**eco.business Fund Annual Review 2023**

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| **Title: eco.business Fund** |
| **Programme Value £ (full life): £32.6m** | **Review date: June-September 2024** |
| **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** | **2023** |
| Overall Output Score | **A** | **A+** | **A** | **A+** | **A+** | **A[[1]](#footnote-2)** |
| Risk Rating  | **Moderate** | **Moderate** | **Moderate** | **Moderate** | **Low** | **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 the German Development Bank KfW, Conservation International and Fund Advisor Finance-in-Motion (FiM). The Fund lends 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 predetermined sustainability criteria. Sub-borrowers can be in the sustainable agriculture and agri-processing, forestry, aquaculture, or tourism sectors.

Defra holds ‘Junior Shares’ in the Fund’s Latin American and Caribbean sub-fund (LAC), which carry a greater risk and lower reward than other investment options to incentivise other private and public investment. The Fund also operates a Development Facility (DF) to provide Technical Assistance (TA) to partners. FiM acts as an adviser 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 2023, FiM made considerable efforts to increase reporting on several valuable metrics, as recommended in the 2022 Annual Review (AR), including two additional KPIs (for ecosystem services and impact on transformational change), disaggregating jobs supported by gender. Outcome results showed strong increases compared to 2022, notably on jobs supported. Although a small number of loans have caused some losses to Junior Shareholders, and the total Fund size has decreased slightly, the Fund has continued to issue loans, with $118.5 million disbursed to PIs in 2023, making $1,137.5 million the total amount disbursed since inception.

For several years most Outcomes and Outputs have far exceeded the original set of milestones, demonstrating the Programme’s greater than expected impact and value for money. Consequently, the Programme’s ambition has been challenged and increased with a new set of milestones for 2023 and the next five-year period that are considerably more stretching, as set out in the LogFrame on DevTracker. These were set at the end of the 2022 review process, so 2023 milestones and results can be seen as a baseline for the following five-year period, with the overall Output score being reset to A based on the new, much higher milestones. The only Output target not met is 3.4 ‘Budget spent on TA programmes’, which went slightly over budget due to some more complex but higher-impact projects being carried out. A summary of the year follows here, with more detail provided in the next sections of the report. This AR was conducted using data collected for the eco.business Fund by its PIs, and in collaboration with the programme team, internal evidence colleagues, and Finance-in-Motion.

**Performance**

In 2023, EBF LAC completed eight new investments amounting to a total of US Dollar (hereafter $) 118.5 million. As of December 2023, the fund had invested in 42 PIs across 13 countries. PIs repaid $136.7 million of loans to EBF in 2023. Since inception, the Fund’s PIs have disbursed 40,107 sub-loans to end-borrowers, worth $3,980 million in total.

From establishment to the end of 2023, the work of the Fund and DF led to 3.7 million tonnes of CO2 sequestered through agroforestry activities (net), 16.6 million m3 of water saved and 1,050,000 ha of farmland under sustainable management.

**Investment**

In 2023, EBF-LAC successfully attracted $138 million in funding from new and existing investors. The net asset value (NAV) of Senior Shares increased by $41 million to $146.7m, Subordinated Notes by $30 million to $175.3 million and Senior Notes decreased by $6 million to $184.4 million. The NAV of Junior Shares increased by $6 million to $191.3 million as a result of a $16 million BMZ (the German Ministry of Economic Cooperation and Development) subscription. The Fund also provisioned for additional impairments, in case one or more PIs fail to repay their loans. This increase in provisions meant that the value of Defra’s shares in the Fund fell by over 4% from $36.7 million at the end of 2022 to $35.3 million at the end of 2023, worth £27.7 million at 31 December exchange rates and a loss of £4.8 million compared to Defra’s overall investment. Throughout the duration of EBF, Defra’s share value has fluctuated with international markets as well as the success and impairments of the Fund. It should also 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 $16 million in Junior Shares, $35 million in Senior Shares issued to FMO and $6 million in Senior Shares issued to OeEB in 2023 represent a necessary increase in public investment that should encourage further private investment. At the end of 2023, private participation in the sub-fund was at 46% of total Fund capital, including sub-participation from the Fund’s partner and co-investor Calvert Impact Capital (compared to 44% in 2022). Private investors have contributed a total of $547 million since the inception of the Fund.

The Development Facility

The DF is a separate entity that sits alongside EBF’s investment portfolio to provide 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 2023, the DF completed nine projects, totalling 93 since inception with an average budget of $54,314. This is described further in Output 3.

**Progress on 2022’s recommendations**

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.

*KPI 15 was reported on for the first time in 2023, scoring 4 and indicating there is partial evidence that transformational change is likely.*

1. From 2024, Defra and the Fund will work to implement reporting on KPI 10, to capture the unique value created by funding 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.

*Results for KPI 10 were provided for the first time in 2023. $720 million of ecosystem services were reported to have been generated. This was calculated using the value of the area protected from deforestation as a result of Fund activities.*

1. In January 2024, a new five-year set of more stretching milestones was set for 2024-28, based on the Fund’s five-year business plan for that period, and taking into account the Fund’s success so far in exceeding by a large margin most targets. This was 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 were approved at Deputy Director level.

*Due to the nature of this programme, with a wide range of possible impact results depending on the Fund’s success in leveraging additional finance from the initial public investments, milestones need to be revisited at intervals, particularly where targets were set very early in the Fund’s life, to ensure they are set at an appropriate level and continue to reflect an ambitious but realistic level of delivery and performance. As the Fund’s growth has been greater than initially projected, most indicators exceeded their 2022 milestones, some by a great margin, and so more stretching milestones were set in January 2024. Following 2023’s reporting, these look suitable for the next five years.*

1. 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.

*The proportion of Green List end-borrowers in the portfolio further increased in 2023. This growth of borrowers implementing Green List activities was concentrated in three PIs with approximately 400 additional sub-borrowers, increasing the proportion of ‘willing-but-not-yet-able’ borrowers in the portfolio. The Fund has also increased efforts to partner with FIs dedicated to providing micro-finance, supporting those with less access to conventional banking and related services.*

1. 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.

*In 2023 the Board explored options for regular contributions to the DF from the main Fund and determined that such a system could be set up in future if the DF’s finances require. Defra also offered a further contribution to the DF for two specific projects in 2023, but this was not taken up.*

1. 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.

*Disaggregation of jobs by gender started in 2023 after the development of the corresponding calculation methodology, with 167,000 jobs indirectly supported by end-borrowers held by women. Gender data collection at the level of sub-borrower will be piloted in 2024, with a selected number of institutions expected to report.*

**GESI update**

In line with our primary GESI Action Plan action, the programme team continue to engage with FiM on GESI reporting. With the greater disaggregation of gender data now available, the strength of the Fund’s internal Gender Policy and their stated and measurable goal of meeting 2X Challenge criteria, the aim in 2024 is to have the EBF programme upgraded to GESI Sensitive*.* Further details can be found throughout the AR.

**Recommendations arising from this AR:**

1. Review FiM’s updated ToC and its underlying assumptions in the AR for 2024.
2. 2024 AR should report on the results of FiM’s pilot of collecting gender data for sub-borrowers.
3. Explore with FiM for the next AR the impact of the Fund on smallholders and Indigenous Communities.

## B: THEORY OF CHANGE AND PROGRESS TOWARDS OUTCOMES

EBF manages its impact based on a Theory of Change (ToC) for the Fund as a whole and in alignment with the [Operating Principles for Impact Management](https://www.impactprinciples.org/) (OPIM). FiM, as adviser of the fund, underwent an independent verification of the alignment with the OPIM in 2023. 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.

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, 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. The Fund uses its bespoke Impact Scoring Tool to systematically evaluate and monitor the impact of its investments. It considers 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 local communities, including women, 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 sixth [Impact Report in 2023](https://www.ecobusiness.fund/fileadmin/user_upload/Publications/english/EBF_Impact_Report_2023_ENG_web_final.pdf), titled ‘New Horizons’, with a focus on increasing global efforts to tackle biodiversity loss. The Report features TA projects funded by the DF, as well as public impact and operating results.

**Impact Indicators**

Impact indicators are included for the first time in this 2023 AR. These indicators assess whether EBF drives transformational change in financial and land use sectors, that contributes to biodiversity conservation, sustainable use of natural resources, and climate change mitigation and adaptation. Indicator 2, which shows total sustainable lending by FIs working with EBF has been moved up from the Outcome section to mark its relevance to wider transformational change, and to replace two previous indicators on alternative funding sources for which data was unavailable. In late 2022, FiM and Defra agreed a methodology for KPI 15, allowing a first score for overall transformational change to be given for 2023.

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| **Impact indicator (cumulative, in-year change in brackets)** | **Achieved 2022** (cumulative fund level) | **Defra Target 2023** (cumulative fund level) | **Achieved 2023** (cumulative fund level) |
| 1. Sustained and increased levels of funding in impact investment funds in Latin America ($m)
 | *650.5* | 700 | 644.4 (-6.1) |
| 1. Level of funding provided by FIs to businesses that adopt sustainable practices ($m)
 | *3,430* | 3,700 | 3,980 (+550) |
| 1. Number of FIs within Latin America using lessons learned from EBF’s approach
 | *25* | 28 | 28 (+3) |
| 1. Extent to which ICF intervention is likely to lead to Transformational Change (KPI 15)
 | *n/a* | n/a | 4 |

**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 FIs.

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| **Outcome indicator (all cumulative, in-year change in brackets)** | **Defra Target 2023** (fund level) | **Achieved 2023** (fund level) |
| 1.1 Amount of water savings entirely or partly attributable to the intervention of the EBF (million m3) | 8.7 | 16.6 (+11.4) |
| 1.2 ICF KPI 6: Net CO2storage as a result of EBF support to agroforestry (tonnes) | 3,650,000 | 3,704,000 (+60,000) |
| 1.3 Land sustainably managed through the EBF's portfolio (Ha) | 1,015,000 | 1,050,000 (+79,000) |
| 1.4 Value of ecosystem services generated or protected as a result of International Climate Finance (KPI 10) | n/a | 720,000,000 |
| 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 (F: held by women) | 665,000 | 721,000 (+61,000)(F: 167,000) |
| 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 | 418,800 (+800) |
| 2.3 Individuals benefitting from Technical Assistance (M/F) | n/a | M: 3,705 (+501)F: 4,169 (+525) |
| 2.4 Percentage of women employed by PIs: a) overall; b) management; c) Board  | a) 46%; b) 43%, c) 30% | a) 55% (-1); b) 36% (-3); c) 19% (+1) |

Some results have been redacted for publication.

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

The Fund reports on all its impact indicators cumulatively, and so it is in this form that data is provided to Defra, and that milestones have been set. A graphic representation of the trends since 2017 for key indicators is provided in the charts below, while detail of the increase in any given year can be extracted from the LogFrame by comparing against previous results, and this year’s increases are included throughout the AR as (+/-) figures in tables.



**Progress on Targets**

The Fund has continued to progress strongly in 2023 – all but one recorded Impact Indicator was met or exceeded, with Impact Indicator 1 ‘sustained and increased levels of funding in impact investment funds in Latin America ($m)’ slightly off track. Milestones for this annual review were set in the previous Annual Review. Targets that require further reconsideration are mentioned in the detailed target review later in this section. Amendment of any targets will take place in 2024/25 and if any milestones are being significantly overachieved or are off-track, either more suitable milestones or remediation measures will be employed.

Defra’s attribution is based on the percentage of the Fund which Defra represents directly as well as investment leveraged off Defra’s investment. Direct attribution is calculated as the percentage of Defra’s share in the Fund each year, multiplied by the increase in Fund level results, and added to the previous year’s attribution. Leveraged attribution is based on the impacts of additional finance leveraged by Defra’s investment.

In previous annual reviews, an additionality rate of 50% was applied to Defra’s attributed figures due to perceived uncertainties in the additional impact of Defra’s investment beyond what might have been expected to occur anyway. Following discussion with Defra’s ODA Hub, continued confidence in EBF’s reporting methodologies, and in ensuring alignment with the approach of other ODA programming, it has been decided that this 50% reduction will be removed across Defra’s attributed figures from the 2023 AR onwards. The size of the Fund is limited only by availability of investors, and particularly of Junior Capital, so every pound invested by this programme is additional, and has allowed the Fund to make larger loans to more PIs than would otherwise have been the case. At end-borrower level, the sustainable land use sector is also far from saturation in seeking sustainable finance, so the additionality of loans to end-borrowers is also 100%.

**Indicator Analysis**

Impact Indicator 1 relates to the portfolio size of the EBF that is driven by many factors such as timing and type of funding, investment opportunities, and risk limits. For the year 2023, the indicator has been off track for various reasons. The global macroeconomic environment (i.e. persistently high inflation and high interest rates) had a significant impact on the investment opportunities in the region that are feasible for the Fund to pursue – investments that meet the ‘Risk – Return – Impact’ expectations of the Fund. The EBF expects more of such opportunities to be available once the global business cycle reverts to a more optimistic climate. Taking an outlook based on the current funding structure composition of the EBF, the most critical type of funding required to grow the portfolio is the catalytical Junior Shares. This is due to the fundamental Investor Protection Level capital risk structure of the EBF, where growth of the Fund requires additional Junior Share funding once the prescribed Private Investor leverage levels are close to the maximum. Additional Junior Shares have been required to grow the portfolio further and it is hoped that they will be secured in the coming years. While the portfolio size for live investments has shrunk this year, many loans have been repaid and then reinvested, allowing EBF to make eight new investments this year. Consequently, in 2023, $118.5 million was still disbursed to PIs despite the portfolio size shrinking overall; the total amount disbursed by the Fund in LAC between inception and 2023 was $1,137.5 million.

For Outcome Indicator 1.1 the Fund achieved a significant increase on the previously reported water saving results, partly due to an expansion of rice investments within the portfolio (on which the methodology for water savings in previous years was primarily based), but also due to the addition of a newly created reporting methodology for dry-cleaning technology of sugar cane, which significantly reduces water use and pollution in cane processing. As this increase has almost doubled the set target for 2023, and achieved water savings above that targeted to the end of the Fund, a revised set of milestones will be produced in 2024/25.

Outcome Indicator 1.2 on Net CO2 stored as a result of the EBF has continued progressing well, meeting its targeted milestone for 2023. This methodology for this indicator is calculated using a share of hectares reported, namely those under agroforestry practices, coffee and cocoa, the two products for which the methodology is built. This also feeds into Outcome Indicator 1.3, focusing on the total land being sustainably managed under the Fund. As such this has progressed in line with 1.2, also meeting set targets for 2023.

Outcome Indicator 1.4 on the value of ecosystem services generated or protected as a result of ICF was reported on for the first time in this year to capture the unique value created by funding targeting sustainable land use, compared to traditional conservation funding. Milestones were not set as we derive a baseline for this indicator. Discussions as to whether targets can be set will be considered in 2024/25.

Outcomes 1.5 and 1.6 are commercially sensitive and cannot be published, but both continue to exceed Defra’s targets, even after 2023’s milestone reprofiling.

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. Of the 721,000 jobs supported, 167,000 are held by women; this imbalance most likely reflects traditional patterns of land and business ownership in target communities, and is being addressed by the Fund’s Gender Policy and engagement with PIs and end-borrowers through targeted ESMS and TA.

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 2023, the Fund’s support had helped avoid 970 hectares of soil erosion, 155,000 litres of herbicide use and 1,700 tonnes of nutrient overload.

For Outcome Indicators 2.1 - 2.4 the Fund began tracking the progress of its partner institutions toward regional [2X Global](https://www.2xglobal.org/) targets at the institutional level. Although this area falls outside the Fund's direct influence, it is noteworthy that, on average, institutions financed by the Fund exceed the criteria for women's participation among employees overall, but fall short in management and board representation. The Fund is not currently able to report with any GESI-disaggregation other than gender. The DF has been supporting PIs in building capacity on sustainability policies and international frameworks. Trainings have ranged from the importance of sustainability within financial institutions to sponsoring a peer-to-peer exchange on setting targets in line with the Principles for Responsible Banking. Additionally, the internal auditors of one sub-borrower in Costa Rica have been trained on the audit of the sustainability certification.

**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 have been revised since the last Annual Review to reflect greater-than-expected Fund size and ambition since Defra’s initial investment, and have continued to mostly be met. Defra has worked with the Fund to ensure realistic targets are set based upon the best available evidence, to encourage maximum impact. Some recalculation of milestones will be needed where targets have been significantly exceeded. This will continue to raise the ambition of the fund and hopefully lead to greater results at final impact level.

The indicators that are currently off track are Impact Indicator 1 on Sustained and increased levels of funding in impact investment funds in Latin America; Outcome Indicator 2.4 on the percentage of women employed by PIs; and Output Indicator 3.4 on Budget spend on TA projects. Each of these indicators have reasonable justification for why they are off track and are expected to improve in future.

**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 extremely well, continues to represent good VfM, and fits with Defra’s International Climate Finance (ICF) and Official Development Assistance (ODA) priorities, including through mobilising finance for nature and testing and demonstrating innovative investment models, i.e. blended finance and TA for the implementation of sustainable agriculture. The 2022 independent review of the Fund has given Defra confidence in the reliability and robustness of the Fund’s impact reporting, with no need for further review in the next few years, provided the Fund continues to follow the same strategy and reporting principles. The programme 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 continues.

## 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, and were revised in 2023. *All outputs are given as cumulative figures in line with the Fund’s other reporting responsibilities (in-year change 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 (%):  | 40 | Weighting revised since last AR?  | Yes |

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| --- | --- | --- |
| **Indicator** | **2023 Milestone** | **Progress** |
| 1.1 Number of financial institutions in EBF’s portfolio | 37 | 42 (+6) |
| 1.2 Number of commodities supported  | 40 | 48 (+15) |
| 1.3 Number of countries in which the Fund operates  | 12 | 13 (+3) |

**Key Points**

* The Fund’s outstanding sub-loan portfolio became more balanced in 2022, with coffee reducing from 30% to 18% of the portfolio. In 2023, sugarcane made up the largest portion of outstanding sub-loan portfolio with 18% (from 12% in 2022). The “blue sector” (farmed fish and shrimp) represents the second most relevant produce in the Fund’s sub-loan portfolio, totalling 16% (unchanged since 2022). Coffee is third with 15% (down from 18%), while bananas have grown to 9% from previous 7%, as have other smaller sectors. 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 $644.4m, distributed across eleven countries (Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Panama, Honduras, Peru, Mexico, Guatemala and Paraguay) and 37 PIs (35 FIs and two direct investments in large agriculture and aquaculture businesses). In addition, two investments in Brazil were approved, making that the twelfth country of activity from 2023.

**Recommendations:**

Targets set for the end of the programme have already been surpassed for Indicator 1.1 and 1.2. To ensure ambition remains for these indicators, milestones should be reset during 2024/25.

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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 (%):  | 20 | Weighting revised since last AR?  | Yes |
| **Indicator** | **Milestone** | **Progress** |
| 2.1 Number of sustainability standards represented in the portfolio of sub-borrowers  | 29 | 30 (+3) |
| 2.2 Number of Green List measures represented in the portfolio of sub-borrowers  | 44 | 44 (+3) |
| 2.3 Proportion of Green List and certified sub-borrowers | n/a | Cert.: 63% (-3)GL: 37% (+3) |

**Key Points**

* Two new certifications entered the portfolio. Rainforest Alliance represented the largest portfolio share (25%), followed by Fairtrade Standard for Small Producer Organizations (18%).
* Four new Green List (GL) measures were added. Amongst supported GL activities, the Fund’s PIs primarily on-lend for activities related to sustainable land use, production and extraction practices (43%), but this figure has fallen from 65% in 2022 as the Fund has expanded into new impact areas, notably resource efficiency (30%), as well as water treatment (14%) and soil conservation (6%).
* 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 2023 include: i) Investments in isolated energy generation in rural areas that are not linked to the electricity grid (ex: solar panels, micro wind mills, micro hydroelectric power generators) in countries where wood is a primary source of fuel; ii) Equipment for recycling plastic bags (e.g. bananas and other fruit); iii) Financing the infrastructure required and implementation process of approved international Sustainable standards such as: Global G.A.P., Rainforest Alliance, FairTrade, etc. including the cost of certification audits; iv) Construction of facilities and equipment for proper management of solid and hazardous waste, such as: storage, recycling, or disposal of any form.
* The proportion of the Fund in GL end-borrowers is an important indicator of finance reaching smaller businesses and growers, including smallholder farmers, who are unable to afford full certification, supporting businesses and jobs more widely across rural economies. 2.3 is a new indicator replacing two previous indicators that provided figures in US dollars invested in certified/GL end-borrowers, as these figures could not be published and the ratio is more telling.

|  |  |
| --- | --- |
| **Output Title**  | Provision of continuous and sufficient Technical Assistance  |
| Output number:  | 3 | Output Score:  | **A** |
| Impact weighting (%):  | 40 | Weighting revised since last AR?  | No |
| **Indicator** | **Milestone** | **Progress** |
| 3.1 Number of completed TA projects  | 93 | 93 (+9) |
| 3.2 Number of countries receiving TA (TA KPI 1) | 15 | 15 (+0) |
| 3.3 Number of events EBF has supported  | 64 | 64 (+5) |
| 3.4 Budget spent on TA projects ($million)  | 6.5 | 6.68 (+0.88) |

**Key Points**

* Examples of events and engagement supported by EBF:
	+ **Peer-to-peer exchange on Principles for Responsible Banking:** the Sustainability Academy sponsored a regional peer exchange for signatories of the PRB, organized in collaboration with UNEP FI. The exchange took place in Sao Paulo with 160 attendees from 13 countries and 26 organizations.
	+ **ASOBANCA’s First Sustainability Congress:** the DF supported the first Sustainability Congress organized by the Ecuadorian banking association. The event brought together the country's financial system with the main multilaterals that have lines of financing for sustainable development. It promoted the discussion and analysis of trends, opportunities and challenges to promote sustainable financing that contributes to the fight against climate change and the sustainable development of the country.
* Since establishment, the Fund’s DF has completed 93 projects, with $6.68 million spent. As the budget slightly exceeds the milestone (3.4), whilst the number of TA projects completed is as expected, there may be room for an increase in the efficiency of using TA budget. The overspend is very slight however, and this will be monitored in future years. The DF is essential to the success and impact of the Fund, with 80% of PIs receiving support (27 institutions across 15 countries).
* The DF has carried out projects ranging from supporting specialised agri-finance and environmental and social training for banking staff, to supporting the strengthening of corporate ESMS systems. More information on these examples can be found in the Fund’s 2023 Impact Report.

**D: RISK**

Most risks associated with EBF are managed by Finance in Motion (FiM) in their role as Fund Adviser. This includes due diligence on PIs, 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 Adviser. 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 aims 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 2023. Following a revision of what to consider in setting the Risk Rating for the programme since 2022, it is therefore assessed at ‘Medium’ for 2023, as the programme is continuing to show strong results for climate and nature impacts, following the successful raising and investment of private and public capital for the portfolio overall. However, the Fund is still early in its impact journey, with much still to be achieved and risks to the success of individual loans. This rating is also influenced by the high confidence we have in FiM, who are themselves independently [BlueMark](https://bluemark.co/) verified as best-in-class Impact Management, and by whom Fund (and risk) management is managed.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Description of risk**  | **Type** | **Risk rating** | **Likelihood** | **Mitigation activities** |
| 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 deemed 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 measured indirectly by land area in sustainable management and prevented deforestation.
* EBF’s DF sponsored a pilot of eco-acoustic 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.
* In early 2024 the DF started a project to develop a new biodiversity indicator for the Fund.
 |
| 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 | Low | * Safeguarding is managed by FiM, who have a safeguarding policy for all Adviser 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. Defra’s programme team has no involvement in any areas where there might be safeguarding risks.
* 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.
 |
| Risk of Fraud | Fraud | Low | Low | * Fraud risks are managed by FiM, who have robust internal investment controls, and carry out extensive due diligence on their investors and investees.
 |
| 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 (17%) and Colombia (15%); the Fund has a country limit of 20% in place to prevent aggregate exposure and regularly reviews this risk.
* Sugarcane is the biggest investment sector for EBF sub-loans at 18% followed by farmed shrimp (15%) and coffee (15%).
 |
| 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.
 |

On 8 August 2022, EBF partner institution “UNIFIN Financiera, S.A.B. de C.V.”, a Mexican non-bank FI, unilaterally announced its decision to make no further interest or principal payment on its senior unsecured debt during a period necessary to negotiate restructuring agreements with such creditors. Unifin’s default has materially increased the sub-fund’s impairments, but the sub-fund has continued to be compliant with all investor protection levels. Two other banks in Mexico and one in Panama are also on Watch.

The Fund Advisers 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 2023, including interest on Notes and dividends to Shareholders. The Fund 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**

No field visit to LAC was carried out in 2023. However, a visit to Kenya included a trip with the Finance in Motion fund management team to two Kenyan banks with whom EBF is partnering, and the beneficiary businesses in the tea and coffee sectors. The visit showed how EBF’s model from LAC is now being applied in sub-Saharan Africa, and gave a good insight into how the Fund engages with PIs and the types of change driven by this investment model. Overall the Fund gave a strong impression of contributing to transformational change.

As a source of finance for adaptation and mitigation in more vulnerable countries, indicators on carbon sequestration and sustainable land management demonstrate that this programme is aligned with the Paris Agreement to pursue efforts to limit warming to 1.5°C by the end of this century.

**E2. Assess the VfM of this output compared to the proposition in the Business Case, based on performance over the past year**

A value for money (VfM) assessment identifies whether the costs of the programme are proportional to the benefits achieved in terms of reaching the programme’s desired outcomes and objectives derived from the business case. The assessment uses the FCDO’s recommended structure which consists of the 5Es approach. These are economy, efficiency, effectiveness, equity and cost-effectiveness and are described below.

* ***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 -*** How fairly are the benefits distributed? To what extent will we reach marginalised groups? (“spending fairly”)
* ***Cost-effectiveness -*** What is the intervention’s ultimate impact on the long-term transformational change, relative to the inputs that our agents or we invest in it?

**Economy**

As set out in the business case, the desired impacts of the EBF are to reduce poverty across land use sectors in Latin America and sustainably manage mosaic forest landscapes with improved biodiversity and environmental conditions. To support the programme, Defra has invested £32.63 million in total into junior shares. This investment has gone towards granting finance for TA to support SLM and viable business models and underpinning and enabling investment fund operations.

Whilst we cannot place a value on individual inputs across the whole programme, the costs per TA project and event supported by EBF are set out in Table 1. The cost per TA project is similar to last year, while the cost per event supported has fallen significantly, indicating that the programme may be delivering those events at a better price than previously.

Table 1 - VfM Metrics

|  |  |  |
| --- | --- | --- |
| ***VfM Metric*** | ***Result 2022*** | ***Result 2023*** |
| Cost per TA project ($) | 55,400 | 54,313 |
| Cost per event supported by EBF ($) | 4,284 | 3,076 |

Defra has received the audited financial statement from EBF 1 January to 31 December 2023. 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 2023, 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 addition to tracking how much money is disbursed ($118.5 million from EBF to PIs, and $402 million in sub-loans to end-borrowers), the total amount spent on direct operating expenses, service fees and performance fees are monitored closely year-on-year. Total Fund costs for 2023 represented 1.87% of total assets, an increase of 0.27% compared to 2022. 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**

Reporting against output indicators for 2023 demonstrates solid conversion of inputs into outputs, with 100% of indicators meeting or exceeding their targets for 2023 (Table 3) and five (56%) exceeding their target. All three indicators monitored through Output 1 have notably exceeded their targets by between 8-20%. However, whilst Output indicators 3.1 (number of TA projects) and 3.3 (number of events) have met their targets for 2023, they have not grown as rapidly relative to the previous year. This aligns with a lack of growth in the Fund in 2023, due to a small percentage of write-offs of investments and a lack of Junior investment to support additional private finance, and could be restored by further public investment from Defra or other public partners. It is important to note, however, that while the overall size of the Fund has slightly reduced since 2022, many loans have been repaid and then reinvested, allowing EBF to make eight new investments this year. Consequently, in 2023, $118.5 million was disbursed to PIs despite the portfolio size shrinking overall; the total amount disbursed by the Fund in LAC between inception and 2023 was $1,137.5 million, compared to a Fund size of $644.4 million, so efficiency is still very good relative to Defra’s investment.

The ratio of private finance mobilised as a result of every £ of ICF support also indicates efficient use of inputs to maximise outputs, and increased in 2023. By leveraging additional private finance without an increase in Defra’s inputs, it shows more businesses are willing to invest in the programme, with the greater funding enabling potentially greater programme outputs.

As of the end of 2023, 42 partner FIs have received financing from the EBF. To date, EBF has supported 64 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**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Output Indicators** | **Outcome indicators** | **Impact indicators** | **Total** |
| Number of indicators met or exceeded | 9 | 7 | 2 | **18** |
| Number of indicators not delivered | 0 | 0 | 1 | **1** |
| **Total** | **9** | **7** | **3** | **19** |

*Table 3 - Summary table of programme performance against 2023 indicator targets[[2]](#footnote-3)*

As set out in Table 3 above, all outcome indicators have met or exceeded their 2023 milestones, indicating that the programme continues to make good progress across both outcome areas.

Progress against the outcome indicators since 2017 is visualised in graph format in Section B. Between 2022 and 2023, the outcome with the largest increase is the amount of water saved, which has increased by 11.4m3, an increase of 219%. This is largely due a new methodology which measures water savings across a greater number of crops, which is more representative of the fund’s portfolio.

Furthermore, land sustainably managed through the portfolio increased by 79,000 hectares, an increase of 8% and the amount of net CO2 stored has increased by 60,000 tonnes (a 2% increase). The number of jobs supported by sub-borrowers has also increased, with an extra 61,000 people being supported (an increase of 9%).

Overall, this shows progress across a range of outcomes between 2022 and 2023, suggesting that the programme is on track to exceed its overall aims by the end of the programme.

**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 4:

*Table 4 - VfM Equity Metrics Results*

|  |  |
| --- | --- |
| *VfM Metric* | *Result*  |
| Percentage of women in core EBF team | 52%\* |
| Percentage of women employed by PIs | **Overall:** 55% (56% 2022)**Management**: 36% (39% 2022)**Board:** 19% (18% 2022) |

 \*Overall Finance in Motion figure.

The table shows that the percentage of women employed by partner institutions (PIs) overall has slightly decreased from 2022, however is still over 50% of the total number of people employed by PIs. Whilst the number of women in management roles has slightly decreased, the number of women working at board level has increased by 1 percentage point, promoting women working at a more senior level. The recommended targets, as set out by the 2X initiative, suggest that 46% of women should be overall employed by PIs, 43% work in management roles and 30% work in board positions. Whilst the programme exceeds the overall target, there are still significant improvements to be made in increasing the percentages at management and board level.

This year, the delivery partner has provided information regarding the gender ratio of those benefitting from sub-borrowers. Out of the total number of jobs supported by sub-borrowers as a result of EBF support (Outcome 1.7), 167,000 people supported are women, equating to 23% of the overall number. Again, this suggests that improvements should be made across the programme to encourage support for more women working in this sector.

Looking specifically at individual projects that the fund provides investment to, Azucarera Valdez has placed a strong focus on gender diversity to help solve critical issues to ultimately create a blueprint to amplify and extend the adoption of sustainable practices across the entirety of the sugar value chain.

*Smallholders and Indigenous Communities*

In terms of the programme’s impact on smallholders and indigenous communities, there is evidence of a positive impact across some projects, however, there is no metric to determine the true extent of the overall impact and is therefore difficult to assess.

The sustainable subordinated bond, created by Banco de Bogota, has successfully directed the entire proceeds of the bond towards sustainable investments in agriculture and related sectors. Given that over 30% of the Colombian population rely on smallholder farming for their livelihoods[[3]](#footnote-4), it is likely that a sizeable proportion of this investment has gone to smallholder farms, helping to financially protect them and ensure they can continue to operate. Banco de Bogota operates across 913 municipalities, meaning that they can be relatively accessible for smaller communities.

**Cost-Effectiveness**

Looking at the desired impacts the programme aims to achieve over the long term, they include increasing capital and mainstreaming of SLM and sustainable supply chains; ensuring local economies benefit from SLM through promoting fair jobs and livelihoods; reducing net GHG emissions and improving biodiversity and environment conditions in mosaic land use.

As discussed in the effectiveness section, the number of jobs supported by sub-borrowers as a result of EBF support has increased to 721,000, showing that the aim of promoting fair jobs is positively progressing. Similarly, outcome indicator 1.2 shows that 3,704,000 tonnes of net CO2 emissions have been stored, reducing overall GHG emissions. While a full cost-benefit analysis has not been conducted, these have high inherent economic valuations which demonstrate cost effectiveness. For example, the UK government valuation in appraisal for 1 tonne of CO2e is estimated to be £256 in 2024, giving an approximate carbon emission value for the Fund as a whole of £948 million. While this is just an indicative value for one benefit, and does not account for risks such as additionality and leakage, it suggests that Defra’s investment of £32.6 million in EBF may have directly created carbon benefits alone worth almost double that amount, not including the impact of finance leveraged off Defra’s investment.

It has also separately been estimated by FiM that the Fund overall has provided $720 million worth of worth of ecosystem services in the form of ‘hectares protected from deforestation’, suggesting that Defra’s investment has also created ecosystem services worth more than the investment itself.

The impact indicators currently suggest that transformational change is likely to occur. Impact indicator 4, which looks at the extent to which ICF intervention is likely to lead to Transformational Change (KPI 15) has a score of 4, showing there is partial evidence to suggest transformational change is likely to occur. Furthermore, impact indicator 3 shows that 28 FIs within Latin America are using the lessons learned approach from EBF, showing continued development across FIs arising from the programme.

**Value for money summary**

Overall, the assessment there is no evidence that the economic arguments for funding EBF have changed significantly since Business Case approval, with current results indicating that Defra’s funding of EBF represents value for money.

Every output indicator is either meeting or exceeding its target, which is helping to progress the outcome indicators. In addition, the ratio of private finance leverage continues to increase, showing growing confidence amongst private investors. The impact indicators highlight that partial evidence towards transformational change is being demonstrated, which is evidenced through the level of funding to businesses and the increasing number of FIs using the lessons learned approach.

However, whilst there have been small increases in the number of women working at board level at PIs, improvements need to be made at increasing the overall number of women working at a senior level as the results fall below that of the 2X initiative target.

**Reporting and monitoring:**

Throughout 2023, 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 2023, the Fund Adviser 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 Adviser on the use of funds on a bi-annual basis. The Fund Adviser 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.

1. Reflecting a new, more challenging set of milestones, as described in the ‘Summary supporting narrative’. [↑](#footnote-ref-2)
2. *Note the indicators assessed in this table are those that have both a planned target and achieved figure in the log frame; other indicators that do not contain both pieces of information are excluded from the table.* [↑](#footnote-ref-3)
3. Food and Agriculture Organization of the United Nations [↑](#footnote-ref-4)