PROJECT TYPE: FULL- SIZED PROJECT
TYPE OF TRUST FUND: GEF TRUST FUND

Request for CEO Endorsement

PART I: PROJECT INFORMATION

Project Title: Enabling Transactions - Market Shift to Deforestation Free Beef, Palm Oil and Soy			
Country(ies):	GLOBAL	GEF Project ID:	9696
GEF Agency(ies):	World Bank, UNEP	GEF Agency Project ID:	
Other Executing Partner(s):	IFC, UNEP FI, WWF-US	Submission Date:	Dec 1, 2016
GEF Focal Area (s):	Multiple Focal Areas	Project Duration(Months)	48
Integrated Approach Pilot	IAP-Cities ☐ IAP-Commodities X IAP Food Security ☐		Corporate Program: SGP
Name of Parent Program	Taking Deforestation out of Commodity Supply Chains	Agency Fee ($)	$576,459

A. FOCAL AREA STRATEGY FRAMEWORK AND OTHER PROGRAM STRATEGIES

Focal Area Objectives/Programs	Focal Area Outcomes	Trust Fund	Amount (in $)	
			GEF Program Financing	Co-financing
IAP Commodity Supply Chain	Reduction of the global impacts of agriculture commodities on GHG emissions and biodiversity by meeting the growing demand of palm oil, soy and beef through supply that do not lead to deforestation and deforestation-related GHG emissions.	GEFTF	6,100,096	22,958,419
CCM2: Demonstrate Systemic Impacts of Mitigation Options Program 4: Promote conservation and enhancement of carbon stocks in forest, and other land use, and support climate smart agriculture	Outcome A. Accelerated adoption of innovative technologies and management practices for GHG emission reduction and carbon sequestration Outcome B. Policy, planning and regulatory frameworks foster accelerated low GHG development and emissions mitigation	GEFTF		
	Project Management Cost (PMC)[1]	GEFTF	305,005	0
	Total Program Costs		6,405,101	22,958,419

[1] For GEF Project Financing up to $2 million, PMC could be up to10% of the subtotal; above $2 million, PMC could be up to 5% of the subtotal. PMC should be charged proportionately to focal areas based on focal area project financing amount in Table D below.

B. **PROJECT DESCRIPTION SUMMARY**

Project Objective: To strengthen the financing environment for sustainable commodity production through design and pilot sustainable commercial transactions and risk management tools						
Project Component/ Programs	**Financing Type**	**Project Outcomes**	**Project Outputs/Verifiable Indicators**	**Trust Fund**	**(in US$)**	
					GEF Project Financing	**Co-financing ($)**
Component 1: Support to commercial transactions (IFC only)						
	INV	Commercial transactions totaling a minimum of USD100 million dollars of new investment per year[2]	1.1 Long-term financial products designed, promoted & utilized 1.1.1 6-8 business cases /investment thesis analysis undertaken related to specific innovations resulted in # of studies published (for Beef and Soy three business case thesis: Beef Intensification; Degraded Pasture to soy; Sustainable standard adoption) 1.1.2 # promotional Workshops/seminars to in-country 1.1.3 % of value of investors / companies /banks expressing interest in opportunities	GEF	**2,673,262**	**14,700,000**
			1.2 Trade finance products designed, promoted & utilized 1.2.1 One new trade finance product developed (Soy Sustainable shipment – LC) 1.2.2 Existing trade finance products promoted			
			1.3 Blended finance products designed, promoted & utilized (based on 1.1.1 analysis) and launched			
Component 2: Support to Financial Markets & Institutions						

[2] (By Dec 2018, the program has supported the development of 4 innovative financial instruments deployed through both banks and companies leading to between 15 to 20 transactions that support the adoption of sustainable practices (standards and GAPs) including and allow financing worth a $100 million of additional financing (IFC own financing or mobilized) per year)

	TA	Outcome 2.1 Increased funds (loans and investments) subjected to enhanced deforestation risk policies, either permitted by changes to existing funding instruments and practices or by development of new products already in compliance with reduced deforestation objectives	Output 2.1.1 20 FI's/investors trained in using risk management tools that reduce deforestation Output 2.1.2 Technical capacity and operational modalities established among 50 FIs with significant deforestation exposure to implement Deforestation-Free, Zero Net Deforestation, or equivalent policies. Output 2.1.3 Capacity is built and guidance and tools are provided for effective application of major new emerging markets regulations to target supply chains. Output 2.1.4 New financial products supporting the production of reduced deforestation commodities, identified and their potential role in funding the transition to zero-deforestation commodity production clearly delineated.	GEF	2,932,377	7,958,419
Component 3: Support to Public Sector - Incentives and co-financing for Transactions						
	TA	Outcome 3.1 Increased public incentives and public and private financing for reduced deforestation practices[3]	Output 3.1.1. Production country analyses developed on fiscal incentives (e.g. subsidies and taxes), including those targeting smallholders Output 3.1.2 Assessments on how to reinforce linkages between reduced deforestation commodity production (palm oil, soy, and beef) and REDD+ natio Assessments on how to reinforce linkages between reduced deforestation commodity production (palm oil, soy, and beef) and REDD+ national	GEF	494,457	300,000

[3] The work carried out to achieve this outcome will be closely coordinated with the Production Child Project and specifically with Component 1: PPPs and dialogue, outcome 1.2 practical alignment and implementation of public and private investments and other actions related to target commodities. The work under this outcome will also reinforce dialogue channels between REDD+ and sustainable commodity practitioners, to avoid further atomization of efforts.

			programs that consider REDD+ finance as potential source of financial support for farmers and traders, including for the provision of extension services			
			Subtotal	GEF	6,100,096	22,958,419
			Project management Cost (PMC) 5%	GEF	305,005	
			Total project costs	GEF	6,405,101	22,958,419

C. **SOURCES OF CONFIRMED COFINANCING FOR THE PROJECT BY NAME AND BY TYPE**

Please include letters confirming cofinancing for the project with this form

Sources of Co-financing	**Name of Co-financier**	**Type of Cofinancing**	**Amount** ($)
Executing Agency	IFC	In Kind	10,180,000
Implementing Agency	UNEP	In Kind	300,000
Executing Agency	UNEP FI	In Kind	800,000
	UNEP Inquiry	In Kind	600,000
Donor Agency	SECO	In kind	2,078,419
Consultative partner and co-financier	Forest Conservation Agriculture Alliance (FCAA) – Partnership including USAID, WWF-US, IFC, Minerva, WCS, Neuland Coop & FIDEI	In kind	9,000,000
Total Co-financing			22,958,419

D. **TRUST FUND RESOURCES REQUESTED BY AGENCY, FOCAL AREA AND COUNTRY**

GEF Agency	**Trust Fund**	**Country Name/ Global**	**Focal Area**	**(in $)**		
				GEF Project Financing (a)	**Agency Fee** (b)	**Total** c=a+b
World Bank	GEF	Global	Multi Focal Area	$4,279,644	$385,168	$4,664,812
UNEP	GEF	Global	Multi Focal Area	$2,125,457	$191,291	$2,316,748
Total Grant Resources				$6,405,101	$576,459	$6,981,560

E. **PROJECT'S TARGET CONTRIBUTIONS TO GLOBAL ENVIRONMENTAL BENEFITS**

Provide the expected project targets as appropriate. **(see summary of IAP targets)**

Corporate Results	**Replenishment Targets**	**Project Targets**
1. Maintain globally significant biodiversity and the ecosystem goods and services that it provides to society	Improved management of landscapes and seascapes covering 300 million hectares	N/A
2. Sustainable land management in production systems (agriculture, rangelands, and forest landscapes)	120 million hectares under sustainable land management	N/A
3. Promotion of collective management of transboundary water systems and implementation of the full range of policy, legal, and institutional reforms and investments contributing to sustainable use and maintenance of ecosystem services	Water-food-ecosystems security and conjunctive management of surface and groundwater in at least 10 freshwater basins;	*N/A*
	20% of globally over-exploited fisheries (by volume) moved to more sustainable levels	*N/A*
4. Support to transformational shifts towards a low-emission and resilient development path	750 million tons of CO_{2e} mitigated (include both direct and indirect)	N/A
5. Increase in phase-out, disposal and reduction of releases of POPs, ODS, mercury and other chemicals of global concern	Disposal of 80,000 tons of POPs (PCB, obsolete pesticides)	*N/A*
	Reduction of 1000 tons of Mercury	*N/A*
	Phase-out of 303.44 tons of ODP (HCFC)	*N/A*
6. Enhance capacity of countries to implement MEAs (multilateral environmental agreements) and mainstream into national and sub-national policy, planning financial and legal frameworks	Development and sectoral planning frameworks integrate measurable targets drawn from the MEAs in at least 10 countries	*N/A*
	Functional environmental information systems are established to support decision-making in at least 10 countries	*N/A*

F. **DOES THE PROJECT INCLUDE A "NON-GRANT" INSTRUMENT? (Select)**

(If non-grant instruments are used, provide an indicative calendar of expected reflows to your Agency and to the GEF/LDCF/SCCF Trust Fund) in Annex D.

NO NON-GRANT MECHANISMS PLANNED

PART II: PROJECT JUSTIFICATION

A. DESCRIBE ANY CHANGES IN ALIGNMENT WITH THE PROJECT DESIGN OF THE ORIGINAL PIF[4]

A.1. Project Description. Elaborate on:

Summary of IAP Program:

The Enabling Transactions project is a child project under the UNDP-GEF 6 Integrated Approach Pilot (IAP) program, *Taking Deforestation out of Commodity Supply Chains.* The IAP program is advancing an integrated "supply chain" approach to tackling the underlying root causes of deforestation from agriculture commodities, specifically beef, oil palm, and soy that together account for nearly 70% of deforestation globally. To vastly reduce or take deforestation out of these commodity supply chains, production has to come from areas that do not contribute to further clearance of natural forests.

The Theory of Change for the program **(attached at Annex A)** builds on the premise that the increased adoption of agricultural commodity production practices that are less destructive of forests is contingent on several factors. Firstly, enabling conditions including policies and land use/spatial plans must be in place to make the right lands available for production and to make high biodiversity value and high carbon stock forests less accessible. Secondly, producers need enhanced capacity to adopt good agricultural practices and improve yields. Thirdly, increased financial flows and economic incentives are necessary to support these good production practices in the right locations and less incentives must be provided in inappropriate locations. Fourthly, market awareness and demand for reduced deforestation supply are critical to promote more sustainable production. If these factors are addressed, agricultural production can be increased and growth achieved with sharp reductions in deforestation compared to business-as-usual scenarios.

The IAP program has been developed through a multi-agency consortium that builds on the strong baseline of work by UNDP, WWF, IFC, UNEP, and CI. The overall IAP program is designed through the supply chain lens for each of the three commodities, and in close consultation with four countries associated with their production: Brazil and Paraguay for soil palm and beef; and Indonesia and Liberia for oil palm. By applying the supply chain lens to the overall design, the IAP program engages all major actors to harness best practices and sustainability principles for production, generating responsible demand and enabling financial transactions. The Program will be carried out in an integrated, coordinated and synergistic fashion in order to foster sustainability and achieve transformational impact. The ultimate goal of the program is to make the drive for sustainable products associated with significantly reduced deforestation become standard industry practice.

The entire Program is organized into four major components that will be delivered through separate child projects as follows (see figure below):

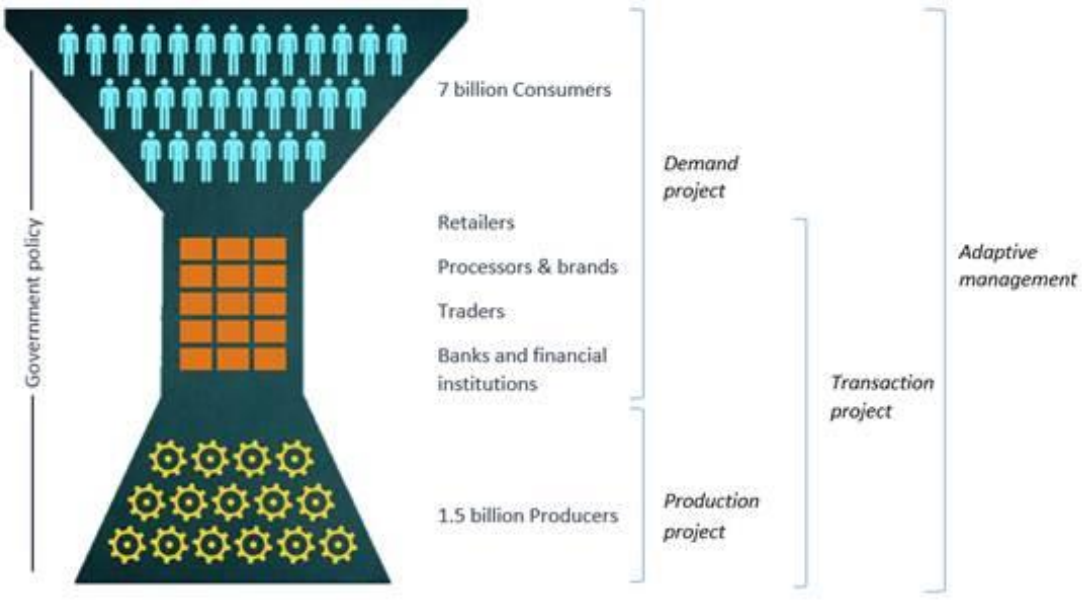
a. Support to Production (led by UNDP): The focus is on promoting good practices and sustainability principles at the production end of the commodity supply chain. This component will enable supply and production in the right areas and location while conserving the forest and reducing deforestation in the targeted landscapes. Key geographies have been targeted for demonstration of best practices for sustainable production of oil palm (largest driver in Indonesia and Southeast Asia), and soy and beef (largest drivers in Latin America).
b. Generating responsible demand (led by WWF): This component seeks to strengthen the enabling environment for increased demand of reduced-deforestation commodities in priority markets. The focus in

[4] For questions A.1 –A.7 in Part II, if there are no changes since PIF and if not specifically requested in the review sheet at PIF stage, then no need to respond, please enter "NA" after the respective question.

on targeted engagement with key buyers and key markets that have represented the majority of recent demand, domestic demand for these commodities within the production countries, and emerging economies where demand is increasing.

c. Enabling Transactions (led by World Bank/IFC): This component seeks to improve the resilience and competitiveness of financial institutions, enabling them to develop in a sustainable manner with improved risk management practices and innovative products to accelerate the production and supply of forest friendly commodities. The aim is to support the development of investment transactions either via banks, investors or companies that reduce deforestation in key commodity supply chains on a commercial or blended finance basis.

d. Adaptive Management and Learning: In addition to overall coordination of the Program to ensure coherence and consistency, as well as communications and partnership building, this component will foster substantial knowledge management at the global level to advance the supply chain approach for beef, soy, and oil palm. This will include a Global Community of Practice to share best practices and promote learning, and a Global Research Impacts platform to develop robust and policy-relevant evidence base on the effectiveness of different voluntary sustainability standards for deforestation-free commodities.



Following Council approval of the PFD, the government of Brazil requested an explicit focus on the soy supply chain, bringing together substantive aspects on Enabling Transactions, Responsible Demand and Support to Production into a single child project for Brazil, with UNDP as the implementing agency and Conservation International as executing partner. The government of Brazil proposed that the child project be formulated on a baseline targeted on the MATOPIBA region (abbreviation for the States of Maranhão, Tocantins, Piauí and Bahia), for which a proposal had been developed with the Brazilian government and approved by the Grupo Técnico de Avaliacão de Projetos (GTAP).

The IAP Program is expected to generate multiple substantial global environmental benefits to the GEF replenishment targets, including reduced deforestation from agricultural commodity production, biodiversity conservation and sustainable forest management. This is shown in the table below.

GEF Replenishment Targets	**IAP Targets**

Improved management of landscapes and seascapes covering 300 million hectares	23 million
120 million hectares under sustainable land management	150,000
750 million tons of CO_{2e} mitigated (include both direct and indirect)	80 million

1) THE GLOBAL ENVIRONMENTAL AND/OR ADAPTATION PROBLEMS, ROOT CAUSES AND BARRIERS THAT NEED TO BE ADDRESSED

Problems

Nearly three quarters of tropical deforestation in the past decade was driven by commercial agriculture. Those operating in agricultural supply chains are, therefore, critical private sector constituents in any attempt to halt and reverse tropical forest loss. Their production, purchasing and investing decisions are keys to solving the problem. The overarching goal of this work is to accelerate the realization of sustainable, no-deforestation commodity supply chains by:

- Increasing the engagement and ambition of the financial sector to incorporate these goals in their decision making processes and offer products and services which incentivize them.
- Increasing the engagement and ambition of governments to align their fiscal systems with these goals.

Achieving this requires an understanding of the factors currently holding back these outcomes. One of the key issues that needs to be addressed is the lack of understanding of the risk faced by financial institutions with a significant client base in sectors with high direct or indirect impacts or dependencies on forest ecosystems. The risks include potential delays in repayment of loans or bonds and changes in return on equity. Conversely, financial institutions rarely understand the potential value-add to be gained from a move to low or zero deforestation supply chains.

That said, evidence is emerging of the value at risk to supply chain operators whose returns may be negatively impacted by a variety of biophysical, market and commercial risks created by ongoing engagement in deforestation. For example, a number of consumer facing companies have faced significant reputational issues when their links to deforestation have been exposed, and been subject to a number of damaging consumer campaigns. Similarly, for producers and traders lower down the supply chain, issues of market access are emerging where contracts are put in jeopardy when deforestation links have emerged.

Evolving priorities of governments looking to move to “green development” trajectories has also raised legal and regulatory risks for supply chain operators linked to deforestation. In respect of engaging governments to reassess their fiscal system, a number of problems have been identified.

The spectrum and impacts of fiscal support can be hard to identify and harder to estimate. A wide range of government tools are used, including subsidies provided through direct spending, concessional loans and tax exemptions, as well as regulatory and information instruments. For example, research across two countries and four commodities (Indonesia – timber and palm oil, and Brazil – beef and soy) identified a total of 48 different subsidies. However, the researchers were only able to find existing estimated values for a little over half of these subsidies. The impact of these subsidies on land use choices is even more difficult to determine.

Root Causes

Firstly, many banks and other financial institutions do not attempt to integrate deforestation risks into their ESG criteria and financial decision making at all.

Secondly, even for those few institutions which do attempt to include aspects related to deforestation in their ESG criteria for loan decisions, they generally adopt a high level, measurable metric that is relatively easy to monitor and assess, such as membership of a voluntary standard organization. For example, BNI, an Indonesian bank, recommends that palm oil companies that have applied for or secured loans from the organisation obtain ISPO or RSPO certification. Unfortunately, as the standards established by these bodies are the result of cross-industry collaborative processes and are often in the relatively early stages of implementation or design, they are often not sufficient to ensure zero deforestation by a participating company.

Thirdly, without the compelling evidence to assert the value add from zero-deforestation production and procurement activities, the financial institutions have little incentives to develop or offer products and services, such as concessional finance, that might incentivize additional or accelerated take up of zero deforestation activities by their customers.

Fourthly, there is a lack of mandatory requirements on financial institutions. With no or limited regulation in most countries making robust environmental and deforestation risk analysis mandatory, banks are reluctant to reject profitable yet environmentally harmful projects without fear that other banks would finance them in their stead, or even to reduce their competiveness in the market place by imposing potentially cumbersome forest-related assessment and verification requirements. Even those institutions whose lending policies and criteria address forest loss generally "encourage", rather than require, their customers membership of appropriate voluntary standards bodies.

Finally, even where fiscal instruments (subsidies) can be clearly identified and quantified (in terms of cost and impact), they can be difficult to unwind and adapt. For one thing, there are many vested interested in the status quo. Perhaps more significantly, subsidies are often not commodity specific but are applied to a country, region or sector, as opposed to the specific commodity, making it more difficult to target specific deforestation outcomes through them.

Barriers

Limited financial service innovation - In terms of new products or services to incentivise zero deforestation supply chains, there is little innovation driving the development of such products and services. Only a limited number of banks have begun to organize into groupings such as the Banking and Environment Initiative (BEI) with the aim of taking deforestation out of their lending portfolios, but financial products that reward producers and traders for adopting sustainable or zero deforestation practices are limited. Examples of such products include a trade finance product for RSPO-traded oil offering discounts, developed by IFC in collaboration with BEI. HSBC launched something similar in mid-2014. The IFC, in collaboration with WWF, has also developed the Global Map of Social and Environment Commodity Risk (GMAP) to respond to the need to reduce the environmental and social risks associated with the IFC's short-term trade finance portfolio.

Lack of data for decision-making - Underpinning these issues is the general lack of information and transparency about the drivers, impacts, costs, and infrastructure of sustainable commodity production and sourcing. For instance, very little primary data exists on: monetary and other benefits to producers and buyers; market and/or environmental performance for commodities that are governed by corporate commitments to low or zero net deforestation/ degradation/ conversion; social conflict mitigation or social benefit sharing; biodiversity impacts; and other sustainability indicators. This represents a critical information gap – at global, national and local levels – that is hindering both public policy formulation related to promoting sustainable commodity production and investment and REDD+ policies and programs, as well as private sector attempts to redirect finance into sustainable and zero-net-deforestation supply chains.

General lack of financial services - It is important to note that there are many barriers to finance for supply chain actors in developing countries that are not connected to issues of sustainability, but are broader and more fundamental. These include high transaction costs, lack of accessible / reliable information, lack of collateral, and

mismatched tenors of lenders and borrowers. In particular, banks have been reticent to develop new financial products to support the rural/agriculture sector in general, due to ongoing perception of high risk in that sector. These factors all need addressing, though this is not the specific emphasis of the work here. Suffice to say though, these factors could have a stronger effect in respect of sustainability and zero-deforestation supply chain investments, due to the currently limited understanding and (perceived) higher risks and implementation of new sustainability concepts and the need to measure and verify sustainability outcomes.

Subsidies that act as a barrier to change - Given the wide range of subsidies and other fiscal instruments that governments currently use to support investment in and development of the commodities that play a role in driving forest loss, any effort, be they public or private, to shift investment towards REDD+ and sustainable, no-deforestation supply chains must take into account governments' existing fiscal measures, to 1) identify opportunities to phase out or reform current subsidies that encourage forest loss; 2) support the design of any new incentives for REDD+, so they complement domestic efforts to shape private investment; and 3) ensure subsidy reform protects the poor and most vulnerable. Based on preliminary analysis by the Overseas Development Institute (ODI), it seems that domestic subsidies to activities causing deforestation vastly outweigh the international REDD+ funding seeking to prevent it. Brazil and Indonesia together provided over $40 billion in subsidies to palm oil, timber, soy, and biofuel sectors between 2009 and 2012, which is more than a hundred times the $346 million these countries received through REDD+. These subsidies are, therefore, likely to have a far more significant impact on private investment in activities that drive deforestation than current REDD+ finance. Despite this, although many governments are developing REDD+ policy and institutional frameworks that will enable and promote sustainable commodity production, including zero-deforestation supply chains, few currently include in this a review of existing fiscal systems and incentives.

Local/regional Financial Institutions are absent from the discussion - over the past decade some banks and investors have taken voluntary steps to develop policies that require certain environmental or social practices and standards from clients and investee companies. However, whilst growing, the number of financial institutions adopting such practices remains very low. Perhaps most significantly, they include few of the domestic and regional institutions that are the major financiers of land use investments in tropical forest countries. As a result, the financial sector at present is not a significant voice or lever for change. An increased effort is required to increase the participation and leadership of financial institutions in the sustainable supply chain revolution, including consideration of the initiation of mandatory requirements by national regulatory authorities.

2) THE BASELINE SCENARIO OR ANY ASSOCIATED BASELINE PROJECTS

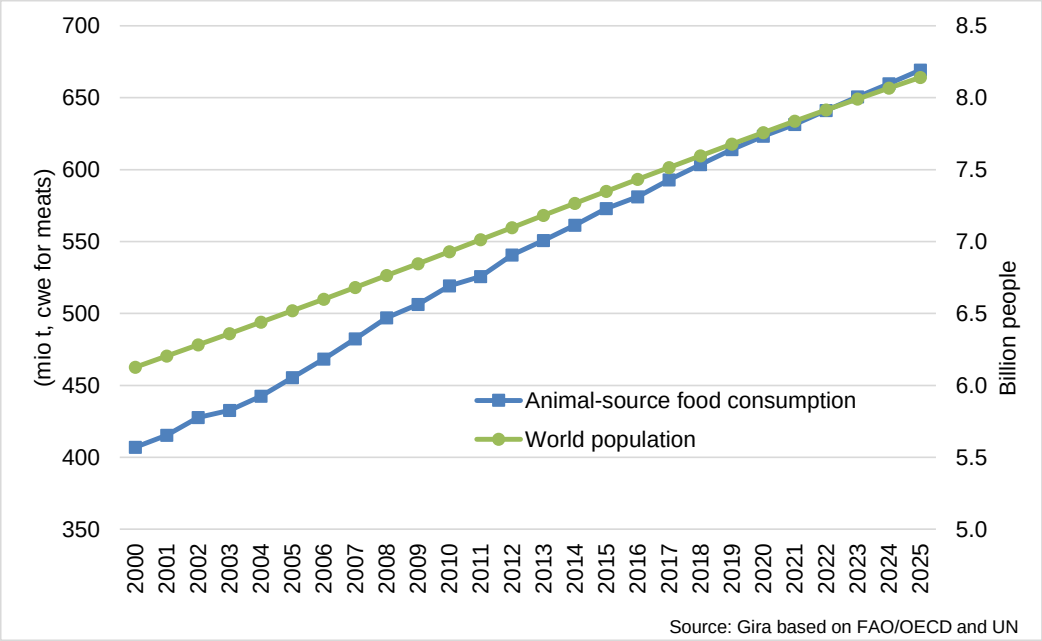
The enabling transactions project will work at both the national level and the global level for each of the commodity supply chains discussed in this section.

The Soy and Beef Industry Supply Chains

Globally demand for proteins are growing and this is expected to continue as both population globally increases and a rising middleclass globally demands greater protein-based diets based on meat. A recent IFC commissioned report indicated that world animal-source food consumption[5] has been developing at a fast rate since 2000. With a 2.3% CAGR consumption grew at slightly less than twice the demographic rate (1.2% p.a. according to UN estimates), meaning a growth in per capita consumption. This is the result of purchasing power improvements and a consequent transition to a diet including more animal-source foods. The majority of intensively raised animal systems (pigs, broilers, eggs, and to some extent beef) use soy as the primary protein ingredient and it can be assumed that growth for soy will closely track the projections in the below figure.

WORLD ANIMAL-SOURCE FOOD CONSUMPTION, 2000-2015 AND 2015-2025 PROJECTIONS

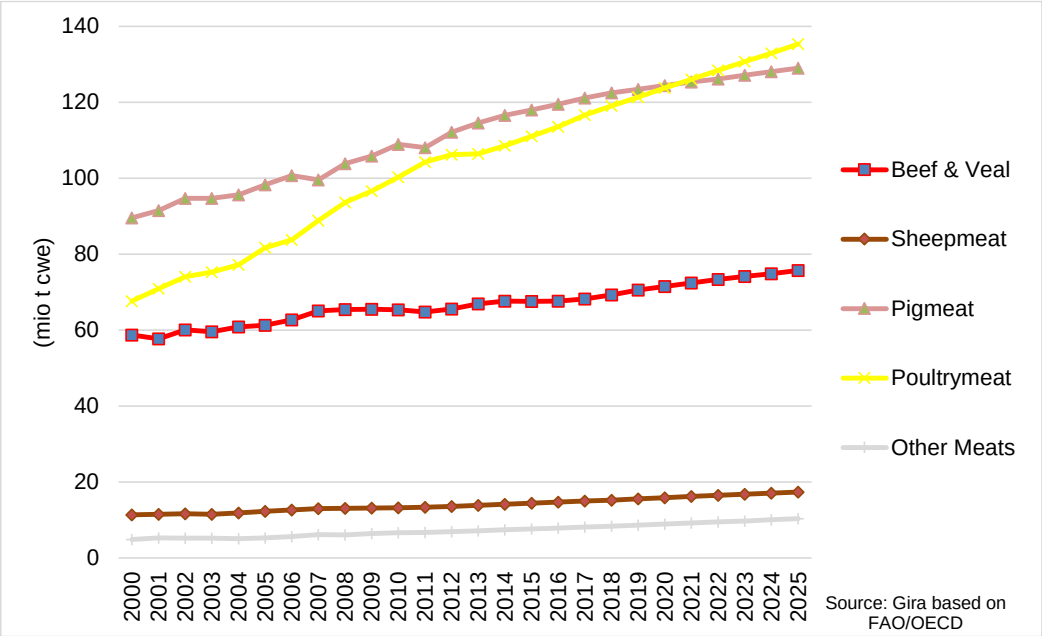
[5] Including meats, fish, offal, cheese and eggs, i.e. not including drinking milk and other dairy products.



When separated out, the growth rates for poultry and pig meats have more quickly than beef in part due to beef's higher consumer prices.

- Poultrymeat consumption has enjoyed a strong 3.36% CAGR from 2000 to 2015;
- Pigmeat consumption recorded a 1.86% CAGR from 2000 to 2015;
- Beef consumption recorded the lowest CAGR of all meats, 0.94% from 2000 to 2015;

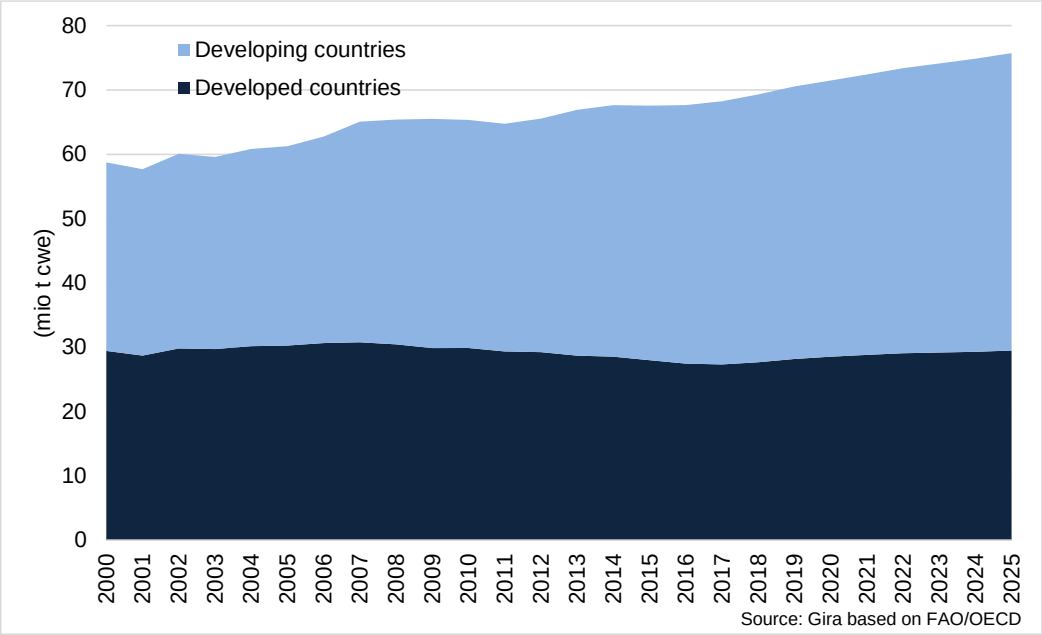
WORLD MEAT CONSUMPTION PER TYPE, 2000-2015 AND 2015-2025 PROJECTIONS



Beef

Beef consumption in developed markets will not grow significantly but will do so in emerging markets such as China.

DEVELOPED AND DEVELOPING COUNTRY BEEF CONSUMPTION, 2000-2015 AND 2015-2025 PROJECTIONS



Paraguay is the sixth largest beef producer globally and the sector is one of the major export-oriented opportunities in the country. Brazil is the largest beef exporter globally and home to the largest meat processing company globally, JBS.

Beef production systems in both Paraguay and Brazil vary from very small operations (under 20 animals) through to large scale operations with well over 1,000 head on large scale farms. Virtually all the beef is pasture-based although there is some movement to establish feedlot operations in Brazil and to a lesser extent Paraguay. Beef slaughter for export in both countries is dominated by large Brazilian firms (e.g. JBS, Minerva, Marfrig) that also have operations in Paraguay. Three Mennonite cooperatives also have export-standard abattoirs in Paraguay providing an outlet for sale of their cooperative member cattle. The investment required to build an export-quality beef abattoir are significant (new plants typically between USD60-100 million depending on throughput) but the significant working capital requirements are required for the purchase of slaughter cattle as most firms are not vertically integrated and require the abattoirs to purchase cattle to process.

Soy

The following table summarizes both the major production export and import of soybeans for selected countries. Brazil is the largest exporter of soybeans globally and is the dominant importer into China. The EU is the second largest destination market but as growth in meat consumption will be less in developed markets it is anticipated that in the next ten years China imports will be well above 100 million tonnes. That growth in trade is fuelling the continued investment in supply chain infrastructure in Brazil and to a lesser extent Paraguay.

Production and Trade In Soybeans by Country ('000 tonnes)[6]

	Production	Net Exports
	2014/15	2014/15
Brazil	96,310	49,725
China	12,350	-76,825
EU	1,687	-13,330
Paraguay	8,400	4,593

All of the major trading companies including ABCD[7] along with large Brazilian traders (Grupo Amaggi) and Chinese traders (Cofco) are present in Brazil. Few traders operate vertically integrated supply chains (Amaggi the exception) and rely on pre-financing strategies with growers and spot purchases (predominant method) at harvest time to secure volumes. Significant volumes of trade finance are therefore required by the trading companies during the harvest period, much of which is financed through domestic and international banks.

Environmental context and deforestation

The soy and beef sectors have been identified as key commodities that have led to significant deforestation and biodiversity loss. Efforts to address this issue on a voluntary basis began around 2005/06 the Roundtable on Responsible Soy (RTRS) was established with a standard produced in 2010 and commenced for beef with the establishment of the Global Roundtable for Sustainable Beef (GRSB) in 2010 and a set of guiding principles established in 2014.

RTRS certification has begun in Brazil and Argentina predominately but is still only a fraction of the global supply (2.4 million tons in 2015), the majority of which has been sold (via certificate trading) to European feed markets whom are willing to pay small premiums for responsibly produced soy.

In Brazil, the main voluntary agreement minimizing forest conversion in the soy sector is the Soy Moratorium, signed in July 2006 by industry members of ABIOVE (Brazilian Vegetable Oil Industry Association) and ANEC (Brazilian Grain Exporters Association) and their members which pledged members to not buy soy produced in the Amazon biome after July 2006. The Soy Moratorium has been viewed as a success for the Amazon biome although it did push development of soy into the Cerrado biome. The Soy Moratorium continues, extended recently until May 2018 although there are calls once the CAR (Cadastre Ambiental Register) system that registers properties for the purpose of their environmental licensing in Brazil becomes comprehensive (currently 85% coverage (May 2016)[8] then the Soy Moratorium can be phased out.

Currently the only sustainability program operated a credible certification scheme for beef in LATAM is Rainforest Alliance. Uptake has been low with only two farms certified to date. Moore Foundation have been active with ICV (a local NGO) in establishing PECSA (Pecuária Sustentável da Amazônia (Amazon Sustainable Cattle Ranching)) in northern Mato Grosso. Whilst no independent verification has been used the ranchers following established good agricultural practices and are provided with capital and technical assistance to help make the transition.

Until 2004 Paraguay registered the highest deforestation rate in the Americas and second in the world. Nearly 7 million ha of Atlantic Forest was lost to slash-and-burn for agricultural and ranching use in close to four decades. In 2004, Paraguay brought into force a Zero Deforestation Law (Ley de Deforestación Cero), which prohibits the

[6] LMC Sep 2015 Oilseeds Report
[7] ADM, Bunge, Cargill and Louis Dreyfus
[8] Abiove press release

conversion of native forests to agricultural areas or areas for human settlements in the Upper Parana Atlantic Forest (UPAF). By 2006, Paraguay had reduced its deforestation rate by 85 percent and received international recognition for these efforts. This number is still declining and the deforestation rate is now between 90 and 95 percent lower. Despite the declining deforestation in the UPAF, there has been a significant increase in deforestation outside the limits of the Atlantic Forest, especially in the western Chaco region. The current deforestation rate in this region is estimated at 500 ha per day.

IFC and partners are currently planning to establish a non-binding collaboration to be known as the Forest Conservation Agriculture Alliance ("FCAA") between USAID, WWF, WCS, Minerva, FIDEI, IFC, The Association of Municipalities of Central Chaco and Neuland Cooperative. The high-level goal of the FCAA is to reduce tropical deforestation associated with the production of both soy and beef in Paraguay, within the framework of Paraguayan environmental regulations. WWF will serve as coordinator of the FCAA, using financial resources provided by USAID under a separate agreement between WWF and USAID.

Banking system/Financial sector initiatives

In respect of rural credit, in Brazil a significant proportion (40 percent) of working capital and investment capital is provided at preferential rates through government rural credit programmes. It is likely that this has a significant impact on the parallel private investment provided to the sector by input suppliers, purchasers and commercial banks.

Across all sectors, the following 7 banks account for 80 percent of the volume of loans provided: BNDES, Caixa Econômica Federal, Banco do Brasil, (all state banks) Itaú Unibanco, Banco Bradesco, Banco Votorantim, HSBC and Banco Santander (all private banks). These institutions have shown leadership in their adoption of principal international sustainability agreements for the financial sector such as the Equator Principles, Principles for Responsible Investment, and more recently, the Principles for Sustainable Insurance. Undoubtedly, there is a long road ahead to deepen and strengthen these foundations, but it is already possible to see that this is not perceived as a reversible trend and that the Government, the Brazilian Central Bank and many in the private sector already view socio-environmental risks as having a relevant role in financial operations and must therefore be adequately monitored by institutions active in the country.

In Paraguay, agricultural value added is about 20 percent of GDP (10 year average), and agriculture employs about 24 percent of the labor force. Yet, many agricultural producers face challenges in financing their activities.

Paraguay's financial system is dominated by commercial banks. Currently 15 commercial banks hold assets equivalent to 64 percent of total system assets, with the four largest representing about 60 percent of total bank assets. Foreign/domestic asset ownership is split 50:50, including one state-owned commercial bank. There are also 12 finance companies and 372 cooperatives holding assets equivalent to 3 percent and 15 percent of GDP respectively. Banks' loans are concentrated in the large agribusiness sector, whereas finance companies and cooperatives dominate the market for consumption loans, and loans to micro, small, and medium size enterprises.

A RoundTable on Sustainable Finance in Paraguay - In 2013, consultants worked with four key Paraguayan banks (Banco Continental, Banco Regional, Sudameris Bank, Vision Banco) and Dutch development bank FMO to develop a Roundtable on Sustainable Finance. All four banks were supported in the integration of ESG management in their operations and as a follow up, the banks decided to join forces and set up a sector wide initiative on sustainable finance. This initiative creates a platform to share experiences in the sector, engage with clients and investors, and to jointly develop financing solutions for the environmental and social challenges in Paraguay. The Roundtable was launched in Asunción, Paraguay, on June 27, 2013. This grouping is currently developing sector guidance for financial institutions financing the beef sector.

Transactions in the Palm Oil Supply Chain

The following table summarizes production and net exports for selected countries relevant to this program.

Production and Trade In Palm Oil by Country ('000 tonnes)[9]

	Production	Net Exports
	2014/15	2014/15
Indonesia	32,940	23,985
Malaysia	20,132	16,600
EU	0	-6,640
China	0	-5,449
India	180	-9,350

Malaysia and Indonesia dominate the palm oil industry producing roughly 87% of global supply. Indonesia is now the dominant producer and the oil palm sector has large plantations (inte) with linked smallholders (plasma) and then independent smallholders (swadaya) also a growing sector.

The palm oil industry in Indonesia can meet the growing world demand for edible oils by focusing on improving yields in existing plantations and expanding the area planted on alang-alang grasslands and degraded forest land provided this is carried out within a framework of good governance. (Fairhurst and McLaughlin 2009) Further plantings of oil palms would be required to meet the doubling of edible oil needs to 2050 that a strategy focused on degraded lands made up from grasslands (alang alang) and secondary forested areas on flat lands could be prioritized and that the returns on investment were acceptable (IRR 14-7-16.1 percent). In practice it has been harder to achieve either the productivity improvements (particularly with independent smallholders) or widespread planting on degraded lands. On degraded land, World Resource Institute (WRI) worked hard to develop a model for 'land swap's under its POTICO[10] program and subsequent Issue Brief – How to Change Legal Land Use Classification to Support More Sustainable Palm Oil in Indonesia[11].

Liberia does not get a mention in terms of overall production and exports. However, Liberia has historically been a palm oil producer since the 1970's and was a regional exporter of palm oil until the end of the 1980's. The civil unrest led to the deterioration of the large palm oil plantations and the total destruction of largescale industrial CPO plants. (IFC Palm Oil Sector Review 2008) Half of Liberia's palm oil is produced by 220,000 women and men on small farms, harvested from forests where it grows abundantly (USAID). The rest of the palm oil produced in the country comes from more than 70,000 hectares of oil palm plantations which started to be established in the 1970s (GoL 2006) Agricultural production of palm oil as well as rubber and other cash crops represents a significant potential source of economic growth for Liberia, along with the extractive mining and oil and gas sectors.

In recognition of its potential economic contribution, the government signed major concession agreements with four international palm oil conglomerates between 2007 and 2011, with a projected investment value of nearly US $ 3 billion (GoL 2014).

- Sime Darby Plantations Liberia (SDPL)
- Golden Veroleum Liberia (GVL)
- Equatorial Palm Oil (EPO), now majority owned by Malaysian company KLK

[9] LMC Sep 2015 Oilseeds Report

[10] WRI's former project POTICO is now part of their Forests and Landscapes work in Indonesia. Tools such as their Suitability Mapper now incorporated into the Global Forest Watch (GFW) platform.

[11] http://www.ifc.org/wps/wcm/connect/f736b2804300ce76b757b732ece34d2d/how_to_change_legal_land_use_classifications_to_support_sustainable_palm_oil.pdf?MOD=AJPERES

- Maryland Oil Palm Plantation (MOPP)

While total plantations could thus theoretically reach up to 540,000 ha, set-asides for the environmental protection of High Conservation Value (HCV) and High Carbon Stock (HCS) areas, and for community livelihood purposes, combined with areas less suited for oil palm, will reduce this considerably.

Smallholders –Rehabilitation and Replanting

Of the 11 million hectares of planted palm oil in Indonesia, smallholders represent 42 percent of Indonesia's palm oil base of which 40 percent comes from independent smallholders (ISH) and 60 percent from plasma scheme smallholders (PSH).

Access to finance was often cited as a major constraint for smallholders, as they often did not have the necessary collateral such as land titles to borrow from commercial banks, and had to rely on plantation companies to serve as guarantors for obtaining financing for operations and replanting. The size of financial needs was estimated in the IFC 2014 Indonesia Case Study to require approximately USD2 billion for rehabilitation/replanting purposes and incremental working capital costs of USD12 billion totaling USD14 billion in financing needs based on rehabilitation of 5 million hectares over a five year period. A 2015 IDH/Rabobank/IFC study looked globally at replanting models for smallholder tree crops inclusive of the palm oil sector and found only one concrete case study with PTPNXIII where 420 hectares of plasma smallholders was replanted, another pilot has been proposed with plasma smallholders in Riau linked to the Sinar Mas group with 100 farmers identified for financing at the end of 2015. No financing scheme (either for inputs or revitalization/replanting) has as yet been developed for the ISH producer in Indonesia.

Based on the analysis above, IFC (with Canadian government and company support) has begun working with independent smallholders in July 2015 in a program called the Indonesia Palm Oil Development Smallholder Project (IPODS). This work has a number of components including linking farmers to markets that will increase their incomes by (i) increasing direct purchases by palm oil companies of harvest outputs from farmers, thereby enabling farmers to sell their outputs at higher prices, due to premiums and/or the fact that purchasing directly can enable the companies to offer farmers a better price, and by (ii) increasing direct sales of inputs (i.e. seeds, fertilizers, pesticides, farm equipment, etc.) by companies to farmers, thereby enabling farmers to buy better inputs at better prices to comply fully with the good agricultural practices required. By engaging closely with ISHs this project provides a relevant testing ground for the IAP partners and the Enabling Transactions project will support this effort in the following critical areas:

- The development of viable business model for independent smallholders integration into lead firm supply chains
- Development of financing products for working capital and long-term financing (replanting with good quality inputs)
- Disseminating these findings to the wider stakeholder community

Degraded Land

Indonesia's Ministry of Finance (MOF) Land Degradation Neutrality National report[12] estimated 24.3 million hectares of degraded land[13] in Indonesia in 2013. Figures for degraded land vary widely (from 12 million to 74 million hectares) with much of the variance depending on what definition is placed on degraded lands. Regardless, only some of this land would be suitable for oil palm plantations with a recent Indonesian government estimated this at 6 million hectares. In 2010, then Indonesian President Susilo Bambang Yudhoyono declared a policy to develop oil palm plantations on "degraded land" instead of forest or peatland although lack of a clear definition of 'degraded land'

[12] http://www.unccd.int/en/programmes/RioConventions/RioPlus20/Documents/LDN%20Project%20Country%20Reports/indonesia_ldn_country_report.pdf

[13] Land degradation is a reduction in the physical, chemical or biological status of land, which may also restrict the land's productive capacity (Chartres, 1987) including not only soil degradation, but also vegetation degradation, which has been defined generically as "a temporary or permanent reduction in the density, structure, species composition or productivity of vegetation cover"

was an issue. Under Project POTICO, WRI and Indonesian NGO Sekala developed a working methodology for identifying degraded land that is acceptable for sustainable oil palm plantation expansion. It is unclear at this point whether the GOI has adopted such a methodology or where the concept of a publically available 'degraded-land database' as proposed by civil society will be developed and how it links to GOI's One Map initiative.

Whether a database exists or not currently there remains a number of key impediments on the financial side make degraded land plantings unattractive to investors:

- The early development funding of the plantation often utilizes the sale of timber from the concession, reducing the need for financing overall and boosting the BAU business case;
- Degraded lands will often have more people resident in the area, leading to greater FPIC and compensation claims;
- Smaller plot size and less contiguous locations reduces the attractiveness for locating new mills in these areas, maybe more attractive to existing mill operators seeking to maximize capacity utilization in current mill portfolio;

Policy and regulatory environment

In 2009, Indonesia announced a voluntary GHG emissions reduction target of 26 percent by 2020, and a 41 percent reduction target if Indonesia received international assistance to finance required actions. In 2015, this was amended to 29 percent by 2030. As emissions from forests and land use change accounted for 61 percent of Indonesia's overall emissions in between 2008 and 2011, addressing forest loss is critical to meeting this objective.

To support this, Indonesia is currently designing its REDD+ strategy and has signed a US$ 1 billion MOU with Norway, the majority of which is payment for reduced emissions from deforestation and forest degradation. A key policy development since that time has been a moratorium on granting new licenses to convert primary forests and peat lands into plantations or timber concessions, which was introduced in 2011 and extended until the end of 2015.

However, at the same time, Indonesia has a number of agricultural subsidies which may well enable or drive investments and forest loss. For example, recent research identified 19 domestic subsidies that support palm oil production and consumption in Indonesia, and it is very possible that there are additional subsidies that were not identified. What is not yet known is the full value of these subsidies, and link between them and forest loss.

Each subsidy will have a different impact on production and forest loss depending on the influence of that subsidy on investment in the supply and demand chain and related land use decisions. Given that palm oil is the only commercially viable large-scale feedstock for biodiesel in Indonesia, Indonesia's domestic fuel blending mandate and subsidies to biofuel production may have a significant impact on wider investment, and forest loss. These subsidies include exempting biofuels from the transport fuel sales tax, and the government covering financial losses resulting from Pertamina's (a state-owned company) sale of biofuels at less than production costs.

Likewise, tax exemptions and concessional loans for investors and smallholders are also likely to be impacting on wider investment in palm oil production.

In addition, Indonesia's districts and provinces have the authority to charge taxes on a set of activities within ranges predetermined by national legislation, and there are a number of international subsidies and regulations that have an impact on palm oil production in Indonesia including: trade policies to encourage domestic processing (in other countries), biofuel blending targets, and import restrictions (linked to forest loss).

Considering the current rate of forest loss in Indonesia, it is crucial to ensuring that future reforms of the finance and commodity sectors actually result in reduced forest loss, maximising on the opportunities to strengthen social and

environmental safeguards and most importantly, invest in productivity of the sector, as the government seeks to rapidly develop this industry.

To date, there are no disclosure requirements for NBFIs in Indonesia that address environmental or long-term systemic risk factors. At the same time, there are no regulatory hurdles that would hinder investment into sustainable assets.

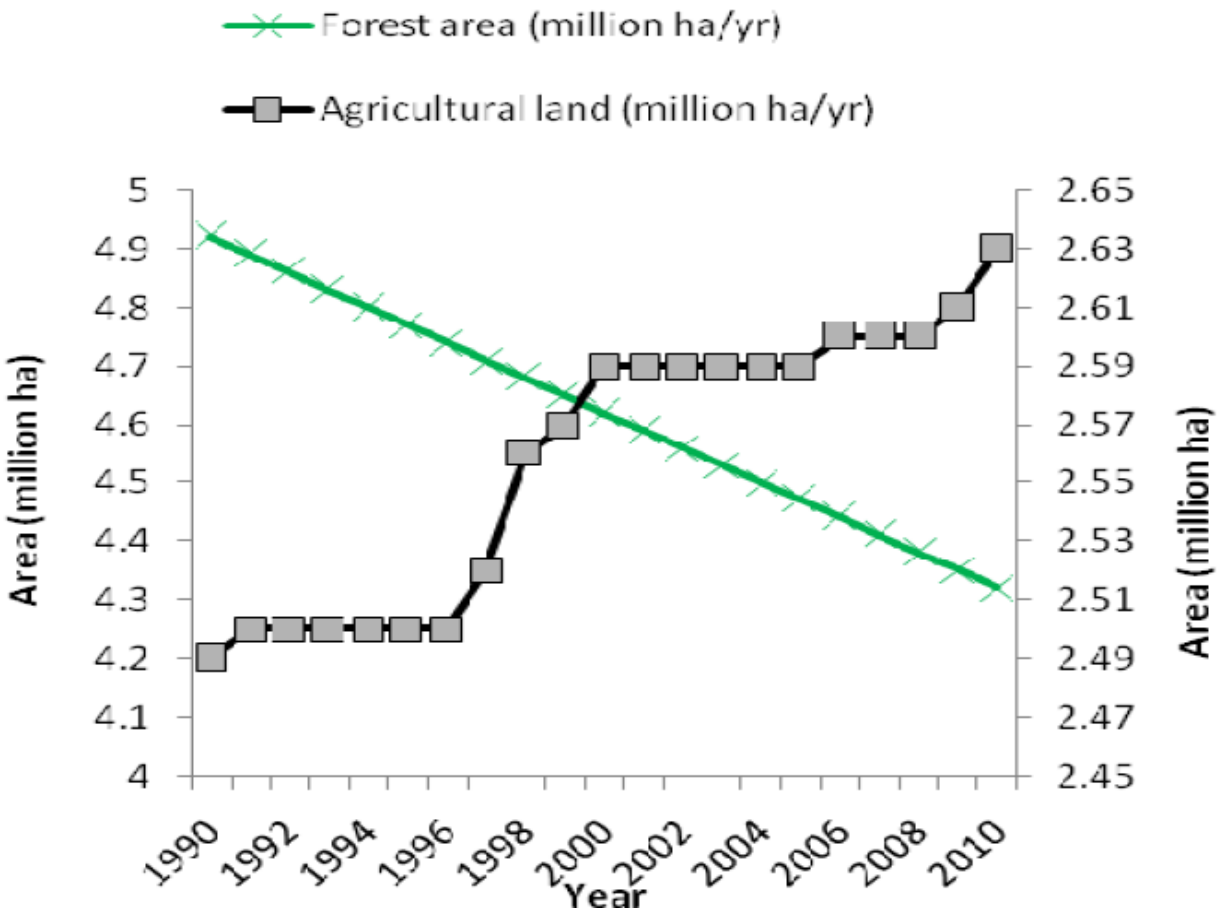
However, OJK (the financial services regulator) and Bank Indonesia have been active participants in the Sustainable Banking Network, an informal group of bank regulators and banking associations that IFC launched in September 2012. Indonesia's financial markets have seen a number of important design innovations over the past years aimed at encouraging green lending and investment. This includes the development of sustainability ratings in its rapidly growing stock market, the SRI-KEHATI index and the recent launch of the SRI KEHATI-ETF. Banks and capital markets are generally positive about OJK's (the financial regulator) intention of making environmental risk analysis mandatory as this would help to create the necessary level playing field.

Furthermore, the Indonesian Government has begun to take steps to green some aspects of the financial system. In December 2014, OJK launched a Roadmap for Sustainable Finance in Indonesia, which lays down a comprehensive work plan for promoting sustainable finance for the period 2015-2019. The Roadmap will constitute and integral part of OJK's Master Plan for Indonesia's Financial Sector. Despite being at an early stage, it puts forward a bold strategy to raise awareness in the financial sector of the need to incorporate environmental and social risk considerations in lending and investment decisions and to gradually build up the capacities in the financial industry needed to develop sustainable financing practices.

Liberia still retains substantial forest cover (45-percent of its land area, or about 4.3 million hectares). Consequently, the country supports approximately 40-percent of the remaining Upper Guinean rainforest.

Deforestation rates in Liberia were relatively low during the civil war period of 1986 to 2000, averaging about 0.2-percent per year. Over the last decade, Liberia's deforestation rate has increased to an average of 0.7-percent forest loss per year, with total forest area being reduced by 6.5-percent to 4.3 million hectares from 2000 to 2010 (FAO 2010). Shifting agriculture posed the greatest threat to the country's forests historically, but the recent rise in deforestation appears to be driven by commercial logging, mining and agriculture (GoL 2008). In 2014 the government announced a $150 million project funded by the Government of Norway to halt deforestation by 2020 (Govt of Norway 2014).

According to the Analysis on the Causes of Deforestation and Forest Degradation undertaken by UNEP in 2014 the most important driver of deforestation and land degradation in Liberia is agricultural expansion. Figure below shows the trends in Liberia's forest area and agriculture land.



The graph reveals that forest area is decreasing while the agricultural land is rapidly increasing. For example, in 1990, the area of Liberia's forest was 4.92 million ha while agriculture land covered 2.49 million hectares of the land area. Within a decade – i.e. in 2000, the forest area decreased considerately to 4.62 million ha while the agriculture land significantly increased to 2.59 million ha of the land area. Agriculture is a key livelihood activity in Liberia with about 60 percent of the population depending on the sector.[14]

Certification and other initiatives

In 2011, WWF combined with Rabobank and CDC to undertake the first business case analysis for the adoption of sustainability standards (RSPO) in the oil palm sector. The study was built on some of the early certified estates and did not focus as much attention on the tied smallholders or independent smallholders as little or no certification of these groups had been done at that time. RSPO certification has more than doubled since 2011 (see table below) and represents 17 percent of global supply but there are still many smaller local palm oil plantations and most independent producers (including smallholders) not included.

Beyond the national regulatory environment, there are a series of international regulations which also shape the governance of the palm oil sector. The primary institution is the RSPO, while the companies all have their own internal voluntary commitments. Main international initiatives are the Tropical Forest Alliance (TFA) which seeks government level commitment to sustainability goals, RSPO, High Carbon Stock, The Sustainable Land and Water Program, Norway – Liberia Partnership, Forest Investment Project, Initiative for Sustainable Forest Landsckapes, REDD, Enabling Agricultural Trade (EAT). (FFI 2013).

[14] Analysis on the Causes of Deforestation and Forest Degradation in Liberia: Application of the DPSIR Framework. UNDP 2014

BioCarbon Fund ISFL

The initiative will deploy results-based finance to incentivize changes at the landscape level. ISFL (Initiative for sustainable Forest Landscapes) is a new multilateral facility, supported by donor governments and managed by the World Bank. With the current level of funding, the BioCarbon Fund ISFL will create a portfolio of about four jurisdictional programs with country and regional diversity. A farmhouse and fields sit at the bottom of a forest valley. Jurisdictions will be identified based on a set of criteria that help to identify areas where ISFL can have the greatest impact. The criteria are mainly related to REDD+ progress, trends in national agriculture production, and trends for global commodities but also include an assessment of the strength of the enabling environment, institutional matters, and non-carbon benefits. The ISFL has programs in Colombia, Ethiopia, Liberia and Zambia. A program in Indonesia is currently under consideration.[15]

Banking system/Financial sector initiatives

Although there seems to be a broad agreement across the investment community that Indonesia's exposure to polluting and environmentally damaging investments could pose a systemic risk to the financial system and long-term growth of the economy this realization is not affecting financial firms' current investment decisions.

A PwC survey commissioned by IFC[16] in 2012 found Indonesian banks to be more focused on risk management, corporate governance, and regulatory compliance, but national and local banks in Indonesia have not yet adopted similar policies to manage E&S risks. The lack of attention given to E&S standards among national and local banks is a key issue as, relative to international banks, national and local banks tend to finance the early years of plantations, and thus play a decisive role in oil palm expansion activities. The WWF Sustainable finance report of 2015[17] presents a disclosure review of the 18 domestic banks and 4 global banks operating in South East Asia, indicating the extent to which they have processes, policies or products that embed ESG considerations in the provision of finance – see the table below for a summary of this. Please see following table for details:

[15] http://www.biocarbonfund-isfl.org/

[17] WWF Sustainable Finance Report 2015
http://d2ouvy59p0dg6k.cloudfront.net/downloads/wwf_frc_forest_risk_commodities_report_2015_online.pdf

		INDONESIA							MALAYSIA								SINGAPORE			GLOBAL			
REVIEW AREA	DISCLOSURE FACTORS	Bank Central Asia	Bank Mandiri	Bank Negara Indonesia	Bank Pan Indonesia	Bank Permata	Bank Rakyat Indonesia	Victoria Investama	AMMB Holdings	BIMB Holdings	Bank Muamalat	CIMB	Hong Leong Bank	Maybank	Public Bank	RHB Capital Berhad	DBS	OCBC	UOB	ANZ	HSBC	Standard Chartered	Westpac
COMMITMENT	Sustainable lending statement		●	●			●													●	●	●	●
RISK MANAGEMENT	Lists major risk categories	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
	ESG a separate category on list																				●		●
REPUTATION AND RELATIONSHIPS	Reputation risk process	●	●	●	●	●	●		●		●	●		●	●	●	●			●	●	●	●
	AML processes	●	●	●	●	●	●				●	●		●	●	●	●			●	●	●	●
	Sharia exclusions*	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●			●	●	
	Other ESG client approval restriction			●		●	●													●	●	●	●
CREDIT AND ESG	Credit process covers ESG		●	●			●							●						●	●	●	●
	Forest ESG policy disclosure			●																●	●	●	●
	Training on ESG																			●	●	●	●
ESG IN PRODUCTS **	Islamic finance	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●			●	●	
	Financial inclusion		●	●	●		●			●	●			●	●					●		●	●
	Green finance			●			●					●				●				●	●	●	●
MULTI-STAKEHOLDER INITIATIVES	UNEP FI			●																●	●	●	●
	Equator Principles																			●	●	●	●
	BEI																					●	●
	RSPO																			●	●	●	

As this evidences, engagement in this agenda by financial institutions is low. Bank Negara Indonesia (BNI) was determined to be the only financial institution in Indonesia that provided specific statements to the effect that clients in forest risk commodity sectors must adopt minimum ESG standards.

There are at least three reasons for this. First, because investments in Indonesian capital markets are typically short-term (between one and two years) long-term effects (like an effect of climate change) are considered unlikely to have an immediate impact on today's investments. Second, as long as there is no regulatory requirement, investors are unwilling to carry out voluntary environmental risk analysis as part of the investment process because this causes additional costs, and a decision to put off projectst that would be realised otherwise could reduce profits. Indeed, there seems to be a widespread concern that inclusion of ESG criteria could worsen fund performance, while projects rejected because of EG concerns would be still realized by competitors. Third, Indonesian capital markets have very few "sustainable" assets for institutional investments.

In this context, forest use practices are not currently explicitly considered by Indonesian or regional banks. However, there is an identified need in particular for the development and availability of financial products that enable smallholders to adopt sustainable standards and practices (in particular to adopt good agricultural practices and fertilizer application) combined with a longer term financial product to support replanting smallholder palm (with improved genetic material + GAP). This alone represents an opportunity to protect millions of hectares of new plantings (estimate 4.5 million ha's) by 2025.[18]

A number of initiatives have been established that aim to address these challenges. Led predominantly by international banks, they are aiming to act as a knowledge portal, bringing standards into line, and providing platforms for collaboration on new products.

For example, the RSPO's financial institution's membership represents 15 financial institutions globally, predominantly international banks such as Rabobank and HSBC, who together have formed the Financial Institutions Task Force (RSPO FITF) with the purpose of sharing with members some of the sector wide tools and approaches that are available in order to reduce environmental and social risks within bank portfolio's in order to reduce the reputational risks associated with financing the sector. While the FITF at this stage does not have any regional banks in South East Asia, the FITF nevertheless represents a committed group of banks seeking to share best practice across peers and it recognizes the need to engage with regional banks about the sector.

Likewise, the Principles of Responsible Investment (PRI) initiated the Sustainable Palm Oil Investor Working Group (IWG) which is now made up of 25 investment organizations, representing assets under management of over $2 trillion, which are members of the United Nations-supported PRI. The group is currently engaging with major companies within their portfolios to seek improvements in policies and processes that support the development of a sustainable palm oil industry through the work of the Roundtable on Sustainable Palm Oil (RSPO).

It is also worth noting that generally, using the financial sector as a lever for change in Indonesia may have more limited effect relative to other countries, given the level of financial exclusion. In 2010, the World Bank's latest Enterprise Survey report on Indonesia noted that access to finance is a significant constraint on doing business, with only 51 percent of Indonesia companies having a checking or savings account and only 18 percent making use of a bank loans or formal credit lines. And only 20 percent of adults have an account at a formal financial institution; among the poorest 20 percent of the population the share of adults holding an account is even lower with only 8 percent (Demirgüç-Kun and Klapper 2013). This is significant given the large number of smallholder farmers in Indonesia, 3 million palm oil smallholders alone. Many SMEs rely on internal sources of finance (retained earnings, loans from employees or owners' private savings or resort to informal external sources, including relatives, friends or loan sharks (Machmud and Huda 2011).

The access to finance problem is connected to Indonesia's weak institutional and legal framework, as a lack of information about borrowers, restrictions on collateral, and the difficulty and expenses of recovery in cases of default, all make lenders generally hesitant to grant loans, especially to small businesses or to new forms. These factors are all seen as major barriers toward green investments (UNIDO 2009). Similarly, at the moment, Indonesian banks depend almost entirely on customer deposits, and since deposits are mostly short-term, maturity mismatches would arise if Indonesian banks were to finance long-term projects, such as replanting of tree crops with higher yield potential, with their current funding structure. To ensure that long-term assets are funded with long-term liabilities, banks will need to develop long-term refinancing sources. A longer investment horizon would likely increase investors' awareness of ESG risk factors.

The Liberian banking sector is now composed of eight commercial banks:

- Liberian Bank for Development & Investment (LBDI)

[18] A Sustainable Sector Transformation Model in Agricultural Commodity Sectors – Oil Palm Indonesia Case Study – November 2014

- Ecobank Liberia Limited (EBLL)
- International bank Liberia Limited (IBLL)
- Global Bank Liberia Limited (GBLL)
- First International Bank Liberia (FIBLL)
- United Bank for Africa Liberia Limited (UBALL)
- Access Bank Liberia (ABL)
- Guaranty trust Bank Liberia (GTBL)

The banking sector is still recovering from the war and remains under-capitalized. Of the eight banks operating in Liberia, none are providing long-term credit for agriculture and the overall agricultural portfolio was estimated at 5 percent of total bank lending, despite the agricultural economy representing nearly 40 percent of Liberian GDP (WB 2012). The average lending rate is presently 15 percent per annum. IFC has supported the financial sector by provided capacity building services to the Liberian Bank of Development.

Microfinance has developed to fill a gap in Liberia and UNDP via the 'Inclusive Financial Sector in Liberia' has worked to support the sector since 2006. IFC in collaboration with Pro-Credit Holdings undertook a pre-feasibility study to establish a microfinance bank in Liberia and supported a microfinance advisor to the Central Bank of Liberia (CBL). IFC invested in Access Bank in 2008, a greenfield microfinance company, the financing was supported with a technical assistance package to support the management and build institutional capacity. The microfinance industry is not geared to lend into the agricultural space (other than short-term trading) and is not seen as an appropriate partner for longer-term transactions.

IFC has undertaken investments in the rubber sector in Liberia, one to support Salala Rubber (2008) in the rehabilitation of its own plantations after the conflict and more recently to Firestone Rubber Liberia as part of IFC's Ebola response lending to renovate 600 rubber suppliers plantations totaling between 6,000-8,000 hectares. This transaction may provide a template for how to finance into the oil palm sector for smallholders moving forward although as indicated above the lack of available long-term finance locally will inhibit scaling this type of transaction within Liberia in the immediate future.

3) THE PROPOSED ALTERNATIVE SCENARIO, GEF FOCAL AREA STRATEGIES, WITH A BRIEF DESCRIPTION ON EXPECTED OUTCOMES AND COMPONENTS OF THE PROJECT

The overall objective of this work is strengthen the financing environment for sustainable commodity production through design and pilot sustainable commercial transactions and risk management tools, by taking into account the results and findings produced by the Production child project.

It is believed this is necessary to unleash the financial stimuli required by suppliers and producers to make the change to sustainable and zero deforestation practices, which in turn is a key requirement to achieving the pro-growth, pro-job, pro-poor and pro-environment developmental goals of REDD+.

Specifically, the project aims to support the development of investment transactions either via banks, investors or companies that reduce deforestation in key commodity supply chains on a commercial or blended finance basis either by supporting increased productivity and the implementation of best agriculture practices in existing productive areas or by incentivizing expansion into landscapes identified as appropriate by the land-use plans and maps produced by the Production child project. It is crucial that environmental and social risk screening becomes an integral part of lending and investment decisions in the financial sector. And that the value and opportunity offered by deforestation-free supply chain operations is recognized and captured within that. Similarly, there is a need for innovation in the products and services offered by financial institutions to incentivize and accelerate investment in sustainable supply chains. Developing financial transactions either via banks or corporations that can be rolled out on commercial or

near commercial terms that lead to reduced deforestation that can be replicated by other financial institutions is one of the central aims of this project.

As well as action from the financial institutions themselves, Governments and regulators have a key role in stimulating this transformation, to establish and maintain a green and level playing field. The project will also support the financial system through the development of tools, dissemination of best practice knowledge regarding the limiting of financing to unsustainable practices agricultural practices.

The Enabling Transactions child project is aligned with all IAP Commodities child projects and will provide mutual reinforcement to the overall effort. To clarify the role of CI in this particular child project, it is noted that particular activities will be done with the Brazil Child project which is managed by Conservation International centered on Matopiba. Some of the activities referenced here will be done by CI on behalf of the Enabling Transactions project and some will be done by Enabling Transactions team. For the purpose of clarity at the end of each activity we have assigned either IFC (Enabling Transactions) or CI (Brazil-Matopiba) to indicate which team will take the lead on the work for resource allocation purposes although many of the activities will require close coordination between the two teams. Special attention will be given to the cultivation of strong relations with banking associations and financial regulators in target countries, such as Febraban in Brazil and OJK in Indonesia, to promote industry wide uptake of risk management systems that consider deforestation in commodity production. Several project's outputs will directly target and work closely these institutions to ensure their buy in.

Three project components are outlined to achieve these objectives:

Component 1: Support to commercial transactions – to be executed by IFC only

This component will focus on the development and promotion of transformative commercial transactions between private sector financial institutions and strategic actors (traders, branded companies) in their supply chains in targeted geographies and commodities. Examples might include transactions with companies/banks to stimulate the productive use of degraded land (palm oil, soy and beef) thereby taking pressure off forested lands for expansion. These transactions would link closely to efforts that unlock some of the policy blockages identified that inhibit the concept of swapping degraded for forested land proposed in the production component of the program. Other opportunities include intensification of cattle ranching in Brazil and Paraguay which in turn has the potential to reduce pressure on the opening of new forest and savannah. Building off promising pilots being undertaken using the Embrapa protocols on beef intensification will serve as data for building a financial model for banks/firms to widely promote the business case.

In palm oil, developing financial products that enable independent and tied smallholders to adopt better standards and practices (in particular to adopt good agricultural practices and fertilizer application) combined with a longer term financial product to support replanting smallholder palm (with improved genetic material + GAP) represents an opportunity to protect millions of hectares of new plantings (estimate 4.5 million ha's) by 2025.

Commercial transactions could also be short-term in nature such as trade finance transactions that reward sustainable production (e.g. IFC/BEI's Sustainable Shipment LC) or through IFC's Critical Commodity Finance Program (CCFP) or Global Warehouse Finance Program (GFWP) both eligible in the countries the program will operate in and using GMAP as the primary screening tool to ensure no unsustainable financing occurs. These transactions are geared more towards supply chain actors such as traders/exporters and maybe used to crowd this key group of actors into moving towards more responsible sourcing. A report prepared for IFC and partners in 2012/13 by KPMG showed that a slight discount in finance coupled with other incentives (small premiums, input discounts) offered a strong business case for medium and large producers in the soy sector as an example.

IFC's experience in the development and testing of innovative financial products in emerging markets shows that dedicated resources (technical consultants, business developers and financial structuring specialists) are required in

the early stages to build a deal-flow pipeline and that this takes time (a recent coffee example took 18 months) to be approved. The IAP will have the advantage of being able to build of existing program partner relationships and data (e.g. smallholder profiles, appropriate mapping etc) all of which are necessary information requirements to build both the business case but it is likely to take similar time periods (18 months) for transactions be to developed, this has been reflected in the mid-term targets.

Identifying Blended Finance Opportunities

The power of financial markets to effect change is a necessary but often insufficient condition required to finance a transformation to more sustainable commodity supply chains. As mentioned above, the current market environment does not provide adequate clear, long term incentives for private financial institutions to invest in sustainable agricultural activities at scale along the length of a supply chain.

Private sector finance will, however, be required at scale given the strained state of many public budgets after successive financial crises over the last decade and the size of the agricultural 'financing gap'. As such, it will be necessary to strategically combine public financing, regulation, and private market participation into efficient and effective public-private partnerships (PPP). This component will therefore focus on the strategic relationship between public and private finance with the goal of mobilising large-scale private finance and achieving supply chain sustainability objectives over the long term. Integration with the REDD+ agenda broadly and REDD+ finance specifically will be a key area of focus, given the potential for both upfront funding to pay for reform and implementation and results based payments under the terms outlined in the Warsaw Framework.

This component will also identify other potential sources of concessional or grant based financing that could be used to develop blended finance packages that accelerate the adoption of sustainable practices. This field is becoming more crowded and funds such as the Biocarbon Fund (WB administered) are potential sources of co-finance. Identifying these sources and developing transactions that blend commercial and concessional funds will form part of this component.

Finally, emerging areas such as how the Green Bond market develops in the sustainable commodities space and where programs such as Sustainable Stock Exchange Initiative (SSE) develop will be monitored and where potential synergies exist, the program will seek to establish joint collaboration.

Main Outcome of the component – At least 15 transactions totaling a minimum of USD100 million dollars new investment per year have been facilitated (through the design and financing) inclusive of any blended financing arrangements and contributing to take out deforestation from commodity supply chains

Soy and Beef

Component 1: Support to commercial transactions

The following proposed elements have been identified as the most relevant for the soy and beef sector and are project outputs in Table B.

- *Trade Finance - Sustainable Shipment LC for the soy sector.*

Sustainable Shipment LC for the soy sector. The team would work on a complementary trade finance product for the soy sector similar to that already available for the palm oil sector. This would be done through the BEI and as a basis would use as a starting point the CGF's sustainable soy sourcing guidance as a starting point. The team could then promote such a product through established Sustainable Banking Network contacts with Febreban. This financial product would then be available for producers/traders participating in programs where eligibility criteria are met (e.g. verified/certified soy supply chains) some of which will be in the Matopiba area. (IFC)

- *Business models for Degraded Land Rehabilitation*

Business case analysis will include looking for potential opportunities for investment in Matopiba. The program will look at how expansion can occur without conservation losses, directing investments into already cleared land. There are already some working examples that have been established in other parts of Brazil that would be appropriate for the Matopiba region. There has also been a significant amount of data collected by WWF, Moore Foundation, IDH, TNC and ICV on the topic. In the first year of the program the following activities are proposed:

- Review and or build upon business case analysis for the beef intensification model (inclusive 1-3 stages) and degraded pasture to soy model and its applicability to the Matopiba region;
- Lay out agricultural economics using respected Brazilian researchers, mapping against biophysical constraints (with availability of labor, logistics costs), conservation hot spots etc.
- Build multi-disciplinary teams with the skill sets to pull this together (modelers + economists + mappers), following the Moore Foundation approach on available area (biophysical mapping for soy suitability);
- Engage with the banks and private sector to cross check on financing feasibility and to ascertain future financing interest;

These activities were identified in collaboration with the soy industry participants at a meeting held in January 2016 in Miami. The determination of commercial viability or whether blended finance would be required will be determined towards the end of this exercise. The team will continue to identify potential sources of blended finance during the first year of the program.

- *Business case for Sustainability Standard Adoption*

IFC, IDH and WWF conducted the first business case analysis for soy standards adoption in 2011 using a framework developed by KPMG. At that time only a limited amount of farms (mainly larger farms) had certified and an update of that work incorporating other schemes (e.g. Proterra, ISCC) could be considered. Group certification was not assessed but has now been carried out by a number of groups (e.g Alianca da Terra & CAT Sorriso) which should also be assessed. (IFC)

On the beef standard adoption side, the GTPS standard (which links to the GRSB standard) will be finalized shortly. It is proposed to wait until this standard is adopted in a number of Brazilian farms and then conduct a business case analysis at a later stage. The purpose of both analyses would be to determine whether a potential financing product can be developed to support standards uptake. (IFC)

A series of workshops in Matopiba will be undertaken to present findings of the various business case analysis which will be used as both promotion workshops and opportunity screenings. It is viewed that this would be done on a rolling basis when the business cases are available but it is assumed that in each state (2) four business cases will be presented totalling 8 workshops through the course of the project. (CI)

- *Define the Business Case for Adopting Better Environmental Practices in the Beef Sector*

The team will use its sector expertise and network to better define the business case for producers' support of the FCAA objectives. This may include projecting Paraguay beef sector growth over the next 10-15 years, factoring the opportunities and risk, and reflecting on the issues to address. This could potentially provide a market-based view on the sector growth scenarios, with the relevant cost benefit analysis for producers to adhere to the FCAA objectives of promoting better sustainability practices developed at a second stage after the industry have determined through their growth projections that there is a need to diversify their markets, some of which will be looking for traceable beef grown under stricter environmental conditions.

Palm Oil

The following proposed elements have been identified as the most relevant for the soy and beef sector and are project outputs in Table B.

Component 1: Support to commercial transactions

Smallholder Intensification and Rehabilitation

Building on the capacity building work at the farm level, and that of others also working on smallholder intensification, the team will select suitable financial institutions as potential partners and firms that would potentially be interested in piloting innovative financial models. Three financing products and associated work areas have been identified:

- *Input/renovation financing*

IFC will seek to identify banking partners interested in developing an input finance product for farmer groups that would enable independent smallholders to access financing in order to purchase inputs that would allow farmers to maximize yields after being trained on appropriate good agricultural practices (GAPs) and renovation practices.

No such product exists currently and Independent palm oil producers tend to sell through a variety of agents which makes it difficult to design a financial product under a tri-partide lending structure. The high degree of agents and sub-agents that are involved between the independent producer and the mill also is a challenge as tracking the physical product is difficult, thereby making a mill payment system to individual producers difficult. IFC would build from the cohort of independent producers engaged in firstly the IPODS (North Sumatra) project. Currently approximately 1,000 producers are enrolled and are undergoing group formation and basis GAP project training. IFC's team would look to test a financial product for inputs at the farmer group level with a sub-set of the farmer groups whom demonstrate a high degree of cohesiveness and an interest in moving forward with accessing finance in order to rehabilitate their farms. The design of the loan product, linking of banks and selection of farmers is expected to take six-12 months with a one-year term financial product designed and tested in year 2 of the IAP. The role of the mill will be determined on a case-by-case basis.

- *Replanting financing*

IFC will look to develop a longer-term financial product that addresses the financial needs of replanting activities and projects. Whilst there are existing models for plasma smallholder financing to draw experience from, no such product exists for independent smallholders.

A recent transaction in coffee in Nicaragua holds. The total financing package was USD30 million and in the case of Nicaragua the Global Agri Food Security Program (GAFSP) provided a shared first loss guarantee that allowed for a slight discounting of the finance and the ability to provide an appropriate grace period for the farmers replanting. The technical training (GAPs + planting material) will be provided by the trading company with the branded coffee company providing an offtake agreement. Both trading company and branded company provided capital to the financing structure, inclusive of part of the shared first loss.

Key parameters that enabled the example above to work were:

- Solid trading history between the selected farmers and the trader, in essence a trading/credit history as in some cases the trader had advanced money for input/harvest finance to farmer groups;
- Physical mapping of the proposed replanting area – enabling an accurate needs assessment of inputs and also reducing the risk of non-suitable areas (e.g. riparian areas) being replanted.

Similar data will have to be collected in the palm oil space and it would make sense to build off the IPOP program and identify those farmers within the North Sumatra pilot that are nearing the end of their productive oil palm cycle (palm greater than 20+ years planted). It is expected that it would take up to 12-18 months to design the first transaction inclusive of the mapping of the farmer area, development of the partnership structure and then the overall due diligence process.

- *Degraded land financing*

A blended finance product may be required that rewards companies for developing these areas rather than highly forested concessions. As previously indicated the early revenues generated by timber sales makes a like-for-like comparison between degraded land plantings less attractive than a concession with significant quantities of saleable timber. In the first year it is proposed to identify all sources of available blended/grant finance available for such transactions and compare these against the BAU case. The trend towards responsible companies not developing HCV or HCS areas often linked to their voluntary standard commitments is a positive trend however concessions are still being allocated in areas that are heavily timbered. The project will also explore the emerging area of biodiversity/forest offsets. Country concessioning processes will likely allow for deforestation. Whilst many firms and banks or moving towards zero/reduced deforestation policies the opportunity to test mechanisms that allow projects to proceed where some legal deforestion occurs and is unavoidable but is compensated through offsets of greater value forests/biodiversity could potentially be developed.

- *Trade Finance*

Three key trade finance platforms and products (see Annex 2) are available in Indonesia but the Sustainable Shipment (LC) – has been developed for trade finance of sustainable palm oil (RSPO certified). IFC on its own account is able to provide participating banks with a discount for this finance. To date this product has received limited uptake primarily due to a lack of awareness on the part of corresponding banks and their counterparties and it is proposed that the team will educate and promote potential users under the program. Other banks are also beginning to develop similar products and the learnings associated from the education/promotion of this will be disseminated via various networked, e.g. BEI, RSPO and the Sustainable Banking Network (See Partners Annex 1).

- *Business Case for Standards Adoption*

It is proposed to update the WWF business case for RSPO adoption done in 2011 in the first year of implementation with a particular focus on:

- Getting a more robust set of quantitative numbers than previously generated in order to build out a strong cost-benefit analysis;
- Quantifying the smallholder business case (inclusive of scheme and independent producers);
- Quantifying longer term operational benefits (e.g. improved soil fertility, improved FFB quality);
- Incorporating a first business case analysis for ISPO certification into the assessment;

The update of this work would then determine whether a potential financing product for standards adoption is required in the Indonesian market.

- *Liberia Specific Activities*

No immediate prospects have emerged for potential investment in the Liberian palm oil sector at this stage. It is proposed to revisit the value chain report conducted by Proforest in 2015 as part of an IFC advisory engagement to

update the team on latest developments with an emphasis on anchor company requirements to develop out-grower schemes. This will be done in the form of a feasibility study in the first year of implementation.

How these would be financed is still not clear and it is unlikely that the local banking sector will have the liquidity to support such developments (as in the case of the Indonesian state banking sector) so this potentially opens the door for the program in the future.

In the immediate future on the trade finance side there is also limited scope until Liberian oil palm plantations begins to bear fruit. Some of the larger plantations are constructing their CPO mills now and will begin operations in 2016/17 and it is anticipated that Liberia will again have the potential to export CPO into the regional and international markets, thus providing a longer term trade finance opportunity.

Component 2: Financial Markets & Institutions (To be executed by a combination of IFC, UNEP-FI & WWF-US)

Although robust estimates for the scale of investment required to sustainably increase agricultural production to meet future demand are challenging to calculate, there is broad agreement that a significant increase of capital relative to current levels is required. The availability of capital, however, is not an issue in itself. There is roughly US$ 225 trillion of financial capital that is currently allocated through global capital markets that could potentially fill any financing gap. A key issue is that capital markets- which mobilize, allocate and price capital- currently misprice sustainability issues. This results in a significant global misallocation of capital to activities that drive deforestation and other detrimental social and environmental impacts. This misallocation has historically extended to many activities along agricultural supply chains.

What is required to drive transformative change in commodity supply chains is an at-scale redirection away from routine business as usual investments towards more sustainable alternatives. In order to achieve this, recent and arguably historic developments in regulations, voluntary commitments, and tools need to be broadened and deepened.

In respect of the financial sector's role in this, it is necessary to tackle the barriers highlighted by financial institutions to their adoption of environmental and social risk management systems in their financial decision making. A survey commissioned by IFC in 2014[19] reported these as:

- Absence of regulatory guidance;
- Absence of sector specific guidance;
- Need for senior management support;
- Absence of a business case for environmental and social risk management adoption;
- Absence of market capacity (i.e. local market skills) in environmental and social risk management.

This component will, therefore, focus on addressing these barriers through the provision of guidance directly to financial institutions providing funding for beef, palm oil and soya commodity supply chain companies and projects, and the regulators of these institutions. This guidance will aim to develop the business case for the adoption of net zero deforestation policies in investors' financial decision making practices, and enable the introduction of financial products and services that incentivise zero net deforestation production and supply.

This guidance will come in the form of a variety of tools, enhanced knowledge bases and targetted training to financial institutions and regulators through well-positioned local organizations and leveraging the various partners existing networks such as UNEP FI's 230 member Financial Institutions, the Natural Capital Declaration, the Banking Environment Initiative (BEI) and the Equator Principle banking community. It is believed that filling the existing

[19] IFC (2014) Moving Forward with Environmental and Social Risk Management. Findings from IFC country baselines.

"business case" information gap and enabling supply chain investors to better and more fully understand the value in realizable value in zero deforestation supply chains, will significantly increase the willingness of those actors to support and facilitate the necessary supply chains transformations.

The project will target a variety of financial institutions including local and international commercial banks, development banks and, micro-Finance Institutions and private equity actors. However, potential investment opportunities that leverage the capabilities of domestic financial institutions and which have a clear multiplier effect by driving change up or down a supply chain will be prioritised. According to the WTO, trade finance underpins 80 percent to 90 percent of global trade and it is also a significant enabling service in the trade of agricultural commodities. As such, it offers a strategic entry point to bring about change in supply chains and, therefore, will be a key focus of this component. Similarly, by working with regulators we aim to set a baseline for in-country banks that often are not signatories to voluntary agreements such as UNEP FI the Equator Principles or the Banking and Environment Initiative (BEI), ensuring that regulations and commitments are applied deeply and effectively.

These activities will capitalize on the momentum and global leadership in the 'greening' of financial systems that is currently being displayed by both international banks and emerging economy financial sectors, with positive examples including the introduction of China's Green Credit Guidelines, the BEI Soft Commodities Compact, and the incorporation of ESG considerations into Brazil's BOVESPA stock exchange listing requirements. The tools and knowledge base developed will capitalise on the existing tools and knowledge developed by the Global project partners (IFC, WWF and UNEP-FI each have experience in working with banks on capacity building programs to strengthen their overall environmental, social and governance (ESG) performance) and others.

Main Outcome: Increased funds (loans and investments) subjected to enhanced deforestation risk policies, either permitted by changes to existing funding instruments and practices or by development of new products already in compliance with reduced deforestation objectives

2.1.1 20 FI's/investors trained in using risk management tools that reduce deforestation (palm oil, soy, and beef)

This output intends to enhance awareness and capacity amongst financial institutions in target countries for integrating ESG and deforestation risks in financial decision making

- For this output a training programme curriculum will be developed that will allow risk managers within financial institutions, with a focus on banks with operational footprints in target countries, to identify, manage and reduce deforestation related risks associated with commodity production in their lending portfolio through enhanced screening and client engagement. The training will be tailored to the specific country and commodity context (palm oil, beef, and soy) and will build on UNEP FI's Environmental and Social Risk Analysis training methodology and build on existing standards, such as the Equator Principles and the IFC Performance Standards as well as integrating the knowledge generated through the different certification standards. (UNEP FI)

- The Transactions Child Project will support with the preparation and the organization of targeted workshops and of training programmes for financial institutions and risk managers in the supply chains of palm oil, soy, and beef. (IFC and UNEP FI).

- As this is a dynamic area, it will be important that the program links closely with OJK priorities and other donor institution programs (both GIZ and USAID are also engaged). To ensure this, it is proposed that specific interventions be designed in detail during the inception phase in order to reduce the potential risk of designing redundant interventions. (IFC/WWF)

- The development of technical briefs with leading financial institutions on each of the targeted commodities, detailing existing practice for the identification, management, and integration of deforestation related risks relating to investments in the supply chains of these commodities (UNEP FI)

  Three deforestation value at risk (DVaR) models (methodologies and test runs) that introduce the necessary tools to identify and then quantify the byophisical, stranded asset, social, health, legal, and commercial and market risks related to deforestation associated with investments in the production of targeted commodities (palm oil, soy, and beef) and countries. Information about identified "go" and "no-go" areas using the land-use planning methodologies and tools developed by the Production child project will also be included and factored in the quantification of the various deforestation risks. These models will capture the financial value a company (and its investors) at risk faces by ongoing engagement in deforestation. The model enables companies and investors to identify and quantify the material economic and financial risks that are resulting from unsustainable land use, from biophysical risks at the level of the plantation to reputational and commercial risks further up the value chain. It also accounts for country-specific rules and regulations that may strongly influence the assessment of the different risks, such as forest areas classified as productive land. In that specific instance, legal and regulatory risks will have to be reevaluated in light of the national policies and the estimation of the risk materiality reappraised. The development of innovative risk management tools such as the DVaR framework highlights the necessity of collecting more evidence on the business implication of deforestation to convince FIs of the importance of deforestation-free supply chains and mobilize them towards that goal. It is well known that gathering relevant data about environmental and social issues pertaining to large commodity supply chains is a difficult endeavor, often held back by a reluctance by the main actors to disclose commercially sensitive information publicly. We plan to mitigate these challenges by capitalizing on the work of the Production child project, more precisely by capturing some of the findings they will obtain with their activities on (i) Production policy and enforcement, (ii) farmer support systems and (iii) land use planning and mapping systems to inform the calibration of the DVaR models. In addition, means to integrate the information generated from outputs on the Demand Child Project focused on increasing transparency along the supply chain (output 4.1.2) into the risk models will be examined. It must be noted that the development and subsequent uptake of these tools will not automatically result in plantation owners and agrobusinesses abandoning their plans to expand their concessions into forest areas. More information on the negative business externalities of deforestation and on their materiality cannot and should not be seen as a replacement for mandatory requirements and more stringent regulations towards the preservation of the forest ecosystems. However, the methodolgies will be explicity designed to only emphasize the negative effects of deforestation and conversely the positive impact of forest land preservation and restoration. As a result, we expect companies and financial institutions who decide to use the DVaR tools and include the information the tools provide in their decision-making processes to feel enticed to mitigate some of the identified risks by contributing to the removal of deforestation in the commodity supply chains they are active or invested in.

  The models will be developed in two stages. The first stage will be dedicated to the collection of company data in relation to the identified deforestation risk factors, in an attempt to substantiate the risk model, validate some of the assumptions that were made at the conceptual stage and calibrate the model's parameters and specifications, using a wide range of data and indicators, including spatially resolved data on high conservation value (HCV) and high carbon stock (HCS) forests, important biological corridors and related ecosystem services. By feeding the model with real-world data, the analysis will be able to quantify the exposure to deforestation risks and assess the resulting financial implication not only for the commodity companies exposed but also for their investors, shareholders and financial partners. Assuming the analysis can be carried out on a representative sample of the sector's actors and the results aggregated, the obtained results will allow for an extrapolation of the total economic value put at risk for the sector, which will have obvious development consequence for the country and the sustainability of its economic growth. As an

intended benefit, it should provide complementary risk insights to further refine the design and development of the land-use maps and plans in targeted landscapes undertaken by the Production child project. In light of these interactions between the two projects, a special attention will be given to coordination mechanisms to ensure the timely delivery of outputs.

The second stage will build upon the results of the first phase to explore the type of tools and methods financial institutions can develop to measure, monitor, manage and utlimately mitigate their exposure to this new family of risk. The anticipated recognition of the effect of deforestation risks on financial performance and resilience will then be used to support greater financial sector engagement and the development of new financing models. (UNEP FI)

- For each of the three commodities, a business case report that articulates the opportunities created by the risk mitigation options identified in the DVaR models – these mitigation options will highlight the financial case for adopting zero deforestation supply chain approaches (UNEP FI). Similarly to the DVaR activity, detailed and specific information about HCV and HCS values will be collected from the Production child project to feed into the development of the business models.

- Tailor IFC's Map of Environmental and Social Risks in Agro-Commodity Production (GMAP) to the target commodities and geographies. GMAP is a database aligned to the 2012 IFC Performance Standards, which collects information on E&S risks for 150 country-commodity combinations and assigns a color-coded risk score. This risk score provides a basis for more systematic E&S due diligence and decision-making on financing, and can help users conduct systematic, high-level E&S due diligence associated with trade finance and short-term finance. In the case of direct investments (project or corporate finance) or other non-trade/STF investments through financial intermediaries, the GMAP can provide a first-level assessment of agro-commodity risks and be used at the pre-appraisal stage in order to support and/or guide decisions regarding the scope of the appraisal. The GMAP tool will be tailored for the commodity supply chains of beef, soy and palm oil (IFC/WWF).

2.1.2 Technical capacity and operational modalities established among 50 FIs with significant deforestation exposure to implement Deforestation-Free, Zero Net Deforestation, or equivalent policies (palm oil, soy, and beef).

The aim of this output is to assist financial institutions in their adoption of new internal guidelines and policies advancing the consideration of deforestation and forest degradation risks in their agricultural investments with a focus on the supply chains of palm oil, beef and soy. The financial institutions that will be targeted to work with will be those that are systemic in the country and/or sector context.[20] It will capitalize on work done by the Natural Capital Declaration (NCD), a joint initiative of UNEP-FI and the Global Canopy Program (GCP), on "Bank and Investor Risk Policies on Soft Commodities". The objectives of the NCD's project was to help financial institutions evaluate how their policies compare to sector peers in addressing deforestation of forest degradation risks linked to key commodities by using a soft commodity assessment framework and tool. The tool's framework criteria were used

[20] The limited available information reveals that domestic banks play a key role in financing the production of targeted commodities especially for small and medium size enterprises; key in this context are national development banks and state backed banks. TFA 2020 *The role of the financial sector in deforestation-free supply chains.* Chain Reaction *Banks Finance More Palm Oil Than Investors: Investors Face Indirect Exposure.*

to inform efforts to develop or update soft commodity policies by banks and fund managers applicable to clients or companies that are active in the palm oil, soy or beef value chains.

- The output will expand on this developed methodology and tools while building on the momentum and global leadership in the 'greening' of financial systems that is currently being displayed by both international banks and emerging economy financial sectors, with positive examples including the introduction of China's Green Credit Guidelines, the BEI Soft Commodities Compact, and the incorporation of ESG considerations into Brazil's BOVESPA stock exchange listing requirements.

- Capitalizing on the convening power of the UN, commodity-specific platforms will be developed to showcase the importance of effective soft commodities policies for the banks. As part of the services provided by these plateforms, training modules will be developed and offered to the 50 FIs to familizarise them with the framework and tools and to accelerate their adooption of deforestation-free, Zero Net deforestation or equivalent policies.

- The new policies will be circulated with the objective of fostering the adoption of industry-wide policies and principles to better approach deforestation and forest degradation risks in agricultural investments.

- A complementary activity will be developed with a focus on gender issues and with the objective of promoting gender balance throughout investment and lending decision-making processes. A consultant will be hired to work on the preparation of a publication with guidance notes, dedicated to the relevant gender issues (increased role in decision making, achievement of their human rights and increased access to development resources and benefits).

To reduce the project's risk of facing limited appetite from individual financial institutions in target countries to adopt more stringent environmental and social risk management systems given perception that they will be at a competitive disadvantage the child project will work and support the work of Banking Associations and industry led initiatives in target markets. For the beef supply chain in Paraguay, the Child Project will also explore engagement with the STP Trust Fund being developed and on how to steer the participation of the private finance sector.

2.1.3 Capacity is built and guidance and tools are provided for effective application of major new emerging markets regulations to target supply chains (palm oil, beef and, soy).

The following tools and knowledge sets will be developed to provide the backbone of the guidance developed with and for the financial institutions engaged with during this project, which can be used directly or further tailored as appropriate for engagement with different stakeholder groups in different countries. Over time, they will also provide a watching brief on developments that may become relevant during the course of the project.

- For the financial regulators, analyses will be developed of how changes in the 'financial rules of the game' such as policies, standards and regulations can enhance market transparency and support sustainable land use outcomes, by contributing to remove deforestation from the commodity supply chains of palm oil (Indonesia) and beef and soy (Brazil). The analyses will be consolidated into a best practice guidance note for financial regulators. This work will involve a systematic approach to analysis, engagement, policy formulation and action and will enable financial rule-makers to build a portfolio of tools, instruments and implementation pathways as a basis for making decisions on innovative policies and actions to redirect finance flows. For the work on financial regulation, the Transactions Child Project will leverage the existing knowledge and network of the UNEP Inquiry into the Design of a Sustainable Financial System and the work of the Sustainable Stock

Exchanges Initiative on enhacing market transparency. A strong emphasis will be placed on ensuring an effective coordination between these activities and the policy and regulatory work undertaken by the Production ("Production policy and enforcement") and Demand ("Enabling environment for reduced deforestation commodities in demand markets") child projects. It will be especially important that the formulation of guidelines for financial regulations be in line with the set of rules and principles established to strenghten the enabling emvironment for the production, trade and consumption of legal, reduced-deforestation palm oil, soy and beef. This will be ensured by periodic communication with the project leads for the Production and Demand child projects. (UNEP FI).

- In addition, for the palm oil supply chain in Indonesia, the Transactions Child Project will support the Indonesian Financial Services Regulator (OJK) on the development of lending guidance for palm oil and further support to the development of its overall sustainable finance regulations. OJK is keen to pilot these regulations once finalized and has already identified eight banks that would undergo individual capacity building programs assisting these banks in either the formation or enhancement of their ESRM procedures. Capacity building internally for OJK will also be considered under the program, looking to improve staff capacity to provide guidance on EIA quality and investor disclosure to the stock exchange on which OJK also has oversight. It is proposed that this project will will first support OJK's efforts to work with their selected banks and then where appropriate work with other local banks that have oil palm exposure and are committed to upgrading their risk procedures.

2.1.4 New financial products supporting the production of reduced deforestation commodities, identified and their potential role in funding the transition to zero-deforestation commodity production clearly delineated (palm oil, soy and beef)

- Assessment of the feasibility and potential of innovative financial products for investment in reduced deforestation commodity production by leveraging the UNEP FI network – this will scope emerging structured financial products that are attuned to the needs of zero deforestation supply chain business models and well suited to address some of the barriers usually associated with those models (short-termism and perceived high risk). The examination will initailly comprise green bonds, and other structured finance instruments that are perceived to de-risk finance going to reduced deforestation commodity production (UNEP FI)

- Options assessment of potential for insurance products to support the removal of deforestation in production supply chains – The potential of insurance in enabling zero deforestation commodity production and trade has been hitherto underexplored. This output will identify insurance products that can incentivize the trade of sustainable commodities or disincentivize the trade of unsustainably sourced commodities (for instance, by requiring proof of compliance with environmental policies and regulations to provide maritime insurance) (UNEP FI)

Component 3: Support to Public Sector - Incentives and co-financing for Transactions (To be executed by UNEP-FI)

The power of financial markets to effect change is a necessary but often insufficient condition required to finance a transformation to more sustainable commodity supply chains. As mentioned above, the current market environment does not provide adequate clear, long term frameworks or incentives for private financial institutions to invest in sustainable agricultural activities at scale along the length of a supply chain and there are limited incentives for supporting smallholders adopting reduced deforestation practices.

To address this, the first output of this component is aimed at supporting governments in identifying the fiscal and other public incentives that can re-shape investment flows and enable and incentivise a new and more sustainable mode of operation by the private finance sector and that can support smallholders in their adoption of reduced

deforestation practices. Connected to this, the second output will focus on the strategic relationship between public and private finance with the goal of strategically combining public financing, specifically REDD+ financing, regulation, and private market participation to mobilise finance for achieving supply chain sustainability objectives over the long term, including via the provision of extension services.

To consider how much influence public fiscal policy and incentives have compared to private finance and to other underlying drivers such as international demand is important. To achieve this, it is intended to work with governments through the National Commodity Platforms established by Production Child Project to consider potential revisions to redesign of fiscal incentive structures to align them with and capitalize on relevant development plans, including REDD+, already in place in the 4 target countries. The readiness phase of the UN-REDD programme has clearly highlighted that public funding stimuli, such as REDD+ results-based payments or future Green Climate Fund grants and loans, will not be enough to significantly and permanently transform commodity supply chains. According to an ODI report analysing the role and importance of public subsidies in maintaining unsunstainable agricultural practices for beef, soy, timber and palm oil production, "*any efforts to shift investment towards REDD+ [and deforestation removal policies and strategies], be it public or private, must take into account governments' existing use of subsidies to: (1) identify opportunities to phase out or reform current subsidies that encourage forest loss, (2) support the design of any new incentives for REDD+, so they complement domestic efforts to shape private investment and (3) ensure subsidy reform protects the poor and most vulnerable*". The use of REDD+ finance to support the reform of subsidies to re-shape private investment flowing to key commodities driving deforestation is a critical step if these governments are to reach their REDD+ targets and other environmental and social targets.

REDD+ funding represents one key potential source of transitional financing that can be potentially used for blended-finance transactions hence the emphasis on identifying potential linkages. Other sources will also be identified through the course of the project e.g. Biocarbon Fund, Canadian Climate Funds also represent opportunities for potential blended finance opportunities.

To realise and facilitate these partnerships with governments, this component will also focus on determining and evidencing the value of sustainable supply chains to national and subnational governments in close collaboration with the Production Child Project. This will be an important step to creating a common sustainability goal and generating the necessary buy in and ownership across all Government Ministries at all levels – national, provincial, state or other. This element of the work will review the governments goals – economic, social and environmental and use the latest research and analysis in the areas of natural capital accounting.

In this it will draw on the work of WAVES, TEEB, Vantage and the Poverty Environment Initiative, which aim to promote sustainable development by ensuring that natural resources are mainstreamed in development planning and national economic accounts.

Main Outcome: Increased public incentives and public and private financing for reduced deforestation practices, with a focus on smallholders

3.1 Production country analyses developed on fiscal incentives (e.g. subsidies and taxes), including those targeting smallholders (palm oil, soy, and beef)[21]

[21] The work carried out to achieve this output will be closely coordinated with the Production Child Project and specifically with Component 1: PPPs and dialogue, outcome 1.2 practical alignment and implementation of public and private investments and other actions related to target commodities. The results will be socialized with policymakers and other relevant stakeholders through the National/Subnational Commodity Platforms established by the Production Child Project to ensure buy in and design of effective incentive measures.

- Four analysis of the fiscal systems and instruments (e.g. subsidies and taxes) that are already shaping the flow of capital into the supply chains of the target commodities (palm oil, soy and beef) in the target countries. Such analysis will enable the identification of the full range of existing public fiscal incentives that either support or disincentivise reduced deforestation supply chains practices, and will provide recommendations for incentive reform that can enhance and incentivize the adoption of reduced deforestation practices by the private sector and smallholders.

  Delivering this will require the identification and prioritization of fiscal incentives that can create better compatibility between commodity production and reduced deforestation commodity production efforts, including REDD+. Strategic assessments will be undertaken to identify the points of leverage for the central government, taking into account how compliance and enforcement with existing new laws can be enabled with public incentives, which incentives have greatest impacts on forests, and those fiscal incentives that are easiest to reform and those that improve budget efficiency. Priority in the analyses will be given to those fiscal incentives that can support smallholders in the adoption of reduced deforestation practices.

  It is recognised that in any assessment and possible reform of fiscal systems and policy frameworks, there is no one-size-fits-all solution for countries. National circumstances differ and each country will have a varied approach to identify how their fiscal policies and incentives can overcome inherent conflicts between sectors and competing land uses, serve multiple objectives, and send the right signals to the private sector. For these reasons, while maintining a supply chain approach to the analyses of the different incentives provided, these assessments will be done on a country by country basis in close collaboration with the Production Child Project.

  This work will build on the initial assessments carried out under the UN-REDD programme[22] and UNEP FI[23], specifically the review of palm oil in Indonesia which made recommendations as to the prioritization of incentives to focus on and recommendations for complementary with REDD+ actions and measures.

Output 3.2 Assessments on how to reinforce linkages between reduced deforestation commodity production (palm oil, soy, and beef) and REDD+ national programs that consider REDD+ finance as potential source of financial support for farmers and traders, including for the provision of extension services (palm oil, soy and beef)[24]

This output will identify avenues for greater integration between the broader growth targets and the REDD+ agenda, considering how each country's REDD+ institutional framework, policy framework and REDD+ finance could be used alongside private finance initiatives to accelerate and or/promote the production and trade of reduced deforestation commodities. Tracking REDD+ interventions (policies and measures) that target agricultural expansion as a deforestation driver should deliver a significant contribution to the understanding of the potential synergies between public policies and public finance supporting REDD+; and private finance supporting investment in low- or zero-deforestation supply chains.

- Four assessments focused on how REDD+ finance, in each of the target countries, and considering each country's REDD+ institutional framework, could accelerate and or/promote the production and trade of reduced deforestation commodities. The assessments will also examine the potential of REDD+ finance

[22] UN-REDD Policy Brief No. 7, 2015, G Kissinger; '

[23] Zadek, S., and C. Flynn (2013) South originating Green Finance: Exploring the Potential, Geneva International Finance Dialogues, Geneva

[24] The work carried out to achieve this outcome will be closely coordinated with the Production Child Project and specifically with Component 1: PPPs and dialogue, outcome 1.2 practical alignment and implementation of public and private investments and other actions related to target commodities. The work under this outcome will also reinforce dialogue channels between REDD+ and sustainable commodity practitioners, to avoid further atomization of efforts.

(either for results based actions or results based payments) for strengthening extension services that promote reduced deforestation practices. Recommendations and roadmaps will also be provided on how sustainable commodity efforts can be integrated into National REDD+ Strategies.

The Child Project will build on the extensive experience of the UN-REDD Programme in the design of REDD+ programmes and strategies at the national level (Indonesia and Paraguay), and will ensure that the results of these assessments are available to other countries UN-REDD Partner Countries attempting to link REDD+ with sustainable supply chain initiatives. The project will also utilise the findings of Forest Trends[25]' REDD+ Initiative which will follow public finance flows from donor to recipient institutions at the subnational level, exploring and reporting on sub-national awards and relevance to regional private sector actors[26]. Filling this information gap is a critical piece of the financing puzzle - despite estimates of over US$7.3 billion pledged to support REDD+ Readiness by 2015, information has remained limited on how much of this finance has actually flowed to support either the development of public policies or private sector initiatives which promote sustainable production and supply chains at the sub-national or even national levels.

4) INCREMENTIAL/ADDITIONAL COST REASONING AND EXPECTED CONTRIBUTIONS FROM THE BASELINE, THE GEFTF, LDCF, SCCF, AND CO-FINANCING

The baseline:

Private sector efforts for sustainable commodity sourcing are linked predominantly to the adoption of multi-stakeholder, voluntary standards for palm oil, soy and beef respectively. As of 2012 only 2 percent of soy, 15 percent palm and 0 percent of beef was under standard compliant production and whilst 2013/14 has seen increased volumes, supply penetration is still less than 20 percent for palm oil (the most advanced). These sectors still have a long way to go to tip the balance towards sustainable supply being a market qualifier rather than a market niche.

On the finance side, banks have begun to organize into groupings such as the Banking and Environment Initiative (BEI) with the aim of taking deforestation out of their lending portfolios. To date only large international banks (e.g. Rabobank, Barclays, Deutsche Bank, UBS, etc.) have signed on with no regional or local banks in emerging markets yet participating with these initiatives only just beginning. The banking constituency in the RSPO has established the Financial Institution's Task Force (FITF) and UNPRI coordinate the Investor Working Group on Palm Oil (IWGPO). Both have been established with the aim of expanding financial institutional engagement in the palm oil industry and in the case of the IWGPO to actively lobby listed companies that source or use significant volumes of palm oil in developed markets to move towards more sustainable sources. No similar financial sector working groups/task forces exist for the soy or beef sector and as with the BEI, membership is still mainly international banks and ethical/social investors.

Financial products that reward producers and traders for adopting internationally recognized standards are limited. IFC in collaboration with BEI developed a trade finance product for RSPO-traded oil offering discounts and HSBC launched something similar in mid-2014. IFC in collaboration with WWF developed the Global Map of Social and Environment Commodity Risk (GMAP for short) in 2012/13 to respond to the need to reduce the environmental and social risks associated with its short-term trade finance portfolio. At the time, IFC decided to develop its own tool as there were no readily adaptable or off-the-shelf tools that would enable either staff or client bank staff to assess the risks appropriately and be able to make quick go/no go finance decisions.

[25] Forest Trends is a key executing partner for the overarching Commodities IAP, its role and financing defined in the Adaptive management and Learning Child Project

[26] It will select a pilot country for analysis based on the strength of partner relationships and significance to both conservation objectives and international commodities markets. Brazilian states are key candidates.

Additionally, current fiscal incentives in the agriculture sector continue to attract private finance into commodity production practices that contribute to drive deforestation affecting the risk reward profile of sustainable commodity production. Furthermore, weak links remain between sustainable supply chain efforts and REDD+ processes at the national level thus limiting synergies and the possibility of using potential REDD+ funds channel private finance to zero deforestation commodity supply chains.

The GEF Alternative:

Under the GEF alternative, incorporating substantial incremental co-financing support, the project will work with financial institution and existing sustainable commodity financing platforms to increase private finance to sustainable commodity production and trade by enabling the development of innovative financial products (palm oil, soy, and beef) in target countries (Brazil, Indonesia, Liberia, and Paraguay) (component 1). GEF funds will also help reduce private finance from flowing to activities driving deforestation in the target commodity supply chains (palm oil, soy, and beef) in the target countries by working with financial regulators and financial institutions with a view to strengthening environmental and social risk management systems and thus increase their capabilities to identify, manage and reduce deforestation risks in financial decision making through a combination of capacity building and tools to capture deforestation risk (component 2). GEF Funds will also support the identification and potential reversal of perverse fiscal incentives contributing to drive deforestation and to integrate sustainable commodity roundtables into REDD+ strategies and action plans (component 3).

Implementation of the GEF-led alternative is expected to have a variety of important national- and global-level incremental benefits. These include:

- Increased availability of financial products, including blended finance, that are attuned to the needs of sustainable commodity production and trade
- Increased capacity amongst financial institutions in target countries for identifying, measuring, managing and reducing deforestation risks in the financing of commodity production and trade
- Enhanced awareness in target countries of impacts of financial system policies and regulations in deforestation and understanding of the financial policy and regulation levers that can reduce private finance from contributing to deforestation
- Enhanced complementarity in target countries (Brazil, Indonesia, Liberia, and Paraguay) of fiscal incentives governing the production of agricultural commodities and efforts to remove deforestation from commodity supply chains, including REDD+
- Reinforced linkages at the national level between sustainable supply chain efforts, including National Sustainable Commodity Roundtables and REDD+

5) GLOBAL ENVIROMENTAL BENEFITS (GEFTF) AND/OR ADAPTATION BENEFITS (LDCF/SCCF)

The IAP Program as a whole, and the Transactions Child Project specifically, are consistent with GEF's strategic goals, as well as with global commitments made under different environmental Conventions and key agreements. The 2020 Strategy for the GEF emphasizes the importance of delivering integrated solutions by tackling underlying drivers of environmental degradation to establish synergies as well as greater and more sustained impacts. This CIAP is one of three IAPs supported by the GEF-6 programming strategy. As the finance mechanism to the UNFCCC, UNCBD, and UNCCD, GEF plays an important role in supporting global forest management and conservation. The three Rio Conventions have made clear the importance of forests to achieving their individual objectives. This program will be able to address the common goal of reducing and avoiding the loss of forest resources. The project will support the

achievement of the following specific objectives (contributing to GEF BD Outcome 91. Increased area of production landscapes that integrate conservation and sustainable use of biodiversity into management)**:**

By reducing the financing flows to deforestation linked commodity production through the development of environmental and social risk management capabilities within financial institutions and through the development of readily available tools to capture deforestation risk, the project will contribute to limit the expansion of agriculture's forest footprint and associated implications on GHG emissions and biodiversity loss (Aichi Target 4).

Development of a shared risk platform for Brazilian bankers will facilitate consistency, reach, and robustness of ensuring legal compliance and good agricultural practices by the Brazilian banking sector. Current central banking resolutions, financial regulations, and other shifts have provided a unique opportunity. However, these centralized initiatives often face challenges in terms of inconsistent application at the field level and in the context of a competitive playing field. Through a pre-competitive approach to sharing granular data on farmer practices, legal compliance, ecological conditions and risks, and financial history, we can short-circuit these dynamics and help leverage the full power of institutional finance to drive consistent change on the ground, thus reducing deforestation; conserving biodiversity, soil, and water resources; and supporting sustainable livelihoods.

The development of robust business cases for the sustainable production and trade of palm oil, soy, and beef alongside the development of adequate long-term financial products will enable a wider uptake of sustainable business practices and contribute to achieve zero net deforestation commodity supply chains. In the same manner, blended financial products will decrease the perceived investment risks of investments in commodity production and will, in the short term, contribute to crowding in private finance to promote sustainable commodity production.

Subsidies and other fiscal incentives that contribute to land use change remain orders of magnitude greater that the finance available for REDD+ as well as for efforts to remove deforestation from commodity supply chains. The project will support the harmonization of fiscal incentives in the agricultural sector in general, and with implications on the target commodities in particular, with efforts to reduce forest loss (Aichi Target 3). In addition, fragmentation of efforts between REDD+ and commodity supply chain efforts has led to inefficiencies in the actions to address deforestation. The project will support the development of strong institutional linkages between REDD+ process and national commodity platforms.

Additionally the project will contribute to the following GEBs:

- **Climate change mitigation** - Conservation and enhanced carbon stocks in agriculture, forest, and other land use
- **Sustainable forest management** – Reduction in forest loss and forest degradation;

The project expects to achieve the following global environmental benefits:

Baseline Practices	Alternative	Global Environmental Benefits
Component 1 – Support to Commercial Transactions. Limited current financing products that target the adoption of sustainable practices inclusive of reduction in forest loss/degradation	15 Commercial transactions totaling a minimum of USD100 million dollars of new investment per year	USD100 million dollars of new investment per year

Component 2 – Private finance flowing to activities driving deforestation given limited awareness and capabilites within financial institutions duet to limited avaialability of tools to integrate deforestation-risks associated to commodity production into financial decision making	Enhanced awareness about amongst financial institutions of financial risks associated to deforestation in commodity production Enhanced capabilities within financial institutions to identify, manage, and reduce deforestation risks in the financing of commodity production and trade	Increased financial flows directed at commodity production that reduces deforestation
Component 3. Missing enabling conditions, particularly with regard to policy and institutional, for the production and trade of sustainable commodities and weak linkages between country efforts to reduce forest loss. Specifically a fiscal environment attracting private sector finance into activities driving deforestation remains and weak linkages between between sustianable supply chain and REDD+ efforts	Enhanced complementarity in target countries of fiscal incentives in the agricultural sector in general and governing the production of the target commodities in particular with efforts to reduce forest loss, including REDD+	Enabling regulatory environments at the national level that influence public sector to increase private finance and harmonize commodity production with efforts to reduce deforestation; increased financial flows to sustainable commodity production

6) INNOVATION, SUSTAINABILITY AND POTENCIAL FOR SCALING UP

The innovativeness of the Transactions Child Project lies in directly enabling change in the overall structure of the market. This will be done by reducing finance flows into commodity production driving deforestation, while supporting the development of business cases for sustainable commodity production and trade alongside the development of adequate blended and commercial financial products to support their adoption. Innovation also lies in working with financial regulators to identify and promote the financial system regulatory interventions that can contribute to reducing pressures on forests.

Sustainability and continuation of activities after project implementation will come from (1) clear business case for sustainable commodity production; (2) changes in business and market practices by financial institutions (adopting reduced deforestation policies and subjecting an increasing number of transactions to those policies), and financial regulators lead to increased capabilities in environmental and social risk management and track record in financing sustainable commodity production and trade; (3) strengthening the complementarity of fiscal incentives governing

the production of selected commodities in target countries with efforts to remove deforestation from supply chains including REDD+.

The project's initial target commodities and countries of action can be easily expanded, and work with regional and international financial institutions will lead to short term replication of results in other countries, including UN-REDD Partner countries. Replication will also come from applying the approach and model to other commodities.

A.2. Child Project? If this is a child project under a program, describe how the components contribute to the overall program impact.

The financial sector is one of the largest, most powerful, and most diverse sectors of the global economy. There are multiple, distinct ways to leverage the power of finance to help transform markets. It is therefore not surprising that there are touchpoints with financial players across GEF projects. GEF Transactions is dedicated to engaging finance and will lead in this respect in order to drive change on the ground. To a lesser extent, GEF Demand will also leverage financial institutions as part of its toolkit, in order to help alter FMCG (Fast Moving Consumer Goods) purchasing behaviors. These two approaches are fully distinct in terms of players, outcomes, and geographies. Yet opportunities also exist for coordination and potential synergies.

In terms of outcomes, GEF Transactions will focus on driving and supporting improved practices among local upstream players - i.e. primarily producers, local processors, and exporters. GEF Demand, to the extent it leverages finance, will focus on changing practices among downstream regional players - large consumer goods brands (major buyers) and retailers.

In terms of players, GEF Transactions will focus on local/national banks. GEF Demand will leverage the power of regional investors and banks (who are actively financing regional FMCGs).

And finally, in terms of geography, GEF Transactions will deploy an in-country approach in the GEF target geographies, whereas GEF Demand will deploy a solely regional/transnational approach.

Despite these differences in terms of players, outcomes, and geography, there are several fruitful synergies that can be leveraged. First, there are some regional, Singapore-based financial institutions that have local offices or affiliates in Indonesia. Through tight coordination between GEF Demand and Transactions, we can ensure our messages on sustainable commodities are mutually reinforcing. Second, UNEP FI maintains relationships and executes capacity-building with FIs either based in or with major offices in Singapore. While UNEP FI is focused on the GEF Transactions child-project, GEF Demand can coordinate in order to bring some of these relationships to bear opportunistically. Finally, IFC (GEF Transactions) is currently considering establishing a regional hub in Singapore, which would provide further opportunities for coordination and cross-fertilization.

Financial institutions exert ownership and establish "the rules of the game" across the economy. Therefore, they cannot be ignored, but rather must be engaged, in our work throughout the deforestation commodities value chain. Through smart segmentation and coordination, despite our distinct activities and partners, we can achieve one of the main goals of the IAP - integration - and as a result multiply our impact on industry through a parallel financial value chain transformation.

The Transactions Child Project will also coordinate with the Production Child Project on the examination of public incentives and their complementarity with zero deforestation commodity production, by linking the analyses and recommendations to the National Commodity Roundtables. In the same manner it will coordinate with National Commodity Roundtables when examining the institutional arrangements to link REDD+ processes with zero deforestation commodity production.

***A.3. Stakeholders*. Elaborate on how the key stakeholders engagement, particularly with regard to civil society organizations and indigenous peoples, is incorporated in the preparation and implementation of the project.**

During preparation consultation was extended to the UNEP Regional offices of Africa, Asia/Pacific and Latin America and the Caribbean as well as UNEP country offices of Brazil, Indonesia, Liberia and Paraguay. Input from these offices has been integrated into the CEO Endorsement document.

The project depends on the active participation of key stakeholders who will drive the project. In this respect the project will involve a wide spectrum of stakeholders at every stage in its implementation. The table below provides an overview of the key project partners with a provisionary description of their respective roles, which must be confirmed and validated during a consultative process, in the form of workshops as start-up activities for the project's institutional anchoring.

The following roles for different categories of stakeholders are anticipated:

Consultative partners are already working globally or nationally on removing deforestation from commodity and financial supply chains and will be consulted regularly in a collaborative context with respect to the roll out of the project. Some consultative partners are furthermore co-financiers globally and regionally.

Partner Executing Agency. These are agencies at the national level, who have a lead role in joint decision making regarding implementation of country level activities, and participate in workshops and country level activities.

Partners. These are agencies at the national level that are consulted and participate in workshops and country level activities.

CSOs and NGO. NGOs at the national level are called upon to participate in and co-lead project activities.

Private Sector. Multiple entities will be engaged in the identification of investment opportunities.

Stakeholders	**Role**
IFC	**Lead Executing Agency**
UNEP-FI	Executing Agency
WWF-US	Partner executing agency
Natural Capital Declaration	Consultative partner and co-financier
UNEP Inquiry	Consultative partner and co-financier
UN-REDD Programme	Consultative partner and co-financier
Forest Conservation Agriculture Alliance (FCAA) – Partnership including USAID, WWF-US, IFC, Minerva, WCS, Neuland Coop & FIDEI	Consultative partner and co-financier
BEI	Consultative partner
Principles for Responsible Investment	Consultative partner
FEBRABAN	Consultative partner
Banco do Brazil	Consultative partner
OJK	Consultative partner
Global Canopy Programme	Consultative partner
Roundtable on Sustainable Finance Paraguay	Consultative partner

***A.4. Gender Equality and Women's Empowerment.*. Elaborate on how gender equality and women's empowerment issues are mainstreamed into the project implementation and monitoring, taking into account the differences, needs, roles and priorities of women and men**.

Men and women use forests and forest resources differently, to successfully design and implement programs aimed at reducing deforestation those measures must be informed by gendered analysis of the forestry sector (http://www.itto.int/files/itto_project_db_input/3047/Technical/Rapport_Liberia_FINAL_Mai14.pdf), hence in a project aiming to slow the growth of deforestation linked commodities, gender must be taken into account.

Gender equity is an important aspect, and will be integrated into the project's relevant activities at the global and national level. Gender inclusiveness will be ensured with respect to outreach and training workshops, and selection of case studies. Curricula will be designed to take into account gender sensitivities and proactive outreach to women. The project will contribute towards gender inclusiveness by integrating gender concerns into outreach and workshop planning. Proposed re-alignment of legal and trade frameworks will recognize and adjust for impacts on vulnerable populations and especially women. Wherever possible, the project will attempt to engage with gender-based groups in case the project executes community-based activities.

Project monitoring will include gender criteria (especially for the training and workshop activities) in order to track the progress of the gender integration.

Specific project activities that target women include:

- 1.1.2 # promotional Workshops/seminars to in-country (ensuring a gender balanced participation)
- 2.1.2 # workshops in target countries to disseminate best practice amongst financial institutions (ensuring a gender balanced participation)
- 2.1.4 # training sessions with risk managers of financial institutions in target countries organized and run (ensuring a gender balanced participation)

IFC's MAS advisory services has finalized its strategy (August 2016) for further mainstreaming gender into both the investment and advisory work. This strategy builds on a recently completed study titled 'Investing in Women Along Agribusiness Supply Chains' (www.ifc.org/wps/wcm/connect/98c06e4a-0812-4f62-b434-86420b5db410/IFC+Gender+Agribusiness+Report2.pdf?MOD=AJPERES) that identified gender gaps in areas such as a) women in leadership, b) women entrepreneurship, c) women as employees, d) women as clients and b) women in the community. Through these lenses we will be able to identify and close gaps that enhance women's decision making roles, improve their human rights and access to resources (including financing).

IFC is now in the process of rolling out amongst our investment/advisory colleagues training and support that will enable us to identify and close gender gaps in agribusiness investment/advisory projects inclusive of those proposed under this project. This approach is included as Annex R in the overall package.

In addition, UNEP will make gender part of all project activities. For this purpose, a gender session will be included in workshops, training and seminars to discuss and address the relevant gender issues related to commodity financing. Another example is that when the project carries out studies, a section dedicated to a relevant gender issue (increased role in decision making, achievement of their human rights and increased access to development resources and benefits) will be included. For that purpose, budget has been allocated to hire a gender/social specialist to assist with project implementation on that front.

A.5 Risk. Elaborate on indicated risks, including climate change, potential social and environmental risks that might prevent the project objectives from being achieved, and, if possible, the proposed measures that address these risks at the time of project implementation.(table format acceptable):

RISK	**Level of Risk**	**Risk Mitigation Strategy**
Limited appetite from individual financial institutions in target countries to adopt more stringent environmental and social risk management systems given perception that they will be at a competitive disadvantage	L to M	Work closely with banking associations and financial regulators in target countries, such as Febraban in Brazil and OJK in Indonesia, to promote industry wide uptake of risk management systems that consider deforestation in commodity production. Develop shared, pre-competitive tools to enable transparency, better decision-making and a more level playing field in FI management of deforestation and other risks.
Evidence of corruption practices that can complicate the deployment of our theory of change by creating substantial transactions costs, hindering our push for transparency and redirecting investments towards non-vetted activities	L to M	This can be mitigated by working with financial institutions with strong commitment to fully transparent operations, robust and enforced internal safeguards and stated anti-corruption policies. We expect a strong correlation between a FI's sensibility towards the issue of deforestation and its application of high standards of anti-corruption compliance, for the simple reason that the two are elements of best-in-class operational practices. Risk of corruption in the different production supply chains will be addressed by the Production Child Project.
With respect to the value at risk model, companies and financial institutions may not be willing to contribute and share business sensitive data	M	This can be mitigated by signing non-disclosure agreements with relevant actors (with anonymized data sets; or encrypted data), and communicate to companies and financial institutions about previous non-disclosure agreements carried by UNEP FI with financial institutions as well as by the methods used by Forest Trends to receive and store sensitive company data. Other modes of data collection (anonymized data sets) and results dissemination can also be explored, which leverage the tool but are less reliant on proprietary company data.
With respect to the work on financial regulation – limited interest from financial regulators in examining what are the regulatory levers that can contribute to remove deforestation from supply chains.	M	Work with the UNEP Inquiry to build on the momentum created they have created for placing sustainability issues into the agenda of financial regulators. Leverage WWF's recently signed partnership with OJK, the Indonesian financial super-regulator.

With respect to the work on fiscal policy limited interest from ministries of agriculture and finance in examining and addressing deforestation issues	M to H	Work closely with the production child to secure high level political support for the initiative and project to ensure that fiscal incentives are placed on the agendas of the National Commodity Roundtables created and to the attention of relevant policymakers early on in the process.
Corporate Reneging on Sourcing Commitments - Lack of progress on sourcing targets at the corporate level leads to revision or backsliding on stated sourcing goals, limiting producer/supply chain/FI interest in financing opportunities associated with the program	M	Work closely with both Production and Demand teams on timely support to program partners so progress is made. Continue to build on early momentum of BEI, RSPO's FITF, and PRI's Oil Palm Working Group to promote the agenda. Work closely with research institutions to demonstrate the value of adopting standards/best practices from an economic, environmental and social standpoint.
Prolonged Commodity Downturn – The cyclical nature of commodities will often result in periods where commodity pricing/margins are low and investments from corporates in sustainability sourced commodities are reduced.	M	Improving the business case for adoption of best practices will often lead to cost savings, productivity improvements that in turn make producers more resilient to price fluctuations and more bankable.
Operational/Staffing Risk – Finding the right blend of skills for the teams that will design the different components of the project	M	Identify appropriate staff and consulting resources during the project preparation in the key regions, Africa, Asia and Latin America.
Environmental risk - Climate change and associated extreme weather events adversely affect agricultural production, leading to pressure to expand production and reducing support for setting aside high conservation value forests and for sustainably sourced commodities, undermining the ability of the interventions of the Transactions Child Project to achieve its expected impacts	M	The IAP has already built in considerations of resilience into its design and ensured that activities are climate proofed. The different tools and methodologies that are being put forward by the Transactions Child Project already consider biophysical risks as one of the main categories of risks to consider when financing commodity production and trade.
Legal vs Illegal deforestation	M to H	The overall program aims to reduce deforestation in commodity supply chains and this includes legal/illegal deforestation. There will obviously be tension between what markets/companies are committing to (e.g. zero deforestation) and countries that want to develop their forestry resources. The transactions program will aim to identify business models/financing that focus on

		optimizing lands already deforested/degraded that can be rebuilt and contribute to national development objectives. The project will need to work closely with the Production project whom have the closest links to government agencies at the sub-national/national levels where land-use planning allocates land. Reiterating the approach above will be important for the program all the time.

L-Low / M-Medium / H-High

A.6. Institutional Arrangement and Coordination. Describe the institutional arrangement for project implementation. Elaborate on the planned coordination with other relevant GEF-financed projects and other initiatives.

Implementing Agencies: The World Bank Group (Lead) and UNEP are the implementing agencies of the transactions project. The implementing agencies are responsible for overall project supervision, overseeing the project progress through the monitoring and evaluation of project activities and progress reports, including through periodic reports on technical issues leveraging their experience in managing complex multi-country conservation-themed initiatives. The World Bank Group and UNEP will provide technical and administrative support to the Executing Agencies (EAs).

For UNEP, the project is consistent with its Programme of Work for 2016-2017, particularly the Ecosystem Management (EM), Resource Efficiency (RE) Programme Frameworks. Ecosystem management expected achievements are supported through this project: (a) (i) Increased percentage of countries integrating the ecosystem approach into sector-based natural resource management, with the assistance of UNEP; and c) (ii)Increased number of countries that advance by at least one level in the UNEP results measurement framework for assessing public sector engagement in strengthening and applying financial planning instruments for pro poor growth and environmental sustainability, as a result of UNEP support.

Specific objectives and supporting activities under Programme Frameworks include: Collaboration with the private sector through partnerships and to integrate the ecosystem approach into sector strategies and operations is enhanced (EM); The 10 Year Framework of Programmes on Sustainable Consumption and Production and UNEP's delivery on Green economy in the context of sustainable development (RE). The project is fully in line with the UNEP role of catalyzing the development of scientific and technical analysis and advancing environmental management in GEF-financed activities. UNEP provides guidance on relating the GEF financed activities to global, regional and national environmental assessments, policy frameworks and plans, and to international environmental agreements. More specifically, the project lies within the following areas recognized by GEF as areas where UNEP has a comparative advantage:

- Sound science for national, regional and global decision-makers, notably by strengthening science-to-policy linkages and by strengthening environmental monitoring and assessment;
- Technical assistance and capacity building at country level, notably by strengthening technology assessment, by demonstration and through innovation, and also by directly developing capacity;
- Knowledge management, including through awareness raising and advocacy

Both the World Bank Group and UNEP will serve in the in the IAP Steering Committee. With a seat at the Steering Committee, UNEP will be in a position to ensure that appropriate linkages and coordination are maintained with relevant programmes of the GEF as well as to other UNEP divisions and UN agencies, for instance the UNEP Inquiry and the UN REDD Programme. It will also seek linkages with global environmental conventions such as UNFCCC, CBD, UNCCD, and the newly formed IPBES.

Executing Agencies: IFC, UNEP Finance Initiative and WWF will be the executing agencies for the project. The EAs will provide administrative and technical supervision in the implementation of the project. UNEP FI as EA for UNEP will execute, manage, and be responsible for the project and its different activities on a day-to-day basis and will establish the necessary managerial and technical teams needed for project execution. UNEP FI will liaise closely with IFC and WWF as EAs under the Transactions Child Project and with any other partners that may contribute to the technical and financial support of project implementation.

The Project will be executed by IFC (lead), UNEP FI and WWF-US. The work and responsibilities are divided as follows:

Component 1 – to be executed by IFC only

Component 2 – to be executed by IFC, UNEP FI, and WWF

Component 3 – to be executed by UNEP FI

UNEP FI is well positioned to deliver on the proposal due to a range of attributes including:

- A formal membership network- through UNEP's Finance Initiative - of over 230 financial institutions internationally including banks, investors and insurers and with a strong network/operational footprint in commodity producer countries and initiatives (e.g. 6 out of 7 banks in the RSPO 'Finance Task Force' are UNEP FI members)
- Strong fit with current work areas: all proposed activities extend, focus and deepen current UNEP FI activities and will leverage an existing multi-million dollar existing budget already focused on these areas
- Established relationships with ministries of finance, central banks and financial regulators in key commodity producing and purchasing countries
- Deep internal expertise within UNEP FI in all pertinent areas of environmental finance including investment, banking and insurance.

A **Transactions Child Project Steering Committee** will be established and be responsible for providing overall guidance and strategic direction. The Steering Committee will be able to make management decisions, by consensus, when required, as well as recommendations for the executing agencies on potential project revisions. The Steering Committee will be chaired by the IFC and will include representatives from the following organizations: UNEP FI, UNEP (IA), the World Bank (IA), WWF (EA), and a representative from the financial sector.

The Steering Committee will hold meetings two times per year (and more if deemed required). The meetings will be held virtually.

IAP Steering Committee: The IAP Steering Committee remains the main governance and steering body for the overall programme. The IAP Steering Committee will be comprised of UNDP, UNEP, WWF, Conservation International, a representative of the GEF Secretariat and a representative of STAP. Detailed terms of reference for the Steering Committee are included in Annex H.

IAP Advisory Committee: The Transactions Child Project will also utilize the Programme Advisory Committee as its main advisory body. The Advisory Committee will advise the Steering Committee on a periodic basis. This will consist of

selective experts from the private sector, NGOs, platforms, donors, who are recognized in their respective fields. The Advisory Committee will provide technical and strategic advice to strengthen Program implementation and impact; support the building of partnerships to increase Programme impact and visibility, and provide feedback on changes in the Program context to support adaptive management and resilience. Tentative terms of reference for the Advisory Committee are included in Annex H.

IFC's transaction task leader (TTL) for the project will serve as IFC's Project Coordinator for the project. The TTL's works in IFC's Manufacturing Agribusiness Services (MAS) Advisory Services division, part of IFC's MAS Department. The department along with IFC's Cross Cutting Advisory Services department will provide any back-stopping support for the project, inclusive of a finance officer, performance management/monitoring & evaluation specialists and procurement specialists. IFC'S MAS Advisory is organized in a sectoral and regional matrix that includes Asia Pacific (EAP), Latin America & the Caribbean (LAC) and Sub-Saharan Africa (SSA). IFC's Regional Leads in each of the relevant regions will work with IFC's Project Coordinator on delivery of the project and will assign Project Leads (PLs) that will be responsible for specific country projects. Annex H indicates how the project will be organized.

UNEP FI will create a transactions **project management unit** (PMU) that will be comprised of a project coordinator (co-financed by other sources of funding) with technical and project management responsibilities, a UNEP FI Programme Manager, and by an administrative and finance assistant. The PMU will be hosted at the UNEP FI offices in Geneva, Switzerland. In addition to being responsible for technical outputs, the project coordinator will run the project on a day to day basis on behalf of the executing agency and will be responsible for the successful completion of project outputs and ultimately for the achievement of the project's objectives. The project coordinator will coordinate both with the Transactions Project PCU and with other projects within the IAP through regular communications.

In addition, **Technical Advisors** will be contracted to support the implementation of the project as well as to provide specialist technical expertise for specific outputs. Areas of expertise will include: financial risk modelling, environmental and social risk analysis, financial products, financial policy, fiscal incentives, communications and knowledge management. Indicative terms of reference for technical advisors are included in Annex E.

Project evaluation for components 2 and 3 of the project will be carried out using standardized UNEP Evaluation Office terms of reference.

Linkages with other GEF and non-GEF interventions

The current project will have linkages with GEF-financed initiatives and other UNEP projects currently being designed or implemented and that focus on reducing deforestation associated with commodity production and on advancing the integration of environmental and social criteria in financial decision making.

UNEP Inquiry - A project with the objective of examining how changes in financial system design can bring the environment more effectively into financial decision-making. Its insights are informed by an international Advisory Council and insights from practical country experience and extensive international engagement and research reflected in over fifty research papers. Linkages to be reflected on work focusing on the financial policies and regulations that can help remove deforestation from commodity supply chains.

UN-REDD Programme – A multi-donor programme focused on reducing emissions from deforestation and forest degradation in developing countries. Significant linkages can be exploited on efforts to engage the private sector in REDD+ implementation and on identifying financial mechanisms to take out deforestation from commodity supply chains.

Natural Capital Finance Alliance (previously NCD) – is the leading finance sector initiative, financed by multiple donors and endorsed by over 90 financial institutions and supporting organisations which are actively working to develop standardised methodologies to quantify the natural capital related risks and opportunities in order to improve decision-making in the finance sector. Linkages will be sought on work related to tools and methodologies for capturing deforestation risks in financial decision making.

Supply Change – A GEF financed project focused on informing and promoting the integration of public policies and private finance in order to scale up and mainstream forest, biodiversity, and ecosystem conservation in commodity production landscapes. Linkages will be made on specific monitoring aspects of how financial institutions are considering deforestation risks as part of their lending or investment policies.

IFC's Biodiversity and Agricultural Commodities Program (BACP) – lessons learnt from this IFC initiative focused on "reducing, in an innovative and large-scale manner, the threats posed by agriculture to biodiversity of global significance" will be applied during the Transactions Child Project implementation. BACP focused on palm oil, soy (and cacao) and its target countries included Indonesia, Liberia and Brazil, among others. It worked to improve BD-related industry decisions on environmental performance targets and increase uptake of new practices and technologies. The Program is highly relevant for this IAP as it focused on establishing incentives for increased supply, demand and financing of BD-friendly agricultural commodities.

Mainstreaming Biodiversity Conservation and Sustainable Land Management into Production Practices in all Bioregions and Biomes in Paraguay – this GEF financed and UNDP implemented project includes as part of its focus to promote market based incentives and to develop capacity for sustainable landscape management. The Transactions Child Project will seek linkages with this initiative to benefit from the data that they have gathered during project implementation to build and inform different commodity financing risk models.

Sustainable Landscapes Programme – a World Bank-led programme that promotes sustainable land management in the Amazon, including in Brazil, Colombia and Peru. In Brazil, this programme seeks improved "management and restoration of forests in agricultural landscapes by providing innovative financing mechanisms, addressing bottlenecks that prevent farmers from participating in low carbon agriculture, and increasing amount of loans to mid-sized farmers to encourage recovery of degraded lands". The Transactions Child Project will seek to build on the experiences of this programme, specifically in Brazil.

Piloting Innovative Investments for Sustainable Landscapes – is a new non-grant initiative funded by the GEF. This project will be part of the financing mechanism which will be soon launched by IDH together with NICFI. The finance mechanism aims to bring together production and protection: Providing capital to investors in agricultural growth, whilst at the same time ensuring that precious forest and peat are well-protected and/or restored. The project aims at de-risking commercial financing of deforestation-free land-use through building a finance facility, called 'Production and Protection Fund' (PPF), develop a pipeline of investable projects and test it by investing capital in the 7 selected landscapes in Brazil, Indonesia and Liberia such that these private investments deliver 1.25 million hectares of forest protection as well as livelihood improvements for smallholders and communities living in those forests. This new non-grant project will provide additional business cases and best practices on innovative engagement of the private sector and public sector through innovative finance models that delivers protection and production benefits.

Global Forest Watch Commodities – an online platform, empowers companies to analyze the impact of key commodities on forests, using the latest and most powerful data available. GFW Commodities builds on the Global Forest Watch platform with a specific focus on companies who buy and sell major commodities that impact forests, such as palm oil, beef, soy, wood pulp. GFW Commodities is free to use and follows an open data approach in putting decision-relevant information. The Transactions Child Project will work with WRI to identify how the GFW tools can be used to enhance

tools that allow for measuring, managing and reducing deforestation related risks in the production and trading of commodities.

The Conservation and Finance Markets Initiative **–** A Moore Foundation funded project focused on using the power of mainstream financial markets to help drive the food sector away from production practices that degrade natural ecosystems and to support businesses and the capital markets to make informed decisions based on effective disclosures. The Transactions Child Project will disseminate some of its tools and methodologies through the Ceres investor network, to promote a more informed investor-company engagement on deforestation risks.

The United Nations Strategic Plan on Forests (UNFFS) – This strategic plan was recently released (Dec 20 2016) and lays out the reference framework for forest-related work of the UN system and its partners aiming to foster coherence, collaboration and synergies among UN bodies and partners towards a shared vision and mission for forests. The UNFFS lays out how member state governments can support the Collaborative Partnership for Forests (CPF) of which the World Bank and UNEP are members in strengthening inter-agency cooperation on forests (Global Forest Goal 6). At this stage it is too early to gauge how the Transactions Child Project can interact with the CPF or the UN Forum for Forests (UNFF) but a watching brief with relevant World Bank and UNEP staff is proposed at this stage to identify appropriate forums linked to these where the commodities work (in general) can share lessons learnt as they emerge.

A.7 ***Benefits.*** **Describe the socioeconomic benefits to be delivered by the project at the national and local levels. How do these benefits translate in supporting the achievement of global environment benefits (GEF Trust Fund) or adaptation benefits (LDCF/SCCF)?**

The socio-economic benefits are linked to the achievement of the global environmental benefits described in section 5. Important benefits are expected from project activities related to increase access to finance for agricultural smallholders (responsible for a significant share of production of palm oil and beef in target countries). Access to long term adequate finance can contribute to increases in smallholder productivity, incomes and thus contribute to improving livelihoods. Increased availability of long-term finance products that are attuned to the needs of sustainable commodity production will also benefit SMEs and cooperatives contributing to deliver on increased employment.

There are also several benefits expected from the execution of project activities focused on reducing financing and incentives available for commodity production that is linked to deforestation. Land use change for commodity production has resulted in a significant loss of ecosystem services which tend to affect disproportionally forest dependent communities. The reduced availability of finance will contribute to reduced deforestation that, in turn, will result in limited socio-economic costs from land use change.

The Transactions Child Project will also deliver socio-economic benefits by developing capacity in financial institutions (banks and investors) to lend and invest in zero deforestation commodity production (i.e. sustainable intensification of agriculture in appropriate areas and in good agricultural practices as identified by the Production Child project). Facilitating transactions between sustainable commodity producers and markets will also contribute with benefits for producers.

A.8 ***Knowledge Management***. Elaborate on the knowledge management approach for the project, including, if any, plans for the project to learn from other relevant projects and initiatives (e.g. participate in trainings, conferences, stakeholder exchanges, virtual networks, project twinning) and plans for the project to assess and document in a user-friendly form (e.g. lessons learned briefs, engaging websites, guidebooks based on experience) and share these experiences and expertise (e.g. participate in community of practices, organize seminars, trainings and conferences) with relevant stakeholders.

Knowledge management will be an integral part of the execution of the project. This will ensure that coordination and linkages are established between the different project outputs within the Transactions Child Project and the outputs of the Production and Demand Child Projects. The project will organize a series of workshops with financial institutions and other relevant stakeholders in the target countries to disseminate knowledge generated from project activities, including the identification of financial risks associated to deforestation in the production and trade of commodities, the business cases for removing deforestation from the production and trade of palm oil, soy, and beef, and on the role of financial policy and regulation to remove deforestation from supply chains.

Knowledge management products, including the different guidance briefs, tools and methodologies to assess deforestation risks in commodity production and trading, will widely be disseminated amongst practitioner networks (including the UNEP FI and the Natural Capital Finance Alliance network) through events, workshops and webinars. In addition, the products generated during the project will be feed into the overall IAP knowledge management strategy led by UNDP as part of the Adaptive Management Child Project and so that products are disseminated to a wider audience of stakeholders at relevant events and meetings. Thematic experts engaged in the execution of the Transactions Child Project and practitioners from the different finance industry networks will be mobilized to participate in the IAP Global Community of Practice to ensure that knowledge reaches critical stakeholders in the four target countries.

In addition to coordination of knowledge management activities at the IAP Steering Committee, the knowledge management experts from UNEP and IFC engaged in the Transactions Child Project will periodically coordinate with the IAP coordinator and the IAP KM lead to identify synergies, share knowledge management products, and to identify relevant events outside the IAP. In addition, reports will be given to the IAP Steering Committee on the participation of project thematic experts at finance-focused events. This approach will contribute to ensure that knowledge sharing and replication take place throughout the project implementation period.

UNEP will also ensure that the activities, results, achievements and lessons learnt from the project are shared will all relevant partners in appropriate regional and global forums.

B. DESCRIPTION OF THE CONSISTENCY OF THE PROJECT WITH:

B.1 ***Consistency with National Priorities.*** Describe the consistency of the project with national strategies and plans or reports and assessments under relevant conventions such as NAPAs, NAPs, ASGM NAPs, MIAs, NBSAPs, NCs, TNAs, NCSAs, NIPs, PRSPs, NPFE, BURs, etc.:

The UNEP Regional Offices for Latin America and the Caribbean (ROLAC), for Africa (ROA) and for Asia and Pacific (ROAP) will support the promotion and integration of the outcomes from this project in the Planning Processes and UNDAFs of target countries, as well as provide a platform for dissemination of results, and provision of technical support to countries. Project contribution to relevant sections of the UNDAF:

Country	Project Contribution to relevant sections of the UNDAF
BRAZIL	The Project will contribute to Brazil's stated outcome of: "National policies to promote the green economy (with expansion and improvement of formal employment and new businesses, new technology development and qualification of productive actors) expanded and strengthened", as outlined on pages 27-32 of its UNDAF (2012-2015): https://ims.undg.org/downloadFile/8788f555ba432c662f8be1d29e04760c16dcf563ad651ba59a5d34501a6edfbf

INDONESIA	The Project will contribute to Indonesia's stated outcome of "By 2020, Indonesia is sustainably managing its natural resources, on land and at sea, with an increased resilience to the effects of climate change, disasters and other shocks" as outlined on page 42 of its UNPDF (2016-2020): https://ims.undg.org/downloadFile/66e569e80493448eb172e03c6bfb6bbaf439f11a5000f78a28665a41abfe5c8b
LIBERIA	The Project will contribute to Liberia's stated outcomes of: Outcome 2.1: Natural Resources Utilization and Food Security : sustainable natural resources utilization and sustained food security; Outcome 2.2: Private Sector Development: Access to sustainable livelihoods in an innovative and competitive private sector; and Outcome 2.4: Macroeconomic Policy: Evidence based policies for stable and sustained macro-economic environment --as outlined in its UNDAF (2013-2017) https://ims.undg.org/downloadFile/505b012e398561e59cee50803346f00d49f3c452dd8e16760521c22db743d200
PARAGUAY	The Project will contribute to Paraguay's stated outcomes of (translated from Spanish): Paraguay will have achieved progress in the reduction of deforestation and desertification and in best practices of conservation and sustainable use of biodiversity and mitigation and adaptation to climate change – as outlined it its UNDAF (2015-2019) https://ims.undg.org/downloadFile/a074f4ce9125c885c897e784293f1ccb9b6348f16cfb958c393f181e4a97c886

The project is well-aligned with a wide range of national policies, strategies and legislation, as described below.

Brazil

The Project will support the following goals and specific national targets of Brazil's NSBAP.

Strategic Objective A – Address the underlying causes of biodiversity loss by mainstreaming biodiversity considerations across government and society

National Target 1: By 2020, at the latest, Brazilian people are aware of the values of biodiversity and the steps they can take to conserve and use it sustainably

National Target 3: By 2020, at the latest, incentives harmful to biodiversity, including the so called perverse subsidies, are eliminated, phased out or reformed in order to minimize negative impacts. Positive incentives for the conservation and sustainable use of biodiversity are developed and applied, consistent and in harmony with the CBD, taking into account national and regional socio economic conditions

Strategic Objective B – Reduce the direct pressures on biodiversity and promote sustainable use

National Target 5: By 2020, the rate of loss of native habitats is reduced by at least 50% (in comparison with the 2009 rate) and, as much as possible, brought close to zero, and degradation and fragmentation is significantly reduced in all biomes

National Target 7: By 2020 the incorporation of sustainable management practices is disseminated and promoted in agriculture, livestock production, aquaculture, silviculture, extractive activities, and forest and fauna management, ensuring conservation of biodiversity

Strategic Objective D: Enhance the benefits to all from biodiversity and ecosystem services

National Target 14: By 2020, ecosystems that provide essential services, including services related to water, and contribute to health, livelihoods and well-being, are restored and safeguarded, taking into account the needs of women, traditional peoples and communities, indigenous peoples and local communities, and the poor and vulnerable

National Target 15: By 2020, ecosystem resilience and the contribution of biodiversity to carbon stocks has been enhanced through conservation and restoration actions, including restoration of at least 15% of degraded ecosystems, prioritizing the most degraded biomes, hydrographic regions and ecoregions, thereby contributing to climate change mitigation and adaptation and to combatting desertification

Strategic Objective E: Enhance the implementation through participatory planning, knowledge management and capacity building National Target 18: By 2020, the traditional knowledge, innovations and practices of indigenous peoples, family rural producers and traditional communities relevant for the conservation and sustainable use of biodiversity, and their customary use of biological resources, are respected, in accordance with their uses, customs and traditions, national legislation and relevant international commitments, and fully integrated and reflected in the implementation of the CBD, with the full and effective participation of indigenous peoples, family rural producers and traditional communities, at all relevant levels.

The Transactions Child Project will also indirectly support Brazil's implementation of its INDC as it relates to forest and land use:

Land use change and forests: - strengthening and enforcing the implementation of the Forest Code, at federal, state and municipal levels; strengthening policies and measures with a view to achieve, in the Brazilian Amazonia, zero illegal deforestation by 2030 and compensating for greenhouse gas emissions from legal suppression of vegetation by 2030; - restoring and reforesting 12 million hectares of forests by 2030, for multiple purposes;

Indonesia

The project will support the implementation and action plan of IBSAPs by contributing to the implementation of the following strategic steps.

1. Conduct biodiversity management mainstreaming into national development and various aspects of people's life,

2. Enhance biodiversity conservation and restoration,

The project will also contribute to further the implementation of the following national targets for biodiversity management in the 2015-2020 period:

Target 3. Create incentive and disincentive system for business and sustainable natural resources management;

Target 4. Increase availability and realization of supporting policy for sustainable production and consumption (SCP) in natural resources sustainable use;

Target 7. Increase agriculture area, plantation and animal farming managed in sustainable manner;

The project will also support Indonesia's aim is to reduce greenhouse gas emissions by 29% by 2030 and 41% with international support compared to a business-as-usual, as identified in its Intended Nationally Determined Contribution (INDC) while aiming to increase its palm oil production by 53% in the next few years so as to double its exports by 2019.

In addition, the IAP in general and the Transactions Child Project specifically will also support the achievement of the several of the Sustainable Development Goals (SDGs), namely:

SDG2: End hunger, achieve food security and improved nutrition, and promote sustainable agriculture. A key IAP focus is to increase agricultural productivity of small-scale commodity producers through the intensification of their farming practices (coupled with protection of other areas) by facilitating access to inputs, knowledge, financial services and markets for sustainable sourced commodities. The Program will also strengthen capacity in, and promote uptake of, good agricultural practices and low carbon farming and practices that help maintain ecosystems.

SDG4: Ensure inclusive and quality education for all and promote lifelong learning. In particular through the production child project, farmer support systems will be strengthened and some capacity building will be provided to extension services to strengthen the training opportunities available for farmers and increase their skills in order to be able to contribute to sustainable development.

SDG8: Promote sustained, inclusive and sustainable economic growth, full and productive employment, and decent work for all. The IAP will promote increased efficiency in production to decouple economic growth and increased productivity from environmental degradation and deforestation.

SDG12: Ensure sustainable consumption and production patterns. The project will promote the more sustainable production of soy, beef and palm oil through capacity building on low-carbon agriculture and good agricultural practices in targeted areas, while promoting forest conservation in others, as well as strengthening of the enabling environment. The demand child project aims to support sustainable consumption of these three commodities by increasing demand from major buyers and traders as well as from the Indonesian public for sustainably sourced commodities.

SDG13: Take urgent action to combat climate change and its impacts. The program will promote low- carbon farming practices to reduce greenhouse gas emissions. In addition, the intensification of agriculture in appropriate areas will be coupled with a protection agenda through support for land use planning and the setting aside of high carbon forests, thus reducing emissions from deforestation.

SDG15: Sustainably manage forests, combat desertification, halt and reverse land degradation, halt biodiversity loss. The entire program is designed around how to promote sustained agricultural production of key commodities without a concomitant increase in deforestation. Land use planning, identification of biodiversity corridors and other actions will support the sustainable management of forests and biodiversity conservation.

Liberia

The Project contributes to the following goals and targets as outlined in the revised NBSAP in 2014;

Overarching Goal: By 2020, conserve and manage terrestrial and aquatic biodiversity to ensure sustainable use of resources and equitable benefits sharing to the people of Liberia at all times.

Specific Goals 1 - Integrate biodiversity issues and concerns into policies at cross-sectoral, sectoral and national levels;

Specific Goal 3: Develop wide-range economic incentives for the general public to promote conservation and sustainable use of biodiversity;

Specific Goal 6: Create awareness to address the underlining causes of biodiversity loss by mainstreaming biodiversity across government (sector institutions levels) and society

Aichi Targets

National Target 2 : Mainstream biodiversity values into national development policy, plans and programmes by 2018

National Target 3: Develop tools including policy, strategy and programmes on incentive measures for sustainable utilization of biological resources by 2016;

National Target 5: At least 60% reduction in the rate of deforestation in the southeast and northwestern biomes especially those Development of forest legislations and ESIA regime Reduction in unsustainable practices in natural resource sector More than 75 concessions and industries are ESIA compliant Approval of concessions and industries to operate is conditioned on ESIA 48 attributable to subsistence agriculture, forestry and mining activities by 2018;

National Target 7: Take sustained actions to ensure viability of components of agro-biodiversity that ensure sustainable livelihoods and local food security

National Target 14: Develop program to increase Capacity of ecosystems to deliver goods and Services for end users by 2018.

The project will also contribute to the following goals in the INDC:

Mitigation: Biofuels used in transport (all palm oil is produced sustainably).

Adaptation: Protection of forest and biodiversity rich forest zones.

Paraguay

The project will support the following goals of Paraguay's NBSAP:

Strategic Goal – Sustainable Forest Management – develop and implement a national policy and forest strategy that incorporates social and environmental benefits, promoting conservation and the participation of local communities

Strategic Goal - Development of agricultural resources –Develop and apply agricultural production systems considering economic, social and environmental criteria and that are grounded on land use planning

The execution of the Transactions Child Project will also contribute to Paraguay's INDC and to achieving the following goals in its National Development Plan:

Effective control of deforestation.

Increase income perceived from selling carbon.

Increase the income perceived from selling ecosystem services.

Increase the efficiency of agricultural productive systems.

C. DESCRIBE THE BUDGETED M &E PLAN:

Type of M&E activity	Responsible Parties	Budget from GEF	Co-finance	Time Frame
Inception and introductory Meetings	Project Coordinator & Project Team	5,000	0	Within 2 months of project start-up
Inception Report	Project Coordinator	2,000	0	1 month after project inception meeting
Measurement of project indicators (outcome, progress and performance indicators, GEF tracking tools)	Project Coordinator & Project Team	10,000	100,000	Outcome indicators: start, mid and end of project Progress/perform. Indicators: annually (Cost incorporated in project components and management budget)
Semi-annual Progress/ Operational Reports to UNEP	Project Coordinator	10,000	0	Within 1 month of the end of reporting period i.e. on or before 31 January and 31 July (Cost incorporated in project components and management budget)
IAP Steering Committee meetings	Project Coordinator	10,000	25,000	At least once a year, and via electronic media per request and need
Reports of PSC meetings	Project Coordinator	10,000	0	Within 1 month after PSC meeting
PIR	Project Coordinator	20,000	0	Annually, part of reporting routine (Cost incorporated in project components and management budget)
Monitoring visits to field sites	UNEP TM	Inc. in IA fee	0	As appropriate
Mid Term Evaluation	EOU	25,000	25,000	
Terminal Evaluation	EOU	30,000	40,000	Within 6 months of end of project implementation
Audit	UNEP	N/A	40,000	Annually

Type of M&E activity	Responsible Parties	Budget from GEF	Co-finance	Time Frame
Project Final Report	Project Coordinator	5,000	0	Within 2 months of the project completion date (Cost incorporated in project components and management budget)
Co-financing report	Project Coordinator	N/A	0	Within 1 month of the PIR reporting period, i.e. on or before 31 July (Cost incorporated in project components and management budget)
Publication of Lessons Learnt and other project documents	UNEP KM Officer	N/A	20,000	Annually, also part of Semi-annual reports & Project Final Report
Total M&E Plan Budget		**127,000**	**250,000**	

PART III: APPROVAL/ENDORCEMENT BY GEF OPERATIONAL FOCAL POINT(S) AND GEF AGENCY(IES)

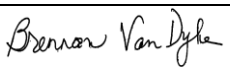
A. RECORD OF ENDORSEMENT OF GEF OPERATIONAL FOCAL POINT(S) ON BEHALF OF THE GOVERNMENT(S):): (Please attach the Operational Focal Point endorsement letter(s) with this form. For SGP, use this OFP endorsement letter).

NAME	POSITION	MINISTRY	DATE *(MM/dd/yyyy)*
N/A			

B. GEF AGENCY(IES) CERTIFICATION

C.

This request has been prepared in accordance with GEF/LDCF/SCCF/NPIF policies and procedures and meets the GEF/LDCF/SCCF/NPIF criteria for CEO endorsement/approval of project.

Agency Coordinator, Agency Name	Signature	Date *(Month, day, year)*	Project Contact Person	Telephone	Email Address
Karin Shepardson, Program Manager, GEF Coordination Office, World Bank		Dec 1, 2016	Bruce Wise	+12024730029	bwise@ifc.org
Brennan Van Dyke, Director, GEF Coordination Office, UNEP		June 28, 2016	Ersin Esen Task Manager	+254 20 762 4731	Ersin.Esen@unep.org

ANNEXES
Annex A : Results Framework, inc Theory of Change
Annex B : Response to GEF Reviews
Annex C: Status of implementation of project preparation activities and the use of funds – IFC Only
Annex D: Calendar of expected reflows – N/A
Annex E: Consultants to be hired & Terms of Reference
Annex F-1 : Detailed GEF budget / Annex F-2: Detailed Co-finance budget (Separate EXCEL Attachment)
Annex G: M&E Budget and Workplan
Annex H: Project Implementation Arrangements
Annex I: Detailed Project Workplan showing deliverables and benchmarks
Annex J: OFP Endorsement letters (Part of PFD Package)
Annex K: Co-finance letters (Separate PDF Attachment)
Annex L: Environmental and Social Safeguards checklist
Annex M: Procurement Plan
Annex N: Acronyms and Abbreviations
Annex O: Supervision Plan (To be developed for Project Inception Workshop)
Annex P – CIAP Tracking Tool
Annex Q – rationale for working on the supply chains of palm oil, soy, and beef
Annex R – IFC's Agribusiness Gender Strategy Implementation Plan