AGM Minutes

Shared Interest Society's 32nd Annual General Meeting (AGM) was held virtually via "Zoom" at 2pm on the Friday 11th March 2022. Mary Coyle, Chair of the Board, moderated this meeting and welcomed 123 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 2020/21. 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.

Q&As

Will there be more lending to customers making products from recycled materials?

DPA: We do already support some handcraft organisations in Africa that use recycled materials to manufacture products. We also know of organisations that use tyres to manufacture shoes for instance, and we have handcraft customers that recycle plastic in order to make bags and other similar products. We would support more organisations provided they meet with our lending criteria.

Can you explain a little more about bad debt and the main causes?

TDM: There are many reasons that businesses do not succeed as planned; the pandemic would be an example of an unforeseen circumstance that caused an organisation to fail. For example, the difficulty of shipping products and changes in commodity prices – coffee is three times more expensive than it was. Add to this the backdrop of the climate crisis and the impact it has, causing warming or wetter climates.

Sometimes a business is just not able to achieve what it said it would, and that could be a governance issue, or it could be that other sources of funding dried up.

We are as supportive as we possibly can be to help businesses to trade through times of hardship. Sometimes we can offer further financial support or work with other social lenders to support a business to trade through. We always work to understand issues and try to find a positive solution. We have some good examples of that happening over the years.

Has Brexit made things difficult?

DPA: Brexit has been a challenge for everyone but as the majority of our customers do not trade between Europe and Britain, they are not shipping products between the two. Brexit has not been a direct issue for them but it has affected Shared Interest in some ways.

TDM: Yes, I think it is fair to say we definitely saw a lot of volatility in exchange rates in the early years. When the vote took place to leave the European Union, the value of the pound changed by about 50% overnight. We were ready for that; we had borrowed extra to be ready for it. However, it led to a period in late 2016 when our capital was very stretched. We found a way to live with that and the subsequent volatility of rates on the run up to us actually leaving the EU. That was a backdrop that caused the pound to move up and down, to where it is at the minute, which is in the 1:30 region. In one sense, that is OK but what we do not want is it to either shoot up or down too quickly. That just makes life hard for us as an international organisation.

What is a Bad Debt charge?

TDM: I hope that the presentation provided a sense of this. It represents the amount of money owed to us by customers at the year-end that we do not think we will recover. So, if we are owed £100 and we think 10% of that is at risk, then we have to make a charge against ourselves. The number in the accounts this year, as I said, was around £1m.

Is the disease in coffee plants affecting the price and lending?

DPA: If a farm or region is suffering from coffee disease then it affects the volume of coffee available. If there is a shortage of coffee available then it ultimately does affect the price.

In terms of lending, it is a risk if it affects an order we are supporting. Our experience of coffee disease is that it can prevent a co-operative from fulfilling an order that we have pre-financed. In these cases, we support the purchase of disease-resistant seedlings and work with farmers and organisations to ship products the following season.

In summary, the disease itself does not impact the price, but the availability of coffee always does.

MD: We are seeing many producers increase costs on inputs to manage disease, as well as the challenges around shipping.

The Fairtrade Minimum Coffee Price is due to be reviewed at Fairtrade International next year, so expect to see a shift to reflect the changes in the cost of sustainable production as well as market pricing. We then review that against our current Fairtrade Minimum Price.

PS: There is not a direct correlation between disease and price. If we remember, several years ago, producers suffered from Roya – there was a huge contraction of overall volume. Currently, producers are not suffering major disease. They have developed multiple measures to counteract this.

Why is the financial year-end in September?

TDM: In 12 years of being Financial Director, no one has ever asked me that. It does not have to be, we could choose a different month. I suspect it was chosen because it is away from a year-end of many other financial institutions. I think Mark Hayes and co. sensibly chose September to get audit work done before Christmas. It is nothing more complicated than that.

What sort of interest rates do we charge our customers, and how do they compare with local commercial rates?

TDM: The interest rate has two parts and varies from 8% up to 12% - there is much more detail on this in Social Accounts. How do we compare with other lenders and commercial banks? It depends on currency. We always lend in Dollars, Euro's and Sterling but predominately Dollars. Banks lend in local currency and rates can be extremely high, especially in some parts of Africa. We certainly compare well to the commercial banks. It also depends on factors such as; does the organisation have any security that they can offer, which can help us mitigate the risk and reduce interest rates. We look at each organisation individually and assess risk when setting the interest rate. I would say that we are comparable with other social lenders working in our space.

How will inflation impact producers and Shared Interest?

TDM: In terms of producers, I think it is particularly hard to call because as we just said, some of the prices of commodities are subject to world markets and other bigger factors.

For example, in terms of inflation at the minute, I think the metric we have heard is that you are paying ten times the cost in some cases for a shipping container. That is a result of inflation but also supply issues. However, costs are definitely increasing and it will lead to further volatility for the producers. In terms of Shared Interest operating here in the UK, one effect that might be useful as a lender is that interest rates are going to go up. That may be advantageous as when they are so low, it makes it difficult for lenders to operate and to obtain a margin. For example, back in 2008 when the bank base rates were at 5 or 6%. We had to re-engineer the business to work at a very low interest rate, which we have done very successfully. I think there will be other benefits to us as a lender in seeing a higher interest rate, for example, with money deposited at the bank, as long as there is not a huge gap between US rates and UK rates. I think it is fair to say that both are going to go up as indeed probably European rates as central banks try to counter inflation. I think it will have mixed effects for us, creating increasing costs but some benefit from the rising interest rates. I think for producer organisations, increasing costs potentially help in the end in in prices but also create more challenges.

PC: Just to add a further perspective here, there is a risk that consumers in Western countries predominantly, have found their own incomes affected by inflation and this means that there is likely to be a trend towards buying cheaper products. Given that fair trade products are often at the premium end, there is a risk that there would be a decline in purchasing and clearly that ultimately flows through to producers as well. As consumers, we need to recognise that there are those in greater need than ourselves and that prioritising fair trade in our purchasing remains important. However, there will still be some impact at market level.

To what extent has the pandemic affected the bad debt level?

TDM: I think it has and will continue to as organisations get back to some sort of normality. It would be very hard indeed to say what percentage of the £1m bad debt we would not have had without the pandemic. It is probably a higher number than we would have otherwise seen because some of the businesses we lend to have been so directly affected by it. For instance, if their customers have not paid them or they have not been able to trade, they have made less profit than they thought. This means cash flow will be squeezed so there is definitely an impact caused in financial terms. Hopefully that will work its way out over the next couple of years. It is affecting different countries at different times and to quantify it would be impossible.

How has in-country trade fared during the pandemic and how much are we supporting in- country/in-region trade?

DPA: The trade we are financing is mainly export and while we have looked at financing local trade, with the model Shared Interest has, it is very difficult. This is because we pre-finance contracts and buyers, who are predominately exporting, make repayments. Export has been difficult but it has continued. We are working mostly with coffee and cocoa, which is seen as a priority export product for many countries, where Government support has been offered. The handcraft sector has suffered the most as to some extent it relies on tourism.

Some customers may export 75% of their product and sell 25% locally but we are still financing the percentage they are exporting - it is an area we could explore.

MD: South-to-South trade is part of the fair trade international strategy and even North-to-North trade has a place in the fair trade world. As we increase activities and power to the producer networks in the Global South that trade within the country and South-South is really important for the future direction for fair trade globally. I think it is a really good thing to keep an eye on and see what Shared Interest's role could be within that.

How many customers do we turn down and for what sort of reasons?

DPA: I do not know all of the customers we turn down because some will not get past our Lending Team. We have criteria they have to meet, so that is the first thing they have to comply with. They have to be trading for three years and then we do our due diligence. We also have to be satisfied that they are not too risky. We do obviously lend to small, marginalised businesses that do not have access to any other finance but if it is too risky, then we may turn them down. By the time I am asked for approval from the Lending Team, they will have filtered out the ones they feel are not possible. We still get some that we say no to, but not many. We do everything we can to support groups that approach us but we also have to bear in mind that we are the stewards of our members' investments. So, we have to take that into account.

YG: Of course, you also need to bear in mind when making lending decisions that it is sometimes not responsible to the business requesting the loan if they themselves are going to be saddled with a debt that leads to a higher burden. It would not be the right thing to do on their behalf or on behalf of the Society.

What has been the best way of recruiting new investors?

DPA: I touched upon this in my presentation. We believe word of mouth is the best way to recruit new investors. We rely upon our volunteers to help us do that and also our members who share their experiences and pass on QR to friends. As our Head of Member Engagement, Kerrey Baker will tell you, we have a small marketing budget, which we try to use wisely by advertising in publications that we think potential members are likely to read. During Fairtrade Fortnight, we always take over the front cover of The Big Issue for example. We also place inserts and advertise in titles such as The Guardian and some faith publications. Our volunteers attended various conferences and exhibitions before the pandemic, where they operate stalls and hand out leaflets.

Are there any human rights abuses affecting our producers?

MK: The businesses we work with follow Fairtrade Principles and so they have to adhere to certain standards. This includes employment rights, human rights, all of those things because that is part of the certification. However, some of the countries we are working in are existing in tough environments. Perhaps Paul Sablich could comment from an in-country perspective.

PS: I believe because of the deep and extensive checks that we carry out; the organisations we work with comply well with the Fairtrade Principles, which includes for instance child labour guidelines.

The Rainforest Alliance certification seems to be replacing fair trade in many products and suppliers. How does this affect Shared Interest?

DPA: Some of the organisations we worth with, although they are fair trade, often have many certifications. Some of the larger coffee co-operatives have multiple certifications because they have multiple buyers, who will each demand a different certification.

During our strategic research, and particularly during the workshops with our members it would appear that the Minimum Price and the Fair Trade Premium remain important considerations.

It is felt that Rainforest Alliance is easier and cheaper to acquire and that Fairtrade is still the gold standard. Of course, many organisations carry both certifications.

MD: One of the most important things to understand about Rainforest Alliance is the standards setting structure. To become Rainforest Alliance certified, it is centralised global and very top down so they can change their own standards without input from producers. What they have not done is a deep consultation to gain input from the producers themselves, and this is where Fairtrade is very different.

As Patricia mentioned, there is also the Premium. I think there is about 200m US Dollars paid directly to 1,800 producer organisations last year. In addition, you all know, because you are all very well informed about fair trade, that this Premium is invested into communities.

It is also a more expensive model for corporates to engage with and you know that is that is the truth and we do not make an excuse for that. We see that we have a higher value and impact so that is also part of the mix.

Therefore, it can be an easier option to engage globally with Rainforest Alliance and take on that certification. That is why we see some brands switching when they do that cost analysis. When you see a commitment from a commercial partner licensee to Fairtrade, you know that they have really committed. Rainforest Alliance is a much easier model to follow and adopt and that is the truth of what we are dealing with.

Do you foresee continuing with reduced foreign travel, both to save on operating costs, as well as carbon emissions?

DPA: I think the short answer is that we would expect to see travel coming back and hopefully fairly soon. This is because some travel is essential to find new customers, conduct due diligence and also to build relationship with customers. To continue working completely virtually, I personally think would be detrimental for our offer and the people we work with. I think we can manage some of the travel that we might otherwise have done in the UK differently and continue with more virtual meetings. I think it will be a balance and less travel will clearly help us save on both cost and emissions. However, instances such as trade fairs are very difficult to do virtually and there is a huge benefit to meeting an enormous number of customers or potential customers in one place. We have also developed some tools during the pandemic, which we will continue to use like virtual due diligence. We may be able to use that for remote customers and we would not be able to reach, such as Mongolia. We have been able to accept a customer there by doing due diligence remotely. So that that will continue into the future but the short answer is, some travel definitely will come back. Paul Sablich’s team in particular will need to travel to maintain relationships.

How much of the investment has come from new investors?

DPA:I know the number is 10% from new members. Existing members have been increasing their investment in the main and we are very grateful to them their loyalty and support in difficult times. We certainly did not expect people to be thinking about investing in Shared Interest with so much else going on. But we do get the majority of our increasing investment from existing investors so 10%.

How will the war in Ukraine affect the farmers and producers we support?

DPA: It is awful, what is happening in Ukraine. We do not actually have any customers there. We do have a customer in Austria that imports products from Uzbekistan and we do not know if there will be any impact when moving products around that region.

Do you have to decline any loans due to lack of funds?

DPA: Not currently, although we have had to be selective in the past. Three years ago, we were really struggling to have enough capital but now we do have some headroom. However, we do have almost £7m worth in the pipeline – that is producers waiting for us to offer a facility. Therefore, we have a very healthy pipeline and we obviously still try to increase our investment. We are not currently capacity constrained.

<u>Report from Council</u>

Stephen Thomas, Joint Moderator of Council presented a report from the Council

"May I begin by noting that this has been, of necessity, a fully 'virtual' year of meetings for Council. Our three gatherings, as well as our annual joint meeting with the Board, have been conducted through Zoom. That has at times brought its frustrations, limiting the strengthening of personal and collective bonds. But with the support of my Council colleagues and of Shared Interest staff I believe that the Council's effectiveness has not been greatly diminished by such limitations.

Indeed, when looking at the flip side of this same need for all of us to gather on-line, it has been pleasing to note that participation rates amongst our members generally have been at record high levels. There was the largest turn-out yet at last year's AGM and healthy attendances too for the on-line supporters' events held in summer 2021 and over the past month. It was also good to see that a response rate of 23% remained encouragingly high for last summer's Members' Survey, and that many of you participated in the Strategic Review workshops in January. Clearly, virtual engagement levels are healthy.

Could I thank all Council members for their work, and in particular my fellow Joint Moderator, Katherine Wyatt, for fulfilling that role after Martin Canning stepped down from it a year ago. I would like to record our appreciation for the contributions of Kate Roberts and of Andy Normandale, who end their time on the Council at this AGM, after six and three years' service respectively. Their input has been much valued. During the past year we have welcomed Shelagh Baird-Smith to our midst, and we look forward to the infusion of new blood in the form of Theresa Black and David Fellows as from this AGM (subject to endorsement by members).

Council has been described as various things: one of our roles is that of a 'ginger group', stimulating discussion and change by bringing ideas to the Board and management. We have also been called 'the third eye' of the organisation, keeping it on mission; and 'the heart' of the Society too, reflecting the shared purpose members feel with the communities that we support through providing funding. We have aimed to fulfil those diverse functions to the best of our ability, whilst being representative of the Society's members' views.

In that respect we have sought to ensure that what our members consistently express as priorities and key concerns for them - resilience and adaptation to climate change, sustainability issues, and the role of women - are frequently raised. Responses to the Members' Survey a few months ago once more underlined that of the 10 official Principles of Fair Trade, respect for the environment and gender equity are two that regularly preoccupy our members. The 'Council Comment' feature in each edition of Quarterly Review magazine, plus our observations on the Social Accounts published annually by the Society, are two ways in which Council endeavours to keep these fundamental matters under consideration.

Appreciation is due to those Shared Interest members who volunteer - as ambassadors, translators, administration or community supporters, data entry inputters, desktop or event researchers. There has been a blossoming of on-line training conducted for volunteers and an expansion in the range of activities they perform. Volunteers' willingness to make extra contributions to Shared Interest's work is to be commended.

I look forward to the launch of the new member database, which should assist all of us in our engagement with the Society and Foundation alike. And while the Council has a less formal role with regard to the Foundation, we have been heartened by the way that its work has received increased support from Society members, including through the Livelihood Security Fund; and how awareness of the Foundation's expanding role has grown, as evidenced again in the Members' Survey results.

May I conclude by expressing the Council's thanks to the Society's staff and its Board members for the stewardship role that they continue to undertake on members' behalf, and for how well Shared Interest has cared for its employees in this challenging period. Council has consistently reflected the positive views expressed by members on the seamless way in which good service, timely communication, and engaging contact have all been maintained by the Society throughout the two years of the Covid-19 pandemic. Such consistent professionalism merits our admiration."

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 2021 and the reports of the Directors and the Auditor: (For 93, Abstain 2, Against 0) [Proxy votes: For 736, Against 4] 2. to receive the Society's Social Accounts for the year ended 30 September 2021 and the report of the Social Audit Panel; (For 94, Abstain 4, Against 0) [Proxy votes: For 733, Against 4] 3. to re-appoint the firm of Armstrong Watson as the Auditor of the Society; (For 92, Abstain 7, Against 0) [Proxy votes: For 715, Against 18]

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. Melissa Duncan and Paul Valentin were elected by members for the first time having been co-opted to the Board in December 2021, following a recruitment and recommendation from the Shared Interest Nomination Committee:

Name	For	Against
Melissa Duncan	1,055	8
Paul Valentin	997	20

The results of the postal ballot for the uncontested elections for the members of the Society as member of Council was announced. Theresa Black and David Fellows were appointed. The results were announced as follows:

Name	For	Against

Theresa Black	998	18
David Fellows	994	21

The results of the postal ballot for the re-election of Stephen Thomas as member of Council for the year were announced as follows:

Name	**For**	**Against**
Stephen Thomas	1,008	17

Mary Coyle as Chair, who thanked all members for attending and also offered particular thanks to departing Council members Andy Normandale and Kate Roberts together with Non Executive Directors Paul Chandler and Martin Kyndt, both of whom were retiring at the end of their terms of service. The meeting concluded at 4pm.