Final Report – Volume I

Mobilising Finance for Forests (MFF) Programme Evaluation

April 25, 2025

ADE
Evidence for better policy

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Acronyms

ACP	African, the Caribbean and Pacific countries
ADFI	Africa Digital Financial Inclusion Facility
AFW	Agriculture, Forestry, and Water
AI	Artificial Intelligence
AIMA	Ecuadorian Association of the Forestry and Timber Industry
AUC	African Union Commission
BEIS	The Department for Business, Energy and Industrial Strategy for the United Kingdom of Great Britain and Northern Ireland
BII	British International Investment
BRI	Belt and Road Initiative
CAFI	Central African Forest Initiative
CAP	Criterion Africa Partners
CBD	Convention on Biological Diversity
CCR	Client Credit Reviews
CDC	Commonwealth Development Corporation
CDO	Capacity Development Officer
DC	Development Contribution
DEG	Deutsche Investitions- und Entwicklungsgesellschaft
DESNZ	Department for Energy Security and Net Zero
DFI	Development Finance Institution
EAT	Ecua America Teak
EIB	European Investment Bank
EM	Evaluation Matrix
EQ	Evaluation Question
ESG	Environmental, Social, and Governance
ET	Evaluation Team
FID	Finance, Impact and Data
FMO	Dutch Entrepreneurial Development Bank
FSC	Forest Stewardship Council

FSLU	Forests and Sustainable Land Use
GESI	Gender Equality and Social Inclusion
ICF	International Climate Finance
IFU	UK Government's International Forests Unit
IMIR	Impact Measurement and Integrated Reporting
KII	Key Informant Interview
KP	Knowledge Product
KPI	Key Performance Indicators
LCIP	Learning, Convening, and Influencing Platform
MEL	Monitoring, Evaluation & Learning
MFF	Mobilising Finance for Forests
MRV	Measurement, Reporting, and Verification
NICFI	Norway International Climate and Forest Initiative
NTFP	Non-Timber Forest Products
OC	Operational Committee
PIM	Public Investment Management
SFM	Sustainable Forest Management
SIS	Sustainability Information System
SNFM	Sustainable Natural Forest Management
SP	Service Providers
TA	Technical Assistance
TAF	Technical Assistance Facility
TCF	Technology Conservation Fund
ToC	Theory of Change
TRF	The Reforestation Fund
VCM	Voluntary Carbon Market

Executive Summary

The Mobilising Finance for Forests (MFF) programme is a USD 255 mln (GBP 200 mln) blended finance initiative launched in 2021 to boost private sector investments in Forests and Sustainable Land Use (FSLU) projects, combating deforestation in tropical regions. The programme is managed by FMO, the Dutch Entrepreneurial Development Bank, which operates as a Development Finance Institution (DFI). MFF's initial GBP 152 mln funding from the UK government was increased by GBP 48 mln in 2024, with its investment period extended to 2028, followed by a 10-year holding period. The Dutch Government will provide up to USD 33.5 mln in additional support in remaining years.

MFF is a pilot programme that directs concessional funding and Technical Assistance through Funds and direct FMO investments to high-risk private sector FSLU projects with substantial mitigation potential and significant co-benefits, including socio-economic and biodiversity impacts. By demonstrating the viability, profitability and impact of these projects, MFF aims to mobilise private sector investments, including through other DFIs. MFF's current portfolio includes eight investments, three of which are Funds and five are Development Contributions (DC) or FMO directly funded projects.

Evaluation purpose and methodology

Commissioned by FMO on behalf of the UK government, this evaluation provides an early-stage assessment of MFF implementation, using a theory-based, mixed-methods approach to evaluate progress, identify areas for improvement, and inform the next phase. It addresses 19 evaluation questions aligned with OECD-DAC criteria, employing desk reviews, portfolio analysis, evidence mapping, interviews, and field visits to Ecuador and Colombia. Data were systematically analysed and triangulated, with findings validated in a stakeholder workshop that contributed to developing actionable recommendations. While early-stage implementation and logistical challenges posed limitations, these did not compromise the robustness of the findings.

Findings

Relevance and Coherence

The MFF programme aligns with the UK's GBP 3 bln pledge for nature and FMO's goals of building a EUR 1 bln forestry portfolio by 2030 and achieving zero-carbon by 2050. Its investments balance environmental and social impact with financial viability and reliable cash flows, spanning sustainable forestry, landscape restoration, and deforestation-free commodities. However, geographical imbalances remain, with lower investments in Africa and Asia compared to Latin America, due to infrastructure, capacity and market constraints. Collaboration with DFIs, Funds, and technical service providers has enhanced programme coherence and fostered globally aligned, impactful investment models.

Effectiveness

At the time of this evaluation MFF implementation has met or exceeded most of its cumulative output and outcome targets. This included notable successes at the output level, such as surpassing the number of projects reaching bankable stages and the engagement of stakeholders through events. Intermediate outcomes demonstrate robust resource mobilisation, with USD 240 mln secured in public funding and USD

250 mln in private investments at Fund levels. Some challenges persist in attracting private investments to projects. Sustainable land management and job creation goals have been surpassed. While it remains premature to fully assess impact, early evidence indicates progress toward achieving expected long-term results for reduced deforestation, reduced carbon emissions and improved livelihoods.

Although MFF programme start-up was slower than initially anticipated, MFF has effectively leveraged innovative blended finance structures and tools like Development Contributions and its Technical Assistance Facility (TAF) to de-risk FSLU investments, support high-risk projects and innovative model development, and foster capacities and knowledge sharing. The programme started off slower-than-anticipated. However, its innovative use of blended finance structures – including concessional equity and debt – has already successfully reduced risks and attracted initial commercial and other interests in FSLU projects. The Development Contribution instrument has been instrumental in piloting innovative investment approaches and building stronger pipelines, though its deployment has been slower than envisaged. Technical Assistance Facility (TAF) initiatives have met or exceeded targets, particularly through the Learning, Convening, and Influencing Platform (LCIP), with notable achievements such as the carbon integrity initiative. Limited uptake of technical advisory services reflects relatively slow overall programme delivery until 2024. The programme is on track by now, and a robust MFF pipeline of Fund and project investments and Development Contributions is expected to enable MFF to effectively disburse its funding by the end of the extended investment period.

FMO's strong environmental and social governance (ESG) framework is integral to MFF investments, ensuring robust environmental and impact objectives and compliance with high sustainability standards. Gender equality and social inclusion (GESI) principles are embedded in the programme, with mechanisms to address related risks and track impacts through disaggregated metrics.

Despite several structural and market challenges and uncertainties for FSLU investments in targeted regions, the rising demand for sustainable forest products, deforestation free commodities and high-quality carbon offsets bode well for future markets. FSLU investments face inherent structural risks, including weak institutions, infrastructure gaps, limited market demand and attractive pricing in target regions. Liquidity and financial return challenges are exacerbated by early-stage project costs and extensive due diligence requirements. Despite these obstacles, rising global demand for certified forest products and deforestation-free commodities, coupled with increasing corporate interest in carbon offsets, presents significant market opportunities. Evolving voluntary carbon markets (VCM) highlight both opportunities and uncertainties. While high-quality carbon credit standards and governance are advancing, national-level regulatory ambiguities remain a concern.

Additionality

Given the scarcity of private capital in the FSLU sector, along with the need for long tenors, high risks, and low returns, MFF has demonstrated clear financial additionality. In one fund, MFF played a key role by taking a first-loss position in a Fund where commercial actors would not, helping attract private investors. Similarly, for another fund, MFF provided an intermediate layer between the fund's grant/equity and commercial investors, enabling greater private sector participation. Smaller MFF incubation projects, supported through

Development Contribution (DC), remained too high-risk to attract commercial finance.

FMO did not claim ESG additionality for MFF projects, as minimum ESG standards were already high, nor was it necessary given MFF's evident financial additionality.

Efficiency and governance

MFF operational processes are largely efficient, and governance is well structured. MFF operational processes adhere to FMO's established frameworks for due diligence and risk management with commercial goals, although forestry projects incur higher transaction costs and longer timelines. Dedicated forestry teams within FMO have enhanced MFF management efficiency, however, MFF's matrix management structure still poses challenges for consolidated reporting. FMO MFF risk management practices, including risk-based pricing and rigorous ESG oversight, are robust but require tailored strategies for equity investments. The programme's governance structure promotes close collaboration between the UK and FMO, reinforced by monthly strategy sessions and biannual meetings, though there is room for improvement in early investment decision-making.

Lessons Learnt

In nearly four years of operations, the MFF programme has gathered several valuable lessons:

Lesson 1: Concessional MFF funding has been pivotal for FMO to support higher-risk investments in FSLU and develop less risky business models, emphasising the programme's financial additionality. For many other DFIs, sector risks and limited concessional resources limit their engagement in FSLU.

Lesson 2: Risks, financial returns and impact vary across FSLU sub-sectors, project types and asset classes. Diverse investments attract a range of investors, including commercial, impact-focused and public entities. Timber and wood products have proven strategic in attracting commercial investors to sustainable forestry investments, while concessional public funding remains crucial for deforestation-free commodity projects.

Lesson 3: Embedding robust ESG frameworks is essential for aligning environmental and social objectives MFF's emphasis on ESG has raised standards, improved governance, and advanced GESI principles, though enhanced reporting of ESAP implementation is needed at FMO level.

Lesson 4: Success in one country or ecological context does not guarantee scalability elsewhere. Replication requires site-specific understanding of enabling environments. Collaborations with public-sector initiatives can help improve conditions for scaling.

Lesson 5: Organising DCs proved challenging, with stronger outcomes closely linked to follow-up investment opportunities within Funds. Strategic linkage of DCs with FMO investments enhanced replication and scaling potential.

Lesson 6: Proactive TA can boost programme effectiveness, as demonstrated by LCIP's success in institutionalising knowledge. Aligning services with immediate investee needs and scaling priorities is essential.

Lesson 7: The innovative and high-risk nature of MFF necessitates long-term perspectives. Dedicated staff and rigorous ESG diligence have been critical, with benefits increasingly evident through alignment of the FMO's Forestry Strategy with MFF objectives.

Lesson 8: Clear roles, adaptive management, and well-documented decisions enhance operational efficiency and accountability. Continuous revision of targets ensures realistic achievements in this pilot programme.

Recommendations

Recommendation 1: Matching investments and investors. Adopt a strategic and targeted approach to aligning FSLU investments with suitable investors, considering how different sub-sectors, project types, and asset classes could match the financial and impact objectives of different investor types. (UK/IFU and FMO strategic team, short-term)

Recommendation 2: Concessional investments and MFF consortium model. For the UK and other governments to sustain, or gradually increase, concessional investments in MFF through FMO beyond the currently confirmed top-ups, and to progressively engage additional donors in MFF funding as FSLU business models are validated, and the pipeline of bankable projects grows. (UK/IFU and FMO strategic team, medium to long-term)

Recommendation 3: TAF advisory services and learning platform. Refine MFF's Technical Assistance Facility for advisory services (TAF component 1) and learning partnerships (LCIP) to address certain structural challenges in TA advisory services, further sharpen the thematic focus of the learning platform and develop closer institutional linkages with other organisations and programmes. (UK/IFU, FMO strategic and TAF teams, short-term)

Recommendation 4: Context & enabling environment. MFF (and FMO) should use learning partnerships to better understand how policy, regulatory, and infrastructure environments affect FSLU project viability across contexts. These insights should guide portfolio development, prioritising enabling environments. Collaboration with UK/IFU and other agencies can help share experiences and indirectly foster more favourable conditions for private sector FSLU investments. (UK/IFU and FMO strategic team, short to medium term)

Recommendation 5: Operational efficiency and governance. The evaluation has identified four areas where operational efficiency, focus and clarity could be improved. These include (i) formalising decision-making and consolidating reporting to enhance transparency and accountability, (ii) refining the UK's role in early-stage investment decisions for better alignment, (iii) strengthening ESG impact reporting through the ESG+ department, and (iv) revisiting the investment and holding periods to ensure sufficient flexibility for long-term FSLU projects. (FMO operational team, UK/IFU on last point, short-term)

Recommendation 6: Theory of Change & Evaluations. MFF's Theory of Change should be further refined and FMO evaluations for knowledge building should be strengthened, including by addressing some themes and questions coming out of this evaluation's evidence mapping. To strengthen the ToC, define pathways and conditions for attracting different investor categories across diverse investment types, including the distinction of forestry investments from those targeting deforestation-free agriculture and sustainable landscapes. Incorporate assumptions and conditions for various project types and investor goals, and outline activities, outputs, and outcomes of the TAF following its planned 2025 IFU review. (FMO strategic team and UK/IFU, short to medium term)

1. MFF in brief and evaluation objectives[1]

The Mobilising Finance for Forests (MFF) programme is a GBP 200 mln (USD 255 mln) blended finance initiative launched in 2021 to enhance private sector investments in Forests and Sustainable Land Use (FSLU) projects, combating deforestation and promoting forest conservation in key tropical regions.[2] MFF is funded by the UK Government's International Forests Unit (IFU) within the Department for Energy Security and Net Zero (formally known as the Department for Business, Energy & Industrial Strategy, BEIS), and administered by FMO, the Dutch Entrepreneurial Development Bank. In 2024, the Dutch Government agreed to provide MFF with an additional support up to USD 33.5 mln. The programme directs concessional capital to high-risk FSLU projects in developing or emerging economies with substantial mitigation potential and significant co-benefits, such as biodiversity enhancement and economic development. By demonstrating the viability and profitability of these projects, MFF aims to mobilise private sector investments. Operating from 2021 to 2038, with investments occurring in the first seven years, 75% of the budget is allocated as concessional capital, up to 20% for repayable pre-investment Development Contributions (DCs) to cover early-stage costs and improve bankability of innovative project models. Additionally, up to 5% is designated for mostly post-investment Technical Assistance (TA) and learning. MFF funding is distributed across various locations.[3] MFF's current portfolio includes eight projects, of which three are Funds and five are DCs and directly funded projects by FMO .[4] The Funds are primarily financed through a combination of debt and equity investments. The projects are potentially scalable initiatives funded through DCs or direct FMO investments, with debt or equity.

This evaluation is an early-stage assessment of FMO's implementation of MFF, intending to assess the progress made towards its objectives and identify the areas for improvement to guide the next phase of the programme. Through a combination of portfolio and stakeholder analysis, key informant interviews, field observations (visit to EAT project in Ecuador and Amazonia Nativa in Colombia) and a thorough review of MFF's Logical Framework (also referred to as the LogFrame), the evaluation resulted in a set of eight recommendations guiding the overarching strategy moving forward and improvements that could be made at the implementation level.

This report is organised as follows: Section 2 presents the methodology used to answer the Evaluation Questions (EQs). Section 3 presents the findings structured by OECD-DAC criteria. Section 4 concludes, and

[1] Disclaimer: Customer names and identifiable information has been left out of the public version of the report to prevent sensitive information to become public.

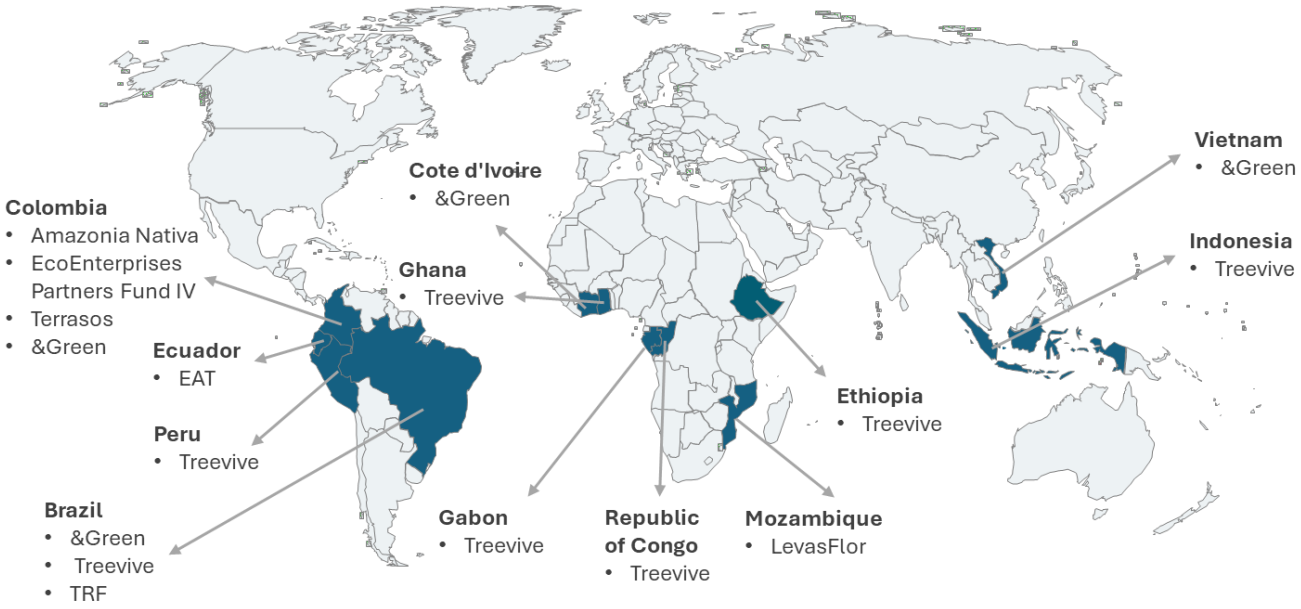
[2] The initial MFF funding of GBP 152 mln from the UK government was expanded in 2024 by GBP 48 mln. At the same time, the initial Fund investment period was extended by two years from 2021-2026 to 2021-2028, the 10-year holding period remained unchanged. https://www.gov.uk/government/news/uk-unveils-funding-boost-to-help-forest-nations-fight-climate-change

[3] Tier 1 countries: Brazil, Colombia, Peru, Ghana, Ivory Coast, Republic of Congo, Democratic Republic of Congo, Gabon, Indonesia, and Malaysia. Tier 2 countries: Mexico, Paraguay, Ecuador, Nigeria, Ethiopia, Kenya, Tanzania, Mozambique, Zambia, South Africa, India, Myanmar, Thailand, Laos, Cambodia, Vietnam, and the Philippines.

[4] This includes all projects implemented or signed by MFF as of March 31, 2025

shares lessons learnt, and Section 0 proposes actionable recommendations for both strategic and operational improvements.

Figure 1: MFF Active Investment Map



Source: ADE, based on MFF portfolio

2. Methodology

The evaluation methodology follows a theory-based approach combining quantitative and qualitative methods aiming at answering the EQs (Table 1). The evaluation aims to inform and strengthen current MFF programming and activities, as well as other future investments, through a learning-oriented and forward-looking assessment of MFF's progress since 2021. The research and reporting of this evaluation have been structured around questions that align with the OECD-DAC evaluation criteria[5] – relevance, coherence, effectiveness & efficiency – and consider the additionality of the investment projects. The report has been structured around key themes which cover all EQs but do not necessarily follow the exact order of the EQs presented below.

Table 1: Evaluation and Learning Questions

Evaluation and Learning Questions
Criterion: Relevance
EQ1: To what extent are the MFF programme activities relevant for the objectives it is trying to achieve? What is the existing evidence supporting the Theory of Change causal links? Where is the evidence weaker, missing or even conflicting?
EQ2: To what extent are the investments in the portfolio relevant and in line with the programme mandate, and Fund targets and priorities? Are investments going to region, sectors and Funds/projects as envisioned in the agreement?
EQ3: Are the MFF programme activities in line with the activities as described in the Theory of Change?
Criterion: Coherence

[5] OECD-DAC evaluation criteria; https://www.oecd.org/en/topics/sub-issues/development-co-operation-evaluation-and-effectiveness/evaluation-criteria.html

EQ4: How does the programme interact with other similar programmes?[6]
Criterion: Effectiveness
EQ5: What is the overall effectiveness of MFF to date in achieving progress towards its expected objectives as mentioned in the ToC and its results framework (output level).
EQ6: What are challenges in effectively executing the activities and meeting the KPIs MFF was set out to execute?
EQ7: How effective is the Technical Assistance (TA) support?
EQ8: How effective is the Development Contribution (DC) tool in building bigger and faster pipelines for FMO (as a Fund managers) and Fund managers FMO invests in?
EQ9: To what extent are reporting, monitoring and evaluation systems able to assess progress, steer decisions, and contribute to learning?
EQ10: Are MFF internal processes adequate in assessing and mitigating risks (financial and ESG)?
Criterion: Efficiency
EQ11: To which extent are internal procedures and processes of MFF efficient?
EQ12: Is the governance well-structured, are responsibilities clearly defined?
Criterion: Additionality
EQ13: To what extent does MFF invest in Funds and projects that would otherwise fall outside the risk appetite and expected returns of the commercial market? (financial additionality)
EQ14: To which degree does it Fund projects that would not be funded by FMO's own balance sheet (FMO-A) or other DFIs with comparable risk appetites?
EQ15: To what extent is MFF non-financially additional, especially through ESG additionality for transformation and by developing and scaling (innovative) business plans and products, such as through MFF development contributions and TAF?
EQ16: To what extent does MFF catalyse resources from FMO-A, DFIs commercial investors or other investors?
Criterion: Lessons Learnt & Recommendations
EQ17: How has FMO addressed the recommendations made in previous reviews (e.g. the DP Review, annual reviews)?
EQ18: What learnings can be identified for MFF in order to improve implementation of the programme, in terms of effectiveness, efficiency, relevance and additionality?
EQ19: What recommendations are there to optimise the management of MFF, improving the relevance, effectiveness and its efficiency to reach its objectives?

Source: ADE

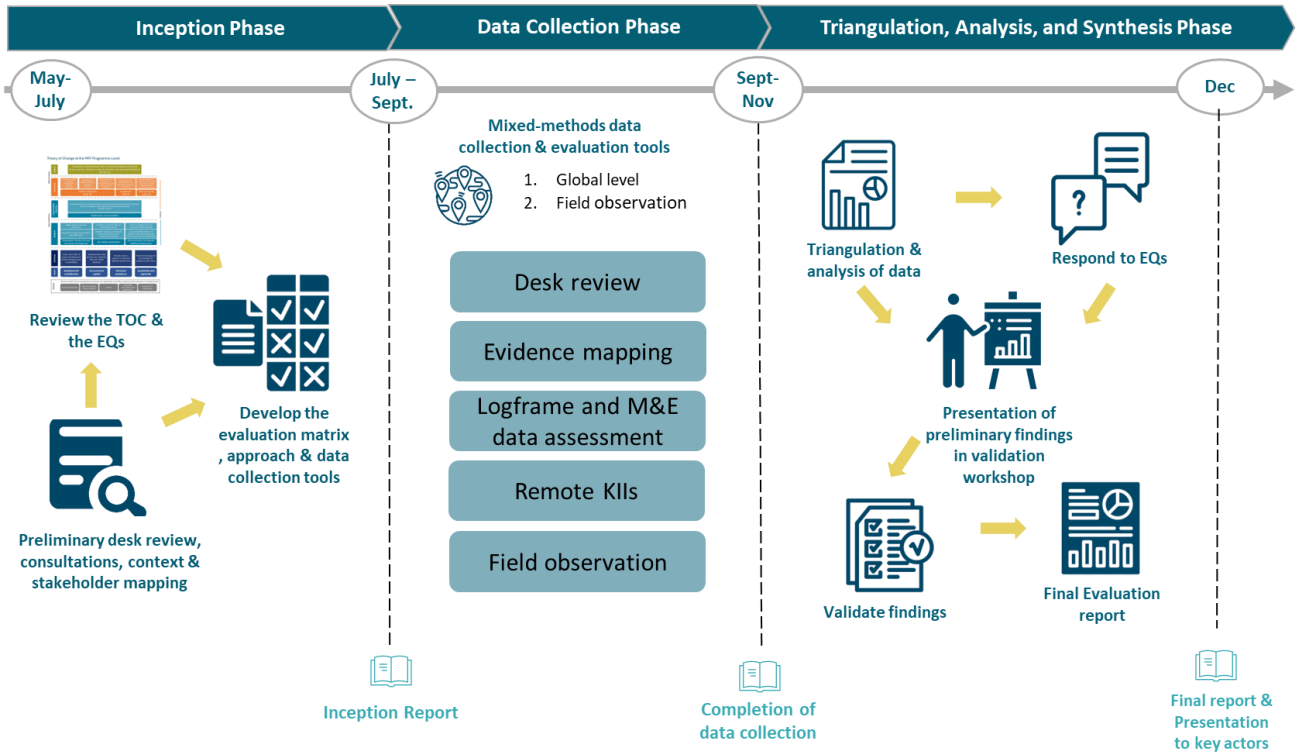
As shown in Figure 2, the evaluation process consisted of three phases. During the *Inception Phase*, the Evaluation Team (ET) refined the evaluation scope and methodology through consultations with stakeholders, including FMO, the IFU programme team, and UK ICF analysts, and developed an EM to guide the process.

During the *Data Collection Phase*, the ET conducted desk reviews, portfolio analysis, evidence mapping, and Key Informant Interviews (KIIs).. The team also assessed MFF's Theory of Change (ToC), MFF LogFrame, and Monitoring and Evaluation (M&E) framework. All collected information and data were systematically coded and organised according to the evaluation questions, using MAXQDA software. In the subsequent *Triangulation, Analysis, and Synthesis Phase*, the ET employed a triangulation matrix to corroborate findings from various data sources, identify linkages, and derive conclusions and recommendations. This process culminated in a joint workshop with FMO and IFU stakeholders, where preliminary findings were validated,

[6] Including P4F

and the cooperative development of actionable recommendations for strategic and operational improvements was initiated. Based on the analysis and validation workshop, the ET drafted the final evaluation report, which was revised by FMO and IFU stakeholders. Their input has been incorporated into the current report.

Figure 2: Evaluation Approach



Source: ADE

Limitations

The evaluation faced several limitations. First, this early-stage programme evaluation was conducted approximately three years after the start of most MFF's activities and investments, meaning that many investments, projects, and activities were still in their early stages of implementation (as anticipated in the Terms of Reference).

The evaluation also coincided with a transition period between two MFF portfolio managers in the FMO Partnership for Impact Department, which led to some delays in the information and data collection processes. However, this did not affect the findings of the evaluation. The evaluation team acknowledges and greatly appreciates the support provided by the FMO evaluation manager in addressing these and other challenges, ensuring the smooth facilitation of the process.

Lastly, the evaluation team conducted two country field visits to project sites in Ecuador and Colombia through its regional team member. The entire team benefited from virtual participation in several interviews during the mission and from debriefings provided by the colleague who conducted the field visits. Although this approach could not fully replace the planned visits by senior team members – which were cancelled due to overlapping missions by FMO and the UK – it proved to be a valuable and productive alternative.

3. Findings

1. Relevance and Coherence

This chapter begins with an overview of the ongoing policy relevance of MFF for both the UK and FMO, considering various changes that have occurred over the years. It then discusses the alignment of MFF's portfolio with the programme's mandate and objectives. The chapter concludes with a brief review of similar and complementary initiatives to MFF, their coherence within the broader context, and an overview of the status and preliminary findings of the evidence gap mapping exercise.

Summary findings on Relevance & Coherence

〉 **MFF is relevant for the UK's prioritisation of sustainable forestry and biodiversity**, supported by significant UK funding commitments of GBP 3 bln for nature. MFF is also relevant for FMO's corporate goals to achieve a net-zero portfolio by 2050, with ambitions for a forestry portfolio of up to EUR 1 bln by 2030 and well aligned with its new 2022 Forestry Strategy and other corporate strategies.

〉 **MFF investments align well with the programme's mandate**, focusing on environmental and social impact and financial viability through a balanced portfolio of investments covering sustainable forest investments and deforestation-free commodities. However, geographic imbalances persist, with few, albeit increasing investments in Africa and Asia due to multiple risks and challenges.

〉 **MFF collaborates** with similar initiatives and organisations, leveraging partnerships with governments, DFIs, other Funds, and technical service providers to enhance impact. These efforts foster alignment in sustainable investment strategies, support bankable FSLU models, and enhance sustainability goals.

1.1. Policy relevance of the MFF programme to the UK and FMO

Sustainable forest investments and reduced deforestation are highly relevant to the UK as emphasised in the 2020 International Climate Finance Business Case[7], and their importance has only grown since UNFCCC COP26 in Glasgow (2021). During this conference, the UK committed to doubling its international climate finance, earmarking GBP 3 bln for nature, specifically GBP 1.5 bln for forest preservation. The UK has pledged to reduce its environmental footprint and has demonstrated G-7 leadership through initiatives like the Glasgow Leaders' Declaration on Forests and Land use and the Leaders' Nature Compact, part of the G7

[7] UK Government: Department for Business, Energy & Industrial Strategy. 2020. Mobilising Finance for Forests: An International Climate Finance Business Case.

2030 agenda, which aims to achieve biodiversity goals by 2030.[8&9] Further, at COP15 in Montreal (2022), additional ambitious biodiversity targets were set. In addition to policy commitments, the UK has introduced stringent private sector accountability measures, specifically requiring due diligence across major commodity supply chains.[10] The emphasis on leveraging private sector funding for environmental efforts has increased. However, there are concerns regarding the fulfilment of these pledges. Previous agreements, such as the 2014 New York Declaration on Forests, fell short in significantly reducing deforestation. The recent COP16 in Cali (2024) did not result in a consensus on funding.

For FMO, the forestry and forest protection agenda has gained added relevance since FMO adopted its new Forestry Strategy in late 2022 which expanded investments in Sustainable Natural Forest Management and Nature-Based Solutions, beyond traditional plantation models. New investment criteria have been established to support these forestry initiatives. FMO is targeting a net-zero carbon portfolio by 2050, with ambitions for up to EUR 1 bln forestry portfolio by 2030, including support for deforestation-free commodities. FMO's forestry investments are closely linked to the Organisation's Strategy towards 2030: Pioneer – Develop – Scale[11] and its Climate Action Plan,[12] where FMO commits to building EUR 10 bln portfolios in both SDG 13 (Climate Action) and SDG 10 (Reduced Inequalities) and reaching Net Zero by 2050. FMO's forestry investments are expected to contribute to the climate action target and to meet the global demand for timber with sustainably managed forestry plantations.

1.2. Alignment of investment portfolio and activities with MFF objectives

EQ2 To what extent are the investments in the portfolio relevant and in line with the programme mandate, and Fund targets and priorities? Are investments going to regions, sectors and Funds/projects as envisioned in the agreement?

EQ3 Are the MFF programme activities in line with the activities as described in the Theory of Change?

Funds and projects under the MFF programme are well aligned with the core mandate and objectives of MFF's Contribution Agreement and the ToC. The 2024 MFF Annual Meeting report effectively presented the current portfolio of signed and pipeline projects along the continuum from solid cash flow to highest environmental and social impact, demonstrating progress toward a balanced portfolio (see Figure 3 below).

[8] FCDO, EFR, BEIS. 2021. Corporate report. Government response to ICAI recommendations on international climate finance: UK aid for halting deforestation and preventing irreversible biodiversity loss. https://www.gov.uk/government/publications/government-response-to-icai-recommendations-on-international-climate-finance-uk-aid-for-halting-deforestation-and-preventing-irreversible-biodiversit/government-response-to-icai-recommendations-on-international-climate-finance-uk-aid-for-halting-deforestation-and-preventing-irreversible-biodiversit

[9] UK Parliament. The UK's contribution to tackling global deforestation. House of Commons Committee report, with recommendations to government. Fourth Report of Session 2023–24 https://publications.parliament.uk/pa/cm5804/cmselect/cmenvaud/405/report.html

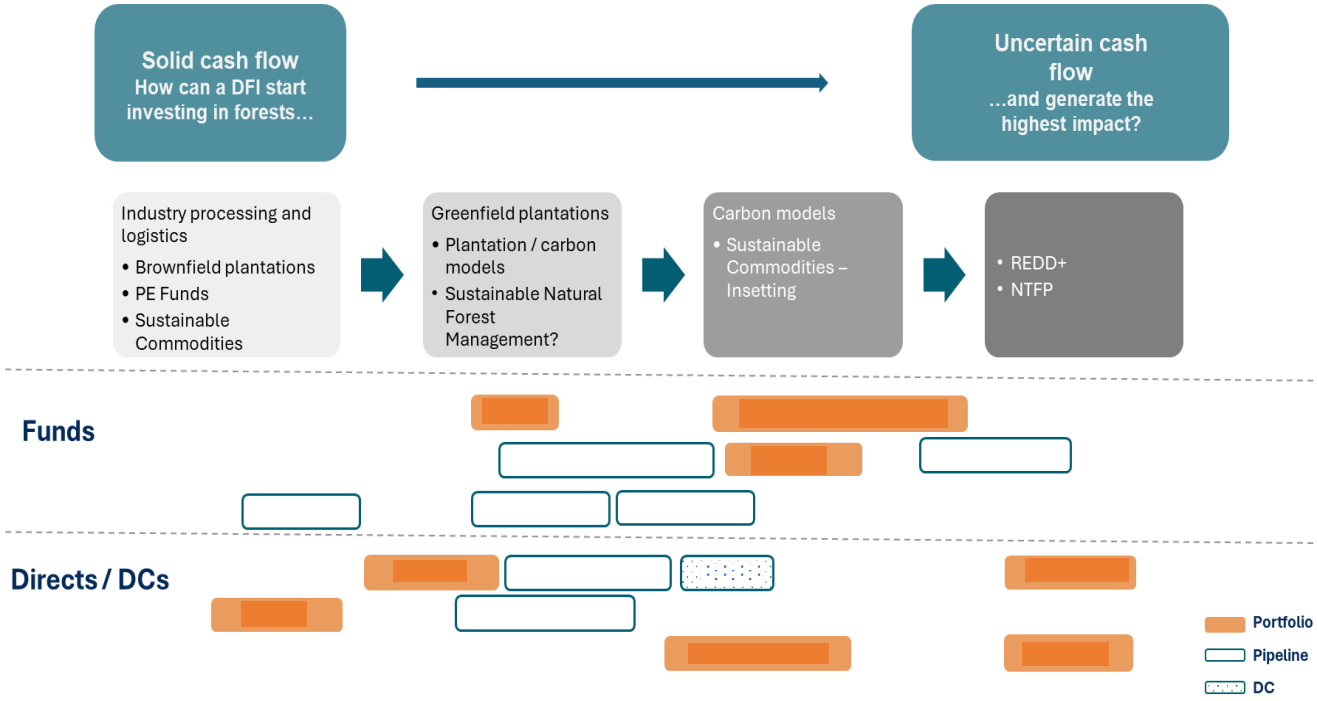
[10] UK Government. Government sets out world-leading new measures to protect rainforests. Press release. Nov. 2020. *https://www.gov.uk/government/news/government-sets-out-world-leading-new-measures-to-protect-rainforests

[11] FMO. Strategy 2023. https://www.fmo.nl/strategy

[12] FMO. 2022. Climate Action Plan: Building on our achievements and taking additional action to 2030. https://www.fmo.nl/l/en/library/download/urn:uuid:25c25d01-4d2b-4585-a5ca-dd5682de71fe/fmo+climate+action+plan_2022.pdf

All MFF investments are designed to align high impact with acceptable financial returns for investors. Their positioning on this continuum reflects the associated risks, the likelihood of achieving both objectives and, to some extent, the timeframe required to reach these goals in a satisfactory manner.

Figure 3: Investment towards a balanced portfolio



Source: ADE, update based on original figure from MFF/UK Semi-Annual Meeting June 2024

MFF's portfolio is currently weighted somewhat more towards Funds and projects that prioritise high environmental and social impact than those expecting to see solid cash flows with fewer risks. This aligns with the MFF Programme's mandate as an innovative pilot programme aimed at making positive environment and social impact-focused investments more appealing to long-term investors. The current portfolio comprises Funds targeted at both commercial and impact-driven investors. While five investments are more geared toward high environmental and social impact – for now funded mostly by governments, DFIs, and impact investors – three investments are more commercially oriented, combining solid cash flow expectations with meaningful impact. In terms of investment volume, approximately 54% of funding is directed towards Funds and projects that are more impact-focused, while the remaining 46% support initiatives that are more cash-flow-oriented (Figure 3).[13]

By the end of March 2025, MFF utilised slightly less than 50% of its dedicated initial funding – USD 96.46 mln of USD 194 mln – for capital investments in eight Funds or direct FMO investments (see Table 2).[14] The portfolio achieves balance across project types and asset classes, with investments in deforestation-free commodities (one Fund) as well as in standing forests and restoration (five or more Funds or projects). Several investments incorporate Nature-Based Solutions that are often linked to carbon credit. Biodiversity is mainstreamed as a risk to be mitigated in all MFF investments, and more explicitly targeted in one DC. This

[13] This analysis follows the way that FMO grouped MFF projects in Figure 3.
[14] The total amount does not include planned top-up by the UK and Dutch Government for MFF. This includes all implemented and signed agreements.

diversification underscores MFF's commitment to support a wide range of impactful, sustainable initiatives in line with its objectives. Additionally, there is a pipeline of approximately USD 170 mln spread across four Funds, six FMO direct investments, and six DCs.

The pipeline shows promise for further diversification and geographic balancing of investments, though it is acknowledged that some pipeline projects may not materialise, as was the case with the 2022 pipeline. Overall, MFF's portfolio is reasonably balanced and aligned with the ToC, encompassing the primary project types originally envisioned.

Table 2: MFF Programme and other investments by 31 March 2025 (contracted)

Investee Name	Fund/ Investment	MFF investment (USD, mln)	Effectiveness date	Type of investment
Customer	Fund	31.5 1.75	01/03/2021	Fund / Foundation (Deforestation free commodities)
Customer	Fund	40	Signed in Q3/2024	Investment Fund (Forestry, carbon credit)
Customer	Fund	15	Signed in March 2025	Impact Fund
Customer	Direct Investment	3	2022	Owned by a Fund
Customer	DC	2.5	08/11/2022	Forest carbon project developer
Customer	DC	0.59	12/04/2024	Biodiversity credits
Customer	DC	0.91	25/04/2024	Native species timber, NTFP, carbon credit
Customer	DC	1.21	05/11/2024	Sustainable natural forest management (plus carbon credit)

Source: ADE, own elaboration based on available financial information

MFF's portfolio includes a diverse array of investment types, such as indirect investments through Funds, direct investments by FMO, and DCs managed either directly by FMO or through Funds. FMO-A, the commercially oriented arm of FMO, plays an active role in several of these investments, strengthening the portfolio's alignment with market-driven objectives. The relevance and alignment of individual investments with MFF's mandate and objectives are maintained through FMO's rigorous internal review processes and a formalised consultation and consent mechanism with the IFU. This robust framework ensures that each investment contributes strategically to the programme's goals and delivers measurable impact.

Although the total number of targeted Funds by 31 March, 2025 is below the original plan (with three Funds signed compared to the target of five), progress is being made. More investments (including Funds and DCs) are in the pipeline. Direct FMO investments, including DCs, are on track, with five projects signed so far and more planned to be signed for 2025.. The balanced and adaptive approach reflects MFF's commitment to achieving its objectives while navigating the complexities of the investment landscape.

MFF's portfolio is currently not geographically well balanced across global regions, portfolio companies and emerging DC partners (with the exception of portfolio companies by one Fund). While some pipeline prospects for Africa and Asia exist, challenges in these regions have hindered progress. In Africa, based on, and despite FMO's extensive prior experience in forestry and markets, the terrain presents significant difficulties and risks for MFF, due to poor infrastructure and operating conditions, weak management, and absence of clear route to market. In Asia, particularly Indonesia, issues around management capacity, alternative land use opportunities and a weak and uncertain enabling environment have reduced interest and opportunities for investments. Additionally, an originally planned investment of GBP 150 mln (USD 194 mln) under MFF by the Commonwealth Development Corporation (CDC, now British International Investment, BII), which was intended to focus strongly on Africa and to a lesser extent Asia, never materialised.

FMO's considerable experience in forestry investments in Africa includes several brownfield projects. However, MFF has not yet established a strong presence in the region due to high risks mentioned above and the lack of sufficiently developed Funds and projects. For example, FMO chose not to pursue opportunities in Congo and Togo because of potential reputational risks, among others, illustrating the challenges of aligning investments with both strategic objectives and acceptable risk thresholds.

Since the 2021 UK Business Case, perceptions regarding the role of timber and wood products in profitable and sustainable forestry projects have evolved. MFF's Contribution Agreement refined the focus outlined in the original UK/BEIS Business Case, leading to shifts in targeted sectors and asset classes. While the BEIS Business Case emphasised "sustainable timber plantations with high mitigation potential," the Contribution Agreement broadened the scope to include "sustainable timber plantations" such as hardwood plantations on degraded lands, reforestation initiatives, and micro-forestry models . As one key informant noted, "Timber became a more prominent component of the portfolio as it provided more commercially viable investment opportunities." This broader perspective allowed for the inclusion of mixed or hybrid plantation models that integrate sustainably managed plantation forestry and Nature-Based Solutions. In contrast, high-impact models have also high risks in achieving sustained profitability and bankability. The shift reflects a nuanced approach to funding forestry projects, balancing environmental and social impact with a higher potential for financial viability and satisfactory returns for investors over the long term.

Several investments, did not materialise due to various factors, primarily insufficient management qualifications and disagreements over commercial terms reflecting the challenges of aligning investment opportunities with the rigorous standards and objectives of the MFF programme. FMO emphasises the importance of selecting high-quality investments over simply pursuing volume. This preserves resources for projects with strong potential but also provides investees with valuable learning experience, helping them refine their proposals. Simultaneously, it allows FMO to allocate its coaching and monitoring capacities more effectively.

The current market for FSLU projects has a limited number of immediately bankable and compelling opportunities. To address this gap, FMO takes a proactive approach to market development. By identifying promising opportunities, structuring them effectively, and attracting additional Funds and investors, FMO enhances the quality of its pipeline while fostering a more robust and sustainable market for impactful projects. This strategy ensures a balance between immediate outcomes and long-term market growth.

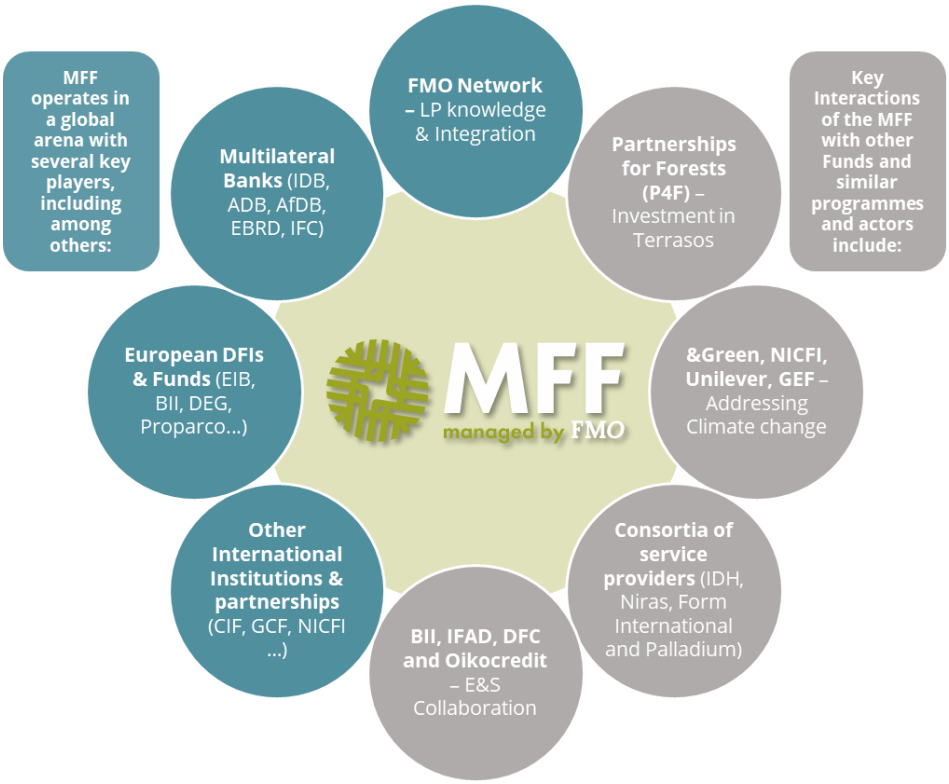
1.3. Coherence with similar programmes

EQ4 How does the programme interact with other similar programmes?

MFF operates in a global arena with several key players, involving various governments and multilateral DFIs that play significant roles in supporting sustainable development and climate-related projects (see Figure 4). Key players include the European Investment Bank (EIB) the BII, the DEG (Deutsche Investitions und Entwicklungsgesellschaft), and NICFI (Norway International Climate and Forest Initiative). Several Multilateral Banks including the World Bank (especially through IFC), IDB, ADB, and AfDB also focus on private sector engagement within climate finance, including in FSLU.

Additionally, there are other national or international Funds similar in mandate to MFF that were mentioned in interviews or documents, such as Building Prospects and Technology Conservation Fund (TCF), Althelia Climate Fund (ACF) and Criterion Africa Partners (CAP) Fund. These institutions and Funds collectively contribute to raising global climate ambition, driving up the quality and volume of climate programming, and supporting sustainable development through various investment and co-investment initiatives.

Figure 4: MFF Interaction within the Climate Finance Arena



Source: ADE, own elaboration based on Documentation review and KIIs

The MFF programme actively engages and collaborates with similar initiatives, governments and DFIs to enhance its impact and effectiveness, especially with Partnerships for Forests (P4F) and with DFIs on carbon credit integrity. These interactions are multifaceted and involve various forms of cooperation, knowledge exchange, and co-investment initiatives. One of the key interactions is with P4F, and although not formally

connected, the two programmes collaborate closely to support clients. In 2024, this partnership led to the programme's direct contribution in Terrasos, a P4F partner. A joint MFF-P4F event in London in 2023 brought together key stakeholders in the FSLU sector, to discuss finance opportunities to protect and restore tropical forests. Knowledge exchange with government entities, especially from the UK and the Netherlands, is another critical aspect of the programme's interactions, including knowledge exchange from similar government-backed initiatives and exploring opportunities for collaboration.

MFF has also strongly benefited from collaboration with well-known technical service providers in FSLU, such as IDH, Form International, Niras and Palladium that are brought together through its Technical Assistance Facility (TAF). Other interactions with other like-minded international development organisations and impact investors, such as IFAD, DFC, IFC, Proparco, and Oikocredit, ensure alignment in sustainable investment strategies, help disseminate bankable FSLU business models, and underscore the programme's commitment to leveraging synergies and sharing knowledge on environmental protection and social initiatives. MFF regularly convened with several DFIs through various activities organised by MFF's Learning, Convening, and Influencing Platform (LCIP), including BII, DEG, Swedfund and Finnfund. Representatives from several of these DFIs have highlighted the positive impressions of MFF and FMO in key interviews, notably mentioning the benefits of the collaboration, capacity building efforts and learning exchanges regarding carbon markets and their integrity. Stakeholders have encouraged future exchanges and learning, particularly focusing on carbon credit markets and their complexities in an evolving sector.

Collaboration with service providers in the TAF gives MFF access to extensive international and local operations networks, enhancing the programme's ability to interact with similar initiatives and share insights with commercial stakeholders. MFF has also been collaborating with organisations like Restoration Seed Capital Facility (RSCF), The Nature Conservancy (TNC), and IDH in regional events, such as the Regional Investor Event in Brazil which brought together a wide range of regional stakeholders to share knowledge around investment opportunities in environmental sustainability.

Investing alongside other government and international partners is another important part of the programme's interactions and synergy strategy. MFF strategically co-invests in Funds =, alongside partners =addressing climate change collectively. This joint effort has enhanced the programme's capacity to contribute to broader environmental goals shared with other organisations.

1.4. Evidence mapping

EQ1 To what extent are the MFF programme activities relevant for the objectives it is trying to achieve? What is the existing evidence supporting the Theory of Change causal links? Where is the evidence weaker, missing or even conflicting?

The evidence mapping exercise served to review the existing evidence for causal links in the programme ToC, identifying which are well-supported, under what conditions, and where further testing and collection of evidence could be useful. It aims to pinpoint key evidence gaps for FMO's evaluation strategy for its MFF initiative while informing potential ToC revisions. Evidence mapping does not assess how effectively causal relationships have functioned within the programme but rather looks at the extent to which evidence supports

the ToC ex-ante validity.

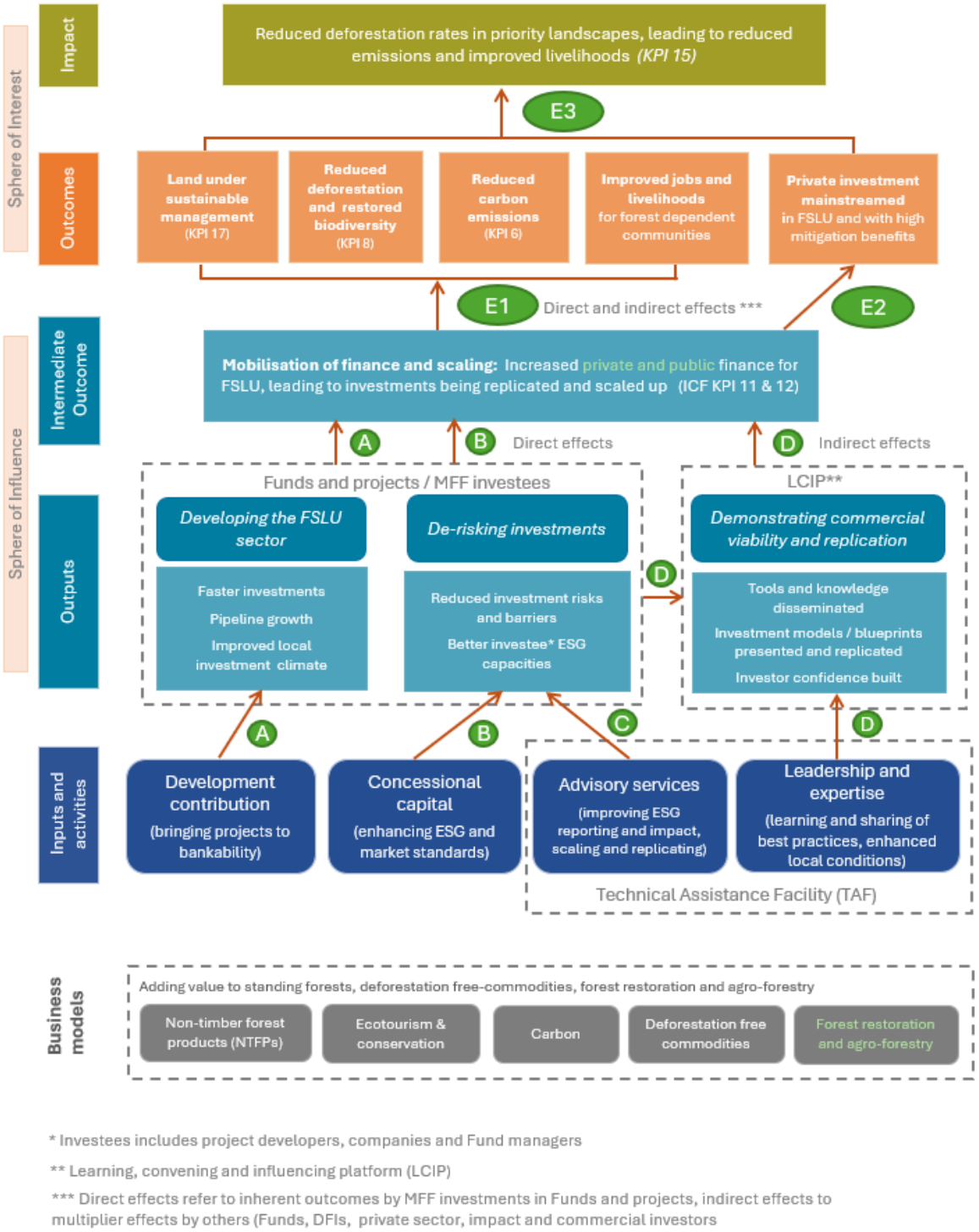
This evidence mapping began with a review of selected literature, starting with sources used by UK/BEIS for MFF's Business Case, supplemented by P4F documents, academic literature, and institutional reports. Additional literature was identified through targeted searches aligned with the mapping's hypotheses and research questions. Due to scope and resource constraints, the evaluation team did not seek documents from key informants or DFIs.

The assessment identified two key impact pathways in the Theory of Change: direct effects of MFF investments in Funds and projects, including some replications and scaling, and indirect effects through mobilisation of finance and replication and scaling of FSLU models and blueprints by DFIs, Funds, and private/public entities.

Seven specific causal links were evaluated for validity, guided by corresponding hypotheses and research questions .

- A: Development Contributions increase the supply of bankable investments, leading to the mobilisation of finance and scaling.
- B: Concessional capital and blended finance de-risk investments and enhance investee capacities for ESG management, enabling replication, scaling, and finance mobilisation.
- C: Ex-post technical advisory services improve ESG management, reporting, and impact while facilitating direct replication and scaling through supported Funds.
- D: By combining experiences, models, and blueprints from Development Contributions and concessional investments with leadership and expertise, the programme demonstrates the commercial viability and replicability of FSLU projects, mobilising finance and scaling.
- E.1: The mobilisation of private and public finance, both direct and indirect, drives scaling efforts, resulting in various environmental and social outcomes.
- E.2: Private investments mobilised and scaled through MFF lead to the mainstreaming of such investments in targeted landscapes.
- E.3: Environmental and social outcomes, along with mainstreamed private sector investments, contribute to reduced deforestation, lower emissions, and improved livelihoods in priority landscapes.

Figure 5: MFF Theory of change with causal links[15]



* Investees includes project developers, companies and Fund managers

** Learning, convening and influencing platform (LCIP)

*** Direct effects refer to inherent outcomes by MFF investments in Funds and projects, indirect effects to multiplier effects by others (Funds, DFIs, private sector, impact and commercial investors

Source: FMO, Revised ToC (Nov./Dec. 2021)

1.4.1. Key findings and research implications

Causal link A is valid to some extent, but several factors and conditions that determine the effectiveness of Development Contributions for FSLU, and thus the validity of the link, remain uncertain.[16] Some evidence

[15] While retaining all the key elements of the original MFF Theory of Change , the text within the boxes was slightly abbreviated to enhance clarity and improve visual presentation.

[16] For an overview of the validity and conditionality of all causal links please refer to Table 3..

supports causal link A, but the term 'Development Contributions' and its concept are not that widely used in the published literature, and in the same way as in MFF. This limits the evidence. Yet, readiness support and technical assistance, as a proxy for DCs, were found to be enablers for bankable FSLU investments in several publications, with some evidence – mainly from P4F – supporting their role in driving additional finance, replication, and scaling. Future research should focus on addressing gaps on DC effectiveness and providing more targeted evidence for identifying factors and conditions under which DC fosters mobilisation, replication and scaling. This includes the question of which types of FSLU projects have more readily available bankable models and which do not.

Causal link B is generally valid, showing a clear positive cause-effect relationship between blended finance and mobilisation of private sector finance, with less evidence that this also applies for FSLU and the value addition of ESG support embedded in MFF FSLU concessional finance. Evidence highlights the potential of blended finance and concessional funding for de-risking and mobilising FSLU investments, though specific examples are limited. The literature, however, lacks clarity on conditions for mobilising second-round funding or whether blended support should be temporary or permanent. Where risk-adjusted returns are sufficient, blended finance may eventually become unnecessary, but where returns remain low, concessional finance will still be required to attract private investors. Future research should explore sector-specific uses of concessional finance, conditions for replication and scaling, and exit options based on realised risk-adjusted returns. The evidence for ESG effects through this causal link highlights the potential of combining concessional funding with ESG guidance to enhance project standards and investor capacities. Most examples are from non-FSLU sectors, highlighting the need for targeted research on FSLU investments.

Causal link C is valid in terms of the general knowledge and evidence about effectiveness of TA in similar contexts. Existing literature highlights TA as crucial for project bankability and scaling, but mostly with insights from other, sometimes related development sectors and contexts. But evidence is scarce on how post-investment TA specifically contributes to better manage and report on ESG in the FSLU context. Further research is needed to assess the effectiveness of TA for different FSLU sub-sectors and contexts, to be informed by broader DFI experiences including FMO's. As MFF has delivered few TA services, this is a longer-term research priority.

Causal link D holds true to the extent that LCIP networking events and activities effectively convene and inform potential investors about improved FSLU tools, models, and blueprints while also building their confidence. But the cause-effect relationship between these TA efforts and the mobilisation of private and public finance emphasised in this link is highly context-dependent and influenced by how the platform will be addressing the financial sufficiency of FSLU models in different contexts. Financial sufficiency (i.e., commercial viability) remains the major challenge for replication and scaling, as FSLU projects often face low returns, high risks, and long payback periods. Tailored, context-specific solutions, that incorporate innovative financial models and ecosystem service valuation, are crucial for enhancing the competitiveness of FSLU investments. To maximise impact, these investments must also align with local policies, regulations, and governance frameworks. Combining MFF's learning platform with robust research to tailor solutions for different contexts could support mobilising targeted finance, drive sustainable outcomes, and establish a scalable system for FSLU projects. Research on this causal link should enhance platform functionality and

impact through informing and fostering financial partnerships between projects and investors. Studies based on MFF and other programs/projects could enhance the understanding of the interplay between financial sufficiency, enabling environment contexts, and investor expectations, ultimately informing the platform in its work. MFF could add value by building an evidence base on which FSLU sub-sectors and projects align with different investor categories (e.g., commercial, DFI/public, impact investors) across various environments and country contexts.

Causal link E.1 is valid, but achieving desired outcomes requires considering and monitoring enabling conditions and key success drivers. Evidence shows that public and private FSLU investments can deliver significant environmental and social benefits under the right conditions. Examples from Ecotrust Forest Management, P4F in Ghana, and IKEA highlight the role of market-driven solutions alongside government efforts. Secure land tenure, strong policies, and community governance are critical for sustainability, while weak regulations and scaling challenges need continued focus to unlock FSLU's transformative potential.

Causal link E.2 is almost tautologically linked in its cause-effect relationship: with more private and public FSLU projects in priority landscapes, the sector is increasingly mainstreamed in these landscapes. It may be useful to provide a definition of mainstreaming.

Causal link E.3 is valid but heavily dependent on addressing leakage and ensuring good governance. Strategic site selection, private and public sector participation, robust tracking systems, tailored intensification strategies, and secure tenure rights are critical for landscape-wide impacts. These measures reduce displacement effects and maximise restoration benefits. Long-term validity requires FSLU practices to be economically viable and competitive with alternative land uses.

In sum, all causal links in MFF's ToC are valid to some extent, but significant uncertainties remain regarding the strength of their cause-effect relationships particularly for FSLU, and more specifically for certain project and investment types under MFF/FSLU. Evidence from other sectors may not fully transfer to FSLU due to its unique characteristics, such as long investment periods and the challenge of balancing financial returns with high environmental and social impact. Certain project types, like deforestation-free commodities, agroforestry, and forest conservation, often involve numerous small primary actors, making governance complex. Additionally, the effectiveness of cause-effect relationships is heavily influenced by context, enabling political and regulatory environments, capacities of institutions and firms, and other conditions, particularly for scaling and replication through private sector investments and even DFIs.

Research should prioritise the spheres of influence where MFF expects impact, specifically causal links A–D. The greatest value is likely to come from strengthening MFF's multiplier effects, particularly through the LCIP but not only, while tailoring its role to diverse stakeholders and projects, various investor types and targeted landscapes and geographies. Additionally, addressing how to maximise the role of Development Contributions, especially for replication and scaling, remains a critical gap in current knowledge.

Table 3: Validity of causal links and conditionalities in MFF's Theory of Change

Level of link	Link	Start		End	Validity of link and conditionalities
Inputs and activities to intermediate outcome	A	MFF covers the development costs of some FSLU projects, up to 50% (Development Contributions/DC)	→	Activities, inputs and related outputs lead directly to accelerated mobilisation of finance, replication and scaling through MFF supported Fund and project investments, including multiplier effects in these Funds and at the project locations	Persisting uncertainties about necessary factors and conditions for DC to facilitate their replication and scaling and effectively mobilise finance
	B	MFF provides first-loss tranches of capital to FSLU investment sub-funds (concessional capital)	→		A clear, positive cause-effect relationship of blended finance and PS mobilisation overall, with some uncertainties about the validity of embedded ESG links
	C	MFF provides post-investment technical advisory services to sub-fund investees for ESG management and replication	→		Valid in general, with less evidence and certainty in the context of FSLU
	D	MFF demonstrates the commercial viability and replicability of blended finance and other business models for FSLU through sharing best practices and joint learning from MFF (LCIP)	→	Activities, inputs and related outputs lead indirectly to accelerated mobilisation of finance, replication and scaling through a diversity of private and public partners; through demonstrated commercial viability and replicability of FSLU investments	Highly dependent on how the MFF learning platform is able to communicate the financial sufficiency (or commercial viability) of FSLU models *in different contexts and for different types of investors*
Intermediate outcome to outcomes	E.1	Additional public and private finance for FSLU becomes available and projects are replicated and scaled up, directly through MFF funding and indirectly through multiplier effects; FSLU sectors are better developed, and commercial viability is evident	→	Intermediate outcomes will result in an increased area of forest and agricultural lands under sustainable management, reduced deforestation and restored biodiversity, lower carbon emissions and improved jobs and livelihoods	This causal link holds true if investments are well designed, implemented and aligned with, and adaptable to, enabling policies and markets
	E.2		⇨	MFF intermediate outcomes will lead to mainstreaming of FSLU investments in targeted landscape	There is no specific evidence on this link, but its cause-effect relationship is highly plausible (even if it also depends on the definition of mainstreaming)
Outcomes to impact	E.3	The increased area of sustainable land management, reduces deforestation and improves biodiversity, causes fewer carbon emissions and better jobs and livelihoods; and helps to mainstream private FSLU investments	→	Thus MFF contributes to reduced deforestation rates across priority landscapes, fewer carbon emissions and improved livelihoods	Causal link is valid but heavily dependent on addressing leakage effects and on good governance

Legend:

- **High degree of validity**
- **Valid, but with uncertainties or dependence on essential conditions**
- **No evidence, but plausible**

Source: ADE, based on Evidence Mapping exercise

2. Effectiveness

This chapter begins with a review of the performance of the programme's LogFrame indicators. After some background information on the Funds and companies that MFF has so far invested in, the report proceeds to explore the factors driving broader progress and the potential for balancing financial returns with impact within MFF. In this context, the chapter also analyses key aspects of MFF's progression model, blended finance, and financial additionality, followed by an assessment of the programme's results in environmental and social impact and its performance in mobilising funding, replication and scaling. After identifying a range of challenges and opportunities to meeting MFF objectives, the chapter concludes with an assessment of the performance of the programme's DC and TAF instruments.

2.1. Programme LogFrame results

EQ5 What is the overall effectiveness of MFF to date in achieving progress towards its expected objectives as mentioned in the ToC and its results framework?

Summary findings on MFF's achievement of results

⟩ Output Level: all programme targets were achieved and, in several cases exceeded (such as the number of Fund and direct investments for which an Op-scan has been produced or people reached through convened events, workshops etc. including project developers, investors and the wider investment community).

⟩ Intermediate Outcome Level: public and private finance mobilisation exceeded targets, with significant contributions at the Fund level. However, public and private finance mobilisation targets at the project's level were not met, reflecting challenges in attracting private sector investment.

⟩ Outcome Level: progress was mixed, targets for sustainable land management and job creation were significantly exceeded. In 2024, progress was made in involving private investors, notably through the signing of the contract with TRF.

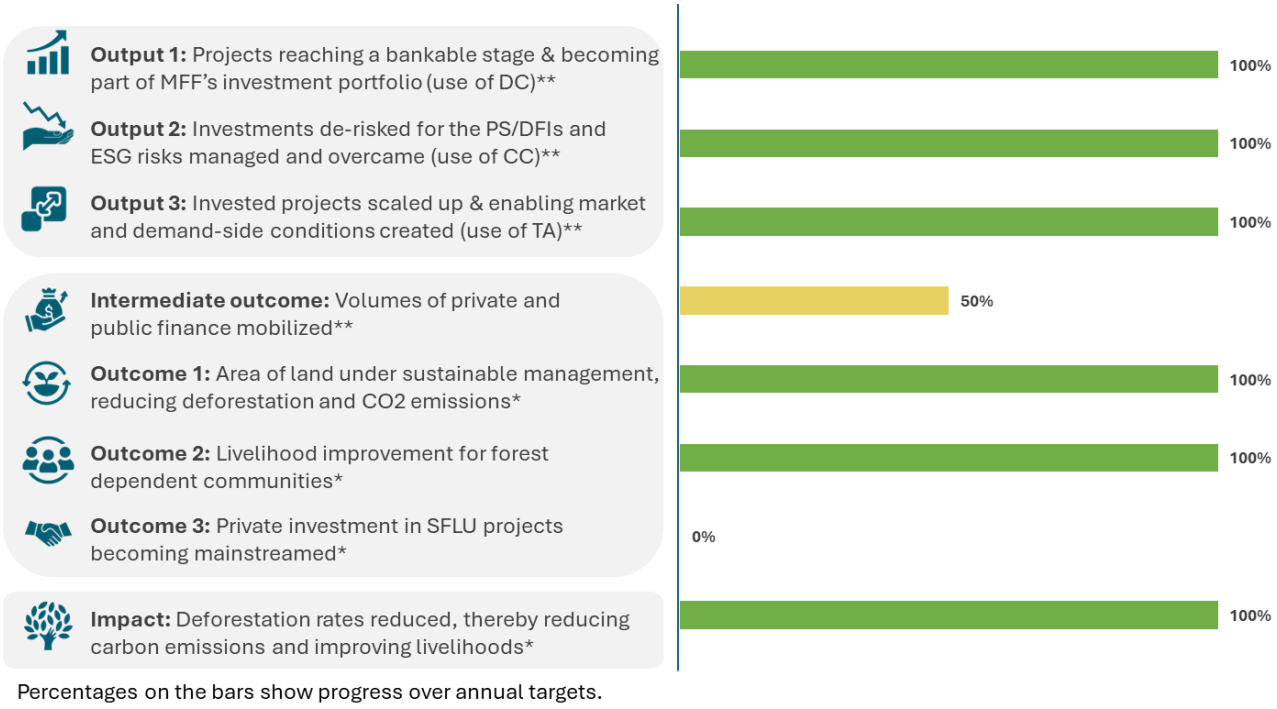
⟩ Impact Level: three years after the launch of MFF, it is still too early to provide a fully accurate assessment, but there is some evidence suggesting that MFF is on track to meet expected impact. The latest annual target has been achieved (set on "3", with "5" being the expected score at the end of the programme).

The assessment of MFF's achievement of expected results presented in this section is based on a comparative analysis of the indicator targets at the various result levels of MFF's LogFrame and the progress reported (see Figure 6). FMO reports on progress on an annual basis, the final figures are a compilation of data collected by the relevant stakeholders. This process of data collection, compilation and reporting takes place in the first months of each year.

The last available MFF's LogFrame reporting is from December 2023, reflecting progress and achievements after 3 years of implementation. Output-level figures have been updated with the most recent data

(December 2024) provided by FMO.[17]

Figure 6: Achievement of targets based on MFF's LogFrame indicators



* December 2023; ** December 2024

Source: ADE, based on MFF M&E data

The detailed progress on the different result levels is presented in the sections below.

2.1.1. Progress at output level

Output 1 relates to the number of projects that thanks to MFF's DC reach a bankable stage and become part of its investment portfolio. The four associated indicators refer to: (1) potential investments that were added to MFF's pipeline, thanks to DC, (2) potential investees in a contracting phase with MFF, thanks to DC, (3) investments legally committed, thanks to DC, and (4) DC started being repaid or becoming part of a larger investment. The targets of 3 out of 4 indicators were achieved and for the remaining one there is no data available yet (1.3 Number of investments that have been legally committed because of the availability of DCs as a tool to bridge the financial viability gap and/or enhance impact).

Output 2 concerns the de-risking of investments for the private sector and DFIs by MFF providing Concessional Capital and by supporting investees to manage and overcome ESG risks. The six associated indicators reflect the different components of MFF's investment process: (1) Op-scan produced; (2) CIP or equivalent approved; (3) DD conducted; (4) FP developed; (5) contract signed and (6) ESG risk category A or B+ obtained. The targets for five of the components of the investment process were exceeded, while the progress achieved for the last indicator is yet to be confirmed (2.6 Number of Fund and direct investments that are ESG risk category A or B+).

Output 3 combines the results of MFF providing TA to Fund managers and direct investees for scaling up

[17] 2024 values are preliminary and may thus still be subject to change in the final 2024 MFF LogFrame.

invested projects, while also promoting activities aiming at creating enabling market and demand-side conditions for commercial investment. The four associated indicators relate to: (1) invested projects being scaled up, replicated or improved, (2) people from the investment community reached through events, workshops, etc. (3) the production and dissemination of knowledge products and (4) the number of countries supported. All targets were exceeded and reported progress included: two invested projects are scaled up, replicated or improved , 396 persons were reached with learning events and workshops, 4 knowledge products have been delivered (Deforestation Free Portfolios, DFI Carbon Integrity Pack, P4F Pitching sessions, and Implementing CC and Integrity), and at least four countries are supported. An additional knowledge product (KP)[18] has been developed and published and a knowledge building trip on plantation forestry was conducted.[19]

2.1.2. Progress at intermediate outcome and outcome levels

The *Intermediate Outcome* concerns the volumes of public and private finance mobilised to the SFLU sector. The associated indicators are International Climate Finance's (ICF) KPI 11 (public finance mobilised for CC purposes) and 12 (private finance mobilised for CC purposes), each subdivided into (1) finance mobilised at the underlying projects' level[20] and (2) finance mobilised at the Fund's level, totalling four indicators.

By 31 March 2025, both public and private finance had been mobilised, USD 3 mln[21] at the underlying project's level and USD 189 mln at the Fund's level. With these volumes, the targets were not achieved for the 1st and 2nd indicators (1.1 Volume of public finance mobilised at projects' level and 1.2 Volume of private finance mobilised at projects' level), while the targets of the 3rd and 4th indicators were significantly exceeded (1.3. Volume of public finance mobilised as a result of ICF funding at the Fund's level and 1.4 Volume of private finance mobilised as a result of ICF funding at the Fund's level (ICF KPI 12) (see Section 2.5.).

***Outcome 1* refers to MFF's effects on the area of land under sustainable management, reducing deforestation and delivering carbon emission reductions.** The three associated indicators are all ICF KPI indicators: (1) KPI 17 measuring the area of land under sustainable forest management and sustainable agriculture; (2) KPI 8 measuring the area of avoided deforestation and forest degradation; and (3) KPI 6 measuring the amount of GHG emissions avoided/reduced.

The LogFrame only reports progress on KPI 17 for which the target has been significantly exceeded (145,492 achieved versus 14,000 targeted).[22] The discrepancy between the target and actual achievement is explained by the target estimations being based on results from a previous similar programme (P4F) and MFF committing unexpectedly a large investment early in the programme. For the other two indicators, FMO

18 The ESG Guide for Forestry Investments.

19 In April FMO organised a knowledge building trip on plantation forestry in Ghana and South Africa. The trip allowed FMO experts to engage with local stakeholders as well as companies with long-term experience in the sector".

20 The "underlying project level" means at the level of companies MFF invested in directly, and at the level of the portfolio companies of funds MFF invested in.

21 From FMO-A to a customer.

22 Outcome 1 progress is based on data from only one indicator (1.1. Total hectares under sustainable forest management and sustainable agriculture) since there is no reported score for the other two indicators (to be calculated by IFU team at the 2025 Annual Review).

provided data to IFU who committed to do the calculations, but no results have been shown yet.

Outcome 2 refers to MFF's effects on livelihood improvement in forest dependent communities. The only associated indicator measures the number of jobs that have been supported by MFF, disaggregated by gender. 13,618 jobs were supported (3,249 for women and 10,369 for men), a result that significantly exceeded the target of 5,000 jobs.

Both Outcome 1 and 2 targets have been achieved and significantly exceeded in 2023 and hence expected to also be the case for 2024.

Outcome 3 refers to MFF's effects on mainstreaming private investment in SFLU projects with high mitigation benefits. The only associated indicator measures the number of private sector investors involved in Funds that MFF has invested in. No progress has been made in this respect and the target of 2 investors had not been achieved by Dec. 2023. With MFF's signing of the contract with TRF in September 2024, several private co-investments were added, raising a total of USD 235 mln.

The expected *Impact* is that MFF leads to a reduction in deforestation rates in priority landscapes of tropical forest countries, leading to reduced emissions and improved livelihoods for local communities. Overall, there is some evidence to suggest that MFF is on track to meet the expected impact. However, it is still too early in the 15-year programme to provide a fully accurate assessment. The current target has been set on "3" and the programme has scored "3" on the latest assessment in December 2023.

The impact is only measured by the ICF KPI 15, scoring the programme for its likelihood to generate transformational change. ICF KPI 15 is subject to the internal agreement that FMO provides raw data and that IFU calculates the progress. The 2023 Transformational Change report for MFF gives an overall assessment of the programme as demonstrating tentative evidence of change that transformational change is judged likely, based on a set of different criteria (Capacity and capability increased; Leverage/incentives for others to act is created; Scalability; Sustainability). The programme is expected to achieve a score of "5" by the end of the programme but the lower scoring at this stage is explained by the un-substantive evidence, which is justified by the fact that transformational change is an ongoing process that is expected to happen through the growth of the programme, and thus in later years.

2.2. Background and overview of MFF investments

This section provides background information on the Funds and companies MFF has so far invested in, especially for external readers. Several of these have a history of prior support by the UK and other donors (&Green, Terrasos and Amazonia Nativa), others have longer-term relationships with FMO (such as EcoEnterprises Partners and EAT).

&Green is a debt Fund set up as a Public Private Partnership by IDH, the Norwegian Government and Unilever in 2017 to promote deforestation-free commodities. In 2021, FMO became the anchor investor in &Green, followed by the first MFF investment ever that same year. &Green launched operations with its portfolio companies in 2022 and has since secured substantial public sector funding, but private sector investors have yet to step forward. &Green has achieved good progress in several of its nine investment companies but also had to let go of three of them for different reasons. &Green has investments across MFF's target regions.

TRF is the single largest investment by MFF, a private equity Fund managed by a Brazilian company BTG. The Fund became operational in 2022 after its first closure, with MFF signing the agreement in 2024. TRF has started its field operations in Brazil, integrating commercial reforestation and natural forest restoration on degraded lands, with a business model that is widely perceived as innovative aiming to combine attractive economic returns with out-sized climate, community and biodiversity benefits.

EcoEnterprises Partners joined MFF, as a mixed debt-equity impact Fund to promote agribusiness SMEs with a focus on natural ecosystems and biodiversity projects in Latin America. Its work in Latin America has been ongoing for 20 years, among others with FMO support. EcoEnterprises has achieved many environmental and climate results in the past, with modest financial returns so far.

EAT is an Ecuadorian forestry company that manages a plantation of about 1000 hectares established on originally degraded grazing lands and is owned by the Arbaro Fund which focuses on sustainable forestry projects in Latin America. FMO is a direct investor in this company, through MFF and FMO-A. After restructuring in 2023 the company is focusing on achieving its FSC certification to upgrade and diversify its customer markets.

Apart from these Funds and direct investments, MFF direct contributions have supported Treevive, a company set up in 2021 by Form International together with Forest Stewardship Council Nederland to create a Carbon Development Platform. Since then, Treevive has advised, structured finances and accelerated several carbon projects across the Global South. Amazonia Nativa is an agro-forestry and afforestation project with a mix of native timber species to attain various environmental results and produce revenues from carbon- and sustainable timber production (from years 21-30). Terrasos is a company with oversight by EcoEnterprises Partners that focuses on the Colombian compliance market for biodiversity offsets, to develop revenue streams to increase the resilience and bankability of Habitat Banks in the country. LevasFlor is a forest management company managing 46,000 ha of natural forests in Mozambique, including sustainable forest management, sawmilling and carpentry, with 10 native tree species. &Green manages Belterra, a Brazilian cocoa plantation that aims to restore degraded lands and enhance biodiversity. Apart from Treevive and Belterra which have been supported since 2022, the three other DCs only joined MFF in 2024.

The ET had the opportunity to conduct two field visits to sites of EAT in Ecuador and Amazonia Nativa in Colombia, summary findings of these visits are presented in Box 1.

Box 1: Evaluation field visits summaries

Ecua America Teak (EAT).

Ecua America Teak (EAT), a company fully owned by the Arbaro Forestry Fund, owns 1,085 ha of land plantations in Ecuador, with around 900 ha of high-quality teak plantations established. The plantations are on land previously used for cattle ranching and agriculture and are managed under rigorous technical and environmental standards. Teak plantations help mitigate soil degradation and improve quality, with benefits enhanced by planting *Pueraria phaseoloides*, an exotic species that conserves soil and prevents erosion.

EAT plans to pursue Forest Stewardship Council (FSC) certification to meet global market standards and improve access to sustainable timber buyers, fulfilling part of its Environmental and Social Action Plan agreed with FMO. The company has also developed significant expertise in clonal forestry and sustainability, although this knowledge remains internal. Collaboration with industry partners like AIMA and growing interest from other forestry companies highlight the model's potential for replication.

EAT actively restores and conserves approximately 95 ha of native vegetation, enhancing biodiversity and connectivity. It complies with Ecuadorian labour laws, providing formal employment and promoting Gender Equality and Social Inclusion (GESI) principles, alongside community engagement efforts. The company measures CO2eq emissions removals despite Ecuador's historical restrictions on private carbon credit benefits.

Challenges include regional insecurity, cultural resistance to formal employment, and adherence to safety rules. With strategic guidance from Arbaro, EAT has established strong governance and operational efficiency, adapting flexibly to changes in investment plans while advancing biodiversity restoration and improved working conditions.

Amazonia Nativa (AN)

Amazonia Nativa S.A.S. (AN) is a forestry and agriculture pilot project in Meta, Colombia, focusing on 511 ha of native forest species and 20 ha of açaí plantations. Operating in a region with elevated deforestation risks, the project combines reforestation, afforestation and conservation efforts with a commitment to high ESG standards, including sustainable forest management and community engagement. AN aims to meet certifications like Gold Standard, FSC, and Rainforest Alliance, enhancing market credibility and value chains.

The pilot has generated key learnings in native forest species management, with plans to scale up to 7,500 ha by 2030 through a $35 mln investment. Challenges include sourcing quality seeds, nursery capacity, and establishing long-term usufruct agreements with private landowners. AN's activities align with MFF goals to de-risk investments, promote sustainability, and improve local livelihoods, with indirect jobs and economic benefits already evident. Revenue from açaí production, wood production and carbon credit sales supports long-term viability.

AN's governance, operational structure, and support from co-sponsors Campo Capital and ACT Group ensure clarity and strategic alignment. However, scaling challenges and limited experience with large-scale native forest plantations require continued innovation and capacity building.

2.3. Balancing financial returns with impact – progress and prospects

Summary findings on programme progress and prospects

⟩ **Mobilising private sector investments:** Progress has been slower than anticipated, as MFF focuses on incubating and designing scalable, viable projects. However, its efforts to engage DFIs and private investors represent valuable groundwork.

⟩ **Blending and financial returns:** MFF employs blended finance structures, including concessional equity (e.g., first-loss tranches) and debt, in a flexible and creative way to reduce risks and attract commercial investment.

⟩ **Financial additionality:** MFF's concessional finance is essential for high-risk, early-stage projects, which would otherwise not obtain financing, and for de-risking larger scale projects to attract private investors.

⟩ **Environmental and social impact**: MFF contributes to generating non-financial benefits: by supporting projects with robust ESG risk standards and high environmental and social impact objectives

⟩ **Resource mobilisation**: MFF catalysed substantial additional funding, securing USD 240 mln in public finance and USD 250 mln in private sector investments.

⟩ **Early stage of replication**: Most MFF-supported business models are not yet ready for replication, but initial groundwork through TAF and LCIP is preparing lessons for future scaling.

"MFF's broad goal is to support the involvement of Development Finance Institutions (DFIs) in FSLU projects and mobilise private capital to protect and restore tropical forests." (Contribution Agreement)

If MFF's role is to deploy its own capital and mobilise finance rapidly, it has not yet been a great success. However, if it is to explore and find ways where this might be possible in the future, a different picture emerges. Here, there is evidence that MFF has: a) tested the opportunities and limits of how its environmental goals and investors' needs can both be achieved in FSLU projects; b) used concessional resources to develop projects that meet these criteria; and c) used blended finance creatively to support these projects, increasing their attractiveness to both DFI and private investors.

The clearest example of flexibility can be seen in the downward revision in 2024 of FMO's return expectations for forestry investments, which applies to forestry investments made through MFF but also other parts of FMO. This appears to have been driven by FMO's own experience in the sector and that of MFF. The purpose of these Funds is to enable investments that would not be possible on FMO's own balance sheet – i.e. FMO-A.

Government Funds take on more risk, and as a result expect a higher return than FMO-A to compensate for this.. Whether it will be possible to consistently deliver higher returns in different jurisdictions is unclear. Even if this is possible, however, it is not clear whether returns will be sufficient to attract large-scale private investment into the FSLU sector based on an objective assessment of risk-adjusted returns. Fundamentally,

it is not yet clear how replicable or scalable the projects that MFF is discovering and helping to develop are, or whether ongoing subsidies will be required, either in general or for specific types of FSLU projects. Similarly, it remains uncertain how large a group of investors, including different types of investors, might be interested in these kinds of investments at this level of risk-adjusted return. What is known, however, is that MFF is developing a portfolio that will begin to address these questions. Regardless of the outcomes, this represents a highly valuable contribution.

FMO, like other DFIs, sees itself as a bridge to help investees become commercially viable, demonstrated by its 'progression model '. The more DFIs can be attracted into the types of investments promoted by MFF, the stronger the bridge to commercial investment will become.[23] In the previous section, MFF's performance with respect to the different levels of the ToC was examined in detail. As described, most outputs were achieved as expected, with one exception concerning the use of concessional capital. Intermediate outcomes focus on the mobilisation of public and private capital, where targets for public finance have been greatly exceeded due to the large investment from the GCF. While this may seem a small point, the GCF is, unlike FMO, not a DFI. Most DFIs are nationally owned, focusing on private sector development and mobilising private investment. EDFI members have a combined portfolio of EUR 51 bln and committed a record of nearly EUR 10 bln in 2023. In 2023, EDFI members reported EUR 4.4 bln in mobilised private capital. Given what MFF is trying to achieve, it makes sense to focus on mobilising DFIs and private capital. DFIs see themselves as bridging the gap between public (grant) funding and commercial investment. DFI interest in FSLU investments has been limited, but is beginning to increase, in part due to the efforts being made by MFF to construct attractive propositions.

FMO's 'progression model' is a key part of its strategy:

"The name of our [FMO] strategy towards 2030 – Pioneer - Develop - Scale – is derived from our so-called 'progression model'. This model shows our long-term commitment to companies, supporting them from an initial high-risk phase to the point where commercial investors can (partially) take over from FMO. Also, by being a change agent on environmental, social and governance topics, we will create value with our customers and together deliver impact in the societies and the local communities in which our customers operate".[24]

FMO manages different Funds and direct investments operating at different points on the spectrum that range from grant financing to full commercial viability. At the commercial end, one also needs to distinguish between different types of private investors, who have different investment preferences and risk appetites. Those closest to a DFI are 'impact investors'. While they seek to make high-impact investments, often in particular areas, they are still generally seeking market-level returns. Impact investors with an interest in FSLU may therefore look favourably on potential investments, they will not do so at the expense of financial returns. Straight commercial institutions may also have a focus, but this is more akin to a specialty, where they concentrate on a particular sector or region to develop deep expertise and allow their investors to diversify, not because they wish to achieve 'impact' in these sectors. The most universal investors – such as pension

[23] While welcome, the GCF investment in one of the MFF portfolio Funds is consistent with its current mandate. 'Forestry and Land Use' is one of GCF's 8 focus sectors. A quarter of GCF's 286 projects are in this sector, which equates to USD 1.8 bln of investment. GCF is actively looking for similar investments– it does not need to be persuaded of the case, unlike other – more commercial actors – that MFF hopes to mobilise.

[24] https://www.fmo.nl/news-detail/b0f991df-5b7e-44f7-8b7f-7849b900b717/updated-strategy-towards-2030-pioneer-develop-scale

Funds and insurance Funds – are generally the largest pool of capital. They are focusing on matching their assets (i.e. investments) with liabilities (e.g. the need to pay the pensions of their members). This leads them to seek low-risk portfolios, where their capital is not at risk and the return on this capital is relatively certain. This tends to mean a significant proportion of low-risk government bonds yielding guaranteed returns, but they also seek to diversify their portfolios with different investments, including real estate, private equity and developing country assets. FSLU-type investments could only ever be a tiny part of such portfolios, but they are so huge that this would still amount to a large pool of capital.

Between impact and institutional investors, there are a wide range of asset managers that could potentially be interested in FSLU investments, but this would be strictly on a commercial basis, where FSLU projects would have not just produce good returns, but good returns relative to alternatives. FSLU projects are also of potential interest to non-financial actors, particularly corporations seeking to reduce their carbon footprint in the VCM. These investor types have different tolerances for risk and seek returns that are compatible with this. They also have different time horizons. What they have in common, however, is the aim of maximising returns for the level of risk they are prepared to tolerate. In the case of pension Funds this is a legal requirement – their 'fiduciary responsibility' is to maximise the value of their members' pension pots. They cannot make investments for other reasons that would threaten this.

MFF's long-term goal is to attract these types of private investors, using DFI-type actors as a bridge. As seen above, progress has been slower than hoped, for both DFIs and private investors. This is not necessarily negative. MFF is trying to do things that have not been done before – to find, design, incubate and test FSLU projects that are able to achieve its environmental objectives while also delivering a financial return sufficient to attract commercial investors. This is not the same as mobilising investment into more mature sectors, such as renewable energy, where DFIs know how projects need to be designed and financed to attract investors of different kinds, including the risk premiums required by different types of investors in different markets.

MFF's role can perhaps be best viewed in an exploratory, iterative and adaptive way to balance the need for attractive financial returns with the delivery of strong environmental results. It is trying new things and testing their attractiveness in the market, before revising its approach and testing the result. FMO and MFF are constructing a portfolio designed to achieve this balance, but it may not prove to be possible or to be possible only in some parts of the FSLU sectors. It may be that ongoing subsidy of some kind is required, or this may prove not to be the case. As well as today's market realities, the future evolution of the carbon credit market, including voluntary credits, remains uncertain. Things are even more uncertain for biodiversity related credits. The underlying economics of FSLU investments could change radically for the better, or not change at all. FMO and MFF are well placed to take advantage of positive trends in the sector, and in doing so pave the way for the large-scale private investment they are targeting. Indeed, their activities could even help to support such a trend. This is far from certain, but if MFF and others did not make the attempt, the result could be self-fulfilling, where there is no positive trend for others to follow, or wave for them to surf.

2.3.1. Blending and financial returns

EQ13 To what extent does MFF invest in Funds and projects that would otherwise fall outside the risk appetite and expected returns of the commercial market? (financial additionality)

EQ14 To which degree does it Fund projects that would not be funded by FMO's own balance sheet (FMO-A) or other DFIs with comparable risk appetites?

Overall, MFF is creating or participating in a range of different blended structures, which appear designed to mobilise other types of investment, both from DFIs – including FMO-A – and private investors. As discussed above, this demonstrates a commitment to finding creative ways to deliver attractive returns and strong impacts, though it is also the case that not all the investments seem equally focused on returns.

Some initiatives appear to place greater emphasis on the impact side, with investors involved for reasons that do not appear to be fully commercial. It is unlikely that this type of structure will be attractive to investors based on purely commercial considerations in the future.

One Fund is planning to issue commercial notes targeted at the institutional investor market with a reasonable coupon. Given that these notes are essentially risk-free because they are backed by public sector equity/grants, these are likely to be attractive. While this cannot be a long-term solution to the problem of attractive commercial investment, it may be that this backing is unnecessary, and the Fund can deliver good returns without drawing on it. In this case, a good 'demonstration effect' will have been created, making it easier to attract commercial investment in the future. If the Fund can attract institutional investors in now – because of the zero-risk nature of the investment – this could also serve to familiarise them with these types of investments, making it easier to replicate going forward.

The most promising MFF project from a commercial perspective is another Fund where the balance between commercial timber production and more environmentally focused activities has been carefully set to deliver a good return . Again, if this proves successful, the blended element provided by MFF's first loss tranche may prove unnecessary in future projects. The same familiarisation point applies for the above Fund.

It is unclear at this stage whether smaller projects being incubated with DCs will prove to be commercially attractive. While Nature-Based Solution type projects are generally targeting returns in excess of 15%, these are generally in entirely new areas with no track record, or involve adapting a model to a new location, or are based upon revenue streams that are themselves highly uncertain – e.g. the future development of the carbon market. Although there is the potential to generate attractive returns, there is also significant downside risk that this will not prove to be possible.

Table 4 describes the financing structure and expected returns of MFF's current portfolio of investments, including co-investors and types of capital in each case. The main types of capital are debt, equity, and grants. Debt and equity can be supplied on commercial terms, or on a concessional basis. Concessional debt takes the form of lower interest rates than what would be expected given risks. Concessional equity, usually as part of a Fund structure, takes the form of 'first-loss' tranches, where – as the name suggests – equity providers absorb losses, protecting the capital and returns of other equity investors.[25] Concessional finance can also be used to boost returns in 'waterfall' type structures, where the provider of concessional finance accepts a lower return in order to enhance returns for commercial participants.

[25] There are more complicated forms of concessional equity in funds, where different investors receive different returns (i.e. different shares of the fund's revenues) in a 'waterfall' structure.

The smallest investments are those where MFF has made a small DC to incubate a potential later investment, including where the sponsor or another actor provides some equity or in-kind support. Beyond these, there is only one example of an investment with a single type of external capital[26] – One customer is financed by a senior secured loan. Even here, however, this is blended, with MFF's tranche subordinate to FMO-A. It is noteworthy that the original structure was 50-50 between FMO-A and MFF, but this was restructured in the light of financial difficulties, with FMO-A's investment falling from USD 4 mln to USD 1 mln.

Table 4: MFF Current Financing Structure

Investment	Funding Type (return)	MFF & other funding (USD, mln)
Customer	Repayable Development Contribution+[27] Equity	MFF 0.9, IFU 0.9 (sponsor) 1.26
Customer	Repayable Development Contribution	MFF 0.6
Fund	Equity Fund investments FMO expect net IRR[28]	MFF 15, Others 25, Other Other (unknown amount) Other (unknown amount)
Customer	Senior secured loan ()[29] Equity	MFF 3.0, FMO-A 3.0 (sponsor) unknown
Fund	Senior Debt (+ 12-year swap rate)	MFF 10.0, BP 10.0, DFCD 5.0
	Concessional debt ()	MFF 31.5, Other 180
	Development Contribution ()	MFF 1.75
	Grant (redeemable) Grant (redeemable) Grant (redeemable) Grant (equity) Grant (TA)	Others (redeemable Grants) 77.9 Other 95 Other 9
Customer	Development Contribution Grant Equity Private Contribution	MFF 2.5 Others 3.0 Customer contribution 0.25

[26] i.e. other than sponsor equity

[27] As well as recouping their capital, FMO and IFU will share a 'development premium' of USD 250 mln if the Fund closes as planned.

[28] One Fund forecasts a higher return. FMO revised this down after applying a discount of funds deployed to the client's financial model.

[29] FMO-A's tranche has a slightly lower return .

Investment	Funding Type	MFF & other funding (USD, mln)	
Fund	Equity	Committed 100 Others 115	Likely Others 100
	First Loss equity	MFF 40	
Fund	Senior Debt	Others 52.6	
	Mezzanine debt	*MFF 15.8*[30] Other 15.8	
	Junior debt	Other 26.3	
	First loss tranche (as Junior)	Other 3.15	
Customer	Development Contributions In-kind & other contributions	MFF 1.2 Customer and Others 0.64	

Source: ADE, own elaboration based on available financial information

Further blending can be seen in other projects. One Fund for example, has a relatively complex capital structure, with four tranches of debt with differing levels of seniority and two concessional tranches. It is interesting to note that, in this structure, MFF is not providing concessional financing, with the subordinated nature of its mezzanine debt compensated by the higher interest rate it will receive.[31] This is in contrast to the Junior debt tranche, which receives the lowest rate of interest in the structure, rather than the highest rate as its level of risk would normally require.

Another fund, in contrast, sees MFF occupying a first loss tranche with equity. The concessional protection offered by MFF was essential for first close investors decisions to participate, and these investors provided FMO letters to this effect. The Fund manager confirmed that MFF's involvement was crucial for a successful first close. Due to delays in FMO's contracting process, however, MFF did not formally commit its financing until the subsequent round of financing.

MFF also invested USD 15 mln in another Fund that has a similar strategy to its predecessors, investing in Latin America in sustainable commodities, preserving and restoring natural areas – e.g. sustainable aquaculture, regenerative agriculture, and agroforestry. The main difference from the previous Funds will be the higher ticket size, where the Fund will target SMEs with the potential for rapid growth.

Another Fund investment contains a number of different types of capital. Most importantly, it is underpinned by a very large grant/equity investment, which is sufficient to fully underwrite all senior debt and concessional debt with the exception of the large concessional debt investment made by GCF. From a commercial perspective, therefore, this is essentially a risk-free investment.

2.3.2. Financial additionality

30 Not yet committed.

31 Although this Fund is expected to be signed only in 2025, its description was retained in this chapter as it further illustrates the diversity of Funds and Fund structures in the MFF programme.

Given the scarcity of private capital in the FSLU sector, the need of long tenor and other special conditions, and the issues of risk and returns discussed above, there is no doubt in the evaluation's view that MFF has been financially additional in its investments. There is self-evidently no risk of crowding out private investors who are keen to invest in FSLU projects, as the main reason for the establishment of MFF is to increase the attractiveness of these kinds of investments to private investors that do not currently invest. While it is possible that private investors might have invested in the more commercially attractive MFF projects such as TRF without a concessional element, this seems unlikely as both the investors themselves and the Fund manager insist MFF's financing was essential in persuading private investors to commit.

The flip side of financial additionality, that is rarely mentioned, is that it is easy to be financially additional by investing in projects that will never become commercially viable. Private investors may have very good reasons not to invest in such projects. As discussed at length, it remains uncertain whether MFF's investments will prove to be both financially sustainable and additional. However, they are clearly financially additional.

Table 5 describes the ways in which MFF has claimed financial additionality. For smaller, incubation projects, this is straightforward. This clearly could not attract commercial finance. Here and elsewhere, FMO and MFF are seen as 'uniquely positioned' to support a high-risk project with the potential to attract significant investment if the approach proves viable.

Table 5: Financial Additionality

Investment	Claimed Financial Additionality
Customer	• Catalytic high risk, early-stage capital for agroforestry project • Commercial financing unlikely • FMO/MFF uniquely positioned
Customer	• Additional/catalytic by providing urgently needed liquidity • Needed for issues of nascent market for biodiversity and Colombian context • FMO/MFF uniquely positioned (Fund IV, MFF Facility & relationship with trusted partners)
Fund	• FMO was an anchor investors in previous Funds • Investment in Fund therefore reportedly seen as a 'stamp of approval' by investors
Customer	• MFF provide buffer for FMO-A funding • Provide long tenor and fill financing gap • FMO/MFF uniquely positioned
Fund	• Increase private investor confidence • Pave the way for new funding opportunities • Key role also in demonstrating investment viability • Provide a bigger cushion to mobilise further senior funding
Customer	• Catalyses commercial funding • Project delayed or limited in absence of funding
Fund	• Highly catalytical in bringing other investors into the Fund • LPs investment crucial or even conditional on MFF/FMO's commitment • Provide a first loss tranche to the commercial investors.
Customer	• Provide a sizeable mezzanine tranche to leverage the senior lenders, and on-lending • Played pivotal role in helping another bank develop a Fund
Customer	• High risk, pre-project development capital for a high-impact potential and scalable forestry business • Commercial financing unlikely • FMO/MFF uniquely positioned and could mobilise USD 15-20 mln from new investors.

Source: ADE, own elaboration based on available financial information

Two Fund investments are seen as additional in different ways. One fund's structure underwrites risks to an unusual degree. There is essentially no investment risk. MFF and other providers of concessional debt provide

an intermediate layer – or bridge – between this Fund's grant/equity and more commercial investors. This is clearly additional and designed to give the Fund the space and time to find and develop the types of projects that can deliver the commercial level returns it needs, while providing these commercial investors with comfort that they are protected from the risks this involves. Ideally, the risk guarantees that underpins the Fund will never be needed, and a fully commercial model can be developed over time that does not require concessional debt either.

The other Fund has been developed by a large forestry Fund manager (with a strong track record of providing commercially attractive returns, including through the successful raising and deployment of two forestry Funds . MFF's investment is additional in that it is taking a first loss position in a Fund that no commercial actor would do, it is also encouraging the Fund manager to target ESG impacts specifically alongside the commercial returns that have, until now, been its focus, including in its other Funds. Moreover, despite the sequencing issue discussed above, it has been essential in attracting private investors to the Fund. If the Fund proves successful, and the risk of investing in a new market turn out to be lower than some might fear, successor Funds will be far easier to raise, potentially without the need for concessional funding.

2.4. Non-financial benefits: Environmental and Social Impacts and Gender Equality and Social Inclusion (GESI)

EQ15 To what extent is MFF non-financially additional, notably by raising ESG standards and by developing and scaling (innovative) business plans and products, such as through MFF development contributions and TAF?[32]

MFF is effectively driving non-financial benefits by embedding a strong ESG risk and impact framework within its investments, given the programme's objective of demonstrating that commercial returns can align with robust ESG risk standards and high environmental and social impact objectives. MFF has contributed to improving ESG practices across projects, aligning with IFC Performance Standards and surpassing non-financial impact milestones such as sustainably managed forestry and agriculture areas and job support in MFF projects. MFF promotes an approach that drives forestry and land use transformation, beyond merely meeting compliance requirements. This model encourages projects to exceed minimum ESG standards, actively enhance environmental land use outcomes and biodiversity, and foster local livelihoods and equitable opportunities, setting a benchmark for sustainable FSLU investments.

MFF provides significant non-financial support to enhance E&S risk management, raise green and inclusive standards, and improve corporate governance among clients. Key initiatives, facilities and instruments in contributing to raising ESG standards and greater impact include:

[32] ESG additionality, as defined by FMO, refers to the non-financial value that FMO brings to its clients by enhancing their ESG standards beyond what is customary in the local commercial market, in terms of green and inclusive development impact, environmental and social risk management and governance. Claiming ESG additionality as a justification for the investment within FMO (for instance when financial additionality is limited) is challenging as minimum standards are already quite high and ESG additionality relates to broader transformation, an ambitious goal. The evaluation found no evidence that FMO claimed ESG additionality in any of MFF's projects or investments.

- Developing a comprehensive ESG guide for forestry investment: based on MFF's LCIP experiences, the guide provides investors with structured guidance for meeting ESG considerations, especially in sectors where demand for sustainable practices is growing. The guide further highlights the interrelationship between ESG risks and the materialisation of ESG impact.
- Utilising MFF's TAF to advance ESG goals through targeted capacity-building and support for continuous learning. Through the TAF MFF aims to empower clients to achieve long-term benefits that extend beyond financial metrics, reducing environmental risks and supporting social infrastructure and other objectives. The TAF plays a key role in helping clients integrate ESG practices effectively and drive innovation, especially in challenging contexts. For example, TAF's collaboration with one portfolio company) and IDH is contributing to the review of the MRV (Measurement, Reporting, and Verification) approach, enabling clients to measure and report on environmental targets more accurately. Additionally, a continuous learning loop between TAF and ESG monitoring has been established, with E&S officers reviewing clients' TA needs at quarterly meetings to identify necessary support and resources, which further strengthens TAF's impact. The TAF LCIP helps in disseminating ESG and impact-related learning experiences in MFF investments.
- MFF DCs play a critical role in developing and testing new sustainable business models, as well as supporting projects that incorporate carbon credits through sustainable, emissions-smart approaches. Two projects exemplify this support, as both benefit from capacity-building efforts and scalable models that promote sustainable impact.

Expected non-financial benefits and impacts of the projects supported by MFF are detailed in Table 6 below.

Table 6: Expected Non-Financial Benefits generated by MFF's portfolio

Expected Non-Financial Benefits and Impact
Fund
Commitment to ESG standards integrity: MFF played an important role in improving this fund's E&S approach and E&S management systems becoming compliant with IFC Performance Standards (PS), including environmental (forest protection and environmental stewardship) and social (human rights, including labour and land rights) standards for their clients. Developing biodiversity impact metrics: MFF is supporting the Fund to integrate biodiversity net gain frameworks into the E&S system, allowing MFF to track and enhance biodiversity impacts effectively. Environmental and Social Action Plans (ESAPs) development: ESAPs have been developed for several of the fund's projects and their implementation and reporting is at different stages for the different projects of the portfolio. For example, one project has published its Annual Progress Report on the fund's Environmental and Social Action Plan (ESAP) as part of the company's Sustainability Report, providing updates on all ESAP items, impact targets, and additional supply chain management information requested by the Fund Manager. In another project, a work plan has been developed to address outstanding ESAP items, notably concerns related to Indigenous Peoples' rights and FPIC engagement. Achievement of impact: This customer contributes to impacts reported by MFF, including hectares of Forest Protected, Climate Benefits, Ecosystem Resilience and People Benefitting.
Fund
Restoration efforts: The Fund started acquiring deforested/overgrazed land and replanting commercial forest plantations (FSC Certified) on 50% of it. In parallel, the Fund is restoring, protecting, and conserving natural forest areas on the remaining 50% of the land, with an adviser developing Verified Carbon Standard ("VCS") projects for these areas. The technical expertise brought in by CI in TRF is a special asset for enhancing non-financial impact. Green Development: Based on a total plantable area of 330k ha, CO2 sequestration is estimated to be ~70mln tCO2eq (excluding an additional 20mln tons in carbon benefits expected from substitution and storage effects) over a 15-year period.
Customer

Commitment to ESG standards integrity: This Project is committed to comply with IFC PSs, and FSC standards. MFF will guide the company to use their production competitive advantage and biodiversity knowledge to deliver positive social impacts in their supply chain through supply chain risk management. **Potential impact**: Expected total project sequestration is expected to be ca. 80,000 tCO2eq during the term of MFF's loan, after the previously planned extension of the plantation has been postponed. The FSC certification is targeted during the first 3 years of operations. The Company generates positive social impact by creating jobs, formalising employment, and healthier environment with increased connectivity of sensitive habitats.
Customer
Commitment to carbon integrity: This customer has committed to the highest quality and integrity standards in the voluntary carbon markets (Gold Standard/VCS etc.), through developing high integrity carbon projects and selling carbon credits to reputable parties committed to real impact. It aims to structure projects sequestering and mitigating ~34 mln mt of GHG emission during the first 10 years of its activity. **Potential impact:** This customer delivers services to nine projects totalling almost 1 mln ha of project area (December 2023). Projects are at different stages of development, where some have already met the needs of investors who seek high-quality, bankable projects for their carbon and broader sustainability commitments. The customer has successfully connected several investors to projects and has sold the first certified carbon credits on the VCM. One project combines business with nature restoration, promoting a landscape approach project of 4,204 ha that combines agroforestry, plantation forestry and reserves a third of the area for biodiversity conservation. Another project intends to prevent the planned deforestation of 21,164 ha of ancestral land for commercial purpose, and provide the local communities the means for sustainable development.
Customer
Innovative and impactful model: This customer's Habitat Banks represent a market mechanism to boost compliance with mandatory biodiversity offset obligations, and also generate voluntary biodiversity credits at scale to drive biodiversity conservation beyond offsets and to achieve long-term tangible biodiversity benefits.
Customer
Commitment to carbon integrity: Commitments to apply strict E&S and carbon credit integrity standards (IFC PS/FSC for E&S, Gold Standard for carbon (covering creditable baselines, additionality, permanence, etc)). **Potential impact:** the project promotes the large-scale use of native species on previously deforested or degraded hectares, aiming to establish at least 7,500 hectares while creating employment opportunities in the agricultural sector.

As part of the ESG approach implemented by MFF, GESI principles are effectively integrated into MFF projects to promote inclusivity, equity, and the protection of marginalised groups. By embedding GESI considerations into project design, risk assessment, and monitoring, MFF contributes to the social sustainability of its forestry investments, supports community empowerment, and aligns with broader goals for gender and social equity.

MFF has established adequate and high-quality standard procedures for identifying and addressing GESI risks and challenges early in the project cycle, in order to support informed investment decisions and reduce the likelihood of high-risk projects advancing without adequate mitigation strategies. Notably, key GESI principles are reflected on:

- **Adherence to IFC Performance Standards**: MFF requires its investees to follow IFC Performance Standards for E&S sustainability, which strengthens GESI implementation by ensuring projects meet high social and environmental standards.
- **Safeguards embedded in project design**: implementation of safeguards to protect marginalised groups and prevent gender-based violence and exploitation by promoting women's active involvement in decision-making to enhance local job creation and economic support.
- **Stakeholder engagement planning and social mapping:** critical in projects with a landscape-scale impact, helping to address potential resistance or conflicts over land management practices, such as afforestation or timber felling. Engaging stakeholders early and mapping social dynamics helps prevent negative reactions, thereby minimising both project outcomes and reputational risks.

- Risk assessment, mitigation and monitoring: gender-sensitive risks are identified at early stages and monitored continuously, and projects are adjusted to ensure compliance with GESI standards throughout the project lifecycle in accordance with FMO's ESG principles.

GESI impacts are monitored through indicators that track employment and livelihood improvements, including gender-disaggregated metrics. Namely, one key metric tracked by MFF is the "Number of jobs supported," which provides insights into job creation for both men and women. As of 2023, MFF reported supporting 13,618 jobs, with 3,249 of those jobs held by women. In addition, E&S officers at MFF assess the quality of these indicators, looking beyond mere job numbers to consider the nature of employment, such as whether jobs are regulated, if contracts are provided, and if working conditions are fair and safe. There are no other GESI indicators being reported. There is no evidence of projects rejected due to GESI risks.

2.5. Mobilisation of other FSLU funding and replication of MFF business models

EQ16 To what extent does MFF catalyse resources from FMO-A, DFIs commercial investors or other investors?

MFF achieved a substantial amount of mobilised funding, including USD 240 mln through public sources and USD 250 mln through private sector investors (from FMO-A and through one of its Fund's and two DC projects).[33] One Fund mobilised a substantial amount of GCF public funding in 2023, following the signing of MFF's contract, plus USD 51 mln from other sources at a later stage. In terms of private sector investments, another Fund received indirect funding of USD 15 mln, and a customer received direct funding of USD 3 mln[34] from FMO-A. FMO-A also invested USD 25 mln into one of the Funds prior to MFF and hence this amount is not counted towards total MFF mobilised Funds. A considerable attraction of private sector investors was triggered by MFF taking the first loss position in one of its Funds. This included commitments from large investors and more investors were lined up for signing at a later stage. MFF DCs also triggered some complementary private sector investments. More mobilised investments are expected in another Fund once approved. Similarly, the recently approved DC for another project is expected to lead to MFF support for an African Fund, with the prospects of mobilising more public and private sector funding.

While it is still too early for the replication of MFF FSLU investment and business models as a whole, FMO MFF is preparing the ground for future replication in DFIs and others by feeding early lessons from projects into DFIs and other potential investors through its TAF learning platform. As most MFF investments, especially DCs, are at a relatively early stage, they are mostly not ready for replication, at least not fully. For instance, one Fund estimates that the replicability of their agroforestry models may only become visible in about five years, partly when carbon credit revenues are expected to start flowing in, which is an essential part of the model to be replicated in that case. A new project investment intends to replicate in two stages: by expanding

[33] Disclaimer: The definition used in this chapter is the OECD definition of mobilisation, and including all DFIs as private sector mobilisation. Note that there is an ongoing methodological review ongoing for MFF regarding what will be included as private sector so the use of the term as used by FMO and the UK government may be different in the future.

[34] Initial FMO-A investment intentions of USD 3 mln were reduced to USD 1 mln of confirmed funding after the project was restructured, with the possibility of later adjustments of FMO-A and MFF funding. For the calculation of total resources mobilised the original FMO-A figure of USD 3 mln is used (as done by FMO).

its ongoing sustainable forestry investment to four or five other sites to fine-tune it in terms of ESG and financial returns, and then by scaling these investments through different types of Funds and other entities. The evaluation's case study also showed some potential for upscaling a mixed model that focuses both on higher profitability, (such as through better management and seedling materials), coupled with high and potentially above standards ESG (see Box 1 in Section 2.2.). The extent to which one fund's ESG-sensitive business models already suggest opportunities for replication is not fully clear - some of these investments have been ongoing for a longer time than MFF investments in these activities (financed by other donors). Similarly, another Fund manager has been supporting projects pre-MFF through other programmes that could also be considered for MFF replication. Replication of MFF investments is mainly a task of TAF / Learning, Convening and Influencing Platform. TAF/LCIP are working as a team with knowledgeable MFF investment officers and following up on worthy FSLU business models and lessons (see also Section 2.7.2 on TAF below).

2.6. Challenges and opportunities in meeting MFF objectives

EQ 6 What are the challenges in effectively executing the activities and meeting the KPIs MFF was set out to execute?

Summary findings on challenges and opportunities in meeting MFF objectives

⟩ Forestry investments in MFF targeted areas and regions often face structural risks like weak institutions, infrastructure gaps, and low local market demand. They also struggle with low returns, liquidity issues, and mismatched financial structures, while early-stage projects face high transaction costs and lengthy due diligence. FMO is well-positioned to address these challenges and identify opportunities.

⟩ Rising global demand for forest products, certified forest products and deforestation free commodities as well as corporate interest in carbon offsets are reshaping market opportunities for sustainable FSLU products, though regulatory uncertainties persist. The global South is well positioned to fulfil this demand. The willingness to pay premium prices for certified products is, however, uncertain.

⟩ The Voluntary Carbon Market (VCM) is focusing on high-quality carbon credits, with COP 29 advancing international carbon trading, governance and transparency, but uncertainties around national carbon credit ownership and regulations remain.

Promoting private sector FSLU investments and projects faces several contextual, market, financial, and management risks that impact FMO/MFF and private investments and scalability of sustainable forestry and deforestation-free commodity chains in regions where FMO/MFF operates. These challenges, however, are also paired with market and other opportunities that MFF and its stakeholders are strategically positioned to address. Two FMO studies provide a valuable foundation for this analysis: the 2023 Terranomics study, financed by MFF, which explored these constraints from a commercial investor perspective, and the 2024 Wellspring study for AFW on financial sustainability in forestry. This evaluation added information on more recent market developments through desk review and KIIs.

2.6.1. Structural and management challenges

Most countries covered by MFF are in regions with elevated risks of environmental and social harm, necessitating intensive support on ESG. Key challenges include weak institutional frameworks and management capacities, illegal deforestation, and land ownership disputes involving Indigenous communities. Forestry projects in Africa and Asia face significant constraints due to general and sector specific infrastructure limitations, environmental challenges, and geopolitical factors. In much of tropical and semi-arid Africa, institutional and infrastructure weaknesses often result in low-quality investment opportunities and scalable projects meeting FMO/MFF standards are challenging to identify.[35] Volatile market conditions for forest products, combined with often limited local and regional demand as well as export opportunities, necessitate continuous monitoring and restructuring. The long-term nature of forestry investments adds complexity to investment decisions. Fund managers often lack experience in navigating the complexities of emerging markets, which further complicates Fund structuring and market benchmarking.

Investments in forestry, sustainable land use, and related asset classes face significant regulatory and institutional obstacles. As FSLU is an emerging asset class, it is constrained by regulatory policies and country-specific risks, including political instability and currency fluctuations, which hinder scaling efforts.[36] Forestry investments frequently struggle with low risk-adjusted returns, liquidity challenges, and mismatched financial structures that fail to meet investor needs. High costs, such as Fund management fees and due diligence expenses, further exacerbate these challenges.

Additionally, the lack of differentiated return expectations across forestry investments makes it more difficult to attract private capital.[37] Early-stage forestry projects also face lengthy contracting processes, heavy due diligence requirements, and high transaction costs, making scalability difficult. Aligning Fund and project entities with compliance standards is time-consuming, and balancing faster deployment with reputational risks remains a persistent challenge. Diverging investment priorities and criteria between Funds, such as MFF, and Fund managers may further complicate effective operationalisation.[38]

DFIs and interested Funds encounter similar challenges in forestry and deforestation-free commodities, including the limited availability of investment-ready projects. Investments in Sustainable Forest Management and Nature-Based Solutions are growing but remain insufficient to meet needs.[39] FMO is working to develop markets from the supply side, aiming to spot opportunities, structure them and serve as an anchor to attract like-minded investors. Through its investment and strategy departments, FMO is actively monitoring and addressing many of these structural barriers and their implications for bankable investment opportunities for its forestry and other FSLU investment portfolio, including those initiated through MFF funding. MFF is well positioned to further expand and share insights from its investments with like-minded stakeholders in its next phase with a particular focus on FSLU investments, for instance through MFF's LCIP platform.

[35] Terranomics, 2023. Commercial investment in forests and sustainable land use - recommendations for companies and Funds
[36] Idem.
[37] Terranomics, 2023. and Wellspring. 2024. Evaluation of financial sustainability in forestry. Interim Report. 16th September 2024
[38] Wellspring, 2024.
[39] Sustainable Forestry. Nature4Climate, 2024. Nature Finance Survey Reveals Key NbS Investments for 2024. 15. Feb. 2024 https://nature4climate.org/nature-finance-survey-reveals-key-nbs-investments-2024/

2.6.2. Evolving market opportunities and risks

Evolving global and regional markets, along with shifting policies and stakeholder interests, present both opportunities and risks for private sector investments in FSLU, particularly regarding long-term trends, forest product price volatility, and developments in VCM carbon markets. They play a significant role on MFF's implementation and success, as all investments heavily depend on financial returns and regulations on these markets. Investor interests in replication determine the ultimate success of MFF. Since 2020, markets, policies, and stakeholder interests in forest products and deforestation-free commodities have undergone significant transformations. These developments underscore the complex interplay between market dynamics, policy adaptations, and evolving stakeholder interests in the forestry sector.

Despite recent volatility in global markets for forest products, the outlook for long-term demand and prices remains positive, with a growing focus on certified forest products and deforestation-free commodities. However, these products do not consistently command premium prices. In recent years, global and regional markets of forest products experienced substantial volatility due to the COVID-19 pandemic, with prices stabilising post-pandemic, demonstrating resilience despite the disruptions.[40] Transportation and other costs fluctuated significantly, influenced by the pandemic, the Russia-Ukraine conflict, and rising global inflation. But over time, the market for forestry products has seen steady growth and projections indicate sustained high demand for forest products, with the World Bank predicting a fourfold increase in global timber demand by 2050.[41&42] The FMO 2022 Forestry Strategy also points to the growing demand for sustainably sourced timber for construction, packaging and biomass and the growing interest by corporate/multinational companies for investing in forestry either to integrate direct access to wood products into their supply chain or to gain access to carbon offsets. Increased supply is expected to come primarily from countries in the Global South, where the conducive growing conditions of the tropical and sub-tropical zones make wood production highly efficient.[43]

There is a growing emphasis on sustainability, with many countries promoting certified forest products, such as those endorsed by the Forest Stewardship Council (FSC), to ensure responsible sourcing.[44] Consumers are increasingly aware of deforestation-free commodities, though their willingness to pay premium prices for meeting or exceeding international standards remains uncertain and is difficult to predict. The European Union's deforestation regulations have faced delays due to supply chain reluctance or inability to comply, particularly in regions like Indonesia.[45] In Asia, short-term opportunity costs for forestry remain high, whereas in parts of Latin America they are lower, especially on degraded grazing land.[46] While corporate pledges to combat deforestation have increased, 43% of relevant companies still

[40] USDA Forest Service, 2022. How the pandemic drove up the cost of wood products. https://www.fs.usda.gov/about-agency/features/how-pandemic-drove-cost-wood-products

[41] Investment Monitor. Net zero could drive up the global demand for timber, putting at risk the world's forests. https://www.investmentmonitor.ai/features/net-zero-drive-up-global-demand-timber-forests/?cf-view

[42] Global Forestry and Logging Market, 2024: Trends & Growth Forecast, September 9, 2024. https://forestry.com/timber-and-wood-products/market-analysis/global-forestry-and-logging-market-2024/

[43] FAO, 2022. Global Forest sector outlook 2050.

[44] UNECE – Forest Products annual Market review 2022-2023. https://unece.org/forests/publications/forest-products-annual-market-review-2022-2023

[45] See for instance: https://www.euwid-paper.com/news/markets/european-parliament-votes-to-delay-eudr-decision-making-to-continue-151124/

[46] MFF evaluation key informant interviews.

lack such commitments. Improvements in technology have enhanced real-time monitoring and supply chain transparency.[47] There is a notable shift in timber demand towards Asia, especially in emerging markets like India and China. But concerns have been raised about the impact of China's demand on sustainable sourcing practices.[48]

The Voluntary Carbon Markets (VCM) have evolved from rapid early growth to a more selective focus on high-quality credits, as host countries establish policy frameworks and the COP 29 in Baku advanced international carbon trade, governance and transparency rules. Some uncertainties for VCM persist. According to a World Bank report (2024), the Voluntary Carbon Markets (VCM) saw rapid growth from 2019 to 2021, which slowed in 2022 due to uncertainties around credit quality and evolving policy frameworks. While carbon credit prices increased, volumes dropped, indicating a shift towards higher-quality credits and market consolidation. Buyers are becoming increasingly sophisticated, are highly selective and focusing on removals. They also are becoming more directly involved in project due diligence. Host countries are beginning to establish policy frameworks for Article 6 carbon markets, with some also incorporating VCM.[49] Governments are increasingly concerned about carbon credit ownership and related regulations, including the rights of indigenous communities.[50] International VCM regulatory bodies (like VCMI, ICVCM and others) are developing guidelines to address carbon credit governance issues and establish consistent global standards, especially following critical publications in 2023 and 2024 which were, however, specifically aimed at avoidance (REDD+) projects.[51&52]

The latest UNFCCC COP 29 in Baku, Azerbaijan, marked a significant advancement in governing and operationalising international carbon trading, transparency and avoidance of double counting, including for FSLU projects using the VCM, through its decision on article 6. Countries are currently in the process of developing and implementing comprehensive regulations to integrate the VCM into their national policies. The role of private finance is seen as critical, also in terms of public-private partnerships.[53] The implications of these policies, for instance on the ownership of carbon emission reductions or setting of baselines and their effects on the use and returns of private sector FSLU VCM carbon credit in different countries remains to be seen.

[47] Global Canopy - Forest 500, 2024. Time for change: Delivering deforestation-free supply chains https://forest500.org/publications/time-for-change-delivering-deforestation-free-supply-chains/

[48] IITO Tropical Forest Update 33/2. Frances Maplesden. Mapping three decades of change in tropical timber.

[49] World Bank, 2024. State and Trends of Carbon Pricing: International Carbon Markets 2024 (English). Washington, D.C.: World Bank Group. https://openknowledge.worldbank.org/server/api/core/bitstreams/b98160d9-ca19-4a75-ad69-4b1d9e9319e3/content

[50] See of instance the Dec., 2022 article: Forest Equity: What Indigenous People Want from Carbon Credits, published by the Yale School of the Environment. https://e360.yale.edu/features/levi-sucre-romero-indigenous-lands-carbon-credits?utm_source=chatgpt.com

[51]Integrity Council for the Voluntary Carbon Market, 2023. Joint statement: VCMI and ICVCM call on businesses to urgently decarbonise operations and demonstrate climate leadership https://icvcm.org/joint-statement-vcmi-and-icvcm-call-on-businesses-to-urgently-decarbonize-operations-and-demonstrate-climate-leadership/

[52] Avoidance focuses on preventing emissions from occurring in the first place, such as through preventing deforestation, they are different from MFF focus on carbon credit in restorations which emphasise reforestation, i.e. Planting of trees in areas where forests have been cut down or in agro-forestry.

[53] Climate Partner. 2024. COP29 outcomes: What they mean for climate finance and carbon markets. https://www.climatepartner.com/en/knowledge/insights/cop29-outcomes-what-they-mean-for-climate-finance-and-carbon-markets

2.6.3. Concluding remarks on structural and market factors

Structural challenges, market opportunities, and risks influence the financial returns and impacts of MFF projects and investments in various ways, depending on the project type and specific context. For example, risks associated with carbon markets can, to some extent, be mitigated through careful examination of country-specific policies and contracts with well-vetted carbon off-takers. Awareness of these risks is crucial for FMO and investees to identify viable investment opportunities, select optimal project sites, and implement effective mitigation measures.

This highlights the critical importance of knowledge management and learning within a programme like MFF, particularly given the pilot nature of many of its investments. Such an approach ensures that insights are captured, shared, and applied to improve decision-making and maximise the programme's overall effectiveness.

2.7. Development Contributions and TA Facility

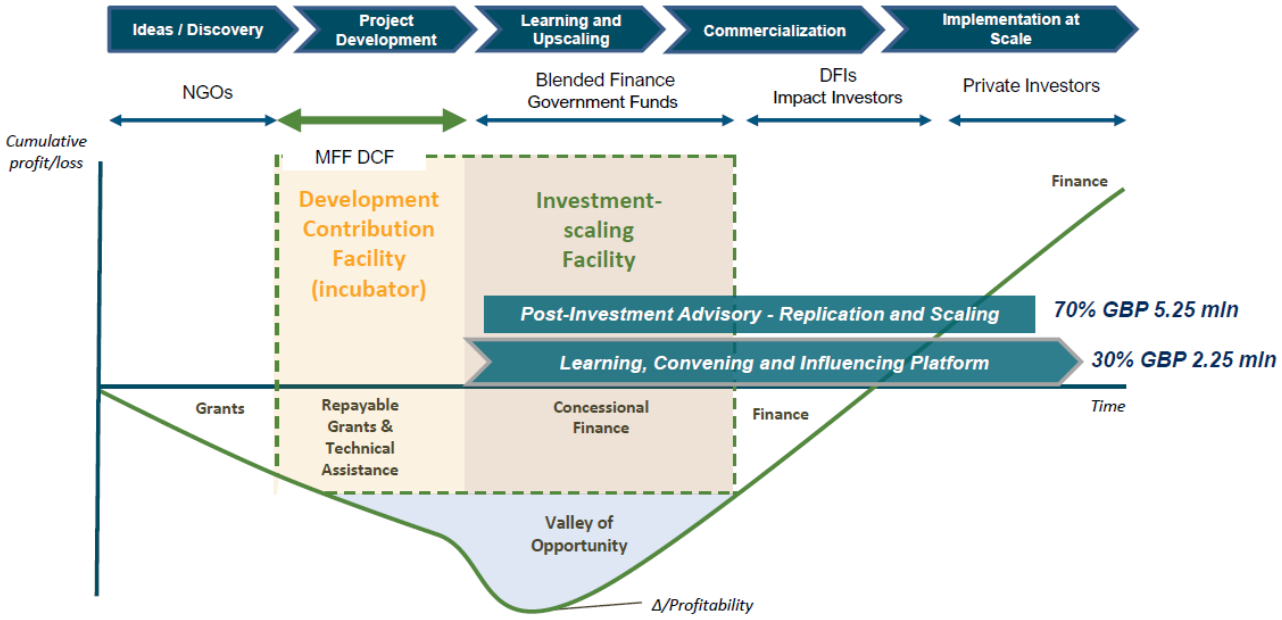
Summary findings on Development Contributions & Technical Assistance Facility

〉The Development Contribution (DC) instrument has shown potential in building stronger pipelines for FMO and Fund managers by piloting innovative approaches and creating linkages with investment funds. It led to several interesting and effective show-cases, and five DC have been contracted across diverse regions and impact areas. Funding would have allowed for more DC, and only 18% of allocated funds of up to 20% of total MFF funding have so far been committed. Reasons are DC transaction costs compared to their size, the need to closely link them to (future) investment potential, and the slow pace of contracting relevant and interested Fund managers for their execution.

〉The Technical Assistance Facility (TAF) has been effective in meeting or exceeding its cumulative Logframe targets, particularly through the LCIP, which institutionalised knowledge sharing across DFIs, investors, and FMO, especially on VCM Carbon Credit Integrity. Profitability assessments for sustainable forestry projects and deforestation-free commodities and replication opportunities have received less attention. TA advisory services faced limited uptake as overall programme delivery was slower than expected. Despite successes, TAF disbursement remains low (15% of available funding) but is expected to expand with recent contracting of additional Funds into the MFF programme.

In addition to MFF's concessional capital investments, the financial instrument of Repayable DCs and MFF's TAF grants were designed as key accelerators for FSLU investments. The DC instrument, in particular, was intended to serve an incubator function. Their objectives were threefold: first, to support the identification, creation, and development of scalable business and investment models for FSLU impact; second, to disseminate knowledge about these models among a broader community of key stakeholders – such as DFIs, investment Funds, and private sector investors – highlighting investment opportunities and required conditions; and third, to replicate and scale these models with financial backing from DFIs, Funds, and private sector investors. DC are repayable grants, structured like zero-interest loans, which are fully repayable subject to a pre-agreed 'repayment trigger', for example when projects reach financial close and become cash flow positive. This financial product is designed to incubate projects and develop pipelines of bankable initiatives. Initially, these projects were intended to be implemented in the main by Funds or Fund Managers invested in by MFF. As the contracting of Funds took time, only two of the DC so far have been executed by Fund managers . The other three DC are directly executed by FMO. The key distinction between DC and TAF support lies in their focus: TAF focuses on specific aspects of learning and scaling, mainly during MFF's project investment phase, supporting investment projects directly and reaching out to DFIs, Funds and private investors. In contrast, DCs concentrate on pre-investment activities with a strong emphasis on development-oriented initiatives and ESG impact (see Figure 7).

Figure 7: Development Contributions and Technical Assistance Facility in MFF's Structure



Source: MFF Annual Meeting 2022 presentation

2.7.1. Development contribution effectiveness

EQ 8 How effective is the Development Contribution (DC) tool in building bigger and faster pipelines for FMO (as a Fund manager) and Fund managers FMO invests in?

The MFF programme has made a promising start in identifying and implementing DCs and achieved or overachieved their numbers that were agreed with the UK in the LogFrame. But initial budget estimates for this instrument have so far been underutilised. As of November 22, 2024, five DCs have been contracted, thus achieving DC targets of 2023 and 2024, or even overachieving them (see Section 2.1.). DC have primarily been used to pilot innovative approaches and create linkages with investment Funds. However, only about 18 percent (USD 6.96 mln) of Funds allocated initially for DC (USD 38.8 mln, i.e. *up to* 20 per cent of total MFF funding) have been committed so far making it unlikely to reach this monetary option in the originally planned investment phase ending in Feb. 2026, as there are only two more DCs in the 2025 pipeline. Since FMO and the UK agreed in Dec. 2024 to extend the investment phase by two years until Feb. 2028, there is still an opportunity to increase the DC pipeline and ultimately deploy more DCs.

The initial FMO objective for DCs was to mostly use MFF Fund managers *to develop and implement this instrument, but their numbers increase*d only slowly over time and their interests in this instrument were mixed. While DCs are less expensive to manage than full investments, FMO's cost structure, and operational setup may not be ideal for handling transactions of such small amounts. Onboarding Fund managers into the MFF programme took longer than anticipated, and their interest in DC varied significantly. It also required time for FMO investment officers and Fund managers to fully understand and buy into the DC product. For some Fund managers, DC did not align well with their overall Fund priorities or collaboration goals with FMO/MFF , partly also since they did not receive management fees for managing DCs. However, some impact Funds have shown greater interest in the product and are expected to utilise it more extensively.

FMO's prior experience with an "origination facility" in another government-funded programme highlights the challenges of outsourcing deployment of DCs to a third-party. While the facility generated numerous projects and models, only a few were genuinely investable or adopted by Funds and investors. This experience underscores the importance of focusing on future bankability as a primary goal of DCs to develop replicable and scalable pipelines and foster market creation, akin to challenge Fund models.

The advantages of closely linking DCs with FMO investment officers make the alternative of fully outsourcing DCs management less appealing. Direct involvement by FMO ensures better integration with its strategic objectives and investment processes, which is critical for achieving the intended outcomes of the MFF programme and maximising the utility of DCs.

There are by now several interesting showcases of MFF DCs. The first deployment of the DC tool was through a Dutch company working globally with different forestry projects to develop high-integrity carbon credits to meet rising demands, mainly in voluntary carbon markets. This was followed by a fund, supporting a cacao plantation that integrates trees and agricultural crops in forestry systems, aiming to restore degraded lands and enhance biodiversity. The responsible Fund Manager perceived the transaction costs for this DC as relatively high compared to the transaction's volume and perceived benefits. Subsequent DCs included in 2024, three additional DCs were contracted. These projects further broadened the scope of DCs efforts across different geographies and impact areas, with the Latin American ones being strongly biodiversity and carbon revenue oriented, as one of these projects is counting heavily on sustainable timber revenues with carbon seen as a potentially complementary revenue at this point.

2.7.2. Technical Assistance Effectiveness

EQ 7 How effective is the Technical Assistance (TA) support?

MFF dedicated up to 5% of the total budget, or USD 9.7 mln (GBP 7.5 mln) as non-revolvable grants for the TAF, of which USD 6.6 mln (GBP 5.25 mln) were for advisory and USD 2.8 mln (GBP 2.25 mln) for LCIP purposes.[54] The TAF's first component (advisory services) is supposed to support the replication and commercial scale-up of MFF investments, with a focus on ESG and market expansion support. The second component, LCIP, is tasked with sharing knowledge, lessons, data and blueprints with the wider investment community operating in this space. To emphasise its significance, MFF developed a distinct Theory of Change for the TAF focusing on activity and output levels. MFF contracted two consortia of TAF service providers (SP) that include Niras (advisory component lead), Form International, IDH and Palladium (LCIP lead), companies with prior experience in P4F, among others.[55] TAF SP have extensive local operations that have been helpful to FMO and its clients in supporting and monitor local operations and get an inside view of local contextual situations.

TAF activities started in mid-2022. All TA activities were initiated and have been supervised by MFF's TA Officer, in close collaboration with the broader MFF and IFU teams. TAF plans and activities are revised in line with annual IFU reviews and are meticulously reported on by the service providers through annual reports,

[54] FMO, Scaling Up Mobilising Finance for Forests (MFF), Participation Proposal for the Dutch Government, 25-06-2024

[55] Form International expertise is on forestry, NTFP, and carbon markets, while IDH concentrates on deforestation-free commodity chains and landscape approaches.

supplemented by half-annual summary reports. In line with the Contribution Agreement FMO appointed a Technical Assistance Officer (TAO) who is a member of the OC and acts as central point of contact to match Fund and investee needs and TA services and to guide TAF learning and scaling activities. The TAO and TAF service providers interacted closely during TA implementation with responsible FMO staff, especially Investment Officers.

Although all TAF-related LogFrame targets were achieved or overachieved, there have been relatively few opportunities for its employment due to the slower than expected overall contracting with Fund managers. Similarly, as for DCs, a substantial amount of the original TAF budget remains, especially for the Facility's post-investment technical advisory services. The LCIP was less constrained by MFF pace and has been performing well.[56] Various Fund, FMO and industry outreach activities were supported under the two TAF components, the advisory component and LCIP, but especially the delivery of the TAF advisory component was affected by the low number of signed MFF investments so far. Also, there are no business models from MFF investments currently prepared for replication and scaling, which is one of the primary objectives of the advisory component's facilitation (although some business models already may suggest learning opportunities for future investments). Another reason is that advisory services are demand-driven by Funds and investees, which can be problematic. According to evaluation interviews, supported MFF Funds are only modestly interested in TA at the Fund level, given their stage when engaging with MFF and other available internal resources. Investees (portfolio companies) seem to be more interested. Another impediment in certain cases is the 50 percent cost-sharing agreement for advisory services, which is, however, flexibly handled by FMO to facilitate TA, especially in cases where investees have few Funds available. FMO highlighted, however, that the MFF programme has a robust pipeline for TA with two Funds. One in particular, has expressed significant interest in TA advisory services to support their smaller portfolio investees.

Despite relatively low demand for TA services so far, as of December 2023, the TAF achieved or overachieved all four major cumulative LogFrame indicator targets (see Section 2.1.) More specific performance indicators showed only minor targets being missed in the advisory component, such as on ESG support for investees and some delays in delivery and contributions to LCIP knowledge products.[57] But the TAF has only disbursed about 15 percent of available budget so far, standing at around USD 1.5 mln by mid-2024, and the speed of disbursement would have to accelerate substantially to achieve full disbursement at the end of the revised MFF investment phase (Feb. 2028). From the beginning, it was expected that TA expenditures, especially of post-investment advisory services, would be back-ended as it would take up to five years for MFF to be fully invested (or seven with the extension by two years that was agreed on). And from inception, MFF's team have been in broad alignment with IFU team that spending on post-investment advisory by FMO would continue for some time after the end of the initial investment period. This is necessary to ensure that investees added to the portfolio in the latter part of the period also have the opportunity to benefit from MFF TA services.

Overall, the TAF has been executed well given these limitations. TAF Advisory services have been supporting

[56] This chapter is based on TAF Annual Report 2023, FMO Interim Report 2024 and KII.

[57] Q4 Quarterly / Annual Report

a total of eight activities related to Funds, investees and FMO programme management. TAF advisory services have undertaken two initiatives within one Fund's portfolio, and more are under concrete development. Completed and advanced Fund activities include an evaluation of a Fund portfolio company's supplier monitoring and control procedures to enhance supply chain traceability and developing a deforestation-free landscape approach within another project's sourcing area. The TA mandate was expanded in 2023 to encompass pre-investment support, which facilitated the first such deployment for the design and establishment of another Fund. The TAF has also delivered a report on SNFM that outlines how FMO can facilitate the highest E&S standards across the industry (other DFIs and impact investors), aligned with the IFC Performance Standards for E&S risk management. The second phase will finish at the end of 2024, which is to apply this learning in practice by supporting an MFF pipeline opportunity achieve IFC private sector alignment. Early on, TAF advisory service also helped FMO to develop a forestry carbon intensity matrix and impact assessment models for different forestry investment portfolios which was a time-consuming task.

LCIP effectively institutionalised knowledge across FMO, other DFIs, and investors. Key achievements include supporting FMO and other DFIs develop and operationalise integrity standards for carbon credits, successfully managing an international Community of Practice to share MFF learning experiences and facilitate scaling and replication and publishing a new ESG guide for forestry. The LCIP played a key role in facilitating the DFI Carbon Integrity Community of Practice (CoP), bringing together investment professionals from five DFIs active in forestry. In 2023 and 2024, the CoP hosted several well-attended virtual sessions focused on carbon credit integrity in FSLU investments. A notable output was the publication of a paper titled "*Implementing Approaches to Carbon Credit Integrity: How Can Investors Put Their Policies into Practice?*" Early in 2023, MFF and P4F jointly organised an Investor Event in London, fostering debate on private investment challenges and opportunities, strengthening MFF-P4F collaboration, and supporting MFF pipeline development. The LCIP also published the *ESG Guide for Forestry Investments* to enhance investor capacity in the tropical forestry sector, including biodiversity-positive investment opportunities. The guide features practical tools for assessing 'no net loss' and 'net positive' impacts on biodiversity. Two additional knowledge products were also developed, highlighting examples of biodiversity-positive investments.

In terms of increasing investees' profitability, bankability and sustainability of investments MFF TAF has mainly been active on issues related to carbon credit integrity. In line with its mandate and objectives, TAF priorities have been so far on support for ESG-related assessments and implementation and making carbon credits work for sustainable forestry and avoidance of deforestation projects. Carbon credit integrity and revenues can be an essential part of long-term profitability and bankability of FSLU projects. The TAF has paid less attention to the overall profitability of sustainable forest projects and that of deforestation free commodity activities, how to increase it, and how to replicate and scale these investments.

3. Efficiency and Governance

This chapter examines the operational efficiency of MFF processes, focusing on FMO's internal administrative and financial procedures, risk assessment and risk monitoring practices, and the efficiency of the broader MFF monitoring, results reporting, and learning system. The chapter concludes with an assessment of MFF programme governance.

3.1. Operational efficiency of MFF processes

Summary findings on operational efficiency of MFF processes

⟩ **MFF operational processes are largely efficient**, adhering to FMO's established frameworks for due diligence and risk management. However, FSLU projects involve higher transaction costs and longer timelines compared to other sectors due to inherent risks and diverse asset classes. FMO's legal and financial procedures support the programme's innovative and risk-taking nature.

⟩ **FMO's MFF team management has evolved over time.** It is by now effective, with dedicated Forestry teams established in AFW and PE departments that effectively collaborate on debt- and equity investments.

⟩ **MFF's internal processes for risk assessment and mitigation are robust**. Financial risks are managed through risk-based pricing for debt and equity, diversification limits, and close monitoring, with escalation mechanisms like watchlists and Special Operations for struggling loans. However, there is no equivalent mechanism for equity investments. ESG risks are well integrated into investment decisions, but the complexity and elevated risks of FSLU projects present ongoing challenges that require tailored mitigation strategies.

⟩ **MFF's MEL system effectively assesses progress and informs decision-making**, operating within the frameworks of the UK government and FMO. The LogFrame is aligned with the Theory of Change, integrating UK ICF KPIs and leveraging FMO's tools like the Sustainability Information System (SIS). Adjustments to the MEL system reflect MFF's pioneering role, fostering iterative learning and stakeholder consensus. However, the focus on high-level environmental impacts limits causality analysis, with less emphasis on social and governance indicators.

3.1.1. Internal FMO procedures and processes

EQ11 To which extent are internal procedures and processes of MFF efficient?

The MFF programme largely adheres to FMO's established operational processes, which are considered relatively efficient for a Development Finance Institution (DFI). These processes balance the complexities of due diligence and risk management required for innovative and high-stakes investments. However, the nature of FSLU projects introduces unique challenges. The transaction costs and time required to close deals with forestry and other investment Funds, as well as for MFF direct investments, are higher than those in

other sectors as confirmed by interviewed FMO staff. This is primarily due to the inherent risks, diverse asset classes, and the larger, often less experienced pool of stakeholders involved in these projects. FMO staff interviewed see limited potential for significant cost and time savings in the existing processes. This is due to the intensive due diligence and compliance requirements inherent to forestry and FSLU projects. These challenges highlight the intricate balance FMO must maintain between operational rigor and efficiency. While FMO's legal and financial processes are sufficiently supportive of the innovative and risk-taking approaches necessary for MFF, they often require lengthy internal explanations and discussions. These discussions reflect the need to align complex MFF project demands with FMO's operational frameworks.

The MFF programme is managed through a matrix structure within FMO. This management approach has evolved over time and is regarded as effective, especially after dedicated Forestry teams have been established in AFW and PE departments (the debt and equity teams), each led by a separate manager. This alignment reportedly fosters satisfactory cross-team coordination, knowledge sharing and mutual support, which is particularly important in sectors like forestry/FSLU, where investments often exhibit characteristics of equity-like risk due to their inherent nature, even when they have debt or hybrid structures (i.e. mezzanine). However, the lesson learnt by FMO in using debt for pre-cash flow projects have led in the past often to inappropriate structures. As a result, both FMO equity and debt staff collaborate closely on such investments and provide support to each other in project assessments and decision-making. Environmental and social considerations are a critical component of the MFF programme, given the high-risk, knowledge-intensive, and demanding nature of all MFF investments. E&S officers are integrated into sector teams, with periodic meetings by ESG forestry experts across PE and AFW to share knowledge and advance joint products. These teams maintain regular interaction with FMO's debt and equity teams, ensuring cohesive and comprehensive decision-making on the MFF programme.

Additionally, FMO holds regular meetings across the forestry, landscape, and carbon-ecosystem portfolios to foster collaboration, including staff responsible for MFF investments. These include weekly meetings with investment officers and bi-weekly sessions with senior staff and ESG specialists, ensuring coordinated strategic and operational decision-making. These meetings are not MFF specific but cover all FMO programmes across the mentioned portfolios. Mainstreaming MFF FSLU experiences and issues in these meetings supports FMO operational efficiency and impact through learning across FMO's broader and similar initiatives.

The matrix structure presents challenges in information and reporting management, particularly for annual reviews and evaluations. This is due to the need to consolidate information from various FMO departments and MFF clients, a task further complicated by the current use of different formats.

FMO's part of MFF management fees do not fully cover MFF-related costs, according to FMO senior staff. This has been acceptable so far due to the strategic importance of forestry/FSLU within the FMO portfolio. Most FMO management fees received for MFF are passed on to Fund managers. This issue is particularly challenging for smaller Funds that may require higher fees to cover their overhead costs than FMO's expectations of its own margins from MFF management fees permit. The Fund-of-Funds set-up of MFF puts more pressure on FMO costs compared to other programmes that usually have more direct investments. Also, overall management costs for FMO/MFF management have increased in recent years due to the higher expenses associated with compliance monitoring and the complexity of MFF monitoring activities.

Additionally, carrying out activities under the DCs and the TAF is cost-intensive, given the size and scope of these tasks.

MFF programme withdrawals and disbursements are transparent and active Fund managers and DC have been drawing down Funds in line with agreed schedules. In 2024, the initial MFF investment period was extended by two years from 2021-2026 to 2021-2028, the 10-year holding period remained unchanged. This means the programme is currently expected to end in 2038. The extension of the investment period allows to deploy remaining budgets from DC and TAF as well as top-up commitments from the UK and and the Dutch Government.

3.1.2. FMO risk assessment and mitigation procedures

EQ10 Are MFF internal processes adequate in assessing and mitigating risks (financial and ESG)?

FMO has a comprehensive approach to risk management, based on the 'three-lines' model. The first 'line' is comprised of the departments that made investments – Private Equity, AFW etc. This is then advised and challenged by the second 'line', which contains the Risk, Compliance, and Credit Departments. The Internal Audit department is the third line and undertakes independent assessments of the first two lines. As well as these organisational safeguards, FMO is registered as a bank and supervised accordingly by the Dutch Central Bank. It therefore follows best practice with respect to risk management, including risk-based pricing, diversification limits to prevent overly concentrated exposures, and a robust capital adequacy framework to protect against losses.

Unusually, given its commercial approach, FMO's and MFF's target returns in the forestry sector are not only driven by estimates of risk, but have been reduced to reflect what can be generated by the sector, and the scarcity of debt to gear equity returns as is the norm in mature forestry sectors in high-income countries.[58]

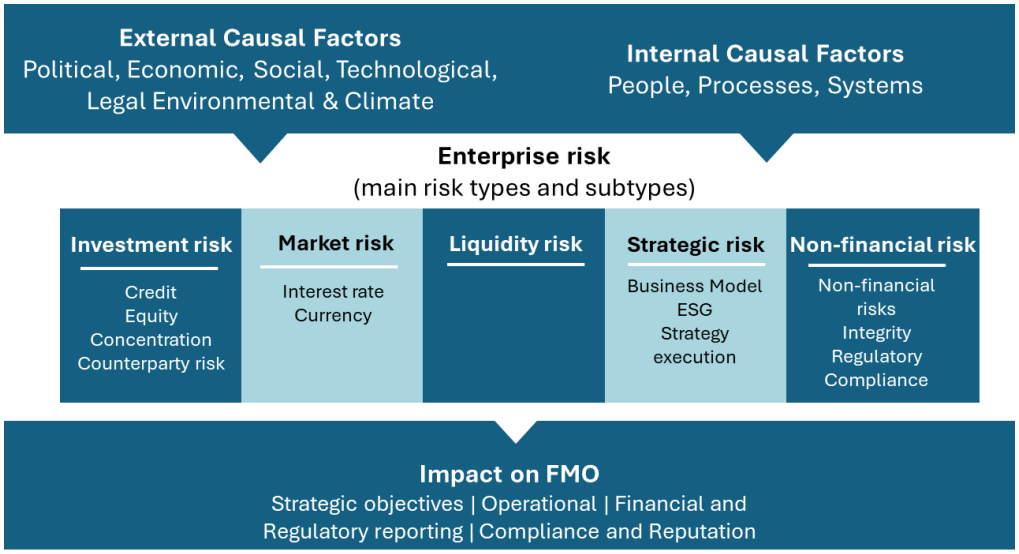
Figure 8 describes the risks that FMO faces, which form the basis of its general approach to pricing – i.e. the 'price' of FMO's capital is calibrated to reflect the risks of the investment; the higher the risk the higher the price, such as the rate of interest on a loan. As well as external contextual factors and internal issues (e.g. around Human Resources), FMO is largely focused on 'enterprise risk', which is risks related to the enterprises in which it invests. This in turn consists of five different types of risk: investment risk; market risk; liquidity risk; strategic risk; and non-financial risk. Under investment risk, categories such as 'concentration risk' are identified, which FMO addresses by having limits on the proportion of its investments that can be in specific sectors or countries. Under market risk, FMO may mitigate risks from currency movements by hedging its exposures.

Within this general framework, FMO differentiates its credit risk management approach according to the different business lines: for FMO-A commercial and government-managed Funds. FMO-A operates on commercial terms in most respects, in that it prices its products, as far as possible, at rates that reflect risks

[58] To date, it has been difficult to attract debt investors to forestry focused investment vehicles in developing countries. This is the norm in more mature markets, boosting returns for equity investors. While FMO believe this is likely to remain the case in sub-Saharan African countries, it may be changing in Latin America. TRF, for example, has reportedly secured fund-level debt investment to leverage equity returns.

and are comparable to what a private institution would charge. Given its need to be financially additional, however, FMO is generally providing finance where there is no commercial alternative, and/or offering products – such as long-tenor loans – that are not available in the market. In these circumstances, FMO has to take a view of what a fully commercial provider would charge for the product in that context. FMO also manages government Funds, which are mandated to take on more risk than FMO-A, as reflected in the fact that they are not all fully revolvable[59], and focused on specific sectors such as energy or agriculture. These Funds are not concessional in pricing, however, as pricing is also set to reflect risks.

Figure 8: FMO Risk environment



Source: FMO Annual Report 2023, p. 92.

These two activities are kept separate for accounting purposes. FMO is supervised by the Central Bank of the Netherlands. This makes it subject to the standard internal risk management structures in banking, most notably those promulgated by the Basel Committee on Banking Supervision (i.e. the Basel Accords), which oversees capital adequacy[60] for banks. These Accords were first implemented in the 1980s as a way of preventing competition between banks in different countries, driving down the capital banks hold against loans. FMO raises significant capital by issuing bonds on international markets, which it can do at very low cost due to its AAA rating. FMO can then on-lend to its customers, enabling them to benefit from FMO's low borrowing rates. Maintaining the triple-A rating is of Fundamental importance for FMO's operations, which requires it to run these on a commercial basis. If FMO did not charge rates that reflect risk, then its losses would be insufficiently offset by returns, undermining its profitability, and potentially jeopardising its AAA credit rating.

[59] A 100% revolvable Fund would expect to retain its capital only, while a 110% revolvable fund, would aim to recoup its capital and a 10% return. The Access to Energy Fund (AEF) has a 75% revolvability mandate, while the figure for Building Prospects is 100%.
[60] This determines how much capital banks need to aside to protect them against future losses on their loan portfolio, and ensure they remain solvent.

Risk-based pricing

For debt, FMO-A takes a traditional commercial approach to loan pricing based on country risk premium and borrower risk characteristics. Interest rates are designed to reflect the risks involved and are calculated by observing rates available in the market for similar loans, and/or by building up from a risk-free rate with country and borrower risk premiums added.

The valuation of direct equity – i.e. what percentage of a company's shares FMO's capital will buy – is based on a combination of valuation techniques and negotiations. The return is thus based on the sale price relative to the initial price, with total return best captured by the IRR measure. Equity Funds project an expected return. After the investment period of the Fund, portfolio companies are sold when the time is right over what can be a quite lengthy period (e.g. 5-10 years), and the total return of the Fund is the difference between this and the purchase prices. In its simplest form, Investors' (LPs) returns are based on the capital they invested on a pro rata basis, minus fees and the carried interest of Fund managers. While government Funds are mandated to take on more risk than FMO-A, the logic is the same. Given the greater risks they accept, returns will often be higher than FMO-A would expect,[61] which is set against the fact that investments have a greater risk of going wrong – e.g. defaulting on loans. FMO's primary means of risk mitigation, therefore, is risk-based pricing.

Financial Monitoring

As well as pricing its products to manage risk, FMO monitors its investments closely. Annual client credit reports (CCRs) assess performance and risk. If problems emerge, clients go on to a 'watchlist' with greater scrutiny. If problems worsen for debt investments, loans are transferred to Special Operations who seek to turn around the company's prospects.[62] This may involve restructuring the debt to support repayment or revising business strategy. Given its development mandate, FMO is generally more patient with problem borrowers than a commercial bank would be, though there are limits to this. If commercial prospects cannot be revived, SO oversees – in conjunction with other creditors – attempts to find a buyer. If this cannot be achieved, the only option is bankruptcy and the sale of assets to recoup capital. Interestingly, there is no equity equivalent of Special Operations at FMO. The value of all equity investments is tracked on a quarterly basis. Estimates of the 'fair value'[63] of equity holdings are usually, though not always,[64] based upon companies' and Fund managers' reported Net Asset Value (NAV), as well as standard valuation techniques such as discounted future cashflows or multiples of earnings (e.g. price-earnings ratios). These are also audited

[61] This can be seen most clearly with loans, which will be priced higher to reflect greater risk. Where government Funds co-invest with FMO-A in an equity fund, for example, this would generally be in a higher-risk tranche, which would attract a higher expected rate of return to reflect the higher risk.

[62] While equity investments can be transferred to SO, this is unusual. There is no equivalent of SO for equities.

[63] 'Fair value' is that which the asset would be expected to obtain if it were sold in the market. As well as the intrinsic worth of the company, therefore, it also reflects market conditions at the time the estimate is made.

[64] Valuations can also be based upon variables such as discounted cashflows or earnings multiples, or may be valued on FMO's balance sheet on a cost basis. These calculations can be undertaken independently of clients' own valuations.

annually, and checked and revised internally if there are doubts on accuracy, including by the Credit department.[65]

E&S risk management

In the MFF programme, ESG risk assessment, monitoring and reporting follows a thorough and structured process to ensure compliance and responsible impact throughout the investment lifecycle. FMO applies a risk-based approach to E&S management, focusing its resources on the higher risk clients, and engaging intensively with them to improve E&S standards to acceptable levels. The FMO ESG process is based on the Sustainability Information System (SIS), a tool used to ensure accountability and systematic follow-up throughout the investment lifecycle, which tracks compliance and is supposed to address ESG risks proactively. A key component of the SIS process is the continuous monitoring and reporting during project implementation. Regular Client Credit Reviews (CCR) and corrective action plans are key instruments to address ESG issues proactively and to ensure sustainable practices and risk mitigation. These contribute to ensuring ongoing adherence to ESG standards, reinforcing MFF's commitment to fostering transformation through responsible and impactful investments.

SIS monitoring of the ESAP includes the reporting of different modules. On one hand, there is qualitative ESG monitoring in the E&S tracker, following a risk-based approach linked to the IFC performance standards. This is complemented by the monitoring of impact indicators and labels (such as green and inclusive standards), as well as an Impact card, where the quantitative impact data is recorded annually.

During due diligence, FMO assesses E&S risks for all potential investments, assigning an E&S Risk Category to each. These range from A (high risk) through B (medium risk) to C (low risk), with categorisation based upon factors such as sector and location. Financial Institutions, for example, are usually given a B rating. If a decision is made to invest, clients will be assessed for adherence to FMO's standards, which are based on IFC Performance Standards, but also go beyond these in some cases. Where there are gaps, FMO designs an action plan where clients improve their performance over time until the necessary standards are met. These Environmental and Social Action Plans (ESAPs) are monitored by a dedicated E&S Officer on an annual basis. ESAPs are the norm for higher risk clients (A and B+) but may also be used for lower risk (e.g. B-C) clients, though this is quite unusual. ESAPs are generally included directly in contracts. For loan agreements, disbursements are often linked to a client's performance on reaching an agreed milestone. In extreme cases, failure to reach the required standard can be viewed as a breach of contract.

3.1.3. Follow-up and integration of recommendations from previous reviews

EQ17 *How has FMO addressed the recommendations made in previous reviews (e.g. the DP Review, annual reviews)?*

Between 2022 and 2024, IFU annual reviews of the MFF programme made several key recommendations enhance the effectiveness and efficiency of the programme, most of which were followed up in subsequent

[65] Credit and Finance review each update to fair value estimates using a risk-based approach, where they investigate further in investments seen as high risk and/or where there is a significant quarterly change in estimated fair value. Results are reported to the Equity Investment Review Committee (IRC).

years.

In 2022, the recommendations from the previous year aimed to enhance adaptability, capacity, and alignment with emerging practices, particularly around carbon markets, forestry strategy, and investment processes. Adoption varied, with several recommendations being partially achieved or ongoing. For instance, FMO implemented the 2021 recommendation to incorporate carbon market best practices, resulting in the establishment of a DFI Carbon Integrity Community of Practice. Additionally, FMO advanced in strengthening its investment team's capacity to maintain a high pace of investment and build resilience within the pipeline in case of due diligence failure, although challenges persisted in areas such as private equity. Some structural changes, such as increasing tenor length, were implemented to improve flexibility in investment processes. However, the need for further monitoring remained for several recommendations, especially in aspects requiring coordination across different teams and stakeholders.

In 2023, progress on recommendations continued, with notable achievements in strategic portfolio diversification and forestry strategy operationalisation. Areas such as resourcing and sectoral expertise required further strengthening. FMO held strategic discussions to reach a balanced portfolio approach across continents, aligning with the recommendation to diversify and manage concessional finance. The adoption of new frameworks, like the Evaluation Framework and revised LogFrame, demonstrated improved alignment with programme objectives. Moreover, initiatives in biodiversity and forestry investment expanded, evidenced by FMO's participation in global summits and collaborations with partners. Although some recommendations, such as expanding UK contributions and securing other donor partnerships, remain in progress, significant steps were made toward building a robust pipeline for future investment phases.

For 2024, the recommendations focus on strengthening resourcing, operational guidance, and collaboration. Key priorities include expanding FMO's investment team to manage the increasing workload and assigning a Senior Responsible Officer for the Forestry Strategy to improve accountability. Operationally, FMO is advised to develop clear internal guidance for assessing forestry deals, including ESG considerations, with the aim of setting standards for replication by other financial institutions. Stakeholder engagement should also advance, with plans to establish a DFI Forestry Community of Practice to foster shared learning. Additionally, the recommendations emphasise seeking further donor contributions and revisiting LogFrame milestones to ensure alignment with evolving data and impact goals.

3.2. Monitoring, results reporting and learning systems

EQ9 To what extent are reporting, monitoring and evaluation systems able to assess progress, steer decisions, and contribute to learning?

MFF's Monitoring, Evaluation and Learning (MEL) system is based on the reporting and formal meeting requirements presented in the Contribution Agreement between IFU and FMO. The requirements include MFF's compliance with delivering a set of MEL products, including annual result reporting, procurement of evaluation work, and arranging for regular MEL meetings. MFF has generally complied with these, and any deviations from it have been made in agreement with IFU.

MFF's LogFrame forms the backbone of the monitoring system at the programme level and the main tool for the assessment of its performance, which has been adapted over the programmes' lifecycle. The LF is reviewed annually and since the start of the programme, it has been subject to reformulation of outputs and outcomes, the addition of an intermediate outcome level, the addition of indicators (e.g. to measure progress at the pipeline level in addition to the effective contracting), the revision of the methodology to score the transformational change indicator (KPI 15), and the revision of milestone targets. Stakeholders confirmed during the interviews that adjustments were in all cases made after discussion and in consensus with IFU. The need for these frequent adjustments is rightly explained as MFF being a pioneer programme in various aspects (blended finance, investment in forestry and sustainable land use) and for both the UK Government and FMO. MFF is very much considered as a joint learning programme and therefore subject to iterative cycles of internal evaluation and adjustment. In addition, intensive exchanges between stakeholders were needed to reach a clear and common understanding of programme terms, concepts and approaches (e.g. common interpretation of LF indicators).

Overall, the LogFrame is well aligned with the Theory of Change, is sufficiently coherent and operates with a set of adequate indicators. However, the main indicators monitored focus on high-level impacts which makes it difficult when establishing the causality and contribution of the MFF programme to these targets. Also, the majority of indicators are environment-related, with less focus on social and governance indicators (only the number of jobs generated is being tracked in the current MEL system).

MFF's MEL system is adequately integrated in both the UK Government's and FMO's monitoring systems to steer progress and inform decisions. MFF's monitoring data, and by extension its progress and achievements, directly feeds into the monitoring system of UK ICF reporting. The direct link is generated by the incorporation of seven (7) UK ICF KPIs in MFF's LogFrame. At FMO, the integration mainly consists in MFF using FMO's institutional structures, procedures and tools for monitoring. For example, MFF monitoring data collected by the Portfolio Manager within the Public Investment Management (PIM) team and by the TAF are complemented by data from several other FMO sources: the Finance, Impact and Data (FID) department, which includes the Impact Measurement and Integrated Reporting (IMIR) team, and the various officers working on forestry investments and capacity development. Further, MFF monitoring is guided by FMO's Impact Reporting Guide and by the FMO's ESG Investment Process which specifies client monitoring actions and protocols. Also, FMO's SIS is used to register and retrieve MFF data and information.

Data and information collected during monitoring activities are duly analysed and converted into lessons learnt and recommendations for adjustments. All progress and review reports, as well as the slide presentations that are used in the formal MFF meetings, have a section dedicated to these lessons and recommendations. Lessons and recommendations related to overall programme management and implementation are picked up and operationalised by the MFF programme manager. Meanwhile, the more technical and operational lessons and recommendations targeting the investment level (Funds and direct investments) are gathered and disseminated by the LCIP operating under the TAF (see Section 2.7.22.7.2). Steering has been guided by monitoring field visits and experiences acquired through implementation, findings, subsequent reporting and discussion. Here below are some examples that illustrate how the reporting and MEL system has steered certain actions or decisions:

- A monitoring visit to a project highlighted the urgency of addressing local issues around land ownership. The matter was in detail discussed which resulted in an agreement on how to deal with the issues.
- Monitoring also revealed that the use of DC in MFF was initially sub-optimal. This finding resulted in a restructuring and wider promotion of the DC tool, a few months later leading to a portfolio Fund investing in their first DC.
- Monitoring revealed that potential clients would also benefit from pre-investment TA (as opposed to the initial "post-investment only") and MFF rules for provision of TA were adjusted accordingly.

3.3. MFF Programme governance

EQ12 Is the governance well-structured, are responsibilities clearly defined?

Summary findings on MFF Programme governance

〉MFF's governance is well-structured, marked by close collaboration between the UK and FMO, with clear roles and responsibilities outlined in the Contribution Agreement. Monthly strategy sessions and well-prepared regular half-yearly meetings ensure alignment on strategic and operational matters. Documenting decisions from these meetings more formally would be beneficial for internal reference and transparency.

〉Inconsistencies in consultation processes and investment decision timelines have occasionally led to inefficiencies. Addressing these gaps by clarifying the UK's role in portfolio selection and establishing consistent timelines would further enhance the governance framework. Overall, the governance structure effectively supports collaborative decision-making and continuous improvement.

The MFF programme governance exemplifies a robust partnership between the UK government and FMO, characterised by continuous collaboration, structured meetings, and joint decision-making. Certain consultation processes, roles in investment decisions, and occasional acceleration of transaction timelines are not yet fully aligned with expectations of all partners. The governance of the MFF programme is marked by close cooperation and collaboration between the UK/IFU and FMO, ensuring alignment on strategic and operational matters. The UK/IFU and FMO have regular monthly strategy sessions and well-prepared half-yearly programme meetings. Partners make strategic and operational decisions during these meetings, covering programmatic, adaptive management, and budgetary aspects. Senior staff from both the UK and FMO participate, ensuring that management and technical expertise are effectively integrated into the decision-making process. While this approach has worked well for the UK/IFU and FMO, it would be beneficial to more transparently document key decisions from these meetings for internal reference, as well as for annual reviews and evaluations like this one. The Contribution Agreement also proposed an Operational Committee (OC) comprising representatives from the UK, FMO, and Fund managers. However, the OC has only convened once so far, as only one Fund had been contracted by 2024.

Annual reviews conducted by the IFU have further enhanced the programme's governance by providing strategic and operational recommendations. These recommendations are systematically followed up in

subsequent reviews, ensuring continuous improvement. Collaborative efforts have also extended to the development of the ToC and the inclusion of high-priority investments into MFF's portfolio. The UK has taken an active role in tracking these investments, including participation in field visits, while consultations at key milestones during the investment selection process ensure alignment between the UK and FMO.

Despite the strong collaborative framework, the evaluation also wishes to highlight some inconsistencies in the administration of consultation requirements and agreements on investment decisions. These processes are not yet fully meeting the expectations of all stakeholders. For example, while the process for consultations with the UK/IFU is documented and investment clearance requires signatures from both the UK and FMO, there are instances where timelines accelerate unpredictably. This is often driven by client-specific situations, such as the planning of due diligence trips, leading to rushed transactions and inefficiencies. Processes are not yet sufficiently aligned on the timelines for decision-making.

4. Conclusions and Lessons Learnt

Conclusions

FMO has made significant progress in identifying and implementing FSLU investments under the MFF programme, although the timeline has extended beyond initial expectations in this pilot. The programme has achieved notable milestones, including a thematically balanced set of investments and receiving "A" performance ratings for three consecutive years from the UK government. While the target number of Funds and Development Contributions has not yet been fully reached, these goals are expected to be met by the original end of MFF's investment phase in January 2026. The recent extension of this phase until January 2028 further allows to utilise remaining allocated Funds for DCs and the Technical Assistance Facility. FMO, alongside the UK, has effectively implemented a trial-and-error approach, leveraging available experience and evidence to navigate a steep learning curve.

A central challenge for FMO lies in balancing profitability with risk and impact objectives. Attracting private investors requires generating sufficient financial returns to justify inherent risks, a task made more complex by the need to balance these returns with impact-driven goals. Commercial investors tend to prioritise financial outcomes beyond the scope of Sustainable Forest Management and Nature-Based Solutions, with high uncertainty and volatility of carbon markets further impacting the appeal of such investments. The future and sustainability of some DC and Fund investments, in terms of their ability to attract private investors over the long term, is uncertain and remains to be seen. FMO's awareness of these challenges is evident in its focus on maintaining a balanced portfolio and approach along the continuum from solid cash returns to high environmental and social impacts. The types of supported investments have evolved since the 2021 BEIS business case and contribution agreement. The recently approved investment through one of the MFF portfolio Funds in Latin America promotes a balanced approach by supporting sustainable plantations while designating an equal area for NBS.

The close collaboration between the UK donor and FMO has been instrumental for programme success, facilitated through regular and frequent consultations and semi-annual meetings. Additionally, FMO's focus on FSLU has substantially increased as a result of MFF, leading to broader in-house interests and capabilities and the development of a new Forestry Strategy and dedicated teams for FSLU in two key FMO departments. While there is potential for further efficiency gains, this expanded capacity marks a significant advancement in FMO's efforts in forestry and FSLU more broadly.

FMO's progress under MFF reflects a balance of achievements and adaptive learning, positioning it to meet its goals while navigating the complexities of aligning financial and environment and social impact-driven objectives.

Lessons Learnt

EQ18 What learnings can be identified for MFF in order to improve implementation of the programme, in terms of effectiveness, efficiency, relevance and additionality?

In nearly four years of operations, the MFF programme has gathered several valuable lessons relevant to programme performance, for FMO, the UK, and a wider audience.

Lesson 1: Concessional MFF funding played a crucial role in enabling FMO to expand its support for higher-risk investments in FSLU and for developing and demonstrating less risky models, underlining FMO's financial additionality and distinguishing it from other DFIs that lacked access to similar funding. This helped to mobilise public and private sector funding for the sector, support innovative projects, and move towards net zero targets. FMO also advanced its policies, generated in-house awareness and capabilities, knowledge sharing and new learning networks. MFF support allowed FMO to advance its technical and knowledge broker capacities for concessional funding of FSLU private sector investments. Interest among other DFIs in pursuing FSLU investments is strong, particularly among those with net-zero commitments, while concerns about limited concessional funding resources and overall sector and market risks persist.

Lesson 2: Risks and potential financial returns are highly characteristic and specific for different FSLU sub-sectors, project types and approaches in achieving and balancing solid cash flows and high environmental and social impact. The lesson is to think about the sector more heterogeneously. FMO and MFF recognised the importance of partnering with a diverse range of Funds and pursuing varied investment opportunities to attract different types of investors, including commercial, impact-focused, and public entities. A key lesson in engaging commercial investors has been the pivotal role of timber and other wood products in sustainable forestry investment models, particularly in cases involving sustainable plantations. This highlights the strategic value of investments with mixed sources of financial returns to ensure diversified lower-risk outcomes and greater private sector interest. Conversely, despite significant progress with several portfolio companies, one Fund has yet to attract commercial investors to its business model in supporting deforestation-free commodities, relying instead on strong backing from public financiers.

Lessons 3: Embedding robust ESG risk management and impact frameworks within investment processes, along with close monitoring and comprehensive reporting, is essential for generating significant non-financial benefits. FMO's traditionally high institutional focus and capacities on ESG led to intensive E&S engagement in the MFF programme. MFF's approach demonstrated that integrating ESG risk assessments and targeted mitigation and impact strategies into project design and decision-making can effectively enhance environmental and social objectives while aligning them with commercial goals. Through structured engagement with higher-risk clients and capacity-building initiatives, MFF has successfully raised green and inclusive standards, improved corporate governance, and advanced GESI principles. Since MFF places a greater emphasis on ESG risk management and achieving social and environmental impact compared to other FMO investments (i.e. exceeding standard ESG requirements), the implementation of ESAPs and project impact objectives should be more comprehensively reported than has been the case thus far.

Lesson 4: Identifying profitable and impactful investment opportunities and developing bankable models does not guarantee their scalability in different country, ecological and socio-economic and political contexts. The whole MFF mandate and ToC rests on the assumption that private investors can be attracted, not just for the supported Funds in their sites, but also for replicating and scaling these projects by other organisations in other sites, countries, priority landscapes and ecologies. Scaling projects at different sites and in different countries, requires a good understanding of site-specific conditions and enabling environments, and it cannot be assumed that because a model works in a particular context it can be replicated at scale in other contexts. Partnerships with programmes and organisations focused on public sector policy and improvements of critical forest and FSLU infrastructure conditions could play a valuable role in identifying these sites and progressively improving the enabling environments.

Lesson 5: Development contributions for incubating models and advancing the bankability of pilots proved more challenging to organise and implement than anticipated. DCs made most sense when they were closely linked with follow-up investment opportunities. MFF Funds and Fund managers showed, however, less interest in experimenting and piloting novel approaches, focusing instead on attracting funding for already-tested models, particularly in the initial stages of Fund investments. Additionally, because DCs are typically small in scale, the associated fees are low compared to their oversight and management costs. Moreover, FMO has identified a strategic advantage in closely linking development contributions with its investment portfolio, a practice that could similarly benefit other Funds. Close linkages increase the potential for replication and scaling, and, in this way, DC can also serve as an entry point for engaging with other Funds.

Lesson 6: A proactive approach to technical assistance can significantly enhance programme effectiveness. The TAF's achievements, particularly in institutionalising knowledge through LCIP, establishing standards for carbon credit integrity and sharing knowledge with other DFIs, that were much appreciated, highlight the importance of targeted knowledge sharing and capacity-building. Establishing a continuous feedback loop between TAF activities and ESG monitoring strengthened its impact, helping clients address challenges and adopt sustainable practices effectively. However, addressing slow uptake and underutilisation of TA funding requires aligning services more closely with investees' immediate needs and MFF priorities, especially on advancing capacities and creating opportunities for replicating and scaling.

Lesson 7: The initially slow pace of MFF programme implementation is to be expected in a relatively new, innovative and high-risk sector that requires long-term perspectives on returns and impact performance, especially when operating within the framework of a pilot programme. Advancing MFF's FSLU agenda within a commercially-oriented organisation as FMO required highly dedicated staff, given its long-term perspective and the high risks associated with both profitability and impact. MFF investments demand particularly rigorous ESG due diligence and analysis to achieve significant environmental and social impact. The benefits of integrating MFF into FMO are becoming increasingly evident, particularly with the alignment of FMO's new Forestry Strategy to MFF objectives, the growing awareness among investment officers and staff about FSLU investments, and its contribution to advancing FMO's net-zero objectives.

Lesson 8: Effective governance and operational efficiency in programmes like MFF depend on clear roles, consistent processes, and collaborative decision-making, as well as adaptive management. While the existing collaboration between the UK and FMO is well structured, including regular strategy sessions and meetings,

further improvements in documenting decisions and clarifying stakeholder roles could streamline operations and further enhance operational efficiency, transparency and accountability, especially with the additional funding committed by the Dutch Government for MFF. An adaptive management approach has been crucial in this pilot programme, including for setting and revising realistic annual achievement and result targets as necessary.

5. Recommendations

EQ19 What recommendations are there to optimise the management of MFF, improving the relevance, effectiveness and its efficiency to reach its objectives?

R1

Matching investments and investors

Adopt a strategic and targeted approach to aligning FSLU investments with suitable investors, considering how different sub-sectors, project types, and asset classes could match the financial and impact objectives of different investor types

Directed at: UK/IFU and FMO strategic team

- **Matching different FSLU investments with appropriate investors.** Attracting private sector investors is essential for MFF's short and long-term success. To achieve this, it is critical to accelerate the process of making Funds and projects appealing to the right types of investors. Distinct categories of investors have varying preferences for financial returns, risk tolerance, stability, and impact emphasis. For this reason, the programme should (1) identify the cash flows generated by various investments and project sub-sectors, types and asset classes – including those focused on incubation and model development – over the medium and long term (while maintaining high ESG compliance and impact objectives), and (2) as a next step, align these diverse financial returns and impact outcomes with the specific expectations of different investor types.
- **Choosing the desirable portfolio mix of FSLU investment types.** Based on the categorisation, the programme could then choose the portfolio mix allocated to different subsectors, types, and approaches of projects that have the potential to attract different types of investors. To support scaling, the programme should then develop blueprints and ToCs for each type, where the keys to success are identified and defined.
- **Maintaining profitability and impact goals, and their balance.** In emphasising profitability to attract private sector investors, MFF should keep focusing on financial additionality and environmental and social impact that would not be achieved without these investments. The programme has to remain innovative, with a gradual realisation of profitability and attractive returns associated with market development (while maintaining ESG and impact goals); and demonstrating that these innovative investments are less risky than perceived by investors.
- **Timeframe – short-term:** This recommendation is intended for short-term implementation, particularly concerning the first two points above. The additional funding available for MFF during the remaining MFF investment period provides an opportunity to further refine the optimal investment portfolio.

R2

Concessional investments and MFF consortium model

For the UK and other governments to sustain, or gradually increase, if possible, concessional investments in MFF through FMO beyond the currently confirmed top-ups, and to progressively engage additional donors in MFF funding as FSLU business models are validated, and the pipeline of bankable projects grows.

Directed at: UK/IFU and FMO strategic team

- **Sustaining or expanding concessional funding.** Concessional MFF funding plays a pivotal role in enabling FMO and others to expand higher-risk FSLU and nature-based solution investments while demonstrating less risky, bankable models. Given the continued demand for concessional funding for FSLU private sector investments and its limited availability, MFF should aim to sustain and gradually expand donor contributions, ensuring Funds are strategically and effectively mobilised and deployed. As more suitable FSLU projects across different categories become available, concessional investments should be scaled accordingly. The 2024 agreement by the Dutch government to contribute USD 33.5 mln to MFF marks an important first step in this direction.
- **Bringing in other interested government donors.** Attracting other government donors to MFF in a consortium model could strengthen mandates and create opportunities for their national DFIs to expand concessional FSLU portfolios, fostering the desired replication and scaling through other DFIs. Efforts to engage new government donors should prioritise maintaining streamlined MFF decision-making processes and minimising additional transaction costs wherever possible.
- **Developing FMO as a knowledge hub for FSLU private sector funding.** With its expanding expertise in concessional FSLU investments, portfolio implementation, private sector networks, and strong management support, FMO is well-positioned to serve as a central hub for mobilising private sector funding for FSLU and nature-based solutions. FMO's efforts to establish a community of peer DFI investors to share knowledge and replicate scalable FSLU models could be further strengthened with support from relevant governments through MFF as discussed above.
- **Timeframe – medium to long-term:** The continuation of MFF funding and inclusion of other interested government donors in the Fund should be gradually pursued over the medium to long term, while the development of FMO into a knowledge hub can be accelerated in alignment with the recommendations outlined below under Recommendation 3.

R3

TAF advisory services and learning platform

Refine MFF's Technical Assistance Facility for advisory services (TAF component 1) and learning partnerships (LCIP) to address certain structural challenges in TA advisory services, further sharpen the thematic focus of the learning platform and develop closer institutional linkages with other programmes.

Directed at: UK/IFU and FMO strategic team

〉 **Identifying and addressing potential demand and supply constraints for technical advisory services with a flexible approach.** While there has been limited demand from Funds and other investees (e.g. portfolio companies) for the services currently offered, demand is anticipated to grow as new Funds join the programme. Some Funds may have alternative sources of TA or may not prioritise TA during their current investment cycle. To address this, technical advisory services should remain adaptable. The evaluation supports modifying or waiving the standard 50% financial contribution requirement for TA by FMO for certain MFF investees, while maintaining a minimal contribution, as already practiced under MFF's TAF. Additionally, alternative TA delivery models could be explored, such as framework contracts with MFF-supported Funds (such as planned for Eco-Enterprises Fund IV).

〉 **Aligning technical assistance with client needs and MFF programme priorities:** MFF should take a more proactive approach to technical advisory services by having FMO or the TA provider strategically align MFF programme priorities – particularly those focused on replication and scaling – with client needs, while complementing the existing bottom-up approach. Both TAF components should concentrate more on MFF priorities such as investment returns and investor needs (see recommendation 1). In addition to essential technical and operational support in implementing ESG, carbon credits, biodiversity, and related topics, it is crucial to provide support in clarifying investee returns across different investment types and asset classes to build their confidence and opportunities for replication and scaling, a major expected output of the TAF.

〉 **Focus the learning platform on high-priority (sub-)themes emerging from UNFCCC COP29 and CBD COP16, particularly those related to advancing the operationalisation of carbon credits and biodiversity goals.** These themes may include:

- Providing detailed insights into the interaction between the Voluntary Carbon Markets (VCM) and Article 6, as well as addressing broad regulatory, legal, and market pricing risks and exploring mitigation strategies.
- Evaluating the application and adequacy of IFC standards for governance in community-based private sector projects, ensuring effective oversight and alignment with sustainability goals.
- Developing practical approaches to operationalise biodiversity as a positive impact goal in MFF investments, rather than addressing it mainly as a risk factor.
- Building an FSLU portfolio for forests and commodities that aligns closely with the Paris Agreement, fostering synergies between environmental objectives and sustainable economic outcomes.

〉 **Developing closer institutional linkages with other organisations and programmes:** In addition to the ongoing Community of Practice with other DFIs, that should be continued and thematically broadened (see above), FMO should leverage MFF's learning platform to establish stronger institutional connections with other UK/IFU supported projects and programmes focused on FSLU and nature-based solutions (and those by other donors). This should include initiatives with a public sector orientation, to address areas of MFF interest – such as enabling environments (recommendation 4) – that fall outside FMO's core mandate. Strengthening these linkages could also expand the range of business models to be tested and further developed within MFF, through development contributions (DC) or investments. Another opportunity to link with is the TA under the EU Carbon Sink Guarantee Facility, which focuses on protecting and enhancing natural carbon sinks, is well aligned with MFF's objectives (even though the EU Facility is global, while MFF is focused on tropical environments), and is expected to be a potential gamechanger for DFIs that currently lack concessional financing.

〉 The upcoming separate review of MFF's TAF by the UK/IFU is expected to further develop and refine the points made in this recommendation.

〉 **Timeframe – short-term:** These recommendations should be addressed immediately and would benefit from the proposed review mentioned in the final point above.

R4

Context & enabling environment

MFF should use learning partnerships to better understand how policy, regulatory, and infrastructure environments affect FSLU project viability across contexts. These insights should guide portfolio development, prioritising enabling environments. Collaboration with UK/IFU and other agencies can help share experiences and indirectly foster more favourable conditions for private sector FSLU investments.

Directed at: UK/IFU, FMO strategic and TAF teams

〉 **Understanding the enabling environment for different MFF business models to inform investees and investors.** The main purpose of this recommendation is for MFF and FMO to clearly identify, understand and adjust MFF business model developments to local and global enabling conditions under which private sector investments in FSLU are to be replicated and scaled, above all to inform Funds, investees and private sector investors. FMO already conducted various studies of constraints in forestry investments that include those of external enabling environments (Terranomics 2023 and Wellspring 2024). MFF has also been working through its learning partnership on aligning investments to changing requirements of Voluntary Carbon Markets.

〉 **Sharing MFF experiences with other agencies to nudge the creation of more favourable conditions for FSLU private sector investments.** While it is well acknowledged that FMO does not have the mandate to engage with or influence enabling policy, institutional and regulatory environment of investments, it would still be useful, in the context of MFF, to consider interlinkages and cooperation with wider

programmes and projects supported by the UK/IFU and other donors, such as the Forest Carbon Partnership Fund (FCPF) and the Initiative for Sustainable Forest Landscapes (ISFL) (both are WB executed forestry and landscape oriented trust Funds), or others that are more targeted on enabling environments, such as the The Forest Governance, Markets and Climate (FGMC) programme funded by FCDO to promote governance and market reforms for FSLU.. Eventually, a stronger and well informed focus on global and other enabling factors by the UK and other large players would help the global community to nudge enabling environments into the right direction, especially in terms of accommodating private sector investment interests.

〉 **Timeframe - short to medium-term:** This recommendation should be addressed in the short to medium term, as it relates both to further MFF portfolio development (short-term) and to improving policy, institutional, and regulatory environments over the medium-term.

R5

Operational efficiency and governance

The evaluation has identified four areas where operational efficiency, focus and clarity could be improved. These areas are:

Directed at: FMO operational team, UK/IFU on last point

〉 **Formalising decision-making procedures and enhancing reporting transparency.** The UK/IFU and FMO currently make strategic and operational decisions on the MFF programme during (or after) regular strategy sessions and meetings. To improve transparency and accountability, key decisions from these sessions should be formally documented for internal reference and external review purposes. Additionally, FMO, through the FMO MFF coordinator, should consolidate critical MFF-related reporting from various FMO departments and clients, currently produced in different formats. Streamlining these reports would enhance accessibility and transparency, particularly for use in annual reviews and evaluations.

〉 **Enhancing clarity and transparency in early-stage investment decisions, particularly regarding UK involvement:** The consultation process for investment decisions could be further refined. The UK and FMO should work together to establish clearer and more transparent roles, steps and timelines for UK involvement in MFF portfolio selection decisions, particularly at the CIP stage, to ensure effective alignment and cooperation.

〉 **Strengthening ESG and Environmental and Social Impact Reporting.** FMO should enhance ESG and impact reporting during implementation by drawing more strongly on its ESG+ department for comprehensive MFF programme reporting. This should include validating client impact and ESAP monitoring reports, participating in reporting to UK/IFU, and conducting independent ESG spot checks to ensure robust oversight and accountability.

〉 **Revisiting MFF's investment and holding periods**: The initial MFF investment period was extended in 2024 by two years, from 2026 to 2028, the 10-year holding period remained unchanged which means that MFF

is currently expected to end in 2038. Given that many FSLU projects and investments are notoriously long-term in generating financial returns and impact, the timeline extending to 2038 may not provide sufficient flexibility. This should be revisited at an appropriate time to ensure alignment with programme needs and goals.

〉 **Timeframe – short-term:** With the possible exception of the final point mentioned under this recommendation, the above points should be addressed in the short-term.

R6

Theory of Change & Evaluations

MFF's Theory of Change should be further refined and FMO evaluations for knowledge building should be strengthened.

Directed at: FMO strategic team and UK/IFU

〉 **Refining, consolidating and disaggregating the Theory of Change.** The current Theory of Change (ToC) is highly aggregated and relatively simplistic, encompassing several diverse investment types. While some causal and impact pathways, along with critical assumptions, were outlined in 2021, they were never formalised. Additionally, a separate ToC for the TAF has since been developed. Consolidating, refining and possibly disaggregating the overall programming ToC would enhance the ability to identify and understand the mechanisms and conditions linking programme activities and outputs to critical outcomes and impacts.

〉 While reaffirming the overarching MFF goal of mobilising private capital to protect and restore tropical forests through the involvement of DFIs in FSLU projects:

- Clearly define the distinct pathways and conditions for attracting various categories of investors across different investment types, including commercial, impact-focused, and publicly oriented investors (e.g., donors, governments, and DFIs). Differentiate between investments directly targeting forestry and those focused on deforestation-free agricultural commodities, sustainable land use, and broader landscapes. This may involve disaggregating the ToC to some extent to address distinct investment pathways.
- Further incorporate the assumptions and conditions associated with various project types and investor objectives, including criteria for engaging other DFIs and diverse investor groups
- Clearly outline the specific activities, outputs, and outcomes of the TAF following its planned review by IFU in 2025.

〉 **Supporting the MFF programme and LCIP through prioritised and targeted evaluations.** Leverage FMO evaluations to facilitate essential knowledge-building activities under the LCIP and other institutional frameworks that promote joint learning between UK/IFU and FMO. This could include thematic evaluations aimed at addressing critical evidence gaps for MFF, as outlined in the current programme, supported by an additional GBP 2 mln allocation. The UK and FMO should collaborate to identify key knowledge gaps and develop an agreed evaluation programme to address them effectively.

〉 **Key themes and questions for future MFF evaluations and studies identified through this evaluation's evidence mapping, with potential for high returns, include:**

- How can MFF's multiplier effects and partnerships, particularly through the LCIP, be optimised to best match FSLU business models and blueprints with different investor types and targeted landscapes?
- What are the specific typologies of FSLU sub-sectors and projects most likely to succeed under various conditions and in targeted landscapes? How do these conditions vary across regions, such as Latin America and Sub-Saharan Africa?
- What factors and conditions enable Development Contributions to foster effective mobilisation, replication, and scaling of FSLU projects? Which types of FSLU projects have readily bankable models, and which do not?
- Under what conditions can concessional finance in the context of MFF facilitate replication and scaling, and what exit strategies are viable for concessional finance based on realised risk-adjusted returns, differentiated by project types?
- What are the most effective forms and approaches to TA in different FSLU sub-sectors and contexts? How can insights from DFI experiences, including FMO's, inform improved TA delivery?

〉 Timeframe – short to medium-term: This recommendation should be addressed in the short to medium term, with refining the Theory of Change (ToC) as a short-term priority and conducting various evaluations and studies as short to medium term activities.

ADE

Evidence for better policy