**eco.business Fund Annual Review 2022**

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| **Title: eco.business Fund** |
| **Programme Value £ (full life): £32.6m** | **Review date: Autumn 2023** |
| **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 | **2018** | **2019** | **2020** | **2021** | **2022** |
| Overall Output Score | **A** | **A+** | **A** | **A+** | **A+** |
| Risk Rating  | **Moderate** | **Moderate** | **Moderate** | **Moderate** | **Low** |

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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 the German Development Bank KfW, Conservation International and Finance in Motion (FiM – the Fund Advisor). 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 creates impact by lending money to Partner Institutions (PIs) in target countries, with conditions attached that require those PIs to on-lend that capital to sub-borrowers who meet sustainability criteria. These criteria are set in advance by the Fund – typically certification by a recognised sustainability standard, or use of specific techniques recognised by the Fund as sustainable, depending on the business sector.

Sub-borrowers can be in the sustainable agriculture, forestry, aquaculture, or tourism sectors. By providing finance to end-borrowers who already meet high sustainability requirements, EBF supports sustainable land use and encourages its spread, while making end-borrowers competitive against less sustainable alternatives and disincentivising damaging land use change. As a source of finance for adaptation and mitigation in more vulnerable countries, this programme is aligned with the Paris Agreement to pursue efforts to limit warming to 1.5°C by the end of this century.

Defra holds ‘Junior Shares’ in the Fund, which carry a greater risk and lower reward than other investment options, in order to incentivise other private and public investment and multiply the impacts of Defra’s climate finance. As well as Junior Shares, the Fund offers Senior and Subordinated Notes (loan commitments) and Senior Shares to investors seeking a financial return on their impact investments. A key measure of the success of this programme is the amount of public and private capital invested due to (‘leveraged from’) Defra’s investment.

The Fund has two sub-funds, one for Latin America and the 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 – where Defra sits as an observer. The Board has the ultimate decision-making authority, providing scrutiny for investments and guiding Fund strategy.

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

In 2022, EBF-LAC met or exceeded all bar one of the Output milestones, many by a substantial margin. The one exception is the Output for the volume of water saved (see discussion in Outcomes section). The programme has therefore been given an A+ as an overall score. A summary of the year follows here, with more detail provided in the next sections of the report.

**Performance**

In 2022, EBF LAC completed 12 new investments amounting to a total of US Dollar (hereafter $) 234.6m, and approved its first investment in Brazil for disbursement in 2023. As of December 2022, the fund had invested in 37 PIs across 10 countries.[[1]](#footnote-2) PIs repaid $111.4m of loans to EBF in 2022.

From establishment to the end of 2022, the work of the Fund and Development Facility (DF) led to 3.6m tonnes of CO2 sequestered through agroforestry activities (net), 5.2m m3 of water saved and 971,000 ha of farmland under sustainable management (up 13.4% from 2021).

Since inception the Fund’s PIs have disbursed 34,934 sub-loans to end-borrowers, worth $3,430m in total. The fund is a recognised financier and knowledgeable partner in a range of sustainably focussed activities in a large and sectorally diverse region.

**Investment**

The outstanding portfolio (principal value) increased by $122.4m from $528m at the end of 2021 to $650.5m at the end of 2022. On top of the $650.5m, the Fund has also sold a part of some investments to a third-party impact investor, Calvert Impact Capital, totalling $37.7m at year end 2022, with whom EBF also co-invests in some PIs.

In 2022, EBF-LAC successfully attracted $172.2m in funding from new and existing investors. The net asset value (NAV) of Senior Shares increased by $25m to $105.6m, Subordinated Notes by $13.9m to $175.3m and Senior Notes by $62.5m to $184.4m. However, the NAV of Junior Shares fell by $14m to $185.3m as the Fund’s loan loss provisions increased. This overall reduction to the value of Junior Shares of $30m meant that the value of Defra’s shares in the Fund fell by over 14% from $42.9m at the end of 2021 to $36.7m at the end of 2022, worth £30.3m at 31 December exchange rates and a loss of £2.3m compared to Defra’s overall investment. The value of EBF’s shares, especially Junior Shares which carry the highest risk, have gone up and down since inception with international markets and the success or otherwise of its investments. It should be considered that Defra’s first loss position in the Fund is the reason EBF has been able to grow so rapidly and attract so much private capital, so these risks (and in some years losses) are precisely what make it an impactful investment for Defra overall.

A BMZ investment of $16m in Junior Shares, and $25m in Senior Shares issued to KfW in 2022 represent a necessary increase in public investment that should encourage further private investment. At the end of 2022, private participation in the sub-fund was at 44% of total Fund capital, including sub-participation from the Fund’s partner and co-investor Calvert Impact Capital (compared to 40% in 2021). Private investors have contributed a total of $378m since the inception of the Fund.

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, and with PIs developing sustainability strategies and/or implementing Environmental and Social Management Systems (ESMS). In 2022 the DF received approval for 14 individual projects and completed 18 projects, with an average budget since inception of $55,427. This is described further in output 3.

Independent Review

In 2022, an external midterm review of EBF LAC and the DF was carried out by sustainability consultancy firm Steward Redqueen, engaging with many stakeholders including Defra. The Review reported back to the Board in December 2022 and was overall very positive, praising EBF-LAC’s effectiveness and performance and the robustness of its impact reporting, and describing it as a major contributor to sustainable land management. See more details in Section E: Programme Management.

In conclusion, the impact of Defra’s investment into the EBF continues to grow and contribute to Defra’s and the 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. From 2024, Defra will work with the Fund to begin reporting on KPI 15, assessing ‘the extent to which ICF intervention is likely to lead to transformational change’ so that it can be included in the 2023 AR and subsequently.
2. From 2024, Defra and the Fund will work to implement reporting on KPI 10, to capture the unique value created by funding targeting sustainable land use, compared to traditional conservation funding. EBF’s funding allows producers to combine climate and nature benefits with economic production, deriving multiple benefits from the same land and reducing the risk of agriculture expanding into new areas, and KPI 10 will allow the AR to capture the value of those multiple benefits.
3. In January 2024, a new five-year set of more stretching milestones will be set for 2024-28, based on the Fund’s business plan for that period, and taking into account the Fund’s success so far in exceeding by a large margin most targets. This is also an opportunity to review the LogFrame and remove indicators which have not been useful or possible to report on, as well as considering a rebalancing of Output weighting. Revisions to the LogFrame will be approved at Deputy Director level.
4. In 2024, following one of the recommendations of the midterm review, the Fund should continue exploring ways to make more finance available to the ‘willing but not yet able’, to increase its additionality by reaching more uncertified end-borrowers with limited other options for finance. This measure will address a poverty barrier by making more micro-finance available to lower-income borrowers with limited credit options, and create more environmental impact as a result. The proportion of Green List end-borrowers in the portfolio has increased again in 2022, suggesting the Fund is already on a good trajectory.
5. The DF was highlighted in the midterm review as critical to the Fund’s impact and success, as a way of identifying, improving and helping clients qualify for loans. FiM and Defra should look at ways to raise more money for the DF in 2024 so it can continue and expand its work, as it represents excellent value both for the Fund and its commercial success, as well as for the nature and climate impacts.
6. In 2024 the Fund should continue working towards disaggregating by gender the share of sub-borrower capital and also the number of jobs supported in its impact reporting, in line with Defra’s GESI (Gender Equality and Social Inclusion) mainstreaming. Disaggregation of jobs should be included in the 2023 Annual Review, and a report included on piloting of disaggregation of sub-loan volume. The Fund and DF should consider the levers they may have available to further integrate gender and social inclusion into the programme and its impacts. Defra will work with the Fund to establish what it is achieving in terms of equity of other excluded and vulnerable groups, and how this impact can be further improved. Strong progress was made in 2022, as set out in the Equity sub-section of Section E.

## 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 TA to financial institutions (FIs) (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 (outcomes and final impacts). The Fund’s ToC can be found [here.](https://www.ecobusiness.fund/fileadmin/user_upload/impact/Theory_of_Change/EBF_Theory_of_change_2019.pdf) FiM plan to revisit the ToC in late 2024 to integrate newer initiatives, for example on climate change. The assumptions underlying the ToC are reviewed periodically outside the ToC review cycle, and an impact scoring tool is used to monitor assumptions at outcome level, giving reassurance that underlying assumptions are still valid.

EBF’s work toward its impact objectives is guided by a holistic impact management system. This system helps manage and mitigate possible negative outcomes while enhancing positive impact. These aspects are integrated into the Fund’s investment cycle, from setting the objectives in core strategy and policy documents to thoroughly screening potential investees.

Given the nature of the Fund (lending to FIs 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 FIs, industry networks, international institutions, academia, and conservation organisations.

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. In 2022, FiM developed an Impact Scoring Tool to strengthen the fund’s impact management. This tool evaluates the impact of its investments consistently and systematically throughout the investment cycle. It considers both the Fund’s impacts on its investees and the final environmental impact supported through its investments. The tool is aligned with industry best practices, including the [five Dimensions of Impact](https://impactfrontiers.org/norms/five-dimensions-of-impact/). In terms of ‘who’ is impacted and how poverty is addressed, the Fund’s primary target group are FIs, and through them agri-corporates and agricultural producers, traders and processors; this funding in turn benefits women and local communities who represent a large share of the agricultural labour force. To enhance outreach to smallholder farmers, the Fund also partners with FIs dedicated to providing micro-finance, such as Caja Municipal Arequipa in Peru.

EBF published its fifth Impact Report in 2022, titled ‘Conserving Biodiversity’, with a focus on increasing global efforts to tackle biodiversity loss. The Report features three TA projects funded by the DF, as well as public impact and operating results.

**Annual outcome assessment**

In Defra’s 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.

A summary of Outcome indicator results can be found in the table below. *All Outcomes are given as cumulative figures in line with the Fund’s other reporting responsibilities, with in-year figures included in brackets.*

**Outcome Indicator Results Table**

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| --- | --- | --- |
| **Outcome indicator (cumulative, 2022 change in brackets)** | **Defra Target 2022** (cumulative fund level) | **Achieved 2022** (cumulative fund level) |
| 1.1 Amount of water savings entirely or partly attributable to the intervention of the EBF (million m3) | 10.5 | 5.2 (+0.4)  |
| 1.2 Level of funding provided by FIs to businesses that adopt sustainable practices ($m) | 1400 | 3,430 (+857) |
| 1.3 Land sustainably managed through the EBF's portfolio (Ha) | 350,000 | 970,000 (+115,000) |
| 1.4 Land held by sub-borrowers committed to deforestation-free activities in EBF portfolio (Ha) | 280,000 | 438,000 (+61,000) |
| 1.5 ICF KPI 12: Volume of private finance mobilised for climate change purposes as a result of ICF funding ($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 | 500,000 | 660,000 (+35,000) |
| 1.8 ICF KPI 6: Net CO2storage as a result of EBF support to agroforestry (tonnes) | 1,500,000 | 3,644,000 (+244,000) |
| 2.1 Number of sub-borrowers supported by EBF’s PIs to incorporate sustainable practices | n/a | n/a |
| 2.2 Number of individuals reached through conferences and events | n/a | 418,000 (new) |
| 2.3 Individuals benefitting from Technical Assistance (M/F) | n/a | M: 3204 (new)F:3644 |
| 2.4 Percentage of women employed by PIs: a) overall; b) management; c) Board  | n/a | a) 56%; b) 39%; c) 18% (new) |

**Indicator progress since inception (Fund level)**

**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’ (Outcome 1.1). Milestones were previously set only up to 2022, so as part of this AR, milestones have been agreed for 2023, with targets for 2024 to 2028 to be set in December 2023 as part of a wider review of the LogFrame. For most Outcomes this includes revising milestones upwards compared to previous trajectories, due to higher-than-expected progress, though for Outcome 1.1 this will involve a modest downward revision.

For Outcome 1.1, 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 target was missed between 2018 and 2022, because the PIs issue sub-loans across a range of land use systems which are identified through market demand and opportunities. The projections originally used for water savings were mainly calculated on estimated area of rice cultivation, which has featured less in the portfolio than anticipated. Instead, other crop types have been more dominant in the portfolio, with corresponding impact benefits across other targets instead. By 2021 it was clear that the milestones were no longer helpful for assessing progress – the 2022 target of 10.5m m3 is double what has so far been achieved. Following the 2021 AR, it was determined that milestones for this indicator should be revised downwards from 2023 to provide the Fund with a useful but still stretching target for future progress. Early indications suggest improved results should be expected from 2023 onwards, with rice cultivation becoming more represented in the portfolio, closer to the original predictions.

Outcome 1.2 represents the volume of sub-loans issued by PIs to end-borrowers, in other words total sub-loans from the Fund plus sustainable co-investment from PIs. It demonstrates that this model of climate finance through investment vehicles and commercial banks can be extremely successful at leveraging an initial public investment to create greater impact.

For Outcome 1.3 the target has been exceeded substantially – a total of 970,000ha against a target of 350,000ha. The bulk of this over-shoot occurred in 2021, when three of the Fund’s PIs that on-lend financial support to farmers (end-borrowers) to implement sustainable production systems either started or increased their reporting on hectares under agroforestry systems. In 2022 there was a return to a more stable trajectory with an increase of 115,000ha, though still almost three times the increase projected in the milestones. 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 continue to exceed Defra’s targets more than twice over. However, it should be noted that the increase in public finance was lower than projected in 2022, even though the overall figure remains far ahead of the milestone. The increase for private finance, however, was several times the projected increase, as well as the overall figure exceeding expectations. Milestones for both will be revised upwards to ensure that year-on-year progress remains good, as well as overall progress.

The number of jobs supported by sub-borrowers because of EBF support (1.7) increased in line with the greater area being supported under sustainable management, tackling poverty by making finance available to small farmers and sustainable businesses. Regarding the quality and security of these jobs, many of the sustainability certifications which qualify end-borrowers for finance through the Fund have requirements on labour practices. One example of this is Fairtrade, which requires compliance with local regulations and stipulates extra requirements in areas such as freedom of association and collective bargaining, occupational health and safety, workplace conditions, contract requirements, annual leave and living wages, amongst others. The Fund always requires that activities financed are compliant with local labour regulations for both certified and non-certified borrowers.

The CO2 net storage indicator 1.8 (ICF KPI 6) also increased accordingly, as the calculation of the indicator is based on a share of hectares reported, namely those under agroforestry practices, coffee and cocoa, the two products for which the methodology is built. Both are exceeding milestones by a healthy margin, and will be revised upwards for 2023 and beyond.

EBF also records several other impacts that capture more detail on the types of change EBF is driving in Latin America and the Caribbean. This includes farming techniques which reduce soil erosion, and reduced use of herbicides and fertilisers, all essential parts of sustainable production practices. As of 2022, the Fund’s support had helped avoid 540 hectares of soil erosion, 144,000 litres of herbicide use and 1,450 tonnes of nutrient overload.

Outcome 2.1 on sub-borrowers incorporating sustainable practices exceeded Defra’s target by about 40%, but these figures are also commercially sensitive and cannot be published. Three further outcomes on sustainability policies and knowledge of them were included in the original LogFrame and reported on qualitatively in previous ARs, but it has proved difficult to assess this across the Fund. The 2021 AR recommended 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. This recommendation has been followed, and the following qualitative examples reflect on increased use and knowledge of sustainability policies among PIs and sub-borrowers.

1. The EBF DF implemented a pilot project with a bank in Costa Rica to support two end-borrowers with closing gaps towards obtaining the Costa Rican Sustainable Tourism certification and piloting EBF’s tourism green list measures. One of the hotels has obtained the certification and both have advanced significantly in the implementation of sustainable practices. As a result of this project, the bank has built capacity and strengthened their offer for financing the adoption of sustainable measures in the tourism sector.
2. To promote sustainable practices in the aquaculture sector, the DF supported two shrimp producers, clients of a bank in Ecuador, towards obtaining the ASC certification. The project explored how FIs could offer financing for aquaculture companies committed to transitioning to sustainable production. The learnings of the project have been scaled up to 15 additional producers through on-site trainings, increasing the PI’s portfolio.
3. In 2022, the DF supported a bank in Ecuador in developing and implementing a green financial product (GFP). It is the first GFP that is based on the fund’s eligibility criteria and, among other sectors, is intended to finance drip irrigation systems for banana producers and energy reconversion projects on shrimp farms. Through this new credit line, the bank can extend their green agricultural portfolio and further foster a sustainable agriculture sector in Ecuador.

The new Outcomes 2.2, 2.3 and 2.4 are a new addition replacing in part the qualitative outcomes previously referenced in this section. Though new to the Outcomes section, information was included in the Programme Management section of previous ARs on the number of individuals reached through events and other training activities co- or fully sponsored by the DF to promote sustainability in the region.

Regarding disaggregation of employment data by protected characteristics, the Fund faces challenges at investee-level, where metrics on disability and ethnicity, for example, can be considered highly sensitive, and the collection of data on them may even be prohibited by local law. Consequently, the Fund concentrates on collecting sex-disaggregated data at present. It’s GESI agenda is focused on raising female employment percentages at different levels in PIs, with the aim of meeting [2X Global](https://www.2xglobal.org/) targets at institutional level.

**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, and in most areas, targets are being surpassed. Targets in the Defra logframe will be revised for the next few years in line with the current trend in results. For most outcomes this will raise the ambition of the fund and hopefully lead to greater results at final impact level, though for water use this will mean a revision down to establish a more realistic set of milestones to encourage progress over the next five-year period. It should be noted that indicators like water use are difficult to accurately set targets for and are dictated by market conditions and sub-lending trends. Defra has worked with the Fund to ensure realistic targets are set based upon the best available evidence, to encourage maximum impact.

**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 TA 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. *All outputs are given as cumulative figures in line with the Fund’s other reporting responsibilities, with in-year figures included in brackets.*

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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** | **2022 Milestone** | **Progress** |
| 1.1 Number of financial institutions in EBF’s portfolio | 20 | 36 (+6) |
| 1.2 Number of commodities supported  | 23 | 33 (+11) |
| 1.3 Number of countries in which the Fund operates  | 8 | 10 (+1) |

**Key Points**

* EBF LAC completed 12 new investments amounting to a total of $234.6m.
* The Fund’s outstanding sub-loan portfolio has become more balanced in 2022, with coffee reducing from 30% to 18% of the portfolio. The “blue sector” (farmed fish and shrimp) represents the second most relevant produce in the Fund’s sub-loan portfolio, totalling 16% (unchanged since 2021). Sugar cane is third with 12% (down from 13%), while bananas and forestry for timber have grown, to 7% and 5% respectively (previously 4% and 3%), as have other smaller sectors too. This shows that while the Fund continues to support larger economic sectors with opportunities to drive change at scale, it has successfully diversified the portfolio to reach other sectors as well.
* The Fund closed the year with a loan portfolio of $650.5m, distributed across ten countries (Colombia, Costa Rica, Ecuador, El Salvador, Nicaragua, Panama, Honduras, Peru, Mexico, and Guatemala) and 37 PIs (36 FIs and one direct investment in a large aquaculture business). An additional investment in Brazil was approved, making that the eleventh country of activity from 2023.

**Recommendations:** As part of this 2022 AR, milestones have been set for 2023 that take into account trends over the last few years (both exceeding and missing targets). Milestone setting for 2024-8 will take place in early 2024 and also take this into account.

Recommend increasing weighting of Output 1 to 40%, as this Output covers three major indicators for the programme’s reach and breadth, and should be more heavily weighted.

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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 | 27 (+4) |
| 2.2 Number of Green List measures represented in the portfolio of sub-borrowers  | 20 | 41 (+6) |
| 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 has been strong progress against targets for both indicators 2.1 and 2.2 since 2019, exceeding both the overall targets and the expected increases for 2021 to 2022.
* For indicator 2.1 there were four new certifications, and for 2.2 six new Green List measures were added.
* When financing a new PI using the Green List (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 2022 include: i) Direct seeding or planting machinery (e.g. air seeders and air drills); ii) environmentally friendly harvesting machines, as defined by third party experts for individual crops; iii) procurement of sustainable feed (e.g. shrimp feed produced with ingredients derived from fish by-products, insects and plant-based proteins, and non-GMO ingredients).
* The volume of finance invested in certified and GL sub-borrowers is commercially sensitive and cannot be published. However, amongst eligible labels financed throughout 2021, Rainforest Alliance represent the largest share (25%), followed by Fairtrade Standard for Small Producer Organizations (19%).
* Amongst supported Green List activities, the Fund’s PIs primarily on-lend for activities related to sustainable land use, production and extraction practices (44%), but this figure has fallen from 65% in 2021 as the Fund has expanded into new impact areas, notably resource efficiency (29%), as well as waste treatment (13%) and soil conservation (6%).

**Recommendations:** As part of this 2022 AR, milestones have been set for 2023 that take into account trends over the last few years (both exceeding and missing targets). Milestone setting for 2024-8 will take place in early 2024 and also take this into account.

Recommend combining Outputs 2.3 and 2.4 into a more helpful single Output directly comparing the percentage of the portfolio in certification compared to GL, that would also be easier to publish.

Recommend re-weighting to 30%, as this output essentially covers one aspect of the programme, the range of certifications and Green List measures, and the balance between the two. Re-weighting will allow more focus on TA.

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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 | 39 (+8) |
| 3.2 Number of financial institutions supported  | 18 | 27 (+4) |
| 3.3 Number of completed TA projects  | 76 | 84 (+18) |
| 3.4 Budget spent on TA projects ($million)  | 6.4 | 5.8 (+0.7) |
| 3.5 Number of countries receiving TA (TA KPI 1) | New | 15 (new) |

**Key Points**

* During 2022, 39 projects were ongoing, 18 of which were completed and closed during the year. Cumulatively, the Fund’s DF has completed 84 projects, and a further 21 were active at the end of 2022, for a budget of $1.8m.
* For indicator 3.4 the budget spent on TA Projects ($5.8m) was an increase of $0.7m compared to 2021, when spend was also within the budget milestone. As the number of TA projects completed (indicator 3.3) 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 specialised agri-finance and environmental and social training for banking staff, to supporting forest conservation through sustainable cattle financing, and to measuring biodiversity using ecoacoustics. More information on these examples can be found in the [Fund’s 2022 Impact Report](https://www.ecobusiness.fund/fileadmin/user_upload/Publications/english/EBF_Impact_Report_2022_ENG_final_web.pdf).
* The DF is essential to the success and impact of the Fund, with 80% of PIs receiving support (27 institutions across 15 countries).
* Other examples of TA provided include:
	+ **Tourism pilot project:** The EBF DF successfully completed a tourism pilot project with two end-borrowers in Costa Rica. The project validated selected Green List measures, including the sustainable use of energy and water, closed the gap to obtaining a sustainability certification, and strengthened the management systems of two hotels to sustainably recover from the COVID-19 crisis. It also strengthened the PI’s capacity to finance the sustainable tourism sector.
	+ **Climate Change Strategy:** The DF partnered with a bank in Ecuador to develop a strategic response to climate change risks. Such a strategy will enable the bank and its clients to identify the risks resulting from climate change, define strategies and targets to mitigate and/or adapt to these risks and be prepared for different scenarios that might occur in the medium to long term.
	+ **Principles for Responsible Banking (PRB):** the DF has supported various institutions in the strategic alignment and impact target setting with the PRB, leading the way towards a compliance with ODS and Paris Climate Agreement.

**Recommendations:** As part of this 2022 AR, milestones have been set for 2023 that take into account trends over the last few years (both exceeding and missing targets). Milestone setting for 2024-8 will take place early in 2024 and also take this into account.

Recommend removing 3.1 (redundant with 3.3) and 3.2 (doesn’t reflect distribution of TA).

Recommend reweighting to 30%, as TA is a major part of the EBF offering, and these indicators capture several key aspects of it.

|  |  |
| --- | --- |
| **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** |
| 4.2 Number of events EBF has supported  | 50 | 59 (+6) |
| *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 ($m)*  | n/a | n/a |

**Key Points**

* Previously indicator 4.1 was included showing the number of external events organised by EBF, but this has been removed following the recommendation of the 2021 AR. EBF have found that there is more value in co-sponsoring events, with the involvement of additional stakeholders, than doing events on the initiative of the fund alone.
* It is worth noting that indicators 4.3 and 4.4 are not considered 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.
* Examples of events and engagement:
	+ **Sustainability Academy:** the first edition of the course “Certified Expert in Sustainable Finance” started. It is the first online course that is certified by the Sustainability Academy and set up in collaboration with Frankfurt School of Finance and Management. The objective of this course is to deepen the understanding of how companies and investors can access the green market.
	+ **Sustainability Week 2022:** the DF supported the Sustainability Week 2022, a pioneering event providing a platform for global and regional leaders to share solutions, best practices, and tools that drive sustainable impact in Latin America and the Caribbean. During the event, EBF DF presented its strategies to ensure that the fund’s financing is directed to activities that do not cause deforestation. The event reached a total of 9,252 participants from 41 countries.

**Recommendations:** As part of this 2022 AR, milestones have been set for 2023 that take into account trends over the last few years (both exceeding and missing targets). Milestone setting for 2024-8 will take place early in 2024 and also take this into account.

Recommend discarding this Output, and combining 4.2 with Output 3, as 4.2 and 4.3 cannot be published and are not used for scoring or in other internal reporting.

**D: RISK**

Most risks associated with EBF are managed by Finance in Motion (FiM) in their role as Fund Advisor. This includes due diligence on partner institutions, assessment of political and economic risks in target countries, financial risks to the Fund, equity and safe-guarding issues and implementation of impact assessment and reporting. FiM have extensive resources and significant expertise for risk management, carry out continuous risk management and report to the Board every quarter. Examples of risks managed by FiM are provided in more detail in the table below.

Some residual risks remain for Defra, notably the risk of programme failure, for example as a result of the financial collapse of the Fund or closure of the Fund Advisor. Defra works with other Shareholders and Board members to provide governance and support to FiM and to ensure they have sufficient resource and expertise to avoid business failure. To a large extent the impacts projected in the Business Case have already been met, so Defra’s risk here is reduced every year, but some future impact could still be jeopardised by such an event.

Given the critical role of FiM in managing most risks, the other main risk for Defra is around relationship management with FiM, ensuring a strong trusting relationship and continuity in staff engaging with FiM on a regular basis. To mitigate this risk the programme manager makes an effort to meet in person with FiM and the EBF Board at least once per year, as well as regular engagement by email and in virtual meetings. Care is taken during handover of responsibilities to new team members to ensure FiM are kept up to date and introductions made. Both these Defra-held risks are therefore unlikely to occur in the near future. A risk register is maintained by Defra covering risks managed both by Defra and FiM.

No risks required intervention from Defra in 2022. Considering the low likelihood of Defra’s risks and FiM’s professional approach to Fund-level risks, the overall risk rating for the programme is Low.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Description of risk (Fund level)** | **Type** | **Risk rating** | **Likelihood** | **Mitigation activities (Fund level)** |
| Political and economic risks in target countries.For example, Nicaragua and El Salvador are currently vulnerable to economic risks, with political instability a possible side effect. | Political and economic stability   | Low | Moderate  | * Regular monitoring of political and economic situation, with decision taken in 2021 to make no new investment in Nicaragua.
* Continued monitoring of loan repayments (so far loan repayments are as expected).
* A ‘Watch’ system is employed to monitor and assess risk. No Nicaraguan PI is classified as on Watch as their financial positions are well equipped to weather the socio-political environment. El Salvador is on Watch.
 |
| Difficulties associated with measuring impacts | Monitoring and reporting | Low | Low | * Continue working with EBF to secure increasingly robust data to underpin results assessment.
* An independent review of the fund was carried out in 2022, which assessed its impact and the accuracy of its current monitoring very positively. This increases confidence in the accuracy of impact reporting and has resulted in a lower risk and likelihood rating for 2022.
 |
| 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.
* EBF sponsored a pilot of ecoacoustic monitoring in 2022 and can fund further research and pilots into biodiversity monitoring through the DF. The lessons can be applied across other parts of the portfolio for a better sense of impact.
 |
| Gender Equality and Social Inclusion (GESI) risk in PIs and end-borrowers that funding may perpetuate inequality and lack of opportunity, particularly in countries where gender equity is not well established or may be culturally challenging. | Reputation | Moderate | Moderate | * The Fund has a Board-approved Gender Strategy which guides its engagement with PIs to embed gender equity into its lending and TA.
* Further detail on the Fund’s Gender Strategy is included in Section E under ‘Equity’.
* The Fund’s use of a Green List to make finance available to smaller businesses and its dispersal of funding through local Partner Institutions with better access into communities reduces the risk of perpetuating poverty, and goes some way to addressing problems of access to finance for small-scale producers and processors in the supply chain.
 |
| Risk of safe-guarding issues | Safe-guarding | Moderate | Moderate | * The Fund Advisor has a safeguarding policy for all Advisor staff working with children or adults at risk and addresses child safeguarding, adult safeguarding, and protection from sexual exploitation and abuse. It covers the actions the Fund takes to safeguard children and adults at risk and the actions it takes in response to any reported violations of this policy.
* These include making relevant staff aware of their responsibilities, identifying risks when designing activities, implementing safeguarding procedures in recruitment, management and deployment of staff, and ensuring relevant staff receive training on safeguarding.
 |
| Concentration of investments in countries or sectors, making the portfolio vulnerable to local political or economic changes, or to global commodity markets. | Investment risk | Low | Low | * Investments are more concentrated in Ecuador (18%) and Panama (17%); the Fund has a country limit of 20% in place to prevent aggregate exposure and regularly reviews this risk.
* Coffee is the biggest investment sector for EBF sub-loans at 18%; this has come down from 30% in 2021, making the portfolio more diverse and resilient.
 |
| Risk of PIs defaulting on loans, particularly in less regulated environments.As a Junior Shareholder, Defra is among those investors first in line to have the value of its shares reduced if the Fund suffers losses. | Investment risk | Moderate-high | High | * Maintaining a diversified portfolio and carrying out thorough and regular due diligence on PIs. Limiting loan size to any one PI.
* Taking account of the regulatory environment in target countries in investment decisions.
* Following investment EBF monitors the financial health of PIs closely, using employees with strong local financial knowledge.
* In the event of default, EBF can take steps to reduce exposure and to work with other investors to reclaim assets.
* Defra's investment is specifically aimed at being a first loss investment to provide encouragement and security to private investors, so losses of this kind in what is known to be a risky investing environment were anticipated in the original BC and VfM calculations.
 |

In 2022 one PI defaulted on their loan, which has materially increased the sub-fund’s impairments, but the sub-fund has continued to be compliant with all investor protection levels. Two financial institutions in Mexico and one in Panama are also on Watch. The Fund Advisors have assured Defra that EBF’s portfolio remains resilient, built on investments in leading FIs in the region with strong fundamentals. The sub-fund maintained its ability to pay all its contractual obligations in 2022, including interest on Notes and dividends to Shareholders. The Advisor continues to monitor closely the ongoing restructuring process.

The remainder of the EBF LAC portfolio continues to perform with all payments up to date and no moratoria granted.

**E: PROGRAMME MANAGEMENT:** **DELIVERY, COMMERCIAL & FINANCIAL PERFORMANCE**

A field visit to Costa Rica and Colombia was carried out in April-May 2022 by the then programme manager. The main conclusions of the visits were:

1. The Fund has successfully become a trusted partner for FIs across a number of countries in LAC. The DF is delivering a range of TA across the four focus sectors of the fund (agriculture, forestry, aquaculture and sustainable tourism) and works well to deliver targeted support and finance for specific projects, as well as training and publications across a number of sectors.
2. It was hugely beneficial to meet the EBF and DF teams, as well as the Chair of the DF and representative of fellow investor KfW. It was a key opportunity to open up further working relationships, including sharing priorities with EBF on biodiversity and gender equality and discussing the possibility of testing the biodiversity indicators suggested in Defra’s Impact Investment Fund, Biodiversity Indicators Study.

**Value for money (VfM)**

Performance evidence so far supports the economic arguments of the Business Cases (BCs), and the design remains aligned to the BCs for original investment in 2016 and additional investment in 2019. It is important to note that the VfM metrics mentioned throughout the assessment are for the entire £32.6m investment since the top-up investment in 2019.

VfM assessments compare current progress of the programme outputs (see Table 1) against the programme’s BC. In addition to this approach, quantitative metrics have been developed to track the Fund’s progress in each of the sections (Economy, Efficiency, Effectiveness and Equity) and to allow for comparisons between ARs.

Table 1 - EBF Outputs

|  |  |  |
| --- | --- | --- |
| *Output #* | *Description* | *How many output indicators have met or exceeded 2022 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%[[2]](#footnote-3)\* |
| Output 4  | Improved partnerships and development of activities with other sector stakeholders | 100%[[3]](#footnote-4)\*\* |

**Value for Money assessment for AR**

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**:

Defra has received the audited financial statement from EBF 1 January to 31 December 2022. 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 2022, 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.

At the end of 2022, the outstanding sub-loan portfolio stood at $650.5m, up 23% from $528m in 2021. This portfolio is allocated with 68% to end borrowers that hold an eligible sustainability certification, and 32% financing end borrowers employing eligible Green List activities; in December 2021 these stood at 78% for sustainability standards and at 22% for Green List measures. This shows an increased expansion of lending for Green List measures, compared to just a 1% change in the same direction 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.

The value of Defra’s shares in the Fund fell by over 14% from $42.9m at the end of 2021 to $36.7m at the end of 2022, worth £30.3m and a loss compared to the overall investment of £2.3m. The value of EBF’s shares, especially Junior Shares which carry the highest risk, have gone up and down since inception with international markets and the success or otherwise of its investments. However, it continues to represent good VfM, in line with the projections in the original BCR, as the security provided by Defra’s first-loss position allows the Fund and its impact to grow and to leverage more private finance. EBF has significantly increased the amount of funding available for financing environmentally sustainable business across Latin America and the Caribbean, exceeding almost every milestone set by Defra and utilising its relationships with FIs to drive transformational change across the agricultural sector.

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. Operating costs for 2022 were 1.6% of total assets, similar to 2021. Operating costs include the Fund’s service fees, the cost of which has been covered directly from returns on investments of the Fund, as well as performance fees and direct operating expenses.

**Efficiency**:

As shown in Table 1, all EBF Outputs have exceeded their goals in 2022, indicating efficient conversion of inputs into outputs. Three VfM metrics have been considered against the efficiency metric and how inputs are being converted to outputs, shown in Table 3

.

Table 3 - VfM Economy Metrics Results

|  |  |
| --- | --- |
| *VfM Metric* | *Result*  |
| Cost per TA project ($) | 55,400 |

The average cost per TA project since inception has come down slightly from $56,000 at the end of 2021, while maintaining high performance against output and outcome indicators. This relative improvement shows a minor increase in efficiency in the operation of the DF, with 18 TA projects completed and closed in 2022 compared to 10 in 2021, and at a lower cost per project.

The ratio of private finance mobilised as a result of every £ of ICF support also indicates efficient use of inputs to maximise outputs. The results for this metric are not published, but demonstrate good VfM for leverage of private investment as a result of ICF support.

As of the end of 2022, 36 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 by 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. To date, EBF has supported 59 events, and 418,000 individuals have been reached through events and other training activities co- or fully sponsored by the DF to promote sustainability in the region.

**Effectiveness**:

As shown in the Outcome Indicator Results Table, the EBF has delivered on all but one of the targeted outcome indicators in 2022. This demonstrates that outputs are effectively having the intended wider impact and delivery of the original objectives. Further detail, analysis and assessment of this is covered throughout the Outcome section of this AR. Overall, this indicates the project is likely on track to deliver on or exceed the expected VfM forecast within the original business case.

**Equity**:

In order to track the progress with respect to how well EBF is doing in terms of equity, the following VfM metrics will be used in this and future ARs:

1. Gender ratio in core EBF team
2. Gender ratio employed in PIs

The results for the VfM metrics for this AR are shown below in Table 5:

Table 5 - VfM Equity Metrics Results

|  |  |
| --- | --- |
| *VfM Metric* | *Result*  |
| Percentage of women in core EBF team | 54% |
| Percentage of women employed by PIs | Overall: 56%Management: 39%Board: 18% |

The DF regularly supports PIs with implementing ESMS or PRB that improve gender equity*.* For example, in 2022, they supported a bank in Guatemala to align their strategy with the PRB, leading to a final action plan that included components related to gender.

In addition to the previous metric for equity, ‘Gender ratio in core EBF team’, EBF is now able to report on more aspects of gender; including gender balance at overall, management and Board level across PIs representing 60% of the portfolio. EBF is also working towards reporting on the gender ratio of sub-borrowers, though this will take time to implement in the regular reporting. In 2022, the EBF Board of Directors approved the Fund’s Gender Strategy, which set out how adopting a gender-lens in the Fund’s operations will enable the fund to achieve an even greater impact in the region.

The Fund’s Gender Strategy is aimed at:

* Integrating gender matters into its investments and TA projects and managing/mitigating any potential harm;
* Reducing biases that could act against women when participating in the focus sectors of the fund as employers, consumers, or clients;
* Promoting gender equity among partner institutions and end-borrowers.

Gender equity is addressed at three levels by the Fund: 1) within the fund and its DF, 2) PIs, and 3) end-borrowers. Influence on end-borrowers is restricted to TA, and indirectly through PIs. Annual E&S questionnaires are completed by PIs, with an increasing focus on gender since 2022, and are used to focus support and interventions. At this point, most of the Fund’s investments go to end-borrowers certified by labels such as Florverde, Fairtrade, Rainforest Alliance and FSC, which have their own gender equity standards.

Going beyond gender, the Fund considers Indigenous Peoples and other vulnerable stakeholders (including migrant/seasonal workers) in its processes, focussing on doing no harm. As part of its due diligence, the Fund assesses potential impacts on these groups that could be caused by direct investments in a particular context. If there is potential for adverse impact, this must be managed according to the relevant IFC Performance Standards, which have specific requirements when there are affected communities and Indigenous Peoples. If adverse impacts may be significant, the investment will not be financed. For FIs, the Fund assesses that they have an ESMS aligned with IFC Performance Standard 1 and that other IFC Performance Standards (including the one on Indigenous Peoples) are applied, as required.

**Reporting and monitoring:**

Throughout 2022 reporting timeliness and quality of reporting has been consistently good. Quarterly reports are sent to shareholders within three months of the quarter finishing, and the audited annual statement was provided within four months of the end of the year. The Fund also produced an annual impact report. Defra is an observer on the Board of Directors and DF Committee. Meetings of the board take place every quarter, as do DF Committee meetings.

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

1. Credit monitoring / monitoring of financial performance of investees

In 2022, 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 carries out regular visits to its PIs and sub-borrowers.

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

The recommendations from the 2021 AR and progress on the recommendations is set out below:

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.

*An external review was carried out by sustainability consultancy firm Steward Redqueen, engaging with a large number of stakeholders including Defra. The Review was positive,* *praising EBF-LAC’s effectiveness and performance, and describing it as a major contributor to sustainable land management. The review supported the robustness of the Fund’s impact calculations across a suite of environmental and social indicators. The review set out how highly thought of the Fund and its DF are in the target countries, and the quality of the decision making behind which countries and sectors are targeted. It found that:*

* *The Fund is actively promoting sustainability in the sector;*
* *TA is crucial to the Fund’s impact and success;*
* *financial performance has been consistently positive;*
* *the Fund is an exceptionally agile, fast and structured partner; and*
* *that it is making a major contribution to promoting sustainable land management and environmental savings.*

*The Review also suggested areas for development, including enhancing monitoring and reducing the day-to-day role of the Board in management. To extend the Fund’s success so far, the Review suggested diversifying and expanding, and dedicating more resource to fund-raising. From a Defra perspective, the Review’s recommendation that the Fund supports more of the ‘willing but not yet able’ is critical for maximising impact and additionality.*

1. Defra will work with the Fund to revise the targets in the Defra LogFrame for the next few years upwards in line with the current trend in results, and ensure realistic targets are set based upon the best available evidence.

*Milestones for 2023 that* *take into account trends over the last few years (both exceeding and missing targets) have been agreed as part of the 2022 AR process. The fund is currently setting a business plan for 2024-8, so milestones will be set for that period in December 2023.*

1. The Fund should continue to look at new commodities that could be supported to meet and exceed Output Target 1.2 in 2022.

*Both reporting on the number of commodities and the diversity of the portfolio have improved to increase the number reported for 2022 well beyond the milestone.*

1. The Fund should continue to develop the pipeline and secure approval from the DF 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.

*The number of TA projects approved and completed in 2022 has increased, and notably the Fund has carried out a pilot of ecoacoustic monitoring for improving assessment of biodiversity outcomes.*

1. 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.

*The indicator has been deleted, with more focus instead on events EBF has supported.*

|  |  |  |  |
| --- | --- | --- | --- |
| Date of last narrative financial report | April 2023 | Date of last audited annual statement | The 2022 annual statement has been audited, as of April 2023 |

1. Ecuador, Panama, El Salvador, Mexico, Colombia, Honduras, Peru, Costa Rica, Guatemala, Nicaragua. [↑](#footnote-ref-2)
2. \* Following discussion with EBF, Defra agree that lower spend on Output 3.4 is considered to be a success that demonstrates efficiencies and economies in TA spend, given that more projects have been delivered for less. [↑](#footnote-ref-3)
3. \*\* Note that EBF has moved away from organising its own events, as co-sponsoring events has proven to be more effective. Therefore, Output 4.1 on events organised by EBF is no longer included. [↑](#footnote-ref-4)