**Eco.business Fund Annual Review – 2018 Performance**

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## **eco.business Fund Annual Review - Summary Sheet**

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| **Title:**  eco.business Fund  **(EBF)** | | |
| **Programme Value:** £20 million | | Review Date: 2019 |
|  | | Review period: 1st January – 31st December 2018 |
| **Programme Code:**  GB-GOV-GB-7-P00052-ICF-P0003-ECO.B | **Start Date:**  Fund inception: January 2015  Promissory Note: December 2015 | **End Date:**  Provision for the Department for Environment, Food and Rural Affairs (Defra) investment to be returned in December 2030 |

**Summary of Programme Performance**

|  |  |  |
| --- | --- | --- |
| **Year** | 2017 | 2018 |
| **Programme Score** | **A** | **A** |
| **Risk to progress of Impacts** | Moderate | Moderate |
| **Programme Risk** | Moderate | Moderate |

Introduction

This is the second Annual Review (AR) of the EBF. The Defra logframe has been finalised, therefore the score for this AR is indicative of the progress made over the year of 2018, in relation to the targets set with said logframe[[1]](#footnote-2).

In addition to ARs, performance reviews are undertaken by the fund manager, Finance in Motion (FiM) who are effectively the programmes delivery partner. These are reported quarterly to an independent board of directors, where Defra sits as an observer. A financial report of EBF is independently audited annually.

The EBF was set up in December 2014 by KfW, the German Development Bank, Conservation International and FiM. The EBF´s mission is to promote business and consumption practices that contribute to biodiversity conservation, to the sustainable use of natural resources, and to the mitigation of climate change and adaptation to climate change impacts. The fund has a Latin America focus, working in: Colombia, Ecuador, El Salvador, Costa Rica, Nicaragua, Panama and expanding into Honduras in 2018. FiM is the fund manager and acts as an advisor, for the Board of Directors – the independent panel representing the shareholders, providing clearance for investment and strategic decision making for the fund.

Defra committed £20 million in December 2015

The EBF pursues its mission by providing financing and/or technical assistance to qualified Financial Institutions (FIs) and businesses in four focus areas:

* Sustainable agriculture and agribusiness;
* Sustainable fishery and aquaculture;
* Sustainable forestry; and
* Sustainable tourism.

These four areas are pivotal pillars of the Latin America and Caribbean (LAC) economy but are also significant contributors to the region’s environmental footprint and are increasingly affected by climate change. The fund believes that companies in these sectors need to transform their business models to become more sustainable; allow efficient and innovative business practices; and secure viability for both the company and the environment in which they operate. More specifically, the fund intends to support an industry shift towards business practices that conserve biodiversity, use natural resources sustainably, and mitigate and/or become more resilient to climate change.

The fund currently channels dedicated financing to local producers via selected local FIs, and in limited cases will provide direct financing for innovative, small scale, high-impact businesses and projects. Investment activities are often complemented by the provision of Technical Assistance (TA) to local FIs and their clients. Financial instruments offered include a range of debt instruments but typically are medium to long-term senior loans and subordinated debt as well as syndicated loans.

Individual loans from FIs to final borrowers re-financed by the fund need to fulfil one of the following conditions:

* The final borrower holds a sustainability certification.
* The activity financed is included in the fund’s green list of eligible measures with a positive impact on biodiversity, climate change and resource efficiency.
* The fund will also finance innovative measures developed by partner institutions that contribute towards achieving its mission.

Investment into the EBF contributes towards Defra’s and Her Majesty’s Government (HMG) meeting their strategic and climate objectives.

Summary of progress since inception (2014)

The EBF completed its fourth full year of operation in December 2018. It has grown from being a newcomer in the sector without a track record, into an increasingly recognised financier and knowledgeable partner in a range of sustainably focussed activities in a large and sectorally diverse region. The fund invests in the FIs of Colombia, Costa Rica, Ecuador, El Salvador, Nicaragua, and Panama and expanded into Honduras in 2018.

**2017 Recommendations**

1. **To complete both the Defra Logframe and EBFs Impact Framework in 2018:** EBF and Defra have made extensive progress in the development of a logframe, with associated milestones. This means this year’s AR can be scored.
2. The EBF has also published, in 2018, an Impact Framework (Annex A): this outlines the Funds strategic aims, and attributes activities and interventions to the desired outcomes. Additionally, it provides information on the methodology behind the reported impacts.
3. **To develop International Climate Finance (ICF) Key Performance Indicator (KPI) 15 during 2018:** The ICF KPI 15 is a KPI for ‘Extent to which ICF intervention is likely to have a transformational impact’. KPI 15 has been developed across HMG, with the department for Business, Energy and Industrial Strategy (BEIS) leading, but it has not yet been applied to the EBF programme. This is due to resources having been focused on continuing to develop the determining indicators of KPI15. For example net CO2 sequestration, outcome indicator 1.8. We will work towards the development of a high level ICF KPI15, over the course of the upcoming year.

**Summary of progress since January 2018**

The EBF

In 2018, the EBF increased the number of partner institutions (domestic banks) that they have made investment through from ten (as of 2017) to fourteen, including an expansion into a new country (Honduras). The EBF now operates in seven countries across Central and South America, contributing to an increased geographical diversification. The outstanding portfolio as of the end 2018 amounts to USD 241.5m. In 2018, the land sustainably managed through the EBF sub-loan portfolio increased significantly from 55,759 to 140,000 Hectares (Ha). In 2018, the fund expanded to new sectors with the first investments in sustainable livestock activities (silvopastoral systems) in Panama.

The Fund focuses on four focus sectors:

Agriculture and agribusiness, fisheries and aquaculture, forestry, and tourism. To date, due to the financing landscape in countries of operation, fund activities have been highly concentrated in agriculture and agribusiness. A key factor in this was the introduction of livestock into the sub-loan portfolio, this now makes up 12% of ‘crop’ based lending. Otherwise the portfolio of on-lending investments has been largely composed of Coffee (44%) Banana (7%), Rice (5%) & Cocoa (4%).

Additional to the progress made in the financing of partner institutions, EBF is seeking to begin investments into non-FI businesses – prospective cases including partnering with a major shrimp producer in Ecuador, to increase environmental sustainability of production. This will allow the EBF to invest and directly promote carefully selected corporations that identify with its mission and complement the Fund’s approach to investing in local FIs.

Furthermore, FiM has developed and implemented an impact framework (Annex 1), which is aligned with the EBF Theory of Change (Figure A) which has been finalised over the last year. The new impact framework better defines the relationship between short and long-term outcomes and defining how these will be achieved. This will also contribute to future measuring and reporting of the fund’s activities.

The Eco Development Facility (Eco DF)

The ECO DF is a separate development facility that sits alongside the EBF’ investment portfolio. Eco DF provides grant finance directed at TA projects – for example promoting environmentally sustainable land-use practices within small businesses to enable environmental sustainability standards to be achieved. Examples are described in more detail later in output score, 3.

Outcome level Summary

Four ICF KPIs have been selected for use at the outcome level.

ICF KPI 5 has been significantly modified, by including jobs supported, rather than created, as it is not deemed feasible to measure jobs created directly. Therefore, this KPI can be reported as part of EBF KPIs but not through central ICF KPI collation. KPIs 11 and 12 are reported on by the Fund to Defra, but are not published due to their commercially sensitive nature. Both exceeded the targets set for them for 2018.

|  |  |  |
| --- | --- | --- |
| **ICF KPI** | **Current** | **Target 2018** |
| ICF KPI 5: Number of direct sustainable jobs created or supported as a result of ICF support. | 250,000 (Supported) | n/a |
| ICF KPI 11: Volume of public finance mobilised for climate change purposes as a result of ICF funding. ($m) | n/a | n/a |
| ICF KPI 12: Volume of private finance mobilised for climate change purposes as a result of ICF funding. ($m) | n/a | n/a |
| ICF KPI 6: Change in Greenhouse Gas (GHG) emissions as a result of ICF support. (Sequestered) | 600,000 | 600,000 |

Output level Summary

Outputs have been decided based on the objectives of the EBF to promote business and consumption practices that contribute to biodiversity conservation, to the sustainable use of natural resources, and to mitigate climate change and adapt to its impacts. The outputs defined below include the following progress highlights:

|  |  |
| --- | --- |
| **OUTPUT 1:** EBF has a diversified portfolio supporting a range of geographies and sectors. | Highlights included an expansion of the EBF portfolio into Honduras. The fund has also increased the number of crop types, from 14 in 2017 to 19 in 2018 inclusive of significant investments into a new commodity: Livestock. |
| **OUTPUT 2:** Broad support to sustainability practices reflected in the composition of the portfolio. | A particular highlight was an increase in the number of green list measures from 9 in 2017 to 12 in 2018. |
| **OUTPUT 3:** Provision of continuous and sufficient TA. | EBF has made progress in 2018 with regard to providing technical assistance, meeting all but one of the output indicator targets. Additionally EBF has now completed 20 TA projects in 2018 compared with 9 in 2017. |
| **OUTPUT 4:** Improved partnerships and development of activities with other sector stakeholders. | EBF has missed key Defra targets for improved partnerships and development of activities with other sector stakeholders in 2018. The number of events that EBF has participated in 34 events, was lower than an expected milestone of 42. However, the number of external events organised by the EBF has increased by 11 – exceeding the milestone set by 4 events. It should be noted that these Defra milestones were revised in 2017 as Defra did not deem them to be ambitious enough. Defra should seek to re-evaluate these indicators to ensure they are informative. |

*Summary of recommendations for the next year*

Looking ahead to the end of 2018, the EBF expects a year of further diversification and sustained growth, in terms of geographies, types of partner institutions (e.g. microfinance organisations), activities financed, and end-borrowers reached. Targets are included in the logframe.

1. To agree a strategy to follow when Upper Middle-Income Countries look on track to graduate from Overseas Development Assistance (ODA) eligibility – based upon the country’s gross net income, as defined by the Organisation for Economic Co-operation and Development (OECD).

2. Increased Defra involvement in TA - through the EBF- Development Facility (DF). This could encourage cross-donor and portfolio learning and add value to the fund manager’s investment decisions.

M&E recommendations:

1. Develop an agreed concept note for transformational indicator (ICF KPI 15), and what types of quality information this would encompass.
2. Develop a concept note that describes and evaluates the green list activities involved in livestock which qualify businesses for EBF funded financial support.
3. Assess whether additional indicators can be developed for Outcome 2 of the logframe. This would improve the assessment of EBF’s impact on ‘behaviour change embedding in downstream lenders and FIs.

## A: PERFORMANCE AND CONCLUSIONS

**Annual outcome assessment**

Outcome indicators are defined as:

1. EBF's success in contributing to biodiversity conservation, the sustainable use of natural resources and climate change adaptation and mitigation; and this success creating an incentive for others to also act towards these goals.
2. Level of behavioural change embedded in downstream lenders and FIs.

**Progress on Outcome Targets:**

The EBF is on track to meet its targets for key indicators such as financing volume and the number of hectares under sustainable management and committed to deforestation-free activities. Additionally, a new ICF KPI has been developed, net CO2 sequestered throughout portfolio of EBF investments.

**Outcome 1 – Performance:**

* Metrics within Outcome 1 show the Fund remained slightly under the Defra target portfolio size of USD 277m.
* Other metrics for this outcome indicate that 140,000 Ha of land is now managed sustainably against a 2017 level of 55,759 Ha, substantially exceeding the milestone target of 95,000 Ha. This has been due to an increase in investments to sustainable livestock farming which cover an increased area of land over other commodities. Of the 140,000, 86,800 is held by sub-borrowers committed to deforestation-free activities, up from 42,000 in 2017.
* 5,000-6,000 Ha of preserved natural ecosystems.
* £6.8m of private and £17.8m of public capital has been raised for the purposes of climate change as a result of ICF funding
* This year, an additional indicator has been developed and included in Outcome 1, net CO2 sequestration as a result of EBF investment. 600,000 tons CO2 has been reported by the fund, meeting its initial milestone.

**Outcome 2 – Performance:**

Metrics within Outcome 2 show that the number of sub-borrowers (is increasing.

**Overall output score and description**

The following table provides a summary of the performance of each output. Further information is given in **Section C,** where progress against all the reporting indicators is measured.

*Impact weighting of Outputs*

Outputs have been weighted in accordance to their importance to the success of the EBF and alignment with Defra ICF’s strategic priorities.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| No. | OUTPUT DESCRIPTION | PERFORMANCE SUMMARY | SCORE | WEIGHT (%) |
| 1 | EBF has a diversified portfolio supporting a range of geographies and sectors | Indicators in this output have described an increase in FIs in the fund portfolio and an additional 5 commodities. | **A** | **35%** |
| 2 | Broad support to sustainability practices reflected in the composition of the portfolio | Indicators have met or exceeded the targeted milestones, in terms of number of green list and sustainability standards. | **A** | **35%** |
| 3 | Provision of continuous and sufficient TA | EBF has met all but one of the targets for TA, additionally exceeding the milestones for TA budget. | **A** | **15%** |
| 4 | Improved partnerships and development of activities with other sector stakeholders | 3 of 4 indicators within this output have just missed targeted milestones. The indicators within this Output need to be reconsidered as per recommendations. | **B** | **15%** |

## B: DETAILED OUTPUT SCORING

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Output Title** | EBF has a diversified portfolio supporting a range of geographies and sectors | | | |
| Output number per LF | 1 | | **Output Score** | A |
| Progress Risk: | Moderate | | Score in previous AR | A |
| Impact weighting (%): | 35% |
| Impact weighting % in last AR | 35% |

|  |  |  |
| --- | --- | --- |
| **Indicator(s)** | **Milestone** | **Progress** |
| * 1. Number of FIs in the EBF´s portfolio | 12 | 13 |
| * 1. Number of commodities supported (e.g. crops) | 18 | 19 |
| * 1. Number of countries in which the Fund operates | 6 | 7 |

**Key Points**

There was progress against all of the indicators for this output since 2017, with targets exceeded for 2018.

**Progress:**

The number of FIs in the EBFs portfolio increased in 2018 to 13. These FIs are spread throughout seven countries, an increase of one (Honduras), from 2017. The portfolio now reaches Panama, Columbia, El Salvador, Nicaragua, Costa Rica, Ecuador and Honduras. The largest portion of the portfolio is in Panama with a 26.7% share.

There are now 19 crop types supported compared to 14 at the end of 2017. Coffee assumes the largest share of the sub-loan commodity portfolio (44%) followed by a new commodity (livestock in Panama). Financing is predominantly through working capital loans, although the share of fixed asset loans has increased.

**Issues/risks:**

* Defra is aware of the large proportion of the portfolio with exposure to Panama. It is possible that Panama will graduate from ODA-eligibility in the future due to exceeding the Gross National Income (GNI) maximum threshold in 2017. Three years of GNI exceeding threshold for Middle Income Countries (MICs) will trigger graduation from ODA-eligibility. The OECD eligibility list will be updated in 2020, with graduating countries becoming in-eligible from 1st January 2021. A strategy for monitoring MICs graduation has been included in the recommendations.

## B: DETAILED OUTPUT SCORING

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Output Title** | Broad support to sustainability practices reflected in the composition of the portfolio | | | |
| Output number per LF | 2 | | **Output Score** | A |
| Progress Risk: | Moderate | | Score in previous AR | A |
| Impact weighting (%): | 35% |
| Impact weighting % in last AR | 35% |

|  |  |  |
| --- | --- | --- |
| **Indicator(s)** | **Milestones (baseline)** | **Progress** |
| * 1. Number of sustainability standards represented in the portfolio of sub-borrowers | 10 | 11 |
| * 1. Number of Green List measures represented in the portfolio of sub-borrowers | 9 | 12 |

**Key Points**

In 2018, Output Indicators 2.1 and 2.2 (number of sustainability standards and green list measures) have increased in line with the broader growth expected from the investments. The newly acquired livestock investments are assured using green list sustainability criteria. As these investments are expected to be expanded in subsequent years, green list sustainability it is likely to play a larger role of environmental assurance for the fund. We expect the certified standards to flat-line (at around 15 by 2021).

**Progress:**

In 2018, indicators 2.1 and 2.2 exceeded milestone targets for 2018 due to new livestock investments. Examples of sustainability standards and green list measures certification are:

Green list #49: Investment on a modernisation package for ranching that includes: a) fencing b) isolation of water sources c) substitution of older pasture species for a newer varieties of grass, including the use of forage legumes and protein banks d) equipment and infrastructure needed to produce animal feed including the purchase of raw materials (e.g. silage, hay);

Green list # 50: Investments on life fencing "cerca viva" (with native species) or pasture-forest integration for grazing land, including afforestation and reforestation projects; and,

Green list # 21: Investments in infrastructure and process automation to reduce losses and enhance productivity throughout the livestock production process (e.g. water reservoirs, cooling shade, feeders, bans, cold storage, milking machines).

Sustainability certification include:

Rainforest alliance

Marine Stewardship

Fair trade standard for small producers

Forestry Stewardship

2019

EBF will be running a pilot for organic standards (European Union and United States Department of Agriculture Organic). This standard has a significant penetration in many segments and its share is increasing.

We expect an increase in invested green list measures due to ongoing investments in livestock in Colombia and a potential further increase in the pipeline for 2019 and beyond.

## B: DETAILED OUTPUT SCORING

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Output Title** | Provision of continuous and sufficient TA | | | | | |
| Output number per LF | | | 3 | | **Output Score** | **A** |
| Progress Risk: | | | Moderate | | Impact weighting (%): | 15% |
| Impact weighting % revised since last AR | | 15% | |

|  |  |  |
| --- | --- | --- |
| **Indicator(s)** | **Milestones (baseline)** | **Progress** |
| 3.1. Number of on-going/outstanding TA projects | 27 | 29 |
| 3.2. Number of FIs supported | 12 | 11 |
| 3.3. Number of completed TA projects | 19 | 20 |
| 3.4. Budget spent on TA projects (USD million) | 1.6 | 1.8 |

**Key Points**

Across all metrics the scale of TA support provided has increased - meeting all but one indicator.

**Progress:**

Regarding TA interventions, it is worth mentioning the following project examples:

* A partner institution of the EBF since 2016 in El Salvador, has received loans from the EBF to invest in sustainable coffee production in El Salvador. A TA project has accompanied the investment since 2017. The purpose of the TA is to: i) Better understand the production practices of coffee farmers and millers as well as their interaction with the natural environment; ii) Assist the bank in improving their appraisal of sustainability and its integration into lending procedures; and iii) Promote and support the adoption of sustainable practices among coffee producers and millers.
* To guarantee the sustainability of the EBF’s support to cattle ranching and to help a partner institution expand its sustainable livestock portfolio, a TA pilot project was conducted in 2018 by the EBF to develop and test remote-sensing techniques to monitor land-use changes, especially forest losses or gains, in Nicaraguan cattle farms. This project consisted of capacity building of bank staff (executive managers, credit officers, analysts and social and environmental officers) as well as farmers on (i) the use of GPS for the mapping of farms, (ii) the use of a Satellite Monitoring Dashboard to visualise the compliance of forest protection of a portfolio of farms, (iii) the implementation of sustainable and environmentally friendly practices in the cattle sector, and (iv) the use of modern data collection tools such as tablets to identify and promote these practices.

## B: DETAILED OUTPUT SCORING

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Output Title** | *Improved partnerships and development of activities with other sector stakeholders* | | | |
| Output number per LF | 4 | | **Output Score** | B |
| Progress Risk: | Moderate | | Previous AR score | A |
| Impact weighting (%): | 15% |
| Impact weighting % revised since last AR | N/A |

|  |  |  |
| --- | --- | --- |
| **Indicator(s)** | **Milestones (baseline)** | **Progress** |
| 4.1. Number of external events organised for the EBF | 14 | 18 |
| 4.2. Number of events EBF has participated in | 42 | 34 |
| 4.3. Number of investments realised by the Fund in partnership with other institutions (e.g. syndicated loans) | n/a | 3 |
| 4.4. Investments realised by the Fund in partnership with other institutions (USD millions)\* | n/a | n/a |

**Key Points**

EBF exceeded milestones for indicator 4.1, increasing the number of EBF organised events from 14, in 2017 to 18, in 2017. EBF missed meeting the milestone for indicator 4.2 and 4.3.

\* In the previous AR it was discussed with EBF that output indicator 4.4 would not have milestone objectives, i.e. Size of investments (USD) realised by the fund in syndication, because we have no explicit objectives to target by this indicator. Therefore, although the indicator will still be monitored within the logframe, it will not contribute to a score.

**Progress:**

Sponsoring/participation in events:

The fund’s DF co-sponsored the participation of 20 representatives from several existing or potential partner institutions in the 2018 Sustainability Week (Lima, Peru). The gathering, organised by the Inter-American Development Bank (IDB) Invest, is one of the main forums on sustainability and sustainable finance in Latin America. Participation was co-sponsored as it presented a unique opportunity for the representatives to exchange knowledge on international best practices on sustainability in the sector, to connect with potential investors and clients, and to strengthen their network in the sustainable finance industry. Three partner institutions of the fund, were invited to exchange with peers about Environmental and Social Management Systems (ESMS) design and implementation, a topic on which they received technical assistance from the fund.

**Issues/risks:**

Indicators 4.1 and 4.2 within output 4 remain challenging to set milestones for. EBF attends and organises a variety of events. These have differing degrees of importance, reach, and associated prioritisation by EBF. The target set were exceeded in the preceding AR in contrast to a failure to meet the targets set in this AR period. It is recommended that the indicators are re-evaluated to that they meaningfully report on progress towards improved partnerships and engagement with sectoral stakeholders.

**Recommendations:**

1. Re-evaluate how the indicators contribute towards the overall output and overall outcome of EBF investment.

## C: VALUE FOR MONEY (VfM) and FINANCIAL PERFORMANCE

**VfM performance compared to the original VfM proposition in the business case**

***Economy:***

Total operating costs costs are covered directly from returns on capital of the fund. The remaining income will be redistributed to the shareholders, via the income waterfall. The income waterfall will ensure that more senior debt and shareholdings are paid first, before complementary dividends are paid to the Junior Shareholders (Defra).

In 2018 the fund income has exceeded costs. The value of Defra’s shares value has increased slightly from inception to a total of 26,182,500 USD (Approx. £20.7m at current conversion, compared with the £20m investment made in 2016). where impairments are applied to shares to buffer/reserve against future loses, although these are not yet realised.

***Efficiency:***

During 2018, TA focused upon ground-implementation of projects which are involved in working directly with banks. Initiating two projects, in Panama and in Nicaragua. The increasing participation and involvement of the EBF-DF through direct assistance to the end-borrower’s various activities, enhancing the value for money of investments.

***Effectiveness:***

The fund has broadly met indicator targets for 2018 with the exception of a key target;. Notably, we have a significant increase in the number of hectares of land sustainably managed through the EBF portfolio, 140,000 as of 2018, exceeding the milestone of 120,000 and an increased number of FIs funded by EBF, 13 as of 2018 against a target of 12. The programme delivery is broadly on track and the fund has finalised an internal Impact Framework which is expected to deliver enhanced impact assessments by June 2019. Based on this impact framework, 2nd level claims were presented to the Board of the fund in September 2018, with first quantitative estimates for key KPIs (CO2 sequestration, supported jobs, etc.). The assessment and calculation routines of the different KPIs defined in the framework were implemented, and updated results were prepared in view of the fund’s conference in February 2019.

***Equity:***

The average loan to sub-borrowers has decreased.

***Assessment of whether the programme continues to represent VfM***

. The Defra investment in the EBF continues to represent good VfM; in 2018, the fund has increased its delivery to smaller end borrowers, by investing in microfinance institutions, whilst also continuing to leverage more private and public finance across seven countries in Latin America. The funds internal Impact Framework is expected to further the focus on sustainable jobs and livelihoods.

|  |  |
| --- | --- |
| Date of last narrative financial report | 2018 Q4 |
| Date of last audited annual statement | The 2018 annual statement has been audited, effective in April 2019. |

## D: RISK

**Overall risk rating: Moderate**

Risks here are specifically associated with risk to the EBF and its impact. Defra related risks (i.e. project management) undergo regular assessment internally.

Risks associated with impact and reaching milestones has been described in each output section. However overarching or notable risks have been summarised below.

**Summary of key EBF Risks**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Description of risk** | **Type** | **Risk Rating** | **Likelihood** | **Mitigation activities** |
| Political and civil unrest in Nicaragua results in reduced loan incomes | Political and Economic stability | Major | Likely | * Fund is reducing new financial exposure to the Nicaragua as appropriate * Regular monitoring of political and economic sitution * Continued monitoring of loan repayments (so far loan repayments are as expected) |
| Integrity of eligibility standards | Operational and Reputational | Major | Unlikely | * Independent commisioning on the sustainbility standards (described further below) * Monitoring as part of technical assistance * Internal screening to ensure robust sustainability standards |
| Potential graduation for ODA eligibility (Specifically, Panama) | Operational and Reputational | Moderate | Very Likely | * Exposure to Panama is being reduced as is closes on ODA graduation * Relatively short loan recouperation time, most within 5 years. * Fund is outlining to expand portfolio to other countries, broadening exposure to single country. |

Further description

Major risks are:

1. Unrest in Nicaragua - President Ortega's attempt to reform the pension system has triggered protest and strikes. There is a very high political risk of a deteriorating security situation. As of January 18, 2019 the government looks to be opposed to negotiation, suspending Inter-American on Human Rights (IACHR) monitoring team. President Trump has also signed into law a series of funding restrictions, directed at the government, rather than private institutions. An acceleration in the outflow of deposits occurred in December, 2018. Unrest could lead to deteriorating economic stability, deteriorating investment climate and a resulting impact on the banking system causing lower portfolio growth.

Mitigation:

The fund does not currently have any pipelined investments into Nicaragua. There is also no indication of FI being unable to maintain regular payments, and none so into the future, which reduces are assessment of this risk to the fund.

1. Change in the list of eligible standards, especially the removal of standards which had previously been considered eligible, may generate additional uncertainties in the fund’s commercial relationships with its partner institutions. In 2017 the list of eligible sustainability standard labels was adjusted to reflect the findings of a study submitted by a consultancy firm and a standard with significant penetration in Latin America for several of its major crops, such as coffee, was one of the labels that failed to pass this new screening.

Mitigation

A study was commissioned with the purpose of further modifying the list. This resulted in the rejection of certain relatively minor labels and the inclusion of several new ones, among which many are related to fisheries and aquaculture. In 2018, the list of eligibility standards was further screened to assess in more depth the requirements related to deforestation: this study did not significantly alter the list of eligible standards but allowed to better understand their linkages with deforestation and to set additional safeguards for the standards that did not fully passed the deforestation screening.

## E: COMMERCIAL CONSIDERATIONS

As of the end of 2018, 13 partner FIs have received financing from the EBF. As well as the commercial contribution to FIs, EBF also continues to support the investment, often through TA through establishing or improving ESMS practices and satellite monitoring. Additionally, EBF provides capacity building to FI staff enhancing awareness and expertise in delivering finance to environmentally sustainable businesses. For example, technical assistance has been provided in the form of trainings to several staff of the fund’s partner institutions on the development and operationalisation of environmental and social management systems (). Technical training on the use of land-use/land-cover monitoring tools have also been provided to staff from partner institutions in Panama and Nicaragua to support the investments in sustainable livestock production.

## F: CONDITIONALITY

Under EBF underlying legal documentation Defra has safeguards to protect the key investment mandate of the fund. This includes ensuring investments must be made into ODA eligible countries and downstream businesses must meet a criteria of the environmental sustainability certification or green list activities, and can only be amended or updated with Board of Director approvals, of whom represent the shareholders interests.

## G: MONITORING & EVALUATION

**Evidence and evaluation**

The theory of change for the EBF states that the EBF should carry out specific activities that lead to positive effects, or short-term outcomes, which in turn trigger long-term change (Annex 1). Although the two impact pathways (FIs and businesses) have their own route towards achieving the ultimate outcome, they reinforce one another, and this reinforcement is crucial to driving transformational change in the market.

The impact framework

The impact framework has been developed by the fund managers (FiM) by recommendation of the Board of Directors, supported by Defra. This is to ensure that environmental impact is integral to the funds operations – in addition to commercial viability. The impact framework has been finalised this year (Figure A), and we expect to have an initial report on the EBF results through this impact framework in mid-2019. The Impact Framework connects the actions of the fund with key outputs, outcomes and final impacts, and describes how this progress will be measured and reported.

Impact assessment Approach

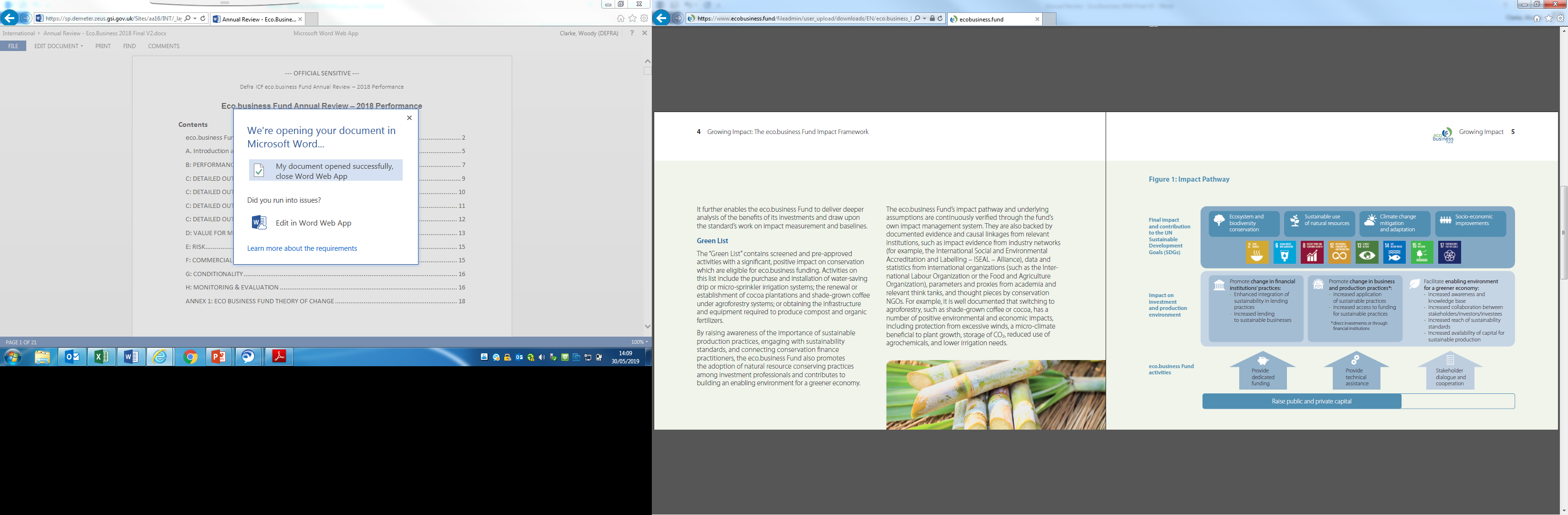
EBF reports impact on a regular basis, including through the EBF’s annual report. The indicators that are reported are estimated through FI submissions, direct sub-borrower, regional case studies as well as third-party sources. The impact framework will allow to track the EBF’s impact and results, including outputs, outcomes and final impacts across the fund’s portfolio through the fund’s 27 priority KPIs. These KPIs form the basis of the fund’s monitoring and reporting system.

Impact Management System

The system used by EBF will allow monitoring based of the impact framework to feed back into how well the fund is progressing towards its goals, whilst providing additional insight and learning for future investment and TA.

***Figure A. Overview of Fund’s impact Framework***

(Detailed description provided in the links)



**How is evidence disaggregated by sex and age, and by other variables?**

The evidence currently compiled by the fund on the impacts of its investments or the information that is reported by partner institutions in the context of the bi-annual sub-loan reports is not disaggregated by sex or by age. To minimise the burden on the partner institutions, which is already significantly higher than for standard loans, the fund does not intend to ask its partners to directly report this information. Instead, the fund proposes to rely on third party evidence, when it is available, to provide estimates of gender disaggregation for certain indicators of interest.

**Monitoring progress throughout the review period**

The fund’s continuous monitoring approach consists in the following activities:

1. Credit monitoring / monitoring of financial performance of investees

In 2017, the fund manager followed its traditional credit monitoring approach consisting of quarterly risk reviews that are presented to the Rating Committee. The reviews were conducted for each partner institution and include a general review of performance in the recent quarter, spotting of trends, covenant monitoring and adjustment of ratings if necessary. In parallel, the fund manager introduced a company-wide new rating methodology following Standard & Poor’s guidelines and rated its entire portfolio according to this new methodology.

2. Monitoring of the use of proceeds (sub-loan monitoring)

Partner institutions are required to report to the fund manager on the use of funds on a bi-annual basis. The fund manager controls that its resources are used in the eligible sectors following the respective criteria and whether the partner institutions abide by the minimum required on-lending rate. Partner institutions report loan-by-loan on a specified set of information (such as loan amounts, target sector, financed activities, loan type, and sustainability standard and farm or business size) on an anonymous basis (no obligation to report names of sub-borrowers).

5. Monitoring through relationship management (visits, meetings)

As part of ensuring that its funds as used according to its eligibility criteria, the fund carries out regular visits to its sub-borrowers. In 2018, for example, fund staff visited an important trader of cocoa that receives funding from the EBF through a partner institution. This visit contributed to better understand the sustainable policies of this trader, especially its handling of certified (Rainforest) cocoa, its strategy to expand the volumes of certified product sales and to support its suppliers in adopting practices leading to the obtention of sustainability standards.

Annex

1: Link here: [Impact framework, from figure A](https://www.ecobusiness.fund/fileadmin/user_upload/downloads/EN/eco.business_Fund_Impact_Framework-Growing_Impact_2019.pdf):

1. The impact and outcome level indicators are developed but due to their nature some are not reporting at this early stage of the fund’s life, particularly at impact level. Therefore they are assessed both quantitatively and qualitatively. We expect to continue developing these with our Monitoring and Evaluation (M&E) teams. [↑](#footnote-ref-2)