EVALUATION OF THE AGRI3 FUND

2020-2025

EVALUATION REPORT (2020-2022 PERIOD)

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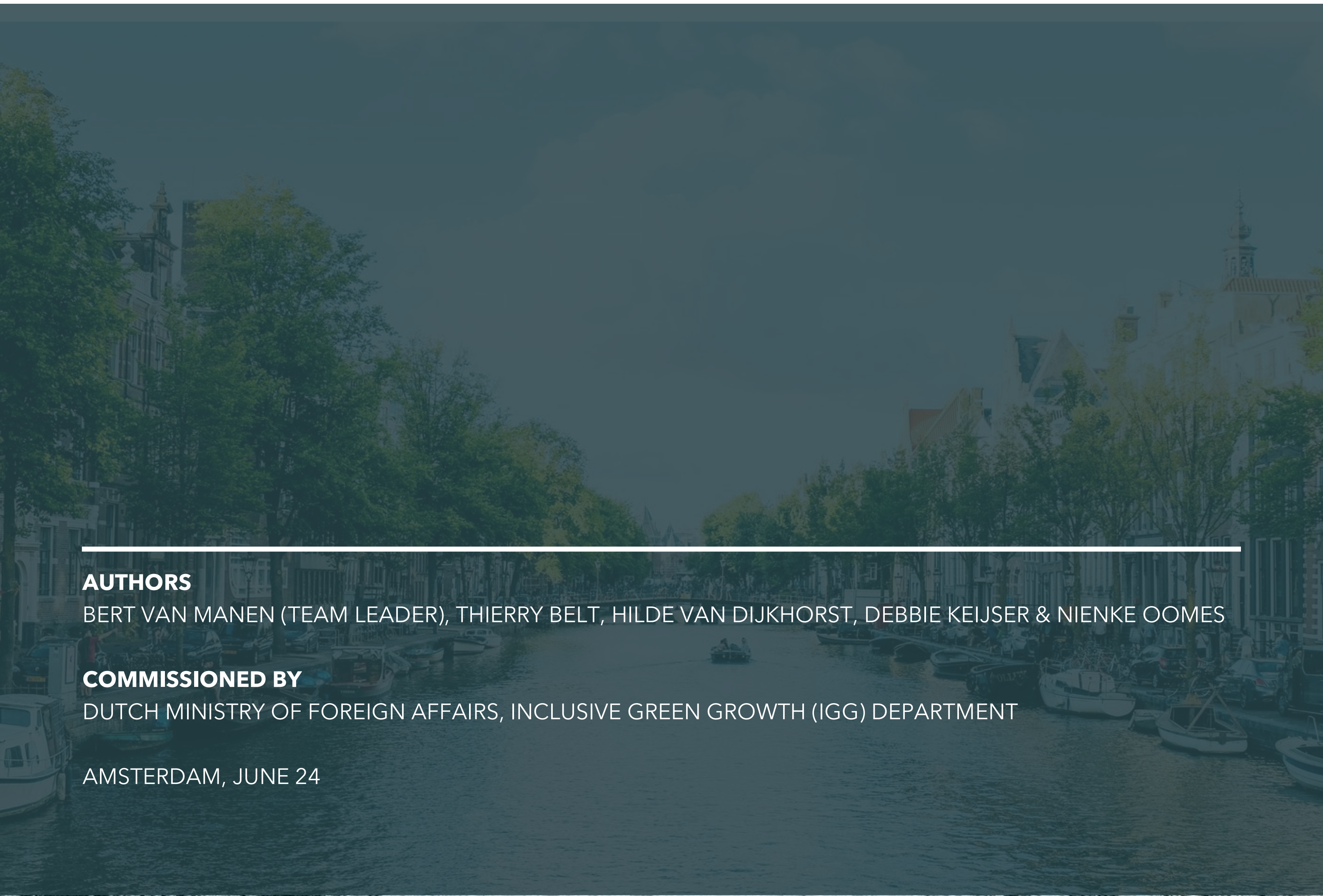
MDF



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COMMISSIONED BY
DUTCH MINISTRY OF FOREIGN AFFAIRS, INCLUSIVE GREEN GROWTH (IGG) DEPARTMENT

AMSTERDAM, JUNE 24

Note: This document is a slightly modified version of the original evaluation report. Certain confidential information has been redacted or altered to protect sensitive data while maintaining the integrity and findings of the original evaluation.

Executive Summary

The Inclusive Green Growth department (IGG) of the Dutch Ministry of Foreign Affairs (MFA) commissioned SEO Amsterdam Economics (SEO) and MDF Training & Consultancy (MDF) to carry out the evaluation of the AGRI3 Fund over the period 2020-2022, followed by two years of monitoring during 2023-2024. This evaluation aims to facilitate learning about AGRI3, a relatively unique instrument within the Ministry's portfolio. The evaluation covers AGRI3's impact, effectiveness, additionality, efficiency, and overall coherence in the landscape of sustainable agriculture. The evaluation was conducted through desk research, stakeholder interviews, and field visits in Brazil and Nicaragua, covering five of nine AGRI3 investments. However, as all AGRI3 projects reviewed continue beyond the evaluation period, no definitive conclusions can be drawn at this time. The evaluation covers the first three years of fund operations (2020-2022), discussed in this report, followed by two years of monitoring whereby new investments are reviewed as they enter the portfolio. A final evaluation report will be submitted in early 2025.

Since AGRI3 made a slow start, it is too early to assess its long-term impact. In terms of volume, AGRI3 catalysed far less private finance than foreseen in its initial and updated business plans. In line with the slow deployment of the AGRI3 fund capital, the achievement of the outcome and impact targets of the initial AGRI3 fund proposal and the MFA policy memo ('BEMO') is therefore also lagging behind considerably. Nonetheless, company visits in Brazil revealed that significant strides have been made in sustainable land use and forest preservation across cattle and crop projects. However, the impact on rural livelihoods was generally limited, and not central to the interventions undertaken in Brazil. In Nicaragua, however, positive effects on farmer income, productivity and overall well-being were observed thanks to input and harvest financing.

All AGRI3 clients are on track to reach their KPIs, notably those related to sustainable land use, production, and eco-system protection. However, the AGRI3 projects in Brazil are not expected to make a strong direct contribution to worker welfare, nor to the income of local smallholder farmers, as these investments are generally directed at large agribusiness companies that rely on their own production, not on outgrowers. Indirect livelihoods effects were achieved through trickle down effects from improved client performance and minor community initiatives. Significant contributions to farmer income, however, were observed in one project, and likely in another. The same is true for promoting gender equality. The evaluation team concludes that simultaneously and obligatorily pursuing livelihoods and sustainability objectives may not be practical in all projects, and that these objectives can therefore better be pursued at the portfolio level.

AGRI's financial instruments are relevant but more risk could be taken. On the one hand, the fund's instruments are relevant for the needs of its partner financial institutions (PFIs) and end-borrowers. On the other hand, the riskiest instruments were not utilised thus far, and AGRI3 has mostly operated in low-risk segments of the agricultural finance market.

AGRI3-supported transactions are thus far largely financially additional to the market. The main sources of financial additionality of AGRI3 in Brazil were the extended loan maturity, the long grace period and, to a lesser extent, the loan size. In China and Nicaragua, by contrast, the main source of AGRI3's additionality was sharing the lending risk. However, in the face of market developments, AGRI3's financial additionality in Brazil has been declining. Some of the AGRI3 clients in Brazil increasingly have access to alternative sources of long-term finance for sustainability investments.

As financial and development additionality are logically linked, AGRI3 might increase both forms of additionality by supporting investments that are higher in the risk spectrum (e.g., less well-established and more early-stage businesses).

There is little evidence for the originally envisaged demonstration effects that AGRI3 could have on other funds or banks. These expected demonstration effects were an important reason for creating AGRI3, but there is thus far little evidence that they are taking place. One positive example of a potential spillover effect at PFI level is that the PFI in Brazil did increase its attention to client sustainability through the use of KPIs and ESAPs.

AGRI's development additionality and long-term impact could be increased by enhancing the use of technical assistance (TA). Development additionality thus far has been limited, as most projects supported sustainable investments that were already under way, and none supported groundbreaking technologies. The use of pre-investment TA to support market and project development, including through sector studies, had mixed results thus far in terms of pipeline building and the number of transactions generated. Post-investment TA has thus far been used sparingly, in part because of limited demand (possibly related to the relative sophistication of clients in Brazil), but also because staff at PFIs did not actively promote this option. The evaluation team sees substantial scope for TA to enhance development results. In addition, TA could help de-risk certain riskier transactions.

Compared to other similar funds, AGRI3 scores well on its operational efficiency and timeliness, particularly its capacity to provide funding rapidly. Stakeholders considered the decision processes and documentary requirements of AGRI3 as transparent and sufficiently swift. Moreover, the overall setup of AGRI3, working through PFIs, is efficient: it leverages existing financial institutions' structures and reduces the need for physical on-site presence and extensive (credit) risk analyses. AGRI3's reporting and monitoring systems are generally appropriate, but there are opportunities for refining KPI measurements and ensuring that observed results are used for learning and to steer decisions. Visits to AGRI3 clients suggested that they take KPI monitoring seriously, but some may benefit from TA in this area. One main efficiency concern is the high operational costs of AGRI3 compared to the small size of the fund, which - as noted above – is lagging behind considerably in achieving the initial and updated fund projections. This unfavourable cost / benefit ratio leads to rapid and persistent fund depletion, which requires urgent cost savings.

AGRI3 aligns with the Ministry's Global Climate Strategy. Moreover, it shows strong alignment with the broader FNS (Food and Nutrition Security) policy objectives on sustainable agriculture and ecologically sustainable food systems, but less with food and nutrition security. Furthermore, AGRI3's unique position in a niche market avoids overlap with other global funds targeting similar objectives. AGRI3 complements Development Finance Institutions (DFIs), aiding clients in achieving a scale that brings them within reach of DFIs' minimum investment thresholds.

List of abbreviations

AGRI3	The AGRI3 Fund
APP	Area of Permanent Protection (Brazil)
BEMO	Policy Memo ('Beleidsmemo') MFA
CAR	Cadastre Registration (in Brazil, includes forest code compliance)
CRA	Certificate of Receivables from Agribusiness
DA	Delegated Authority
DD	Due Diligence
DFI	Development Finance Institution
ESAP	Environmental and Social Action Plan
E&S	Environmental and Social
ESG	Environmental, Social and Governance
FGD	Focus Group Discussion
FMO	Dutch Entrepreneurial Development Bank
FNS	Food and Nutrition Security (programme of MFA)
GEF	Global Environment Facility
GHG	Greenhouse gasses
IC	Investment Committee
IDH	The Sustainable Trade Initiative
IGG	Inclusive Green Growth (department of MFA)
ICLS	Integrated Crop Livestock Systems
KII	Key Informant Interview
KPI	Key Performance Indicator
LR	Legal Reserve (in Brazil forest code)
MDF	MDF Training & Consultancy
M&E	Monitoring and Evaluation
MFA	Ministry of Foreign Affairs of the Netherlands
NGO	Non-governmental Organisation
OECD-DAC	Organisation for Economic Cooperation and Development - Development Assistance Criteria
PFI	Partner Financial Institution
RBM	Result-Based Management
RM	Relationship Manager (in partner bank)
SBLC	Standby Letter of Credit
SEO	SEO Amsterdam Economics
SIM	Sustainable Investment Management
TA	Technical Assistance
TAF	Technical Assistance Facility
ToC	Theory of Change
ToR	Terms of Reference
UNEP	United Nations Environment Programme

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1 Introduction

This report evaluates the AGRI3 fund over the period 2020-2022, with an emphasis on learning.

The Inclusive Green Growth department (IGG) of the Dutch Ministry of Foreign Affairs (MFA) commissioned SEO Amsterdam Economics (SEO) and MDF Training & Consultancy (MDF) to carry out the Evaluation of AGRI3 over the period 2020-2022, followed by progress monitoring until 2024. The AGRI3 Fund (hereafter AGRI3) is a novel instrument in the IGG portfolio, seeking to mobilise private finance to invest in 1) sustainable land use, 2) protection and recovery of forests, and 3) improvement of rural livelihoods. To this effect, AGRI3 offers an assortment of credit enhancement products that help financial institutions to overcome credit risks when supporting sustainable investments by private companies in developing countries. These credit enhancements reduce the risk, including long loan tenors, that have thus far kept banks from offering the financing terms required for farmers to invest in sustainable land use and forest protection. AGRI3 also disposes of a Technical Assistance Facility (TAF) to support the investments and enhance their impact. The evaluation covers the first three years of fund operations (2020-2022), followed by two years of monitoring whereby new investments are reviewed as they enter the portfolio. A final evaluation report is expected in early 2025.

Learning is an important objective of this evaluation and monitoring exercise. AGRI3 is a new way of promoting sustainable land use and forest protection for MFA, not following a traditional project set-up, nor providing grants to public or private sector partners. Instead, MFA has provided a reimbursable grant to AGRI3 to partially guarantee loans by private financial institutions to agribusinesses and farms, allowing them to undertake sustainable investments they otherwise could not do. The effectiveness of this type of instrument (in promoting sustainable agriculture), its efficiency and impact still need to be determined.

The evaluation was conducted in the period from May to September 2023. The evaluation included extensive desk research, portfolio data analysis, interviews with internal and external stakeholders, and field visits to end-borrowers in two countries (including Brazil). In total, the evaluation team reviewed five out of nine portfolio investments. They concerned clients who were a cross-section of the portfolio, active in various sectors, and included some of the newer projects. The investees were clients of two different PFIs. This evaluation report presents the preliminary answers to the evaluation questions on effectiveness, additionality, efficiency and coherence, as well as learning. However, as all investment projects supported by AGRI3 have a life-time (loan maturity) that goes (far) beyond the evaluation period, none of the projects is supposed to have reached their intended objectives, and no definitive conclusions on result achievement can be drawn at this time.

This evaluation report is structured along the evaluation questions. Chapter 2 introduces the AGRI3 Fund. Chapter 3 describes the evaluation methodology. Subsequently, Chapter 4 contains the core evaluation findings. 'lessons learned' and recommendations are presented in Chapter 5, whilst Chapter 6 provides a summary of the overall conclusions and recommendations.

2 Background on AGRI3

AGRI3 is a blended finance fund aimed at improving (a) forest protection and reforestation; (b) sustainable land use, and (c) rural livelihoods. It aims to do so via credit enhancement tools and technical assistance. Thus far, AGRI3 had a slow start.

2.1 Introduction to AGRI3

AGRI3 is a blended finance fund with the mission to mobilise USD 1 billion in public and private capital, using USD 300 million in guarantees backed by USD 100 million in capital, to "contribute to sustainable agricultural value chains and avert deforestation". [1] In 2017, the UN Environment Programme (UNEP) and Rabobank announced the fund with the goal to finance projects that stimulate deforestation-free, sustainable agriculture and land use. The Dutch entrepreneurial development bank (FMO) and IDH joined AGRI3 in 2018.[2] In 2019, the Dutch Ministry of Foreign Affairs (MFA) provided AGRI3 with a (partly reimbursable) grant of USD 40 million (of which USD 5 million for TA), while Rabobank pledged a USD 50 million loan.[3] In April 2020, AGRI3 took off, starting with a client list prepared by Rabobank for this purpose. In 2023, after a long application process, AGRI3 secured an equity participation of USD 13.5 million from the Global Environment Facility (GEF). AGRI3 also obtained approval of the European Fund for Sustainable Development Plus (EFSD+), allowing it to seek counter-guarantees or establish blended finance transactions.

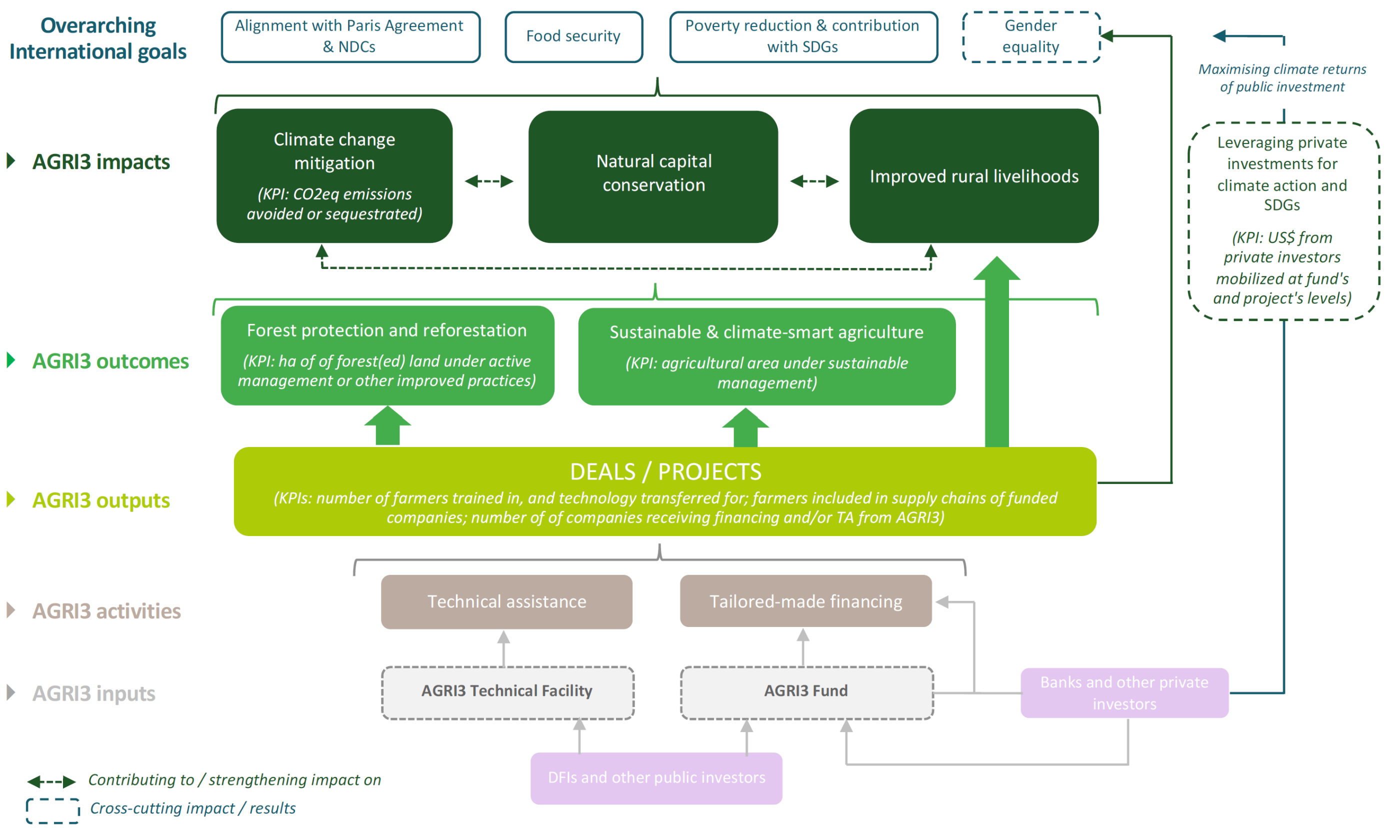
AGRI3 aims to have both environmental and social impact. AGRI3's Theory of Change is depicted below.[4] At the outcome level, AGR3 aims at 1) forest protection and reforestation, and 2) sustainable and climate-smart agriculture. These two outcome areas reinforce each other as agriculture that ruins the forest is logically unsustainable, while healthy forests protect the climate and water resources, both pre-conditions for agriculture. At the impact level, the fund aims to contribute to 1) climate change mitigation (e.g., by combatting deforestation and preferably by restoring the forest and natural habitats), 2) natural capital preservation (e.g., sustainable land use, circular agriculture), and 3) improving rural livelihoods (e.g., by ensuring rural communities a good income in a healthy natural environment). AGRI3 aims to contribute to many SDGs, but most directly to SDG15: *Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss*. The fund targets both lower and middle-income countries.

As per its programme design, all AGRI3 projects need to contribute to both environmental and social impact goals. For a project to be eligible for AGRI3 support, each investment must contribute to (1) forest protection and reforestation and/or (2) sustainable land use, while all projects must contribute to (3) rural livelihoods.[5] At the time of designing AGRI3, it was a clear wish of UNEP and Rabobank to include the rural livelihoods component. As a result, all AGRI3 investments must positively impact farm communities. The intended end-beneficiaries are both

1 http://agri3.com/
2 Rabobank, UNEP, FMO and IDH are considered the founding partners in AGRI3.
3 AGRI3 Information Memo, version 1, May 2021. The MFA contribution is classified as a capital preservation tranche. The Rabobank contribution is debt financing and takes precedence over any other fund participation in terms of default risk.
4 The funding application to GEF includes a slightly more detailed ToC, in particular at the output level.
5 See AGRI3 impact and E&S policy statement, April 2022, which has replaced various prior documents on impact, KPIs and E&S.

small and large-scale farmers. Environmental and Social (E&S) impact is measured using 12 Key Performance Indicators (KPI). These KPIs cover outcomes, impacts and some outputs (see Chapter 2.4).

Figure 2.1 AGRI3 Theory of Change



Source: AGRI3 grant application to the Dutch government (2019)

To achieve the desired impact, AGRI3 provides credit enhancement tools and Technical Assistance (TA). The AGRI3 services mainly consist of credit enhancement in support of commercial banks and other financial institutions, called 'Partner Financial Institutions' or PFI for short (such as Rabobank), which are financing investments in sustainable agriculture, forest conservation and rural livelihoods. Through credit enhancement, AGRI3 allows these PFIs to support private sector investments that would otherwise not be funded due to the (perceived) risks involved.[6] In Brazil, for example, all projects to date have included components of land, forest and habitat restoration. Such projects take time to implement and generally exceed banks' normal loan maturities. In addition, land and forest restoration projects do not (immediately) generate cash, adding to the risk for the borrower and bank alike. AGRI3 covers part of this risk, while the tenor extensions as well as long grace periods give borrowers more time to complete the investment.[7] Such long-term loans also make it easier to invest in the (required) E&S compliance. According to the fund documentation, AGRI3 could also provide (subordinated) loans to clients of PFIs, but this has not been done so far.[8] Technical assistance is discussed in Chapter 2.3.

6 AGRI3 Information Memo, version 1, May 2021

7 AGRI3 tenor extensions allow the PFI to issue loans that extend beyond the maximum of 7 years that the PFI deems acceptable given country risk. The grace periods are extended too.

8 The extent to which AGRI3 could issue sub-ordinated loans depends on the local regulatory framework. It would also add to the operating cost of AGRI3, and reduce its financial leverage. PFIs have not requested such co-financing, as the constraint to PFIs is risk, not liquidity.

The five AGRI3 credit enhancement products are the following:[9]

- Pari passu risk participation, meaning that multiple creditors proportionally share in the losses in case of default (and proportionally share in recoveries as well). AGRI3 implements this by splitting the losses (typically 50/50) on a transaction with a single counterparty (or portfolio) between the bank and the Fund. Both parties rank equal on the repayment waterfall.
- Tenor extension, extending 'the length of the contract'. In general, commercial banks' risk frameworks do not allow for funding beyond a given term (e.g., 7 years for the PFI in Brazil). AGRI3 provides a guarantee from a given date in the future after which AGRI3 provides a full guarantee, absorbing 100 percent of the residual risk after that date.
- Maturity subordination, which is a combination of tenor extension and a pari passu guarantee. For the first X years (in which X is determined by the standard loan tenor from the PFI), the PFI and AGRI3 provide joint finance along the lines of a pari passu scheme. During those years, the loan part of the PFI amortises in full, whilst some part or all of the debt covered by AGRI3 remains unchanged. After those first X years, only the debt guaranteed by AGRI3 is still outstanding, which is subsequently amortised according to a pre-defined repayment plan. The PFI continues to collect these instalments.
- Subordinated guarantee, which entails that AGRI3 provides a guarantee that has a subordinated position compared to the bank's facility. Subordination refers to the 'seniority' of debtors: subordinated debt is only repaid after senior debtors are repaid in full. This is fundamentally different from the pari passu guarantee, which implies equality of the claims of PFI and AGRI3.
- First loss risk participation, which is an agreement that the fund compensates all of the default losses up to an agreed amount or percentage, after which the lender will start to absorb the subsequent losses. First loss guarantees can cover all losses, or principal-only, excluding the interest.

So far, most products offered to AGRI3 clients have been maturity subordinations. Maturity subordination is a combination of a pari passu guarantee and a tenor extension. This credit enhancement was used for all seven projects in Brazil. AGRI3 provided two pari passu guarantees. The other two instruments were not asked by PFIs. Technically, AGRI3 guarantees took the form of an "unfunded participation", meaning that in a legal sense AGRI3 is a lender but without having disbursed money to the client (which the bank did). However, all AGRI3 guarantees were covered by cash collateral or Standby Letters of Credit (SBLC) deposited at Rabobank.

In exchange for its participation, AGRI3 receives a portion of the commercial margin that is proposed for the overall facility. Thus, the guarantee fee, 65-75 percent of the commercial margin on the loan exposure covered by AGRI3, is paid by the PFI to AGRI3, and not separately charged as a guarantee fee to the client. AGRI3 applies a standard pricing policy per product, with some margin for finetuning according to the risk involved. To date (December '23), far AGRI3 has not been confronted with losses.

2.2 Investment portfolio

As of September 2023, AGRI3 supported nine investments through PFIs (see Table 2.1 below):[10]

- Seven AGRI3 investments are in Brazil, one in China, and one in Nicaragua. This shows a geographical concentration on Brazil - 80 percent by value. In addition, the pipeline continues to be concentrated on Brazil.

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9 AGRI3 Investment Policy, April 2020

10 At the time of finalising this report, another deal was announced in early December 2023: a 50% pari passu guarantee to for an financial institution in Malawi, in order to support a 10-year loan for a macadamia estate This AGRI3 investment came too late to be included in this evaluation report, but will be evaluated in our 2024 monitoring report.

- One of the investments in Brazil is a pilot project of a standardised blended finance solution for sustainable cattle farming and pastureland restoration (now called 'Renova Pasto'). The aim of standardisation is that it can easily be replicated to other farms with minimal deal structuring (because it is standardised). All the other investments had been individually tailored to reflect the needs of the beneficiary companies.
- Two deals started in 2020, three in 2021, and four in 2022. Two transactions date back to 2018/19, warehoused with Rabobank NL pending establishment of AGRI3. The warehoused transactions did not, at the time of initial approval, go through the regular AGRI3 process, including profound environmental due diligence and ESAP. Some additions to KPIs were made afterwards.
- All transactions were in support of loans by two PFIs
- AGRI3 invested in a variety of agricultural sectors. In China, AGRI3 invested in a project producing chilis. In Brazil, AGRI3 is active in the cattle, cotton, soybean and sugar sectors. In Nicaragua, AGRI3 is supporting the coffee sector for exports.
- As mentioned above, AGRI3 provided maturity subordinations to seven projects in Brazil. The other two projects received straightforward pari passu guarantees.
- Of the nine projects, four projects received TA, namely one in China and three in Brazil (see Chapter 2.3 for a complete overview of TA projects).

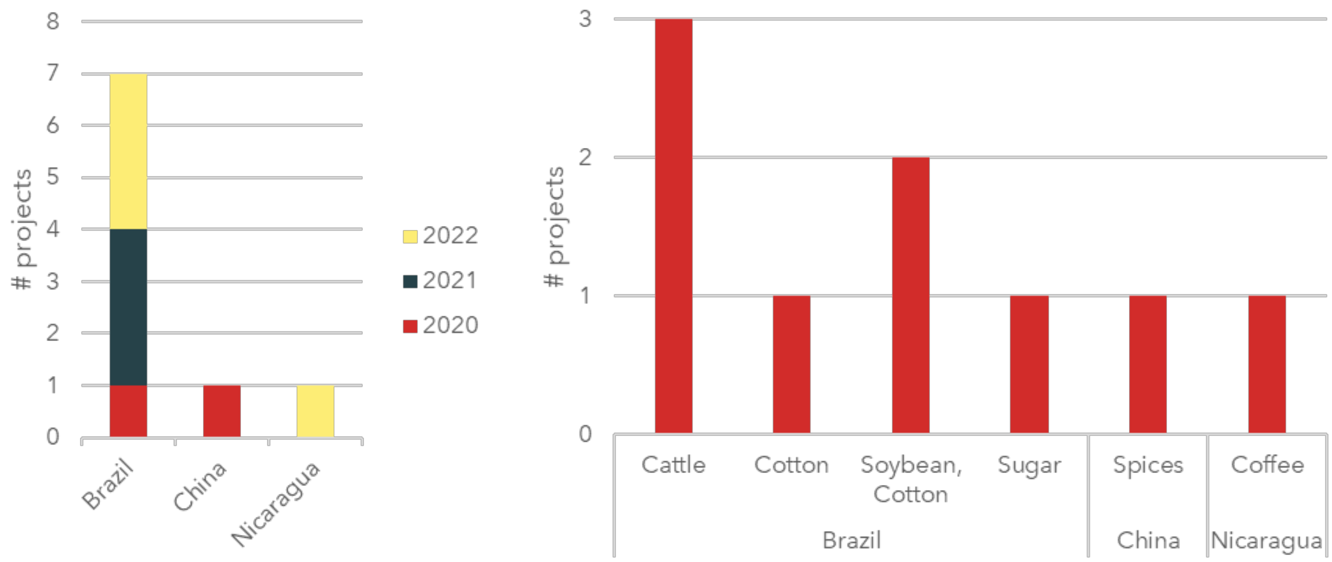
Table 2.1 Core data on AGRI3 portfolio as of September 2023

Year	Name company	Impact activities	Country	Main Sector	AGRI3 Exposure (mln USD)	Location - State	TA
2020	*[Redacted]*	Forest code compliance and pastureland restoration for cattle, farmer training and livelihoods	Brazil	Cattle	2	São Paulo / Mato Grosso (São Jorge)	No
2020	*[Redacted]*	Smallholders growing chillis in China – VC support and input financing	China	Spices	5.5	Chongqing	Pre and post-investment TA
2021	CS Client 2	Forest code compliance and pastureland restoration for cattle, improve waste management and workers' houses	Brazil	Cattle	2.4	Mato Grosso and Rondônia states	No
2021	CS Client 4	Sustainable optimisation of sugarcane production, forest protection and restoration	Brazil	Sugar	5.2	São Paulo (São Manoel)	No
2021	*[Redacted]*	Pastureland renovation, sustainable crop production, forest code compliance, preservation of natural vegetation, farmer training and livelihoods	Brazil	Soybean, vegetables (seeds)	6.5	Goias	Pre and post-investment TA
2022	CS Client 2	Soil improvements (sub-soiling) for soy, cotton and maize production, forest protection	Brazil	Soybean, Cotton	2.14	Mato Grosso (Sapezal)	No

2022	CS Client 3	Circular regenerative business model, forest protection	Brazil	Cotton	8	Mato Grosso (Sapezal)	Pre-investment TA
2022	CS Client 5	Smallholders growing coffee – VC support and financing, scale up organic and FT certified coffee production	Nicaragua	Coffee	0.8	San Juan del Rio Coco	No
2022	*[Redacted]*	Restore degraded pasturelands, invest in water infrastructure, comply with the Brazilian forest code	Brazil	Cattle	0.2	Mato Grosso (Itiquira)	Post-investment TA

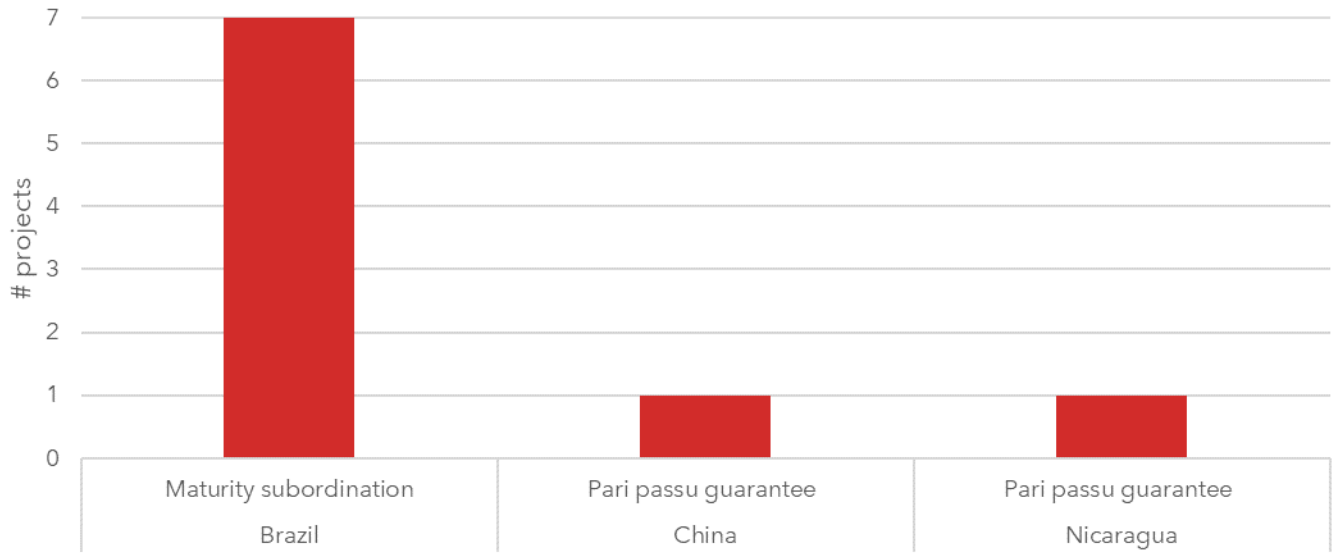
Source: AGRI3 portfolio overview, June 2023
Note: Investments reviewed during the evaluation are highlighted in blue.

Figure 2.2 AGRI3 has been most active in the cattle sector in Brazil's



Source: AGRI3 portfolio overview, June 2023

Figure 2.3 AGRI3 has mostly offered maturity subordination deals



Source: AGRI3 portfolio overview, June 2023

As of June 2023, the AGRI3 pipeline consisted of nine projects. Of these, four were in the contracting stage with final negotiations ongoing.[11] Among these, two projects are located in Brazil, one in Malawi and one in East Africa. Additionally, there were three projects in Brazil undergoing application preparation and two projects in India awaiting eligibility assessment. It is noteworthy that by the end of 2022, the AGRI3 pipeline consisted of a larger number, totaling 18 projects. However, 12 of these were labelled as 'emerging', most of which did not progress into actionable pipeline projects.[12]

AGRI3 had a slow start. According to the AGRI3 fund proposal (2019), the fund should have had 22 active investments by the end of the third year (i.e., 2022) with a guarantee exposure of about USD 115 million. In reality, AGRI3 did nine deals for USD 32 million. So there were far fewer transactions, while the average investment was slightly less than expected. As AGRI3 is a novel instrument, the projections were aspirational and untested, and MFA always allowed some flexibility in developing this new fund.[13] Nevertheless, a review of the respective AGRI3 annual plans and annual reports confirms a persistent underperformance in all years in terms of the number and value of transactions closed. Apart from the delays caused by COVID-19, it has proven quite hard and time-consuming to develop PFI relations, and consequently jointly build up a pipeline of sustainable finance projects. While AGRI3 remains optimistic and the annual plan 2023 aims to close 10-12 transactions with a value of USD 50 million, based on the current pipeline this will not be achieved. The recent AGRI3 projections (annual report 2022) to reach USD 194 million exposure by 2025 also seem very optimistic. Most pipeline projects are still in the early stages of appraisal. By means of illustration, none of the transactions that were in the 'contracting phase' by end of Q4 2022 were closed in the first six months of 2023.[14]

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11 However, during the field visit to Brazil the team learned that the cocoa loan application had been withdrawn by the client.
12 Annual report 2022
13 AGRI3's financial projections have been adjusted accordingly, but remain optimistic.
14 AGRI3 Q4 2022 report, page 18

The investment thesis remains unproven. While the available deal flow with Rabobank is limited and much concentrated on Brazil, AGRI3 has found it hard to identify other banks (in Brazil and elsewhere) with an interest and track record in sustainable agriculture financing and forest conservation. Overall, the initial rationale of AGRI3, which is that banks are willing to enter into transactions that support more sustainable practices in land use and require de-risking instruments to do so, remains to be validated. While sustainable land use and forest protection are on the agenda of banks and farmers in Brazil, AGRI3 has found that there is much less attention for sustainability elsewhere and that banks do not immediately recognise the commercial advantages of working in this field (with guarantees from AGRI3).[15] This will be further explored and discussed in Chapter 4. It will also be further examined during the subsequent monitoring phases. As of June 2023, it is questionable if AGRI3 could (ever) reach the initially expected exposure of USD 300 million in guarantees, based on a USD 100 million capital, thereby catalysing USD 1 billion in commercial finance.

2.3 Technical Assistance (TA) Facility

IDH is the Technical Assistance Manager for AGRI3. IDH manages the TA Facility of AGRI3, and aims to "support the Fund Manager in identifying investments and procuring relevant expertise". Specifically, the TA facility seeks to speed up the development of investment opportunities and maximise their impact along with de-risking the investments made by AGRI3.[16]

The activities of the TA Facility can be grouped in three categories: [17]

- **Market reconnaissance**
  As part of the market reconnaissance, AGRI3 executes sector studies to identify viable intervention areas.
- **Transaction-related TA**, which contains three categories:
  - Pre-investment support entails project design support e.g., asking practical questions, developing terms of reference, and sending consultants to help with the project formulation process, before an investment deal is concluded.[18] The aim is to design a potential project within 24 months.
  - Post-investment support is focused on strengthening the client's capacities after completion of the transaction, in order to implement projects to a higher technical standard and/or to increase positive social and environmental impacts.
  - Enhance impact monitoring, which provides the Investment Advisor support in monitoring and reporting on the impact KPIs of the fund.
- **Learning and knowledge sharing** consists mainly of events and knowledge sharing workshops.

MFA committed USD 5 million to the TA Facility. AGRI3 initially had the ambition to reach a budget of USD 15 million for the TA Facility.[19] However, the fundraising for the remaining USD 10 million was put on hold, because interested parties observed that the TA facility was already well capitalised and its ToC not proven.[20] In addition to the TA budget provided by MFA, clients that receive transaction-related TA are expected to contribute financially to these projects.[21]

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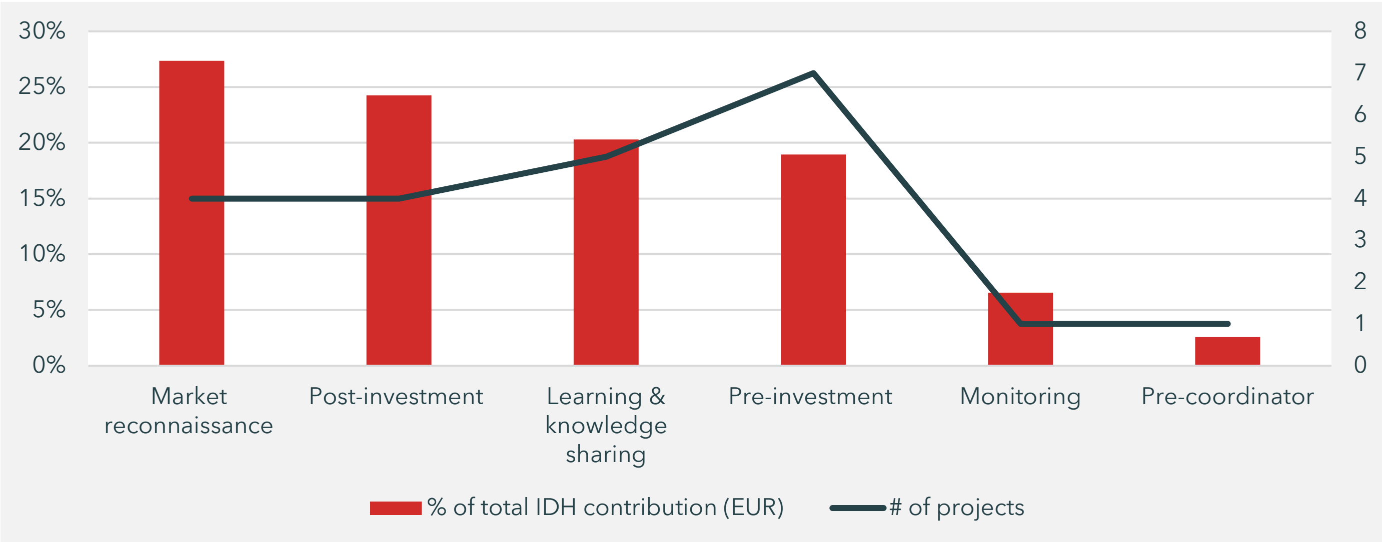
15 Interview AGRI3, AGRI3 reports and internal evaluation (July 2022)
16 AGRI3 Information Memo, version 1, May 2021
17 AGRI3 Information Memo, version 1, May 2021
18 Interview IDH
19 AGRI3 Information Memo, version 1, May 2021
20 Interview with IDH
21 AGRI3 Impact and E&S Policy

From a list of 49 TA project contracts, the evaluation team distilled 22 separate TA projects for the purpose of this evaluation. IDH shared the list of all AGRI3-related contracts signed up until July 2023. The evaluation team then streamlined this list by (a) combining related project contracts into one 'overarching' TA project (for example, the post-investment projects around the project in China were grouped together); and (b) excluding project contracts without an IDH contribution from our analysis. The latter were related to, for example, non-disclosure agreements, setting up a bank account for the TA Facility, administration and cooperation agreements, etc.

In terms of the contracted IDH contribution, the TA facility undertook both general and investment-specific activities. As shown in Figure 2.4, about a quarter (27 percent) of IDH's direct expenditure for TA projects was for market reconnaissance activities and another quarter (24 percent) was for post-investment activities. Just over 20 percent was for knowledge development and sharing, while 18 percent went to pre-investment support. Seven out of the 22 projects were pre-investment TA projects, but these were low-cost operations with an average IDH contribution of EUR 22,400.[22] In terms of the IDH contribution and the number of TA projects, the TA facility was mostly active in Brazil (see Figure 2.4). In addition to the above, IDH staff (mostly in-country) also supported the investment process and AGRI3 strategy development through regular consultations with AGRI3 and PFIs. Moreover, IDH has a seat on the Steering Committee and is part of the E&S panel.

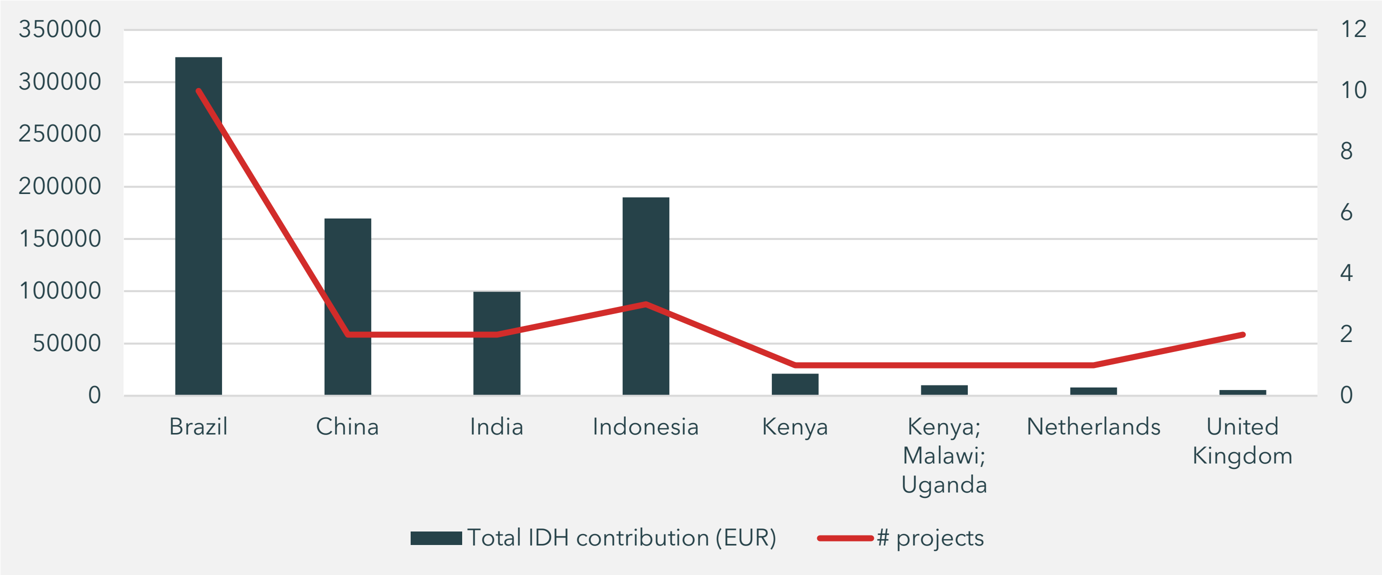
Figure 2.4 In terms of budget, the TA facility focused on market reconnaissance and post-investment activities



Source: AGRI3 TA Programme (2020 – July 2023)

[22] One pre-coordinator project received a contribution of EUR 21,300, but this is an outlier and not part of the standard TA activities.

Figure 2.5 In terms of budget and number of projects, the TA facility followed AGRI3 Fund's focus on Brazil



Source: AGRI3 TA Programme (2020 – July 2023)

The TA projects have been diverse:

- The four projects related to market reconnaissance resulted in three sector studies: one on palm oil in Indonesia, another on soy and cattle in Brazil, and a final one on climate-smart agriculture in India.
- The post-investment TA focused on capacity building for project in China; on pasture land renovation and water security for the first Renova Pasto loan ; and on certifications for soybean seed production in Brazil
- The learning and knowledge sharing activities centred around the sector studies and the development of an investment toolkit with WWF.[23]
- The pre-investment TA projects were mostly benchmark and needs assessments, but some also helped formulating Environmental and Social Action Plan (ESAP) requirements to facilitate the AGRI3 deal.
- Finally, the monitoring project was an internal project to develop the impact monitoring methodology for AGRI3.

In addition to the TA projects, AGRI3 has access to IDH's knowledge and network. IDH provides AGRI3 with sector knowledge, its country network and the TA Facility team expertise. The local offices of IDH in Kenya, India, Indonesia and Brazil play a role in this, and support transactions as these IDH offices have a direct line of communication with PFIs. In the review of individual investments, the evaluation team evaluated the role of the TA projects but also that of IDH's contribution related to knowledge and network sharing (see Chapter 4.2.8).

Like the investment activity, the TA Facility has underspent its budget. In the period 2020-2022 the TA Facility spent around USD 1.18 million, which is about 24 percent of the initial MFA budget of USD 5 million.[24] According to the BEMO, the TA Facility was expected to have spent USD 7 million by end 2022 and almost USD 11 million by the end of 2023. The respective annual plans and annual reports also highlight discrepancies between the number of TA projects planned and actually realised, which follows from the slow fund deployment indicated above. The internal evaluation conducted by AGRI3 in 2022 suggests that the size and sophistication of clients in Brazil is also one of the reasons (they have their own technical resources and research departments), while there are limited

23 https://www.idhsustainabletrade.com/publication/attracting-private-investments-for-sustainable-landscapes-a-guide/
24 Annex 1, AGRI3 - Financial Report 2022

possibilities for pipeline development support (e.g., support existing pipeline candidates and generate new ones). In Chapter 4.2.8, this evaluation discusses the evidence found to explain the underspending of the TA facility.

2.4 AGRI3's M&E system and KPIs

AGRI3's M&E includes both financial and impact indicators. Monitoring by AGRI3 is both focused on financial and credit performance metrics, as those can affect the risk rating of the transaction, and on impact and E&S performance including those summarised in Key Performance Indicators (KPIs) (see below). During contract negotiations, financial, environmental and social covenants, and actions set out in an Environmental and Social Action Plan (ESAP) are agreed, while KPIs are defined. Client reporting on the above, at least bi-annually, is usually received through the PFI, unless it is decided that AGRI3 will obtain it directly from the client. A set of standard (AGRI3) reporting templates is used, this on top of reporting requirements by the PFI, (un)audited financial statements, etc. Breach of any of the above covenants, including environmental ones, can lead to enhanced monitoring, and could eventually become a default event. Apart from ongoing monitoring by PFI relationship managers, all projects go through an annual review by AGRI3. While AGRI3 undertakes occasional site visits, in practice AGRI3 draws a lot on the information collected by the PFIs as part of its regular loan monitoring. For example, the PFI in Brazil has 18 offices, which employ Relationship Managers and Agricultural Technical Officers, who live in the regions and regularly visit clients.

AGRI3 uses twelve KPIs that are split across three thematic areas: (1) Prevent deforestation and stimulate reforestation, (2) Contribute to sustainable and efficient agricultural production, and (3) Improve rural livelihoods. These KPIs stem from the outputs, outcomes and impact spheres of the ToC (see Figure 2.1), although the KPIs and ToC do not fully match. Overall, the various documents presented by AGRI3 are not consistent in the presentation of the fund's aims and KPIs, and their wording on these topics varies. However, AGRI3 now follows the guidance as laid down in the latest AGRI3 impact and E&S Policy Statement, April 2022, developed with the assistance of UNEP, and so does this evaluation. A revised ToC including aligned KPIs with programmatic targets, agreed with the investors, and possibly incorporating the recommendations that follow from this evaluation (Chapter 5), would be helpful to orientate the fund for the future.

KPIs involve definition, setting a baseline, target, and monitoring and reporting. The KPIs to evaluate project impact are defined at the project preparation stage. Although KPIs are standardised, their precise formulation and targets are discussed and negotiated with the client and PFI. The standardisation of KPIs helps AGRI3 aggregate impacts across the portfolio, this for annual impact reporting. However, there may also be some project-specific, non-standard, KPIs, such as road renovation by a sugar cane producer (see Table 4.1). Monitoring and reporting requirements are also discussed with the client.

The data used to report on the different KPIs are a combination of information received from clients/banks, remote sensing, and proxy tools (e.g., for CO2).[25] Table 2.2 provides an overview of the KPIs and their respective baseline and monitoring methodology (for Brazil). In Brazil, the clients and PFIs provide impact monitoring data at least on an annual basis. Clients' data related to forest protection and land use is verified with satellite-based land-use information and Rural Land Registry (CAR) documentation. For example, land cover maps from MapBiomas are used for KPIs 1, 2, and 5. AGRI3 (through TAF) has engaged the services of remote sensing and impact advisor 52Impact (for Brazil) to analyse these remote sensing data and look for deforestation alerts. Additionally, for the

[25] AGRI3 Impact Monitoring: Summary 2021

calculations of GHG emissions for KPIs 4 and 8, AGRI3 uses the assumptions (1) that protected forest is not degraded at the start of the project and without the project would go to the category 'Low degradation', and (2) that restored forests have 'Moderate' forest degradation at the start of the project, which will go to 'None' with the project, while it is assumed to go to the category 'Large' forest degradation without the project.[26] The FAO Ex-Act v9.3.1 Carbon Tool is used to approximate carbon emissions. In other countries, different KPI monitoring means would need to be used.

Table 2.2 Baseline and monitoring methodology for the 12 KPIs (for Brazil)

Key Performance Indicators		**Baseline Methodology (*Brazil*)**	**Monitoring Methodology (*Brazil*)**
Forest protection and restoration			
KPI 1	Natural ecosystems (forest and non-forest) under management for protection	• Based on the area reported by the client and validated by the fund • In addition, Land Cover Maps from MapBiomas	• Report of client (ground observations, pictures and proof of protection activities) • Check updated Land Cover Maps from MapBiomas • Deforestation alert tools
KPI 2	Natural ecosystems (forest and non-forest) under management for restoration	• Based on the area reported by the client and validated by the fund • In addition, Land Cover Maps from MapBiomas	• Report of client (ground observations, pictures and proof of protection activities) • Check updated Land Cover Maps from MapBiomas • Deforestation alert tools
KPI 3	Production forest under sustainable forest management	No projects in production forests at this time	
KPI 4	GHG sequestered through protection or restoration of natural ecosystems	• Calculated as the product of the area of forest protected/restored and Tier 1 parameter of biomass growth • Using the most updated version of FAO Ex-Act Tool	• Review the total area 5 and 10 years after the start of the project and update the estimate if necessary
Sustainable and efficient agriculture			
KPI 5	Degraded land rehabilitated	• Based on the area reported by the client • Pasture Quality Maps from MapBiomas for verification	• Report of client • Annual use of Pasture Quality of MapBiomas
KPI 6	Agricultural area under sustainable management	• Area reported by the client and validated by the fund	• Area, fertiliser dosage, activities, and investments for pest management and high precision agriculture are reported by the client
KPI 7	Increase in agricultural yield through sustainable intensification	• Yield reported by the client	• Report of client activities

[26] These are fairly pessimistic assumptions and may result in overestimating the GHG impacts of AGRI3.

KPI 8	GHG emissions reduced from changes to farm practices	• Calculation by using the product of area of pasture and Tier 1 parameters of biomass growth • A business-as-usual scenario of potential GHG emissions from traditional agricultural practices • Using the most updated version of FAO Ex-Act Tool	• Review emissions 5 and 10 years after the start of the project and update the estimate if necessary • Review literature on whether there are improved estimates; if so, implement them
Improved rural livelihoods			
KPI 9	Number of participants reporting increased income (preferably disaggregated by gender and by local communities, where relevant)	• Number of people employed reported by the client • Wage/incentive scheme developed by external consultant	• Report of client activities
KPI 10	Number of people not included above, benefiting directly or indirectly from Fund transactions (preferably disaggregated by gender)		
KPI 11	Number of people trained in, and technology transferred for, best management practices in sustainable agriculture/forest protection, preferably disaggregated by gender	• Report by client	• Report of client activities
KPI 12	Client meets one or more criteria for the 2X Challenge on Financing Women		

Note: Missing information on KPIs 3, 10 and 12, because these KPIs are not applicable to the projects currently in the portfolio, described in Methods and Data of the Impact Monitoring Summary (2021 and 2022)

Clients also report on progress in reaching their ESAP. In addition to the standardised KPIs, clients report on progress toward their Environmental and Social Action Plan (ESAP).[27] The ESAP defines actions the client will undertake to address E&S gaps that Due Diligence or pre-project TA have identified. For CS client 3, for example, AGRI3 found that there is room for improvement in regenerative best practices in the areas of water consumption, use of agricultural inputs, and soil quality. Its ESAP sets out actions to remedy these gaps, which is in the company's self-interest. ESAP are transaction specific and implementation is monitored by AGRI3 through regular reporting by the PFI and client.

AGRI3 publishes an annual impact monitoring summary. The impact monitoring report (2022) shows recent updates on the total aggregated impacts of the fund and for each new project that was closed that year individually. None of the nine projects in the AGRI3 portfolio cover all 12 KPIs (nor are they required to do so). They all have results on KPI 11, but none of them covers KPIs 3, 10 and 12.

The E&S panel, made up of partners and independent advisers including UNEP and IDH, reviews transactions on their potential E&S risks and impacts in the project approval (IC1) stage. The E&S panel also provides expertise and advice to the AGRI3 fund manager.

[27] Only CS clients 2, 3 and 5 do not have an ESAP.

3 Methodology

This evaluation applied a mixed method approach, following the OECD-DAC evaluation criteria. Five out of nine projects were selected for in-depth review.

3.1 Evaluation methodology and data sources

This evaluation applied a mixed methods evaluation approach. The research methodologies consisted of document review, data analysis, Key Informant Interviews (KIIs) and Focus Group Discussions (FGDs) with workers and beneficiary farmers. The field work was organised in collaboration with local partner NINT/ERM (Brazil) and with assistance from AGRI3 PFIs and MFA. AGRI3 was also helpful in sharing documents, data, and facilitating contacts with PFIs and end-borrowers (agribusinesses financed by PFIs with AGRI3 support).

The evaluation and monitoring process started with a document review and data analysis. Documents reviewed included programme documents and reports by AGRI3 and IDH, as well as transaction-specific documents such as the IC1 and IC2 memos. The team also reviewed websites and published documents of AGRI3, published information by PFIs and end-borrowers, other initiatives and funds in sustainable agriculture, and various stakeholders and resource persons.

Key Informant Interviews (KIIs) were another key research method used in this evaluation. In addition to AGRI3 and IDH, the team conducted in-depth interviews with PFIs and the end-borrowers. Furthermore, interviews were conducted with resource persons such as representatives of similar or complementary sustainability funds and initiatives, local banks, as well as knowledgeable resource persons during field work. In order to standardise the KIIs, the team developed and used various interview guidelines so that each interviewer was asking the same questions. Ensuring that the relevant questions were asked, this standardisation also facilitated triangulation, analysis and reporting.

As part of the fieldwork, Focus Group Discussions (FGDs) were conducted with farmer groups, workers and communities. FGDs are an appropriate research method when respondents are relatively homogeneous, such as farmer groups or community members. The advantage of a FGD is that relevant information can be obtained from a group of beneficiaries who were affected in a similar manner by the project, whereby the discussion format allows for a deeper level of information gathering than a survey format. This method was used during three field visits, including interviews and focus group discussions (FGDs) with farm workers.[28]

3.2 Evaluation criteria and questions

At the core of any evaluation is the correct interpretation and execution of the evaluation questions. As part of the inception phase, the (21) evaluation questions from the ToR were slightly reformulated and reorganised to better fit the OECD evaluation terminology, and to be more precise. The evaluation matrix including the rephrased

[28] The selection of people to take part in the FGDs typically was a random process, in Nicaragua in particular. It involved assembling people who were in proximity of the cooperatives and could be asked to join at short notice. In other cases, the cooperative called people and asked them to take part. It cannot be excluded that some FGDs were not fully representative of the membership.

(18) evaluation questions was included in Appendix A of the inception report. The evaluation questions are shown in red in Chapter 4.

As requested by MFA, this evaluation follows the OECD-DAC evaluation criteria, with an emphasis on effectiveness. Half of the evaluation questions relate to effectiveness. Additionality and coherence are also important themes (although additionality is not a formal OECD-DAC criterion). Impact and efficiency are only dealt with briefly, given the limited time since the fund's inception and the long duration of most projects. Any findings on impact therefore indicate only initial signs of change towards impact. The evaluation questions barely touch on relevance (only the revised EQ 8) and sustainability (no EQ). However, relevance is partly covered in the section on coherence (as one of the evaluation questions asks about consistency with MFA objectives), while sustainability follows from the effectiveness discussion. The inception report included a detailed discussion of the OECD-DAC evaluation criteria, the evaluation questions, and the methods that were applied to arrive at well-balanced answers.

The ease and extent of data collection depended on the stakeholder. Generally speaking, the extent to which different stakeholders allowed the team to access information was related to their 'distance' from the AGRI3 team:

- The most immediate stakeholders are representatives of AGRI3 (under contract with Fount and Cardano Development) and IDH, which availed any information necessary for the proper execution of the evaluation.
- At the second level are the PFIs, that signed credit enhancement contracts with AGRI3. The team experienced good collaboration from both PFIs, although some relationship managers expressed concerns that their clients were being overfed with demands for site visits by external consultants at the request of AGRI3, and were sometimes hesitant to facilitate them. In order to respect bank-client relationships, it was agreed that all (initial) contact between AGRI3 end-borrowers and the evaluation team would go through the PFIs. At the request of one PFI, one project initially selected for review was dropped and replaced by another.
- At the next level are the end-borrowers, who are vital to the evaluation of the effectiveness and impact. All AGRI3 end-borrowers interviewed were aware of AGRI3, and some received TA or had developed an ESAP. While not all of them may have been fully informed about the purpose of this external evaluation, the evaluation teams received a warm welcome in all cases.
- Finally, there are the local communities that are affected by the project as cooperative members (Nicaragua), outgrowers, farm workers, by project-related environmental and social impacts, or otherwise. They were mostly unaware of AGRI3 and it needed to be explained to them why they should volunteer information to outsiders.

3.3 Investments for in-depth review

The evaluation team conducted an in-depth review of five out of nine projects in the AGRI3 portfolio. As agreed with MFA during the inception phase,[29] the key criteria for selecting these five AGRI3 investments for in-depth review were the following:

- **Capacity to demonstrate the AGRI3 method** and review its effectiveness.
- **Variation of agricultural sectors**, e.g., both crops and cattle.
- **Variation of AGRI3 impact themes**, namely forest protection, sustainable land use, and rural livelihoods.
- **Preference for somewhat older projects**, given that more can be said about their effectiveness and impact.
- **Logistical factors** (e.g., distance between project sites, and accessibility by airplane or even by road).[30]

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29 The inception report contains more details about these selection criteria and the selection process.

30 For example, the five seemingly concentrated projects in Central Brazil were still hundreds or even thousands of kilometers apart from each other. Thus, the field visits to Brazil involved extensive travel between project sites, via both road and air.

- **Availability and willingness of the AGRI3 companies to receive the evaluation team**, as well as the position of the PFI in this respect.

In the interest of confidentiality, the names five detailed case studies discussed in the original evaluation report have been replaced by "CS client X" in this public version. We selected a representative sample of case studies across multiple countries and sectors to ensure a comprehensive evaluation and derive meaningful insights, but these details are omitted here to protect sensitive information. As part of the case studies, the evaluation team conducted interviews with AGRI3, the clients' management, partner banks, embassy personnel, IDH, and several external stakeholders.

4 Findings

4.1 Impact

It is too early to assess AGRI3's long-term impact. However, in line with the slow deployment of the fund capital, AGRI3 is much behind in reaching the initially stated impact targets. The most likely impact is on the expansion of land under sustainable management. The (expected) impact on rural livelihoods is limited.

***EQ1** - What has been the development impact of AGRI3 in the first five years, compared to the ToC and against its results framework? This includes any positive/negative, (un)intended effects observed on top of the KPIs or fund objectives.*

4.1.1 Analysis of core results according to the BEMO

Expected impacts of AGRI3 interventions relate to climate change mitigation, natural capital preservation, and rural livelihoods. The AGRI3 ToC defines three impact results, namely:[31]

- Climate change mitigation
  Indicator: CO_2eq emissions sequestered or avoided
- Natural capital conservation
  No indicator mentioned for this impact area, but the underlying outcome indicators are hectares of forest under active management and hectares of agricultural land under sustainable management.[32]
- Improved rural livelihoods
  No indicator mentioned in the ToC, but KPI9 is about farmer income

The original policy memorandum ('BEMO') for AGRI3 included five explicit performance targets. This memorandum (*beleidsmemorandum* or BEMO in Dutch) was the basis on which the Ministry accepted to provide a reimbursable grant toward establishing AGRI3. It included five development results, impacts and outcomes, with quantitative indicators, which were literally taken from the grant application AGRI3 had made to MFA. However, while the BEMO expected these targets to be reached five years after project implementation, no such timeframe was indicated in the grant proposal.[33] When reverting to the BEMO's timeframe, a definitive answer to this EQ1 can only be provided by the end of the evaluation and monitoring assignment by early 2025. For all of the five results included in the BEMO, AGRI3 developed KPIs or reports portfolio data (e.g., amount mobilised for private finance).

The five BEMO targets (also in the AGRI3 grant application) are:

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31 Source: AGRI3 proposal to the Ministry (2019). The ToC presented to GEF (2021) is somewhat different, but not necessarily better as impacts and outcomes overlap.

32 AGRI3 documents are not clear about the measurement and judgement method for land under sustainable management. However, a common methodology would be to compare current practices on the land to a best-practice benchmark, judging it sustainable if best practices are (sufficiently) adhered to.

33 Given the expected duration of investment projects, it stands to reason that the AGRI3 proposal had intended a longer timeframe. The same targets were included in the GEF project proposal (2021), although the target for CO_2 emissions avoided or sequestered was changed from 6 million tons to 18.4 million tons. Furthermore, a timeline of twenty years was given.

1. Sequester and/or avoid six million tonnes of CO_2 from sustainable land use practices and avoided deforestation (impact);
2. Bring 700,000 hectares of agricultural land under sustainable management (outcome in the AGRI3 Theory of Change (ToC), impact in the Food and Nutrition Security (FNS) ToC);[34]
3. Bring 41,000 hectares of forests under sustainable management (outcome in the AGRI3 ToC, likely impact in the FNS ToC);
4. Reach out to 45 companies and 65,000 farmer households, and train 300,000 farmers (output);
5. Mobilise more than USD 1 billion of private finance (not in the AGRI3 ToC, for MFA it would be a PSD target)

The evaluation team compared the aggregate KPI targets (*ex ante*) from the current portfolio of nine investments with the five BEMO targets. As part of the loan and guarantee covenants, the end-borrower, PFI and AGRI3 agree on the KPIs, taken from the list in Chapter 2.4. These KPIs cover key impacts, outcomes and outputs in the AGRI3 ToC. The aggregated total of the KPIs of these nine projects gives an indication of the *ex ante* expected result achievement. However, many of these KPIs exceed the BEMO's five-year timeframe and are only to be reached by the end of the AGRI3 investment - all seven projects in Brazil have a maturity of ten years. Nonetheless, these KPIs are indicative of the current level of AGRI3's impact ambition.[35]

1. GHG sequestration and avoidance is captured through KPIs 4 and 8, planned to total nearly 1.25 million tons for the nine AGRI3 projects, hence falling short of the six million tons defined in the BEMO.
2. Agricultural land under sustainable management is covered by KPI6, with a planned total of 86,000 ha for the nine projects, hence much less than 700,000 ha foreseen in the BEMO.
3. The AGRI3 definitions relate to "Natural ecosystems (forest and non-forest) under management for protection" (KPI1) and "restoration" (KPI2), while KPI3 "Production forest under sustainable forest management" is not applicable to any currently supported investment. The grand total of KPI1 and KPI2 for the nine approved projects is 10,850 ha of directly protected area. This is less than the 41,000 ha mentioned in the BEMO and in addition not only relates to forest (e.g., includes APP that can be river beds for example).[36]
4. So far, AGRI3 reached 9 companies, and plans to benefit 4,174 farmer households (KPI9) and train 5,780 people (KPI11). This is much less than the BEMO's goals.
5. The nine AGRI3 transactions mobilised USD 73.5 million in private finance (as per 30 June 2023), far less than the BEMO's objective of USD 1 billion.

Based on an *ex ante* analysis of the nine projects in the AGRI3 portfolio, and considering any new projects that may be approved, it is unlikely that AGRI3 will reach or come close to the BEMO targets by 2025. However, the GEF project application, which includes nearly the same targets, stipulates a target timeline of 20 years, giving AGRI3 much more time to reach the above targets. Nevertheless, the volume of AGRI3's operations would need to increase manifold to reach any of the above-mentioned targets.

4.1.2 Observations from the company visits

The observations based on interviews and visits to AGRI3 investees are included in Chapter 4.2. This sub-chapter is limited to higher-level comments on observed impacts.

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34 See Letter to Parliament, AVT19/BZ128916, May 2019

35 The impact report 2022 compares the *ex ante* planned impacts and outcomes to current achievements for all nine projects. On most KPIs, AGRI3 has reached about one third or half of the target, explained by the ten-year maturity of all Brazilian projects, some of which are of recent date.

36 The AGRI3 annual report mentions 67,072 ha of "indirectly" protected area (ex ante), which relates to farms lands of the same company but not part of the project.

The company visits revealed evidence of impact on sustainable land use and forest protection in cattle projects.[37] CS client 1 is a case in point. It obtained multiple concessions during the last century and used these in the exploitative way that was common at the time. Forests were cut, cattle grazed, and the land degraded and eroded up to the point where it could no longer carry cattle – not even in an extensive grazing system. The traditional approach would have been to abandon the land and repeat the same destructive process on new lands ('business-as-usual scenario'). Instead, the client opted to rehabilitate and intensify the land, motivated by environmental awareness, as well as the fact that land is increasingly hard to come by, increasingly remote, protected by new forest laws, and finally because of the market demanding deforestation free beef.[38] AGRI3 is supporting this process through land recovery and intensification. The intervention logic in other client projects, not visited at this time, is similar. Thus, the core impacts from the (three) cattle projects in Brazil were:

- Pasture land renovation, and consequently reduced pressure to cut forests, leading to accelerated forest code compliance, protecting forests where legally exploitable reserves exist, or restoring degraded LR and APPs
- Enhanced agricultural productivity due to land intensification, hence more income for the farm (e.g., more cattle, or sometimes diversification to crops to support integrated crop-livestock systems for additional productivity gains)
- Due to the above, CO_2 not released, even some sequestered

The company visits also revealed evidence of impacts on sustainable land use and forest protection in crop projects. Both CS client 2 and 3 implement circular / regenerative agriculture models that reduce the use of (potentially harmful) chemical inputs, reduce cost, and increase yields – during drought in particular. This reduces the pressure on forests for land expansion. CS client 4 also invested in sustainable agriculture, among others, by converting to organic fertilisers, precision agriculture, biological pest control, and energy conservation in the factory. Another project can also be grouped under these themes, while protecting excess LR. Thus, the core impacts from the (four) crop projects in Brazil were:

- Land used sustainably, and consequently forest not cut, LR protected, even restored in some projects (CS client 4)
- Enhanced agricultural productivity, reduced input and energy cost, hence more income for the farm
- Due to the above, CO_2 not released, even some sequestered
- Reduced release of possibly polluting chemicals

AGRI3's impact on rural livelihoods has been limited. In Brazil, none of the projects includes a convincing rural livelihoods component. It is obvious that if a company prospers its workers benefit from training, housing, etc., but the impact on their incomes, diverse livelihood options and general welfare is minimal. The training and activities developed under this component benefit farm management and human resources, much less the livelihoods of people living in the vicinity of these farms. In the case of CS client 5, this impact is more evident, as farmers receive input and harvest finance to grow their crops, raise productivity and incomes (both key indicators for rural livelihoods). With the support of CS client 5, these farmers have been able to improve their living conditions (e.g., by repairing their houses, buying means of transportation and improving their diets). Cooperative members are overwhelmingly grateful to CS client 5 for maintaining their Fairtrade and Organic certifications, which provides them markets, input finance and premium prices.

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[37] This would be the outcome level in the AGRI3 ToC, contributing to natural capital conservation and climate change mitigation, but impact in the FNS ToC.

[38] CS client 1 is part-owner of the a large beef processor, which exports 75 percent of the meat, hence is faced with demands for certified deforestation-free beef.

The evaluation uncovered a few unanticipated impacts, mostly related to farm workers' motivation and (sustainable) ways of working. Initial unanticipated results of the investments that were noted by both the farm manager and farm workers at a farm of CS client 1, were that the process of fencing off the APP areas on the farm decreased animal mortality rates as animals used to fall into these frequently eroded areas or would drown in rivers. Also, the attention to improved housing conditions for farm workers increased staff motivation and commitment to continue working for CS client 1. At CS client 3, staff pointed to a mentality change among workers. In the past, farm workers primarily concentrated on tasks specific to their respective farm units; however, they now exhibit greater enthusiasm due to the integrated and therefore varied nature of the farm activities. They actively exchange knowledge not only within units but also across various farms within the portfolio of CS client 3. Also, the new sustainability initiatives such as solar panels and biofertilisers (the latter not attributable to AGRI3 alone) have increased the visibility of sustainable activities on this farm and thus its reputation. In a broader sense, all AGRI3 clients play a critical social function in their communities, supporting schools and certain social programmes for example. For CS client 1, this was part of the AGRI3 project.

4.2 Effectiveness

AGRI3 catalysed less private finance than initially foreseen. All current AGRI3 clients are on track to reach their KPIs related to sustainable land use, production and eco-system protection. Far fewer results were recorded in the areas of rural livelihoods and gender equality. Demonstration effects on other banks are hard to detect. The fund's products are suitable for clients' needs, but the riskiest ones are not used.

The evaluation is focused on effectiveness. Half of the (revised) evaluation questions (2-10) are about effectiveness. All of the above-mentioned evaluation methods (Chapter 3.1) were used in the context of analysing effectiveness. Effects on sustainable agriculture and forest conservation are incorporated into the AGRI3 KPIs, and were validated by the evaluators through field observations and external data as far as available. The team also looked at the communities' perceptions as evidenced by interviews with stakeholders and farmers. Effects on rural livelihoods and gender inclusion were reviewed through the AGRI3 KPIs and desk review, the perceptions of financing PFIs, and above all through the company visits including discussions with the management, observation and discussions with farm workers and farmers (e.g., outgrowers). Effects on the financial sector were discussed with both AGRI3 PFIs and non-partners, the end-borrowers, and relevant stakeholders. Given the relative newness of all AGRI3 projects visited, none of which have been completed and some of which have just started, the evaluation did not apply contribution analysis at this time. This will be attempted in the final report, due in 2025.

4.2.1 Effectiveness in reaching sustainability objectives

***EQ2a** - How did/do AGRI3 farmer(s) (aggregates) perform in terms of sustainable land use, forest protection and reforestation?*[39]

[39] According to the GEF application, forest protection and reforestation refers to *acceleration* of sustainable management of forests and legal reforestation obligations, transition to agroforestry as well as protection of high conservation/high carbon stock forests that enhance soil fertility, carbon sequestration, water management and biodiversity.

***EQ2b** - How did/do AGRI3 farmer(s) (aggregates) perform in terms of sustainable & climate-smart agriculture? What has been AGRI3's contribution to this observed change (if any)?*[40]

Effectiveness is monitored through 12 standardised KPIs. As outlined in Chapter 2.4, AGRI3 monitors effectiveness in reaching sustainability and livelihoods objectives through 12 standardised KPIs, tailored per project. These KPIs reflect the core outcome and impact targets of the projects, although sometimes not all project parts are covered in suitable KPIs or require additional non-standard KPIs. The respective KPIs for the five projects reviewed during the evaluation are shown in Table 4.1.

Table 4.1 KPIs for AGRI3 projects reviewed (forest protection and restorations)

Key Performance Indicators		CS Client 5	CS Client 1	CS Client 3	CS Client 2	CS Client 4
Forest protection and restoration						
KPI 1	Natural ecosystems (forest and non-forest) under management for protection		892 ha of APP protected through physical isolation	Maintain LR surplus 140 ha	1,374 ha of natural ecosystem protected (surplus over LR)	90 ha of natural ecosystem protected and restored – 80 types of native species. Includes LR and APP. AGRI3 will keep track of the acquisition of 540 ha of additional LR needed.
KPI 2	Natural ecosystems (forest and non-forest) under management for restoration		1,286 ha of APP restored and replanted			90 ha restored or protected. Includes LR and APP.
KPI 3	Production forest under sustainable forest management	No projects in production forests at this time				
KPI 4	GHG sequestered through protection or restoration of natural ecosystems		GHG from forest protection: - 30,756 tCO_2-e GHG from forest restoration: - 266,048 tCO_2-e	4,827 tCO_2-e	47,376 tCO_2-e	GHG sequestered through protection and restoration - 3,103 tCO_2-e

Source: AGRI3 Impact Monitoring Report 2022

40 According to the GEF application, climate-smart agriculture involves sustainably increasing agricultural productivity and incomes; adapting and building resilience to climate change; and reducing and/or removing greenhouse gas emissions, where possible.

Table 4.2 KPIs for AGRI3 projects reviewed (sustainable agriculture)

Key Performance Indicators		CS Client 5	CS Client 1	CS Client 3	CS Client 2	CS Client 4
Sustainable agriculture						
KPI 5	Degraded land rehabilitated		923 ha of pastureland renovated and recovered on one farm and 2,600 ha on other farm			
KPI 6	Agricultural area under sustainable management	2,320 ha supported	Development of low-carbon beef assessment methodology.	11,000 ha) by 2025 where the following practices are applied: • Substitute all phosphorus fertiliser by compost from feedlot • Reduce herbicides in soil preparation (70% reduction) using Weedit • Solar panels to provide all on-farm electricity Within the tenor of AGRI3 support (2032): • Soil health monitoring on 11K ha. Note: to include biological monitoring. • Achieve at least 5% reduction per year in use of agro-chemicals/ha [from Year 3].	10,000 ha of area subsoiled Certified area to RegenAgri	18,000 ha with gravity fed vinasse. 7,000 tons of fertiliser reduced after 10 years. 52,000 ha of agricultural land with high precision agriculture and integrated pest management
KPI 7	Increase in agricultural yield through sustainable intensification		Increase in stocking density from 1.6 AU/ha to 2.8 AU/ha.	Maintain existing yields of soy, cotton and beef on a three-year rolling average. (Yield is already high, input costs will be reduced thanks to regenerative practices)	Average yield increase 15%. Increase in tons per ha: + 0.1 ton soy + 0.4 ton cotton + 3 ton maize	

KPI 8	GHG emissions reduced by changes to farm practices		14,961 tCO_2-e	TBD	112,210 tCO_2-e	312,510 tCO2-e

Source: AGRI3 Impact Monitoring Report 2022

Table 4.3 KPIs for AGRI3 projects reviewed (improved rural livelihoods)

Key Performance Indicators		**CS Client 5**	**CS Client 1**	**CS Client 3**	**CS Client 2**	**CS Client 4**
Improved rural livelihoods						
KPI 9	Number of participants reporting increased income (preferable disaggregated by gender and by local communities, where relevant)	480 farmers supported, of which 23% female	TBD	Maintain baseline payment level: at least 12% above the level at which the lowest paid workers are paid above the legal minimum.		
KPI 10	Number of people not included above, benefiting directly or indirectly from Fund transactions (preferably disaggregated by gender)					
KPI 11	Number of people trained in, and technology transferred for, best management practices in sustainable agriculture/forest protection, preferably disaggregated by gender	Training provided, no number given	30 farmers trained through farmer days	One field day with book guides every 2 years. Each field day is attended by around 200 people. Report and/or video guide on regenerative and circular agriculture. TA support may be available for this.	150 Field days	250 people trained on honey cultivation 800 farm employees trained in high precision agriculture and pest management Training in sustainable agriculture/ forest protection
KPI 12	Client meets one or more criteria for the 2X Challenge on Financing Women[41]					
Add KPIs			Construction of new cattle management corral, for safety and welfare of employees			7,000 km of road rehabilitated and maintained

[41] This indicator was added when the first investments had already been made.

			Construction and renovation of houses for workers on the field			

Source: AGRI3 Impact Monitoring Report 2022

ESAPs complements the KPIs by providing additional actions and measures. The evaluation team reviewed all ESAPs available for the case studies. The ESAPs complement the KPIs and include specific E&S actions tasks with timelines. The ESAPs are tailormade and not standardised across investments. The ESAP for one client asked it to develop an APP restoration plan, reduce animal stress by testing drinking water and adding shade trees, proposed various actions for manure management, required the development of a plan for closing Legal Reserve (LR) deficits on all its farms, plan for pasture management according to Embrapa GAP, and institute complaints mechanisms. While this client did not set a target for LR compliance, the ESAP indicated that the company is currently not in compliance with the Forest Code. The interviews held at one of the farms also highlighted that the company is still not sure whether it is compliant and has not yet been able to get confirmation of this by relevant authorities. The ESAP for another client tasked the company with improving traceability of calves bought from suppliers, ensuring the absence of deforestation and slave labour, as well as shade at feed lots. There was some overlap with land of indigenous people that needed to be resolved, as well as farming in protected areas. Following the work of the pre-project TA, some measures were taken for monitoring soil health, reducing the use of agro-chemicals and chemical fertilisers, and surface water testing for pollution. The company was also to develop a sustainable agriculture plan for all of its farms. Although the ESAPs are a requirement the company agrees to, they must be seen as an effort by AGRI3 to help and encourage the companies to remedy E&S risks, and ESAPs are generally in their self-interest.

All projects are making progress toward their end-of-project KPIs. As all projects in Brazil have a duration of ten years, whereas the recently started project in Nicaragua has a four-year timeline, none of them is supposed to have reached any of the KPIs by now. Progress made according to the company managers and validated through the field visits is presented in the below paragraphs. This may be compared with the AGRI3 impact report 2022, which shows progress on all KPIs.

AGRI3 did not set any targets for the pilot project in Nicaragua. As this is a pilot project, the goal is to maintain impact across the respective impact categories, but not yet expand it.[42] Therefore, the KPIs as shown in Source: reflect the current status of agricultural area under sustainable management (KPI 6) and farmers supported (KPI 9, 11). However, in order to maintain various (organic) certifications, the client assists its primary cooperatives through input supply (organic fertilisers) and training/extension (e.g., waste water treatment in wet milling, soil conservation, organic fertilisation, reforestation), and this is ongoing.[43] The client has a composting plant that uses production waste to supply organic matter to cooperative members. In hilly areas, terracing is used to avoid erosion. Rivers are protected through tree planting and natural fencing. The Fairtrade premium has sometimes been used for reforestation, for shade and land protection. Reforestation is also undertaken with support of Solidaridad. Timber and fruit trees distributed by the client generate additional income and support nutrition objectives. The union also promotes the role of women in management and fights child labour (which is a persistent problem). While the client

[42] As per the IC2 from AGRI3, 29 August 2022

[43] Seven technicians continuously visit cooperative members to offer technical advice. This is paid through the FT premiums. Apart from providing training and extension, the technicians are especially keen to ensure that producers maintain the conditions to allow organic and Fairtrade certification.

is obviously sensitive to environmental protection and sustainable land use, the union has not developed impact metrics to measure them, nor have they been included in the AGRI3 project and KPIs.

Client 1 is on track to achieve its targets, with AGRI3 having boosted some already ongoing activities. Client 1 stated that restoration of Areas of Permanent Protection (APP) on both farms is on track, involving fencing, replanting, and to some extent natural recovery. The visit to one of the farms revealed various stages of fencing of APP, including parcels that were both fully fenced and had been replanted with diverse species of natural vegetation. According to the farm manager, APP restoration had started prior to the AGRI3 investment already, but was now accelerated. Pastureland recovery and renovation is on track too, according to the company.[44] Animal density has increased to five heads per hectare, including the installation of drinkers across the farm (also to protect the APP, which are mainly rivers and have been fenced) and to secure the quality of the drinking water. Trees are being planted for animal welfare, and while farm managers and farm workers indicated that this has improved animal welfare, this was not visible in the feedlots where animals still spend their last 90 days without cover. Workers (30) as well as neighbouring farmers were trained in pasture management, animal welfare, and health and safety. According to client 1, the introduction of the feedlot system, with feed inputs from crop farming, results in animals reaching their slaughter weight after 24 instead of 36 months and thus has contributed to obtaining targets on increased animal density and productivity. This is because the animals do not go hungry in the dry season. A project on low-carbon beef that was initiated with leading local beef export company , in parallel to the AGRI3 investment, is expected to lead to synergies on KPI6. The lessons learned regarding land restoration, integrated crop-livestock systems and feed lots are being replicated to other fazendas of client 1 and shared with neighbouring farmers who have shown interest.

While client 3 was only recently added to the AGRI3 portfolio, the company is on track to achieve the set targets, especially on sustainable agriculture.[45] One of the farm managers was not able to say to what extent the farm was in compliance with its legal reserve target, other than that it had not been clearing any additional land. However, the APP areas are identified and protected. While work on bringing 11,000 ha under regenerative agriculture practices still needs to start, an initial TA assessment has been concluded and recommendations on the further roll-out have been received. The farm manager expected regenerative agricultural practices to be tested and rolled out in the coming season. Implementing regenerative agriculture will likely take a few years, whereas other targets for agricultural area under sustainable management, such as maintaining existing yields of soy, cotton and beef on a three-year rolling average, have been achieved already. KPI6 also involved investment in solar panels, which has been completed. This now ensures that the farm is fully energy independent, supplying sufficient solar energy to power its operations, including five pivot irrigation units. The farm has also achieved an 80 percent reduction of herbicide use by applying WEED-IT technology[46] and has substituted chemical fertiliser for compost from the feedlot through the application of biofertilisers, which was initiated even before the AGRI3 investment.

CS client 2 has completed sub-soiling and aligning 10,000 ha of land, according to the owner and AGRI3, which is the core KPI. Being the first AGRI3 client, client 2 completed the investment (in sub-soiling) and three

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44 See AGRI3 impact report 2022, page 26, which confirms APP fencing and isolation, as well as pastureland restoration (both ongoing).

45 Regarding forest protection, the documents show some ambiguity. The impact monitoring report of 2022 states that company will maintain 42,204 ha of forest protected in existing Legal Reserve, and that they have a surplus of 140 ha. The baseline measurement in the annex shows 18,576 ha of legal reserve on its farms, while the IC memo again indicates 42,204 ha as a baseline. The difference lies in leased versus owned land. During the initial baseline setting, AGRI3 only included the land that was owned by the farmer. However, both the owned and leased land are protected. Therefore, AGRI3 decided to monitor the leased land as well during the monitoring phase.

46 A technology to detect and eliminate weeds by only spraying the weeds (thereby using less chemical inputs).

harvests have passed since. There was a drought last year and the company's sub-soiled farm had a 15 percent better yield than other farms as water was better retained.[47] There was no yield difference in years with normal rainfall. However, consumption of fertilisers and chemicals was halved on the sub-soiled lands due to better retention of organic matter in the soil. The company stated that it had organised farm visit days, in particular to demonstrate biological production methods, but admitted that it is otherwise not keen to share information on its proprietary technologies with neighbours with whom it is in stiff competition. Indeed, the AGRI3 annual report confirms the company's reluctance to organise field days and show its technology, and field days were not conducted after 2019. There were visits from out-of-state farmers, though, which are not seen as direct competitors. Also, CS client 2 is replicating lessons learned at other farms within the group.

Client 3 is exceeding the KPI targets set for this year, as stated by the company and confirmed by AGRI3 impact monitoring. So far, 48 ha of forest has been planted with native species, 11,700 ha of crop land has been fertilised with vinasse, and 4,000 tons of nitrogen and 7,000 tons of potassium have been substituted with organic matter. On all plantations, precision agriculture with biological pest control is applied. The company maintained 8,500 km of roads, but this is an ongoing (twice-yearly) activity. 56 beekeepers were trained, and over 17,000 hours of staff training were delivered. Observations from the field broadly confirm the above results (albeit not the exact numbers, as this is beyond the evaluators' reach). The visiting evaluation team saw the tree nursery, the production of larvae as biological pests to control beetle infestations, the distribution of vinasse through canals, road maintenance works, and the results of several investments made in the factory, including the mixing of organic and chemical fertilisers. All of this was seen to be functioning. This can also be concluded from the AGRI3 2022 impact report.

4.2.2 Effectiveness in reaching livelihoods objectives

EQ3 *– To what extent is AGRI3 reaching farmers as the priority beneficiaries / target group, and contributing to rural livelihoods?*[48]

Livelihoods effects may be expected both on company workers and on neighbouring communities, including suppliers or outgrowers. The livelihoods KPIs (9-12) are relatively vague in their result metrics, but do mention income effects (KPI9), and training and knowledge development (KPI11), whereby the latter would also contribute to the beneficiaries' long-term revenue potential. Both metrics could apply to company workers and to the wider community, including suppliers / outgrowers.

The AGRI3 projects in Brazil do not make a strong direct contribution to worker welfare. In Brazil, the rural livelihoods component often includes the training of workers. Training workers in various sustainable production skills is useful for the companies to improve their farm operations. It is only useful to the individual workers if it increases their work pleasure, safety, wages (because they become more productive) or employability elsewhere. Training staff at clients 1 and 3 did not result in a raise in their salaries. However, farm workers at both companies indicated that training had increased staff motivation and knowledge exchange across different farm units as well as across other farms in the group.

The AGRI3 projects in Brazil do not make a strong direct contribution to local smallholder farmers. All AGRI3 clients in Brazil are large agribusiness companies that mostly rely on their own production and less on outgrowers.

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47 No yield difference was recorded in normal rainy years.

48 According to the GEF application, the rural livelihoods component involves improving the living standards of farmers (and farm workers), including smallholders, in order to reach sustainable inclusive growth, with particular attention being paid to gender equality, eradicating child labour, promoting fair labour and wages, and alleviating poverty.

Hence, they are somewhat disconnected from the local economy. CS client 4 is the major exception, as it sources nearly half of its sugar cane from surrounding plantations, and these are monitored on their contractual E&S requirements and trained accordingly.[49] CS client 1 also has some farmers in the neighbourhood that deliver cattle (the client is co-owner of a meat processing plant), and these were invited to participate with the company's workers in training on pasture management and animal health and welfare. However, none of the Brazilian AGRI3 projects impact smallholder farmers' incomes in the same way as the projects in China or Nicaragua as there are few outgrower relationships, and PFI/ AGRI3 finance and TA is not directed to such suppliers. Regarding field days that transmit knowledge to (unrelated) farmers in the neighbourhood, which is an obligation in all AGRI3 projects, the evaluation shows these activities to be infrequent. Client 2 admitted its reluctance to invite neighbours, wanting to protect its proprietary technologies. It is not clear to what extent neighbours assimilate the lessons learned from field days they are invited to.

However, AGRI3 projects in Brazil contribute to livelihoods indirectly. The seven projects in Brazil are with large agricultural companies, all family-owned businesses, which typically care for their communities. As mentioned, apart from inviting neighbouring farmers to field days and improving workers' housing,[50] the companies supported all kinds of social activities, which is part of their CSR agenda. CS client 4, for example, undertook an incubator programme for (sugar-related) innovative start-ups. CS clients 1 and 2 supported local schools. CS client 4 had programmes in sustainability for school children (who may be future company workers), supported the local food bank with horticulture projects, trained beekeepers and worked on wildlife conservation, along with keeping the local (gravel) roads in good order – the latter being part of the AGRI3 intervention. While these roads were essential to the factory as they connect to the sugar cane fields, the local communities also benefitted from well-maintained connectivity.[51] All AGRI3 clients undertook training and social development actions, sometimes with project funding. However, with the exception of the CS client 4 roads, none of these were important in terms of budget allocated, and their impact was quite limited. On the other hand, it may be argued that the AGRI3 projects helped clients increase production and sales, reduce costs and improve incomes, hence indirectly benefitted (local) communities through employment opportunities and therefore income. Off-site discussions with staff at CS client 4 made clear that nearly all employment and economic activity in the town was directly or indirectly attributable to the factory.[52]

Livelihoods impacts were more obvious and direct for the pilot project in Nicaragua. The eight primary cooperatives that are united under CS client 5 have around 480 farmer members (23 percent of whom are women).[53] These are smallholder farmers with low education levels. During FGDs, farmers indicated that the client helped them, through credit as well as through training and extension services, to improve their productivity and obtain or maintain their certification(s). In turn, this increased farmer incomes and enabled them to repair their houses, buy means of transportation and improve their diets.

CS client 5 also supports community initiatives. The client supported local sports initiatives, e.g., by donating football uniforms to children's teams. Additionally, during the COVID-19 pandemic, the client delivered food packages and sanitary kits to all associates in the different member-based cooperatives.

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49 This was an E&S requirement imposed by IFC. A booklet was produced containing Good Agricultural Practices aimed at sustainability in the sugar cane supply chain.

50 For the visited farms, communities are often quite remote and farm workers could have been residing originally at locations 40-150 kilometres away. Farm workers therefore live on these farms during the week.

51 For example, these roads connect nearby fishing villages to markets. According to the client, 380,000 people in the wider community use these roads.

52 Most of the 2,000 staff live in the proximity of the farm and spend their salaries on local rent, local shops, local hairdressers, etc.

53 As per the IC2 from AGRI3, 29 August 2022

The evaluation shows that AGRI3 projects are not serving sustainability and livelihoods objectives simultaneously. When AGRI3 was conceived, it was expected and even required that all projects would contribute to rural livelihoods of both small and large farmers and their workers. The core component of rural livelihoods (in the FNS ToC) is helping people to raise their incomes through employment or self-employment (e.g., more sales, higher yields). Income as a core metric for livelihoods is also reflected in the AGRI3 ToC (KPI9) and was confirmed in the GEF proposal. It is true that protecting the environment is part of livelihoods, as are actions to promote gender equality, avoid child labour and ensure fair and healthy working conditions. However, in the end, income is the most important metric, and this is KPI9. The evaluation, however, showed that in Brazil, livelihoods impacts (in terms of income or otherwise) have been limited and are much less visible than results in sustainable land use and forest protection. This is mainly due to the types of projects selected in Brazil. By contrast, in Nicaragua, the project was mainly about improving farmer income through access to finance, with a minimal contribution to sustainable land use and forests beyond certifications that were already in place prior to AGRI3. So, the requirement of supporting sustainability and livelihoods was not respected in any of the AGRI3 projects reviewed during the evaluation phase.

The AGRI3 portfolio has been built based on a sustainability rather than a rural livelihoods perspective. The AGRI3 IC1/2 memos show that sustainable land use and ecosystem protection have often taken precedence over livelihoods components. In this respect it is telling that for all AGRI3 projects in Brazil the budget component reserved for livelihoods is only a few percent of the total. These priorities can also be seen in the recent 2022 AGRI3 impact report, which talks predominantly about forest conservation and sustainable agriculture, and hardly about livelihoods. Even in the AGRI3 ToC (Figure 2.1), improved rural livelihoods are depicted as a result of outcomes achieved in sustainable land use and forest protection, and not as a project outcome in itself. In Chapter 6 it will be recommended to recognise this reality and review the AGRI3 ToC and programmatic priorities accordingly.

4.2.3 Effectiveness in promoting gender inclusion

***EQ4** - To what extent does AGRI3 promote gender equality?*

None of the projects in Brazil has a strong gender component. CS client 4 comes closest, as the company has a deliberate aim to increase female employment (from 11 percent today). 87 women took part in precision agriculture training and 56 female beekeepers were trained. The other did not have obvious gender components, which is readily admitted in the IC documents.[54] Interviews with farm managers of CS client 1 and workers highlighted that gender was not brought up in discussions on KPIs with the PFI, and that they found it difficult to conceptualise how gender equality could be improved given the farm contexts. For example, one fazenda only employs a few female farm workers and most of them started working on the farm when their husbands got employed as a farm worker and they were allowed to reside in one of the farm's family houses. According to the farm manager, two (single) women have indicated that they would want to stay on the farm, but there is no suitable accommodation for them at the moment. In one of the farms of CS client 3, women workers are housed in the administration office at the moment. While farm managers indicate that they would like to employ more women on the farms, also in management positions, they have not been able to recruit nor do they have the necessary conditions to accommodate many more women in non-family positions.

There was no clear gender focus in Nicaragua either. Although 23 percent of farmer members from CS client 5 were women, it was not a specific goal of AGRI3 to increase this percentage and/or improve their livelihoods.

54 For example, the IC2 document for CS client 3 states: "Limited gender opportunities identified. The company practices inclusive employment practices, but majority of the labour workforce is men, as is common in the region."

Nevertheless, at the time of the field visit (July 2023), the client was in the process of approving a new gender policy (written to meet funders' requirements and certification requirements).[55] Also, the client has provided gender training to cooperatives, among others to prepare women for leadership roles so that the ratio of females in higher level positions would increase. This is unrelated to the AGRI3 project.

4.2.4 Effectiveness in catalysing private finance

EQ5 *- To what extent has AGRI3 catalysed private finance:*

- *Ex-ante induced financial institutions to finance sustainable agriculture with AGRI3 support?*
- *Ex-post mobilisation of finance in the same client without AGRI3, following improved client performance and demonstrating the business case?*

So far, AGRI3 has catalysed USD 73.5 million in private financing using USD 32 million in guarantees. In September 2023 the AGRI3 portfolio included nearly USD 73.5 million in private financing of nine projects, of which USD 32 million covered through AGRI3 guarantees and tenor extensions – a leverage ratio of 2.3.[56] As observed in Chapter 2.2, the number and value of AGRI3 guarantees falls short of both its initial projections (2019) and the annual plans with fund updates. Hence, the fund's effectiveness in catalysing private finance has disappointed. Nevertheless, the review of additionality (EQ11; Chapter 4.3) and discussions with two PFIs showed that at least to some extent the credit enhancements from AGRI3 have resulted in an increased loan amount for sustainability projects with longer maturities and longer grace periods. In the absence of AGRI3 coverage, the PFI would likely have opted for a lower loan amount and a shorter maturity and grace period, in line with its risk appetite, if the transaction would have taken place at all – also considering that the maturity extensions were the decisive element in all transactions in Brazil. In Nicaragua, AGRI3's role was principally to increase the PFI's loan exposure to the cooperative. In China, the PFI would not have engaged in financing without AGRI3.

The PFI has not yet provided similar follow-up finance to any of the (seven) AGRI3 clients in Brazil, with or without AGRI3 participation. Although all seven projects are of recent date, the PFI might have considered further sustainable investments, such as replication projects at other fazendas in the same group. However, this has not happened (yet).

AGRI3 continues to play a role in catalysing commercial finance. In December 2023, the PFI in Brazil had a pipeline of projects that much resembled the previous ones, enabling the PFI to invest in sustainable land use, restoration and forest preservation. Due to tenor and risk, these projects are difficult to finance within the current PFI risk policies and tenor restrictions.

Follow-up projects of a similar nature in Brazil *without* AGRI3 are unlikely. The added value (to the PFI) of AGRI3 projects in Brazil was mainly to eliminate a loan maturity constraint (through the maturity extension), and to a lesser extent to reduce credit risk (with the pari passu guarantee). AGRI3 has not had the effect of new agricultural technologies or business cases being tested.[57] The maturity constraint on the PFI is still in place, as the Risk Appetite Statement does not allow exposure for more than seven years.. Consequently, where the PFI finances sustainable agriculture (which it does), in the absence of AGRI3 the loan tenor is limited to seven years. This is often too short for investments in land rehabilitation, given the long period needed to start generating cash. Another defining

55 Interview with the client's Management

56 There was no double leverage, e.g., of AGRI3 capital, as all guarantees are covered by cash collateral or SBLCs. This is because AGRI3 still lacks track record in the market and an (investment grade) credit rating.

57 Although the work of CS clients 2 and 3 is definitely innovative, much of what AGRI3 clients do is well known and taught at agricultural colleges and universities.

element of AGRI3 is the requirement to end deforestation anywhere in the company, hence on all fazendas including those not affected by the project, even if legally exploitable reserves exist.

4.2.5 Demonstration effect

EQ6 *- To what extent has AGRI3 through its demonstration effect induced partner and non-partner banks to engage in (more) sustainable agriculture finance to other clients, where they hitherto did not?*
The demonstration effect was a core reason for the creation of AGRI3. In the AGRI3 fund application, it was stated that *"the ambition of the Fund is to develop investments in agriculture that demonstrate the financial viability of business models that guarantee forest protection, sustainable production, and improved livelihoods for farmers. These investments will serve as proof of concept to the wider community of banks, other financial institutions and value chain partners, with the aim to ultimately mainstream such sustainable practices across the agricultural and financial value chains"*. The demonstration effect is both intended for financial institutions, so that they stop financing unsustainable agriculture, and for agribusinesses. The latter is the reason that many AGRI3 projects have incorporated fields days for neighbouring farmers.

Financial institutions in Brazil are increasingly focusing their attention on financing sustainable agriculture. Until recently, commercial banks, would evaluate investment projects based on standard financial risk metrics, giving little attention to environmental and social risks and impacts. Over the past fifteen years, Rabobank (worldwide) has repositioned itself as a bank that emphasises sustainable production and social impact as well.[58] Rabobank was certainly not the first bank to do so (e.g., Triodosbank has much older sustainability credentials), but was among the first of the large international banks. In Brazil, where Rabobank focuses exclusively on agribusiness operations, the bank is recognised for its sustainability focus, and this also influences the decision of clients to bank with it. Rabobank clients share this attention to sustainability and may wish to leverage Rabobank's expertise in this domain. As per September 2023, a movement is visible where other (large) banks in Brazil (e.g., BoB, Bradesco, Itaú, Santander) also apply ever increasing sustainability requirements and develop green products (see EQ11). This is also true for the programmes of the national development bank BNDES. Although it is much less the case with (smaller) local banks in Brazil, these are not likely to stay behind for long. Thus, the financial sector in Brazil is clearly progressing toward financing sustainable land use, land recovery, no-deforestation, and the agricultural innovations that make this possible.

Outside Brazil, and in particular in Africa, attention to sustainability is less evident. It also makes a big difference that (large) banks in Africa tend to finance the agro-trading sectors but not production, let alone sustainable production.[59] For these reasons, AGRI3 has found it difficult to develop a portfolio outside of Brazil. For Rabobank specifically, it is much easier to do large deals with impact on sustainable land use and forest protection in Brazil than anywhere else, given the local structure of farming (large estates in Brazil and many smallholders in Africa) and the bank's extensive local presence through branches, which it does not have in Africa.

A demonstration effect of AGRI3 on other banks in Brazil is hard to prove as many other factors are at work. Interviews with three banks in Brazil revealed that they are aware of the work of AGRI3, aspire to develop similar ESG capabilities, and wish to collaborate with AGRI3 too. If this were to come true, it could be interpreted as the result

58 This includes rules on health and safety, labour laws, no-deforestation, etc.
59 In Africa, banks' loan portfolios are very much concentrated on short-term tenures. Investment finance in agriculture is practically unheard of.

of a demonstration effect of AGRI3 projects, most of which are with high-profile companies. However, there are many factors that influence banks, all of which lead them to pay more attention to sustainable finance:

- Pressure from (international) owners (e.g., Santander), which themselves are pressured by recalcitrant shareholders, pressure groups, NGOs, certification schemes and the media. Being linked to non-sustainable production involves a reputation risk for both the bank in Brazil and its international parent, and this pressure is increasing.
- Tightening of environmental laws in-country, in particular related to forest protection. In Brazil, this also depends on the government in place, with the current one (as per September 2023) reemphasizing environmental stewardship. Banks do not want to be seen financing activities that are technically illegal.
- Markets demanding sustainable (e.g., deforestation free) products, export markets in particular.[60] Although markets for unsustainable products (including local markets) are still much larger than sustainable markets in terms of volume, consumers demand increasing quantities of deforestation-free soy and beef, to which producers react. With agribusinesses developing sustainable markets, banks naturally follow with sustainable finance products.

The embracing of sustainable finance by other banks is primarily a response to changes in markets and society. The discussions with banks in Brazil suggested that they are not so much copying the actions of the PFI/AGRI3, but rather ride the wave of ever-increasing expectations on sustainable behaviour of key market actors and the society at large. Stakeholders noted that around five years ago, deforestation-free production was hardly a topic of public discussion (in Brazil), whereas per September 2023 it is. For example, 21 banks in Brazil, including all the major ones, have committed to stop financing meat-packing plants that do not supply deforestation-free meat from 2026 onwards. This still leaves the huge challenge of proving that their supply chains are compliant (traceability), but it nevertheless sends a strong message to the animal husbandry sector that old habits of tirelessly cutting forest to make way for cattle cannot endure. Although the policy is directed at meat-packing plants, not animal producers, the latter will be forced to adopt sustainable land-use practices at the risk of missing out on their core finance. In turn, this will result in banks increasingly receiving demand for land rehabilitation projects and integrated crop livestock systems, etc. (e.g., to allow cattle breeders to expand). While the projects undertaken by the PFI and AGRI3 demonstrate how to do this, and the PFI is recognised to be ahead of the rest in the sustainable finance space, the core explanation for such changes are wider economic and societal tendencies and concerns.

A demonstration effect on the PFI itself is not evident. After having concluded seven AGRI3-supported loans, the PFI in Brazil might have started to undertake such transactions without AGRI3, either as repeat financing offered to the same clients or to new clients. It is true that the PFI has continued to explore options for sustainable finance in agriculture, now also investigating ways to monetise carbon credits for reforestation projects. Also, with AGRI3 support, E&S and impact assessment has been more strongly incorporated in lending decisions. The development of KPIs and ESAPs have offered E&S learnings to both the company and bank, which are added to the loan covenants. The development of the Renova Pasto product (formerly Delegated Authority - DA) is meant to serve farmers who wish to renovate degraded pasturelands and accelerate their compliance with the forest code, a product that the relationship managers of the PFI promote. These are examples of the PFI having integrated the experience gained with AGRI3. However, the core constraint of a maximum loan tenure of seven years has not been taken away. The PFI still needs to call on AGRI3 for major long-term investments in sustainable land use. While one may appreciate the fact that the current PFI/AGRI3 portfolio is of recent date and therefore cannot prove that

60 A case in point is the EU's Deforestation Regulation, which was a wake-up call to agribusinesses and commodity traders worldwide.

sustainable land investment deserves a review of risk policies, other banks are starting to offer long-maturity loans, leaving the PFI behind.

For the PFI in Nicarague, the engagement with AGRI3 is a pilot project. The PFI has a long experience in trade finance and focuses on rural livelihoods, not on sustainability. There is a wish to learn from AGRI3 how to incorporate sustainability in trade finance projects. In truth, the credit provided to CS client 5 is neither intended to finance investments in sustainable land use nor in forest protection. It is just focused on financing export operations, albeit most are covered by a sustainable certification. The client pays attention to sustainable land use and forest protection, also to safeguard its certifications, but the PFI's funds have not been used to enhance this (e.g., to recover lost forest). Interviews revealed that attention for sustainable land use and forest protection is not yet well-embedded in the PFI, nor fully accepted and understood. The KPIs suggested by AGRI3 also resulted in some resistance. The AGRI3 project with the PFI should thus be seen as a first step to shift credit operations towards including a stronger focus on environmental sustainability in the PFI. It is too early to judge to what extent the project has had a demonstration function for the PFI, let alone other impact investors active in export trade finance. However, potentially the demonstration function of this project is very wide. Already two more projects of this PFI, both in the coffee sector in Costa Rica, have appeared in the AGRI3 pipeline. This is a fine opportunity for AGRI3 to promote sustainability in the PFI's operations (and this should be a condition for AGRI3's participation).

AGRI3 work could demonstrate sustainable finance to other impact investors. Shifting the PFI's operations to increased attention to sustainable production, land use and forest protection (i.e., incorporating such elements in lending operations) could have an important demonstration function to other impact investors in export commodity finance, many of which operate internationally. This demonstration could, for example, take the form of publications or presentations at events attended by impact investors.

AGRI3 clients demonstrate sustainable production practices to other farmers. Apart from demonstration effects of AGRI3 and PFIs on other banks and funds, there may also be demonstration effects on other farms. Interviews with stakeholders in Brazil revealed that there is no consensus whether sustainable soy production and cattle breeding are financially advantageous, compared to non-sustainable production. Many producers are unconvinced, even more when certification is demanded, as this adds to the cost. Simply put, there is a confirmed business case for cutting down the woods, selling the trees, and putting on soy or cattle. On the other hand, the business case for leaving the trees standing and intensifying the use of existing land is less clear and requires time and a large financial investment.[61] However, CS client 2 maintains that its regenerative production practices make business sense as productivity is increased during dry periods, while input costs are reduced (see EQ 2 above). This information is shared with other farmers, but not as often as AGRI3 would have hoped. Likewise, CS client 1 is training farmers (suppliers) in the vicinity of the fazenda in sustainable land use and cattle breeding. Not only does this allow for an increased number of cattle per hectare of land, it also helps the farm stay within the boundaries that the law sets for protection of forests and APPs. Furthermore, the introduction of integrated crop and livestock production combined with a feed lot greatly increases the production cycle, as animals do not go hungry in the dry season. CS clients 1, 2 and 3 are also replicating their AGRI3 projects at their other farms. CS client 3 stimulates its farm workers to share experiences and new knowledge on for instance biofertilisers with farm workers on its other farms, and has hired a quality manager who compiles a sustainability report (at the request of AGRI3) and monitors this across all farms. CS

[61] According to research undertaken by The Nature Conservancy (TNC), there is a solid business case for cattle intensification (recovering land for higher productivity). This is less clear for sustainable regenerative soy production, given the large investment required and the fact that soy producers tend to have a one-year vision only.

client 4 also plays an active role in disseminating knowledge on E&S through the Brazilian sugar association, as well as through the education system. Directly and indirectly, AGRI3 supports such demonstration efforts.

Sustainability for CS client 5 is also motivated by financial interests. Interviews and FGDs have revealed that producers are aware and supportive of environmental protection practices, soil conservation and water management issues. Their main rationale is to obtain credit and higher prices for their activities as they qualify for various organic and Fairtrade certifications, which is a fully legitimate motive. In addition, producers see the benefits of soil conservation practices and organic fertilisation through increased crop yields. This can be the core of the AGRI3 message to impact funds. Sustainable behaviour will catch on most easily when a financial advantage is in sight.

4.2.6 Effectiveness of AGRI3 products

EQ7 *- Are the AGRI3 products suitable to reach the intended development purpose and induce financial institutions to embrace sustainable agriculture?*

The AGRI3 products are sufficiently broad and flexible, but competing instruments are emerging on the market in Brazil. Of the five core AGRI3 products, only two were used, namely pari passu guarantees (China and Nicaragua) and maturity subordinations (all projects in Brazil), which are a combination of tenor extensions and pari passu guarantees. None of the PFIs or AGRI3 end-borrowers suggested the need for other products (e.g., first-loss guarantees, subordinated or direct loans).[62] However, the PFI is increasingly anxious about the loan price, which is in line with market conditions in Brazil and similar to that of non-sustainable loans. Given the extensive E&S conditionalities of AGRI3 (which go beyond the normal PFI conditionalities, as AGRI3 is aiming to be 'best in class'), clients expect an interest rate advantage (discount) for such ESG compliance, notably protecting LR surpluses, as do alternative instruments such as green bonds. However, offering concessional loans is not the AGRI3 business model and would hamper its sustainability. Market developments challenge the competitiveness of this finance offer. See also the discussion under additionality, EQ11, which lists alternative funding sources.

The pari passu guarantees applied in China and Nicaragua are normal instruments in such cases. In both cases, the PFI wanted to offload some risk exceeding its risk appetite, not necessarily being short of cash. The standard guarantee (albeit in the form of an unfunded participation) is the common tool used.

The choice of AGRI3 instruments reflects the relatively low risk segment the fund operates in. The current investments in the AGRI3 portfolio are not particularly risky. In fact, most investees look like very solid companies with most Brazilian clients being leaders in their sectors. This follows from the commercial orientation of the PFI. However, as will be discussed in Chapter 4.3, this results in AGRI3 investments with questionable financial and development additionality. While working with leading companies can be effective in terms of scale and potential demonstration effects, the evaluation found scope for AGRI3 to support more innovative and risky projects (e.g., early-stage businesses in biotechnology), which could increase its financial and development additionality, see EQ 11/12 below. This may require deployment of more risky instruments such as first loss guarantees and subordinated guarantees or even direct loans, which are part of the product offering of AGRI3. This would imply the onboarding of different types of PFIs.

[62] AGRI3 could be providing subordinated loans, but the current two PFIs do not need liquidity. They need risk sharing and tenor extension.

4.2.7 Beneficiary needs

***EQ8** - To what extent is AGRI3 responding to beneficiary needs:*

- *Do the national authorities consider AGRI3's objectives as priorities for the country?*
- *Do farmer networks, farms, employees and suppliers consider AGRI3's objectives as priorities for them?*
- *Has AGRI3's service delivery been flexible to the (changing) demands of its clients?*

This EQ asks for a broad assessment of the utility of AGRI3 and touches on relevance (which is not a separate EQ). This is based on a multitude of sources, chiefly KIIs, company visits and FGDs.

AGRI3 objectives match the policy objectives of the government of Brazil. Recovery of degraded pasturelands is an explicit policy objective of the Ministry of Agriculture in Brazil. Right now, the Ministry is looking for investment resources to recover 40 million ha of degraded land over ten years, mostly for conversion into crop land, but also for intensive animal breeding.[63] Overall, nearly 100 m ha of Brazilian pasturelands are partially or severely degraded.[64] The (new) government is also emphasising adherence to the existing (protective) forest code, claiming to have slowed (but not stopped) deforestation already. Government policies are also visible in the various credit lines operated by the development bank BNDES (see EQ11 below), which invariably include requirements on sustainable production and forest protection. All AGRI3 projects in Brazil have elements of forest protection and therefore support national policy. The government also operates many programmes to support smallholder farmers (e.g., preferential credit for sustainable investment), which matches AGRI3 goals but not so much the current projects in Brazil as these are with major family businesses.

The AGRI3 objectives align with the priorities of the Nicaraguan government regarding forest protection and reduction of carbon emissions. The Nicaraguan government acknowledges that the restoration of forest cover is essential for safeguarding agricultural production and mitigating the effects of climate variability on both the economy and human welfare. Through the National Reforestation Plan,[65] the government is not only focused on reducing carbon emissions but also dedicated to raising awareness about the critical need to reverse deforestation, expand forest coverage and enhance the various ecological benefits forests offer.

AGRI3s objectives were well aligned with the priorities of AGR3 companies, especially with regard to sustainable agriculture. CS client 1 considers itself an opinion leader on sustainable technologies and Integrated Crop Livestock Systems (ICLS), and wishes to demonstrate these to other farmers. This is also evidenced by the fact that the AGRI3 objectives and KPIs focus on issues that the client had started to implement already and could be accelerated under AGRI3 (ILC, APP recovery). Financing of these activities by the PFI was essential to the client, while procuring technical assistance through its own network. While the client indicates that it may have wanted to receive the loan in local currency, due to exchange rate risk, it assesses the PFI loan to be well-tailored to its needs overall. For CS client 3, the loan is equally well fitted to its priorities, with some of the activities having started already and then accelerated through AGRI3. The client's management see sustainable agriculture as the way forward, as it will increase the company's visibility and help avoid reputational risks associated with deforestation and unsustainable practices that in the future could diminish farmers' access to credit. "It makes good money too".

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63 Press release 3 Aug 2023 (in Valor económico)

64 According to the Brazilian Agricultural Research Corporation (Embrapa) the country counts 152 m ha of pastures, of which 34 m hectares severely degraded, 63 m ha of intermediate quality and 55 m ha in good productive condition. Therefore, nearly two-thirds require rehabilitation.

65 http://www.marena.gob.ni/Enderedd/wp-content/uploads/2019/09/Version-Avanzada-Marco-Plan-de-Manejo-Forestal-230819.pdf

AGRI3 products are suitable too, otherwise no transaction would have taken place. In the case of Brazil, none of the companies visited expressed dissatisfaction with the AGRI3 aims or products, although some indicated that more attractive (cheaper) options are emerging on the market. In the case of CS client 5, however, the loan product does not fully cover all current needs. The loan that the PFI provided to the client is a revolving (annually renewable) pre-harvest working capital facility (for four harvest cycles/years) to finance advances to coffee producers, purchase inventory (coffee) and to finance pre-export activities.[66] In addition to working capital, producers would require long-term funding to purchase land, plant shade trees or diversify into other products, for example. These types of investments would help to improve the medium and long-term income of farmers and add to their resilience. This was not included in the PFI's offer to the client, hence not part of the AGRI3 investment.

Investees indicated that AGRI3 including TA could support compliance with the new EU Regulation on deforestation-free products. On 29 June 2023, the new EU Regulation aimed at promoting deforestation-free products came into effect. Under this Regulation, any operator or trader who places these commodities[67] on the EU market, or exports from it, must be able to prove that the products are not sourced from recently deforested land or have contributed to forest degradation.[68] Other advanced markets are coming up with such regulations too. It is still unclear what farmers need to do exactly to ensure the traceability of their products. However, these changes have been noted in both Brazil and Nicaragua, and result in uncertainty, even anxiety, among producers. During FGDs in Nicaragua, producers emphasised their inability to offset possible extra compliance expenses with their existing income levels. Such environmental conditions come on top of other requirements, such as respecting human rights and prohibiting child labour. Researchers at Wageningen University & Research predict that additional resources and TA will be necessary for producers in export value chains to comply with the new regulations.[69] AGRI3 clients, could address such requests to AGRI3.

4.2.8 Effectiveness of technical assistance

EQ9 *- To what extent does the Technical Assistance Facility:*
- *Enhance AGRI3's service delivery and make it more effective?*
- *Strengthen the capacities of AGRI3's clients?*

The Technical Assistance Facility (TAF) has been flexibly used for various purposes. As was observed in Chapter 2.3, TAF was mobilised both for transaction-specific pre and post-investment support, and for more general uses, such as market reconnaissance (e.g., setting the priorities in a new country) and for learning and knowledge sharing.

The country focus of the TA activities reflects the investment portfolio and pipeline, as well as ambitions for future portfolio development. As shown in Chapter 2.3, the investment-related TA activities were mostly in Brazil and China. Additionally, the sector studies for Indonesia and India align well with AGRI3's ambition to start investing in these countries, even if not yet successful.[70] Pre-investment support in East-Africa served the same purpose.

To date, tangible outcomes in the form of new deals have only emerged from the sector study conducted in Brazil. As of July 2023, three sector studies were completed, focusing on palm oil (Indonesia), soy and cattle (Brazil), and climate-smart agriculture (India). While the studies conducted in Indonesia and India have been valuable in

66 As per the IC2 from AGRI3, 29 August 2022
67 Soy, beef, palm oil, wood, cocoa, coffee, rubber and some of their derived products
68 https://environment.ec.europa.eu/topics/forests/deforestation/regulation-deforestation-free-products_en
69 https://www.wur.nl/nl/onderzoek-resultaten/onderzoeksinstituten/economic-research/show-wecr/kleine-koffieboeren-hebben-steun-nodig-om-te-voldoen-aan-de-nieuwe-eu-verordening-rond-ontbossing.htm
70 AGRI3 annual report 2022

establishing a shared understanding of gaps where AGRI3 could potentially make a difference, they have not (yet) translated into new deals.[71] In contrast, AGRI3 states that its Delegated Authority structure in Brazil was informed by the sector study in Brazil.[72]

Not all pre-investment TA have resulted in investments. In principle, pre-investment TA is offered to support pipeline building and eventually deal structuring (e.g., develop a sound project strategy). It could, however, also result in the client, PFI or AGRI3 deciding against it. Three out of the seven companies that received pre-investment TA are now AGRI3 clients. Those three would likely also have concluded a transaction without pre-investment TA, indicating that such TA is not decisive but supportive. A case in point is the pre-investment TA for CS client 3, which was actually completed after the transaction had been approved and helped identifying the key elements and performance benchmarks for the ESAP. In contrast, the pre-investment TA project with Client 2 included support to define the ESAP requirements necessary to finalise the deal. The companies that received pre-investment TA but did not proceed to a financing deal mostly lost interest, and this was not due to the TA received.

The effectiveness of post-investment TA projects will be assessed during the monitoring phase. The post-investment TA in the China project has been completed. TA projects for two clients in Brazil are ongoing and have only just started, so results will be assessed as they come true during the monitoring phase. The work done for client 3, even if pre-investment TA, can have an important impact during project implementation. AGRI3 supports the client's investment to scale up its circular/regenerative business model. TA was received from Renature, which performed a diagnostic assessment using an adapted Agro-Ambitec Tool from Embrapa to assess Grupo Locks' current regenerative practices and opportunities, and made recommendations to scale them further. The TA assignment showed the company being on the right path, but needing to address issues of water consumption and soil quality and create a strategy for crop rotation to be considered fully regenerative (and thus being able to apply for certification). These recommendations were shared quite recently and their concrete follow up is not yet known.

The learning and knowledge sharing activities could be expanded. The current projects that are part of learning and knowledge sharing are mostly centered around the findings from the sector studies and are focused on sharing knowledge with other fund managers and investors. This leaves a lot of opportunities to share lessons learned with a wider public, farm communities in particular. AGRI3's TA could, for example, join forces with farmer field visits, which all AGRI3 clients are supposed to facilitate, and share agricultural best practices – this beyond the demonstrations by the AGRI3 clients. According to their loan covenants, current AGRI3 clients are expected to support such knowledge events, although their proprietary technologies must be protected. The TAF could also be used to systematise such lessons learned, following the example of CS client 4 that hands out a best-practices manual to the independent sugar farmers in its supply chain. This would be particularly relevant to the DA approach.

TAF has underutilised its financial resources, mainly due to the prioritisation of certain projects and the limited awareness of AGRI3. As mentioned under Chapter 2.3, TA has not been utilised as widely as initially anticipated. This is due to several reasons, including prioritising projects that addressed the needs of AGRI3 to advance the investment process (translating in short-term assignments), work done by IDH personnel requiring only little spending, and limited capacity of AGRI3 clients to absorb TA.[73] Also, the field work showed that some AGRI3 clients have opted to procure TA through their own networks of consultancies, as in the case of CS client 1 to remedy

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[71] AGRI3 Annual Report 2021, p. 11-21
[72] AGRI3 Annual Report 2021, p.19
[73] Annual progress report 2022, as per June 2023. It is also noted that many AGRI3 projects undertake CSR-oriented community activities (e.g., supporting schools) that are out of scope for TAF as these do not sustainably change business practices of the investee.

the erosion problem of the APPs on one of its fazendas, while others have ample in-house technical and R&D capacity. Additionally, interviews revealed that relationship managers in PFIs are not always inclined to assist in developing TA projects, or even communicating to clients that this possibility exists. The field work found that both CS client 2 and 4 were not aware that this facility exists. Although these were warehoused deals, initiated before AGRI3 was formally established, their managers were also not notified of this option afterwards.

4.2.9 Impact through PFIs

EQ10 *- Does the assumption in AGRI3's Theory of Change that impact can be delivered through commercial financiers hold?*

Commercial financiers may contribute to negative environmental impacts. AGRI3's GEF project proposal emphasised the role commercial financiers play in financing unsustainable agriculture and deforestation, both of which contribute to GHG emissions. The proposal observed that unsustainable production may make good business sense, once negative externalities need not be taken into account. The GEF proposal also noted that the majority of commercial banks do not have any sustainable farming and deforestation policies. However, the GEF proposal also showed that financiers can be part of the solution, creating instruments to support sustainable business models, and AGRI3 was established in that context. As mentioned in earlier paragraphs, in Brazil a strong movement is under way in the banking sector to distance the sector from forest clearing operations and move toward financing long-term sustainable land investments.

The AGRI3 delivery mechanism is creating impacts. The evaluation has revealed important impacts on sustainable land use, notably renovating degraded lands for intensified cattle breeding or conversion into crop lands, as well as agricultural innovations such as regenerative / circular agriculture that reduce costs, the use of organic fertilisers, and energy savings. Several AGRI3 investments involve restoring bio-systems, e.g., APPs and LRs. Other clients protect their forests, including reserves on farms that are not directly part of the AGRI3-supported project. The evaluation did not identify strong livelihoods impacts, but this was also due to the focus on large agri-businesses in Brazil. Results may have been achieved in other countries that would merit further review. As observed, AGRI3 supported sustainable thinking in PFI through the KPIs and ESAPs, and this could also turn out to be the case in the other PFI.

Impact through the PFI in Nicaragua could be increased. The AGRI3 project in Nicaragua was a pilot, and impact is found in increased farmer income mainly. It is true that most farmer members operate under a sustainable or even organic certification, but the loan secured from AGRI3 was not targeted at land or forest impacts, it was just trade capital. In future AGRI3 projects with this PFI, such as the coffee transactions now on the pipeline, it may be attempted to reserve some loan capital for planting shade trees, conversion to organic fertilisers, waste treatment, reducing water consumption, etc. The client has also shown that it can be combined with livelihoods diversification, such as through timber and fruit trees, which may have a nutritional impact as well. These recommendations are the same for any other impact investors that AGRI3 may wish to work with.

4.3 Additionality

AGRI3-supported transactions have been largely financially additional to the market, but financial additionality could be increased by accepting more risk.

Development additionality has been limited thus far. More could be done to enhance AGRI3's development additionality, including through TA.

Following DECD (2014),[74] **a distinction is made between (a) input additionality (often called 'financial additionality') and (b) development additionality.** An investment is financially additional if it supports capital-constrained markets in which private sector partners are unable to obtain commercial financing or if it mobilises investments from the private sector that would not otherwise have been made. Development additionality (sometimes called 'non-financial additionality') is the extent to which public resources contribute to changes in development-relevant results that would not have materialised without them (or to a lesser extent, or at a later point in time). In the context of AGRI3, it is important to explore the counterfactual scenario of AGRI3 not participating.

For AGRI3, additionality is a key eligibility and decision criterion. AGRI3 additionality is defined as follows:[75]
- Financial additionality: projects that go beyond the banks' usual risk appetite (e.g., loan amount, choice of counterparty, loan tenor and grace period). In the absence of AGRI3, a similarly structured loan would not have been made by the PFI, but a smaller / shorter one might have. Also, no other financier would have taken up the challenge to provide a loan on these terms.
- Development additionality: projects that "go beyond business as usual" in the sector/geography. In the absence of AGRI3, a loan might have been made, but not with the same development impact and sustainability.

To be fair to AGRI3, additionality needs to be analysed based on the information available to AGRI3 in the *ex-ante* situation, i.e. when AGRI3 made its decision. Additionality was evaluated through desk research (e.g., the AGRI3 IC1/2 memos) and discussions with PFIs and end-borrowers during the field work.

4.3.1 Financial additionality

EQ11 - Financial additionality: *To what extent would the transaction not have materialised in the absence of AGRI3 (neither the partner bank nor another bank would have financed the deals), or it would have been at less suitable conditions?*

Table 4.4 Financial data on AGRI3 portfolio as per December 2022

Year	Name company	Total finance (mln USD)	AGRI3 Exposure (mln USD)	Loan tenor (yrs)	Grace period (yrs)
2020	*[Redacted]*	5	2	10	2.5
2020	*[Redacted]*	10.6	5.5	3	Annual renewal
2021	CS client 1	6	2.4	10	3
2021	CS client 4	11.4	5.2	10	3

[74] https://www.enterprise-development.org/wp-content/uploads/DCED_Demonstrating-Additionality_final.pdf
[75] AGRI3 Investment Policy, April 2020

2021	*[Redacted]*	13	6.5	10	2
2022	CS client 2	5	2.14	10	3
2022	CS client 3	20	8	10	2
2022	CS Client 5	2	0.8	4	Annual renewal
2022	*[Redacted]*	0.5	0.2	10	3

Source: AGRI3 Portfolio overview, June 2023

The main sources of financial additionality of AGRI3 in Brazil have been the extended loan maturity, the longer grace period, and–to a lesser extent–the loan size. All AGRI3 projects in Brazil took the form of maturity subordinations. This allowed the PFI to offer larger loans than its risk appetite otherwise would have enabled (because of the pari passu guarantees), and of a longer duration than the PFI risk policies allowed in view of established country risk limits (due to the tenor extensions).[76] In most cases, this also involved relatively long periods of no repayment (grace period) of up to three years, allowing borrowers to complete their (land) investments.[77] The pari passu guarantee, which was incorporated in all Brazilian transactions, has also given the PFI some comfort. Loan pricing was in line with market conditions (at the time), so this was neither a source of additionality nor a potential market distortion. This lack of price concession was always intended by AGRI3 and MFA. All companies interviewed in Brazil confirmed that at the time of the AGRI3-supported transaction they could have obtained other bank financing, but with shorter loan tenors and grace periods, and probably for a smaller amount.[78] PFI itself declared that, in the absence of AGRI3, it could not have made ten-year loans and consequently some of the transactions would not have materialised or would have been for a smaller amount and shorter period.

In China and Nicaragua, by contrast, the main source of AGRI3's additionality has been a reduction in lending risk. Both transactions were revolving working capital loans, covered by a pari passu guarantee. According to the PFI , the transaction in China would not have taken place in the absence of AGRI3's guarantee. As described later in this chapter, the transaction in Nicaragua would still have taken place even without AGRI3's guarantee, but the loan facility would have been smaller in size, in line with the PFI's risk limits and appetite.

In the face of market developments, AGRI3's financial additionality in Brazil has been declining. The interviews revealed that some of the AGRI3 clients in Brazil increasingly have alternative sources of long-term finance for sustainability investments. The most important alternative sources of sustainable finance are:

- **Commercial banks.** While at the time of approval of the existing AGRI3 projects in Brazil, (other) commercial banks were not financing ten-year agribusiness projects, this is rapidly changing. Banks such as Santander and BoB claim that they can and do finance long-term investments. However, this was only confirmed by one of AGRI3's clients. Nevertheless, there is increasing interest among Brazilian banks to engage in sustainable finance, such as deforestation-free soy and beef, this under pressure of their (international) shareholders and the market (see EQ6). This will logically result in increased loan maturities.

76 In all Brazilian cases, AGRI3 covered 40-50% of the risk on a pari passu basis and extended the loan maturity from seven to ten years. This implies that from year 8 onwards all residual credit risk is on AGRI3.
77 This refers to the grace period on the PFI loan, the grace period on the AGRI3 part lasting up to seven years.
78 In some cases, e.g. CS Client 2, the investment per hectare exceeded the PFI's standards, hence the need for a pari passu guarantee.

- **Development bank.** The Brazilian development bank BNDES has always been providing loans of a very long duration (over ten years) at attractive rates from its own balance sheet, in addition to the government programmes discussed below.[79] BNDES does not have unlimited resources, however, and its application processes are seen as slow and cumbersome.
- **DFIs.** Some of the top AGRI3 clients have access to loans by international development finance institutions, which are always subject to stringent E&S criteria and conditions, comparable to those of AGRI3. Already in 2017, CS client 4 secured a USD 30 million loan from IFC (which is why the company found the AGRI3 conditions easy to comply with), while CS client 2 is in negotiations with IFC regarding a project in Colombia. CS client 4 is also talking to various other DFIs. FMO is also active in agriculture and forestry in Brazil. However, for most of the other AGRI3 clients such options are probably not available (because they are too small).[80]
- **Green bonds.** It is common practice in Brazil for companies to issue green or sustainability bonds. Many banks, including PFI , have intermediated in the launch and marketing of such capital market instruments. The bonds must satisfy core social and sustainability conditions (e.g. be deforestation free), and typically adhere to the Green Bond Principles.[81] In 2020 and 2021, CS client 4 has sold two green bonds for a total value of BRL 160 m (ca. EUR 32 million), and CS client 2 has sold one as well. Most of the other AGRI3 clients are probably too small for this, but they might take part in combined investment vehicles. Sustainable Investment Management (SIM), for example, is managing the Responsible Commodity Finance (RCF) programme, which entails selling CRAs[82] in the market and subsequently distributing sustainable loans to multiple soy producers that would be too small to launch green bonds on their own.[83] The interest rate on these CRAs is typically about 2 percent below the going bank rate, so it is worthwhile for soy producers to accept sustainability clauses (e.g. no deforestation) in order to secure the loan.[84] A similar CRA for soy is created by UBS bank, and loans extended to soy producers by BoB through its retail network.[85] This comes down to securitising a portfolio of sustainable soy loans. In this way, a category of medium size (soy) producers is reached that the PFI in Brazil would not normally prioritise, but does not exclude either.[86]
- **Private and impact funds.** A number of local and international impact investors operate in Brazil. From the impact funds operating in Brazil, &Green is most similar to AGRI3 in its reach and objectives. &Green has made three loans in Brazil in the meat and soy/maize sectors for the amounts of USD 30 million (two loans) and USD 10 million (one loan). In line with the methodology of IDH, from which it originates, &Green has a commodity and sustainability orientation, with E&S conditions that are among the most stringent in the market. There are also some large international funds, such as GCF, which in theory could finance private businesses, but in practice do not do so given the onerous procedures that must be followed. IDH Farmfit is designed to impact smallholder farmers through high-risk finance. Smallholders are not usually directly financed – most IDH Farmfit clients are SMEs that reach smallholders through trading, processing or service relationships. The fund is aimed at improving farmer incomes, not necessarily sustainable land use, although environmental protection enters

79 A quarter of the BNDES loan portfolio is to agriculture.
80 FMO would not accept any (direct) transactions below USD 10 m. Many DFIs will only engage from USD 30 m upward.
81 ICMA, July 2021
82 CRAs – Certificates of Receivables from Agribusiness, which is a Brazilian type of crop loan, securitised and sold to investors.
83 The loan is annual, but renewable. As long as soy producers renew their loans, they do not cut their forests.
84 SIM encourages farmers to expand production not by cutting forest, but by recovering degenerated pasturelands, of which there is 100 m ha available in Brazil (source: Embrapa). The same is done by various AGRI3 clients.
85 Producers must meet the conditions of the Round Table for Responsible Soy (RTRS), but do not necessarily have to be certified as this presents an additional constraint (cost) to accessing such services.
86 Both SIM and UBS-BB are inviting AGRI3 to invest and take a junior tranche in the green bonds. This model is not yet applied to the cattle sector, due to difficulties with cattle traceability (cows are sold between farms).

the E&S requirements. There are many such funds, but rarely do they occupy the same market niche as AGRI3 and could they be a viable alternative for current AGRI3 clients.

AGRI3 clients in Brazil may also qualify for government programmes aiming to develop sustainable agriculture. The government of Brazil is operating a comprehensive credit subsidisation programme for agricultural development and sustainability, which had its funding recently increased by the new government. Such programmes are always channelled through the national development bank BNDES, but often involve co-financing by commercial banks. In the latter case, these commercial banks do most of the credit appraisal. A list of current BNDES programmes is shown below. In the context of AGRI3, the most important programmes are Programa ABC and RenovAgro.

Table 4.5 Programmes of the Government of Brazil for agricultural finance

BNDES Programme	Goal	Who	Max financing	Tenor	Interest rate
Programa ABC	Investments for climate adaptation and carbon reduction. Land recovery, forest planting, restore APP and LRs	Individuals, legal entities and cooperatives	BRL 5 m for indiv, BRL 150 m for collective enterprises, per crop year, respecting the indiv limit	Up to 12 years, up to 8 years grace period	7-8.5% per annum
RenovAgro	Is the new Programa ABC and has the same objectives. Land recovery, integrated crop-livestock systems, organic farming, protecting natural resources.	Individuals, legal entities and cooperatives	BRL 5 m per client, per crop year	Up to 12 years, up to 8 years grace period	7-8.5% per annum
Plano Safra	General programme for medium-sized and large producers. There are several sub-lines, each with specific criteria. Some are working capital, others investment. Recently included specific sustainability criteria.	Medium-sized and large producers	This is a new programme, details not yet known	This is a new programme, details not yet known	7-12.5% per annum. Rate depends on meeting a range of sustainability criteria
Pronamp	For medium-sized agricultural producers. Indiv or collective investments directly related to production.	Medium-sized producers	BRL 430,000 for indiv, BRL 150 m for collective, respecting the indiv limit	Up to 8 years, up to 3 years grace period	Up to 8% per annum
InovAgro	Financing agricultural innovations, including precision agriculture	Individuals, legal entities and cooperatives	BRL 1.3 m for indiv, BRL 3.9 m for collective, respecting the indiv limit	Up to 10 years, up to 2 years grace period	Up to 10.5% per annum
Proirriga	Financing sustainable irrigated farming	Individuals, legal entities and cooperatives	BRL 1.3 m for indiv, BRL 9.9 m for collective, respecting the indiv limit	Up to 10 years, up to 2 years grace period	Up to 10.5% per annum

Moderagro	Modernise and expand productivity in the agricultural and livestock sectors, soil recovery and animal protection	Individuals, legal entities and cooperatives	BRL 880,000 for indiv, BRL 2.64 m for collective, respecting the indiv limit	Up to 10 years, up to 2 years grace period	Up to 10.5% per annum
Moderfrota	Acquisition of tractors, harvesters, cutting platforms, sprayers, planters, seeders and coffee processing equipment.	Individuals, legal entities and cooperatives	No max	Up to 7 years, up to 14 months grace period	Up to 12.5% per annum

Source: BNDES, Brazilian Development Bank

Government credit lines in Brazil, however, have little practical usefulness for AGRI3 clients for the following reasons:

- The loan amounts are always restricted to a maximum, as can be seen from the table above, which is far less than the amounts obtained through PFI / AGRI3. These programmes were designed for small and medium-sized agribusinesses.
- The budgets available for such programmes are often rapidly used up, hence the programme closes quickly.
- The application procedures are often laborious, requiring detailed business plans and meeting numerous conditionalities. For example, the Programa ABC involves submitting a detailed investment plan, and even the smallest deviations are not allowed or need prior authorisation. All AGRI3 clients interviewed stated that applying for such programmes is just not worth the trouble.

In Brazil, AGRI3-supported PFI loans were in a size niche that adds to financial additionality. On the one hand, these AGRI3-supported PFI deals were in amounts that mostly exceed the limits of the above-mentioned government programmes for sustainable finance. On the other hand, these loans were too small for the volumes targeted by DFIs and &Green. Moreover, most AGRI3 clients are not large enough to issue a green bond, while they are too large to take part in the programmes of SIM and UBS/BB, for example.[87]

In Brazil, the PFI/AGRI3 product is increasingly seen as expensive. As observed in Chapter 4.2.6, PFI staff interviewed in Brazil expressed concern, even anxiety, that the PFI / AGRI3 product is no longer competitive in the market. The AGRI3 offer comes with E&S requirements, in particular the condition to not allow any deforestation anywhere in the company, thus including farms that are not involved in the project.[88] Such conditions are also imposed by DFIs. Commercial banks including the PFI impose no-deforestation restrictions too, but they are limited to the project for which financing is obtained. Furthermore, the AGRI3 no-deforestation clause is valid for the full ten years of the loan and does not allow for compensation on farms that have exploitable lands above the legal reserve.[89] As noted above, the CRAs issued by, for example, SIM and UBS/BB, offer a price discount to compensate for the farmers' pledge not to deforest. Although their timeline is much shorter than the PFI / AGRI3 loans, and can be as short as one year, some clients expect a similar concession from PFI / AGRI3. This is not offered, though, neither by AGRI3 nor by PFI. According to PFI loan pricing is impeding the roll-out of the DA cattle product intended for smaller

87 Through the DA approach, under development for soy, PFI/AGRI3 would reach a segment also served by the above-mentioned BNDES programmes and by RCF and UBS/BB through CRAs.

88 In this way, AGRI3 extends its no-forestation impact to areas not involved in the project.

89 Most AGRI3 clients have multiple farms and may have a lack of legal reserve on one fazenda and a surplus on another that they may legally open up. While AGRI3 clients must rectify the LR shortages (and may use PFI/AGRI3 finance to do so), they cannot exploit the surpluses.

clients. It is this segment that is most concerned about the prohibition to cut their exploitable (surplus) forest reserves without being offered what they deem to be reasonable financial compensation.

PFI and AGRI3 may need to review elements of the product offering to remain additional in the market. Stakeholders agree that the potential demand for sustainable agricultural finance is huge in Brazil, given that thousands of farmers need to transition toward sustainable practices, forced by the law and the market as well as the fact that two-thirds of the current cattle pastures suffer from medium to severe degradation.[90] Banks in Brazil are just beginning to explore this market. Thus, even in the face of increased local competition there must be opportunities for PFI / AGRI3 in the rapidly expanding market for sustainable finance. The development of the DA product in Brazil (now called Renova Pasto) is an attempt to explore, with PFI, new markets and reach smaller agribusinesses in the cattle sector, although it hasn't reached its expected potential yet (although the pipeline is filling up). While PFI must price these loans sharply, the offer of TA can also be enhanced. Indeed, the TAF has been much underused throughout the AGRI3 programme. The evaluators are pleased to see an increase in its use at the end of the first cycle.

Increased competition in the agro-finance market offers AGRI3 new opportunities in Brazil. While PFI is faced with competition from some of the green finance providers mentioned above, this actually offers new opportunities to AGRI3. Indeed, discussions with SIM and UBS/BoB, both issuing CRAs, revealed an interest in sharing (junior) risk with AGRI3. Likewise, at the time of the field visit Santander was in discussion with AGRI3 on collaboration (e.g. for start-ups in biological production). Interviews with other financial sector stakeholders suggested that DFIs and the larger international banking groups probably do not need risk sharing as they can absorb the risk or have in-house instruments that can be used. There are over fifty banks operating in Brazil, though, along with various financial intermediaries reaching out to (sustainable) agriculture. The fact that AGRI3 so far has found it hard to develop a portfolio outside of PFI does not imply that market demand for the service is limited, but more likely that AGRI3 has yet to discover the best strategy to diversify from PFI and develop new markets. Although MFA is asking AGRI3 to look at other markets than just Brazil, this country continues to offer scope for AGRI3 to reach its impact goals and fund sustainability.

In Nicaragua, agricultural borrowers generally have alternative financing options. Based on desk research and interviews with local stakeholders in Nicaragua, the most important financing options for cooperatives are:

- **Commercial banks** such as Banco Lafise and Banco de la Producción. Generally speaking, these banks do not provide TA and do not set additional environmental conditions to the loan. With interest rates between 16 and 24 percent,[91] these are usually the most expensive loans for coffee cooperatives (as is the case for CS client 5).
- **Impact investors.** Impact investors focus on rural development and supporting smallholder farmers, while maintaining ESG standards. Impact investors that are active in this sector in Nicaragua include Root Capital, Alterfin, Fair Capital and Oikocredit, among others. Usually, these impact investors do have TA options. Oikocredit, for example, offers TA for supporting sustainable agriculture for smallholder farmers, promoting ethical, responsible access to finance in a digitising world, embedding and strengthening social performance management practices and improving household access to clean energy.[92] During their due diligence processes, impact investors typically set specific E&S criteria that all clients are required to adhere to. As an

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[90] Source: Embrapa

[91] Interviews with representatives of Banco Lafise and Bank de la Produccion.

[92] https://www.oikocredit.coop/en/products-services/capacity-building

illustration, Fair Capital only provides small short-term loans to clients with a Fairtrade certification.[93] An analysis of four similar cooperative unions showed that all of them received credit from the PFI.

- **(Agricultural) development banks** like Banco de Fomento a la Producción (BFP) Nicaragua. BFP is the only institution that the Nicaraguan government has authorised to intermediate, manage and finance production with the resources it obtains from the treasury, financial organisations or international cooperation for productive financing, authorised to independently manage any financing with public or private institutions, whether national or international. The bank grants financing to micro, small or medium-sized producers or entrepreneurs, individually or collectively, and as a priority to those who generate material consumer goods for the population or for export, with particular emphasis on food security, the production of other goods and services to support production and, as a priority, agro-industrial development based on national food production. BFP Nicaragua has a team of agricultural technicians who support its clients with TA to help with the implementation of better production practices to improve income and welfare. As per December 2022, BFP had a total portfolio of USD 80 million[94] and charged interest rates of up to 14 percent for agricultural loans.[95]

AGRI3 allowed the PFI to expand its lending to its client. CS client 5 has been a client since 2012 and the PFI would have continued to provide it with loans in the absence of AGRI3.[96] However, according to the PFI, AGRI3's guarantee allowed an increase of the amount loaned to the client by USD 0.5 million, i.e. from USD 1.5 million to USD 2 million. The PFI noted that it has access to guarantees for capital investment loans (e.g. from USAID and AFD), but not to a guarantee for a (revolving) working capital facility.

However, given the alternatives on offer, the financial additionality for CS client 5 is limited. This is because the client already receives funding from multiple impact investors, including Root Capital, Alterfin, Rabobank Rural Fund, and Fair Capital.[97] Moreover, Lafise (a local commercial bank) could place up to USD 5 million in the client on the basis of pledge bonds, and lends up to USD 6 million with mortgage collateral. Given these alternative financing options it is almost certain that in a counterfactual scenario without AGRI3, the client could have borrowed the USD 0.5 million that AGRI3 catalysed (which is a small amount compared to the outstanding loans) from another financier, albeit possibly more expensively.

While the PFI may be additional for CS client 5 in terms of loan tenor, this source of financial additionality did not originate from AGRI3. According to interviewees in Nicaragua, financiers generally provide finance to coffee cooperatives for only one (harvest) cycle. The client has therefore no certainty that this financing will be repeated for the next harvest cycle. In contrast, The PFI approved an annually renewable four-year loan. Although the client needs to comply with loan covenants on an annual basis, e.g. show export contracts, this gives far greater certainty to the borrower. However, the PFI already provided such a four-year loan prior to AGRI3's engagement. Therefore, this 'tenor extension' cannot be claimed as an AGRI3 source of additionality.

AGRI3's guarantee, however, allowed CS client 5 to borrow on the basis of promissory notes. Besides allowing the PFI to provide its client with a somewhat larger loan than usual (as discussed above), the AGRI3 guarantee made it possible for the PFI to provide up to USD 1 million in lending with a promissory note as security (instead of requiring coffee contracts). This implies that for half of the loan amount agreed, the client can already tap the PFI loan based on initial purchase intentions instead of a full and final contract that clients are reluctant to sign in the

93 https://www.faircapital.ch/services.php
94 Interview with a representative of Banco de Fomento a la Produccion
95 https://www.bfp.com.ni/wp-content/uploads/2022/12/tasas-de-interes-comisiones-y-gastos-para-prestamos.pdf
96 As per the IC2 from AGRI3
97 As per the IC2 from AGRI3

absence of crop. This was the first time that the PFI offered this product to its client, setting it apart from other financiers who insist on coffee contracts. This type of collateral could therefore be seen as a source of AGRI3's financial additionality.

There are no indications that AGRI3 distorted the market for agricultural loans in Nicaragua. CS client 5 acknowledged that the PFI's loan offered the most favourable terms compared to all of its other current loans.[98] If this was a result of AGRI3's guarantee, this could have raised concerns about market distortion. However, the PFI confirmed that they would have charged the same interest rate in the absence of AGRI3. Therefore, there are no indications that AGRI3 has had an effect on loan pricing.

The recent increases in country risk could add to AGRI3's additionality in Nicaragua. Country risks for investors in Nicaragua have increased because of the ongoing political and economic crisis, weak rule of law, ongoing political instability, reputational risks and unpredictable enforcement of government regulations.[99] This increase in country risk is likely to reduce both the quantity and quality of available financing for end-borrowers in Nicaragua. Going forward, this would increase AGRI3's financial additionality for agricultural cooperatives such as CS client 5, it if allows the PFI (or other potential PFIs in Nicaragua) to continue to engage.

4.3.2 Development additionality

***EQ12 - Development additionality**: To what extent would, in the absence of AGRI3, the observed development results, chiefly sustainable land use practices, forest protection and reforestation, sustainable and climate-smart agriculture, rural livelihoods, (not) have been achieved?*

Table 4.6 Development impacts of the AGRI3 portfolio as per December 2022

Year	Name company	Farmer incomes	Forest	Land	Sustainable agriculture	Training	Other social impacts
2020	*[Redacted]*		Restore APP and protect excess LR	Renovate pastureland	Increase cattle rearing capacity	Field days	Workers' housing, school
2020	*[Redacted]*	Through seasonal credit			Sustainable production, biological pest control	Farmers, incl women	
2021	CS client 1		Restore and protect APP	Restore pastureland	Feed lot waste management, increase cattle capacity	Workers and suppliers	Workers' housing
2021	CS client 4		Restore LR and APP		Precision agriculture, organic fertilisers	Workers	Rural roads, training local beekeepers

98 The annual (variable) interest rate for this loan was around 10 percent for the past cycle whereas e.g. at Lafise the rate for pledge bonds is around 24 percent and with other collateral between 16 and 18 percent.

99 https://ni.usembassy.gov/business/

2021	*[Redacted]*		Protect APP and excess LR	Convert degraded pastureland for crop production			
2022	CS client 2		Protect excess LR	Sub-soiling land	Regenerative agriculture, increase yields, reduce cost	Workers, field days	
2022	CS client 3		Protect LR		Regenerative agriculture, organic inputs, solar energy	Field days	
2022	CS client 5	Through seasonal credit					
2022	*[Redacted]*		Protect APP and excess LR	Renovate pastureland	Increase cattle rearing capacity	Workers, field days	Workers' housing

Source: AGRI3 portfolio overview, June 2023

Development additionality is at the basis of AGRI3. When UNEP and Rabobank joined forces to create AGRI3, it was to give follow-up to the wish to enhance the development impact of lending activities that normal banking procedures did not sufficiently allow for. In Brazil, for example, many agribusinesses wish to invest to recover degraded land, but the loan tenors and grace periods needed, as well as the time until cash is generated, was too long for banks to be acceptable, and the investment per ha too large. Agribusinesses are also compelled to protect, rehabilitate or even entirely replant forests in order to fulfil their obligations under the APP and LR requirements, but since this is a non-cash generating activity, no banks in Brazil, including Rabobank, were willing to engage. Thus, in the eyes of UNEP and Rabobank there was a demand in the market that financial institutions, Rabobank included, left unfulfilled. AGRI3 was meant to help banks to cover this gap and shift their risk appetite, while gaining more experience with this type of sustainability projects. AGRI3 is geared at increasing the banks' social and development impact, while remaining within the boundaries of sound banking. With AGRI3 support, banks can use their lending activities to help agribusinesses to transition toward sustainable production models.

In the absence of AGRI3, the achievement of development results would have taken more time. The interviews with AGRI3 clients in Brazil indicated that in the absence of the PFI/AGRI3 finance the sustainability projects would still have been implemented, but to a lesser degree, at a slower pace and perhaps with less sustainability (e.g. no surplus LR protected, no ESAP implemented). CS client 2 would still have developed 10,000 ha of land for regenerative agriculture, but having to rely on its own funds or shorter maturity loans would have meant it would have taken more time to do so. Consequently, catalysing effects on its other farms would also have taken more time. CS client 1 would have opted to restore less land at this time and given less priority to recovering APPs and LRs – the company has multiple priorities to serve with its existing limited funding. However, CS client 1 had already started APP fencing and would not have stopped that work since it realised its added value to farm management practices. Regarding the recovery of degraded pastureland, CS client 1 indicates that this was really initiated by AGRI3. "We knew the necessity, but we would not have done it without AGRI3 or not at this speed". As for CS client 4, sustainability strategies would have been the same, but timeliness would have been longer. Also for CS client 3 it can be said that development work was ongoing and could be expedited with AGRI3 support. This is particularly true for the large investment in solar energy (completed), the 80 percent reduction in herbicide use by applying Weed-It technology, and substituting chemical fertiliser by compost from the feedlot through the application of biofertilisers, all of which had already been initiated before the AGRI3 investment. As indicated in previous chapters, the impact on rural livelihoods is low for all investments in Brazil.

The project in Nicaragua scores low on development additionality. As mentioned under effectiveness, the goal of the Nicaragua project is to maintain impact but not yet expand it (and allow AGRI3 to test out this partner). KPIs are to maintain current levels of performance. No additional requirements regarding sustainable land use practices, forest protection and reforestation, sustainable and climate-smart agriculture or even rural livelihoods were set. Nevertheless, most (>80 percent) of the cooperative members are certified to some or all of the Organic, Fairtrade and RA/UTZ and BirdFriendly seals.[100] These certifications set high environmental and social standards, so the AGRI3 funding does help to maintain these standards but does not add to them. It is noteworthy that impact investors, including the PFI in question, insist on strict E&S standards, whereas local banks do so to a much lesser extent.[101] In the absence of impact investors, attention to E&S might slip.

At the financial sector level, there is scope for stronger development additionality of AGRI3. As noted above (EQ6 – demonstration effects), commercial banks in Brazil are increasingly eying sustainable finance opportunities, this in the face of political and market demands. As this intrinsically involves expanding loan maturities and accepting risk, AGRI3's financial and development additionality go hand in hand. Several years ago, Santander, Itaú and Bradesco announced a collaboration to support sustainable production in various sectors, resulting from an increased social awareness and the wish to contribute to sustainability and development impact.[102] Reportedly, some deals were done in soy and biological production, but not up to the levels expected. All of these banks have established sustainable lending departments, but stakeholders believe none have reached the level of experience of PFI and actual operations have remained very limited. Stakeholders agree that there is a large gap between the offering of sustainable finance and the need for it. Banks in Brazil, including the largest one, BoB, entering the sustainable finance market is much welcome as it gives borrowers more options to choose from. It also offers opportunities for AGRI3, helping hesitant banks to make the leap and transition toward financing sustainable land use and forest protection. Indeed, discussions with banks in Brazil have revealed that staff developing sustainable finance deals often face strong internal resistance at both their HQ and in local offices. AGRI3 may help the finance market to experiment with new lending models and gradually transition toward sustainable agriculture. This requires AGRI3 to look beyond PFI .

4.4 Efficiency

The operational efficiency of AGRI3 is acceptable, but could be improved. A particular concern are the high operational costs compared to the fund's capital.

100 As per the IC2 from AGRI3

101 Nevertheless, Bank Lafise mentioned prohibitions on financing activities that harm the environment, water and forest resources, which is taken into account at the loan appraisal stage. However, there is no E&S monitoring. Banco de la Producion, which is not financing CS client 5 is strongly promoting sustainable and regenerative agricultural practices and has many conditionalities that would be AGRI3-compliant.

102 Under the Plan Amazônia the banks developed a series of activities, including financing deforestation-free meat, sustainable soy, sustainable logistics, and bio-economy. The latter involves an incubation programme and financing start-ups, for which AGRI3 collaboration is sought.

Reporting and monitoring systems are appropriate, but there are opportunities for refining KPI measurement and ensuring that observed results are used for learning and steering decisions.

EQ13 *– How efficient are the AGRI3 operations in terms of 'value for money' and timeliness?* [103]
EQ14 *– To what extent are the reporting and monitoring systems appropriate to steer decisions? Moreover, are methodologies for assessing and calculating the quantitative outcomes adequate and sufficient?*

4.4.1 Operational efficiency

The overall setup of AGRI3, working through PFIs, is efficient. AGRI3 sets itself apart from likeminded financiers, such as DFIs and &Green, in that it works through local financial institutions. Therefore, it doesn't need 'boots on the ground'. In contrast to others, AGRI3 itself does not need to go out and look for (end) borrowers and do all credit analysis and deal structuring itself. AGRI3 harvests the work of PFIs, supplemented by its own due diligence, pre-investment E&S TA and ESAP development.[104] This is efficient in terms of timelines and cost, as long as the objectives of AGRI3 and PFIs are aligned. The local presence of IDH offices has helped too in this respect, as local knowledge is available to AGRI3. &Green, which started in Brazil two years before AGRI3, did three deals (albeit large ones), while AGRI3 did seven in Brazil in half the time. AGRI3 can also leverage its funding, which direct lenders can't do.[105] The PFI/AGRI3 combination is also perceived as quite quick by the market, much faster than DFIs and &Green for example, as well as more flexible with regard to the loan amounts, able to do both large and small deals.

The division of tasks in AGRI3 is clear. The overall governance of AGRI3 (e.g. St AGRI3, Fund Manager, Investment Advisor, Investment Committee, Steering Committee, E&S Panel, TA Advisor) is heavy, but not unusual for this type of fund that aspires to grow tenfold from its current volume. Apart from the Investment Team doing the daily work, oversight roles are played by the Fund Managers, and to a lesser extent UNEP, FMO, GEF/CI, Rabobank and IDH. Interviews showed that all are well engaged and aware of AGRI3's operations. UNEP sits on the Steering Committee, is part of the E&S panel, has a role in the additionality assessment at the IC1 stage and facilitates knowledge exchange. The UNEP team in climate finance has built an environment and social monitoring framework, including impact tracking and KPIs. UNEP takes part in the governance of SIM and &Green as well, and therefore is well informed of the wider context in Brazil. FMO, which was initially closely involved in setting up AGRI3, currently sits on the Steering Committee, but so far has not opted to invest in the fund, nor sought an AGRI3 guarantee for any of its projects (no need). IDH also sits on the Steering Committee and is part of the E&S panel. There are also regular knowledge exchanges with IDH funds (IDH Farmfit and &Green). The fund managers sitting on the IC were very well informed and may spend one or two days per week on AGRI3. There is an internal division of roles, with FOUNT supporting investments and Cardano Development looking at operations and fundraising.[106]

103 This chapter focuses on assessing operational efficiency and to some extent output efficiency (the relationship between inputs and outputs). Given the early stage of the results, outcome efficiency (the relationship between inputs and outcomes, referred to as 'value for money') cannot be determined at this time.
104 PFI shares most analyses with AGRI3, but not its risk rating model. AGRI3 has its own risk rating model.
105 In the core AGRI3 financial projections, USD 150 m in capital would enable USD 300 m in guarantees (hence leaving half unfunded), and in turn would leverage up to USD 1 bn in private finance.
106 FOUNT is responsible for deal analysis, execution and monitoring, financial analysis, deal structuring, guarantee pricing, E&S assessment and monitoring. Cardano Development is responsible for the Fund's risk/pricing policy, capital adequacy policy and application of principles in specific transactions as well as middle and back-office functions, and financial and non-financial reporting.

The strong focus on Rabobank initially helped AGRI3 to get a foothold in the market, but may now be holding it back. AGRI3 has been much dependent on Rabobank to get started, and continues to rely on Rabobank for a large part of its pipeline. While this may initially have been a blessing in that Rabobank was very helpful in getting AGRI3 up and running, and Rabobank certainly feels ownership for the initiative, the interviews revealed that other financial institutions (in Brazil) tend to see AGRI3 as a Rabo fund, which likely made them somewhat suspicious and reluctant to engage. It was also evident from discussions with relationship managers that not all personnel would be happy to see AGRI3 work with competitors. For MFA, the fact that the current AGRI3 portfolio mostly consists of Rabobank transactions poses a reputation risk. MFA has pushed for the fund's open architecture and made transactions with other PFIs a requirement as part of milestones linked to payments.

Stakeholders considered decision processes and documentary requirements in AGRI3 as transparent. The process of acquiring and approving deals is described in various documents, such as the AGRI3 Investment Policy and Operational Manual. Transactions are identified by AGRI3 staff in collaboration with PFIs. The decision process in AGRI3 requires that the project passes through the Investment Committee twice. In between, a local consultant undertakes a due diligence and possibly pre-investment TA, which helps to define ambitious but achievable KPIs, and may also result in an Environmental and Social Action Plan (ESAP) to remedy any E&S risks uncovered.

The timeliness of processes has improved since the fund's early years and is now seen as acceptable. Initially, it took a lot of time to put together an PFI/AGRI3 project, due to extensive E&S and documentary requirements by AGRI3, at the time led by Mirova. These processes have since been streamlined. Compared to regular procedures, PFI representatives and several PFI clients now estimate that AGRI3 may add some 2-3 months to the decision process, which all of them found acceptable. The PFI in Nicaragua noted that AGRI3 hardly added any time at all, as processes ran in parallel and most delays were on the PFI's side. None of the companies interviewed deemed the AGRI3 requirements and paperwork particularly cumbersome or time consuming. In fact, CS client 1 was greatly appreciative of the due diligence consultant as he had offered valuable advice on one of the farms' erosion problem.

Compared to similar funds, AGRI3 scores well on its operational efficiency and timeliness, particularly its capacity to provide funding rapidly. Stakeholders appreciated AGRI3 for its time-efficient decision-making processes, which they said stood out when compared to the often more time-consuming procedures associated with other funds. This swiftness in decision making can also be attributed to the smaller scale of AGRI3's transactions.

There are two other aspects in the nature of the fund that positively affect timeliness. First, it helps that many AGRI3 clients are used to deal with impact-like investors, and in some cases they had the paperwork already available from other projects. Second, it also helps that AGRI3 is usually engaged at an early stage (so not PFI first and only then AGRI3). The first aspect mentioned does not apply to the smaller clients, but for those cases AGRI3 has developed the standardised DA product (cattle and, in the near future, soy).

The development of an ESAP has led to some initial misunderstanding within PFI , but it is now better understood that the ESAP is meant to be an improvement path rather than a constraint on the clients. For example, the TA undertaken for CS client 3 scored the current regenerative agricultural practices on a best practices benchmark developed by Embrapa, and shortcomings observed were included in the ESAP with remedial actions. Concretely the ESAP included a plan to monitor soil health, as this was one of the TA's major recommendations. This is undoubtedly useful to the company as it may reduce costs, whereas leadership in regenerative practices is part of its marketing message. CS client 1 was tasked with identifying LR deficits on all of its farms, including those that were not part of the project, and develop a plan to remedy this situation. The company had to do this anyway, but was now given a timeline with task setting.

However, PFI staff still frown at the AGRI3 administrative processes, particularly at the project development stage. In spite of good collaboration between AGRI3 and PFI, interviews revealed that relationship managers (RM) within PFI may be discouraged by what they see as heavy requirements (paperwork) by AGRI3 at the application stage. This includes questions on land use, deforestation, E&S, livelihoods, gender, and much more. Some RM deem this demanding for both their clients, in particular the smaller ones, and themselves, given that PFI RMs have performance targets to fulfil, hence need to use their time efficiently. Indeed, developing an AGRI3 project involves dozens of documents, and the use of the English language is a constraint to some RM, in particular those dealing with smaller clients who are not used to this. This implies that AGRI3 needs to balance its minimum information requirement with local absorptive capacities. It is also in this light that the DA approach (standardised and simplified PFI / AGRI3 loans in cattle and soy) is being developed. Furthermore, after loan approval of the AGRI3 project the client needs to collect data that go beyond what PFI would normally ask (e.g. the agreed KPIs). Although AGRI3 uses consultants to collect some of those data, it involves additional tasks for bank staff too. However, the field visits revealed that RM and clients accepted the KPIs and were even appreciative of them.

The AGRI3 operating expenses are high in relation to the fund's present volume. As noted earlier in this report, the current AGRI3 portfolio is far smaller than the volume that the initial fund projections expected it to have reached by now (namely USD 32 million in 2022, against a projection of USD 199 million). Also, each annual plan is consistently followed by large underperformance with regard to achieving its targets. Yet, the governance and management structure are as if the fund has reached maturity. Due to outsize management and governance costs, the 2022 net loss was nearly USD 2.5 million – no trivial amount for such a small fund. Cumulatively, the fund had already lost over USD 6 million by 2022. According to AGRI3's own projections, the AGRI3 portfolio would need to reach USD 194 million to break even. As the evaluators do not see this as a realistic prospect in the near future, losses are bound to continue for years to come, further eroding the capital made available by MFA and others. AGRI3 needs to reconsider its management and oversight structure, in particular the large number of people involved in various oversight and advisory roles, which is a significant expense. AGRI3 may also reconsider the role (and cost) of UNEP. Should AGRI3 ever reach the aspired volume, governance roles may be adjusted in line with the fund's true payment capacity.

4.4.2 Appropriateness of Monitoring and Reporting Framework

AGRI3 relies on the PFIs for much of its data collection, including impact and E&S indicators, although AGRI3 also has direct contacts with clients. Furthermore, AGRI3 introduces end-borrowers to an Environmental and Social Action Plan (ESAP) if needed, which these end-borrowers commit to and must report on.[107] The TA facility has helped AGRI3 to develop an impact monitoring methodology and supports (some) clients to do benchmark assessments and determine ESAP requirements.

AGRI3 provides quarterly and annual progress reports to its funding partners (MFA, Rabobank and GEF). The monitoring and reporting process was presented in Chapter 2.4. Apart from the 12 KPIs listed in Chapter 2.4, AGRI3 also reports on a number of output indicators, such as the number of clients, financing and guarantee amounts, beneficiaries by gender, results of TAF, etc.[108] For GEF, AGRI3 also needs to complete several reporting templates.[109]

107 In Brazil, only CS clients 2 and 4 do not have an ESAP as these were warehoused deals pre-dating AGRI3.
108 AGRI3 project results monitoring plan.
109 GEF proposal appendix IV.

The KPI definitions are adequate. Most of the KPIs are measured through commonly applied metrics, such as ha of land under sustainable management (KPI 1, 2, 3, 5, 6) and yields for agricultural productivity (KPI 7).[110] These metrics are also applied by the Ministry in its FNS Result Based Management (RBM). GHG emissions are modelled using the FAO Ex-Act v9.3.1 Carbon Tool, for want of anything better (KPI 4 and 8). As AGRI3 has done little work in rural livelihoods, its approach to KPI setting cannot be confirmed.

Monitoring is much dependent on client self-reporting. AGRI3 clients provide both financial and impact performance metrics. Financial reporting is similar to standard bank supervision, including the financial metrics and (audited) financial reports that the PFI would normally ask for – depending on the loan type and use. The impact monitoring process through KPIs was described in Chapter 2.4. To a large extent, impact metrics come from self-reporting by the client, which is visually verified by relationship managers and technical staff who make regular visits, and less frequently by AGRI3 staff as well. Clients are also asked to send photographs of progress made. While this method of monitoring helps to confirm that work is being done, it cannot decisively confirm the numbers. For example, CS client 4 reported that up to March 2023 a grant total of 8,464 km of rural roads had been rehabilitated and that seven bridges had been restored. The evaluation team could see that the roads were in good order, but there is no way of verifying the numbers other than hiring a consultant to do so. The same is true for the claimed 17,437 hours (cumulative) of training in precision agriculture, in which 87 women participated.

Monitoring is supported by external data sources. As noted above, AGRI3 always has the option of hiring a consultant to verify certain impacts claimed by clients, but this may be costly and disproportionate. Regarding forest protection and land rehabilitation, which are core to all projects in Brazil, AGRI3 uses the services of 52Impact. This external consultant analyses the remote sensing maps produced by MapBiomas, compared to baseline, also looking for deforestation alerts. This is done for all AGRI3 projects in Brazil. The AGRI3 2022 impact report shows that land improvement is indeed visible, but it is quite difficult to interpret such data conclusively. Longer timelines would be needed to reach firm conclusions. For example, CS client 1 uses fencing and isolation as a key method of APP restoration. It will take time for such lands to (naturally) recover and show up on remotely sensed maps. As noted earlier, GHG emissions are modelled using the FAO Ex-Act v9.3.1 Carbon Tool.

Visits to AGRI3 clients suggest that they take KPI monitoring seriously. CS client 4 has transformed the AGRI3 KPIs into monthly targets, sending monthly progress reports with KPI tables and graphs to the PFI. These 20-page reports include some KPIs and actions that complement the AGRI3 KPI list or are derivatives thereof.[111] Reportedly, the relationship manager reads these reports attentively and deems the information relevant for overall loan monitoring. Likewise, CS client 1 was said to report on the agreed KPIs, albeit not at the same level of numerical detail. Both CS client 1 and 4 are completely at ease with the KPIs, which also play a role in the companies' internal progress monitoring. In the case of CS client 4, elements of the KPIs also find their way into the company's bi-annual sustainability report. CS client 3 employed a quality manager who, with the help of a team, is tasked with monitoring the AGRI3 KPIs, compiling all data and publishing a comprehensive sustainability report about all the farms involved. For CS client 5, AGRI3 follows the PFI's monitoring and reporting tools. As this is a pilot project, AGRI3 does not require additional reporting.

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110 However, as observed in Chapter 4.1.1, AGRI3 has not operationalised the indicator 'ha land under sustainable management'. Normal practice would be to compare current land use to a best-practice benchmark and then determine if it is (sufficiently) sustainable, or not.

111 Diesel consumption on the farm, for instance, which is a derivative of road maintenance. Or wildlife sightings in the Bicho Vivo programme, for example, which is a derivative of nature restoration.

The (impact) monitoring is likely efficient. The evaluative conclusion is that (KPI) monitoring is adequate and efficient. The strength of the KPI method is that indicators are standardised, hence comparable, and that there are not so many and they are not complicated, although some clients and PFIs may see that differently. Setting KPIs helps focus the minds of clients, PFIs and AGRI3, reminding them what the purpose of the project is. It is true that for some KPIs, clients could provide false information that AGRI3 could impossibly confirm or refute, but by combining the efforts of visiting technical experts (from the PFI) and remote sensing data, AGRI3 has the means to verify and triangulate data. If need be, AGRI3, perhaps with the support of TAF, could mobilise an external consultant to go out there, check and measure.

However, the measurement of some KPIs could be improved. The previous evaluation (SEO, 2019) highlighted that the KPIs with respect to 'improving rural livelihoods' were rather vague at the time. As per September 2023, the KPIs for this pillar are more detailed. However, they can still be improved for more accurate, comprehensive and insightful results. For example, for KPI9 it is important to conduct proper baseline assessments, setting specific targets (e.g. instead of generic goals like 'improved farmer income', establish more specific, quantifiable targets, such as 'improved farmer income by x percent'), but also validating them qualitatively through interviews or surveys to understand the underlying factors contributing to the changes. Moreover, providing a precise definition of what constitutes indirect beneficiaries ensures consistency in reporting and measurement (KPI10), whilst (rigorous) post-training assessments would enable measuring the actual adoption of best practices and their impact (KPI11). Furthermore, the KPIs should be seen in conjunction with progress in the ESAP, being an expression of clients' true willingness to move toward sustainable operations and accelerated forest code compliance. Such willingness must already become evident in the Due Diligence phase and be a key criterion for client selection.

So far, monitoring by AGRI3 has not resulted in interventions. Monitoring by AGRI3 has so far not brought up any issues that justified intervention.

4.5 Coherence

AGRI3 aligns with the Ministry's policy objectives regarding climate change, sustainable agriculture and ecologically sound food systems. AGRI3's niche positioning minimises overlap with related sustainability funds. This makes it complementary to, but not yet necessarily synergetic with, other initiatives.

EQ15 *- How does AGRI3 fit into the Ministry's (IGG) overall FNS ToC and climate change objectives in particular? How is it complementary and/or synergistic to other initiatives supported by the Ministry in a broader sense?* ***(Internal coherence)***
EQ16a *- To what extent is AGRI3 complementary to other (blended) finance initiatives combating deforestation and promoting sustainable land use?* ***(External coherence)***
EQ16b *- To what extent does AGRI3 add value to other (blended) finance initiatives combating deforestation and promoting sustainable land use?* ***(External coherence)***

4.5.1 The MFA Policy Framework

While AGRI3 aligns with the MFA FNS ToC, the appropriate policy framework for AGRI3 is the Netherlands' Global Climate Strategy. The Climate Group in MFA is part of the Inclusive Green Growth directorate, working under the Food and Nutrition Security (FNS) ToC. The FNS ToC pursues three goals, namely 1) Eradication of hunger and malnutrition, 2) Promotion of inclusive and sustainable growth in the agricultural sector, and 3) Achievement of ecologically sustainable food production systems. AGRI3 aligns with the last two FNS policy goals. However, specifically for climate change, MFA has developed the Netherlands' Global Climate Strategy (2022), which is the policy framework guiding the work of the IGG Climate Group. This is also the policy framework under which AGRI3 was developed. The Global Climate Strategy distinguishes four areas of MFA intervention, namely 1) adaptation, 2) loss and damage, 3) mitigation, and 4) finance. AGRI3 aligns with the last two areas.

AGRI3 is supporting the global transition to a net-zero circular economy by 2050. In line with the 'mitigation' component of the Global Climate Strategy, AGRI3 actively halts deforestation in three major tropical rainforest regions and aids the preservation of international biodiversity. At some companies, AGRI3 supports restoration of APPs and LRs (e.g., CS client 1), while in other cases it stimulates companies to preserve forests above the legal reserve requirements. AGRI3 also helps to create deforestation-free value chains. Circular/regenerative production is supported in several projects.

AGRI3 is mobilising private finance for climate action and adaptation. In line with the 'finance' component of the Global Climate Strategy, AGRI3 enables the private sector to invest in sustainable land use and forest preservation, while gradually mainstreaming such products and services, including integrating assessment of climate risks, reporting on and integrating them into their broad policy.

AGRI3 is aligned with the broader IGG and FNS policies. The Inclusive Green Growth Directorate (IGG) of MFA is dedicated to ensuring the well-being of all, regardless of their socioeconomic status, gender or age, with a focus on the sustainable use of natural resources. The most suitable IGG policy reference would be the letter to Parliament on 'International contribution to forest protection and forest rehabilitation' of 9 March 2020. In this letter, IGG underscores the significance of sustainable forest management, with particular emphasis on the integral role of agriculture in achieving this goal. The policy letter outlines three important goals: 1) halting deforestation and forest degradation by 2030, 2) increasing the world forest area by 3 percent by 2030, and 3) mobilising the European Union (EU). These goals are closely tied to the third FNS objective and closely align with the objectives of AGRI3.

AGRI3 indirectly contributes to the (first) FNS policy objective of eradicating hunger and malnutrition. While AGRI3 was designed to include enhancing 'rural livelihoods' and 'farmer productivity', its primary focus lies in the transition from unsustainable to sustainable farming practices. The fund's central objective is not to increase food production, nor does it anticipate substantial nutritional impacts. However, as AGRI3 aims to contribute to averting the loss of productive farm land, even putting degraded land back into productive use, the fund indirectly supports a stable food production level and thereby nutrition security (SDG targets 2.1 and 2.2).

AGRI3 contributes to the (second) policy objective of promoting inclusive and sustainable growth in agriculture. The fund's objectives are also consistent with this second policy objective (SDG 2a, targets 2.4/2.5). More precisely, the objective is to enhance food security by offering support to smallholder farmers, enabling them to optimise their existing agricultural lands. The narrative of the FNS ToC notes that the main prohibiting factors for these smallholder farmers are access to land, production resources and labour productivity. AGRI3 fits in with this narrative as it aims to provide farmers with the necessary means (e.g. finance, but also non-financial support where relevant) to sustain business and spur innovations. The only nuance is that AGRI3 has mostly supported large-scale farmers rather than SMEs and smallholder farmers, and is not necessarily involved in 'improving market access'. Enhancing its policy coherence would require a stronger focus on underserved smallholders, such as farms led by women, youth or family units. However, achieving alignment in this area is challenging within AGRI3's business model and could hinder scalability. The latter is the advantage of working in Brazil.

AGRI3 fits best with the (third) policy objective of achieving ecologically sustainable food systems. The Dutch government aims to 1) foster green and circular technologies, 2) increase integrated and democratically managed resources, and 3) internalise external costs through sustainability requirements with subsidies and credit.[112] AGRI3 is currently predominantly active in one of the most crucial and harmed ecological areas in the world (Brazil). Through its credit system, the fund exercises influence over resource management within this ecosystem. Moreover, AGRI3 emphasises the adoption of sustainable practices that extend beyond the immediate scope of the investment (i.e. encompassing all activities by its clients). Consequently, AGRI3 contributes to the expansion of sustainably farm lands while protecting forest, supporting the reduction of greenhouse gas emissions, and soil preservation.

AGRI3 is also consistent with the envisioned approach towards these goals as articulated in the FNS 'Theory of Change'. In its Theory of Change, MFA emphasises two fundamental principles that underpin the envisioned approach. Firstly, the Dutch Diamond Approach prioritises learning-by-doing, innovation and active involvement of the private sector. Secondly, the principle of 'result orientation' places a strong emphasis on standardisation and scalability. These elements closely mirror the core principles embedded in AGRI3's approach. The core activities of the fund revolve around catalysing private funding for sustainable investments while encouraging all actors to adopt environmentally sustainable practices.

4.5.2 Other initiatives

There are multiple global funds that provide finance to promote sustainable agriculture, rural livelihoods and/or climate action. Examples include IDH Farmfit,[113] the Dutch Fund for Climate and Development (DFCD), the Green Climate Fund (CGF) and &Green (see Table 4.7).[114] These funds offer a wide assortment of financing types, including loans, equity, grants and in some cases also guarantees, in favour of businesses and farmers in all shapes and sizes. Nearly all of them provide TA and are active in Least Developed Countries (LDCs). Many of these initiatives are also funded by the Dutch government. The focus of all of these initiatives is on the protection of forests, sustainable agriculture, and/or improving rural livelihoods. However, several of these funds have a broader scope than AGRI3 because they are more generally focused on climate mitigation and adaptation, where sustainable land use or forests are only one of the subcategories. Also, the AGRI3 focus on countries with deforestation risks leads to a narrower country selection. AGRI3 has a similar fund size and indicative private investment as IDH Farmfit, DFCD, and &Green, whilst GCF is much bigger. While there are several initiatives with similar objectives to AGRI3 (see inception report), Table 4.7 and Figure 4.1 present a shortlist of initiatives that are most closely aligned with AGRI3's mission. The remaining funds significantly differ from these initiatives, primarily due to specific geographic boundaries or a lack of a dedicated focus on agriculture. Moreover, some of these initiatives could be more appropriately viewed as potential partners (i.e. potential investors in AGRI3), rather than direct competitors.

There is little overlap between AGRI3 and the other funds, as AGRI3 operates in a niche. Among all funds considered, &Green aligns most closely with AGRI3 in terms of objectives, with both funds sharing a specific focus on sustainable agriculture and combatting climate change, using several instruments including guarantees and a Technical Assistance Facility (TA). There is some overlap between AGRI3 and IDH Farmfit as both share the goal of

112 Theory of Change Food Security, addendum to the policy paper 'Investeren in Perspectief' regarding international trade and development. https://open.overheid.nl/documenten/ronl-e88da597-7bf9-4eea-ade0-44df95314150/pdf
113 IDH Farmfit is also part of the AGRI3 Fund partnership
114 IDH Farmfit, AGRI3 and GCF are all co-financed by the Dutch government

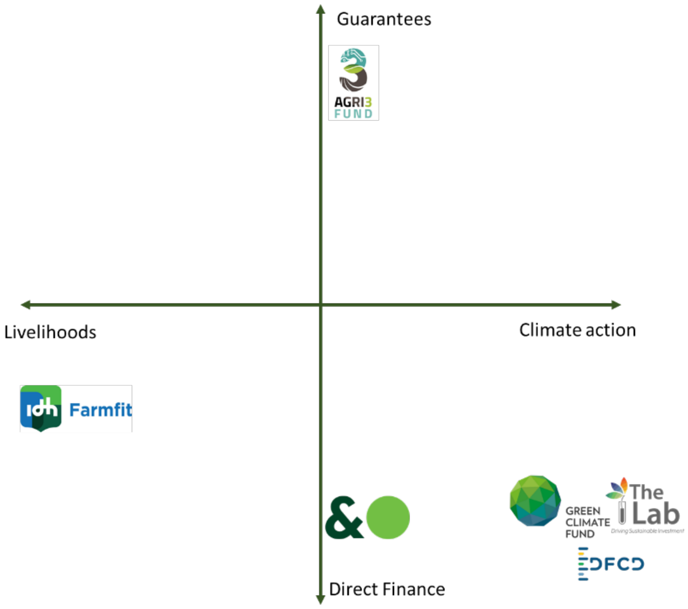
de-risking sustainable agricultural business models. However, Farmfit's core mission centres around the livelihoods of smallholder farmers, whilst AGRI3 was designed with a climate focus and can support both large and small-scale farmers if the appropriate channels present themselves (e.g. aggregators or cooperatives). GCF plays a broader role by supporting developing countries in combating climate change and promoting low-emission and climate-resilient development across various sectors, including agriculture. DFCD pursues distinct objectives, focusing primarily on climate adaptation. Additionally, both GCF and DFCD are active in sectors beyond agriculture. DFCD's broader focus is best exemplified by its 'landscape approach', where it seeks to address a wider range of interconnected development aspects, including environmental, social and economic factors, within specific landscapes or regions. DFCD promotes sustainable and integrated development in these areas by taking a comprehensive view of the challenges and opportunities present (as also noted by the inclusion of SNV and WWF as co-managers).

AGRI3 distinguishes itself by solely working with financial institutions. All funds share a common objective of mitigating risks to encourage private investors, thereby expanding financing options for underserved sectors. However, AGRI3's unique approach involves exclusively providing credit enhancements, facilitating private lenders to engage in sustainable agriculture. In contrast, other funds adopt a more diversified approach, extending direct financial support in the form of debt, equity or grants. While all funds possess the theoretical capacity to function as guarantors, the predominant focus of their initiatives is on direct financial support to companies. IDH Farmfit does serve as a guarantor as well, but is always a provider of liquidity at the same time. Similarly, both &Green and DFCD currently finance private companies directly. In Brazil, there is some overlap with other Dutch support through the Conserv programme.[115] However, its approach fundamentally differs, as it offers financial compensation to farmers for each hectare of native vegetation they preserve beyond what is mandated by the forest code, and this on an annual basis. AGRI3 does more to ensure long-term sustainability by supporting investments that permanently convert production into sustainable agriculture.

AGRI3's model capitalises on the established structures of financial institutions. This approach is not only unique and efficient, but also serves as an illustration of leveraging existing resources (i.e. adding value to existing initiatives). AGRI3 operates without the necessity of a physical on-site presence or the extensive undertaking of full project and financial risk analyses, thanks to its ability to tap into the groundwork done by PFIs. Furthermore, this approach extends to project origination as well.

115 https://conserv.org.br/en/

Figure 4.1 AGRI3 differs from other sustainable funds in terms of objectives and instruments



Source: SEO Amsterdam Economics

In terms of deal size, AGRI3's transactions fall between the scale of &Green, which conducts large deals, and IDH Farmfit, which primarily caters to smallholder farmers. IDH Farmfit reaches smallholders through intermediary SMEs and service providers, or occasionally nucleus farms. AGRI3 could also work through intermediaries and aggregators, and this was done by AGRI3 in China and Nicaragua, but not in Brazil as no opportunities were presented to AGRI3 by PFIs.

AGRI3 can help bridge the gap between subsidies and financial assistance from DFIs. AGRI3 currently engages in relatively modest transactions, typically within the range of USD 2-10 million, below the level habitually served by DFIs. As per the most recent annual report, this is also where AGRI3 sees its added value. In this context, AGRI3's role is complementary to DFIs as it assists clients in scaling up to a level that piques the interest of DFIs (like FMO). This role is especially significant for medium-sized deals, where subsidies tend to taper off but DFIs cannot yet step in.[116]

AGRI3 has the potential to support consortium financing by DFIs like FMO. DFIs like FMO frequently establish consortium financing, which may include local banks. In such cases, AGRI3 may risk-enhance the loans of these local banks. DFIs themselves would probably not need AGRI3 guarantees, as they have suitable instruments in-house. For instance, FMO has financial instruments such as Building Prospects or MASSIF to support high-risk investments. However, AGRI3 could play a pivotal role by extending guarantees to complement the local party's contributions, with the aim of increasing the overall loan size. This approach aligns well with FMO's financial model.

116 As per AGRI3's programme document ('the grant funding request'), the fund "considers all markets, including LDCs". However, in practice, after the first few years of operation, the fund has not yet been able to extend its services to LDCs. Instead, it has made the strategic decision to concentrate on expanding its operations in middle-income countries.

Table 4.7 Summary of shortlist

Fund	Implementing party	Fund size (present)	Partnership with commercial bank	Geogra-phical	Type of finance	TA provision	Funding NL	Portfolio
AGRI3	Fount, Cardano, IDH	USD 90 million	Yes	Global with initial focus on Brazil, India and Indonesia	Pari passu risk participation, Tenor extension, Maturity subordination, Subordinated guarantee and First loss risk participation	Yes	Yes	9 projects
IDH Farmfit	IDH	EUR 100 million	Yes	Global	Guarantees, subordinated loans, equity or mezzanine financing.	Yes	Yes	3 first investments in 2021
Climate Finance Lab	Climate Policy Initiative	USD 400 million	Yes	Global and focus on Brazil, India, Southern Africa	Grants, guarantees, equity, debt	Yes	No (but used to be)	49 instruments launched
Green Climate Fund	COP (UNFCCC) and Green Climate Fund Board	USD 9.3 billion	Yes	Global	Blended finance (grant, concessional debt, guarantees or equity instruments)	Yes	Yes	216 projects
IDH &Green	IDH	USD 160 million	No	Global	Subordinated debt, longer tenor, guarantees	Yes	Yes	8 projects
DFCD	FMO	EUR 160 million	No	Global	Blended finance (grant, concessional debt, guarantees or equity instruments)	Yes	Yes	51 projects

Source: Data compiled from individual fund websites as of December 2023

5 Lessons learned and recommendations

Based on the key lessons learned from this evaluation, this chapter draws conclusions about AGRI3's key strengths, weaknesses, bottlenecks and opportunities. It also offers forward-looking recommendations to AGRI3 and MFA.

***EQ17** - What are the strengths and weaknesses of AGRI3? Are there any bottlenecks and shortcomings requiring action? Is AGRI3 sufficiently innovative? What are the risks to MFA?*
***EQ18** - What are the main lessons learned from AGRI3? To what extent are these learnings effectively shared with others in the field and how could they be integrated in future blended finance initiatives supported by MFA?*

Since AGRI3 is a novel instrument to MFA, learning is a key part of the evaluation. Setting up investment funds is not daily routine in Dutch development cooperation, which is traditionally about grant-making rather than establishing revolving investment vehicles. Over the past decade, MFA has expanded its experience with revolving funds for SME development (e.g. FMO-Massif, DGGF, various other instruments at NL Invest), debt, equity, and to a lesser extent guarantee funds. However, a credit enhancement instrument for the private sector to promote sustainable land use, protect the forest, and enhance rural livelihoods is new. At the outset, it was by no means certain that this would be the most appropriate instrument to achieve the stated goals, which is why its effectiveness needs to be evaluated. AGRI3, like any investment fund, also presents the Ministry with financial risk, as all capital may be lost. In addition, AGRI3 may create market distortions in the financial sector, while the fund's conduct and partner selection may pose reputational risks to the Dutch government.

The learning of AGRI3 is dynamic and progressive. This report takes stock of the learning in the first three years of fund operations. As the evaluation and monitoring proceed, further findings will emerge as to what works well and what does not. In turn, this can inform MFA's future programming of interventions in sustainable land use and forest protection, including the use of other blended finance initiatives similar to AGRI3.

5.1 Strengths

Working through PFIs is the core strength of AGRI3. Although the AGRI3 portfolio is relatively new, the evaluation suggests that AGRI3 has been effective in encouraging sustainable land use, forest protection, and to a lesser extent rural livelihoods. Financial and development additionality was broadly confirmed too. At its core, the AGRI3 model works, and in addition it is efficient as it works through existing financial institutions and leverages their operational capacities and capital. This model is a key strength compared to alternative approaches including direct lending (e.g. &Green, DFIs) or providing grants (e.g. GCF). AGRI3 does not need to have a physical presence on the ground (because PFIs have) or do a full project and financial (risk) analysis, as it can draw on partners' work. The fact that all investees were prior-known clients of these PFIs also greatly simplifies deal origination.

The AGRI3 product assortment is a strength, oddly unexploited. AGRI3 has a comprehensive product assortment, permitting several levels of risk coverage, up to first loss guarantees and subordinated loans. The more risky instruments have not been deployed, however. Likewise, AGRI3 has a comprehensive suite of TA opportunities that has been used only partially. The core reason is the fact that AGRI3 has much relied on Rabobank, which operates in the low-risk market segment and typically serves very solid and mature agribusinesses. Consequently, AGRI3 has also been investing conservatively and has only issued relatively low-risk pari passu guarantees (albeit combined with maturity extensions so that eventually AGRI3 will have all residual risk), and for no more than 50 percent of the loan amount. This was not necessarily by choice, as the PFIs only proposed low-risk deals for AGRI3 support. Nevertheless, interviews (in Brazil) suggest that there is scope and demand for AGRI3 to operate at higher levels of risk (e.g. early-stage businesses in biological production). This would imply the need for onboarding different types of PFIs, including those serving smaller ventures and less proven business models. As noted in this report, financial and development additionality go hand in hand. By moving up the innovation and risk ladder, AGRI3 could increase its financial and development additionality, in line with its mandate and risk tolerance.[117]

Recommendation 1: *Increase AGRI3's financial and development additionality by seeking more innovative and likely more risky projects, for which it does have the appropriate instruments.*

The evaluators recognise the operational and commercial challenges of this recommendation, and see it as an aspiration rather than a task to be immediately fulfilled.

5.2 Weaknesses

While a strength, reliance on PFIs (only) is also a weakness to some extent. While &Green can go out and seek its own clients, pushing the boundaries of innovation and sustainability, AGRI3 is beholden to the willingness and (risk) policies of its PFIs, which may not move at the same speed as AGRI3 would like them to. AGRI3 has sometimes been faced with resistance from PFIs (to elements of proposed KPIs and ESAPs, for example. Furthermore, although AGRI3 does its own market reconnaissance (e.g. sector studies, direct client visits), in the end AGRI3 depends on deal origination by PFIs. As noted above, the current AGRI3 portfolio consists of 'safe bets' from a lending perspective and, in the case of Brazil, of companies that are among the national champions in their respective sectors. PFIs have not proposed to AGRI3 any really innovative, unproven and risky propositions (and AGRI3 did not have to decline any), which one may argue fit into AGRI3's mandate too.

The reliance on Rabobank is starting to hold back the fund. The overreliance on Rabobank to generate deals and fill the portfolio can be explained by Rabobank's involvement at the start and its high sense of ownership. However, several of the findings in this report, such as the focus on large businesses, low-risk deals and limited impact on rural livelihoods, can be traced back to this dependence. In order to reach the stated objectives, AGRI3 will need to expand the number and type of PFIs across a broader landscape of financiers. For some time, MFA has been asking this from AGRI3, but results have been elusive. This is an expansion of recommendation 1.

Recommendation 2: *Require AGRI3 to diversify and widen its portfolio of PFIs. MFA has to accept that this may lead AGRI3 into directions not initially contemplated, such as impact investors doing commodity trade deals, not excluding Brazil.*

The recommendation to not exclude Brazil at this time is a recognition of the fact that this market offers scope to reach the urgently needed volumes (see recommendations 8 and 9), which no other market can.

The requirement to include <u>both</u> sustainability and livelihoods objectives in each project is a weakness in the AGRI3 intervention logic. Based on the current requirements, each AGRI3 project must contribute to sustainable land use or forest protection (or both) <u>and</u> to rural livelihoods. This double requirement was proposed by the fund's

117 Needless to say that risk pricing would be commensurate in order to maintain the financial viability of the fund.

founding fathers, Rabobank and UNEP, wanting to reach out to rural communities. However, the evaluation found that enforcing this double requirement at the transactions level has been impractical. Indeed, AGRI3 projects do not meet this double requirement. Most projects in Brazil, only have token livelihoods components, more akin to CSR activities. It is the other way around in Nicaragua and possibly China as well.

The need for the requirement to combine sustainability and livelihoods objectives is questionable. On the one hand, there is a perception that supporting rural livelihoods is a condition for ODA funding. On the other hand, while sustainable land use and rural livelihoods are both core impact targets of the Ministry's FNS ToC,[118] other projects financed under the Ministry's FNS portfolio do not need to satisfy both conditions at the same time. It is, therefore, not obvious why this must be the case for all AGRI3 transactions. Furthermore, MFA and embassies already have many instruments and projects in support of rural communities and livelihoods. The same is not true for instruments for sustainable land use and climate change in particular. It is, therefore, not clear what AGRI3 can and must add to the present set of livelihoods instruments.

Recommendation 3: *End the obligation to include both livelihoods and sustainability objectives in all AGRI3 projects. Maintain this requirement at the portfolio level only, using a stricter definition of what it means to improve 'rural livelihoods'.*

Recommendation 4: *For those projects that have a clear livelihoods component, promote TA opportunities specifically for improving the development impact on rural communities.*

Interviewees at CS Client 5, for instance, expressed the desire to enhance farmers' income through the acquisition of quality certifications, which requires additional TA. TA for farmer members was also productively used in the China project.

It is also doubtful that AGRI3 is best suited to promote rural livelihoods. Having concluded that the obligatory combination of sustainability and rural livelihoods development is not practical and not respected, and having observed that MFA and embassies already do a lot in rural development but not in sustainability, the question is to what extent AGRI3 is well structured to do one or the other. That AGRI3 is a useful instrument to encourage capital-thirsty investment in land conversion and circular agriculture has been demonstrated in Brazil, but not yet elsewhere. It is the long tenor that is the core strength of AGRI3 in Brazil, and clearly additional in the market. By contrast, the financial services offered to the client in China and CS client 5 for livelihoods investments were not innovative in the market and AGRI3 was not convincingly additional given other funding opportunities. It is true that if AGRI3 were to move to LDCs, the rural livelihoods component would gain in relevance. However, many other MFA-supported programmes and funds address this theme already, not to mention a plethora of other development funds and partners.

Recommendation 5: *Ensure that AGRI3 supports rural livelihoods projects only when its financial and development additionality is abundantly clear, taking into account that many other financing instruments do this already – and perhaps better.*

118 The key indicator for sustainable land use is 'hectares of land under sustainable management', while the key indicators for rural livelihoods are yields and farmer incomes. The third and final FNS objective related to nutrition is not core to AGRI3.

Recommendation 6: *AGRI3, MFA and other partners should review AGRI3's ToC, including objectives and performance targets, taking into account past experiences, lessons learned and AGRI3's competitive advantages in different markets.*

This includes careful reflection on the role of the livelihoods component in relation to the other components. See also recommendation 10.

Recommendation 7: *AGRI3 should reinforce gender analysis at the DD and E&S stages, to more strongly incorporate actions intended to contribute to gender equality.*

While not all projects may have scope for gender inclusion, so far AGRI3 has barely tried.

5.3 Bottlenecks/Threats

AGRI3 is faced with bottlenecks in its expansion. Partly linked to the above weaknesses, some of these bottlenecks in AGRI3's upscaling are:

- **A continued strong focus on clients in Brazil**, which market is increasingly competitive, while the development of other markets (e.g. India, Indonesia) is slow to take off. The relationship with the PFI was meant to help launch AGRI3 and build up a portfolio quickly, which worked out very well. However, diversification to other partners in Brazil is proceeding slowly, contacts in India are tentative, and Indonesia also shows little progress despite sector studies and country visits by the AGRI3 team. The core problem is merging AGRI3's (minimum) sustainability requirements with those of the PFIs, many of which are yet to embrace such objectives.
- **Lack of commercial and political interest in sustainable agriculture or forest protection.** The core of the AGRI3 intervention logic is to help agriculture (and banks) transition to sustainable agriculture and forest protection. However, other than Brazil, few countries (and their governments, farms, or banks) have this as a core priority. There is interest in livelihoods-related projects, such as pioneered in Nicaragua, but merging this with sustainability investments is difficult as long as this is not a national or commercial priority. Sustainable land use and forest protection will only become a priority for businesses when the market asks for it. Markets are now slowly moving into that direction and the new EU regulation on deforestation-free products strongly supports this. Therefore, this current demand bottleneck may grow into an opportunity, with AGRI3 among the first to be able to respond as it has the instrument ready for deployment.
- **Limited but growing interest from banks in sustainable agricultural finance.** In the African market specifically, banks have little exposure to agriculture and where they do, it is mainly short-term trade related finance. Banks rarely provide investment-related agricultural finance and sustainability considerations are typically not yet included. However, as mentioned above, markets are moving into that direction, which AGRI3 could exploit. As noted above, this involves seeking new partners and likely accepting higher risk.

A risk to MFA is the lack of fund absorption by AGRI3. As noted in Chapter 2, AGRI3 is much behind on its fund deployment compared to the initial planning and the same is true for the TAF. In 2022, AGRI3 signed just three guarantee contracts, although this included one large one. During the first half of 2023, AGRI3 did not sign a single guarantee contract, while the target had been to sign ten to twelf such contracts in 2023. If the current rhythm continues, AGRI3 will strongly underperform in both fund deployment and fundraising (because there is no need). This will also contribute to fund depletion due to consistent and accumulating financial losses, which may make some question if the benefits are worth the costs.

Recommendation 8: *MFA and AGRI3 should recognise that the market's capacity to absorb the AGRI3 services is far less than initially thought and projected. Financial and business projections should be made that are realistic in light of past experiences.*
Recommendation 9: *AGRI3 should take measures to curtail its costs, as the fund is depleting too rapidly. Specifically, there is a need to review the role and composition of the various committees as well as UNEP.*

As noted earlier, concentrating on just one PFI constitutes a reputational risk to the Ministry. In Brazil, the market sees AGRI3 as a Rabobank fund, which may expose the Ministry to accusations of favouritism. Partners in other markets may be confused too. This is all the more reason for AGRI3 to seek out new and varied partners (see recommendation 2).

5.4 Opportunities

The evaluation revealed several opportunities for AGRI3.

- The competitive landscape in Brazil offers opportunities for AGRI3 to diversify from PFIs in Brazil. There are huge needs to recover degraded lands; increasing awareness that forests need protection; and a growing number of financiers that show interest in sustainable finance.
- Partnerships with impact investors, while not initially targeted by AGRI3, can offer opportunities to increase AGRI3's impact (recommendation 2) The pilot project in Nicaragua had limited additionality thus far, but it showed how such new partners can be onboarded and how their existing operations in rural livelihoods could be leveraged to achieve sustainability objectives. In future such projects, more efforts should be made to increase AGRI3's development additionality by incorporating stronger sustainability elements (including via TA).
- As noted above, AGRI3 could move up the risk ladder, supporting more innovative and risky transactions. This would enhance financial and development additionality (recommendation 1). Needless to say, risk pricing would need to be commensurate as AGRI3's financial feasibility objectives (revolvability) are unchanged.
- There are ample opportunities to use TA more actively to support deal origination and enhance development impact post-investment. This requires relationship managers in PFIs to better understand how TA can alleviate constraints, expedite company development, and ultimately make it a better bank client too.
- Our case studies also identified sectoral constraints, such as the challenges brought by the need to comply with the new EU Regulation on deforestation-free products (e.g. proof documents, traceability). This presents an opening for AGRI3 to offer TA that is broad and not necessarily geared to one single AGRI3 client (e.g. for a group of companies or even sector-wide).

Recommendation 10: *Encourage AGRI3 to explore partnerships with impact investors in commodity finance, many of which already operate in the market. This is not only an opportunity to expand and diversify, but also a way to increase AGRI3's development additionality, given that such impact investors already have E&S requirements in place, but rarely finance the associated sustainable investments.*

See also recommendation 2.
Recommendation 11: *Encourage AGRI3 and its PFIs to more actively propose TA to increase AGRI3's development additionality. One way to do so is to increase involvement of IDH at the project development stage, including in discussions with PFIs and their clients about opportunities to enhance the project's impact on rural livelihoods, sustainable land use, or combatting deforestation.*

Recommendation 12: *Identify TA opportunities that affect many AGRI3 clients, such as complying with new EU regulations or implementing actions for carbon sequestration, and develop sector TA accordingly.*
This recommendation could result in various knowledge development events being incorporated in farmer field days that AGRI3 clients are supposed to host, or be systematised in best practice manuals such as CS client 4 did for the independent sugar farmers in its supply chain (see also recommendation 13).

The AGRI3 maturity extension product is unusual in the market and innovative. The basic credit enhancement products of AGRI3, pari passu guarantees, first loss guarantees and subordinated loans, are widely known financial instruments. However, maturity extension combined with a pari passu guarantee, a 'maturity subordination', is an unusual financial product. It was this innovation, involving a long loan tenor and long grace period, that enabled the PFI to support projects in land rehabilitation and forest protection in Brazil. However, as noted above, AGRI3 has not exploited the full potential of its instruments due to the low-risk nature of its end-borrowers, all of which are solid investment cases.

AGRI3 clients are innovative to some extent, but could do more to demonstrate their innovations. Many AGRI3 clients are innovative and leading in their sectors, demonstrating new technologies, although not necessarily beyond what is known in agricultural research (e.g. Embrapa) and taught at universities. Nevertheless, these companies are among the very first to put these innovations into practice at scale. This makes them valuable as technology demonstrators. Most AGRI3 projects (in Brazil) include an obligation for investees to organise field days or collaborate in research publications, and some do (e.g. CS client 4). It would require further study (e.g. in the monitoring phase) to evaluate to what extent these messages land. The indications so far are that the results have been underwhelming.

Recommendation 13: *Widen AGRI3's impact by more strongly incentivising end-borrowers to demonstrate and disseminate innovative practices, while giving them assurances that proprietary technologies are protected. TAF could join this work, e.g. by providing the wider perspective and technical content (beyond the demo farm) and by developing a manual of sustainable best practices in the respective sectors.*

5.5 Sharing

In the context of learning, it is also important that lessons learned are systematised, documented and shared with a wider audience of sustainability practitioners. This is a key task of both AGRI3 and IDH, and was studied through document review and interviews. Additionally, the evaluation team assessed UNEP's role in AGRI3 and knowledge management and awareness raising activities. The projects that are part of learning and knowledge sharing are mostly centred around the findings from the sector studies, focused on sharing knowledge with other fund managers and investors. AGRI3 has been less active in sharing the lessons learned from the projects in its portfolio. According to their loan covenants, AGRI3 clients are expected to support such knowledge events, chiefly through field days, although their proprietary technologies must be protected. As was observed above, this does happen, but AGRI3 clients do not usually give it priority. As was recommended above, AGRI3 TA could join forces with lead farmers to enhance the messages and practices disseminated during these field days, beyond the practices on display at the farm. Also, TAF could be mobilised to develop best practice manuals, in cattle and soy for example, just as CS client 4 did for the farmers in its supply chain. TAF could also be used to develop publications that sensitise other banks in the AGRI3 programme countries to sustainable land use and forest protection, and the means of financially supporting such investments. See recommendations 12 and 13 above.

6 Conclusions

This chapter presents our answers to the evaluation questions and our recommendations in tabular form. In the subsequent monitoring phases, these will be revisited based on new information obtained.

6.1 Summary of answers to evaluation questions

Table 6.1 The evaluation concludes the following regarding the performance of AGRI3

Revised EQ and clarification	Findings
EQ1 - What has been the development impact of AGRI3 in the first five years, compared to the ToC and against its results framework? This includes any positive/negative, (un)intended effects observed on top of the KPIs or fund objectives. *As it is an impact question, it can likely only be evaluated by 2025, which is also the timeline of the BEMO. Signs of change towards impact can be assessed during fieldwork in 2023 for the longest running projects.*	The AGRI3 proposal to the Ministry included impact targets without a timeline. In the BEMO, a timeline of five years was set. An *ex ante* review of the KPI targets in the current nine portfolio projects suggests that these BEMO targets will be missed. Nearly identical targets were proposed to GEF, but with a timeline of twenty years, which may be sufficient to achieve the set impact targets. The evaluation revealed important impacts on sustainable land use, notably recovery of degraded lands and regenerative / circular agriculture. To a lesser extent, AGRI3 projects contributed to protecting natural ecosystems. The evaluation did not identify strong rural livelihoods impacts, but this was also due to the focus on large agri-businesses in Brazil. The evaluation has recommended to review the ToC and its performance targets in light of past experiences, and possibly de-prioritise the livelihoods objectives.
EQ2a - How did/do AGRI3 farmer(s) (aggregates) perform in terms of sustainable land use, forest protection and reforestation?	Results in sustainable land use and forest protection / renovation are strong. Several AGRI3 clients invested in APP and LR restoration. This involves fencing (APPs) and planting tree seedlings. Some others just maintain their LRs, but this often includes excess LRs (above the legal requirements) and on all farms in the group. Forest restoration is not part of the pilot project in Nicaragua, but is undertaken by the union. AGRI3 clients are rehabilitating degraded and eroded pasturelands with AGRI3 funding. This includes setting up integrated crop-livestock systems.
EQ 2b - How did/do AGRI3 farmer(s) (aggregates) perform in terms of sustainable & climate-smart agriculture? What has been AGRI3's contribution to this observed change (if any)?	CS clients 2 and 3 are the key proponents of regenerative agriculture, with AGRI3 support, and Scheffer has completed the work already. Core themes are converting to circular production models, replacing chemical with organic fertilisers, and energy conservation. The same is true for CS client 4, which is well advancing toward its KPIs. It also has a strong road building component, which has benefits for rural livelihoods. To some extent CS client 5 addresses these themes too, but not with AGRI3 funding.
EQ3 – To what extent is AGRI3 reaching farmers as the priority beneficiaries / target group, and contributing to rural livelihoods? *<This could be as suppliers or outgrowers of the AGRI3 end-borrowers>*	In the Brazilian projects, all of them large family businesses, contributions to rural livelihoods are limited. Project support mainly takes the form of worker training and field days for neighbouring producers, while companies invariably undertake social and community development actions. However, no direct effects on rural incomes due to AGRI3's interventions were recorded. The pilot project in Nicaragua is directly reaching smallholder farmers as beneficiaries of seasonal credit as well as training and extension that help maintain the necessary certifications. This positively impacts their incomes, hence livelihoods.

EQ4 - To what extent does AGRI3 promote gender equality?	None of the AGRI3 projects has an explicit gender component and KPI, and contributions to gender equality are likely negligeable. The current projects in Nicaragua and China do benefit women as cooperative members, but no explicit actions of gender empowerment were undertaken in AGRI3 projects (although the cooperative unions do). In Brazil, only CS client 4 undertakes some effort to reach out to women as empowered workers or community members.
EQ5 - To what extent has AGRI3 catalysed private finance: • *Ex-ante* induced financial institutions to finance sustainable agriculture with AGRI3 support? • *Ex-post* mobilisation of finance in the same client without AGRI3, following improved client performance and demonstrating the business case?	AGRI3 catalysed USD 73.5 m in commercial finance, with USD 32 m in AGRI3 capital committed – a leverage ratio of 2.3 – to nine projects. This is only about a quarter of the initial fund projections, and also much less than the annual fund updates in annual plans. Without AGRI3 the committed loans would have had lower amounts and shorter maturities and grace periods, if they had been made at all. (The PFIs have not made any follow-up loans to the same clients without AGRI3, the same maturity constraints (7 years max) still being in place. One PFI is exploring possibilities for AGRI3-backed loans with other clients.
EQ6 - To what extent has AGRI3 through its demonstration effect induced partner and non-partner banks to engage in (more) sustainable agriculture finance to other clients, where they hitherto did not? See also EQ16b *As noted above, this is not an outcome or objective in the ToC, but it is in the ToR and BEMO.*	Banks in Brazil are increasingly open to financing sustainable agriculture and committing to forest protection. A demonstration effect on other banks in Brazil is hard to prove as many other factors are at work. These factors include demands from pressure groups and (bank) shareholders, (local) government regulations and their enforcement, and changing market demand including import regulations. AGRI3 projects do have, however, a demonstration effect on the staff of PFIs, as both PFIs faced internal resistance to some extent. The use of KPIs and ESAPs has added to one PFI's understanding of sustainability. However, the PFIs have not started to make AGRI3-like loans without AGRI3, due to the unchanged corporate maturity constraints and risk policies. AGRI3 clients demonstrate sustainable production practices to other farmers. Although none of the clients undertake innovations that were previously unheard of in the agricultural and research communities, many projects in Brazil have technology demonstration potential that AGRI3 aims to harvest through field days, publications and events. Their effectiveness is not clear and may be a theme for subsequent monitoring stages.
EQ7 - Are the AGRI3 products suitable to reach the intended development purpose and induce financial institutions to embrace sustainable agriculture? • Pari passu risk participation • Tenor extension • Maturity subordination • Subordinated guarantee • First loss risk participation	AGRI3 has a broad set of credit enhancement instruments that can cover a variety of credit risks. However, so far AGRI3 has not operated in the high-risk segments, only supporting investments in solid companies and projects that do not seem particularly risky. The evaluation observed market demand for AGRI3 covering risks of junior tranches of investment participations, as well as investments in more risky and innovative early-stage businesses. The fund does have suitable instruments to do so (e.g. first loss guarantees, subordinated loans), but these have not yet been used.
EQ8 - To what extent is AGRI3 responding to beneficiary needs: • Do the national authorities consider AGRI3's objectives as priorities for the country? • Do farmer networks, farms, employees and suppliers consider AGRI3's objectives as priorities for them? • Has AGRI3's service delivery been flexible to the (changing) demands of its clients?	In Brazil, AGRI3 is strongly aligned with national development priorities, including the need to recover degraded pasturelands and protect the forest. The AGRI3 objectives align with the priorities of the Nicaraguan government regarding forest protection and the reduction of carbon emissions. In Brazil, AGRI3 meets the needs of a sub-set of farmers who want to invest in sustainable production. In Nicaragua, however, the PFI loan only covers working capital needs, no capital investments that would be needed as well. A need was identified in both Brazil and Nicaragua to comply with international regulations on sustainable production, in particular the EU's new no-deforestation regulations. Producers are unsure how to comply, which presents an opening for AGRI3 to offer targeted TA on this matter.

EQ9 - To what extent does the Technical Assistance Facility: • Enhance AGRI3's service delivery and make it more effective? • Strengthen the capacities of AGRI3's clients?	The country focus of the TA activities is aligned with the AGRI3 investment portfolio, pipeline and ambitions. To date, the sector studies have contributed to new deals in Brazil, but not (yet) in India and Indonesia. Likewise, the role of pre-investment TA in supporting deal origination has had mixed results. Nevertheless, the instrument has been shown to be valuable to AGRI3 and clients alike (e.g. define the core elements of the ESAP). The results of post-investment TA are not yet visible (the evaluation did not select the China project for review, which received extensive TA). The evaluation found that TAF has been relatively invisible in AGRI3, which is partly due to PFIs not actively promoting the service. TAF has scope to expand its activities and contribute to development additionality of investments.
EQ10 - Does the assumption in AGRI3's Theory of Change that impact can be delivered through commercial financiers hold?	The evaluation question can be answered in the affirmative for sustainable land use (which is a core impact goal in the FNS ToC) and forest protection. AGRI3 has not yet convincingly demonstrated that it can mobilise commercial financiers to impact rural livelihoods at scale.
EQ11 - **Financial additionality**: To what extent would the transaction <u>not</u> have come true in the absence of AGRI3 (neither the partner bank nor another bank would have financed the deals), or it would have been at less suitable conditions? *According to the OECD, an investment is financially additional if it supports capital-constrained markets in which private sector partners are unable to obtain commercial financing or if it mobilises investment from the private sector that <u>would not otherwise have invested</u>.*	In the absence of AGRI3, transactions in Brazil would have been smaller in size (PFI risk appetite), have had shorter maturities (RB country risk limits) and shorter grace periods. Some may not have materialised at all. Also, no other bank would have provided the same loan, but possibly one of a shorter maturity. The main source of financial additionality in Brazil was the loan maturity and long grace period, needed to do sustainability investments that take time to reach the cash generation stage. While the financial additionality in Brazil has been fairly high, the evaluation also revealed that competing instruments are emerging in Brazil, and AGRI3's additionality is under pressure. Some recent deals have fallen through as clients expected a price advantage to compensate for the onerous E&S conditions (e.g. no deforestation *anywhere* in the company), even if legally exploitable. The additionality of the AGRI3 project in Nicaragua is the increased loan amount due to AGRI3's coverage of exposure above the PFI's risk tolerance and the use of promissory notes as loan security. However, CS client 5 would likely have been able to source funding elsewhere (e.g. locally), albeit at a higher cost.
EQ12 - **Development additionality**: To what extent would, in the absence of AGRI3, the observed development results, chiefly sustainable land use practices, forest protection and reforestation, sustainable and climate-smart agriculture, rural livelihoods, (not) have been achieved? *According to the OECD, the development impacts that arise as a result of investments that otherwise would not have occurred. In the case of AGRI3 it relates to the transactions' contributions to positive impacts related to forest protection and restoration, sustainable agriculture and/or rural livelihoods or improved environmental and social risk management that go <u>beyond</u> standard banking and market practices/regulations etc.*	All AGRI3 clients in Brazil were already undertaking sustainable investments. AGRI3 helped to expedite the process. In the absence of AGRI3, most of the same results would eventually have been reached. This suggests that the development additionality is low. However, expediting the work already planned means that replication of similar work on other farms in the company is expedited too, as are potential demonstration effects. In Nicaragua, development additionality has been limited to raising incomes.
EQ13 – How efficient are the AGRI3 operations in terms of 'value for money' and timeliness?	The AGRI3 model of working through PFIs is efficient, as AGRI3 does not need feet on the ground and can leverage client development and financial analysis already done by the partner. AGRI3 just adds its own E&S appraisal and risk modelling. Decision and documentary processes and requirements are acceptable, although some frictions may occur with PFI staff who dislike additional work. Relationship managers have not actively promoted the AGRI3 TAF.

	The management and oversight structure of AGRI3 is normal for this type of fund, but out of sync with its current small size. The cost of management and governance is eating into the fund capital, with little prospect of reaching break-even any time soon.
EQ14 – To what extent are the reporting and monitoring systems appropriate to steer decisions? Moreover, are methodologies for assessing and calculating the quantitative outcomes adequate and sufficient?	The monitoring system combines data collected by/through the PFI, client self-reporting and data collected or analysed by AGRI3 consultants. The approach is pragmatic and efficient. The KPIs are standardised, which helps aggregation and focus. KPI definitions largely mirror the Ministry's practice.
EQ15 - How does AGRI3 fit into the Ministry's (IGG) overall FNS ToC and climate change objectives in particular? How is it complementary and/or synergistic to other initiatives supported by the Ministry in a broader sense?	AGRI3 aligns with the Ministry's Global Climate Strategy. Moreover, it aligns with the overarching Food and Nutrition Security (FNS) Theory of Change, in particular policy objectives surrounding sustainable agriculture and ecologically sustainable food systems. However, the connection to food and nutrition security is only indirect in nature.
EQ16a - To what extent is AGRI3 complementary to other (blended) finance initiatives combating deforestation and promoting sustainable land use?	AGRI3's unique positioning within a niche market ensures that there is minimal overlap with numerous other global funds focusing on sustainable agriculture, rural livelihoods and climate action. Instead, AGRI3 plays a complementary role, particularly in relation to Development Finance Institutions (DFIs), aiding clients in reaching a scale that captures the attention of DFIs such as FMO. This role holds particular promise in a financial landscape where concessional loans and subsidies diminish when agribusinesses reach scale, but DFIs cannot yet engage.
EQ16b - To what extent does AGRI3 add value to *other* (blended) finance initiatives combating deforestation and promoting sustainable land use?	AGRI3 sets itself apart through its exclusive collaboration with financial institutions, effectively harnessing their established infrastructures. This unique approach eliminates the need for a physical on-site presence and exhaustive project and financial risk analyses, as AGRI3 can leverage the groundwork laid by PFIs. Furthermore, AGRI3 possesses the capacity to augment the current operations of Development Finance Institutions (DFIs) by acting as a co-funding partner, specifically covering the risks of local banks in a funding consortium.
EQ17 - What are the strengths and weaknesses of AGRI3? Are there any bottlenecks and shortcomings requiring action? Is AGRI3 sufficiently innovative? What are the risks to MFA?	Strengths of AGRI3 are that it operates through PFIs and its wide product assortment. However, the more risk-seeking products have been left unused. This reflects the risk averse client selection by the PFI. Going through PFIs is also a limitation, as AGRI3 cannot choose its own clients. Obligatorily combining sustainability and livelihoods objectives in all projects is a weakness in the AGRI3 intervention logic, and not respected anyway. AGRI3 has found it difficult to develop relationships in priority countries such as Indonesia and India, let alone Africa, where sustainability considerations are not yet taking centre stage. AGRI3 has been, though its products and service, quite innovative. Its clients are innovative too, although none implement technologies that are outside the science mainstream. Dissemination of such technologies could be enhanced.
EQ18 - What are the main lessons learned from AGRI3? To what extent are these learnings effectively shared with others in the field and how could they be integrated in future blended finance initiatives supported by MFA?	Going forward, the evaluation recommends MFA to end the obligation to include both livelihoods and sustainability objectives in all AGRI3 projects. Instead, this requirement should be maintained at the portfolio level only, with a stricter definition of what it means to improve 'rural livelihoods'. In addition, MFA is recommended to encourage AGRI3 to increase development additionality, in particular by (a) partnering more often with relevant impact investors, and (b) more actively offering pre and post-project TA.

6.2 Summary of recommendations

Table 6.2 The evaluation team recommends the following to improve the performance of AGRI3

#	Evaluation Criterion	Recommendation
1	Additionality, effectiveness, impact	Seek more additional and innovative projects with higher potential impact and higher potential risk, for which AGRI3 does have the appropriate instruments.
2	Additionality, effectiveness	Require AGRI3 to diversify and widen its portfolio of partner financial institutions (PFIs). This can include partners not initially targeted, such as impact investors doing commodity trade deals (not excluding Brazil).
3	Effectiveness, Impact & Coherence	End the obligation to include both livelihoods and sustainability objectives in all AGRI3 projects. Maintain this requirement at the portfolio level only, using a stricter definition of what it means to improve 'rural livelihoods'.
4	Effectiveness & Impact	For those projects that have opportunities to improve rural livelihoods, intensify the use of TA for improving the project's development impact on rural communities.
5	Additionality	Ensure that AGRI3 supports rural livelihoods projects only when its financial and development additionality is abundantly clear.
6	Effectiveness, Impact & Coherence	Review AGRI3's ToC, including objectives and performance targets, taking into account past experiences, lessons learned, and AGRI3's competitive advantages in different markets.
7	Effectiveness, Impact & Coherence	Reinforce gender analysis at the DD and E&S stages, so as to more strongly incorporate actions intended to contribute to gender equality.
8	Efficiency	Recognise that the market's capacity to absorb AGRI3 services is far less than initially thought and projected. Financial and business projections should be made that are realistic in light of past experiences.
9	Efficiency	Take measures to curtail AGRI3's costs, as the fund is depleting too rapidly. Specifically, review the role and composition of the various committees as well as UNEP.
10	Effectiveness, Impact & Additionality	Encourage AGRI3 to reach out to impact investors in commodity finance. This is not only an opportunity to expand and diversify, but also a way to increase AGRI3's development additionality, given that such impact investors already have E&S requirements in place, but rarely finance the associated sustainable investments
11	Impact & Coherence	Encourage AGRI3 and its PFIs to more actively propose TA to increase AGRI3's development additionality. One way to do so is to increase involvement of IDH at the project development stage, including in discussions with PFIs and their clients about opportunities to enhance the project's impact on rural livelihoods, sustainable land use, or combatting deforestation.
12	Effectiveness	Identify TA opportunities that affect many or all AGRI3 clients, like complying with the new EU regulations or implementing actions for carbon sequestration, and develop sector TA accordingly.
13	Effectiveness & Impact	Widen AGRI3's impact by more strongly incentivising end-borrowers to demonstrate and disseminate innovative practices, while giving them assurances that proprietary technologies are protected. TAF could help support this, e.g. by providing the wider perspective and technical content (beyond the demo farm) and by developing a manual of sustainable best practices in the respective sectors.

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