AGM Minutes

Shared Interest Society's 31st Annual General Meeting (AGM) was held virtually via "Zoom" at 10am on the Friday 12th March 2021. Mary Coyle, Chair of the Board, moderated this meeting and welcomed 249 members plus their guests and other staff (who are not members of the Society) to the meeting. Patricia Alexander, Managing Director presented a report on the Society's activities during 2019/20. Tim Morgan, Finance Director, gave a presentation on the financial results for the year and this was followed by the Directors responding to questions from members.

AGM Q&As

Q: You mentioned that there were 203 customers and 174 producer groups, is the difference the buying groups. Please explain how lending to buyers works.

DPA: The 174 producer groups represent 85% of our portfolio, and we lend directly to them. We do also support buyer organisations who are buying from a variety of producer groups. The way that works is we make payments to producers on their behalf. We provide this finance in advance of orders being delivered and so it allows us to reach producers who are in the Asian market as well, where we cannot work directly because of financial regulations. Buyer finance is still an important part of the portfolio and many years ago, virtually all of our lending was done through buyer organisations. It was only when we opened our regional offices that we started to lend directly to producer groups.

Q: You say that last year was a good year for UK people investing more money in Shared Interest. Is there still a need for more Share Capital? What would it be used for and is there a pipeline of projects that you are currently unable to support due to lack of Share Capital?

DPA: We do have a pipeline of organisations waiting for facilities of about £7m overall. At this point in time we are not short of Share Capital and we are actively seeking new facilities and new customers. This is a very positive position to be in because only a couple of years ago, we were having to be selective about who we could grant facilities to because we did not have enough Share Capital. However, we are impacted by changes in exchange rates. If the exchange rate moves, because the majority of our lending is in Dollars and Euros, that can have a significant impact and can leave us with very little headroom in the Share Capital that we have. It is something we assess constantly. We do not want to have an excess of Share Capital but at the moment we are not in that position and we are still actively looking to raise more.

Q: Well done to all your good work. On the audit, I wondered how long have you used PricewaterhouseCoopers LLP and do we get 27k worth of value from them? Could another firm do it for less for the good cause of Shared Interest?

TDM: We've used PwC as our auditor for last 10 years and I noted a couple of questions about this in the Q&A. We are in the process of doing a full tender to consider changing our auditor. It is good practice to rotate anyway after a number of years but it does make sense for us to do it now. We have had changes to our Audit Committee and also to the PwC partner who signed our accounts for the last few years is moving on. So this is a good time to carry out the review, when we are hopefully over the worst of the pandemic. Do we get good value for £27k? It is a question really for members to answer and is rhetorical in a sense. It is compulsory to have a statutory audit and the cost of doing audits is going up due to regulation. In addition although we are not regulated by the Bank of England (PRA) or the FCA, the risks of carrying out an audit of an organisation like Shared Interest, using money that has been invested by members of the public in the way that we do, are quite high. We are hoping to appoint an auditor who charges a lower amount and works well with us. I must add that PwC have provided us a very good service over the years. They took us on board at a reduced rate and have honoured that throughout. The potential change is in process though, and we could have a new auditor by the time we hold our next AGM.

Q: I would like to hear about the 'light touch' review that Audit Committee was due to carry out this past year into the sourcing of the audit and their view on the reputational risk of using a company such as PwC.

YG: What we did this year is a very quick review, as we recognised that we wanted to conduct a full retendering process – and that is what we have got planned for this year as outlined just now by Tim. So effectively, what we did was move the review for a year. I can assure you, our members, that this is a full retendering exercise. It was simply that we decided - in the midst of the pandemic – that we would not get the proper attention of the audit firms trying to win our work. It was in the best interests of everyone to wait. We are aware that members have views on all four of the big audit firms. It is a tricky area though, as they are genuine specialists in the work they do. We are sure members can appreciate the complexities of the international work that we do. It is a balance of providing us with a firm who can carry out the quality of work that we need but also at a fair price, and who also have an awareness of the work we do. I can assure you that we will take into consideration all of these factors in carrying out the tendering process now underway.

Q: Are the producers you support supplying fair trade importers like Traidcraft? Does your support sometimes put producers in a position to supply fair trade importers?

PGC: Our producers will supply a wide range of different buyers – some of those are commercial buyers, the supermarkets, the food processing companies, and some of them will be fair trade importers like Traidcraft. But there are a wide range of importers in other European countries and in North America. In some sectors like handcrafts, Patricia highlighted that 11% of our lending is related to this sector- these will exclusively be going to fair trade importers. Without our help, this supply chain would be much more difficult to navigate. And certainly, when I used to be at Traidcraft – which was for 12 years - Shared Interest finance used to enable us to make the prepayments to producers. Without that oiling of the wheels of trade, the fair trade importers would not have the finance that they need to make things work. So yes, we are fundamentally important to keeping fair trade to fair trade supply chains going. We do however want our producers to have a wide range of buyers – that makes them much more secure in case buyers change their minds or face problems themselves.

Q: Could you give a clear and simple explanation of bad debt? It is sometimes an explicit or implicit question from potential investors. And what exactly caused the bad debt loss in 2016?

TDM: I hope that some of the things I said in the presentation earlier on partly answer that question. In accounting terms, bad debt – what we are saying is that if we get to the end of the year and somebody owes us £100 and we actually think for whatever reason that we are only going to get £50 of that back, we then have to make a charge in our accounts for the balancing £50. And the aggregation of all of those £50s is what makes the bad debt charge for the year. I hope that makes things clear. It is an assessment by us of whether part of a balance is irrecoverable at any time but in particular at the year-end. The reality is, as I mentioned in my presentation, that lending money in this way is inherently risky. Even from the few case studies that Patricia mentioned, you have got a snapshot of what the places looks like, where people work. And so with Bukonzo, the catastrophe that hit them, that washed away all their farms. These are the businesses that are working in vulnerable areas, which are dealing with the effects of climate change, with highly volatile commodities such as coffee. And they sometimes have the same problems as businesses do in the developed world – they have poor management or make bad decisions, the governance fails for some reason, they have a Board that we work with and then they get voted out and people come in who are not as experienced. Prices change, buyers do not honour commitments to buy – there are all sorts of things. There are a whole variety of reasons, the net result of which is that money that is borrowed in good faith cannot be paid back in full at times. Sometimes that can mean that the business totally fails. More often than not, that is not the case. Very often we get involved in trying to help businesses, sometimes with other social lenders, to help them get back on track. What we do not do, is name names of the businesses in question. That would not be helpful to their chances of recovery. What I can say about the the bad debt charge of 2016 that was published in our accounts was due to the failure of a very large coffee business that we were lending to. Not in this country but in the developing world. And that resulted in that exceptional bad debt charge.

Q: I notice the predominance of coffee amongst the products supported, but no mention of tea. Just wondering why that might be?

DPA: We do have some tea, it is very small in comparison to coffee. There are many Fairtrade certified producer groups in India and Asia where we can't lend because of the financial regulations that I mentioned previously. And also, the bulk of our lending is what we call pre-financing of orders. The cycle of tea, and speed of how it is manufactured and shipped, means it just does not work with our type of financing and what we offer. So we have some tea customers and they mainly have term loans from us. Pre-finance works much better for the cycle in coffee or cocoa. We would like to diversify more and work with more tea co-operatives but currently only work with three or four.

Q: How are customers affected by climate change?

MC: Customers are very much affected by climate change - they are at the forefront, those growing crops and dependent on harvest seasons – they are seeing them changing. They are seeing rainfall not appearing at the time when it is expected to appear, which means that their planning and organisation gets altered throughout the year. They need to organise finance and sort out transportation. That impacts them in terms of seasons changing. We have seen increased levels of moisture, which increases levels of pests affecting the crops. You may remember reading about Roya in QR three or four years back, which is a pest that impacts coffee plants, and in particular South America which was due also to increased temperatures, meaning the pest could take hold. We see increases in storms and floods impacting our part of the world but producers also do and the effects are pretty devastating. Central America had big storms, in Nicaragua and Honduras a matter of weeks ago. And that rising temperature will impact the likes of coffee crops; as temperature rises, the farmers are forced to move to higher altitude. So those long-term impacts will mean that producers may change their product mix. Some are no longer just focussing on coffee for instance, they are doing other things as well to try and cope with that variability that climate change causes.

KK: The Foundation is implementing a number of interventions that have an impact on helping producers mitigate the effect of climate change. This includes soilless farming that we are implementing in Northern area of Ghana, where women will be able to use locally available materials instead of soil to grow their crops. That is climate adaptation technology. In Peru, we are also introducing an ecological method to help the coffee producers use natural fertilisers in coffee production. We are now developing fungus for distribution to coffee producers, which has the ability to control coffee disease. As part of our Bees for Business project in Burkina Faso we have a tree planting activity, which is also managing soil erosion and protecting the environment against the effects of climate change.

Q: How long do randomly selected council members hold their position for? Does the fact that a randomly selected member is standing for re-election this year mean that no member who was randomly approached agreed to serve? And if so, how many were approached?

TDM: The maximum term of office of anyone on Council is six years. Each year at the AGM, one third of both sides of Council (randomly selected and non-randomly selected) stand for election. Per our rules, if it is a randomly selected candidate then only they can stand again as long as they have not completed a full six years on Council. This year, Katarina was in that position and has not yet completed the six years so is standing again. And there was nobody else considered because she has the right to stand for re-election so we didn't approach anybody else.

Q: How will Shared Interest be able to survive without Malcolm Curtis (retiring Head of Lending)?

DPA: That's a great question. Yes, how will Shared Interest be able to survive without Malcolm after 22 years? We are very fortunate that we have a great team behind Malcolm, who also have long service. Not as long as Malcolm but we have three Regional Managers who all have substantial service. Paul from Latin America has been with us since 2009 and Andrew who is the Regional Manager for Africa has been with us since 2005. And France has also been with us for many years so we have a lot of experience behind Malcolm and the Lending Team. We have to be realistic, it will be a loss of knowledge and experience to the organisation, although I am sure that Malcolm will always be a member and supporter of Shared Interest. We hope he will enjoy his retirement, people cannot go on forever and we are currently making plans for recruitment. Malcolm – how do you think we will cope without you?

MC: As I said to the Board yesterday, we have a very good team with lots of experience. And those in the regional team are the ones close to the customers They have the relationships directly with them so my leaving isn't going to impact those customer relationships. How the leadership functions, we are deciding that at the moment but we are very confident that the lending will be left in very good hands.

Q: How does the Carbon Offset Fund work?

TDM: This was referenced in Patricia's presentation. So for many years now, for each year we have calculated the carbon generated by Shared Interest – the activities that we control like the office and travel and those sorts of things. We then offset the carbon produced using a calculator system, and generate a sum of money, which we put into a fund. We then wait until a decent sum is in there and we fund a project somewhere that has a positive impact on the environment. Sometimes we work with organisations that are not connected to Shared Interest. But last time around we found it appropriate to do that in partnership with our Foundation. As you heard from Kodzo, the Foundation is working with a number of ecological projects. We used the Foundation's expertise and contacts and worked with a project in Nicaragua to spend that fund last time round.

Q: In the COCAGI co-operative, the featured farmer was reported to have nine children. If the rate of population growth exceeds the rate of economic growth then

release from poverty will not occur. What family planning and other health initiatives do the co-operatives and producer organisations you support provide?

MK: We have had questions like this before and it probably represents a general concern about the population growth of the world. I think a few years ago there were lots of discussions and studies that suggested that the population growth was exponential globally. Recent studies show that is not the case. Evidence shows that population growth in countries like India and China is starting to slow down. And they think that in the next 10 years, that population growth may come down to zero in those big countries. Why is that happening? There is considerable evidence that shows that when families enjoy economic security, the pressure on people to have large families decreases. I would say that the work that we do with Shared Interest is absolutely having the impact of helping people to improve their economic situation. And when this happens, one of first things they do is invest in children's education. They have access to education and they can manage to plan their families. Also, we are working with fair trade producers, who benefit from the Fairtrade Premium. And the co-operatives that we work with spend that Premium on projects that enhance the education of the people they are working with. They also spend that money improving health facilities too. Indirectly, I would say that the work Shared Interest is doing is having a significant impact in helping people becoming more secure economically. And that in turn influences the education that is provided for their children and also improves healthcare, and that through all of that, I think there is evidence that families tend to get smaller as the uncertainty of their economic situation becomes less.

Q: Can the small amount I invest really make a difference?

DPA: All of our member investments are making a difference. It is so important for us to have a wide range of investments from the small to the large and pooling them all together. And of course, every penny that someone invests in Shared Interest is making a difference because we do use all of our members' capital more than once a year. Funds get lent out and then they get re-lent. We do have a, concentration of members with smaller amounts of capital but every pound invested in Shared Interest is vital. So thank you and please do continue to invest.

Q: Please will you explain the difference between different types of finance offered? For example, what is a Term Loan as opposed to other types of finance?

MC: Most of our finance is provided for trade to enable producers and buyers to move products in a particular season. They need finance to gather in the harvest from the farmers themselves, to process the crop, to organise, package, and ship the products. That all takes time. It takes money to pay people to do that. To pay for energy and resources too. They borrow money from us against the order that they have from the buyer – we call that Export Credit. We provide Buyer Credit, as Paul was saying earlier, to make those pre-payments to producers for goods during that particular year. And we also provide longer term finance and loans for asset purchases, such as a coffee washing station financed over, say, three to five years. So as the washing station or other assets generate a return, they can use that return to make the repayments back to Shared Interest. Those are the two key ones. We have another facility that is just a one-year loan so they can borrow money for that particular season where they may not have orders from buyers. The majority of finance rotates within a year so they will borrow and repay it within a season.

Q: As a deposit taker why are you not registered with the FCA? If you were part of the FSCS, would you be able to attract more members to invest?

TDM: I am going to answer another question first while I have the microphone. Somebody had asked a brilliant follow up question on bad debt. If we have made a bad debt charge, do we need to do it again next year if that still hasn't been paid. For example, if somebody owes us £100 and can only afford to pay £50, we make that charge that year. When we get to the following year, we are only considering the residual balance if that still has not been paid. So we don't need to make the charge again.

In terms of the question on deposit taking, if you take nothing else away from this whole session this morning, please take this: we are not a deposit taker. So you are not putting your money into Shared Interest as savings as you would do with a bank or building society, you are investing with us. All of us, as members are investing at risk because of what the Society does. We are not taking deposits. Because we have withdrawable share capital that gives the opportunity to take some or all of your money out. That is not the same as the guarantee that you would get with a bank. The reason that we are not regulated by the FCA or the PRA, is that we could not do the work that we do if we were regulated. What Shared Interest does is an inherently risky proposition. Lending money anywhere is always difficult but lending it in the developing world is really difficult and risky as explained in my finance presentation. In any case my experience and view is that, even if we could be regulated, the benefit that it would give, that people would have some kind of guarantee, would be hugely outweighed by the cost. It is enormously expensive to be regulated; we would need many more extra highly paid staff. That is not an option to us. And please remember: you are not depositing in Shared interest. It is important to make that distinction.

<u>Report from Council</u>

Martin Canning, Joint Moderator of Council presented a report from the Council.

“The last time I was privileged to give Council's report to the AGM was two years ago, and I began with the words “Has this been a challenging year? In terms of the environment in which Shared Interest works, I don't think there's any doubt.” Clearly that year was quite straight forward compared with what Shared Interest and its customers have faced in the last financial year and continue to face in the current one. The swift adaptation of the Society's processes to remote working and the way that producers have continued to supply products, despite lockdowns, shipping delays and altered markets are both testaments to the importance of this business for so many people. The Society's significance is underlined by the third Queen's Award and the further award to Patricia this last year, for which congratulations for both.

Of course, the pandemic has had an Impact on members as well, a number of whom have sadly succumbed to the virus over the last year. On behalf of Council, may I too express our condolences to the families of those members who have died.

At its January 2020 meeting Council received a presentation on the Foundation's draft Strategic Review. We were grateful for the opportunity to participate in this process and were pleased with the direction it adopted for the next 5 years. The Social Accounts provide a clear picture of completed and current Foundation projects and their impact on businesses and communities. An open question for me is what's the future for handcraft producers in the face of a reduced market and then what do they do to secure their future livelihoods? Working with specialist partners and providing the business training to enable new enterprises to be created seems entirely appropriate for the Foundation.

It was really encouraging to see more members engaged in the virtual member events. Council had been asking for a way to make the live events available on-line, but this would depend on the facilities available at the venues. During lockdown, along came the now familiar tool of video conferencing via Zoom (other services are available) and this has attracted many more members, quite a number of whom have not attended, or been able to attend, a member event before. Perhaps this is why there are 4 candidates for one place on Council this year?

The Fairtrade market continues to evolve, and it's good to see the way in which the Society is evolving with it. In the last Strategic Review, it was decided to broaden the range of certifications accepted as suitable for lending. Council has continued to press for greater engagement with climate change adaptation for customers and whilst recognising that the Society is not a specialist in the field, we are encouraged to see partnerships with other organisations developing.

The care and support the management has shown towards staff working from home, whether in the UK or overseas, has been exemplary. It has definitely been a difficult set of circumstances under which to operate, and the impact continues. As far as the finances of the Society are concerned, the outturn for the year does show a loss after payment of member's interest, but there has been an increase in bad debt provision, which is perhaps not surprising in the current climate. I hope the majority of members can understand this and have come to Society membership with an acceptance that this is a risk we are willing to take in pursuit of the objective of providing financial support to vulnerable communities. The increase in investment during the year shows members collectively are willing to continue growing the available funds – an effect perhaps of us not being able to spend on ourselves and hence thinking about what else useful we might do with that money.

This AGM marks the end of my two terms serving on Council – six years that I have enjoyed hugely. Someone new will now take that slot and bring their own views and impressions to the work of Council. I wish them well. I would also like to thank the other members of Council for their support, encouragement and friendship. Can I also thank members of staff for their forbearance and for putting up with me for this time. I look forward to continuing to support the Society and of course to continuing to invest for as long as I am able."

Voting and Resolutions

Mary Coyle drew the question session to a close and asked Tim Morgan, as Secretary, to conduct the voting on resolutions and report the outcome of the postal ballots. Resolutions were approved as follows (where applicable the proxy votes were also reported and in each case were also strongly in favour of the resolutions):

1. to receive the Society's accounts for the year ended 30 September 2020 and the reports of the Directors and the Auditor: (For 195, Abstain 6, Against 0) [Proxy votes: For 792, Against 3]

2. to receive the Society's Social Accounts for the year ended 30 September 2020 and the report of the Social Audit Panel; (For 192, Abstain 10, Against 0) [Proxy votes: For 783, Against 3]

3. to indicate satisfaction with the arrangements for determining the pay of Executive Directors that are the subject of the report by the Remuneration Committee in the Directors' Report; (For 181, Abstain 20, Against 0) [Proxy votes: For 718, Against 23]

4. to re-appoint the firm of PricewaterhouseCoopers LLP as the Auditor of the Society and to authorise the Directors to fix the remuneration of the Auditor for the year ending 30 September 2021; (For 182, Abstain 14, Against 5) [Proxy votes: For 740, Against 30]

Election of Candidates for Board and Council

Public declarations of support for the Society's Object from all candidates for election were received. The results of the postal ballot for the election of the following members of the Society as Directors for the year were announced as below. Mary Coyle was being re-elected to the Board following retirement by rotation and Richard Anderson was being elected by members for the first time having been co-opted to the Board in December 2020, following a recruitment and recommendation from the Shared Interest Nomination Committee:

Name	For	Against
Mary Coyle	1,131	10
Richard Anderson	1,024	51

The results of the postal ballot for the contested elections for the members of the Society as member of Council was announced. Shelagh Baird-Smith was appointed and the results were announced as follows:

Name	For
Deb Appleby	359
Shelagh Baird-Smith	449
Stuart Hatcher	155
John Shirley	187

The results of the postal ballot for the re-election of the following members of the Society as member of Council for the year were announced as follows:

Name	For	Against
Katarina Diss	1,133	22

Closing remarks were made by Mary Coyle as Chair, who thanked all members for attending and also offered particular thanks to departing Council member Martin Canning and Non-Executive Director David Bowman (who was not able to be present), both of whom were retiring at the end of their terms of service. The meeting concluded at 12 noon.