**Eco. Business Fund Annual Review – 2019 Performance**

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## **Eco. Business Fund Annual Review - Summary Sheet**

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| --- | --- | --- |
| **Title:**  Eco. Business Fund (EBF) | | |
| **Programme Value:** £32.6 million[[1]](#footnote-2) | | **Review Date**: 2020 |
|  | | **Review period:** 1st January – 31st December 2019 |
| **Programme Code:**  GB-GOV-GB-7-P00052-ICF-P0003-ECO.B | **Start Date:**  Fund inception: January 2015  Promissory Note (£20m): December 2015  Recent investment (£12.6m): December 2019 | **End Date:**  Provision for the Department for Environment, Food and Rural Affairs (Defra) investment to be returned in December 2030 and 2035 |

**Summary of Programme Performance**

|  |  |  |  |
| --- | --- | --- | --- |
| **Year** | 2017 | 2018 | 2019 |
| **Programme Score** | **A** | **A** | **A+** |
| **Risk to progress of Impacts** | Moderate | Moderate | Moderate |
| **Programme Risk** | Moderate | Moderate | Moderate |

Introduction

This is the third Annual Review (AR) of the EBF. The performance of the programme has been assessed both qualitatively and quantitively against the logical framework, which contains yearly targets.

In addition to ARs, performance reviews are undertaken by the Fund manager (Finance in Motion - FiM) who are effectively the programme delivery partner. Performance reviews are reported quarterly to an independent Board of Directors where Defra sits as an observer. A financial report of the 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 and Caribbean (LAC) focus and currently works in: Colombia, Ecuador, El Salvador, Costa Rica, Nicaragua, Panama and Honduras. The EBF pursues its mission by providing financing and/or Technical Assistance (TA) to qualified Financial Institutions (FIs) and businesses. FiM is responsible for the day-to-day management of the Fund. In this role, FiM 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 which was drawn down in two installments in February and August 2016. An additional investment was made in December 2019, consisting of £12.6m, bringing Defra’s total contribution to the Fund to £32.6m. As this investment was made at the end of 2019, it has not been included for purposes of the 2019 impact reporting.

The EBF works across four focus areas:

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

These four areas are pivotal pillars of the LAC economy but are also significant contributors to the region’s environmental footprint and are increasingly affected by climate change. The EBF 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 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 an EBF approved sustainability certification.
* The activity financed is included in the EBF’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’s (HMG’s) international climate and environment objectives.

Summary of progress since inception (2014)

The EBF completed its fifth full year of operation in December 2019. EBF, when created, was a newcomer to the sector – and uniquely sought to utilise sustainable certification known as Voluntary Sustainability Standards (VSS) and ‘green list’ activities[[2]](#footnote-3), defined by the Fund, as a requirement for lending through FIs.

EBF 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 became profitable in the second year, earning a return for investors whilst providing significant financing for environmentally sustainable businesses.

### **2018 Recommendations**

1. Evaluate how the indicators contribute towards the overall output and overall outcome of EBF investment:

EBF manages its impact based on a Theory of Change and in alignment with the [Operating Principles for Impact Management](https://www.impactprinciples.org/). Defra’s ICF M&E team has worked effectively alongside relevant members of FiM to set Key Performance Indictors (KPIs) that are relevant to the overarching goals of our intervention. In particular, we have amended the following KPIs:

* CO2 sequestration
* Leveraged private finance

These are outlined further in section G: M&E.

1. **Upper Middle-Income Countries (UMICs) strategy:**

The Fund manager has confirmed that the EBF will de-leverage from countries which are vulnerable to graduating from the Official Development Assistance (ODA) eligibility list. Re-investments into Panama have already been decreased.

1. **Defra involvement in the Development Facility**

FiM approached Defra regarding sitting on the Development Facility board. Defra now sits at the quarterly Development Facility meetings as non-voting member. There are ongoing discussions concerning any potential personal liabilities associated, however it is expected that Defra will join the board meetings as a non-voting member.

M&E recommendations:

1. **Develop concept note for Transformational Change indicator (ICF KPI 15):** The cross government ICF group has commissioned external consultants to review KPI 15 and its methodology. We are waiting to review this renewed methodology and assess how it can be applied to the EBF.
2. **Measuring EBF’s ‘behaviour change in downstream partners’:** The behaviour changes of the downstream partners, such as in FIs, should be captured in the newly developed ICF KPI 15: Transformational Change. Funding has been made available within the most recent Impact Investment Fund business case, finalised in December 2019 which could assess this type of transformational impact. Further, Defra will sit on the Development Facility committee as an observer – thereby increasing the understanding of TA projects which build capacity in downstream partners.

### 2019 recommendations:

* Review if Defra should be providing more finance to the EBF: As Junior finance (such as Defra’s) continues to effectively leverage significant amounts of private sector finance, review the extent to which further Defra intervention could be utilised.
* Consider how we work closer with other donors: Particularly that of Junior investors (Germany and the European Commission) to increase fundraising and to raise ambition of the fund’s activities – both increasing private finance and sharing lessons for creating a viable investment model created by the EBF.

M&E recommendations:

* Update the Private and Public finance leveraged targets: As the methodology for calculating leveraged public and private finance has been updated (as described in Section G), the targets are no longer suitable – these should be updated to reflect this change in the 2020 annual review.
* A broader evaluation of the effectiveness of the EBF should be conducted: EBF has had no external evaluation to date. Such evaluations are important to ensure external scrutiny of impact and to provide insights to inform future areas for improvement and scalability. This in turn could help provide reassurance of alignment between the fund’s and Defra’s objectives and identify any areas where there may be scope to (a) maintain a strong focus on the most environmentally sustainable businesses; and (b) maximise the opportunities for green investment principles to be embedded within Delivery Partners and the wider financial industry. From experience working with the EBF-Development Facility (where Defra sits as an observer) the EBF contributes significantly to transformational change, and a formal study would define this further and could help inform future investment decisions.

### Summary of progress since January 2019

The EBF

The outstanding portfolio has increased substantially from US Dollar (USD) 241.5m to USD 333.1m m over the year to the end 2019, of which approximately 87% of the Fund was invested. The EBF invested in seven countries across Central and South America. Additionally, technical assistance was provided in Mexico, bringing the total number of countries in which EBF operates to eight.

In 2019, the EBF notably increased the number of partner financial institutions (domestic banks) that they have made investments through from 13 (as of 2018) to 19 – extending USD 100m across five countries and spreading sustainable lending practices in partnership with these institutions.

The land sustainably managed through the EBF sub-loan portfolio increased significantly from 140,000 to 261,000 Hectares (Ha), particularly as a result of an expansion in investments of shade grown coffee (agroforestry) in Colombia and El Salvador.

The Fund focuses on four 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. The portfolio of on-lending investments has been largely composed of coffee (31%), banana (7%), shrimp (12%), and forestry and timber (7%).

The Eco Development Facility

The Development Facility is a separate entity that sits alongside the EBF investment portfolio. The Development Facility provides grant finance directed at TA projects. Typically, these projects will either promote environmentally sustainable land-use practices within small businesses to enable environmental sustainability standards to be achieved or embed lending practices and Environmental and Social Management Systems (ESMS). Currently, the Development Facility has spent USD 2.1m on 32 individual programmes. This is described further in output score, 3. In 2018, Defra made a £194k grant to the Development Facility (EBF-DF). BMZ (German development ministry) and the European Commission are the other major contributors to this facility, which now has funds of $2.1m USD. Although a separate facility – EBF-DF has its own independent board to approve spend and dedicated staff - it is advised by FiM and works closely with the EBF-LAC.

The EBF-Development Facility has three key focuses:

* Guide investment (of EBF-LAC) towards more sustainable outcomes and embed the Environmental and Social Management System (ESMS) practices into financial products (of the partner institutions).
* TA for programmes which develop a concept or business model that allow the EBF’s partner institutions to better allocate funding.
* Knowledge sharing – ensure the mainstreaming of knowledge about the EBFs mission to promote sustainable businesses and consumption practices via workshops, events and on-demand training.

***Outcome level Summary***

Three ICF KPIs have been selected for use at the outcome level, KPIs 6, 11 and 12 (see table under Performance and Conclusions).

ICF KPIs were first reported in the 2018 AR and have undergone a change in methodology. For KPI 6 we are now reporting the Greenhouse Gas (GHG) emissions avoided as a proportion of Defra’s share in the EBF to better attribute results to the Defra portion of funding, though this is for internal use only and cannot be published. We previously described impact and targets that reflected the Fund as a whole, which are provided in the same table. Although the Fund reports on KPIs 11 and 12 to Defra, the results are not published due to their commercially sensitive nature. All three KPIs exceeded the targets set for them for 2019.

### **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 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, through FI Ficohsa. The Fund has also increased the number of crop types, from 19 to 22, this reflects the addition of farmed fish to the portfolio. The EBF has also extended into Mexico through its development facility – expecting to make investments in 2020. |
| **OUTPUT 2:** Broad support to sustainability practices reflected in the composition of the portfolio. | The number of sustainability standards used have increased greatly. Adding an additional seven sustainability standards and an additional eight green list measures – described further in detailed output 2 scoring. |
| **OUTPUT 3:** Provision of continuous and sufficient TA. | EBF have continued to make progress in delivering TA, both to FIs and directly delivering 32 targeted TA projects for end-borrowers and stakeholders spending approximately USD 2.1m in separate grant commitments (as part of the development facility), of which Defra committed £194k in 2018. |
| **OUTPUT 4:** Improved partnerships and development of activities with other sector stakeholders. | These indicators have been refined to reflect partner led events and those exclusively organised by EBF. |

## 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.

|  |  |  |  |
| --- | --- | --- | --- |
| Outcome | Outcome indicator (all results cumulative) | 2019 milestones for Defra review | Achieved 2019 (fund level) |
| 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. | 1.1 Amount of water savings entirely or partly attributable to the intervention of the EBF (millions of cubic meters) | 6 | 4.2 |
| 1.2 Level of funding provided by FIs to businesses that adopt sustainable practices (M $USD) | 800 | 872.8 |
| 1.3 Land sustainably managed through the EBF's portfolio (Ha) | 200,000 | 261,000 |
| 1.4 Land held by sub-borrowers committed to deforestation-free activities in EBF portfolio (Ha) | 160,000 | 182,000 |
| 1.5 ICF KPI 12: Volume of private finance mobilised for climate change purposes as a result of ICF funding (M $USD) | n/a | n/a |
| 1.6 ICF KPI 11: Volume of public finance mobilised for climate change purposes as a result of ICF funding (M $USD) | n/a | n/a |
| 1.7 Number of jobs supported by sub-borrowers as a result of EBF support† | 350, 000 | 361, 000 |
| 1.8 ICF KPI 6: Net CO2 sequestration as a result of EBF support to agroforestry (t) | 800, 000 | 1, 050, 000 |
| 2. Level of behavioural change embedded in downstream lenders and FIs. | 2.1 Number of sub-borrowers supported by EBFs PIs to incorporate sustainable practices | n/a | n/a |
| 2.2 Number of FIs that have changed their policies to incorporate sustainability as a qualifier for lending | Qualitative assessment | Qualitative assessment |
| 2.3 The level of sub-borrower staff knowledge of the sustainable policies of their companies | Qualitative assessment | Qualitative assessment |
| 2.4 The level of FI staff knowledge of the sustainable lending policies of their institutions | Qualitative assessment | Qualitative assessment |

**Progress on Outcome Targets:**

The EBF is considerably surpassing targets and milestones, in terms of volume of finance provided to FIs and end borrowers, leveraging private and public finance and CO2 emissions avoided.

**Outcome 1 – Performance:**

* Metrics within Outcome 1 show that USD 872.8m has been provided by FIs, against a targeted USD 800m.
* 182,000 of the total hectares under management are managed under agroforestry, forestry and silvopastoral systems, thereby supporting maintaining forest cover. All EBF financing is extended with a commitment to zero deforestation and the Development Facility is supporting FIs in piloting innovative tools, such as drone monitoring, to monitor this commitment.
* The amount of finance leveraged at fund level is exceeding the targets more than 2x.

**Outcome 2 – Performance:**

Metrics within Outcome 2 show that there are now 781 individual borrowers, up from 510 in 2018, against a targeted 800, with an additional 6,443 borrowers being financed through microfinance institutions. The number of borrowers is slightly below target – which is reflective of increased investment through microfinance institutions (therefore not counted as single borrowers) and the lending intermediaries’ execution of slightly more larger loans this year. The size of EBF and the distributions of credit by FIs is significantly ahead of targets (Outcome 1).

**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 with 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 | This year has seen a significant increase in number of partnered FIs, new commodities (farmed fish) and expansion of TA activities to a new country, Mexico. | **A+** | **35%** |
| 2 | Broad support to sustainability practices reflected in the composition of the portfolio | The Fund has continued to diversify investments and included an additional commodity and associated sustainable certification in 2019. | **A+** | **35%** |
| 3 | Provision of continuous and sufficient TA | The Fund, in partnership with the Development Facility, has continued to support capacity building of partner FIs and has met budget requirements for TA projects. | **A** | **15%** |
| 4 | Improved partnerships and development of activities with other sector stakeholders | The Fund has continued to reach out to stakeholders though green lending and business events. In addition, the Fund hosted its own event (a three-day conference) which brought together investors, financial intermediaries and end-borrowers. | **A** | **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 | 15 | 19 |
| * 1. Number of commodities supported | 20 | 22 |
| * 1. Number of countries in which the Fund operates | 7 | 8 |

**Key Points**

There was progress against all the indicators for this output since 2018, with targets exceeded for 2019.

**Progress:**

The number of different FIs in the EBFs portfolio increased substantially from 13 to 19. These FIs are spread across five countries: Colombia, Costa Rica, Ecuador, El Salvador and Honduras.

The EBF portfolio has a spread of investments across the countries, with Colombia accounting for the highest with 23% and Honduras the least with 7%.

There are now 22 crop types supported. Coffee assumes the largest share of the sub-loan commodity portfolio. Financing is predominantly through working capital loans.

## 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** | **Progress** |
| 2.1 Number of sustainability standards represented in the portfolio of sub-borrowers | 12 | 18 |
| 2.2 Number of Green List measures represented in the portfolio of sub-borrowers | 12 | 20 |
| 2.3 Outstanding Amount (USD millions) invested in certified sub-borrowers[[3]](#footnote-4) | n/a | n/a |
| 2.4 Outstanding Amount (USD millions) invested in green list measures[[4]](#footnote-5) | n/a | n/a |

**Key Points**

In 2019, Output Indicators 2.1 and 2.2 (number of sustainability standards and green list measures) have increased substantially.

We expect a continued growth in the green list certification. In 2019 this has predominantly been down to an increase in irrigation and agroforestry related systems, including renovation of plantations. Further, livestock has seen an increase of investments made through pasture-forest integration for grazing land.

**Progress:**

In 2019, indicators 2.1 and 2.2 significantly exceeded milestone targets for 2019 due to investment in new agroforestry, irrigation and integrated forest-livestock systems. The distribution of lending to certified businesses vs those using Green List (GL) measures is roughly three quarters to one quarter, showing that the majority of lending is made through sub-borrowers with a sustainability certification.

Sustainability certification examples include Rainforest Alliance, Fairtrade Standard for Small Producers, Marine Stewardship Council, (MSC) and Aquaculture Stewardship Council (ASC).

In 2019, 5 sustainability certifications were added to the portfolio.

The GL is a comprehensive list of measures which is compiled based on a literature review, benchmarking and sector practice assessment. The respective measures are then selected based on their contribution to the fund’s impact goals and confirmed by the fund’s Board of Directors. There are plans to extend the GL to include measures for the tourism sector in 2020, an area which the fund is looking to expand further into in future.

GL measure examples include specific modernisation packages for ranching, specific investments in infrastructure and process automation to reduce losses and enhance productivity throughout the livestock production process and cover crop season finance.

Tourism

EBF currently do not make any investments into the tourism sector. However, in 2020, EBF are reviewing criteria and standards which could be applicable to make those investments, under the guidance of the Board of Directors.

## 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)** | **Milestone** | **Progress** |
| 3.1. Number of on-going/outstanding TA projects | 27 | 30 |
| 3.2. Number of FIs supported | 13 | 17 |
| 3.3. Number of completed TA projects | 32 | 33 |
| 3.4. Budget spent on TA projects (USD million) | 2.8 | 2.1 |

**Key Points**

Across all metrics the scale of TA support provided has increased - meeting all but one indicator (budget spent on TA projects).

**Progress:**

Several key activities have taken place to date:

* Assess the robustness of sustainability standards; ensuring EBF objectives are aligned and to increase and diversify the number of eligible standards. The EBF-Development Facility is now providing training in partner institutions.
* Develop impact and sustainability frameworks: Both for the EBF-LAC as an impact investor, but also to develop Environmental and Social Management Systems (ESMS) within partner institutions. A ESMS is a set of policies, procedures, tools and internal capacity to identify and mitigate the potential environmental and social risks of a planned investment. By integrating ESMS into their lending decisions, banks and other financial institutions can comprehensively assess the overall impact of their activities, mitigate risks and strive for a more sustainable performance.
* Knowledge sharing: Dissemination of awareness-raising material for lending sustainably and using sustainability standards. Co-sponsoring events and building partnerships to provide training, such as at IDB, UNEP FI.
* Training in the use of innovative tools and techniques. For example, the EBF supported FIs and borrowers in Panama and Nicaragua to use drones and satellite imagery to collect data on farms. This data can be used to assess environmental risk to inform financial decision making. For example, more than 175 cattle ranches were analysed, and 100 management reports prepared throughout 2019. These measures assist in preservation of remnant forests and focus re-planting efforts to avoid depletion and secure compliance of forest protection.

## B: DETAILED OUTPUT SCORING

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

|  |  |  |
| --- | --- | --- |
| **Indicator(s)** | **Milestone** | **Progress** |
| 4.1. Number of external events organised for the EBF | 2 | 2 |
| 4.2. Number of events EBF has supported | 29 | 29 |
| *4.3. Number of investments realised by the Fund in partnership with other institutions (e.g. syndicated loans)\** | *n/a* | *4* |
| *4.4. Investments realised by the Fund in partnership with other institutions (USD millions) \** | *n/a* | *n/a* |

**\*** not part of the output score

**Key Points**

* These KPIs have been reformulated to now reflect external events exclusively organised by EBF (Indicator 4.1), and those that have been co-sponsored (4.2).
* Indicators 4.3 and 4.4 are not considered as part of the output scoring as they are not specific objectives of the EBF. However, they are still being measured as a matter of data collections.

**Progress:**

Sponsoring/participation in events:

* The EBF hosted their first conference, “Our Journey”. The event brought together the different investors, the representatives of financial intermediaries and various downstream borrowers. Several observations were made at the event:
* The progress of the Fund demonstrates that conservation business practices can be a viable economic model.
* EBF have significant relationships with the financial industry which is delivering agricultural investment on the ground. This relationship gives EBF a unique opportunity to embed environmental sustainability with these banking institutions.
* The social, environmental and the economic logic of funding downstream businesses. EBF has the ability - through the financiers in country - to reach the smaller businesses. This may not be possible with direct investments.
* EBF presented at the United Nations Environment Programme – FIs (UNEP-FI) for sustainable finance 2019, 14-15th October in Sao Paulo, Brazil. EBF used its experience to collaborate with colleagues on integrating sustainable finance and promoting the uptake of principles for responsible banking, positive impact measurement and growth, social impact and inclusion – in addition to applications of fintech in green financing.

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

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

***Economy:***

The total operating costs have continued to decrease as percentage of average portfolio. Total operating costs include the Fund manager fees which have been covered directly from returns on capital of the Fund. The remaining income will be redistributed to the shareholders, via the agreed income waterfall which ensures that more senior debt and shareholdings are paid first, before complementary dividends are paid to the Junior shareholders (Defra). As the Fund’s income has exceeded costs, Junior shareholders have received a dividend of USD 130,000 (0.5%).

Despite the continued dividends Defra’s shareholding value has continued to decline to a total value of USD 25.2m since initial investment value of USD 27.4m, - 8%. This is because of the new accounting standard, IFRS-9. Impairments of this kind are applied to shares on the balance sheet. Designed to buffer/reserve against future losses, although these are not yet realised, therefore we do not expect this to affect our current VfM considerations.

***Efficiency:***

Per the 2019 findings, EBF exceeded the Business Case targets for expected carbon sequestration of 560,000 tonnes by 87.5% (as established in the business case), with a cumulative current fund level of 1,050,000 tonnes of carbon sequestered. Furthermore, in 2019, EBF sustainably managed 261,000 Ha of land, compared to an initial objective of 65,000 Ha set forth in the business case: outperforming the target by 301.5%.

The Fund is also on track to reach the private-sector leverage potential target of 1:2.

During 2019, the EBF-TA facility supported borrowers and FIs to utilise new technology such as drones and satellite imaging to collect data that will inform environmental risk into financial decision making. Over 100 management reports to over 175 cattle ranches have been provided with analysis. In addition, these measures will monitor remnant forests and focus protection of these and re-plant buffer regions for added protection. This technology has allowed the partner institution (Bank) to ensure investment compliance with forest protection and increased the ability of sub-borrowers to meet the sustainability standards of banks – improving transparency between lender and borrower. For EBF, and therefore Defra, this increases the impact of our investments.

Further, the EBF DF has utilised relationships built in by the Fund to embed ESG lending and to offer TA to increase the sustainability of end-borrowers – enhancing the VfM of our investments. This is further described in Output 3.

***Effectiveness:***

The Fund has worked constructively alongside Defra to define KPIs including finance leveraged and CO2 sequestration. The Fund has met or exceeded all outcome and output indicator targets for 2019 except output indicator 3.4. This includes, for example:

* Reaching a total portfolio size of USD 491.1, against a Defra target of USD 379m.
* Delivering over 261,000 Hectares of land sustainably managed against a Defra target of 200,000 hectares.
* Sequestering Net 1,050,000 tonnes of CO2 against a Defra target of 800,000 tonnes.
* Expanded Fund activities to an additional five FIs: Banco Davivienda (Colombia), Promerica (Costa Rica), Banco Guayaquil (Ecuador) Banco Atlanta (El Salvador), Banco Cuscatlán (El Salvador).

The Fund is also exceeding the VfM expectations set out in the business case.

***Equity:***

We would expect investments in 2019 to have an increasingly higher impact for women as there is an increased focus on microfinancing (small scale loans made by banks) – which focuses on businesses in which women are much better represented both as workers and as business leaders or agricultural holders. The Fund has seen a continued reduction in the size of loans being made to borrowers. Limited data on the gender of down-stream borrowers, due to the use of intermediaries (banks), prevents a more detailed assessment. There is an opportunity to work with the Development Facility to understand how TA and capacity building has equity benefits.

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

The Defra investment in EBF continues to represent good VfM; significantly increasing the amount of funding available for financing environmentally sustainable business across Latin America and increasing its funding available to smaller businesses, exceeding the milestones set out by Defra and utilising its relationships with FIs to drive transformational change across the agricultural sector. The total operating costs of the EBF are also reducing.

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| --- | --- |
| Date of last narrative financial report | 2019 Q4 |
| Date of last audited annual statement | The 2019 annual statement has been audited, effective in April 2020. |

## 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 passively deleveraging itself from Nicaragua as repayments are being made on investments * Regular monitoring of political and economic situation * Continued monitoring of loan repayments (so far loan repayments are as expected) |
| Integrity of eligibility standards | Operational and Reputational | Major | Unlikely | * Independent commissioning on the sustainability standards including validating through different label studies and monitoring negative press * Monitoring as part of TA * 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 it closes on ODA graduation * Relatively short loan recuperation time, most within 5 years. * Fund is outlining to expand portfolio to other ODA-eligible countries, reducing exposure to single country. |

## E: COMMERCIAL CONSIDERATIONS

As of the end of 2019, 19 partner FIs have received financing from the EBF. As well as the financial 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, TA has been provided in the form of trainings to several staff of the Fund’s partner institutions on the development and operationalisation of ESMS (Banco Hipotecario in El Salvador and Banco Lafise in Nicaragua). Technical training on the use of land-use/land-cover monitoring tools have also been provided to staff from partner institutions. In addition to supporting FI’s directly, EBF also support end borrowers (companies and producers) through tailored technical assistance projects designed to promote the adoption of sustainable business practices, such as providing training sessions and workshops on sustainable production practices.

## F: CONDITIONALITY

Under EBF’s underlying legal documentation Defra has safeguards to protect the key investment mandate of the Fund. This includes ensuring investments are made to ODA eligible countries and that downstream businesses meet criteria relating to environmental sustainability certification or green list activities.

As part of the top-up investment in December 2019, additional requirements have been secured in the investment agreements. This provides further comfort in relation to HMG’s exclusion list, policies in relation to UK sanctions, and safeguarding.

## 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). The two impact pathways (FIs and businesses) have their own route towards achieving these outcomes and reinforce one another, which in turn is crucial to driving transformational change in the market.

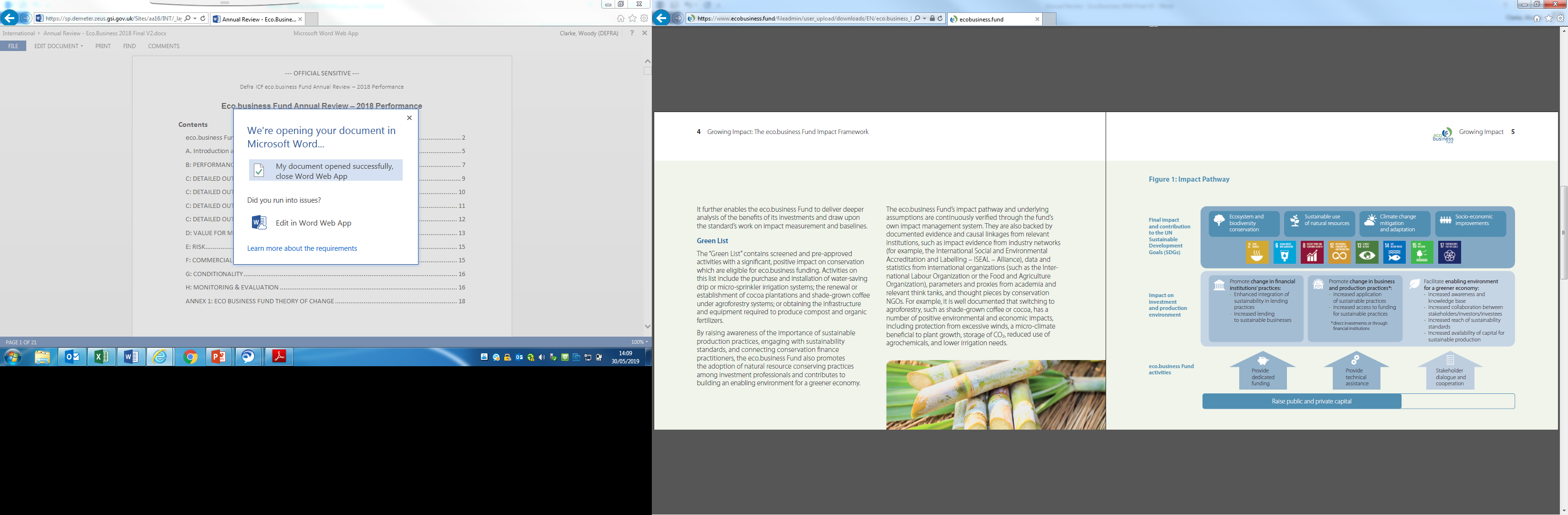
Additionality is taken into account for all interventions funded through ICF. This is to ensure there is a net change in impacts resulting from UK funding, other than the business-as-usual changes that would occur without UK funding. Ideally for most scenarios, the outputs would be compared to a suitable baseline or counterfactual scenario, so as to isolate the impact/additionality of a programme. For most programmes an additionality rate of 50% to be conservative is applied to the impacts, however this can change if there’s more evidence to suggest there is more certainty in the impacts of a programme.

Updated methodology for Net CO2 sequestration as a result of EBF support

CO2 sequestration is predominantly calculated through the Fund’s investments in agroforestry systems, particularly that of coffee, cocoa and forestry investments. The calculation considers the baseline of CO2 sequestration, (i.e. without EBF intervention) to give the ‘Net figure’ against the additional sequestration as a direct impact of EBF’s investment.

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

([Detailed description here](https://www.ecobusiness.fund/fileadmin/user_upload/impact/Theory_of_Change/EBF_Theory_of_change_2019.pdf))



**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 (for example ILO data on women participation in labour markets to assess female jobs), to provide estimates of gender disaggregation for certain indicators of interest. The EBF Development Facility disaggregates sex in its monitoring and impact work.

**Monitoring progress throughout the review period**

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

1. Credit monitoring / monitoring of financial performance of investees

In 2019 the Fund Advisor 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 ensures 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).

3. 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.

1. To note, the EBF immediately converts investments of GBP into USD. Defra investment/shareholdings are therefore referred to USD throughout this report. [↑](#footnote-ref-2)
2. Such activities fall into several specific categories which suitable VSS are not prevalent: Soil Conservation, Resource Efficiency/irrigation, Waste treatment, Native species, Sustainable Land Use Production and Extraction Practices and Other. They must be cleared by the independent Board of Directors and align with investment mandate. [↑](#footnote-ref-3)
3. There are not set objectives regarding the distribution between lending to sustainable businesses via green list or certification standards. Therefore, it was agreed in the previous AR that indicators 2.3 and 2.4 would not contribute towards performance-based scoring, but that said indicators would be monitored to support the tracking of changes to the portfolio make-up over time. As such no target is included. [↑](#footnote-ref-4)
4. As per the footnote above. [↑](#footnote-ref-5)