**eco.business Fund Annual Review – 2021 Performance**

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| **Title: eco.business Fund** |
| **Programme Value £ (full life): £32.6m** | **Review date: 2022** |
| **Programme Code:** GB-GOV-GB-7-P00052-ICF-P0003-ECO.B | **Start date:** Fund inception: January 2015 Promissory Note (£20m): December 2015 Further 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 respectively  |

**Summary of Programme Performance**

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| --- | --- | --- | --- | --- | --- |
| Year | **2017** | **2018** | **2019** | **2020** | **2021** |
| Overall Output Score | **A** | **A** | **A+** | **A** | **A+** |
| Risk Rating  | **Moderate** | **Moderate** | **Moderate** | **Moderate** | **Moderate** |

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| --- | --- |
| DevTracker Link to Business Case:  |  |
| DevTracker Link to results framework:  |  |

**A. SUMMARY AND OVERVIEW**

**Description of programme**

The eco.business Fund (EBF) was set up in December 2014 by KfW, the German Development Bank, Conservation International and Finance in Motion (FiM – the Fund Advisor). The EBF´s mission is to promote business and consumption practices that contribute to biodiversity conservation, to the sustainable use of natural resources, mitigation of climate change and adaptation to climate change impacts. The Fund has two sub-funds, one for Latin America and Caribbean (LAC) and the other for Sub-Saharan Africa (SSA), which was launched mid-2019. Defra’s investment is in the LAC sub-fund. FiM acts as an advisor to the Board of Directors – the independent panel nominated by the Fund’s shareholders. The Board has the ultimate decision-making authority, provides scrutiny for investments, and decides on projects and strategic matters for the Fund.

This is the fifth Annual Review (AR) of EBF. The performance of the programme has been assessed both qualitatively and quantitively against the logical framework, which contains annual targets. In addition to ARs, performance reviews are undertaken by FiM, the programme delivery partner. These 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.

**Summary supporting narrative for the overall score in this review**

In 2021 the EBF LAC completed 12 new investments amounting to a total of $218m, expanding its portfolio with initial investments in Mexico and Peru. In total the fund works with 30 partner institutions (PIs) across 9 countries.

From establishment to the end of 2021, the work of the Fund and Development Facility (DF) led to 3.4m tonnes of CO2 sequestered through agroforestry activities (net), 4.8m m3 of water saved and 856,000 ha of farmland under sustainable management (almost double the 2020 total).

The outstanding portfolio (principal value) increased from US Dollar ($) 395m at the end of 2020 to $528m at the end of 2021. On top of the $528m, the balance of outstanding exposures offloaded (sold) to a third-party impact investor, Calvert Impact Capital, totalled $36m at year end 2021 (see output 4 for detail). Hence, there was growth in the portfolio in 2021 of $133m. Over time, loans are being repaid ($86m in 2021) and the repayments reinvested, such that the total cumulative disbursements at the end of 2021 was $784m.

The EBF has $570m in committed funding from investors and since inception has disbursed 28,905 sub loans ($2,573m). The fund is a recognised financier and knowledgeable partner in a range of sustainably focussed activities in a large and sectorally diverse region.

In 2021, EBF LAC successfully attracted a record volume of ~$98m in funding from new and existing investors. The sub-fund subscribed ~$5m Senior Shares, ~$41m Subordinated Notes and ~$52m Senior Notes. Noteworthy is that for the first time two private investors entered the Senior Share class – a token of confidence in the financial and impact results of the Fund.

All of the funding subscribed in 2021 came from private investors, bringing private participation in the sub-fund to a record 40% (up from 32% in 2020). Private investors have contributed a total of $253m since the inception of the Fund. The Fund again deepened its relationship with its existing third-party impact investor in 2021. The Fund engaged $5m from the thirst-party impact investor through a funded sub-participation, contributing to the Fund’s mission and asset generation capabilities without absorbing any protection by first risk capital.

The Development Facility (DF)

The DF is a separate entity that sits alongside the EBF’s investment portfolio. The DF provides grant finance directed at Technical Assistance (TA) projects. Typical examples of these projects include promoting environmentally sustainable land-use practices within small businesses to enable environmental sustainability standards to be achieved, sponsoring events, running capacity building workshops, developing sustainability strategies and/or implementing Environmental and Social Management Systems (ESMS). In 2021 the DF received approval for 18 individual projects with a budget of $1m. This is described further in output 3.

The above demonstrates that the impact of Defra’s investment into the EBF continues to grow and positively contribute to Defra’s and UK Government’s strategic climate and nature objectives while supporting sustainable livelihoods and delivering long-term systemic change in the financial system.

**Major lessons and recommendations for the year ahead**

1. Defra should work with the Fund to undertake an external evaluation of the programme’s performance since initial investment, as referenced in Annex 3 of the Subscription Agreement. The external evaluation should consider how the fund is progressing towards its outcomes and final impact through its activities and outputs, particularly in relation to biodiversity.

## B: THEORY OF CHANGE AND PROGRESS TOWARDS OUTCOMES

EBF manages its impact based on a Theory of Change (ToC) and in alignment with the [Operating Principles for Impact Management](https://www.impactprinciples.org/). The ToC considers four levels – activities, outputs, outcomes, and final impact. Some elements of the ToC are directly controlled by the Fund, for example raising public and private capital or providing technical assistance to financial institutions (activities and outputs). However, some are a result of both the fund and external factors, for example an increased integration of sustainability considerations in investment and production practices in the short term and scaling sustainable investment and production practices in the long term (e.g., outcomes and final impacts).

Given the nature of the fund (lending to financial institutions who then on-lend to end borrowers) and the complex environments in which the fund’s investees and stakeholders operate in, the EBF does not attribute the total change happening at outcome and final impact level exclusively to the Fund’s contributions. Instead, the ToC focuses on the processes that are likely to be triggered by the Fund’s activities and how these lead to the final environmental and socio-economic impacts. This analysis draws on evidence from financial institutions, industry networks, international institutions, academia, and conservation organisations. The Fund’s full ToC can be found [here.](https://www.ecobusiness.fund/fileadmin/user_upload/impact/Theory_of_Change/EBF_Theory_of_change_2019.pdf)

The Fund’s [Impact Framework](https://www.ecobusiness.fund/fileadmin/user_upload/impact/the_pathway_to_impact/ecobusiness_Fund_Impact_Framework_Growing_Impact_2019.pdf)  complements the ToC and illustrates how the Fund meets its objectives by connecting actions to defined outcomes and final impacts. It also maps out how progress is measured and reported.

EBF published its 2021 Impact Report, the fourth published by the Fund. Titled ‘Partnerships for Sustainability’, it explores how the fund maintained its focus on working with trusted partners to improve biodiversity and foster sustainability in Latin America and sub-Saharan Africa throughout 2021. Environment and climate milestones achieved during the year included farmland under sustainable management reaching 856,000 ha, 4.8 million m3 of water saved, and 23.3 million tonnes of CO2 stored by agroforestry activities (absolute).

**Annual outcome assessment**

In Defra’s logical framework (logframe) for the EBF, outcome indicators are categorised as either measuring:

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 Financial Institutions (FIs).

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| --- | --- | --- | --- |
| Outcome | Outcome indicator (all results cumulative) | Defra Target 2021 (fund level) | Achieved 2021 (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 (m m3) | 9.3 | 4.8 |
| 1.2 Level of funding provided by FIs to businesses that adopt sustainable practices ($m) | 1240 | 2573 |
| 1.3 Land sustainably managed through the EBF's portfolio (Ha) | 310,000 | 856,000 |
| 1.4 Land held by sub-borrowers committed to deforestation-free activities in EBF portfolio (Ha) | 250,000 | 377,000 |
| 1.5 ICF KPI 12: Volume of private finance mobilised for climate change purposes as a result of ICF funding ($m) | 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) | n/a | n/a |
| 1.7 Number of jobs supported by sub-borrowers as a result of EBF support | 450,000 | 625,000 |
| 1.8 ICF KPI 6: Net CO2sequestration as a result of EBF support to agroforestry (tonnes) | 1,300,000 | 3,400,000 |
| 1. 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 |  |
| 2.3 The level of sub-borrower staff knowledge of the sustainable policies of their companies | Qualitative assessment |  |
| 2.4 The level of FI staff knowledge of the sustainable lending policies of their institutions | Qualitative assessment |  |

**Progress on Outcome targets**

The Fund is surpassing Defra targets for all indicators except ‘water savings entirely or partly attributable to the intervention of the EBF’. Through the work of the Fund and the DF by the end of 2021, 3.4m tonnes of CO2 (net) were stored through agroforestry activities, 4.8m m3 of water was saved, 856,000 hectares of farmland were under sustainable management (almost double the 2020 total).

For outcome 1.1 the target has been missed for the last 3 years – this is because the fund follows a market-demand approach, which is guided by PIs issuing sub-loans across a range of land use systems and gives limited opportunities to steer towards specific targets such as water savings. The current calculation methodology for water savings draws on a specific Green List item and crop combination for which scientific data on water savings is available. The respective hectares have stayed relatively constant in the portfolio of the fund over the past few years, resulting in limited increase of the water savings. To cover the fund’s impact on water savings more comprehensively, the fund is in the process of broadening the scope of the methodology to cover additional crop types and production systems and expect the value of the indicator to increase going forward. The fund should share this new methodology with Defra when available – however, it may be that targets for 1.1 should be revised downwards to reflect what is possible with the investment portfolio as it has developed.

For outcome 1.3 the target has been exceeded substantially – a total of 856,000ha against a target of 310,000ha. This is due to three of the Fund’s PIs that on-lend financial support to farmers (end-borrowers) to implement sustainable production systems either starting or increasing their reporting on hectares under agroforestry systems. The new data submitted is cumulative and covers the length of time the PIs have been clients of EBF, so cannot be wholly attributed to 2021. EBF’s use-of-proceeds criteria require that end-borrowers either hold an eco.business Fund-eligible sustainability certification or implement a sustainable business practice included in the fund’s Green List, such as the purchase and installation of water-saving drip or micro-sprinkler irrigation systems or the renewal or establishment of cocoa and coffee plantations under agroforestry systems. As well as qualifying for support with a Green List practice, end borrowers must also adhere to the Fund’s other sustainability principles.

Outcomes 1.5 and 1.6 are commercially sensitive and cannot be published, but both exceeded Defra’s target for the Fund about 2.5 times. In line with the increase in outcome 1.3, number of jobs supported by sub-borrowers as a result of EBF support (1.7) increased because part of the calculation of the indicator is based on the hectares reported. Similarly, the CO2 sequestration indicator 1.8, ICF KPI 6) also increased accordingly as part of the calculation of the indicator is based on the hectares reported, especially in coffee and cocoa, the two products for which the methodology is built.

Outcome 2.1 exceeded Defra’s target by about 30%, but these figures are also commercially sensitive and cannot be published. Outcomes 2.2, 2.3 and 2.4 are aimed at providing qualitative information on how sub-borrowers are changing their behaviour but this is difficult to assess across the Fund. We recommend that in future Defra and the Fund consider removing these outcomes and integrating qualitative information relating to them into the description for 2.1, drawing on specific examples which highlight the wider changes in behaviour.

**Describe where the programme is on/off track to contribute to the expected outcomes and impact. What action is planned in the year ahead?**

The programme is on track to contribute to Defra’s expected outcomes and impact. In fact, in many areas targets are being surpassed. It is recommended that Defra work with EBF to revise the targets in the Defra logframe for the next few years upwards in line with the current trend in results. Additionally, this will raise the ambition of the fund and hopefully lead to greater results at final impact level, evidencing the validity of the theory of change. It must be noted, though, that indicators like water use are difficult to accurately set targets for and are dictated by market conditions and further investment. Defra will work with the Fund to ensure realistic targets are set based upon the best available evidence and explore options to encourage end-borrowers to deliver on these targets.

**Justify whether the programme should continue, based on its own merits and in the context of the wider portfolio**

Based on the above analysis of outcome and output achievement, ToC and value for money (VfM) analysis (see Section E), the programme is performing well, continues to represent good VfM and fits with Defra’s International Climate Finance (ICF) and Official Development Assistance (ODA) priorities including mobilising finance for nature and testing and demonstrating innovative investment models i.e. blended finance and technical assistance for implementation of sustainable agriculture. It is working to address barriers to progress in climate change adaptation and sustainable livelihoods and transformational change of the financial system. It is recommended that the programme continue.

## C. DETAILED OUTPUT SCORING

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

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| **Output Title**  | EBF has a diversified portfolio supporting a range of geographies and sectors  |
| Output number:  | 1 | Output Score:  | ***A+*** |
| Impact weighting (%):  | 35 | Weighting revised since last AR?  | No |

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| --- | --- | --- |
| **Indicator** | **Milestone** | **Progress**  |
| 1.1 Number of financial institutions in the EBF’s portfolio | 18 | 30 |
| 1.2 Number of commodities supported  | 22 | 22 |
| 1.3 Number of countries in which the Fund operates  | 8 | 9 |

**Key Points**

* There were a total of 12 new investments in 2021 amounting to $218m.
* The end-borrowers financed during 2021 by EBF LAC are mainly engaged in the production or transformation of coffee, sugarcane, banana, and farmed shrimp, with coffee the main crop. During 2021 the Advisor developed further eligibility criteria for the food value chain, which were approved by the Board and will allow the Fund to enhance its footprint in critical economic sectors.
* The most relevant crop in the Fund’s outstanding sub-loan portfolio at the end of 2021 was coffee (36% of total sub-loan portfolio), while the “blue sector” (farmed fish and shrimp) represents the second most relevant produce in the Fund’s sub-loan portfolio (totalling 17%). These are testament to the Fund’s concerted financing efforts in two important economic sectors with opportunities to drive change at scale.
* The Fund closed the year with a loan portfolio of $528m, distributed across nine countries (Colombia, Costa Rica, Ecuador, El Salvador, Nicaragua, Panama, Honduras, Peru and Mexico) and 30 PIs. An additional investment in Guatemala was committed in December 2021, making that the tenth country of activity.

**Recommendation:** The fund to work with Defra to revise logframe targets upwards for indicator 1.1 given 2022 targets have been substantially exceeded. Indicator 1.2 has improved compared to 2020 when the milestone was narrowly missed, but the Fund should continue to look at other new commodities that could be supported to meet the target again in 2022.

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| **Output Title**  | Broad support to sustainability practices reflected in the composition of the portfolio  |
| Output number:  | 2 | Output Score:  | ***A+*** |
| Impact weighting (%):  | 35 | Weighting revised since last AR?  | No |
| **Indicator** | **Milestone** | **Progress**  |
| 2.1 Number of sustainability standards represented in the portfolio of sub-borrowers  | 15 | 23 |
| 2.2 Number of Green List measures represented in the portfolio of sub-borrowers  | 15 | 35 |
| 2.3 Outstanding Amount ($million) invested in certified sub-borrowers | n/a | n/a |
| 2.4 Outstanding Amount ($million) invested in green list measures | n/a | n/a |

**Key Points**

* There was strong progress against targets for both indicators 2.1 and 2.2 since 2019. Targets for 2022 have already been exceeded by a significant margin.
* For indicator 2.1 there was one new certification, and for 2.2 three new Green List measures were added.
* When financing a new PI using the GL approach, EBF discusses and agrees with the PI which GL measures (of the ~70 available) are the most appropriate. The actual financing then follows the fund’s market logic, based on the needs and interest of the end-clients. New GL measures added to the portfolio in 2021 included: i) Automated greenhouses with hydroponic systems.(#11), ii) Water filtration systems (#12), iii) Equipment and systems for water supply, rainwater harvesting, water reuse, or wastewater treatment (#65).
* The volume of finance invested in certified and green list sub-borrowers is commercially sensitive and cannot be published. However, amongst eligible labels financed throughout 2021, Rainforest Alliance represent the largest share (24%), followed by Fairtrade Standard for Small Producer Organizations (20%). Amongst supported Green List activities, the Fund’s PIs primarily on-lend for activities related to sustainable land use, production and extraction practices (65%).

**Recommendation:** The Fund should work with Defra to revise Defra’s logframe targets upwards for indicators 2.1 and 2.2 given 2022 targets have already been exceeded.

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| **Output Title**  | Provision of continuous and sufficient Technical Assistance  |
| Output number:  | 3 | Output Score:  | **A+** |
| Impact weighting (%):  | 15 | Weighting revised since last AR?  | No |
| **Indicator** | **Milestone** | **Progress**  |
| 3.1 Number of on-going/outstanding TA projects  | 28 | 31 |
| 3.2 Number of financial institutions supported  | 17 | 23 |
| 3.3 Number of completed TA projects  | 61 | 66 |
| 3.4 Budget spent on TA projects ($million)  | 5.2 | 5.1 |

**Key Points**

* During 2021, 31 projects were ongoing with a budget of $1.8m. Nine of these projects were completed and closed during the second half of the year, in line with EU LAIF Donation Addendum that ended in December 2021.
* For 2021, the Facility decided on a more conservative project execution plan due to Covid restrictions that affected the capacity of performing on-site activities, and funding limitations, with two further projects not started and one on hold.
* For indicator 3.4 the budget spent on TA Projects ($5.1m) was below the milestone ($5.2m) due to the aforementioned conservative approach. As the number of TA projects completed exceeds the milestone, this lower budget used can be viewed as a successful increase in efficient and effective use of TA budget.
* The DF has carried out projects ranging from supporting PIs in strengthening their capacity to finance sustainable businesses, to activities that promote the implementation of sustainable practices and increase the Fund’s visibility and influence in the region.
* Cumulatively, the Fund’s DF has had 91 projects approved for a total budget of $5.1m. This represents an increase of $1.2m compared to 2020.
* Key activities carried out in 2021 included:
	+ **Development and implementation of Environmental and Social Management Systems (ESMS)**: The DF is facilitating and contributing to a sector-wide shift towards a green financial system that promotes environmental and social sustainability. The first step is implementing an ESMS, a fundamental pillar that strengthens the environmental performance of a financial institution. The DF has already implemented ESMS in more than 12 financial institutions. In 2021, the DF worked with banks in Panama and El Salvador on the implementation of their revised ESMS. Furthermore, the vast experience that the DF has acquired was compiled in the [Environmental and Social Management Systems Manual](https://www.ecobusiness.fund/es/academia/rescursos/manual-practico-para-la-implementacion-de-saras) consisting of three volumes. To date, the three volumes together have been downloaded more than 200 times.
	+ **Support the sustainability journey of PIs**: Many of the fund’s PIs are signatories to new international and sectoral initiatives and the EBF itself became a signatory to the Finance for Biodiversity Pledge in 2021, a commitment by financial institutions to protect and restore biodiversity through their finance activities and investments. The DF supports PIs in the implementation of Principle 2 (Impact measurement) of the Principles for Responsible Banking (PRB) and the four guidelines for climate target setting for banks of the Net Zero Banking Alliance, where the agriculture sector plays an important role in reducing emissions. For example, the DF supported:
		- PI 1, in setting their PRB and Net Zero targets and defining an action plan to achieve them;
		- PI 2, in aligning their strategy, and participating in all three initiatives: PRB, Women Empowerment Principles and Net Zero Banking Alliance;
		- PI 3, in developing their climate change strategy in alignment with the PRB and the Task Force on Climate Related Financial Disclosures;
		- PI 4, in aligning their strategy with the PRB.
	+ In the same line, the DF is supporting its PIs in the **design and implementation of Green Financial Products.** These products will enable end-clients to get access to credit to finance sustainable practices, such as PI 5, in Ecuador, where shrimp and banana producers will get access to credit to finance energy reconversion projects, switching production facilities from fossil fuels to renewable energy.
	+ **Eligibility assessment for a sustainable agriculture financial product**. The project aims to assess the eligibility of current clients in the coffee and cattle sectors for future sustainable agricultural financial products using new technologies. At the end of the project, producers will receive farm improvement plans that will enable the PI to identify potential clients and sustainable practices and measures applicable to each client. The project enables the institution to improve their client selection and credit analysis taking into consideration the environmental performance of clients.
	+ In 2021, over 850 bank officers were trained through various projects that assisted eight PIs from four countries to increase financing of sustainable businesses. Until year-end 2021, 398,923 individuals were reached through events and other training activities.

**Recommendation:** The Fund should continue to develop the pipeline and secure approval from the Development Facility Committee for TA projects for 2022 in order to achieve the target and continue to provide high quality, consistent TA across projects and to PIs. The fund should consider opportunities to support and monitor biodiversity through TA projects.

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| **Output Title**  | Improved partnerships and development of activities with other sector stakeholders  |
| Output number:  | 4 | Output Score:  | ***A*** |
| Impact weighting (%):  | 15 | Weighting revised since last AR?  | No |
| **Indicator** | **Milestone** | **Progress**  |
| 4.1 Number of external events organised by the EBF  | 4 | 3 |
| 4.2 Number of events EBF has supported  | 45 | 53 |
| *4.3 Number of investments realized by the Fund in partnership with other institutions (e.g., syndicated loans)*  | n/a  | n/a |
| *4.4 Investments realized by the Fund in partnership with other institutions ($million)*  | n/a  | n/a |

**Key Points**

* For output 4.1 the cumulative numbers of external events since 2016 is 3. It has been found that there is more value in co-sponsoring events, with the involvement of additional stakeholders, rather than doing events on the initiative of the fund alone.
* It is worth noting that 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 collection.
* The Sustainability Academy, officially launched in 2020, has the objective of creating a knowledge sharing platform for financial institutions, producers, and the general public tailored to the region’s specific context. The Sustainability Academy partnered with relevant actors in the region such as UNEP FI in hosting two workshops on the implementation of the Principles for Responsible Banking, as well as with ASOBANCA, Ecuador’s national banking association, in the development of 12 sectorial guidelines for agribusinesses. To date, the Sustainability Academy has sponsored trainings for the staff of seven PIs and to almost 500 end-borrowers in five different countries. Furthermore, the Academy sponsored and participated in multiple events in the region, reaching more than 2,900 people.
* The Sustainability Academy will continue creating new resources and offering different learning opportunities that will help both the fund’s PIs and their clients in promoting and adopting sustainable practices. The Facility also published various crop profiles and impact stories, which are also available under [this link](https://www.ecobusiness.fund/en/publications).
* The eco.business Development Facility partnered with UNEP FI to co-host a webinar series on the “[UN Race to Net Zero](https://www.ecobusiness.fund/es/academy/webinars-1/series-de-webinars-sobre-un-race-to-net-zero-las-alianzas-financieras-en-la-carrera-hacia-cero-emisiones-netas)”.

**Recommendation:** For indicator 4.1 it is suggested that the indicator is adjusted or deleted for the next reporting. The Fund has found more value in supporting events, so Defra and the Fund should explore options for measuring the impact of supported events.

**D: RISK**

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. As of the end of 2021 (and at all times before), there were no investments in payment default, restructured/under restructuring or in payment moratorium in the Fund’s portfolio.

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| --- | --- | --- | --- | --- |
| **Description of risk**  | **Type** | **Risk rating** | **Likeli-hood** | **Mitigation activities** |
| Nicaragua's sustained economic downturn continues and has been further stressed by the pandemic and political instability, creating a risk for investments there. No Nicaraguan PI is classified as Watch as their financial positions are well equipped to weather the socio-political environment. | Political and economic stability   | Moderate | Low | * Regular monitoring of political and economic situation
* Continued monitoring of loan repayments (so far loan repayments are as expected)
* Nicaragua has been on Watch since Q2|2019
* Decision to make no new investment in Nicaragua in 2021.
 |
| El Salvador’s challenging fiscal standing is weighing negatively on the country’s ability to serve its debt and may pressure the bank’s liquidity. In addition, there are concerns on the rapid erosion of checks and balances. | Political and economic stability  | Moderate | Medium-high | * Regular monitoring of political and economic situation
 |
| Difficulties associated with measuring impacts (e.g., water) | Monitoring and reporting | Moderate | Moderate | * Continue working with EBF to secure increasingly robust data to underpin results assessment.
* An independent review of the fund is planned for 2022, which will assess its impact and the accuracy of its current monitoring.
 |
| Lack of recorded impact specifically on biodiversity | Monitoring and reporting | Moderate | Moderate | * Work with EBF to expand Outcome monitoring to cover biodiversity; currently only measured indirectly by land area in sustainable management and prevented deforestation
 |
| General risk of PIs defaulting on loans, particularly in less regulated environments | Investment risk | Moderate | Low | * Maintaining a diversified portfolio and carrying out thorough and regular due diligence on PIs
* Taking account of the regulatory environment in target countries in investment decisions
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**E: PROGRAMME MANAGEMENT:** **DELIVERY, COMMERCIAL & FINANCIAL PERFORMANCE**

**Value for money (VfM)**

Since the approval of the Business Case there has been no evidence that the economic arguments in favour of selecting option 1.3 in the business case (where a further £12.6m was invested into the EBF to bring the total to £32.6m) have changed, nor have there been any significant changes in the design of the programme that will preclude it from delivering value for money. It’s important to note that the VfM metrics mentioned throughout the assessment are for the entire £32.6m investment.

As per standard practice, VfM assessments compare current progress of the programme outputs (see Table 1) against the Programme Business Case. In addition to this approach, quantitative metrics have been developed to track the Funds progress in each of the sections (Economy, Efficiency, Effectiveness and Equity) and to allow for comparisons between ARs.

Table 1 - EBF Outputs

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| --- | --- | --- |
| *Output #* | *Description* | *How many output indicators have met or exceeded 2021 milestones (%)*  |
| Output 1 | EBF has a diversified portfolio supporting a range of geographies and sectors | 100% |
| Output 2  | Broad support to sustainability practices reflected in the composition of the portfolio | 100% |
| Output 3  | Provision of continuous and sufficient Technical Assistance | 100% |
| Output 4  | Improved partnerships and development of activities with other sector stakeholders | 50%[[1]](#footnote-2)\* |

**Value for Money assessment for Annual Review**

The following VfM assessment considers four VfM categories:

* Economy – Are we (or our agents) buying inputs of the appropriate quality at the right price?
* Efficiency – How well are we (or our agents) converting inputs into outputs? (‘Spending well’)
* Effectiveness – How well are the outputs produced by an intervention having the intended effect? (‘Spending wisely’)
* Equity – To what extent are Gender Equality and Social Inclusion (GESI) considerations incorporated into the intervention?

**Economy**:

In order to track progress with respect to how well EBF is doing in terms of economy, two VfM metrics will be used in this annual review and for future annual reviews, which are:

1. Cost per TA project ($)
2. Cost per event supported by EBF ($)

The results for the economy VfM metric for this Annual Review is shown below in Table 2:

Table 2 - VfM Economy Metrics Results

|  |  |
| --- | --- |
| *VfM Metric* | *Result*  |
| Cost per TA project ($) | 56,000 |

In addition to tracking how much money is disbursed, the total amount spent on direct operating expenses, service fees and performance fees are monitored closely year-on-year; see Finance section below.

At the end of 2021, the outstanding sub-loan portfolio stood at just above $476m, up from ~$429m in 2020 – an 11% increase. This portfolio is allocated with ~78% to end borrowers that hold an eligible sustainability certification, whereas ~22% benefits the financing of eligible green list activities; the fund’s portfolio distribution per eligibility criteria in December 2020 stood at 79% for sustainability standards and at 21% for Green List measures. This shows that the Fund is slightly expanding the faction of its portfolio in Green List measures, by 1 percentage point from 2020 to 2021. By continually expanding its eligibility criteria, the fund can provide funding for an increasing number of businesses, thus widening the scale of its impact and penetrating new sub-sectors.

**Efficiency**:

In order to track the progress with respect to how well the EBF is doing in terms of efficiency, one VfM metric will be used in this annual review and for future annual reviews.

1. Ratio of private finance mobilised as a result of every £ of ICF support

The results for the VfM metrics for this Annual Review are not published, but demonstrate good value for money for leverage of private investment as a result of ICF support.

**Effectiveness**:

As shown in Table 1, of the four EBF Outcomes, Outcomes 1 and 2 have met or exceeded all of their milestone targets, Outcome 3 has met or exceeded 100% of them (impacted by COVID-19 and considering 3.4 to be a successful indication of greater efficiency) and Outcome 4 has met targets for 50% of its indicators as it has moved to a co-sponsoring model; as a result, indicator 4.1 will be discontinued for future annual reviews.

**Equity**:

In order to track the progress with respect to how well EBF is doing in terms of equity, one VfM metric will be used in this annual review and for all other and future annual reviews hereafter. This VfM metric is:

1. Gender ratio in core EBF team

The results for the VfM metric for this Annual Review are shown below in Table 5:

Table 5 - VfM Equity Metrics Results

|  |  |
| --- | --- |
| *VfM Metric* | *Result*  |
| Gender ratio in core EBF team | F: 54%M: 46% |

Moreover, the Development Facility (DF) supported PI 2 in aligning their strategy, and participating in all three initiatives: Principles of Responsible Banking (PRB), Women’s Empowerment Principles (WEP) and Net Zero Banking Alliance. The project evaluated the measures the PI is already putting into place to ascertain the WEP maturity and identified the gaps that the bank will need to fill to ensure complete alignment. Overall, the alignment was assessed as satisfactory, meaning that it already has practices and a policy that take a gender perspective into account. The research gave the bank a thorough action plan with suggestions for bridging the gaps over the following four years. Its focus on Women’s Empowerment Principles particularly shows its ambition to ensure marginalised groups are considered throughout, which is strong evidence of the Fund promoting equity. Furthermore, in 2021, the DF started the development of the fund’s gender strategy.

In addition to the current metric for equity: ‘Gender ratio in core EBF team.’ A further metric if developed would allow for better assessment of equity however the development of this metric is dependent on the underlying data around the gender breakdown of the sub-borrowers. The Fund has indicated they are now beginning to report on more aspects of gender; once this is available Defra should work with the Fund to develop a new metric on the gender ratio of PIs and ultimately sub-borrowers as per availability of data at this level of granularity in the future.

**Finance:**

Defra has received the audited financial statement from EBF 1 January to 31 December 2021. The auditor’s report confirms that EBF’s financial statements give a true and fair view of the financial position of the Fund and of each of its sub-funds as of 31 December 2021, and of their financial performance and their cashflows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

In 2021, EBF LAC successfully attracted a record volume of ~$98m in funding from new and existing investors. The sub-fund subscribed ~$5m Senior Shares, ~$41m Subordinated Notes and ~$52m Senior Notes. All the funding subscribed in 2021 came from private investors, bringing private participation in the sub-fund to a record 40% (up from 32% in 2020).

The total operating costs for 2021 were 1.7% of average total assets, remaining stable vs. 2020. Total operating costs include the Fund’s service provider fees, the cost of which has been covered directly from returns on investments 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). As the Fund’s income has exceeded costs, Junior shareholders have received a complementary dividend of 0.5%.

Defra’s 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.

**Commercial:**

As of the end of 2021, 31 partner FIs and one Corporate have received financing from the EBF. In addition to the commercial contribution to FIs, the EBF continues to support its investments through TA delivered through the DF. DF activities throughout 2021 are described in detail in the review. As part of the work of the DF, EBF provides capacity building to FI staff, enhancing awareness and expertise in delivering finance to environmentally sustainable businesses. For example, in 2021, over 850 bank officers were trained through various projects that assisted eight PIs from four countries to increase financing of sustainable businesses. To date, 398,923 individuals were reached through events and other training activities co- or fully sponsored by the DF to promote sustainability in the region.

**Reporting and monitoring:**

Throughout 2021 reporting timeliness and quality of reporting has been consistently good. Quarterly reports are sent to shareholders within 3 months of the quarter finishing, and the audited annual statement was provided within 3 months of the end of the year. The fund also produces an annual impact report. Defra is an observer on the Board of Directors and DF Committee. Meetings of the board take place every quarter and DF Committee meetings take place on an ad-hoc basis.

The Fund is now beginning to report on gender aspects as part of ongoing monitoring in line with industry developments and investor requests (including Defra). The EBF DF disaggregates sex in its monitoring and impact work.

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

1. Credit monitoring / monitoring of financial performance of investees

In 2021, 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 PI and include a general review of performance in the recent quarter, spotting of trends, covenant monitoring and adjustment of ratings if necessary.

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

PIs are required to report to the Fund Advisor on the use of Funds on a bi-annual basis. The Fund Advisor checks that its resources are used in the eligible sectors following the respective criteria and whether the PIs abide by the minimum required on-lending rate. PIs 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).

1. Monitoring through relationship management (visits, meetings)

As part of ensuring that its Funds are used according to its eligibility criteria, the Fund usually carries out regular visits to its sub-borrowers. However, due to the COVID-19 pandemic most visits were not able to take place. These visits were in part replaced with virtual meetings.

**Progress on recommendations from the previous AR, lessons learned this year and recommendations for the year ahead**

The recommendations from the 2020 annual review and progress on the recommendations is set out below:

1. The Fund should engage with Defra over the next year to aid understanding of why output indicator 1.2 was not met, provide an indication of future commodity development and discuss steps to ensure the 2021 target is achieved.

*The Fund was able to move into two new commodities, and this target was met for the 2021 reporting year. It was also noted that there are multiple smaller commodities in parts of the portfolio which are not distinguished individually but should be considered in the round when assessing this Output.*

1. Considering current Defra logframe targets are set to 2022, it is recommended that Defra work with the fund to produce future targets/projections in the logframe to assess the expected progress of the fund. For outcome indicators 1.5 and 1.6 which correspond with ICF KPIs (Key Performance Indictors) 11 and 12 we recommend recalculating the targets in line with the updated 2019 methodology for the calculation of Defra attribution to these results. This will ensure consistency and allow Defra to track its contribution to the fund more accurately. It may also be advisable for the Fund to work with Defra to revise Defra’s logframe targets upwards for output indicators 2.1 and 2.2 to account for the fact that the 2022 targets have already been exceeded and to continue to build on the success of the fund in this area.

*It was decided that Defra and the Fund would work together in 2022 to set future projections for the next several years, including to revise some of the targets upwards based on the available data and future projections.*

1. The Fund should continue to develop the pipeline and secure approval from the Development Facility Committee for TA projects for 2021 in order to achieve the target for 3.1 and continue to provide high quality, consistent TA across projects and to PIs.

*This target was met for the 2021 reporting year.*

1. Defra should undertake further work to consider best practice for impact investment funds in measuring biodiversity impacts, working with the fund managers and other industry practitioners.

*To better quantify the impact of Defra’s investments in sustainable agriculture, and support the need for a scaling up of both public and private investment in nature, Defra has commissioned a study with external consultants to:*

* *Identify an appropriate set of metrics/indicators that could be utilised by impact investment funds to measure the impact of their investments in the agriculture sector on biodiversity*
* *Explore the practical implications of implementing these at a fund level – including aspects linked to additionality and leakage offsite*
* *Develop the work towards a consistent approach to monitoring and measuring biodiversity and ensuring high standards of impact investment delivery*
* *This study will be published on Defra’s Science Search site* [*here*](https://randd.defra.gov.uk/ProjectDetails?ProjectId=21041)*.*
1. Defra should undertake an external evaluation of the programme’s performance since initial investment, as referenced in the Annex 3 of the Subscription Agreement. The external evaluation should consider how the fund is progressing towards its outcomes and final impact through its activities and outputs.

*This work has not been carried out in 2021 for a number of reasons – an independent review is planned for 2022.*

1. A key priority for Defra ICF/ODA funding going forwards is supporting gender equality and empowerment. It is noted that EBF plan to develop a gender strategy for the fund to expand the work it has achieved to date and encompass additional strategies to address climate change by supporting female empowerment from a financial perspective. It is recommended that Defra work with EBF to help develop the gender strategy.

*The Fund has now published a Gender Strategy and are continuing to work on the efforts to collecting more gender disaggregated data related to PIs and end-borrowers. The Strategy will be reviewed periodically.*

|  |  |  |  |
| --- | --- | --- | --- |
| Date of last narrative financial report | Q4 2021 | Date of last audited annual statement | The 2021 annual statement has been audited, as of March 2022 |

1. \* Note that EBF has moved away from organising its own events, as co-sponsoring events has proven to be more effective. In future 4.1 will not be included, and this metric would be 100% on that basis. [↑](#footnote-ref-2)