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Investing for Change: An Analysis of the Impacts of Agricultural Investments from Select FAST Social Lenders

Cristina Larrea, Semida Minteuan
and Jason Potts



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INVESTING FOR CHANGE: AN ANALYSIS OF THE IMPACTS OF AGRICULTURAL INVESTMENTS FROM SELECT FAST SOCIAL LENDERS

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FAST is an international non-profit association that represents financial institutions and sustainable producers dedicated to sustainable trade. Launched in May 2007, FAST is the pioneer in bringing together a diverse group of stakeholders, working collectively to bridge the financing gap in the sustainable Small and Medium Enterprise (SME) finance sector. Members include socially oriented and alternative lending institutions, SME producers, development institutions and other stakeholders in the agricultural commodities supply chain. FAST is the global reference for data on sustainable SME finance and related markets.

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LIST OF ACRONYMS

COSA	Committee on Sustainability Assessment
EPI	Environmental Performance Index
FAST	Finance Alliance for Sustainable Trade
FLO	Fairtrade International
GIIN	Global Impact Investment Network
HDI	Human Development Index
IFC	International Finance Corporation
IFOAM	International Federation of Organic Agriculture Movements
IRIS	Impact Reporting and Investment Standards
NGO	Non-Governmental Organization
SIAMT	Shared Impact Assessment and Measurement Toolbox
SMEs	Small–and Medium–Sized Enterprises, including cooperatives and producer organizations

ACKNOWLEDGEMENTS

This report was made possible thanks to the significant contribution of the Finance Alliance for Sustainable Trade (FAST) lending members. In particular, we extend our deep gratitude to Alterfin, Conservation International's Verde Ventures, Idepro, Pro-Rural, responsAbility, Root Capital, Triodos Bank, and Working Capital for Community Needs. The guidance provided by these lenders and their continued commitment and support, as much as their data, have been essential for ensuring the relevance and meaningfulness of this first report. The analysis and conclusions presented here would not have been possible without them.

We also extend our special thanks to all the remaining lending members and partners of FAST who have provided input with a view to contributing data in the near future. With you, we see a horizon full of opportunity!

We would like to thank Christian Novak, Mike McCreless and Sarah Gelfand for sharing their invaluable experience, insights and time during the development of the report.

Additionally, we thank COSA (Committee on Sustainability Assessment), IRIS and our core partners the Citi Foundation, FIRA and Hivos for their generous collaboration and continued support to FAST throughout its impact analysis process.

EXECUTIVE SUMMARY

Over the past decade, impact investment has surged from serving a niche market for social investors to recognition as a distinct asset class for mainstream finance. At the same time, the recent launch of the G8 Social Impact Taskforce reveals a growing recognition by global leaders of the importance of impact investment in bringing about a global transition to sustainable economic development. Within this context, investment in rural agriculture across the developing world has a particularly important role to play.

An estimated 2.5 billion¹ people depend on agricultural commodities for their livelihoods, with the vast majority living below the poverty line. At the same time, roughly 30% of global carbon dioxide emissions are linked to agricultural production. Recognizing the importance of agriculture to global sustainable development, the impact investment community has placed increasing priority on investment in sustainable agricultural supply chains over the past decade. Currently, food and agriculture is the leading investment sector among impact investors: in a survey sample of 99 investors, 57% selected food and agriculture as a sector focus.²

The growth in agricultural impact investing is led, in large part, by a desire to achieve social and environmental impact. And although the trend towards increased agricultural investment is encouraging in this respect, data on the market trends and related impact outcomes of such investments are largely non-existent.

One of the core challenges in gaining a better understanding of the impacts related to investments in agriculture pertains to the diverse ways in which different stakeholders have approached and defined sustainability within the agricultural sector. As more investors move into this field, it becomes increasingly important to understand their performance against common indicators and benchmarks.

This report presents the culmination of over two years of collaboration between FAST members and the Impact Reporting and Investment Standards (IRIS) initiative aimed at defining such a set of common indicators and methodologies for impact assessment.

¹ International Finance Corporation (IFC), Scaling up access to finance for agricultural SMEs: Policy review and recommendations, October 2011.

² J. P. Morgan and The Global Impact Investment Network (GIIN), "Perspectives on progress: The impact investor survey," Global Social Finance, January 2013. The respondents are organizations that manage, or have committed capital for, at least US\$10 million of impact investments.

FAST lending members, themselves recognized leading sustainable agriculture investors, have also been pioneers in developing impact metrics and data collection systems. This report compiles, for the first time, impact data from a select group of eight FAST lenders over the 2009–2011 period, drawing data from 417 small- and medium-sized enterprises (SMEs), and provides the first in-depth analysis to understand impact investment in sustainable agriculture. For some indicators, the analysis is confined to six lenders, based on the reported data.

Although our sample only represents a subset of the broader impact investment community in sustainable agriculture, it represents the first step towards a more rigorous and quantified understanding of the distribution of impact and impact trends within the agricultural sector. Key findings of this report include:

- Disbursements in 2011 made by the sample of eight FAST lenders increased 148% from the year 2009 and were valued at US\$222.1 million.
- 78% of the total numbers of disbursements were in the form of short-term (under 12 months) loans.
- A subset of six lenders disbursed a total of US\$134.1 million in 2011, which was distributed as follows:
 - 75% of total disbursements were in the coffee sector, with 3% of disbursements in both the cocoa and the vegetables sectors.
 - 81% of disbursements were in Latin America.
- The fastest growing crops (amount disbursed, 2010–2011) were found to be coffee, vegetables, cashews and cocoa.
- The fastest growing regions (amount disbursed, 2010–2011) were found to be South America and East Africa.

78

PERCENTAGE OF
DISBURSEMENTS
IN SHORT-TERM
LOANS

417

NUMBER OF
SMEs THAT
RECEIVED
INVESTMENTS

222.1

MILLION US\$
DISBURSED IN
2011

22 billion

AMOUNT IN
DEMAND FOR
SHORT-TERM
FINANCING
SECTOR WIDE

- 64% of recurrent investments³ in the same SMEs were associated with increased revenue over the 2009–2011 period.
- 63% of the total sample of 417 SMEs hold at least one certification from a globally recognized sustainability initiative such as Fairtrade, Rainforest Alliance, UTZ Certified or Organic.
 - In 2009, 71.39% of the total amount disbursed was associated with Fairtrade certification, followed by 52.76% linked to Organic certification.
- Based on the data from our sample, we estimate that, in 2011, 623 SMEs received investments, benefiting an estimated 1.8 million small farmers through a group of 19 leading social lenders.⁴
- Current investment of the group of leading social lenders, which was estimated at US\$439.7 million in 2011,⁵ still represents a small fraction of overall financial need among smallholder agricultural production, which has been valued at US\$450 billion per year⁶ across smallholder producers globally and at US\$22 billion per year of short-term financing demand for “investment ready” smallholder producers already organized within SME producer organizations.⁷

The motivation underlying this report and the joint reporting process behind it has been to improve understanding and efficiency in the allocation of investment in sustainable agriculture finance. While this effort represents an unprecedented level of collaboration among financial institutions within the sector, there remains considerable opportunity for expanding the scope of the analysis through a still deeper harmonization and data collection processes with our partners. Although this report only represents the first steps in a longer journey, we hope that it can set the foundation for further collaboration in the future—this being a case where the whole is definitively greater than the sum of its parts.

³ In this context, the term “investments” refers to the annual aggregate number of disbursements made to a given SME.

⁴ A group of 19 social lenders, which includes a selection of 16 FAST lending members: Agrofinanzas, Alterfin, Calvert Foundation, Coffee Development Fund, Conservation International’s Verde Ventures, Idepro, Merkur Development Loans, Pro-Rural, Proyecto Cambio-BCIE, Rabobank Foundation & Rabo Rural Fund, responsAbility, Root Capital, Shared Interest, Triodos Sustainable Trade Fund, Oikocredit and Working Capital for Community Needs, along with -3 additional investors; Etimos, Acumen Fund and Grassroots Business Fund.

⁵ Data refer to the total amount of disbursements made in 2011. Data come from reported impact data to FAST, annual reports and data available in: Carroll, T., Stern, A., Zook, D., Funes, R., Rastegar, A., and Lien, Y., Catalyzing smallholder agriculture finance, Dalberg Global Development Advisors, 2012.

⁶ Carroll, T., Stern, A., Zook, D., Funes, R., Rastegar, A., and Lien, Y., Catalyzing smallholder agriculture finance, Dalberg Global Development Advisors, 2012.

⁷ Ibid.

SECTION I: BACKGROUND



SECTION I: BACKGROUND

IMPACT INVESTING AND SUSTAINABLE AGRICULTURE SMES

Impact investment is defined by a shared commitment among investors to promote social well-being while obtaining positive financial returns. Although impact investing can target virtually any sector, a survey performed by J. P. Morgan and The Global Impact Investment Network (GIIN) in early 2013 from a sample of 99 investors ranked the “Food and Agriculture” sector as the most frequently targeted, with 57% of the sample prioritizing it ahead of healthcare and financial services including microfinance⁸; this is up from “second place” with respect to a similar survey conducted in 2011.⁹ These results confirm observed growth trends in impact investing in the agricultural sector more generally.¹⁰

This focus reflects the close linkages between agricultural production and global sustainability. On the one hand, agriculture continues to be the backbone of many developing country economies. An estimated 2.5 billion people depend on agricultural commodities for their livelihoods, with the vast majority living below the poverty line.¹¹ On the other hand, the agricultural sector is critical for economic growth, providing about 60% of total employment and representing around 20% of GDP across many low-income countries.¹² Finally, agriculture is widely recognized as a major source of greenhouse gas emissions, accounting for an estimated 15% of global emissions directly and an additional 15% through land conversion processes.¹³ Within a context of ongoing population growth, changing consumption patterns in emerging economies and growing consumption of biofuels, the relationship between agriculture and sustainable development can only be expected to deepen over time.

A growing recognition of the links between agriculture and global sustainability has given rise to a rapid growth in demand for “certified” sustainable agricultural products over the past decade, with several agricultural commodities experiencing growth of more than 40% per annum over the last five years.¹⁴ Across some of the more mature sectors, it is estimated that up to 20% of global production is compliant with an international sustainability standard.¹⁵ Growing commitments from mainstream players such as Cadbury’s, Kraft, Unilever, IKEA, Kimberly-Clark and Walmart point towards a continuation of this trend for the foreseeable future.

⁸ J. P. Morgan and The Global Impact Investment Network (GIIN), Perspectives on progress: The impact investor survey, Global Social Finance, January 2013. The respondents are organizations that manage, or have committed capital for, at least US\$10 million of impact investments.

⁹ J. P. Morgan and The Global Impact Investment Network (GIIN), Insight into the Impact Investing Market, December 2011.

¹⁰ Food and Agriculture Organization of the United Nations (FAO), Trends and impacts of foreign investment in developing country agriculture: Evidence from case studies, 2013.

¹¹ International Finance Corporation (IFC), Scaling up access to finance for agricultural SMEs: Policy review and recommendations, October 2011.

¹² Cervantes-Godoy, D., and Dewbre, J., Economic importance of agriculture for poverty reduction, OECD Food, Agriculture and Fisheries Working Papers, No. 23, 2010.

¹³ Agriculture is estimated to account for at least 81% of land conversion emissions and, when taking all direct and indirect emissions (including land conversion, agrochemical production and irrigation) from agriculture into account, total emissions from agriculture are estimated to range from 16.8% to 32.2% of global greenhouse gas emissions. See Bellarby, J., et al., Cool farming: climate impacts of agriculture and mitigation potential, Amsterdam: Greenpeace, IPCC, 2008.

¹⁴ The forestry and coffee sectors are two examples. See: International Institute for Sustainable Development (IISD), The State of sustainability initiatives review 2010: Sustainability and transparency.

¹⁵ Ibid.

SECTION I: BACKGROUND

In addition to growing mainstream presence, sustainable supply chains are finding their way into an ever-growing range of products, moving beyond the traditional sectors of coffee, cocoa, bananas and tea to include others such as cotton, honey, oilseeds, quinoa, timber, sugar cane, flowers, plants, nuts and rice, among others. This market growth offers the possibility of new, higher value and more stable trading relationships for producer organizations, including SMEs in developing countries. The double dividends associated with sustainable markets of growing market opportunity coupled with social and environmental benefits represent an important gateway for poverty reduction and sustainable development.

But taking advantage of these new opportunities will only be possible if accompanied by corresponding finance and/or investment. It is estimated that approximately US\$83 billion of net investments per year must be made in the agricultural sector of developing countries just to secure enough food to feed the expected world population of 9.1 billion by 2050, and the major sources of capital will need to come from private investors.¹⁶ If agriculture is to adopt sustainable production practices along the way, as it must, this figure would be substantially larger in order to enable this transition.

Considered from the perspective of financing needs among existing smallholder producers, it is estimated that the world's 450 million smallholder farmers¹⁷ are currently in need of financing in the range of US\$450 billion annually.¹⁸ Even limiting short-term demand to those farmers capable of entering the "SME finance pathway", in other words accessing finance through SMEs, demand is estimated at about US\$22 billion annually.¹⁹

Regardless of the demand figure used, it is clear that current rates of impact investing fall far short of both need and opportunity. Tracked investment through the group of leading social lenders in 2011 was estimated at US\$439.7 million,²⁰ with most investment directed towards short-term financing needs.

¹⁶ Food and Agriculture Organization of the United Nations (FAO), Agricultural investment funds for developing countries, 2010.

¹⁷ Bage, L., Supporting smallholders is crucial to food security, The International Fund for Agricultural Development (IFAD), July 8, 2008.

¹⁸ Carroll, T., Stern, A., Zook, D., Funes, R., Rastegar, A., and Lien, Y., Catalyzing Smallholder Agriculture Finance, Dalberg Global Development Advisors, 2012.

¹⁹ Ibid. Carroll et al. estimate that approximately 10% of smallholder producers are grouped into producer organizations or equivalent SMEs. Carroll et al. have also referred to the SME finance pathway as the "growth pathway." There are, of course, other ways of meeting the demand for smallholder finance. The SME finance pathway represents the lowest hanging fruit, with the longest track record, for impact investment in many cases.

²⁰ Data refer to the total amount of disbursements made in 2011. Data come from reported impact data to FAST, annual reports and data available in: Carroll, T., Stern, A., Zook, D., Funes, R., Rastegar, A., and Lien, Y., Catalyzing smallholder agriculture finance, Dalberg Global Development Advisors, 2012.

SECTION I: BACKGROUND

In light of the growing demand for sustainable agricultural products and the promise of improved social and environmental impacts through certification, a growing number of international and local financial institutions and investors are looking at certified SMEs in developing countries as investment targets. On the one hand, sustainable agriculture represents an attractive investment opportunity due to its importance to global sustainability. On the other hand, sustainable agriculture represents an attractive investment opportunity due to its potential to provide positive financial returns under conditions of reduced risk.²¹

To the extent that the case for investing in sustainable agriculture depends on the sustainability returns it promises, there is a growing need to monitor the degree to which this is true and, if so, how such returns can be maximized. The first step in such a process revolves around establishing a common understanding of what impacts are most important to lenders and investors, along with the degree to which such impacts are being achieved by competing investment strategies.

Led by its proactive membership, themselves leaders in impact assessment, FAST has played a pioneering role in the development of a common language for understanding impacts and corresponding social returns. This report represents the initial social, environmental and economic results from a select group of eight leading members of FAST. It represents the first steps in a longer process of building enhanced efficiency across sustainable agriculture investments more generally.

BRIEF INTRODUCTION TO FAST AND ITS LEADING ROLE IN IMPACT MEASUREMENT

FAST is a member-driven, non-profit association representing over 148 members in 31 countries, including financial institutions, producers, supply chain actors, development non-governmental organizations (NGOs) and certification agencies dedicated to bringing sustainable products to market. FAST aims to promote sustainable economic development by improving efficiency and transparency in financial markets for sustainable SMEs in emerging economies. Since 2008, FAST has played a leading role in facilitating the growth of impact investment in sustainable agriculture.

²¹ As compared with conventional agriculture. Sustainable production systems are typically associated with more stable trading relationships and better overall management practices, which are linked to reduced financial risk.

SECTION I: BACKGROUND

Box 1: Key Achievements of FAST to Date

- 148 members in 31 countries including 20 financial institutions
- Facilitated disbursement of US\$26 million to agriculture SMEs in developing countries through nine FAST Financial Fairs©
- Over 204 one-on-one investor–SME meetings
- Approximately 80 SMEs coached in improving their credit readiness with the aid of pioneering tools
- 15 investors trained on market performance and investment opportunities in sustainable forestry
- Over 40 prospective investors introduced to financial needs and investment opportunities in sustainable agriculture markets
- Three market reports published covering the cocoa and forestry sectors
- Directory on available guarantee facilities at the global level to financial institutions and SMEs, to support investment in the agriculture sector
- Online platform for sustainable SME finance market linkage and impact measurement tools available at <http://marketplace.fastinternational.org/>
- A wide range of sector events conducted in East Africa, Europe, South America, Central America, the United States and Canada, including a global forum to promote long-term investment opportunities
- The Financial Literacy Toolbox, a complete set of training materials for local consultants and SMEs to promote SME credit readiness and access to finance

SECTION I: BACKGROUND

In 2011, FAST developed the Shared Impact Assessment and Measurement Toolbox (SIAMT), a wide-reaching yet concise model to measure the social, economic and environmental impacts of investments in SMEs active in sustainable agriculture value chains. This is the first framework of its kind explicitly designed for investments in agriculture SMEs in developing countries.²² FAST SIAMT's version 1.0 was developed in partnership with the IRIS initiative and the Committee on Sustainability Assessment (COSA), with the input of more than 60 FAST members, stakeholders and experts in the field.

FAST SIAMT is a monitoring and assessment framework and a set of indicators designed to assist investors in their impact measurement practices. A selected number of agriculture-related core indicators have also been included in IRIS, ensuring consistency and harmonization across other impact measurement frameworks (e.g., alignment with IRIS for SME-level metrics and with COSA for farmer-level metrics). Since the development of SIAMT, FAST has supported more than 16 investment funds and financial institutions in the adoption of the framework and implementation of best practices in impact measurement. Since 2012, FAST has received impact data related to over 745 reported investments in 417 sustainable agriculture SMEs in developing countries.

Box 2: Timeline of FAST SIAMT

2009-2010	<ul style="list-style-type: none">• Consultation with FAST members regarding the need to have a common framework to measure impact• Research conducted on existing methodologies and frameworks
.....	
2011	<ul style="list-style-type: none">• Development of FAST SIAMT• Inclusion of a set of indicators in IRIS• Participation of more than 60 international stakeholders
.....	
2012	<ul style="list-style-type: none">• Development of data collection and reporting tools in English and Spanish• Support FAST members and partners in implementing FAST SIAMT• Data sharing partnership with investors, financial institutions and IRIS
.....	
2013	<ul style="list-style-type: none">• Development of first report on impact of FAST's lending members on sustainable agriculture SMEs• Outreach to the larger impact investment community• FAST/GIIN joint research initiative on impact of agriculture investments• The development of impact indicators for investments in natural forest and plantations

²² One of the unique aspects of the FAST SIAMT indicator set is that it sets forth impact indicators at both the level of the producer organization (SME) and at the farmer level.

SECTION I: BACKGROUND

The present report is the first of a series of planned publications documenting the influence of impact investment on the agriculture sector. This report, Investing for Change: An Analysis of the Impacts of Agricultural Investments from Select FAST Social Lenders, builds from the reported impact data of eight investor members of FAST who have adopted FAST SIAMT and IRIS-aligned indicators.



Our presentation of the findings is divided into three sections. The first section provides an overview of reported loan disbursements by crop, country and region and an outline of SME investee growth. This is followed by an overview of key impact indicators related to SME performance. We conclude by analyzing investments through the window of individual certification initiatives, allowing for a better understanding of the relative association of different certification initiatives with access to finance.

SECTION II: KEY FINDINGS



SECTION II: KEY FINDINGS

A : A N A L Y S I S

ANALYSIS OF REPORTED LOAN DISBURSEMENTS FOR THE PERIOD 2009-2011

During the period 2009–2011, our sample of reporting FAST lending members invested in a total of 417 agriculture SMEs, producing at least 32 different agricultural products, across 41 countries and benefiting an estimated number of 1.2 million rural farmers. Approximately 61% of the total number of SMEs were certified under one or another sustainability standard in 2011. Taking our sample as “representative” of the social finance sector more generally, we estimate the total number of SMEs and farmers to have benefited from impact investing in 2011 to be approximately 623 and 1.8 million, respectively.²³ Although this only represents a small fraction of the estimated 450 million smallholders in need of finance, it nevertheless signals the importance of the trend in sustainable agricultural finance. Below we consider the trends in such investments over the 2009 to 2011 period across eight leading members of FAST as an indicator of potential trends in sustainable finance more generally.

LOAN DISBURSEMENTS FOR THE PERIOD 2009-2011

Agriculture is the main investment sector for FAST lending members. The eight investors contributing data to this report have been providing debt financing to SMEs in sustainable agriculture for more than a decade. Throughout the years, these investors have increased the total value of their disbursement amounts considerably and have expanded their outreach, in terms of type of agricultural commodities financed and countries reached. This section illustrates this scenario in an exemplary way. At the highest level, Figure 1 illustrates the evolution of the aggregate amount of reported annual amounts disbursed by the eight investors during the period 2009–2011. Notably, growth among the reporting lenders has been significant over the reported period, with growth of total disbursements over the three years being at or above 34% per annum.

32

NUMBER OF
DIFFERENT
TYPES OF
AGRICULTURAL
GOODS
PRODUCED

41

NUMBER OF
COUNTRIES
REACHED

1.2 million

NUMBER OF
RURAL FARMERS
WHO BENEFITED

450 million

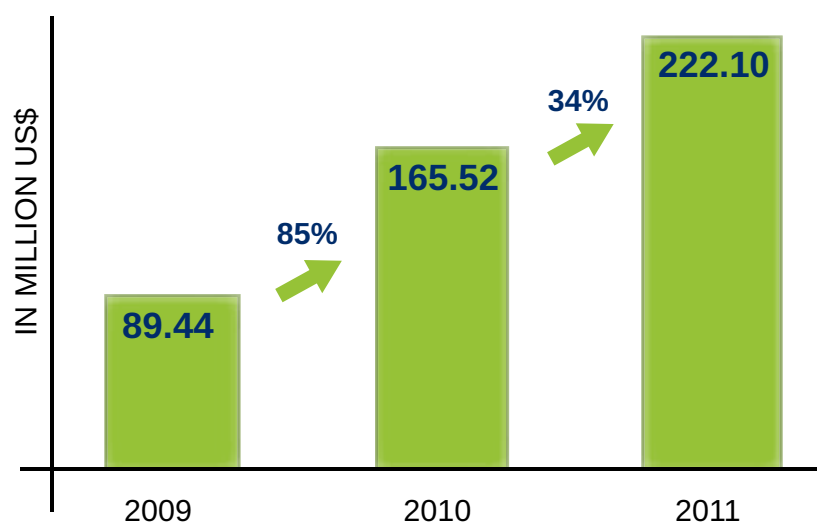
NUMBER OF
RURAL FARMERS
IN NEED OF
FINANCE

²³ This estimation was calculated using the ratio amount disbursed / total number of SMEs, and amount disbursed/total number of farmers calculated with the reported data, and making the extrapolation to the total number of 19 social lenders based on their amounts disbursed in 2011.

SECTION II: KEY FINDINGS

A : A N A L Y S I S

Figure 1: Annual Total Amount Disbursed to Sustainable Agriculture SMEs*



Based on data reported by 8 lending members of FAST

Multiple factors could lie behind this growth, including the increase of investment funds, the positive financial returns obtained from prior investments and the influence of commodity prices on investment trends²⁴ (i.e., for the case of coffee, market prices increased significantly during the period 2009–2011).

Although participating members did not, as a general rule, report actual loan sizes, a simple average of the total annual amount disbursed, divided by the number of SMEs receiving investments, provides an indication of annual aggregate amount disbursed per SME. Figure 2 provides the mean and median per SME disbursement levels using this method and reveals a general trend towards greater amounts being disbursed per SME over time.

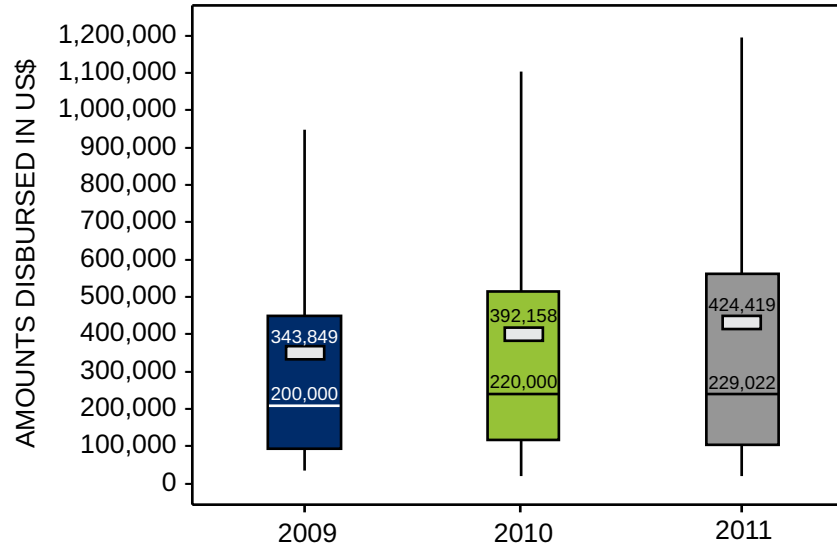
*Figures report disbursements made by the eight investors in the period, not their portfolio size. Please note that these investors tend to have multiple disbursements in a given year.

²⁴ International Coffee Organization (ICO), "Indicator Prices for coffee for the period 2009–2011," available at: <http://www.ico.org/prices/p2.htm>.

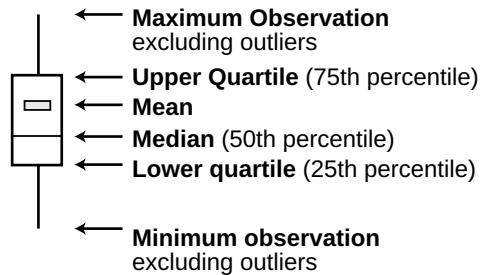
SECTION II: KEY FINDINGS

A : A N A L Y S I S

Figure 2: Key Statistics of Annual Amounts Disbursed Per SME²⁵



Number of Reporting SMEs in 2009, 2010, 2011: 174, 255, 316
Graph excludes outliers

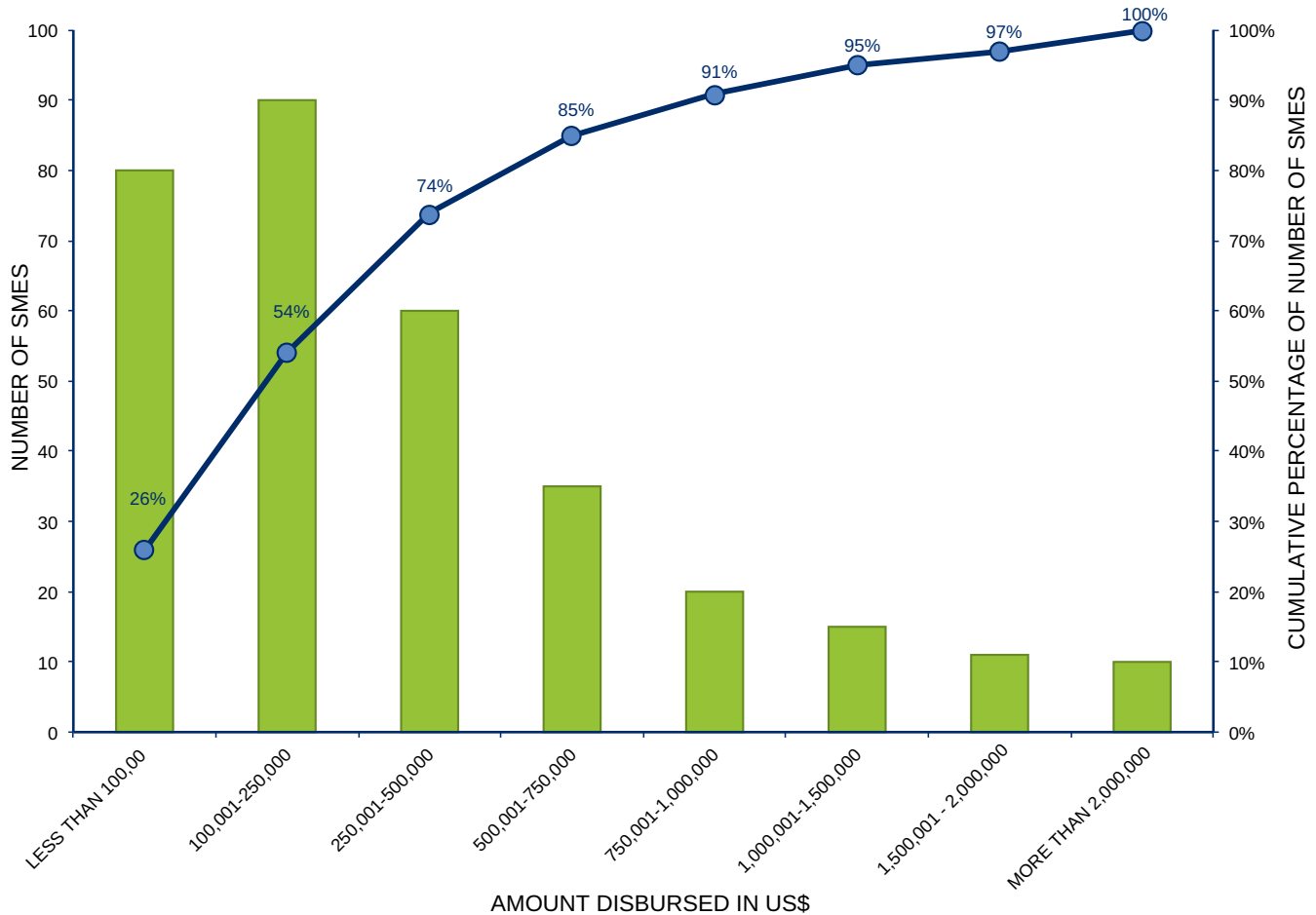


²⁵ It is important to note that since these data are derived from average figures, it is possible that several disbursements are made to a single SME in a given year. To the extent that this is the case, actual average loan size being granted may be expected to be somewhat smaller than the averages "per SME."

SECTION II: KEY FINDINGS

A : A N A L Y S I S

Figure 3: Cumulative Distribution of Amount Disbursed Per SME in 2011²⁶



Number of reporting SMEs: 316

Figure 3 reveals that, in our sample of reported disbursements for the year 2011, approximately 75% of the disbursements were valued at below US\$500,000. The observation in Figure 2 that the mean “per SME” contribution over the same period was also under US\$500,000 would appear to corroborate this finding. However, importantly, Figure 2 also shows that the annual median of aggregate amounts disbursed per SME increased over the 2009–2011 period, suggesting that impact investors might be strategically placing larger loans over time.²⁷

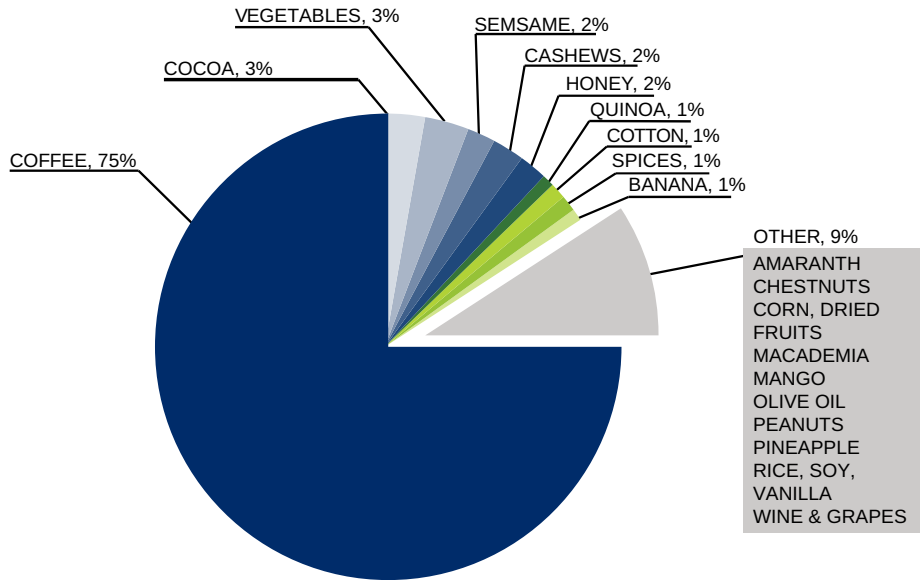
²⁶ See previous footnote for methodological limitations of the analysis.

²⁷ Note that FAST producer members have long noted the challenge in securing longer-term finance for infrastructure development through supply chain finance vehicles. The upward trend of “per SME mean disbursements” may point towards increased efforts to provide infrastructure finance among the sample. This is a hypothesis that can only be confirmed with more robust data at the level of the individual loan.

SECTION II: KEY FINDINGS

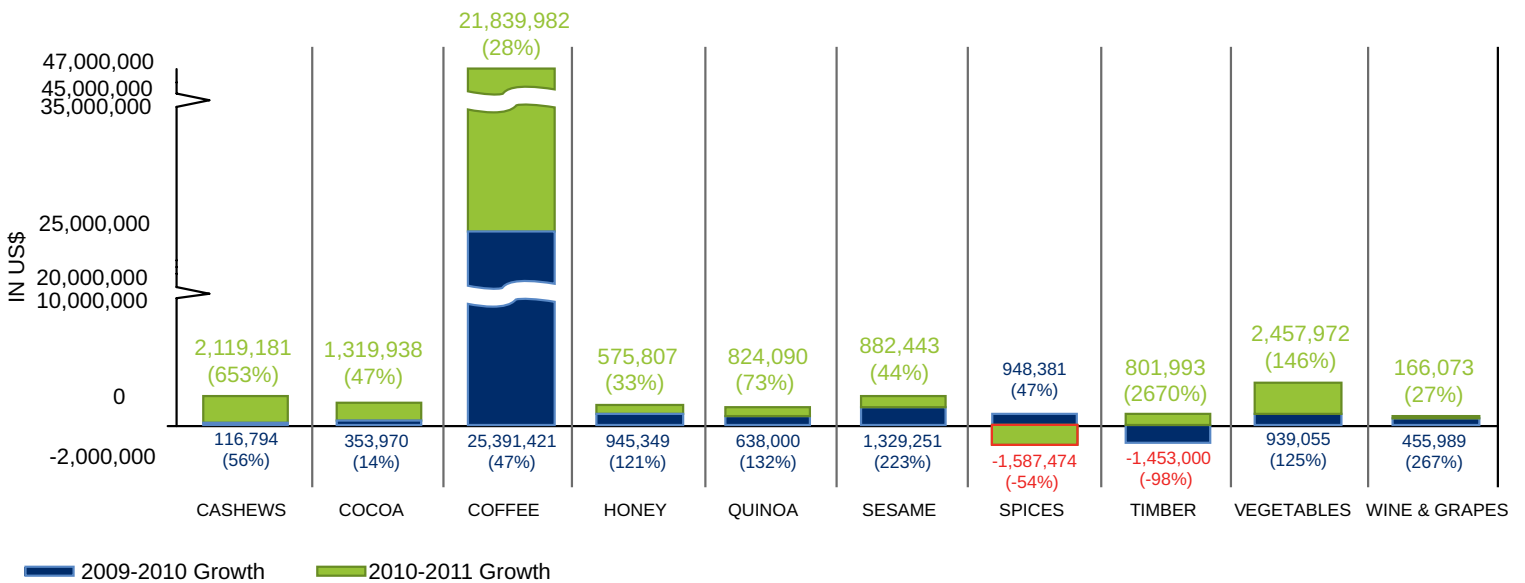
A : A N A L Y S I S

Figure 4: Distribution of Amount Disbursed in 2011, By Crop²⁸



Total amount disbursed: US\$134.12 million
Number of aggregate disbursements: 316

Figure 5: Annual Growth of Amount Disbursed, by Crop*



Number of reported disbursements in 2009, 2010, 2011: 200, 255, 316; a scale break technique has been used to accommodate the large values of coffee disbursements

* Figures show the growth of investment across different commodities. They report annual growth, referred to as the aggregated amount disbursed to correspondent SMEs in a given year, by crop.

²⁸ All data from this point on within the impact analysis presented in the report (sections IIa and IIb) is derived using data from 6 of the 8 reporting lenders due to data limitations associated with two of the reporting institutions.

SECTION II: KEY FINDINGS

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Figures 4 and Figure 5 show investment trends across different commodities. One of the early drivers for finance to agriculture SMEs was the Fairtrade certification system.²⁹ Sustainable finance has, accordingly, followed a parallel path to the development of Fairtrade and certification in the agriculture sector more generally, beginning with the development of markets in coffee and then expanding into other product areas. As a result, the current flows of finance to sustainable agriculture SMEs by social lenders are dominated by loans to coffee SMEs. In 2011, coffee accounted for US\$100,754,264, or 75% of the total amount disbursed. Although this represents a virtual doubling of the absolute amount invested in coffee between 2009 and 2011, up from US\$53,522,861 in 2009 among reporting members, the relative dominance of coffee investment has declined from 2009 levels, where coffee accounted for 79% of the total amount disbursed from our segment of lenders.

As more entrants come into the market and overall investment capacity grows, social lenders are increasingly looking for new markets in which to operate. In terms of absolute volumes disbursed, cocoa and vegetables lead the way with US\$4,150,528 and US\$4,147,027 being disbursed, respectively, in 2011, and with both commodities showing significant growth in total disbursements between 2010 and 2011. Although of smaller size in terms of absolute disbursements, sesame, cashews, honey, quinoa, cotton and timber all attracted significant investments in 2011. The growth in these commodities signals a growing interest in seeking, and even a growing need to seek, a more diverse investment portfolio.

Data on the number of SMEs receiving investment provide an indication of the degree and distribution of financial activity generated by reporting institutions. Figure 6 and Figure 7, for example, reveal a clear concentration of activity in Latin America. Peru, Bolivia, Mexico, Honduras and Nicaragua are the most important recipients of financial services from reporting members in 2011.³⁰

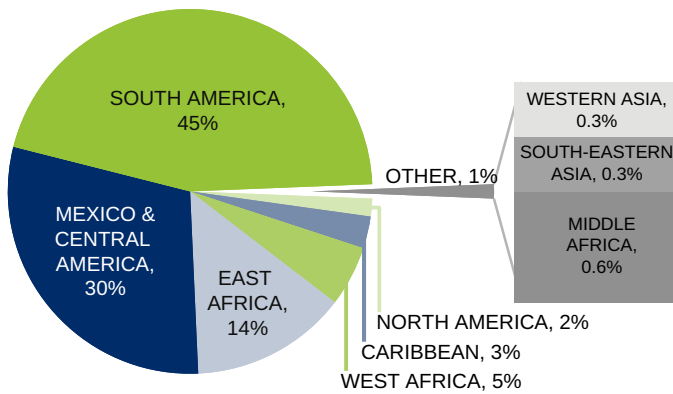
²⁹ Fairtrade, as defined by FLO International standards, actually specifies the provision of finance (by Fairtrade buyers) as one of the criteria for coffee certification. The pressures created by Fairtrade certification for opening access to finance provide a partial explanation for the original investment and growth in the coffee sector by social lenders.

³⁰ This outcome might be explained by a variety of factors. First, sustainable value chains are more developed in Latin America. Latin America's leadership in coffee production positions it well to lead in the production of sustainable coffee. This in turn gives it an advantage in seeking access to social finance, which is still primarily associated with coffee production. Second, the Latin American region is characterized by a higher degree of producer organization (than that found in Africa and Asia), further facilitating access to finance. Finally, better access to data on SME performance as well as a higher level of stability in supply chain relations in Latin America has enabled an enhanced information base and understanding of the market in this region.

SECTION II: KEY FINDINGS

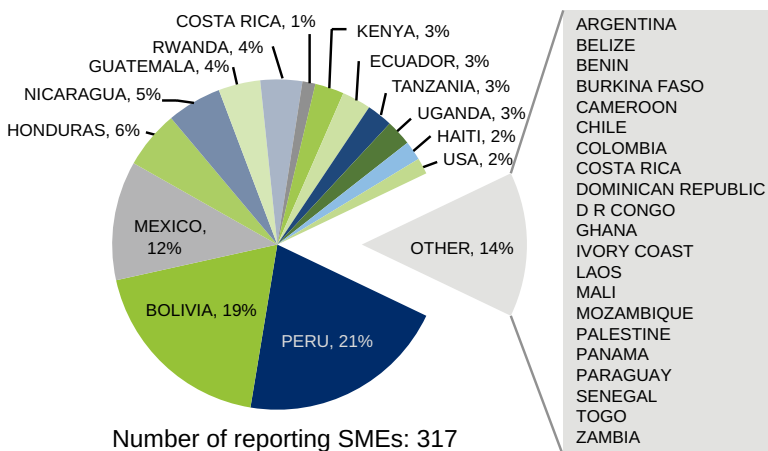
A : A N A L Y S I S

Figure 6: Distribution of SMEs Receiving Investment in 2011, by Region*



Number of reporting SMEs: 317

Figure 7: Distribution of SMEs Receiving Investment in 2011, by Country*



Number of reporting SMEs: 317

“AS A **SOCIAL INVESTOR**, ALTERFIN IS PROUD OF THE STRONG RELATIONSHIPS WE HAVE BUILT WITH OUR PARTNERS OVER THE YEARS. THESE RELATIONSHIPS ARE KEY TO UNDERSTANDING THEIR OPERATIONS AND TO OFFERING THEM FINANCIAL SERVICES DESIGNED TO THEIR NEEDS. TOGETHER, WE WORK TOWARDS THE DEVELOPMENT OF A **SUSTAINABLE AGRICULTURE** IN WHICH SMALLHOLDERS PLAY A CENTRAL ROLE.”

- KRIS GOOSSENAERTS,
MANAGING DIRECTOR OF ALTERFIN

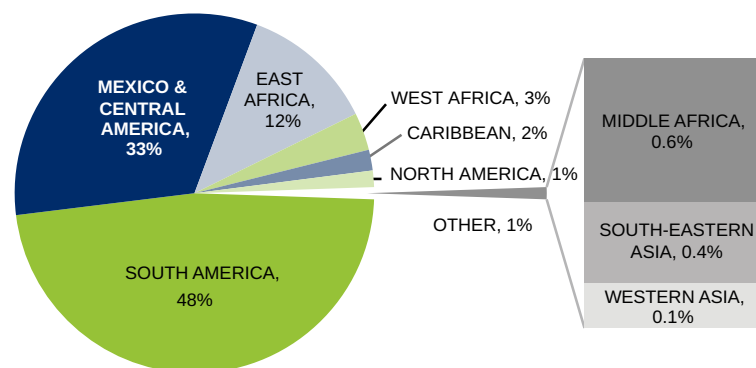
* We have received investment data from 317 SMEs; however, the investment value from 1 SME was unavailable.

SECTION II: KEY FINDINGS

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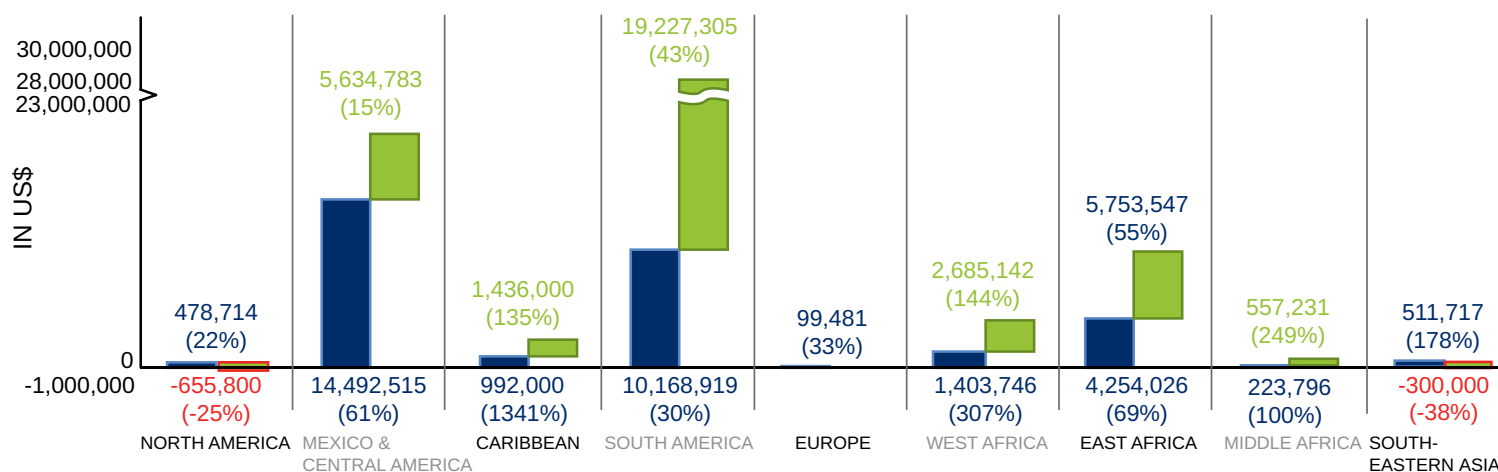
As the financing model for impact investing in agriculture matures, lenders and investors are expanding into new markets. As a result, the virtual monopoly that Latin America once enjoyed in sustainable SME finance is now being challenged by a growing number of investments across Africa and Asia. As Figures 8 to 11 illustrate, sustainable finance is growing fastest on the African continent. Among our sample of lenders, East Africa leads the way for growth outside of Latin America, followed by West Africa. Rwanda and Uganda especially have experienced significant growth in disbursements during the period 2009–2011.³¹

Figure 8: Amount Disbursed in 2011, by Region



Total amount disbursed: US\$134.12 million
Number of aggregate disbursements: 316

Figure 9: Annual Growth of Amount Disbursed, by Region*



■ 2009-2010 Growth ■ 2010-2011 Growth

Number of reported disbursements in 2009, 2010, 2011: 200, 255, 316; a scale break techniques has been employed to accommodate the large values of disbursements in South America

*Figure 9 and Figure 11 report annual growth, referred to as the aggregated amount disbursed to correspondent SMEs in a given year, by region and by country.

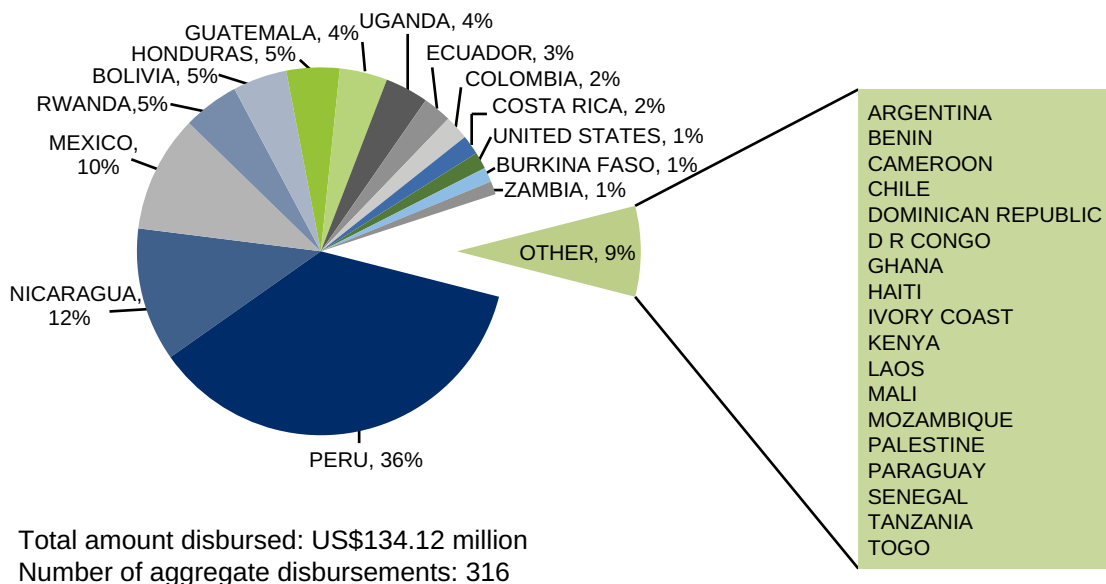
³¹ The growth of financial services being offered to African clients is likely a reflection of the growing penetration of Fairtrade and other sustainability certification systems in Africa rendering the market a more attractive site for impact investment.

SECTION II: KEY FINDINGS

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The distribution of investment among reporting members continues to reveal a clear concentration of activity in the Latin American region, with an emerging importance of disbursements in the African region. As noted above, much of the current focus on Latin American investments is likely due to the historical manner in which sustainable agricultural supply chains have developed. Additionally, more advanced organization within the agricultural sector in select countries may also partially explain the persistent prevalence of investment in Latin America. While this trend aligns closely with strategies seeking to promote sustainable livelihoods while minimizing risk, the demand for demonstrable sustainable development impact through investment also points towards the need to consider the current distribution of finance in terms of more systemic sustainability challenges and “maximum social impact.” The demand for continually deeper impact is one of the drivers to newer investments in Africa and Asia.

Figure 10: Amount Disbursed in 2011, by Country



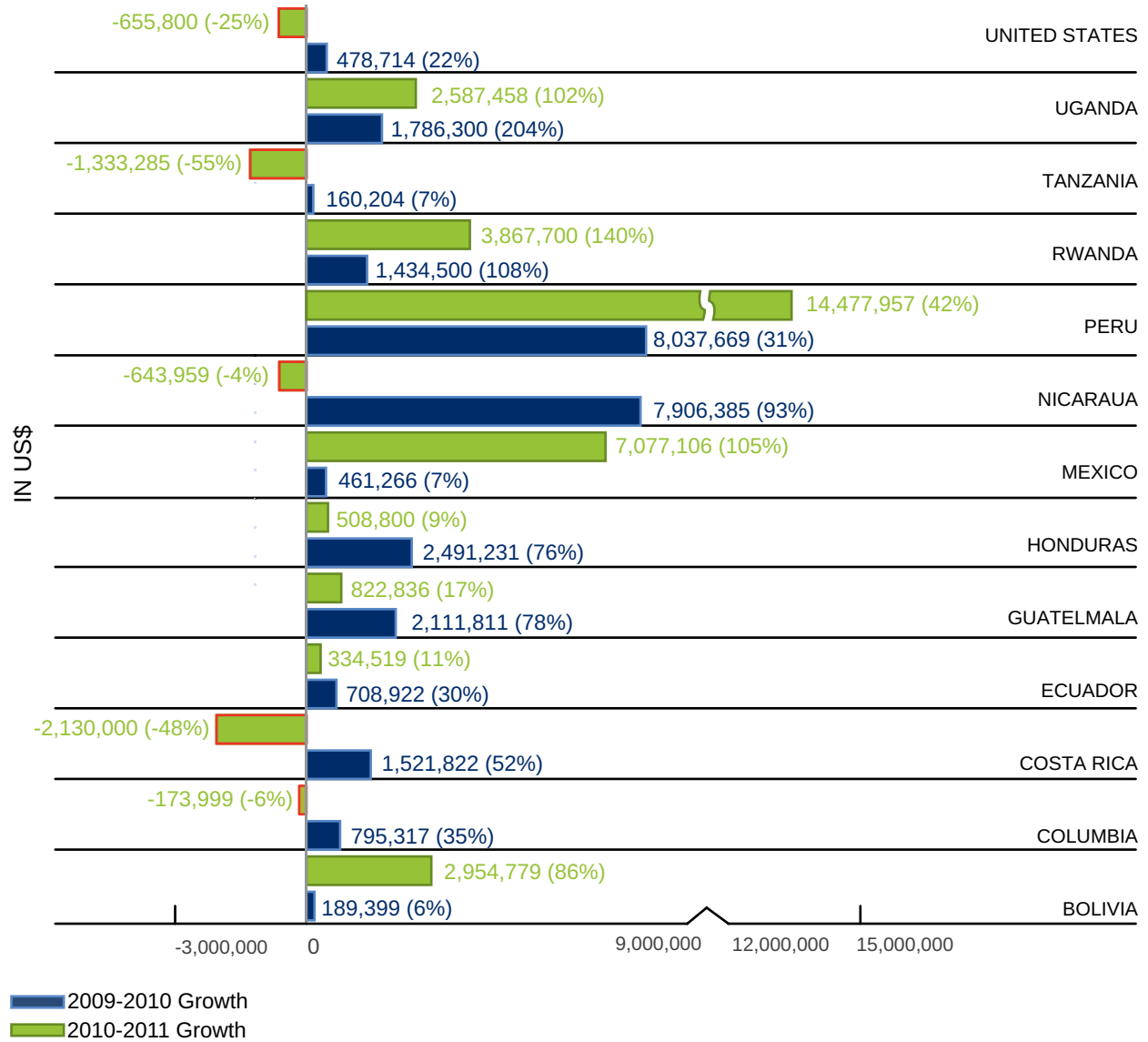
“BY PROVIDING FINANCIAL PRODUCTS AND SERVICES TO CRITICALLY UNDER-FINANCED COMMUNITIES, WE HELP TO REALIZE THE POTENTIAL OF SUSTAINABLE AGRICULTURE TO SUPPORT RURAL LIVELIHOODS AND HEALTHY ECOSYSTEMS OVER THE LONG TERM AND AT SCALE.”

- MICHAEL MCCRELESS, DIRECTOR OF STRATEGY AND IMPACT, ROOT CAPITAL

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Figure 11: Annual Growth of Amount Disbursed, by Country*



Number of reported disbursements in 2009, 2010, 2011: 200, 255, 316

A scale break technique has been employed to accommodate the large value of disbursements in Peru

*Figure 9 and Figure 11 report annual growth, referred to as the aggregated amount disbursed to correspondent SMEs in a given year, by region and by country.

SECTION II: KEY FINDINGS

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81%

OF DISBURSEMENTS IN 2011, WERE IN **LATIN AMERICA**. BASED ON THE INDEXES PRESENTED, ADDITIONAL **OPPORTUNITIES** FOR IMPACT RESIDE WITHIN THE **AFRICAN AND ASIAN** REGIONS WHICH, AS OF YET, REMAIN LARGELY **UNDER SERVED** BY THE SOCIAL FINANCE SECTOR.

Maps 1 through 3 compare the regional distribution of loan disbursements during the period with the distribution of internationally recognized sustainability priorities, as depicted by the Gini coefficient, the Human Development Index (HDI) and the Environmental Performance Index (EPI). Approaching social impact from a “needs-based” definition of sustainable development,³² it would appear that the biggest opportunities for impact reside within the African and Asian regions which, as of yet, remain largely underserved by the social finance sector. As market demand for sustainable products from these regions continues to grow,³³ the viability of increasing social investment in the region can also be expected to expand.

*“THE BOLIVIAN ASSOCIATION FOR RURAL DEVELOPMENT, PRO-RURAL, IS AN INSTITUTION WITH THIRTEEN YEARS OF CONTINUOUS WORK, SUPPORTING RURAL PRODUCTIVE INITIATIVES WITH **SOCIAL COMMITMENT** TO PROMOTE **EQUALITY** AND **INCLUSION**, AS WELL AS IMPROVING THE QUALITY OF LIFE FOR FARMERS AND THEIR FAMILIES.”*

- PRO-RURAL

³² United Nations, Report of the World Commission on Environment and Development, Our common future, 1987.

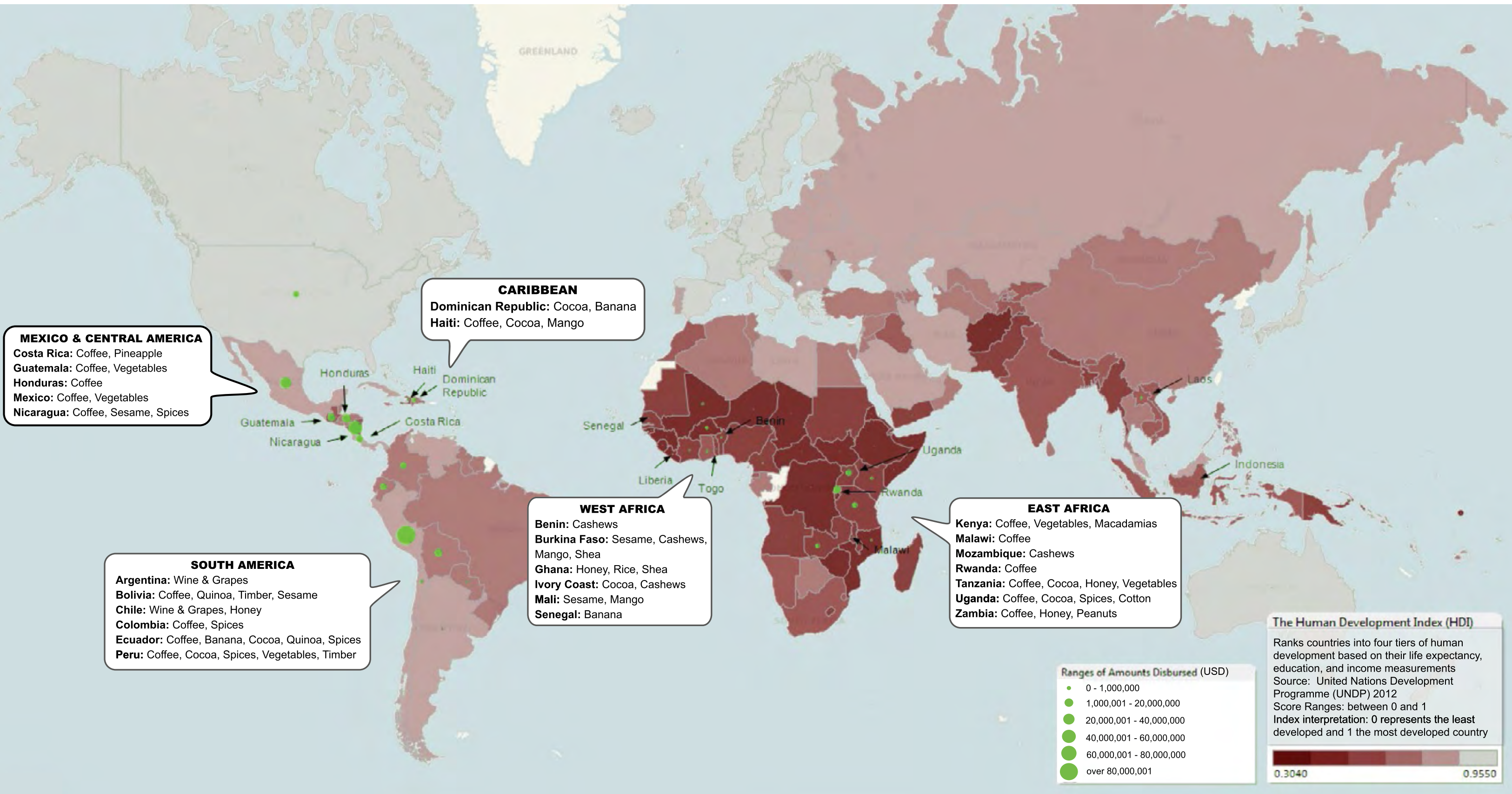
³³ Some of the fastest growth in the demand for sustainable products is being witnessed across the African continent. See The state of sustainability initiatives review 2013, forthcoming.

“FIRST, IDEPRO FUNDING ALLOWED ME TO IMPROVE AND EXPAND MY OWN PRODUCTION OF QUINOA. SUBSEQUENTLY, IT ALLOWED ME TO DEVELOP MY ACTIVITY AS COLLECTOR AND MARKETER OF ORGANIC QUINOA, GIVING ME CAPITAL TO PAY FAIR PRICES TO MY SUPPLIERS. IDEPRO CREDIT ALLOWED ME TO HELP MY SUPPLIERS WITH THE PURCHASE OF AGRICULTURAL MACHINERY, AS A PAYMENT OF ORGANIC QUINOA THAT I BUY FROM THEM. I AM CURRENTLY WORKING WITH THE CAPITAL THAT IDEPRO LENT ME, TO COLLECT QUINOA FROM MY SUPPLIERS AND SELL IT TO INTERNATIONAL MARKETS. AS WELL, MY SUPPLIERS RECEIVE IDEPRO CREDIT AND TECHNICAL ASSISTANCE SERVICES TO IMPROVE THE QUANTITY AND THE QUALITY OF THE PRODUCT THAT THEY SELL TO ME.”

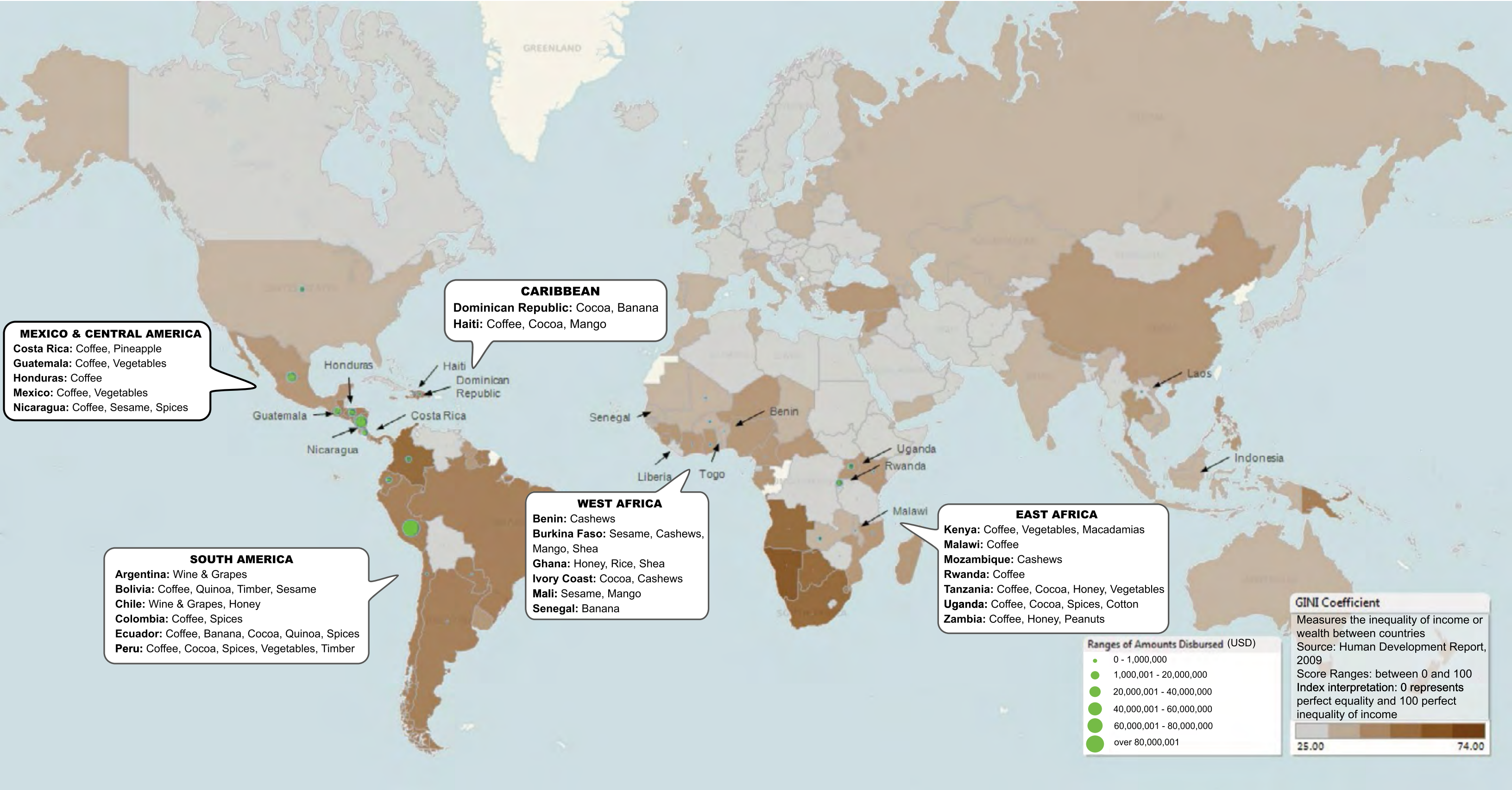
- TITO SILVESTRE ALANOCA, OF ORURO BOLIVIA



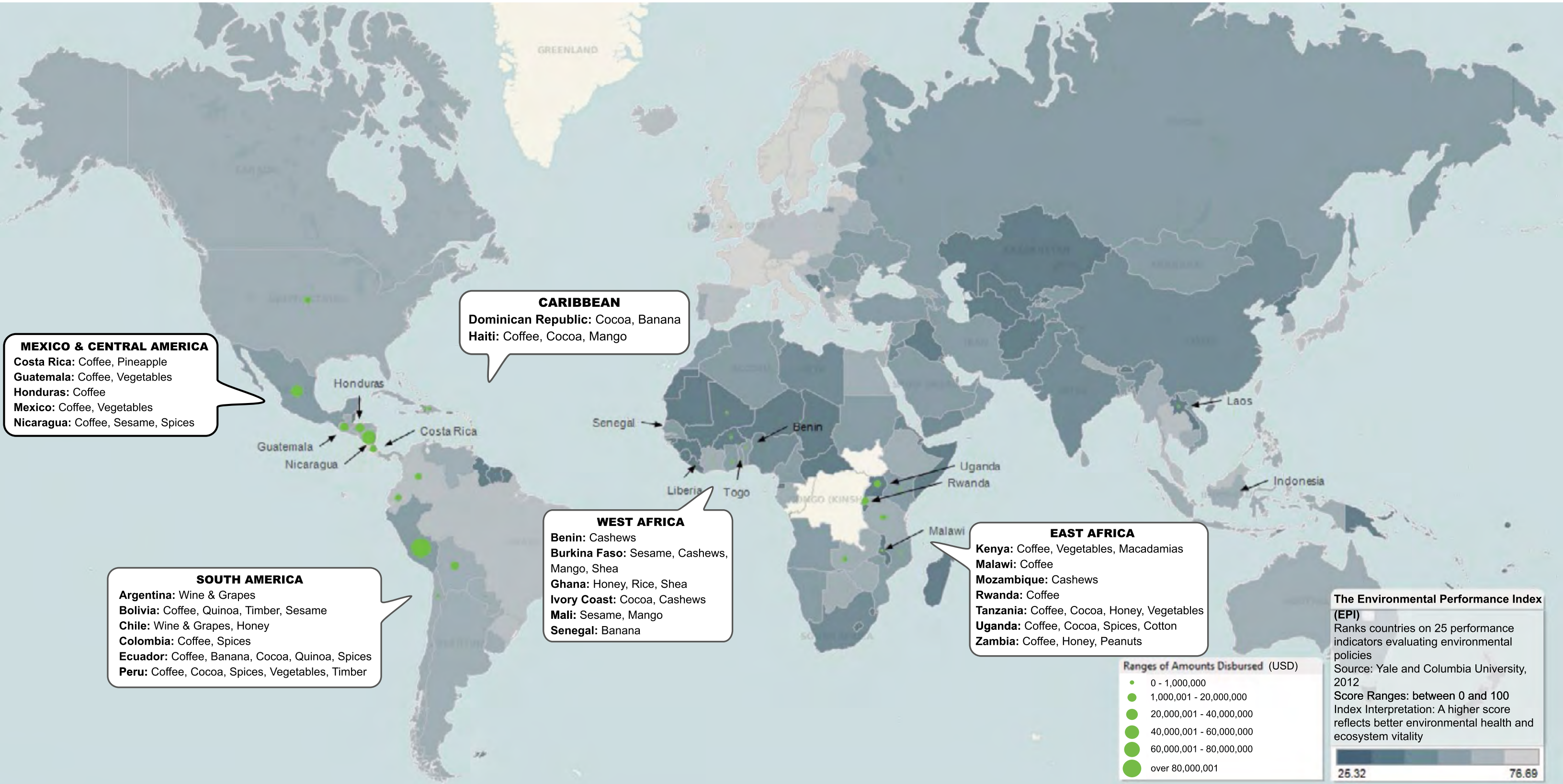
Amount Disbursed in the Period Versus the Human Development Index (HDI)



Amount Disbursed in the Period Versus the Gini Coefficient



Amount Disbursed in the Period Versus the Environmental Performance Index (EPI)



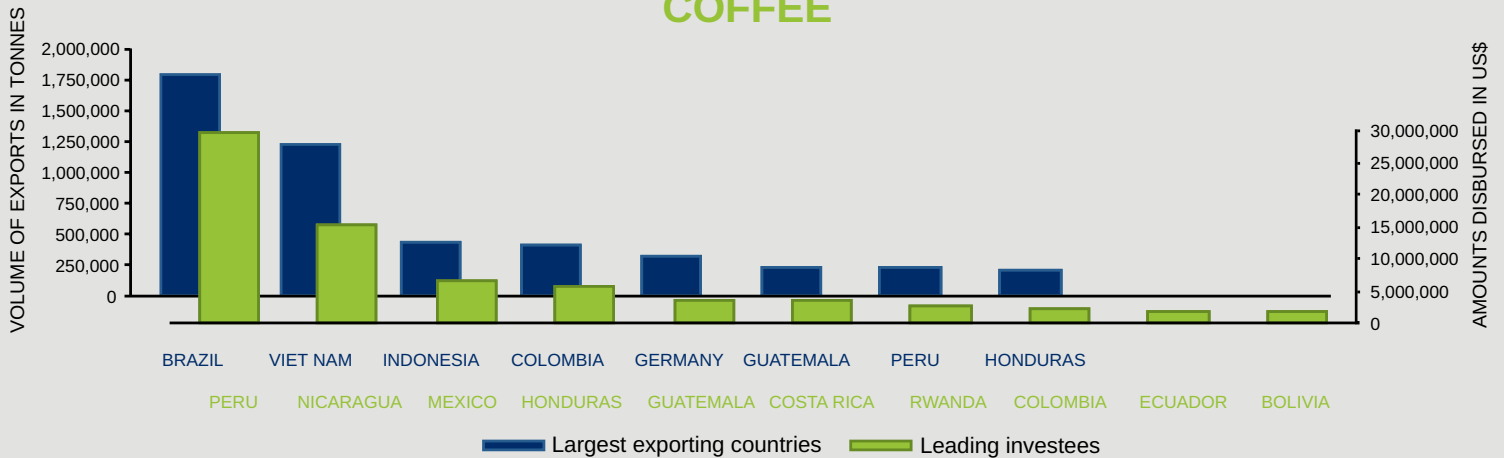
DASHBOARD 1

The dashboard highlights potential investment opportunity for key commodities, comparing the world's largest exporting countries to the leading investees from our sample data. The left axis of the graph corresponds to the volume of exports, which is represented by the blue bars. The right axis corresponds to the total amount disbursed during the period by FAST lenders, represented by the green bars.

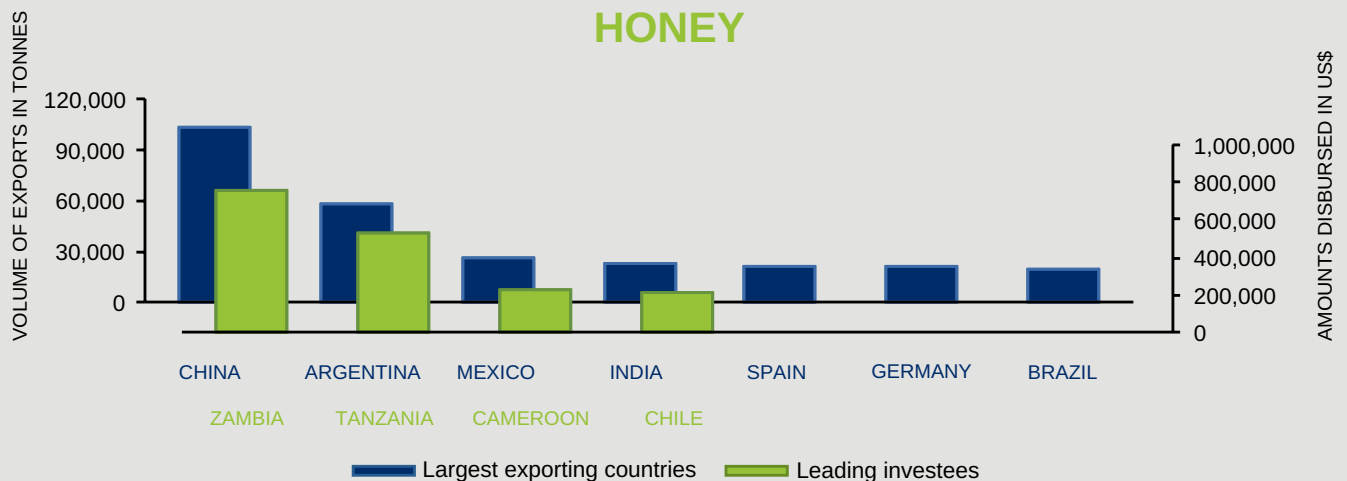
TOP EXPORTING/PRODUCING COUNTRIES VERSUS LEADING INVESTEES IN 2010

Source: FAOSTAT, Food and Agriculture Organization of the United Nations, 2010

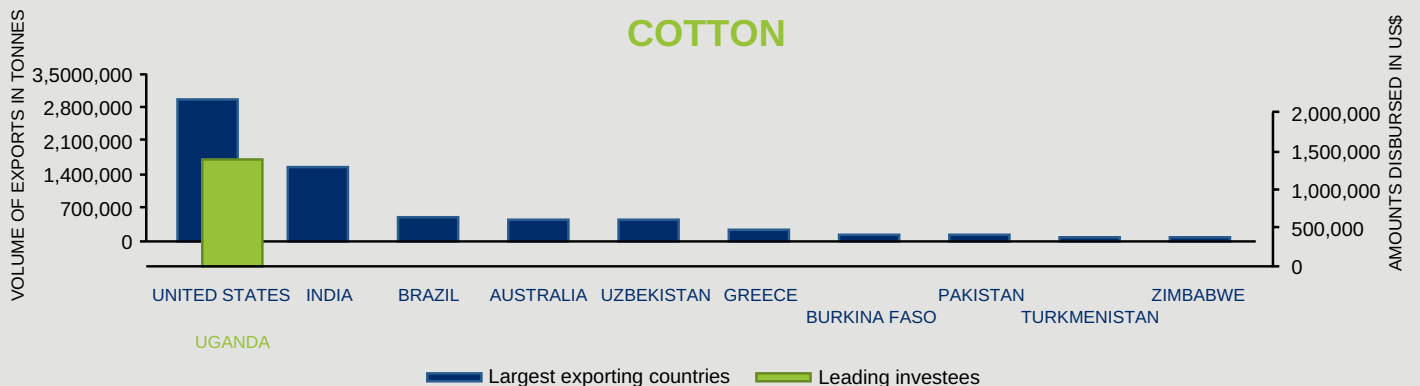
COFFEE

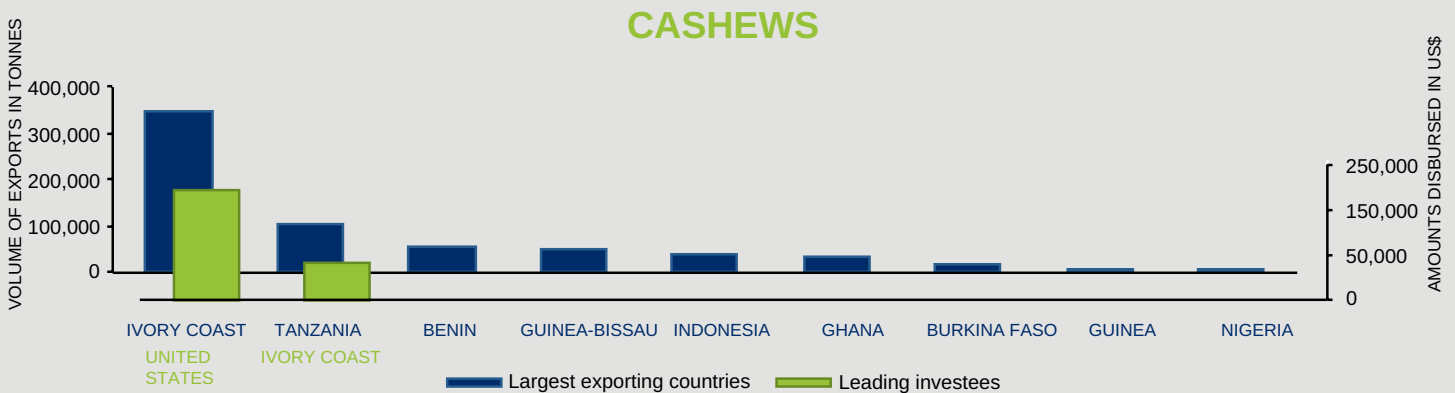
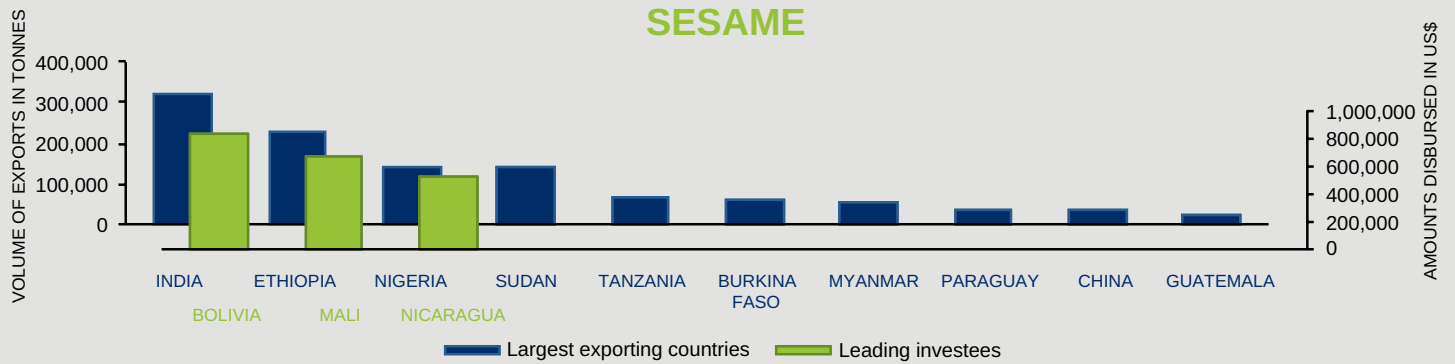
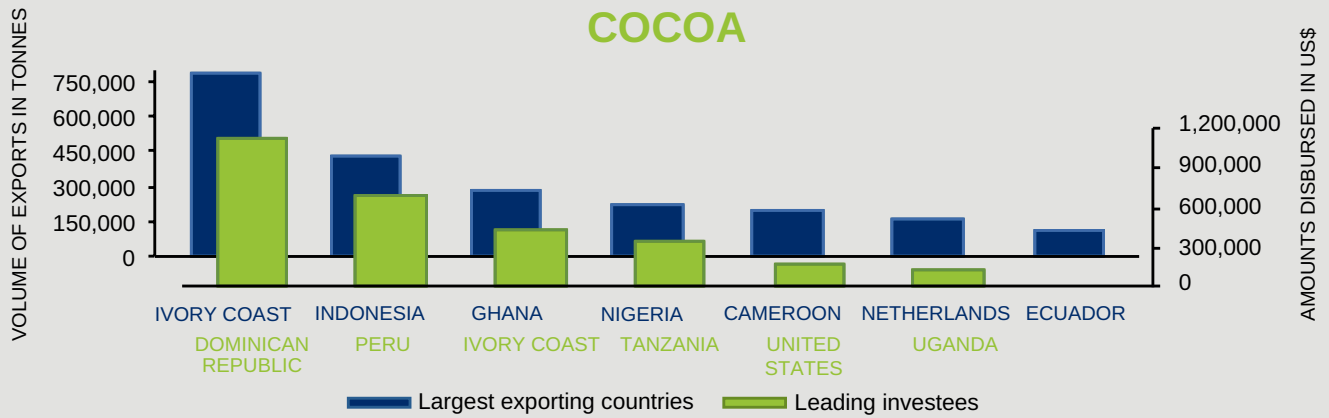


HONEY



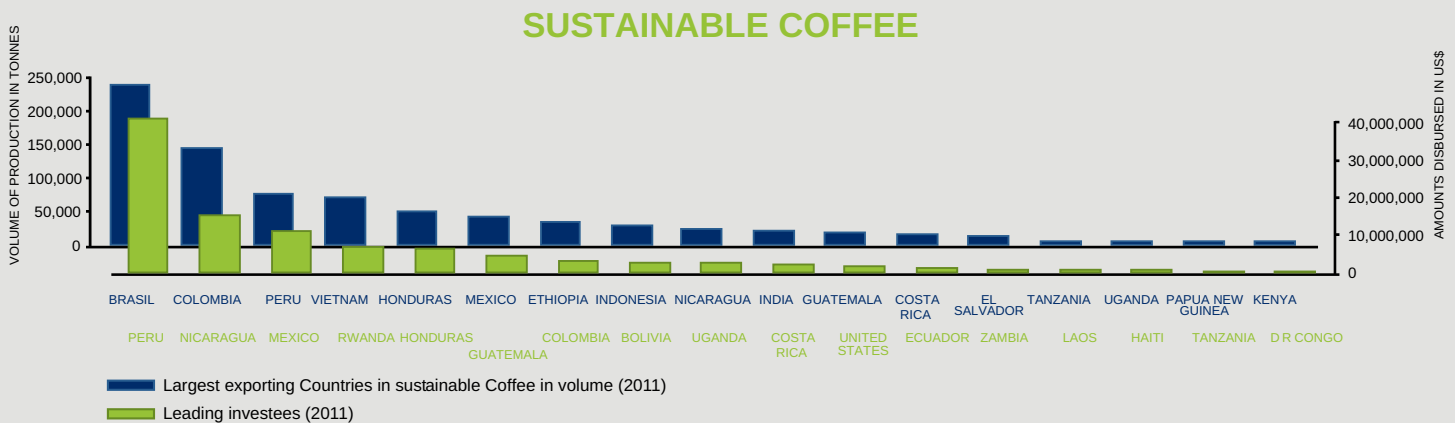
COTTON





TOP SUSTAINABLE EXPORTING COUNTRIES VERSUS LEADING INVESTEES

Source: The forthcoming State of Sustainability Initiatives Review 2013



Sustainable coffee export information comes from the preliminary data of the forthcoming State of Sustainability Initiatives 2013 report. It should only be considered as an approximation. Data provided by certification bodies consists of observation for 2011, but 2012 data has been taken as a proxy for those cases where 2011 data was not available.

SECTION II: KEY FINDINGS

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OVERVIEW OF RELATIONSHIP BETWEEN FINANCE AND FAST SIAMT CORE INDICATORS

Our analysis below is based on the recommended subset of FAST SIAMT Core Indicators at SME level, provided in Table 1, for assessing the impacts of agricultural finance. The set of indicators presented is harmonized with IRIS and corresponds to the indicators most consistently reported across our sample of lending members, as illustrated in Figure 24: total revenue earned, employment, and availability of sustainable certification.³⁴

It is important to note that although the FAST SIAMT indicators provide a starting point for understanding potential impact, their true value is found when applied to a particular investor's theory of change. The absence of counterfactuals for comparison also limits one's ability to extract causal relationships between investment and observed outcomes. As a common reference point for gathering descriptive performance statistics, the SIAMT indicators still provide important insights regarding the alignment of actual investment with investment objectives. A snapshot of current outcomes is also useful for identifying areas where further investment or shifts in investment strategies might be warranted.

SME ECONOMIC VITAL STATISTICS: TOTAL REVENUE EARNED AND ASSETS HELD

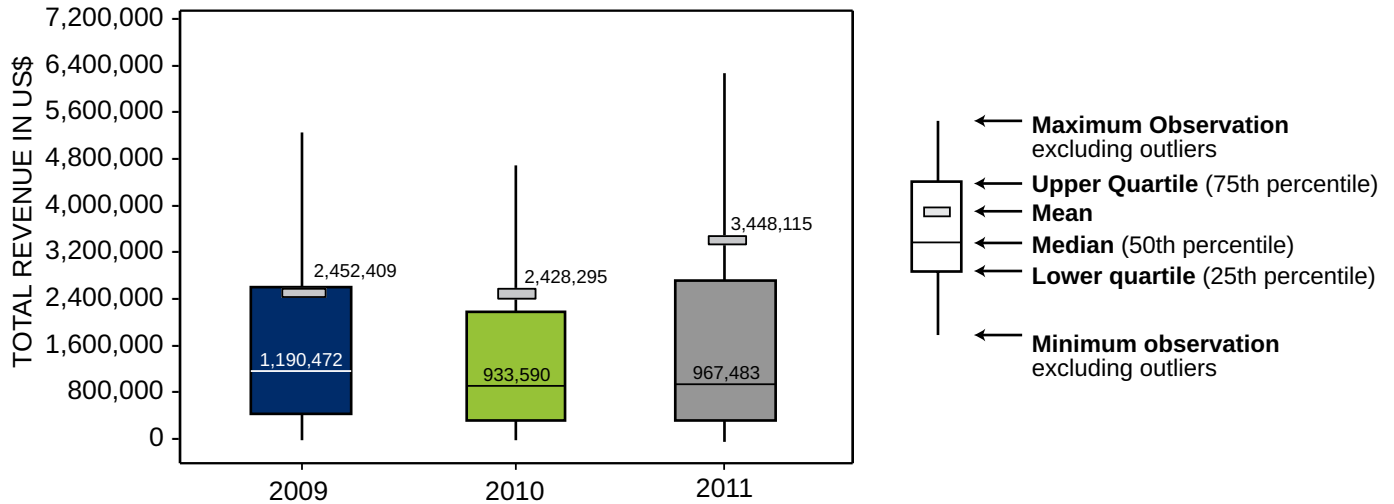
It is well understood that financial sustainability of the SME is an important component in ensuring longer-term business development and capacity for contributing to community well-being. Our sample of lenders consistently reported against total revenues earned and total assets held per SME, providing a window for understanding financial stability over time across investment targets through the generation of positive returns with long-term perspectives. Figures 12, 13 and 14 detail the size of agriculture SMEs receiving the reported disbursements in terms of the total revenue earned and total assets held, as per member reported figures.

³⁴ Data limitations allow us to report only on these three indicators, consistent with FAST's data management terms and conditions and based on the common indicators used across the sample of reporting lenders.

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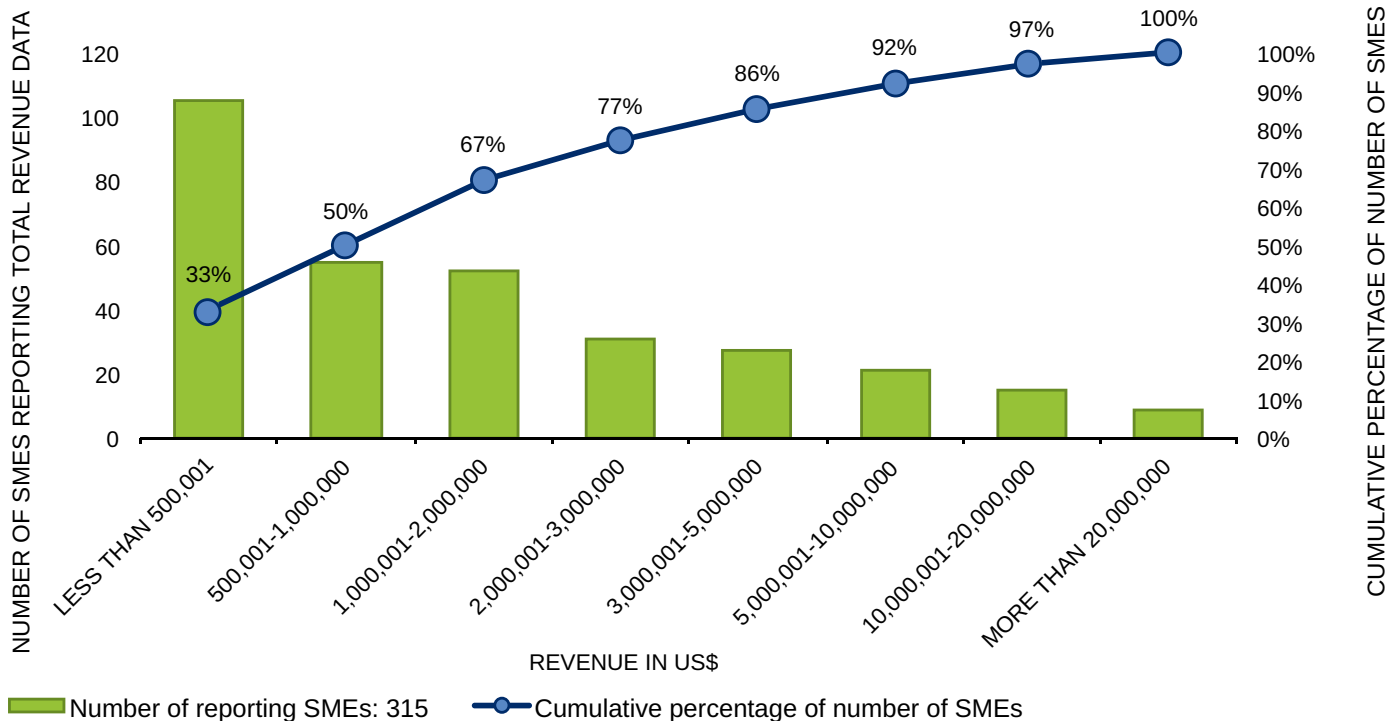
B: O V E R V I E W

Figure 12: Annual SME Revenue Earned



Number of SMEs reporting total revenue earned data in 2009, 2010, 2011: 174, 249, 315
Graph excludes outliers

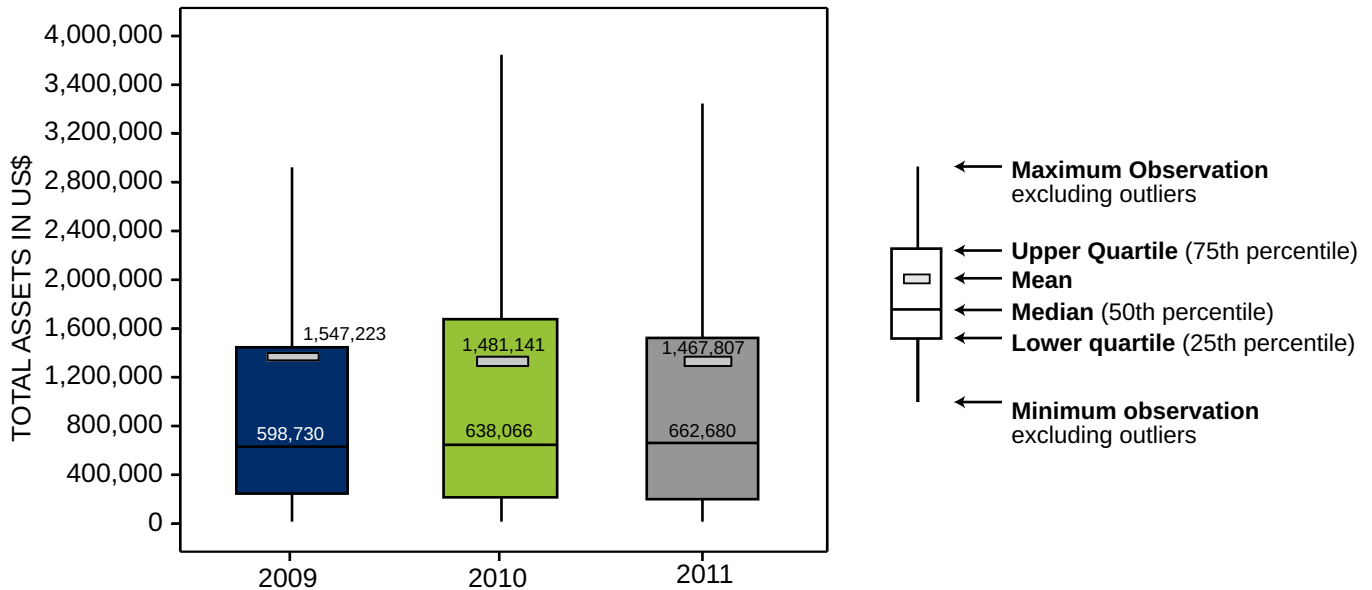
Figure 13: Cumulative Distribution of SME Total Revenue Earned in 2011



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Figure 14: Key Statistics of Annual Total Assets Held by SMEs



Number of SMEs reporting total assets data in 2009, 2010, 2011: 145, 177, 202
Graph excludes outliers

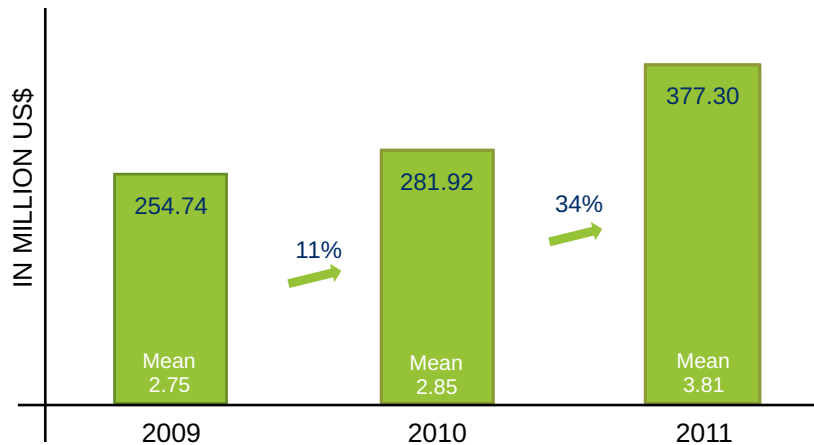
Figure 15 to the right reveals a progressive growth in revenue associated with SMEs consistently receiving finance over the period 2009–2011.³⁵

³⁵ In order to ensure consistency, we have restricted our analysis to a subgroup of SMEs receiving investment across the three years of observation.

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Figure 15: Annual Aggregate Earned Revenue Growth



Number of SMEs reporting revenue data every year: 99
Mean represents the average revenue per SME

It is important to note that the positive growth trend observed for total revenue earned on our subset of agricultural SMEs may be the result of a wide variety of factors other than investment itself. The most obvious external variables relate to climatic and market variability within a given sector or geographic region, with commodity prices a prevailing factor. The importance of these factors in influencing overall revenue outcomes renders it impossible to determine whether or not these growth trends are actually a result of investment. This context is further complicated by the fact that the SMEs in our subset (i.e., those receiving investment over the three-year period) are subject to a strong selection bias since risk management protocols driving investment are likely to select strong revenue generators for recurrent finance. Notwithstanding the above, a certain correlation between increasing revenue and access to finance suggests the symbiotic nature of investment and SME growth.

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REGISTERED EMPLOYMENT

Access to employment under equitable terms supporting human well-being and sustainable livelihoods remains a key objective of virtually all impact investment. Most of the 1.4 billion people living on under US\$1.25 a day live in rural areas and depend largely on agriculture for their livelihoods.³⁶ In this context, agriculture SMEs have the potential to contribute significantly to poverty reduction through direct employment within the SME itself, or by facilitating access to international markets and investment for their farmers, members or suppliers. The analysis presented below is confined to employment figures related to the SME itself due to current data limitations across reporting institutions; however, it is critical to note that this represents a significantly larger beneficiary base—as pointed out in section (a) earlier, an estimated number of 1.2 million rural farmers benefited from the investments conducted by FAST lending members during the period 2009–2011. Figure 16 below illustrates the distribution of employment for the sample of SMEs providing data during the period 2009–2011.

“ON BEHALF OF OUR INVESTORS AND DONORS, WCCN IS PROUD TO CHANNELIZE THE CAPITAL THAT HELPS FAMILY FARMERS IMPROVE THEIR FARMS, STRENGTHEN THEIR COOPERATIVES/ASSOCIATIONS AND BECOME EQUAL TRADING PARTNERS IN THE WORLD ECONOMY.”

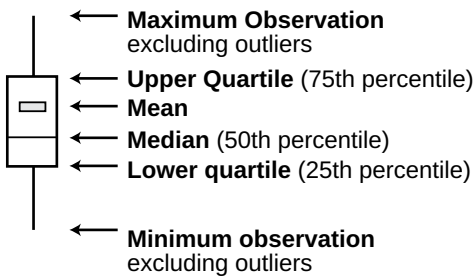
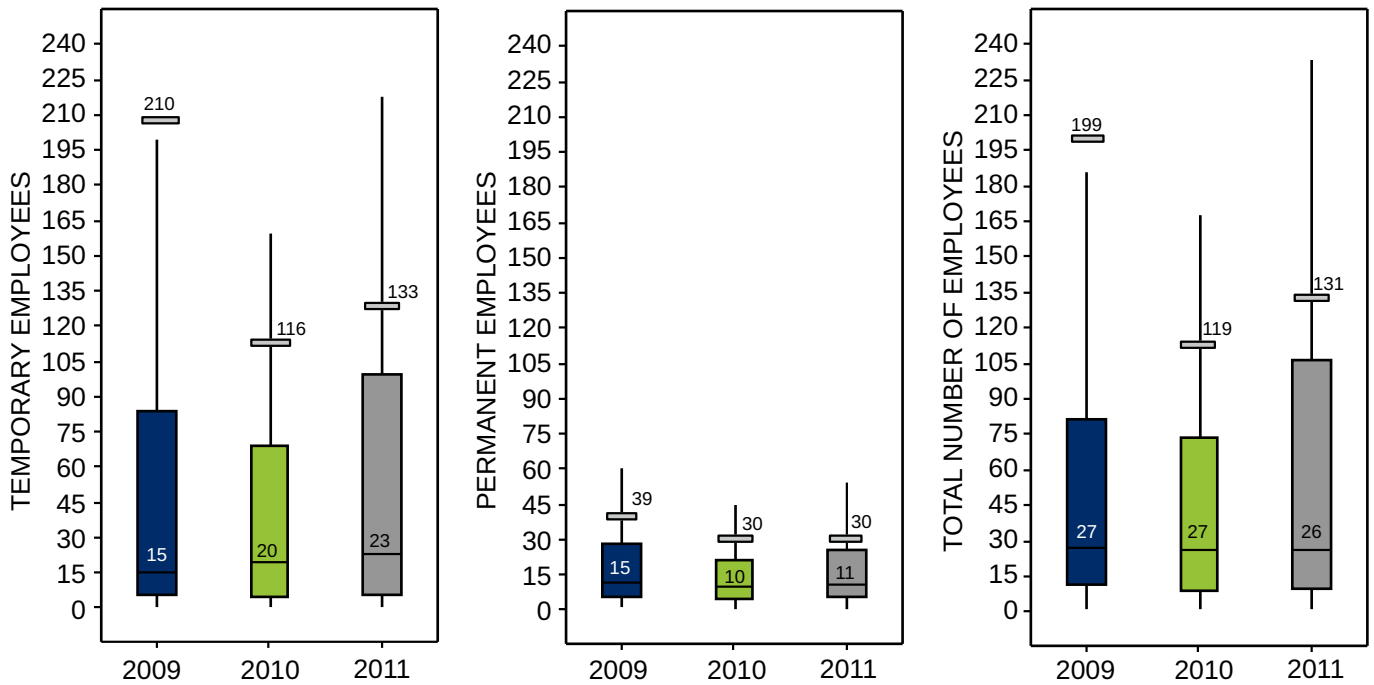
- JEANNE DUFFY, INTERIM EXECUTIVE DIRECTOR OF WCCN

³⁶ International Fund for Agriculture Development (IFAD) and United Nations Environment Programme (UNEP), Smallholder farmers key to lifting over one billion people out of poverty, 2013, available in: <http://www.ifad.org/media/press/2013/27.htm>.

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Figure 16: Key Statistics of SME Employment Data



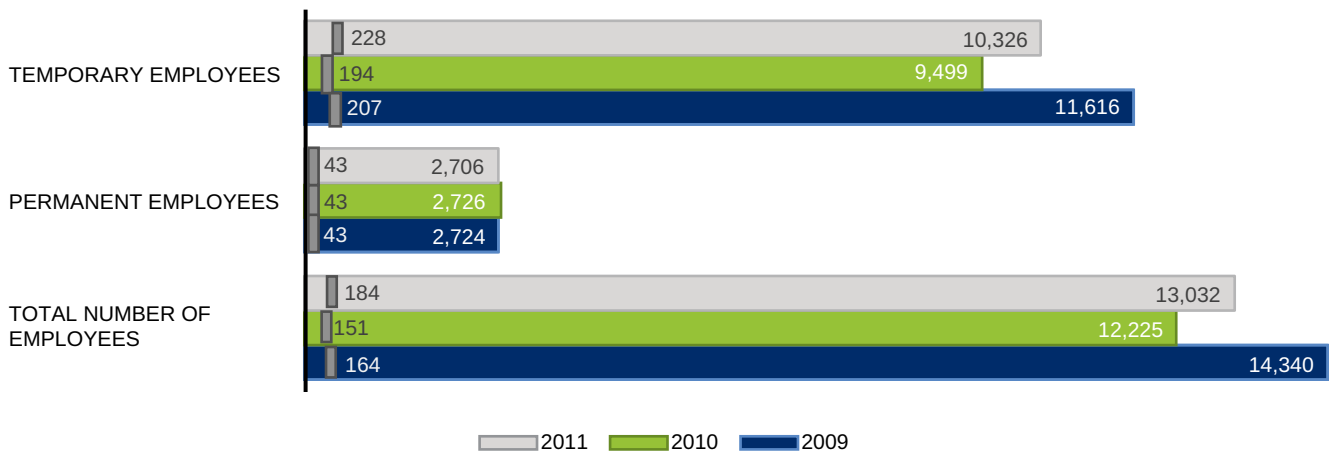
Number of SMEs reporting employment data in 2009, 2010, 2011: 154, 242, 293
Graph excludes outliers

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SME investees ranges from 26 to 27, with temporary employees accounting for approximately 81% of the total employee base in 2011. Figures 17 and 18 illustrate the distribution between temporary and permanent employees for a subset of this sample of SMEs receiving investment in all three years, and also reporting data on employment type (temporary, permanent and total number of employees).³⁷ Although there appears to be no increase in the ratio of employee types over time, given the time-frame, namely the global financial crisis, over which these measures were taken, it is possible that financing may have enabled SMEs to at least retain permanent employees at steady levels despite the difficult economic climate.

Figure 17: Annual Employment Distribution



³⁷ Definition of terms: "Permanent employees" indicates the sum of all paid full-time and part-time employees. "Temporary employees" are seasonal and contract employees. "Seasonal employees" are primarily used in agriculture or fisheries. "Contracted employees" are generally hired for the completion of a specific task. The total number of employees is the sum of permanent and temporary employees.

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Figure 18: Annual Employment Growth*



Number of SMEs reporting temporary, permanent and total number of employees data every year: 63

These figures confirm the predominant use of temporary employment within the agriculture sector as well as the generally stable ratio between temporary and permanent workers, even when revenue, and employment, levels experience growth. This finding suggests that the distribution between temporary and permanent workers may be a reflection of the nature of the sector rather than the absence of sufficient finance (i.e., temporary employees are seasonal workers that could be employed by the SME, for instance, for the harvest season or the product processing period).³⁸

* Figure 18 reveals the possible effect on registered employment that the economic recession might have had on this sample of agriculture SMEs.

³⁸ This may be due to any combination of reasons including: i) the number of temporary versus permanent workers may be relatively stable across agricultural SMEs and therefore not subject to significant change through finance; ii) the prevalence of short-term financing within the sector, in lieu of longer-term infrastructure-oriented financing, may not actually be targeted at increasing the SME employee base; iii) unchanged SME employee patterns may signal an explicit attempt by SMEs to direct the benefits of finance to their farmer base rather than to the SME organization as such. Attributing clearer causes to the employee outcomes can only be provided within the context of a more robust data set as well as a more detailed theory of change associated with such investments.

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CERTIFICATION

As noted earlier, consumer markets for sustainable agricultural products have driven rapid growth in the certification of SMEs and corresponding member farmers over the past decade. In the coffee sector alone it is estimated that sustainable production has grown from approximately 20% of global production in 2009 to 35% of global production in 2011.³⁹ In addition to providing assurances to consumers regarding the social and environmental performance of agricultural products, certification can also serve as a proxy for the social and environmental performance of investments in agricultural production, as described in Box 3. While this basic rationale explains a conceptual alignment between impact investing in agriculture and certification, it only touches the surface of the ways in which certification and impact investing can operate in a mutually supportive manner.

Perhaps even more important than certification's assurances regarding positive social and environmental impacts are its role in building management systems and capacity within certified organizations. Most certification systems stipulate "management standards"—which themselves require the adoption of more robust management systems. These management systems can have positive externalities for overall risk management at the SME and farmer level, thereby reducing the social and financial risks associated with agricultural production.

Certification can also reduce exposure to market volatility by opening new and higher-value, more stable international markets for agricultural commodities. As a general rule, pricing for sustainable products tends to be less volatile than corresponding international pricing for conventional products.⁴⁰ When combined with more direct trading relationships, many of the most important financial risks associated with agricultural production can be significantly reduced.⁴¹

³⁹ See The state of sustainability initiatives review 2014, forthcoming.

⁴⁰ Potts, J., Alternative trade initiatives and income predictability: Theory and evidence from the coffee sector, International Institute for Sustainable Development (IISD), 2007.

⁴¹ Ibid. FAST members report overall repayment rates in the range of 96% and 99%, providing one indication of the favourable risk profile of certified SMEs.

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Box 3: Relevant Criteria Required by Mainstream Voluntary Sustainability Initiatives:⁴² Fairtrade International (FLO), Rainforest Alliance, UTZ Certified and International Federation of Organic Agriculture Movements (IFOAM)⁴³

- Social and Economic
 - No discrimination at work*
 - No forced labour*
 - Worst forms of child labour*
 - Safety at work
 - Healthy work conditions
 - Workers' access to medical assistance/ insurance
 - Contract labour
 - Timely payment of wages
 - Maximum # of working hours
 - Minimum wage
- Environmental
 - Conservation / erosion of soil * (only recommended by Rainforest Alliance)
 - Quality of soil * (only recommended by Rainforest Alliance)
 - Waste pollution * (only recommended by Rainforest Alliance)
 - Use and management of water* (only recommended by FLO)
- Governance and Management
 - Adoption of a formal monitoring and evaluation system

⁴² Voluntary Sustainability Initiatives, in International Institute for Sustainable Development (IISD), The state of sustainability initiatives review 2010: sustainability and transparency.

⁴³ Asterisked items (*) denote criteria required by IFOAM.

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The different linkages between certification, sustainability and risk profile remain complex and warrant significantly further research. At the same time, trends within disbursements across our sample of lenders reveal a clear recognition of the value in linking finance to certified SMEs and farmers. During the period 2009–2011, approximately 63% of all SMEs receiving investment held at least one sustainable certification. Figures 19 through 21 show the distribution by number of certification held and by type of certification of the set of certified SMEs.

Figure 19: Percentage of Certified SMEs

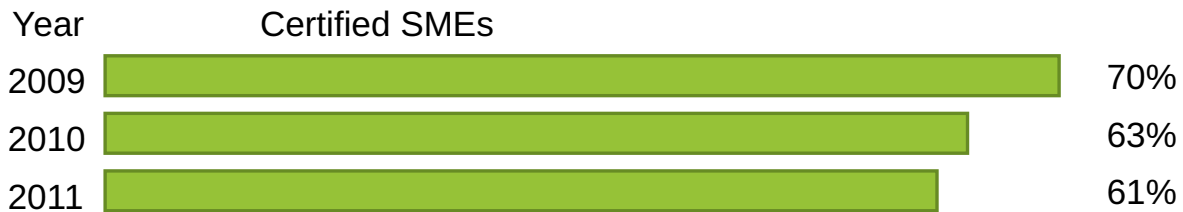
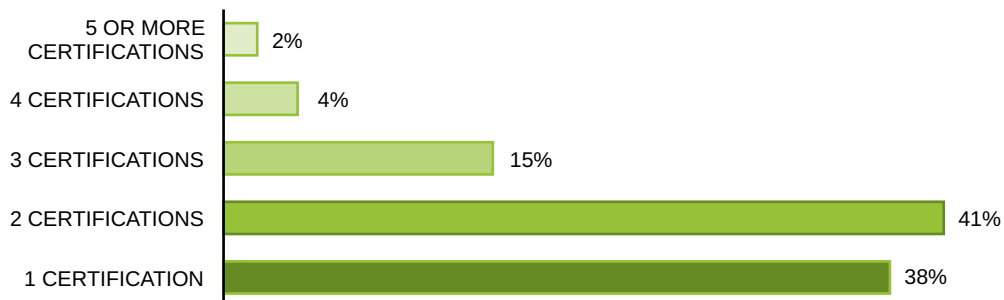


Figure 20: Distribution of SMEs by Number of Certifications Held

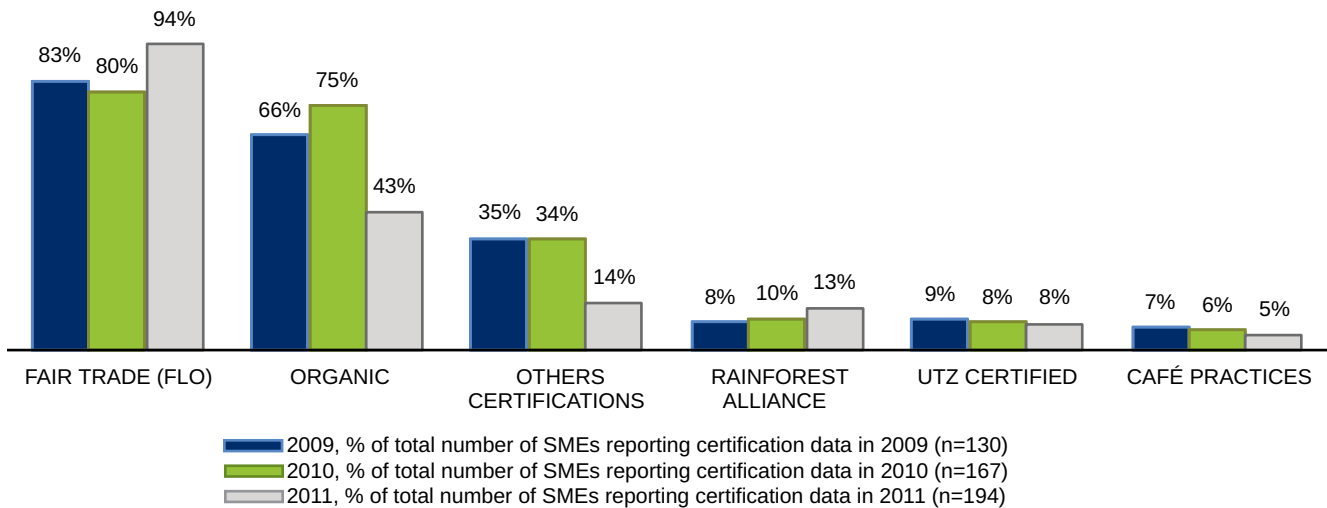


Data extracted from the SMEs' latest reported certification year;
Number of SMEs reporting certification data: 262

SECTION II: KEY FINDINGS

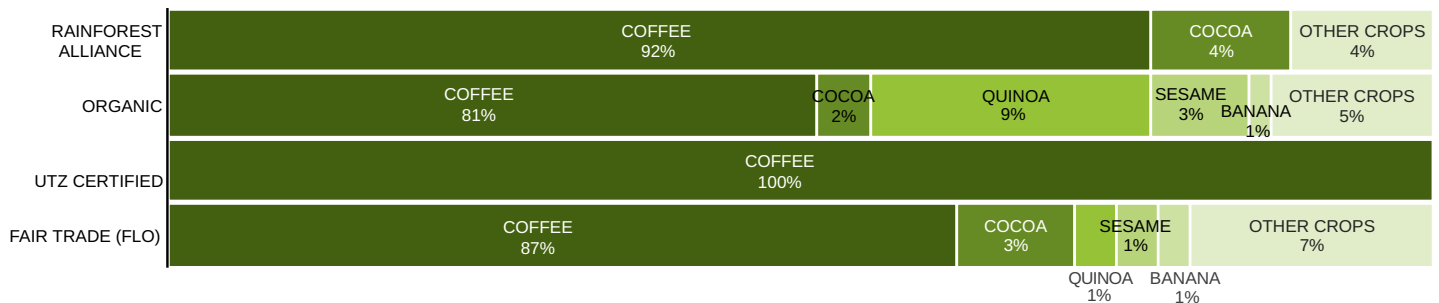
B : O V E R V I E W

Figure 21: Classification of SMEs by Type of Certification



Note: Organic certification includes all national/regional organic labels issued by certification bodies that meet the organic standards issued by the responsible government authority of each country in which they operate, such as Biolatina in Latin America or BioSuisse in Switzerland.

Figure 22: Distribution of Main Certifications Reported, by Crop



Data reported for the 2009-2011 period;
 Fair Trade reported values: 426; Utz Certified reported values: 42; Organic reported values: 297;
 Rainforest Alliance reported values: 52

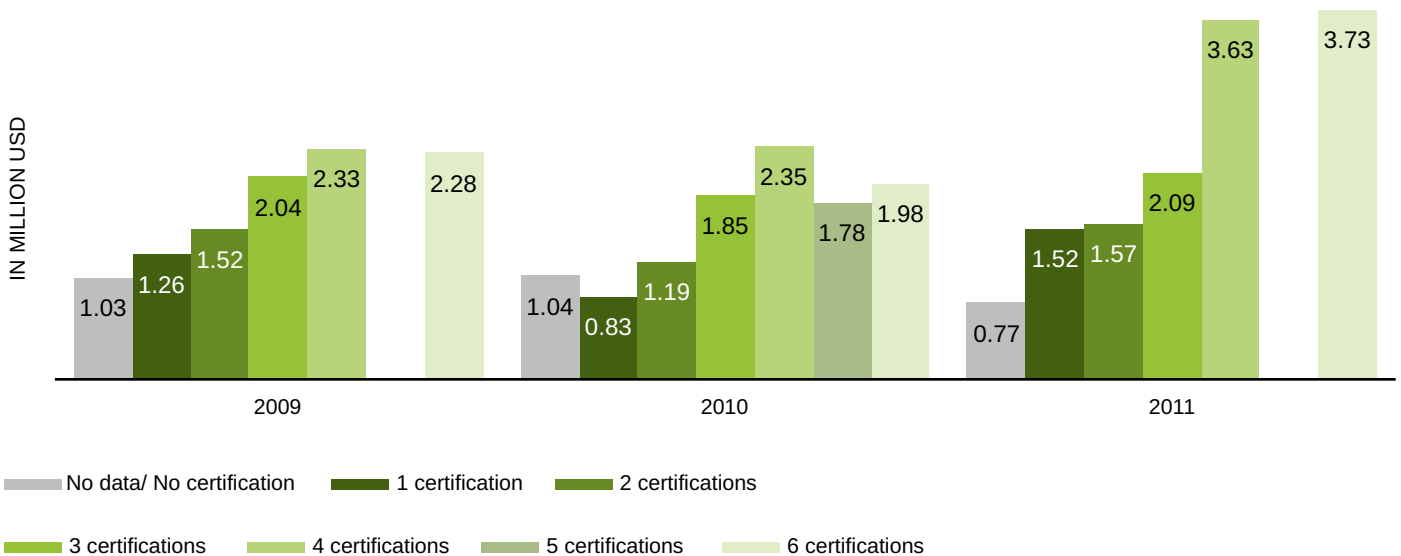
SECTION II: KEY FINDINGS

B: O V E R V I E W

The relationship between certification and revenue generation at the SME level is a complex question warranting a variety of experimental methods. An analysis of descriptive statistics regarding the relationship between certification and revenue revealed an average increase in revenues corresponding to an increase in the number of certifications held, as shown in Figure 23. This result, however, was not found to be statistically significant.

Another analysis, a Spearman's Rank Order correlation, was run to determine the strength and direction of association between the two variables; this revealed a weak, though statistically significant positive relationship between certification and revenue. Given the complexity of this relationship, it will be valuable to conduct further analysis with a larger data set. In coming editions of this report, we expect to have a more complete set of data for extension of the analysis, in order to provide more significant information related to this issue.

Figure 23: Average Total Revenue of SMEs with Varying Number of Certifications



SMEs reporting both total revenue & certification, including no certification data in 2009: 160; SMEs reporting both total revenue & certification data in 2010: 238; SMEs reporting both total revenue & certification data in 2011: 277

SECTION II: KEY FINDINGS

C : F I N D I N G S

METHODOLOGICAL FINDINGS

The development of FAST SIAMT was a response to investor demand for a common set of indicators to measure the social, economic and environmental impact of their investments in agriculture SMEs. Through a multi-stakeholder consultation process, FAST identified a list of more than 100 “key indicators” for measuring impact in agricultural investments. From the beginning, FAST made explicit efforts to ensure that any eventual FAST SIAMT indicators would be as closely aligned as possible with existing indicator frameworks. As a result, the final indicator set is closely harmonized, wherever possible, with the COSA and IRIS indicator sets. One of the unique features of FAST SIAMT, however, is its coverage of indicators dealing with (1) sustainability of the financial relationship between investors and investee, (2) sustainability of the agricultural SME and (3) sustainability of the farming practices of SME member farmers. FAST SIAMT indicators are thus specifically tailored to financial services in the agricultural sector.

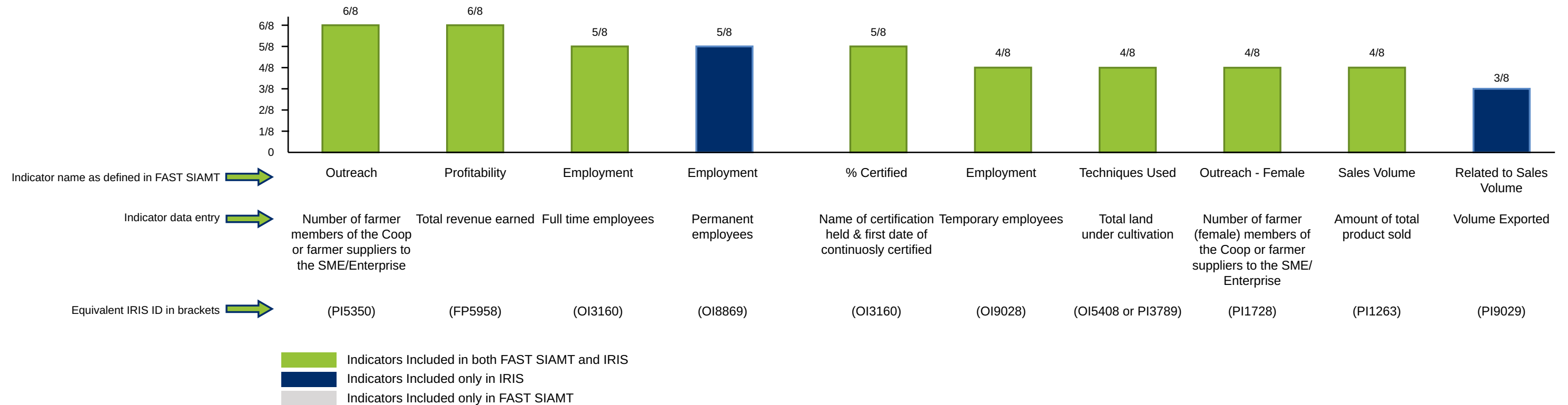
Drawing from the full list of indicators, FAST members prioritized a smaller set of core indicators applicable for immediate reporting.⁴⁴ The most pressing challenge faced by lenders and investors was the current absence of data along many, if not most, of the identified indicators. Moreover, where data is being collected, it is typically in different formats, rendering actual use in common analysis a challenge. Figure 24 (on next page) reveals the rates at which data were reported on FAST core indicators among the eight participating investors, and provides some indication of the challenges faced in compiling sector-wide impact data.

⁴⁴ See FAST Core Indicators at the SME level in Larrea, C., Potts, J., and Schuite, G., FAST SIAMT 1.0, Building a common framework for impact assessment, The Finance Alliance for Sustainable Trade (FAST), 2011.

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Figure 24: The Most Common Indicators used in 2011 for the Sample of Eight Investors (Presented by the Number of Reporting Investors Using Each Indicator)

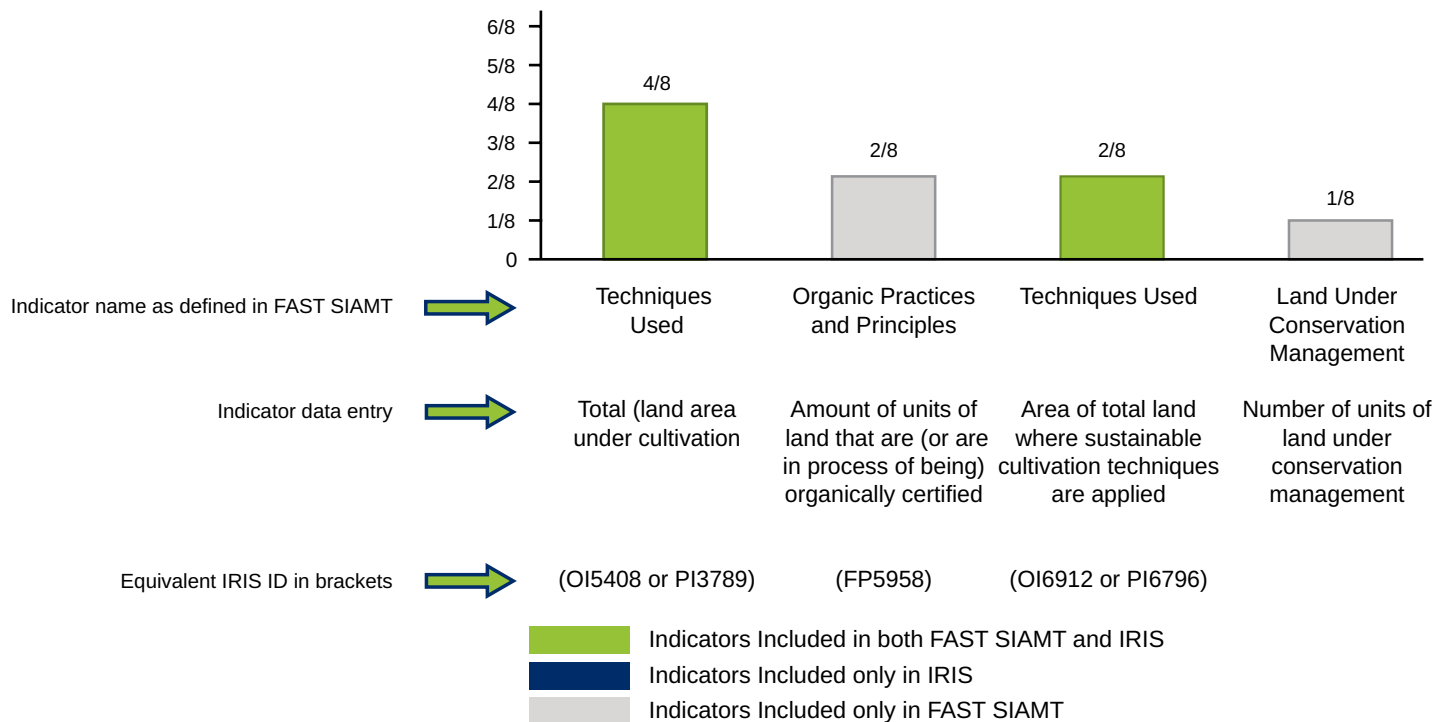


As Figure 24 illustrates, the use of a common set of indicators with a standard definition is still an emerging process. From the sample of data analysed, employment is the only indicator measured across the eight lenders, and even here, in different ways depending on the investor. As Figure 24 also shows, two indicators were measured across 75% of the sample: outreach, covering the number of farmer members of the cooperative or farmer suppliers to the SME, and total revenue earned, a key data point for measuring profitability. The number and type of certifications held by investees is also a commonly collected data point, with some 63% of our sample gathering data on certification type; however, as Figure 25 illustrates, the sustainable use of land was barely measured across our sample of eight lenders.

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Figure 25: Measurement of Land Use with Different Indicators Applied in 2011 for the Sample of Eight Investors (Presented by the Number of Reporting Investors Using Each Indicator)



The above observations suggest that although some progress has been made towards using a standard set of impact indicators across agriculture investors, there is still considerable work to do. In the first stages of adopting FAST SIAMT and IRIS-aligned indicators, investors have focused on reviewing and updating their impact measurement frameworks, learning from the experience of others in the sector and selecting a number of core metrics to apply using standard definitions. In order to ensure that efforts already made in establishing a harmonized metrics system enable the most useful and meaningful analysis, it will be critical that FAST members continue to agree upon, and integrate, a more comprehensive set of common metrics within their monitoring and evaluation systems.

In Table 1 below, drawing from this first attempt at common data analysis and impact assessment, we propose a “minimum metric set” for reporting meaningful impact over time. This recommended minimum set of indicators is based both on FAST’s Core Indicators, as identified in the FAST SIAMT process (2011), and on a review of the analytical challenges faced in preparing this report (i.e., with a more limited set of data).

Table 1: The Minimum Metric Set: FAST’s Recommended Subset of Core Indicators at the SME Level*

Indicator Name as Defined in SIAMT	Indicator Data Entry: Data Point to be Collected to Measure the Correspondent Indicator	Equivalent to IRIS ID
Outreach – Farmers	Number of farmer members of the Coop or farmer suppliers to the SME/Enterprise ***	PI5350
Outreach – Female Farmers	Number of female farmer members of the Coop or farmer suppliers to the SME/Enterprise ***	PI1728
Employment – Permanent Employees*	Number of people employed by the organization. This indicator represents the sum of all paid full-time and part-time employees	OI8869
Employment – Permanent Female Employees*	Number of female employed by the organization. This indicator represents the sum of all paid full-time and part-time female employees	OI2444
Techniques Used	Area of total land where sustainable cultivation techniques are applied ***	PI6796 or OI6912
	Total land area under cultivation	OI5408
	List of sustainable cultivation techniques used	N/A
Profitability – Earned Revenue	Total revenue resulting from all business activities during the reporting period. Earned revenue is total revenue less contributed revenue (grants and donations)	FP5958
Profitability – Cost of Goods Sold	Total cost of products sold: direct costs attributable to the production of the goods sold by the organization during the reporting period. The cost should include all costs of purchase, cost of conversion and other direct costs related to producing and selling the organization’s products	FP9049
Capacity to Generate Commercial Profitability – Net Income	Total revenue earned in the year minus total expenses including interest and taxes; the bottom line of the Income Statement	FP3274
Total Payments to Farmers	Total value of payments to farmers for the target crop sold ***	PI1492
% Certified	Volume of each certified target crop sold per type of certification	PI7289
	Indicate name of each certification/verification held, the certification body and the first date of continuously certified/verified	PD2756
Women Representation Balance at the Board of Directors level	Number of women on the Board of Directors or other leadership/governing body	OI881
	Total number of people on the Board of Directors or other leadership/governing body	OI1075
Sales Volume	Amount of the total product sold of the target crop	PI1263
Exported Volume **	Amount of the product exported by the SME/Enterprise ***	PI9029

* In these cases, the indicator *employment* is presented as defined in “IRIS: Permanent Employees,” which includes two indicators included in FAST SIAMT separately: *employment full-time and employment part-time*.

** In this case, the indicator volume exported is not yet included in FAST SIAMT Version 1.0; we foresee including this in a revised edition of the SIAMT indicators. At the moment, this indicator is part of the IRIS framework.

*** In these cases, the corresponding indicators have also been prioritized by the Council on Smallholder Agriculture Finance.⁴⁵

⁴⁵ The Council on Smallholder Agriculture Finance was constituted in 2012. It is composed predominantly of FAST members and includes the following institutions: Alterfin, Oikocredit, the Rabo Rural Fund, responsAbility, Root Capital, Shared Interest, and Triodos Bank.

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In addition to the most appropriate common metrics to measure across agriculture SMEs, the harmonization of data collection methods will be equally important in ensuring accurate and meaningful analysis at the institutional and sector levels. In light of the experience in working with FAST members on this report, a series of recommendations for improving overall data quality and usability is provided in Box 4.

Box 4: Data Collection Recommendations

- Establish a standard procedure for data collection and organization to improve the quality of data captured:
 - Assemble data using error-eliminating data collection tools and, whenever possible, aligned classifications
 - Eliminate Data errors by avoiding incorrect data items in data set, which may include missing values
 - Ensure quality through Data validation controlling the type of value and applying logical tests to values entered into the database
 - Ensure Data cleanliness by identifying and fixing errors , performing checks at the time of data entry in order to ensure the validity of information, and verifying extreme values
- Enrich the investment analysis with the compilation of new data sets
 - Ensure mechanisms are in place for data collection and that information communicated includes key indicators that are essential to expand the scope of the analysis, such as amounts approved, disbursement date, loan maturity date, outstanding balance at the end of the year, etc.
- Identify and define clearly database variables or data points and their parameters
 - Include provisions for the timeframes of figures (e.g. monthly, quarterly) or data type (e.g. annualized, non-annualized)
 - Adopt existing definitions for selected indicators that are broadly in use
- Data sets should maintain the accurate use of the measuring units throughout

CONCLUSION & NEXT STEPS



CONCLUSION AND NEXT STEPS

This report represents the results of more than two years of collaboration among financial institutions focused on impact investing in the agricultural sector. As the first effort towards compiling sector-representative results, it provides a singular, yet modest, window into the performance of impact investing within the agricultural sector over the 2009–2011 period.

The report is unique in its ability to point towards, for the first time and in a quantifiable manner, trends across a leading group of financial institutions related to the total size, distribution and performance of loan disbursements to agriculture SMEs over time. We see it as a paradigm changing resource, which aims to improve understanding and efficiency in the allocation of investment in sustainable agriculture finance. This, in our view, is an important achievement for the sector.

The report has also helped us to identify some of the larger challenges still to address as we progress through this relatively early stage of the data harmonization process across collaborating members and across the entire sector. Future editions of this report will present a deeper and broader analysis based on data provided through greater metrics alignment. In the future, a wider data set will allow for more statistically significant results for the sector as a whole to be derived.

Nevertheless, we consider the data and analysis contained in this report, in spite of these challenges, to offer important signposts—not only in terms of general trends observed across some of the key FAST members, but also as an indication of the kinds of analysis that the SIAMT impact indicator framework can enable through ongoing collaboration amongst lenders in the sustainable agriculture sector. At a minimum, the data speak to the growing importance of the agricultural sector in the impact investing arena, as well as to the significant potential for sustained growth for the foreseeable future.

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