>· NA</li> </ul>	<ul style="list-style-type: none"> <li>· [TBD] Ha's transitioned to higher productivity, more resilient sustainable agriculture in the form of irrigation and / or micro renewable energy.</li> </ul>

### AGRI3's theory of change applied to key commodities

#### Crop focus: rice

Rice is one of the world's key staple cereals, feeding an estimated 3.5 billion people daily and providing 19% of total dietary energy. Increasing populations mean that demand for rice is forecast to increase by 25% in the next 25 years. This makes it all the more important that yields are improved sustainably and that the negative environmental impacts of production are reduced. Failing to do so would mean increasing land conversion, worsening environmental impacts, stagnating or falling yields, deteriorating livelihoods, and worsening malnutrition.

Main environmental impacts:

Sustainable production practices:

How concessional finance can help the transition:

#### Crop focus: soy

Issue: Demand for soy continues to increase for direct consumption, animal feed and biodiesel production. Global soy production has increased 15 times over since the 1950s. Sustainable intensification of production will be needed to reduce these impacts.

Main environmental impacts:

Water use, erosion

Methane emissions

Pollution due to agrochemical use

Efficient production methods to increase production while minimising environmental impacts from e.g. water use

Responsible expansion: no deforestation

Management of erosion and soil quality

Water management, including limiting methane emissions by better irrigation management

Integrated crop production: e.g. rice/duck, rice/fish, or rice/wheat

Integrated pest management

Avoidance of crop loss through e.g. improved drying and stocking practices

Improved climate change resilience through e.g. selection of drought and/or salinity resistant strands

Training

Piloting of innovative production methods and business models

Capital investments e.g. precision terracing, irrigation improvements

Sustainable production practices:

How concessional finance can help the transition:

#### **Crop focus: palm oil**

Issue: Palm oil has become ubiquitous across the world, being consumed as cooking oil or as an ingredient in a broad range of products from foodstuffs to cosmetics. Its versatility and the high yields per hectare make it likely that demand for palm oil will continue to grow in the short to medium term. It is therefore essential to focus on reducing the negative environmental impacts of its production.

Main environmental impacts:

Sustainable production practices:

How concessional finance can help the transition:

#### **Annex B: TA Facility Strategy**

**Strategy.** Projects seeking lending from the Fund must meet the Fund’s investment criteria. In pushing boundaries beyond business as usual, potential investees in some cases will be need of support in designing and articulating an investable proposal, and in implementing the project to maximises on its impacts on rural livelihoods, sustainable agriculture and forest protection. Examples are the design and roll out of innovative ‘incentive schemes’ as part of AGRI3 financing projects, to incentivise commodity producers to comply with zero deforestation criteria, or capacity building of farmers on sustainable land management practices, beyond what can be commercially financed. Likewise, as the AGRI3 fund and its investees are pioneering innovations, measuring and reporting the impact of these investments will be required to proof impact of investments and enable scaling up and crowding in of new actors in the sustainable land use investment space.

The TA Facility will aim to address these needs through four main functions which are described below: (i) Pre-investment support and (ii) post-investment support; (iii) Learning, knowledge sharing and (iv) impact monitoring. By playing this role, the TA facility will accelerate the development of investable opportunities and maximise their impacts, as well as derisks the Fund, therefore protecting the junior capital. The targeted TA facility capital taking industry benchmarks into account is 10% of the fund size.

With IDH as manager of the TA Facility, the TA Facility will be managed according to the best practices in the sector, in terms of transparency, additionality and accountability. The TA facility will be set up as a separately managed facility, but inextricably ‘linked’ to the Finance Fund. Disbursement of the TA funding can be prior to, in parallel or post investment by the Finance Fund.

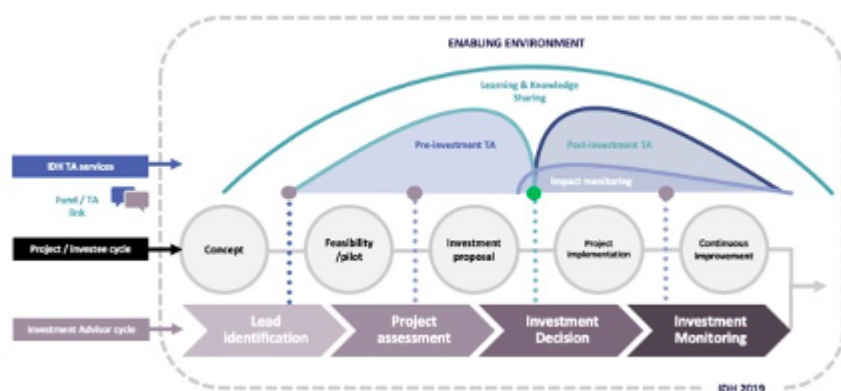
In line with the Fund, the focus of the TA Facility will be initially on Brazil, India and Indonesia. In these countries, the TA facility will have part time team members based out of the IDH offices in these countries. This way, the AGRI3 partnership builds on their knowledge and networks in the space of inclusive supply chains, deforestation, land governance and sustainable land use. Over time however, the AGRI3 fund seeks to develop an innovative and diversified portfolio also covering low income countries, as well as projects with a higher financial risk. The TA facility will also be there to support development and implementation of these projects.

The TA facility will offer the following support:

**Pre-investment support.** Eligible TA to support project investment readiness can be roughly divided into two categories (although in many cases operational, financial and ESG aspects will be closely linked): (i) Enhancing operational and financial structures; and (ii) Project preparation support related to social and environmental impact.

## **FIGURE 5: TECHNICAL ASSISTANCE STRATEGY**





Examples of the type of activities that will be eligible for funding include:

- Enhancing operational and financial structures: Support in conceptualizing and engaging in meaningful stakeholder consultation in the development of their project concept; TA for the design of innovative financing structures, overall contractual scheme and risk management process of the project; Analysis of Service Delivery Mechanism to design/improve operational and financial arrangements of services to farmers, including outgrower schemes; Independent technical and legal support for negotiating terms of the main project contracts (especially in case of a power imbalance between the clients and smallholders or communities);
- Project preparation support related to social and environmental impact: Improving the management and monitoring setup of social and environmental impact; Design of ‘incentive schemes’ for deforestation free supply chains; Support for executing Free Prior and Informed Consent processes with local stakeholders, Voluntary Guidelines on the Responsible Governance of Tenure, High Conservation Value and High Carbon Stock, other landscape level issues, e.g., on watersheds or biodiversity corridors; Analysis and training to help strengthen the approach to land governance and tenure in the project; Scope for site/project-specific opportunities to maximise social and environmental impact within the investment on forest conservation and rural livelihoods, including conservation management and monitoring, climate change resilience, sustainable land and water management, biodiversity, inclusive business models and gender.

Post-investment TA. As part of the post investment implementation support, the TA facility will provide grants to enhance the impact of the investment, reduce risk, and support sustainable productivity, profitability and sustainability of operations. To this end, the TA facility can support: (i) Enhancing operational and financial structures and capacities; (ii) Increasing social impact through innovations; (iii) Sustainable land and water management (on-site environmental impacts); and (iv) Landscape management and biodiversity conservation (off site environmental impacts).

Examples of the type of activities that will be eligible for funding include:

- Enhancing operational processes and financial structures: support roll out of innovative financing structures and risk management procedures; capacity building to improve operational processes.
- Rural livelihoods and social impacts and innovations: supporting (farmers / forest owner / local community) land and tree tenure rights; capacity building with local SMEs, smallholders, forest owners; outgrower schemes; gender inclusion; staff training to enhance hiring of local staff, hiring of youth and gender balance.
- On-site environmental impacts: capacity building on best agronomy practices, including efficient fertilizer and water use, soil management & erosion control techniques, including Sustainable Land Management (SLM) practices, fight diseases, pests and weeds, adaptation to changing climatic conditions, harvesting and post-harvest management.
- Landscape management and biodiversity conservation: capacity building for landscape interventions and partnerships; Forest conservation activities, including establishment of conservation areas, wildlife corridors; Biodiversity measures.

Capacity building to stakeholders and supporting the enabling environment scaling up project impact on forest conservation and rural livelihoods.

Enhanced Impact Monitoring. The AGRI3 Fund will report to its investors, partners and stakeholders on its impact in a comprehensive way. The Lead Investment Advisor will be responsible for the impact report and will base such reporting on the approaches it has developed for the Althelia Climate Fund, where appropriate and as far as in alignment with the goals of the AGRI3 fund . It is the ambition of AGRI3 Fund to improve on limit the burden of reporting on clients, obtain scientifically defensible impact data that goes beyond normal reporting modalities. As such, a small portion of the TA Facility will be dedicated to supporting the Lead Investment Advisor pushing the boundaries of Impact Reporting.

Such support, could extend to:

- 3rd party field data collection / verification to check self-reported findings
- Deep dive 3rd party studies into secondary impacts
- Design and implementation of GIS based data collection, analysis and reporting system
- Production of interactive impact monitoring reporting.

**Part III: Approval/Endorsement By GEF Operational Focal Point(S) And Gef Agency(ies)**

**A. RECORD OF ENDORSEMENT OF GEF OPERATIONAL FOCAL POINT (S) ON BEHALF OF THE GOVERNMENT(S):** (Please attach the Operational Focal Point endorsement letter with this template).

Name	Position	Ministry	Date

**ANNEX A:**

**Instructions.** Please submit an indicative termsheet in this section. The NGI Program Call for Proposals provided a template in Annex A that can be used by the Agency. Agencies can use their own termsheets but must add sections on Currency Risk, Co-financing Ratio and Financial Additionality as defined in the template provided in Annex A. Termsheets submitted should include sufficient details to allow a financial expert to understand and judge the financial viability of the proposed investments. Indicative terms and conditions should be used when specific details are not yet available. Please ensure that by copying the termsheet in the section of the PIF/PFD, the format allows reviewers to read the content.

**Disclaimer:**

*The CI-GEF Project Agency has conducted a pre-liminary review and assessment of the proposed non-grant instrument (NGI). Additional due diligence of the NGI proposal will be conducted by the CI-GEF Project Agency during the PPG phase.*

*All investments are speculative in nature and involve substantial risk of loss. Much of the information and indicative terms submitted by the CI-GEF Project Agency is derived directly from information provided by the project proponent, which we believe is reliable/reasonable. CI does not warrant the completeness or accuracy of such information and does not provide any representations or warranties as to the success of financial returns to be generated by the NGI or whether the NGI would be deemed to be in line with market terms and conditions.*

<b>Project/Program Title</b>	AGRI3
<b>Project/Program Number</b>	10497
<b>Project/Program Objective</b>	<b>AGRI3 will de-risk USD 1 billion of private sector financing and provide USD 15 million in technical assistance for forest conservation and sustainable agriculture that will benefit rural livelihoods in developing countries and emerging markets to address climate change and land degradation.</b>
<b>Country [ies]</b>	Global emerging markets
<b>Agency presenting the Project</b>	CI

<b>Project Financing</b>	<p>A. Sources of Co-financing, Name of Co-financier and type of co-financing (Part I section C of the PIF/PFD)</p> <p>Other, Netherlands Government, Public Investment, USD 35,000,000</p> <p>Other, Netherlands Government, TA Grant USD 5,000,000</p> <p>Private Sector, Rabobank, Loan USD 50,000,000</p> <p>Other, to be mobilized, Equity USD 26,000,000</p> <p>Private Sector, to be mobilized, Loan USD 20,000,000</p> <p>Other, to be mobilized, TA Grant USD 10,000,000</p> <p style="text-align: right;">Subtotal USD 146,000,000</p> <p>B. Indicative Trust Fund Resources Requested under the NGI Program (Part I section D of the PIF/PFD) (gross USD 15,000,000) net USD 13,461,468</p> <p>C. Total Project Financing: sum of A+B USD 159,000,000</p>
<b>Currency of the Financing</b>	USD
<b>Currency risk</b>	If the currency of the financing is other than USD, please note if GEF resources are exposed to currency risk; describe how the currency risk is mitigated in this transaction and the maximum amount of GEF resources at risk.
<b>Co-financing ratio</b>	<p>Every GEF 1USD mobilizes 10 USD</p> <p>Every GEF 1USD mobilizes 5 USD of private sector financing</p>

<b>Financial additionality of GEF resources</b>	<p>Please specify (i) the financing barriers addressed with the GEF blended finance resources and (ii) quantification of financial additionality.</p> <p>The AGRI3 Fund distinguishes between 4 asset classes in its funding mix:</p> <ul style="list-style-type: none"><li>· “Capital preservation” grantors like the Dutch Government – providing first loss, thus highest risk category</li><li>· Junior participants, investing equity with second loss risk appetite</li><li>· Senior participants, investing equity with third loss risk appetite</li><li>· Debt providers like Rabobank.</li></ul> <p>Target returns are agreed per asset class. Actual returns are allocated on an annual basis and are reinvested in AGRI3. Payouts take place at fund termination or are included in the value of a participation upon sale of the participation prior to fund termination. The Fund may choose to remove the category of Junior Participants – senior participants will always be senior to Capital preservation investors.</p> <p>At the moment there are commitments in the first and fourth category – and a gap in between. Both for the governance as well a for the growth of the Fund it is imperative to fill this gap with equity investors. The GEF investment will fill this gap. As the first equity investor, it will unlock the asset classes of junior and senior participations which is key to the success and governance of the Fund.</p>			
<b>Use of proceeds</b>	<p>The resources will be invested in the Agri3 Fund which de-risks investments in forest conservation and sustainable agriculture.</p> <p>The use of resources is aligned with the following GEF Focal areas/Investment Programs:</p> <table><tr><td>Climate Change</td><td>Land Degradation</td><td>Biodiversity</td></tr></table>	Climate Change	Land Degradation	Biodiversity
Climate Change	Land Degradation	Biodiversity		
<b>Financing instruments</b>	<p>The proposed GEF equity investment unlocks a five-fold investment by the private sector in AGRI3 and a total investment in forest conservation and sustainable agriculture of about USD 100 mln. The selection of equity as financing instrument allows GEF to become the anchor investor in either junior or senior participant asset classes. The proposed targeted return is concessional in nature, yet generates a positive return to GEF demonstrating the economic viability of the fund structure.</p>			



**Terms and conditions for the financing instruments**

- (a) Fund strategy: AGRI3 is a guarantee and sub-debt fund, aiming to de-risk investment in forest conservation and sustainable agriculture. The ambition is to unlock a total of USD 1 bln of financing in these objectives, by blending AGRI3 products with commercial bank loans.

AGRI3 distinguishes itself from other funds by its unique partnership with commercial banks and their agricultural client base. This is supported and encouraged by the fund's open architecture, which allows other banks to participate in the fund's business operations. The advantage for participating commercial banks is that they derive interest and fee income from lending transactions that would normally fall outside their risk appetite. Therefore, the fund promotes forest conservation and sustainable agriculture on an economically viable basis for clients and for participating banks without stretching their risk appetite. The collaboration with commercial banks secures a project pipeline that many impact funds lack.

- (b) Fund structure: AGRI3 is an open-end investment fund structured as a fund for joint account under Dutch law. This includes the legal entities Stichting Titleholder AGRI3 and AGRI3 Fund Manager B.V. as well as a contractual arrangement sui generis between these entities and each of the participants in the Fund. It is an investment institution as referred to in article 1:1 of the Financial Markets Supervision Act (FMSA).

Governance structure of the Fund:

The Fund's assets and liabilities are held by a Dutch foundation, acting as fund depositary entity. AGRI3 Fund Manager B.V. is instructed to act as Fund Manager. Mirova Natural Capital is the Lead Advisor to the Fund, supported by FOUNT and Cardano. These advisors will also be the Fund's initial participants. The sole shareholder of the Fund Manager B.V., Stichting AGRI3, has specific decision/prior approval/advisory rights and will act in the interest of all stakeholders of the Fund.

(c) Targeted IRR:

Junior and senior participants are equity investors with an impact investment objective in the Fund. The risk waterfall specifies:

- a first loss tranche of USD 35M is provided by the NL Government with a capital preservation target
- second, junior participants will absorb losses superseding the first loss. The Fund is willing to agree an RoI target with junior participants in the 4 – 9% range
- third, senior participants investors will absorb losses superseding the first and second loss. The Fund is willing to agree an RoI target with senior participants in the 2 – 7% range
- lastly, debt will be provided by debt providers (typically, commercial bank) at rates between 1 – 5%.

GEF is requested to make an investment as anchor senior investor (after the first loss provided by the NL Government).



<b>Terms and conditions for the financing instruments (continued)</b>	<p>(d) <u>Remuneration of Fund Manager:</u></p> <ul style="list-style-type: none"> <li>· Year 1-5: tailored, fixed remuneration scheme</li> <li>· Year 6 ff.: agreed percentage in the 0.5 – 1.0% range of guarantee exposure plus 20% profit sharing</li> </ul> <p>Guarantee exposure = the sum of maximum nominal amounts that can be drawn under guarantees outstanding. For AGRI3 at the top of its portfolio, this amount will be up to USD 306 mln. in year 6 ff.</p> <p>(e) <u>Pipeline of projects:</u> About 20 projects in pipeline, 2 closed and warehoused</p>
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**ANNEX B:**

Instructions. Please submit a reflows table as provided in Annex B of the NGI Program Call for Proposals. Any financial returns/gains/interests earned on non-grant instruments, will be transferred to the GEF Trust Fund as noted in the Guidelines on the Project and Program Cycle Policy. Partner Agencies will be required to comply with the reflows procedures established in their respective Financial Procedures Agreement with the GEF Trustee.

Item Data	Item Data
GEF Project Number	10497
Estimated Agency Board approval date	TBD
Investment type description	Investment
Expected date for start of investment	June 2021
Amount of investment (USD GEF funds)	15,000,000 total amount requested 13,461,468 to be invested after Agency fees and PPG amount
Amount of investment (USD co-financing)	146,000,000
Estimated interest rate/return	5% (allocated, not distributed but re-invested) (estimated return upon full investment of the Fund)

Maturity	20 years (minimum 10 years, sale of the investment possible with Fund Manager's consent; CI can exit after 10 years when reporting is fully established)
Estimated reflow schedule	Single repayment
Repayment method description	Profits allocated and retained/re-invested until final repayment date
Frequency of reflow payments	n/a
First repayment date	n/a
First repayment amount	n/a
Final repayment date	December 31, 2040
Final repayment amount	22,188,800

Total principal amount to be paid- reflowed to the GEF Trust Fund	13,461,468
Total interest/earnings amount to be paid-reflowed to the GEF Trust Fund	After 10 years: around USD 3.5M (allocated, not distributed) After 20 years: around USD 9.4M

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[1] Or earlier if possible

**ANNEX C:**

The GEF Agency submitting the PIF or PFD is required to respond to the questions in Annex C of the NGI Program Call for proposals in order to demonstrate its capacity and eligibility to administer NGI resources as established in the Guidelines on the Project and Program Cycle Policy, GEF/C.52/Inf.06/Rev.01, June 9, 2017 (Annex 5).

**Annex C: Partner Agency Eligibility to administer Concessional Finance**

The GEF Agency submitting the PIF or PFD will demonstrate its capacity and eligibility to administer NGI resources as described below:

**Ability to accept financial returns and transfer from the GEF Agency to the GEF Trust Fund;**

Conservation International (CI) has ability to receive financial returns and to transfer such returns to the GEF Trust Fund. CI is currently managing one GEF-6 Non-grant Instrument. We have established a segregated GEF bank account to receive funding from the GEF and from grantees and NGI beneficiaries. Further, our accounting system transparently tracks cash inflows by source, by type of inflow, and by GEF project.

**Ability to monitor compliance with non-grant instrument repayment terms;**

CI is able to monitor the compliance of Non-grant Instruments through contractual terms in agreements with NGI beneficiaries, financial and technical site visits, full audit reports, structured reporting requirements built into quarterly financial and impact reports and analytic reviews thereof.

**Capacity to track financial returns (semester billing and receiving) not only within its normal lending operations, but also for transactions across trust funds;**

CI has the capacity to monitor financial returns of NGI recipients and implements this oversight in various ways depending on the nature of the NGI. In general, CI will evaluate the projected /anticipated cash flow from NGIs based on their business plan, develop a pro forma repayment schedule with the recipient, monitor actual results against projections and ensure timely collection of reflows via the monitoring procedures described above. In addition, CI's accounting system and procedures enable us to track and report on inflows and outflows across each project and by GEF Trust Funds.

**Commitment to transfer reflows twice a year to the GEF Trust Fund;**

During the PPG phase, CI will work with project proponents to define a suitable schedule of payments. However, CI can establish reflow repayment schedules with the NGI recipients, require semi-annual repayment of reflows to CI and remit amounts collected along with relevant support to the GEF Trust Fund on a semi-annual basis.

**And, in case of NGI for private sector beneficiaries: Track-record of repaid principal and financial returns from private sector beneficiaries to the GEF Agency.**

CI will employ the methods described above to track and record NGI principal and financial returns. CI's GEF Agency currently has one NGI (equity/investment fund) in its portfolio, which is still in its investment period and as such has not started to distribute fund proceeds to the investors. However, CI has implemented several NGI programs

over its history. CI has engaged in over 100 deals, totaling \$30 million in responsibly invested eligible sustainable enterprises through Verde Ventures, and more recently through CI Ventures has continued to successfully implement NGIs, secure repayment of principal and interest.

**And, in case of concessional finance for public sector recipients: Track-record of lending or financing arrangements with public sector recipients; g) Established relationship with the beneficiary countries' Ministry of Finance or equivalent.**

CI has supported public sector entities mainly through grants and have established strong relationships with governments through our country programs. The NGIs that CI is proposing would be established with private sector beneficiaries and do not involve concessional finance directly to governments.