# Ten years in search of impact

## Who are we?

**Impact Finance** is a boutique investment manager specialized in impact investing in Latin America. Since its creation in 2010, we have focused on finding exceptional companies generating strong positive impact, while developing effective tools to analyze their risk and report on their impact. Our flagship is the Impact Finance Fund, focused on investing in agri- & food businesses.

IMPACT REPORT 2019

IMPACT FINANCE

Certified B Corporation

## Portfolio
as of 2019

47 million USD
Size NAV

38 million USD
Amount Disbursed

37
Companies outstanding

3.5%
Anual return to our investors

## Impact
as of 2019

1 NO POVERTY

59,670
Smallholder farmers receiving technical assistance

127%
Higher average sales price

8 DECENT WORK AND ECONOMIC GROWTH

2,622
Female permanent employees

4,222
Permanent employees

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

17
Companies with at least HACCP certification

41,739 tons
Sales/volume of FT or Organic

13 CLIMATE ACTION

143,640
Kwh/year
Energy generation from renewables

8.8
million of ha
Of forest protected

15 LIFE ON LAND

64.5
million tons
Volume of waste processed

150,000 ha
Cultivated with sustainable agriculuture

1.7
million
Trees planted

# Foreword of the Executive Directors

This special year we are celebrating the tenth anniversary of our Impact Finance Fund. Ten years of constant exploring, of dreams and disillusions, of finding the right way to comply with our mission: to finance and support companies seeking to make positive changes to our world.

To be honest, it has been a rocky road. A road of trial and error, but there is so much more that we know now! When we started, Impact Investing was still a novelty, barely a word. One thing was to invest in companies that aim to make constructive changes; but how to track the impacts of those investments? No one really knew.

And so, we set out to find the answers to that question. With success: today we are equipped with the adequate methodologies and tools to measure, report, compare, and improve the impacts of our investments, ready to continue walking the path towards a better world. We feel to have reached a milestone. Stronger than ever and strengthened in our convictions. The purpose of this year report is therefore to clearly state the mission, roadmap, and strategy of our fund, and the actions that we are taking to continue improving the agribusiness' value chains.

For us, the year 2019 has been a turning point in our efforts towards impact reporting. We managed to give shape to this nascent industry where rigorous methods as well as consensus on these methods were still lacking, by taking the following two steps:

First, we decided to reframe our Kharmax rating tool as a 'universal' ESG-analysis, to qualify every enterprise of our portfolio using a standardized list of indicators, ensuring it does 'act to do no harm' and 'benefit stakeholders'. Second, we introduced specific reporting for each substrategy using the methodology offered by the Impact Management Project (IMP), to optimize tracking and improve the impacts of our investments.

The Sustainable Development Goals of the United Nations (SDGs) remain at the heart of our impact strategy. They enable us to frame the purpose of the fund and serve as strategic guidelines for each of our sub-strategies. Yet the SDGs are not a methodology in itself. They should be considered a declaration of intention, to be measured by the methodological framework we described above.

We'd also like to introduce Ximena Montenegro, our previous Investment Officer, who since the beginning of 2020 oversees Impact Reporting. "Impact reporting has to be as rigorous and organized as risk analysis," said Ximena. Another novelty is our collaboration with Calidoscopio, our new ally in the design of our communication.

This third Impact Report aims to be a 'Manifesto' to state our Impact Investing mission, what 'impact' means for us.


**... to finance and support companies seeking to make positive changes to our world.**

**"Impact reporting has to be as rigorous and organized as risk analysis"**

**Ximena Montenegro**
Impact Reporting Officer

# Investment Strategy

How to sustainably feed the planet with ever scarcer resources, and fight global warming and poverty at the same time? The signs are clear: Climate change is a growing threat to food production and may displace millions of people in the coming decades, inequality remains a huge problem worldwide, and our natural resources are being depleted for food and energy production.

If we want to live in a better world, we need to address these challenges in the coming decades. But how? We strongly believe in sustainable economic growth, which aims to limit the harm to the environment and positively contribute to society. A growth in harmony with the planet, and with a more equal wealth distribution.

These are the core beliefs of our initiative, the Impact Finance Fund. We support inspiring and replicable businesses active in the food and agribusiness sectors, that seek to make positive social and environmental changes to our world. Companies that also generate a fair return for our investors. To us, this is what sustainable economic growth through impact investing is about.

**By supporting these companies, we aim to address the following four global challenges:**

**Livelihood:** Poverty is a huge obstacle for the implementation of better technologies for food production in rural areas. It leads to inefficient ways to produce as to the use of land and natural resources. Poverty also negatively affects social ties within families and at community level.

**Public Health:** The way food is produced impacts the health of farmers and consumers. The uncontrolled use of chemicals in food production and unsustainable waste management are a serious threat to public health. This challenge can be addressed through improved agricultural practices.

**Natural Resources:** To spare the limited resources of our planet, we need to make our food production more sustainable by using less land, less water, and by optimizing the use of chemicals

**Global Warming:** Farmers face serious challenges because of global warming. To adapt to these changes, agricultural practices need to improve crop protection against changes in temperature, rainfall or droughts, and other impacts of human-caused climate change.

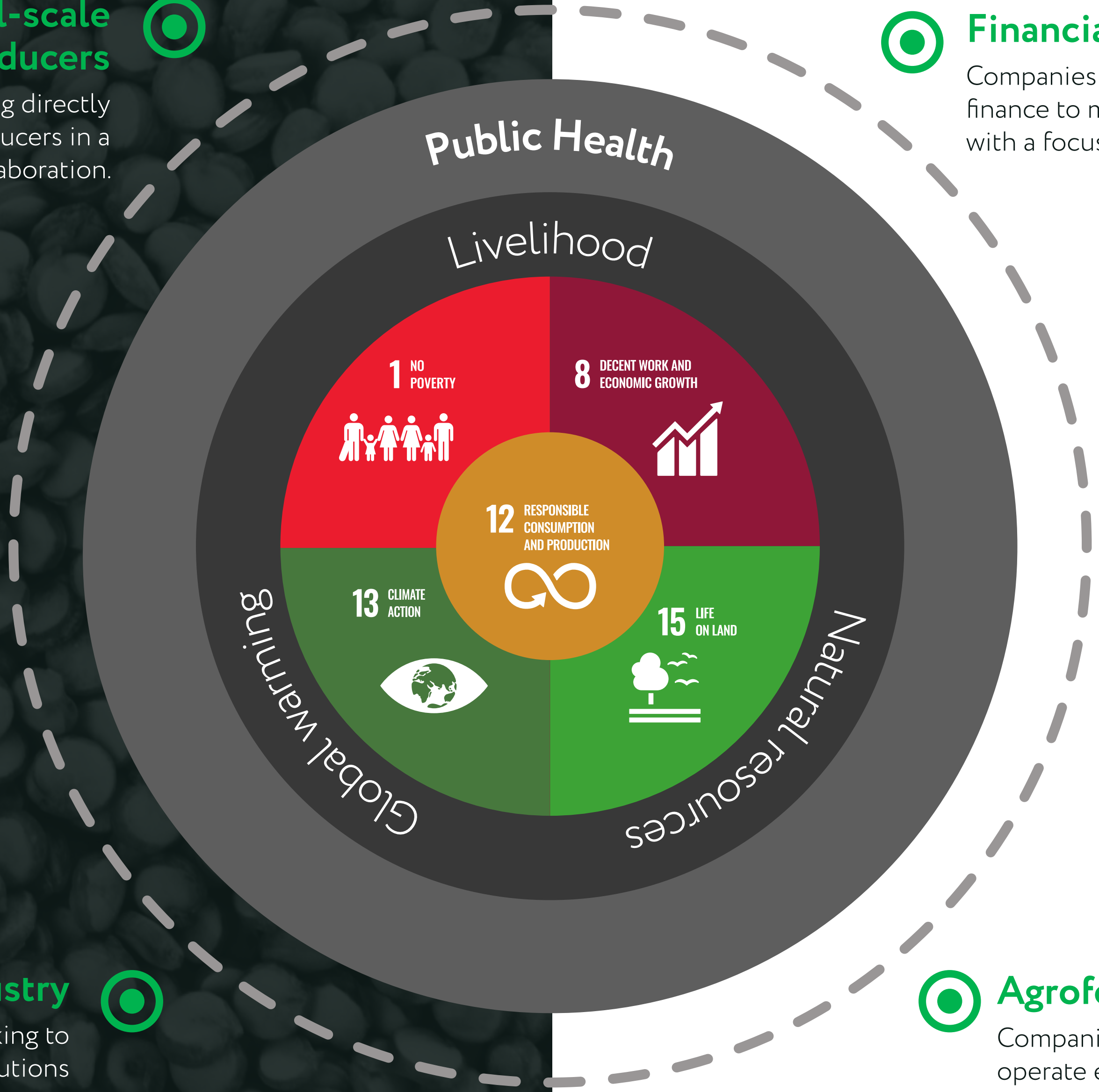
## We have defined **five substrategies** that specifically address these **global challenges**

### Small-scale Producers

Companies working directly with small-scale producers in a win-win collaboration.

### Financial Inclusion

Companies providing access to finance to micro-entrepreneurs, with a focus on rural areas.




### Integrated Farming

Farming companies that combine the use of modern technologies with natural practices to increase productivity while minimizing the use of chemicals.

### Circular Industry

Companies working to create innovative solutions for waste recovery.

### Agroforestry

Companies that sustainably operate existing plantations or forests, and with a focus on the conservation of biodiversity.

# Impact Approach reframed

Every enterprise has impacts – positive and negative ones. A great challenge of Impact Investing is to track the impacts of our investments. How to measure the social and environmental impacts of a company along their entire value chain, and how to report, compare, and improve those impacts?

These are the questions we have been trying to answer since the creation of Impact Finance Management in 2010. Back then, impact investing was still a novelty. Tools for impact tracking hardly existed, and none of them really considered the impacts 'hidden' in the value chain of the companies.

This is why in 2011 we created our own impact measuring tool: Kharmax, a web-based system to collect, monitor, and report data on impact. This tool enabled us to assess the whole value chain of our portfolio companies and compare this data with a set of categories of impact.

However, with the passing of the years we have seen the difficulty for investors to understand the diverse methodologies for impact reporting applied by the actors in the industry. A more standardized approach was needed.

There is a growing consensus about reporting under the Sustainable Development Goals (SDGs) of the United Nations. Following this consensus, we chose 6 SDGs to focus on, considering that our fund cannot possibly contribute to all SDGs equally. To integrate these SDGs into our Kharmax methodology, we extracted a set of 35 data from Kharmax and classified them under the 6 SDGs.

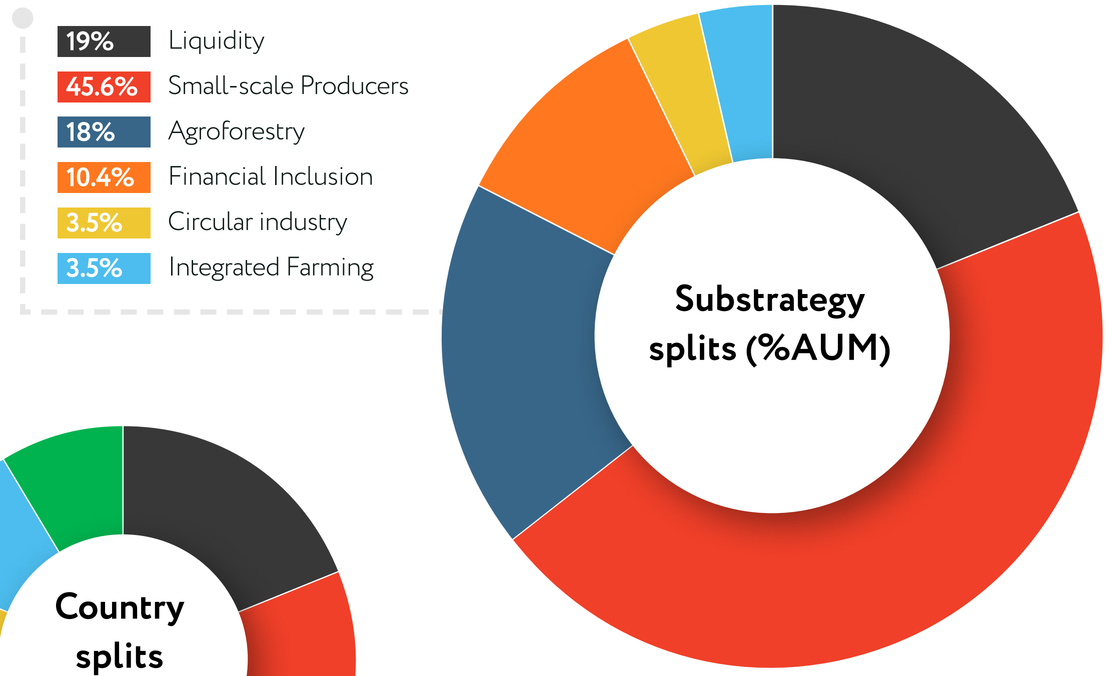
**The main strength of the IMP methodology is its focus on the intentionality and additionality of each investment.**

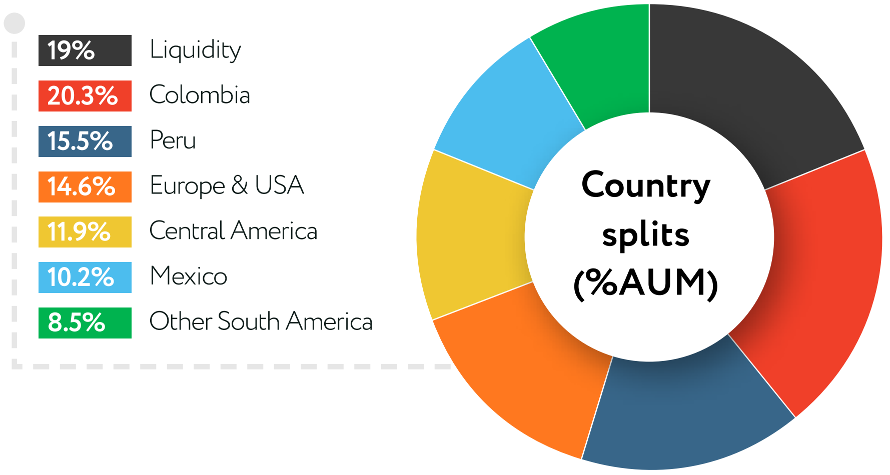
But this move to measure the intended impacts of our investments through the SDGs, also made us realize the shortcomings of the Kharmax methodology. Kharmax was designed as a tool capable of tracking a universal impact. However, while Corporate Social Responsibility can be measured and compared using a universal tool, impact cannot, as every company has its own specific impact.

Following this logic, in 2019 we decided to take further steps towards defining and tracking the impact intentions that we were pursuing through each investment. After refining our five investing 'sub-strategies,' we decided to reframe Kharmax as a 'universal' CSR-tool to qualify our portfolio companies using a list of indicators ensuring it does 'act to do no harm' and 'benefit stakeholders'.

Then, to measure the intended positive impacts within each substrategy we adopted a new impact reporting methodology: The Impact Management Project (IMP). With this framework we hope to optimize measuring and to improve the impact of our portfolio companies.

# Financing Activity in 2019

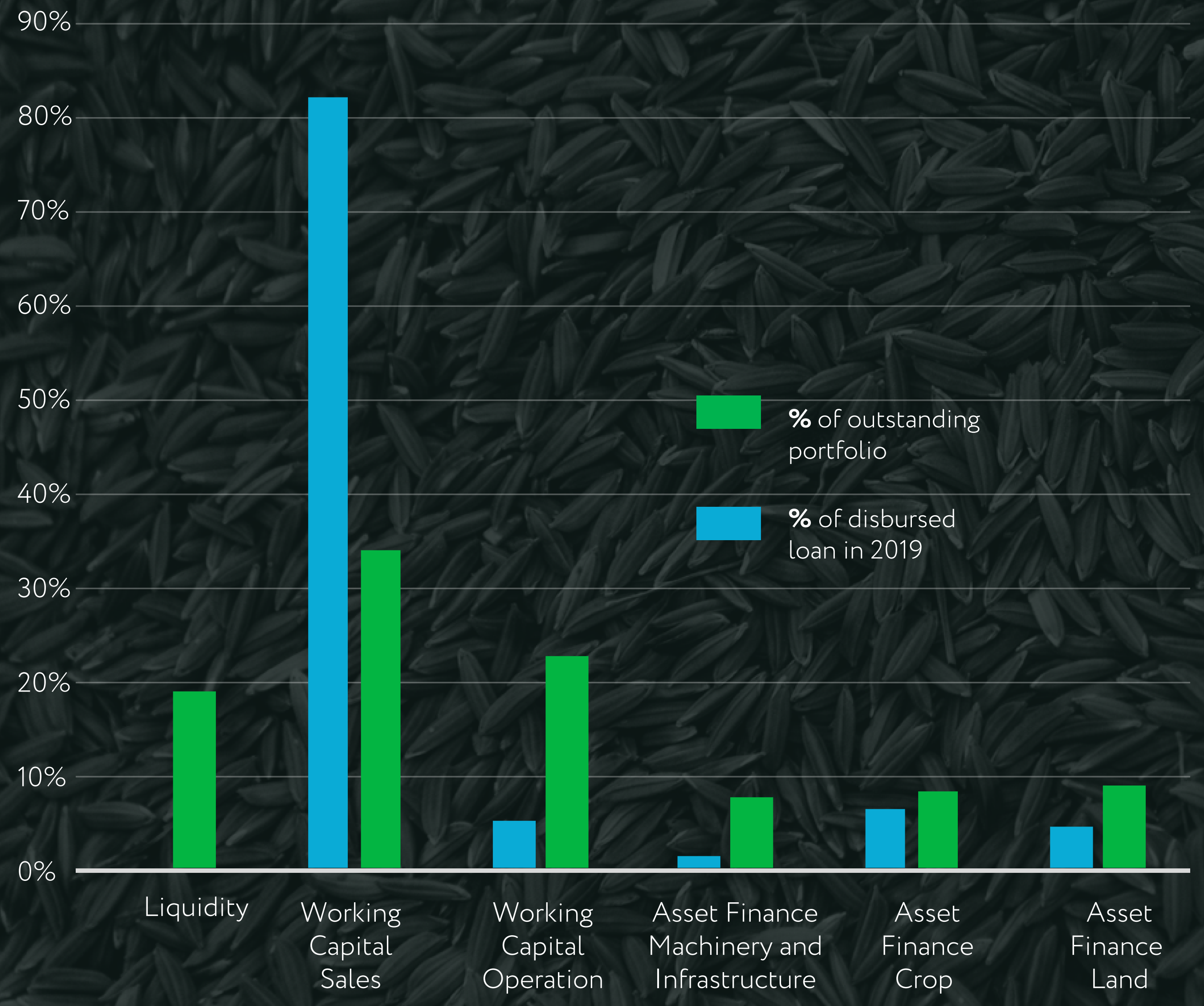


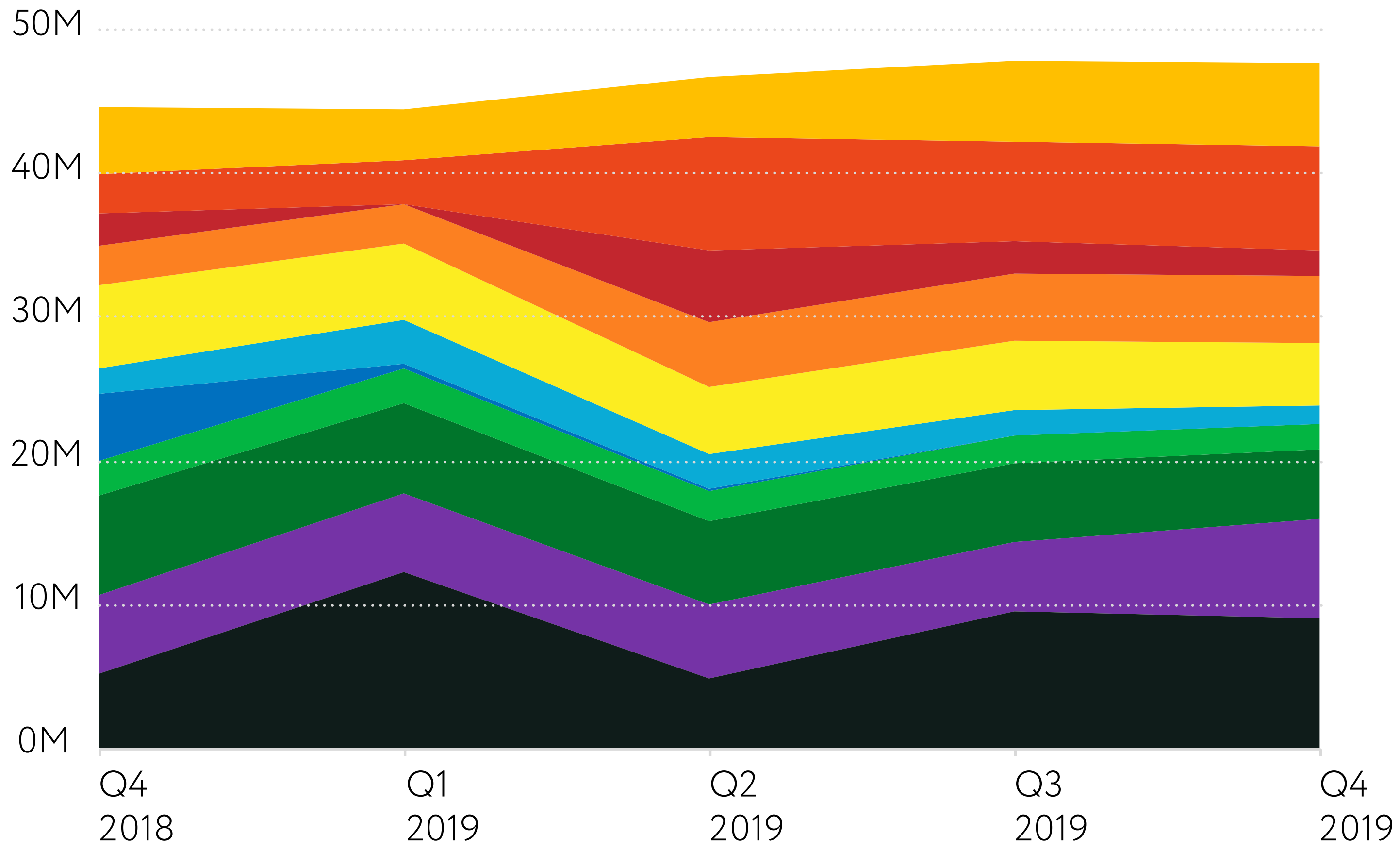

**Country splits**
Our focus is on Colombia, Peru, and Mexico, where we wish to concentrate 50% of the portfolio.

**Substrategy splits**
Small-scale Producers remains the main share of our portfolio, with 45.6 %, though it is decreasing. We aim its share to reach 35-40 % in the coming years. Agroforestry has been fast growing, mostly in nuts and cocoa. The recently introduced Integrated Farming substrategy is expected to grow, as well as Circular Industry.

**Financing Purpose**
82.2% of what has been lent in 2019 was intended to finance sales, for an outstanding portfolio of 34%. It is our intention to reduce this portion to around 25% of the outstanding portfolio, to be able to finance more operational cash flow and assets. Nonetheless, generally we start our relationship with a new company by financing short-term working capital, and we do not consider financial long-term operations until we have built trust in the management team, its business model, and their performance.



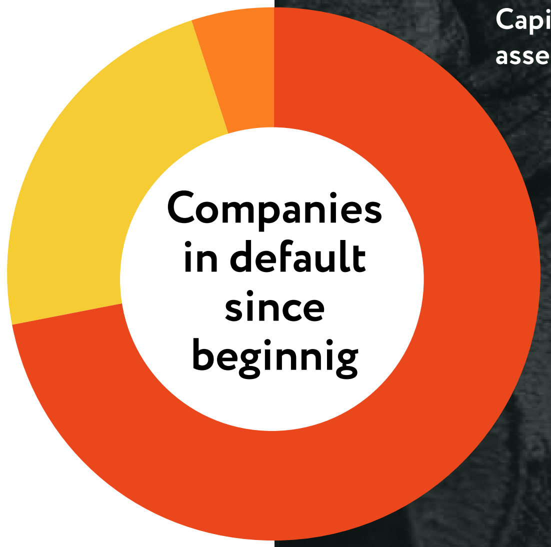
# Financing Activity in 2019




## Commodity split as of 31.12.2019 (%AUM)

- **19%** Liquidity
- **14%** Other
- **10.4%** Microfinance
- **3.5%** Recycling
- **0%** Dried Fruits
- **2.6%** Brazil nuts
- **9.4%** Hazelnuts
- **9.8%** Cacay nuts
- **3.6%** Cashew nuts
- **15.2%** Cocoa
- **12%** Coffee

**Main Commodities**
We strive to maintain the traditional commodities under 15%. In 2019, we have started to finance an agroforestry plantation project in Nicaragua, focused on a mix of cocoa an teak. Nuts form another considerable share of the portfolio, with projects that are part of different substrategies.




**72%** Use of working Capital in fixed assets

**5%** Market price drop

**23%** Governance

**Why companies exited the fund since we started?**

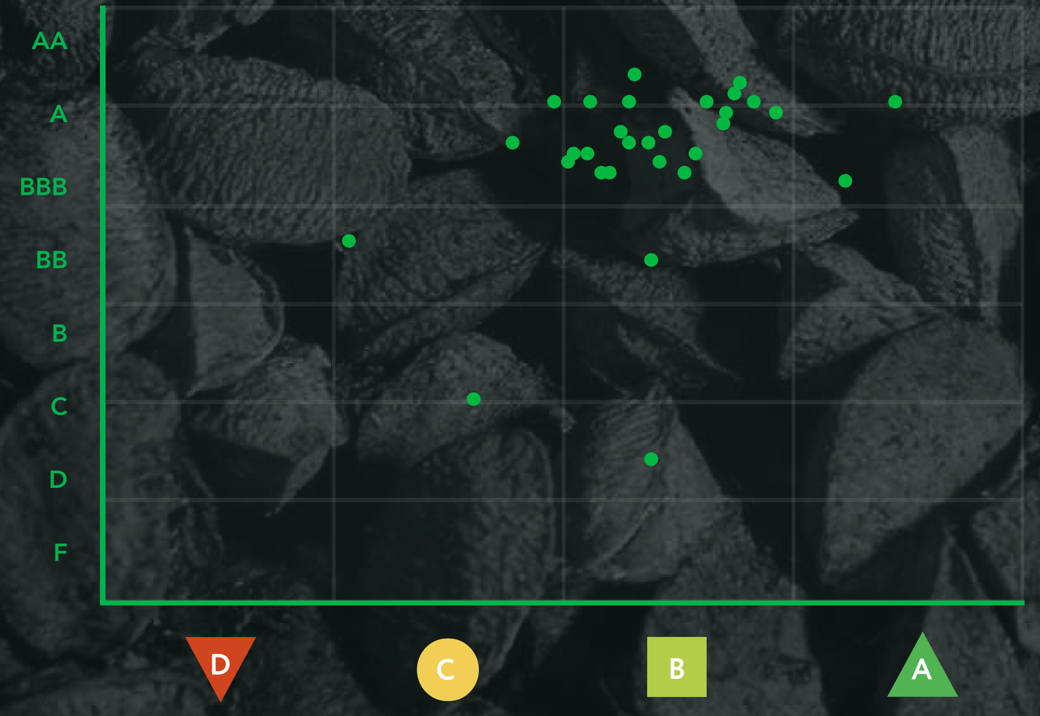
Out of the 81 companies that we financed since we started, 45 companies have exited the fund. Of those 45 companies:

- **40%** left because we considered them too risky
- **26.7%** left because the market evolution of the companies was out of our range
- **17.8%** left because the companies were not corresponding to our investment strategy
- **15.6%** were written off

Out of the 18 companies that we considered to be too risky, we dropped 12 specifically because of their deficient governance. Until 2019, we had 15 cases that we considered at risk and 7 of them have been written-off. From these cases, 60% (72% of the gross portfolio at risk) defaulted because of bad financial management, in particular the use of working capital to finance fixed assets. In 33% of the cases (23% of the gross portfolio at risk) the reason for default was bad governance - often the lack of control of the management and inadequate decision- making. The remaining 7% (5% of the gross portfolio at risk) defaulted because of an external choc related to market price fluctuation.

## Impact Finance risk rating

**Distribution of the companies**
Good correlation of the Risk and Kharmax Rating. Those companies outside the circle are under close watch.




KharmaxScore

# Transversal impact theme: Governance

Whether it is about the positive impact a company creates, its commitment to Corporate Social Responsibility, or its financial performance and risk, all these outcomes depend on the same transversal theme: Governance. Without a decent corporate governance system balancing the interests of its different stakeholders to ensure the sustainability of the company - today and for the future generations -, the business is not likely to succeed.

Good governance - the way in which a company is directed and controlled, and its capacity to align the interests of all stakeholders, such as its executives, shareholders, suppliers, and the local community – is the beating heart of every company. It determines its reliability, transparency, and integrity, and thus its risk and capacity to create impact. It is the common denominator of everything we strive for, and crucial for ESG Financing and our Impact Investing activities.

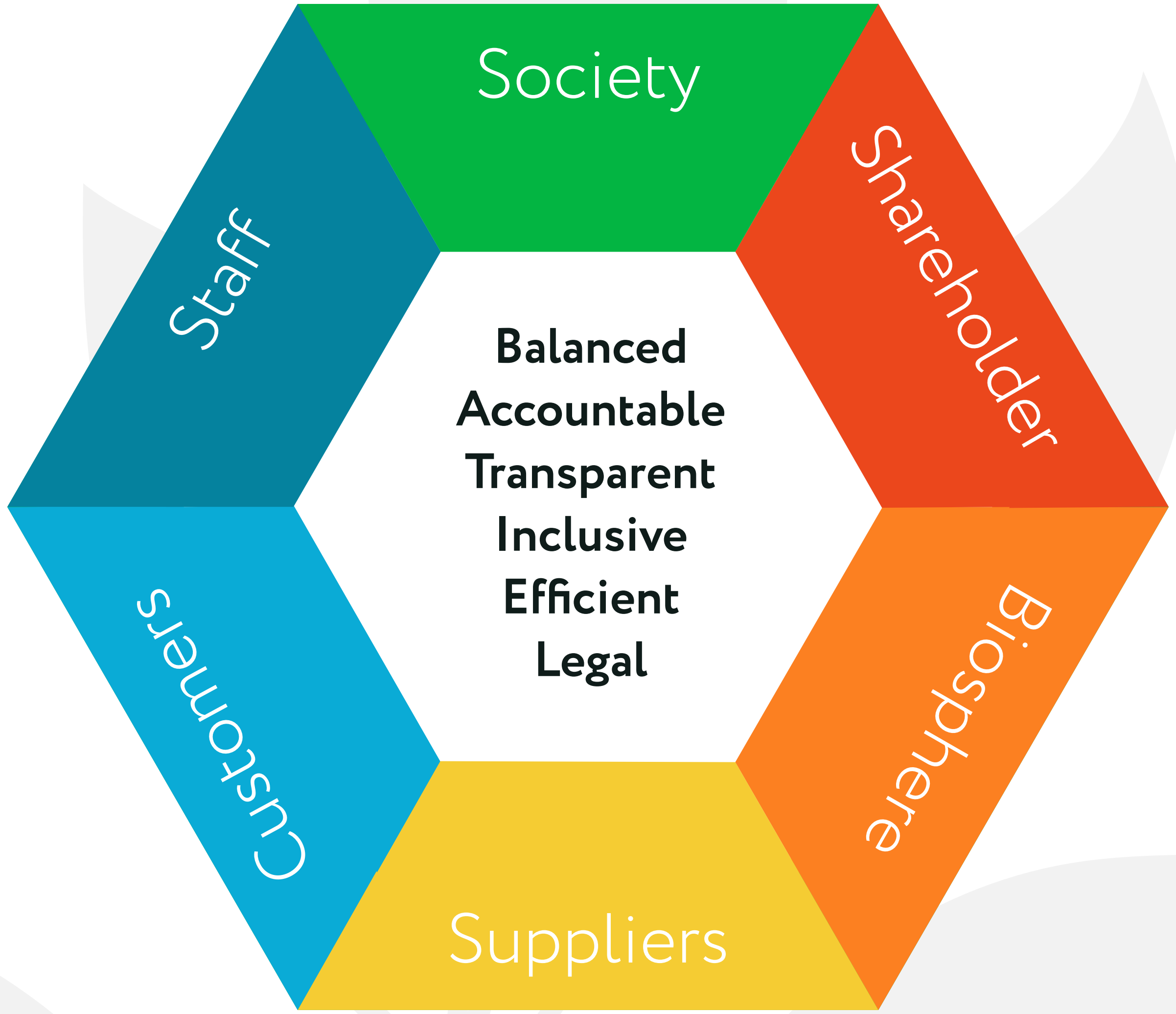
Moreover, good governance balances the extremes of predatory capitalism with the sole aim of maximizing profits, and social entrepreneurship, focused on making positive changes with less consideration for financial performance.

The key for good governance is the ability to harmonize different purposes with consensual decision-making and the company's capacity to operate while making an optimal use of its resources. Shareholders should be represented in an appropriate way, to be able to guide the company's decision-making.

Bad governance, on the other hand, often finds its source in a manager or management team unable to be challenged, controlled, or criticized. In fact, it has been the main reason for our portfolio's companies to default since we started our fund. The two most important causes leading to default were financial mismanagement and a general lack of internal controls.

For this reason, since 2019 we take a more pro-active approach to support the portfolio companies with their governance. We have started to ask our entrepreneurs to establish a board of directors with at least one expert in finance and one independent member. In some cases, we also directly intervened by including persons of our trust in the board, by imposing a finance director, or even replacing the general manager.

**...good governance is the 'sine qua non' of our Impact Finance Fund, at the heart of every single investment.**



## Substrategy
# Small-scale Producers

Companies working directly with small-scale producers in a win-win collaboration.

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KharmaxScore

**Challenges:** Smallholder farms are essential for the production of certain goods like coffee and cocoa: For example, 25 million farmer families (<5 ha) are good for 60 % of the worldwide coffee production, and 90 % of the world's cocoa production comes from 2,5 million smallholder farmers. They need to be recognized for their important role, gain visibility and be paid a fair price for their products.

However, poverty and the lack of technical assistance in rural areas lead to inefficient use of land and resources for production. Moreover, poverty has caused a rural exodus to the cities. This vicious cycle of poverty and lack of opportunities puts the local food production at risk, while the global demand keeps growing. To turn the tide, the following solutions should be adopted:

- **Productivity:** To sustainably increase smallholder farmers' productivity, the use of land and resources should be optimized by giving smallholder farmers access to better agricultural technologies and affordable inputs.
- **Prices and market access:** Smallholder farmers should have better market access, and they should be paid fair prices for their products - by consumers as well as intermediaries. This enables them to reinvest in their land and to adopt better farming practices.

**Focus on:** Companies with an inclusive business model enabling a win-win collaboration with smallholder farmers. These companies generally offer the following:

- Improved access to markets and better prices as a result of smart marketing strategies (such as a focus on origin, organic, fair trade, and quality).
- Technical assistance aimed at increasing quality and productivity through the introduction of new technologies.
- Access to production inputs at fair prices and of a better quality.


# lohas beans

Lohas Beans, a Colombian coffee company, was created in 2010 by Juan Pablo Campos. The company is certified as a B-Corp company, in recognition of the social improvements that the company enables through its associations with small coffee producers throughout Colombia. Lohas Beans mainly works with smallholder farmers, united in cooperatives of suppliers. All receive technical training for organic farming, which allows the farmers to sustainably increase their productivity and to receive better prices for their coffee. The company also buys their harvest, at better prices than those of the National Coffee Federation, its main competitor.

As of December 2019, Lohas Beans worked with 35 community associations, comprising 1,900 smallholder farmers in ten Colombian departments. The same year, Lohas Beans exported 5,540 metric tons of Fair-Trade Organic coffee. A total of 8,500 ha of organic coffee were planted, of which 3,000 have been transformed to organic farming since 2012. By helping the communities to associate in groups of suppliers, these cooperatives can create community projects funded by Fair Trade Premiums (USD 6.3M between 2016 and 2019) as well as by Lohas Beans and private donors.

Lohas Beans also contributes to the Colombian peace process through its collaboration with the cooperative of former guerrilla fighters ACOPAZ, which helps 47 former FARC-combatants return to civil life by growing organic specialty coffee, in previously war-torn lands.

The company provides the former combatants with the necessary training, technical assistance, and certification for growing organic coffee in collaboration with the governmental agency for the reincorporation of former combatants (Agencia para la Reincorporación y la Normalización, ARN). Three other local communities received the same resources for growing certified organic coffee.

IMPACT story

## What

**Outcome level in period**
Increase in the smallholder farmers income

**Importance of the outcome to stakeholder**
Smallholder farmers depend on the income generated by their farm to sustain their rural living

**SDG targets**
#1 No poverty
#12 Responsible consumption and production

## Who

**Stakeholder**
Traders, cooperatives, producer associations

**Geographical Boundary**
Latin America
Africa

**Outcome level at baseline**
Low income
Low productivity
Low control on quality

**Stakeholder characteristics**
Smallholder farmers and their families

## How much

**Scale**
71,034 smallholder farmers

## Contribution

**Timely Payment**
55% of companies pay to producers at the delivery of the product

**Farmgate price over market price**
Average 127%

**Percentage of production purchased to producers**
82%

**Technical Assistance- % of hectares converted to organic**
69%

**Suppliers receiving technical assistance over total suppliers**
84%

**Access to financial support**
17%

**Premium amount invested in community per capita**
USD 189

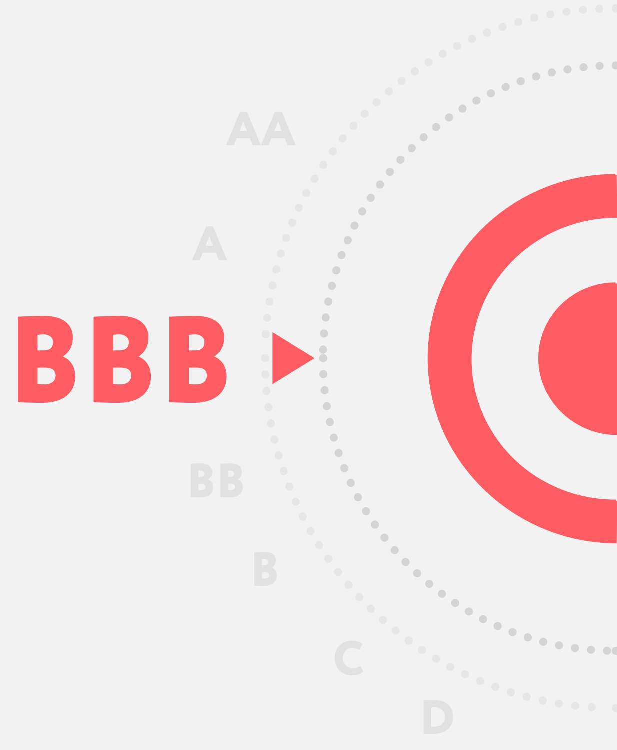
**Productivity compared to standard productivity**
113%

**Volume of FT and Organic or Equivalent sold**
41,736 Tons

**Turnover of FT and Organic or equivalent**
USD 106 million

## Risk

**Average risk rating**




IMPACT
MANAGEMENT
PROJECT

Substrategy Analysis
# Small-scale Producers

13 CLIMATE ACTION

15 LIFE ON LAND

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

## Substrategy
# Agroforestry

Companies that sustainably operate existing plantations or forests, and with a focus on the conservation of biodiversity.

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KharmaxScore

**Challenges:** Forests worldwide are being destroyed by the humankind for traditional agriculture and cattle raising, for mining and oil exploitation or to build roads. Deforestation in Latin-America is rapidly destroying the Amazon, with disastrous consequences: From global warming due to the change of land use, to erosion of the soil leading to floods, as well as a loss of biodiversity. Also, elsewhere on the continent primary forests are being cut and burnt down, such as Andean forests and tropical rainforests outside the Amazon.

Besides preserving the remaining forests, it is crucial for the survival of humankind and terrestrial ecosystems to replant forests, to regenerate biodiversity, and to practice sustainable agriculture. This can be achieved through the implementation of agroforestry, a dynamic and ecologically based system for land management in which trees and shrubs are integrated in the agricultural landscape, planted around or among the crops and pastureland. The combination of forestry and agriculture has multiple benefits, such as an increased biodiversity, mitigation of global warming, and reduced soil erosion.

Focus on: Companies focused on reforestation and forest conservation. These companies should strive for the following:

- To enhance biodiversity by restoring ecological habitats and by preserving habitat buffer zones to protect primary forests.
- To add value to the forest and its preservation to become economically viable for communities.

# MLR

MLR Forestal de Nicaragua was established in 2010 by the three entre-preneurs Randall Martin, Tom Lough and Sergio Rios. The agroforestry company operates certified cocoa and teak plantations in the buffer zone around the Bosawas Biosphere Reserve. This 20 million ha reserve is a well-preserved tropical rainforest in the north of Nicaragua, bordering Honduras. Declared a UNESCO-site, it is the second largest rainforest in the Western Hemisphere after the Amazon forest.

The buffer zone, however, is suffering from destruction and deforestation for informal mining, ranching and traditional agriculture. The aim of MLR is to strengthen the areas around the reserve by managing sustainable plantations, while leaving 20-30 % of the land to be vegetated with native species. This provides protection to the soils, waterways, habitats, and transit zones for local fauna. As of 2019, a total of 2,521 hectares have been planted (1,832 teak and 689 cocoa), and the aim is to reach 5,202 hectares by 2030. Also, the company is protecting 1,894 hectares of primary forest. MLR operates under the best practices and standards in the industry, with certifications from FSC and UTZ.

Another goal is to create sustainable jobs for the local population, which has one of the highest poverty rates of the country. The project should employ 600 people when at its full capacity. The objective is to showcase a profitable economic alternative to the region colonized mainly for the purpose of mining and with few economic opportunities for the impoverished population.

IMPACT story

## What

**Outcome level in period**
Forest plantation and/or preservation

**Importance of the outcome to stakeholder**
Preservation or plantation of forest is key for ecosystems and in the fight against global warming

**SDG targets**
#12 responsible production and consumption
#13 climate action
#15 life on land

## Who

**Stakeholder**
Planet

**Geographical Boundary**
Latin America

Outcome level at baseline
Deforestation for agriculture to sustain human settlement

**Stakeholder characteristics**
Tropical Rain Forest

## How much

**Scale**
Not Relevant (Planet)

## Contribution

**$CO_2$ Capture**
46,193 million tons

**Hectares of forest protected**
8.8 million

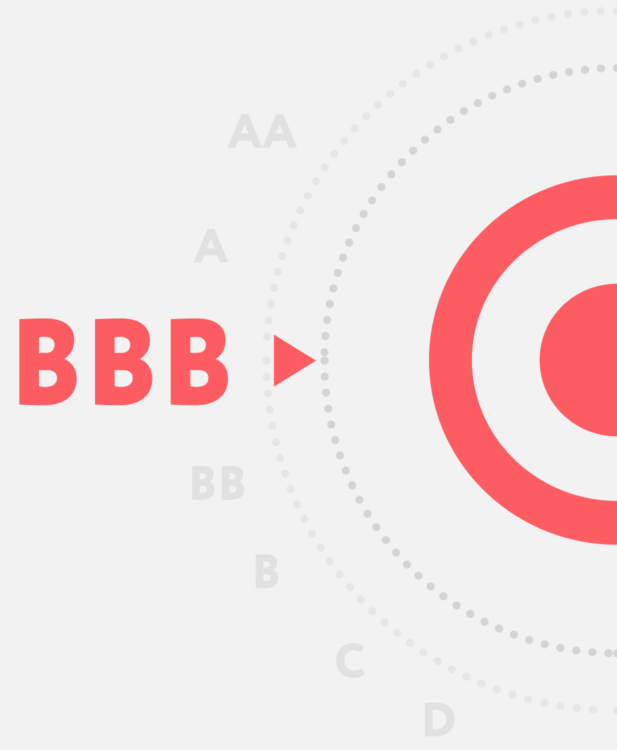
**Number trees planted**
1.7 million

**Hectares of forest planted/restored**
2,174

**Number of species that reappeared**
109 fauna
554 flora

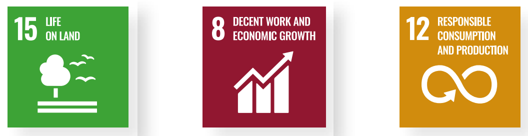
## Risk

**Average risk rating**




IMPACT MANAGEMENT PROJECT

**Substrategy Analysis**
## Agroforestry




# NaturAgui

## Substrategy
# Integrated Farming

Farming companies that combine the use of modern technologies with natural practices to increase productivity while minimizing the use of chemicals.

**Challenges:** The growing world population needs to be fed, but we also need to preserve our planet's natural resources. Intensive farming, unfortunately has many negative impacts on the environment - such as degradation of the soil, pollution, loss of biodiversity, and global warming. The challenge is to increase food production while taking care of the environment by making an optimal use of technologies and natural resources.

A sustainable solution is the introduction of integrated farming, a farm management approach which seeks to balance these conflicting challenges by combining the protection of the environment with the maximization of productivity. This can be achieved through the introduction of smart technologies and farming methods such as permaculture, hydroponic systems and regenerative agriculture, which aim to reduce the use of pesticides and to protect biodiversity. This way we can preserve the planet's natural resources for future generations, while ensuring a sustainable food production for now.

**Focus on:** Companies that use practices such as regenerative agriculture, hydroponic systems, and other approaches to integrated farming to maximize production with less resources. In particular, we look for the following:

- The creation of sustainable employment in rural areas, especially for women.
- Projects with a focus on limiting the use of water and energy, and on waste management.

NaturAgui is a producer and exporter of sustainably grown berries in the Mexican state of Guanajuato. The NaturAgui Group, a group of companies around NaturAgui, is 50% owned by the Californian berry producer and trader Naturipe, and the other 50% belongs to a Mexican family of landowners in the rural area of Irapuato, Guanajuato. The past 15 years the family has concentrated on growing strawberries, blackberries, blueberries, and raspberries, a business that was recently strengthened through the alliance with Naturipe.

The berries, packed and cooled by NaturAgui, are sold through the company Hortifruticola to Naturipe's affiliate in Mexico: Naturberry. This construction guarantees an adequate profitability throughout the supply chain and therefore, the sustainability of the business group. Thanks to this alliance and to the construction of a processing facility for a new frozen berries business line, NaturAgui has been able to establish a profitable export business while creating sustainable job opportunities for the local population - who otherwise might emigrate because of the lack of jobs in Guanajuato. The majority of the employees are women: 120 fixed and 1,080 temporary employees, out of 150 and 1,350 respectively, in the rural area are female. They receive a decent salary, health insurance, paid vacations, and retirement benefits.

NaturAgui's berries are grown with protected agriculture, using macro-tunnel farming to reduce the use of pesticides and fertilizers, limit the use of water, and protect the berries from harsh weather conditions. Also, the company is working on a pilot project to produce strawberries in a hydroponic system.

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**KharmaxScore**

IMPACT story

# What

**Outcome level in period**
Quality job creation, especially for women and efficient use of land and resources

**Importance of the outcome to stakeholder**
Rural exodus is generated by lack of opportunities and lack of technologies to increase sustainability

**SDG targets**
#8 Decent work and economic growth
#12 Responsible consumption and production

# Who

**Stakeholder**
Rural Employees, Planet

**Geographical boundary**
Mexico & Peru

**Outcome level at baseline**
Lack of work opportunities and lack of investments in rural areas

Low efficiency of land use and resources use

**Stakeholder characteristics**
Rural employees, mainly women with unemployment rate of 25%

# How much

**Women who are permanent employees in rural areas**
77

**Permanent employees in rural areas**
112

**Female temporary employees in rural areas**
1,763

**Temporary employees in rural areas**
2,209

**Indirect employees**
25

**Indirect women employees**
300

# Contribution

**Child labor with indirect employees**
75% of companies have measures and policy of child work control in place with on-site inspections to ensure its compliance

**Measures to prevent child labor inside the company**
66% of companies have relevant job descriptions and systematic id controls

**Salary and Social Benefits**
60% of the companies have higher salaries than the market pays, plus social benefits

**Gender and Human Resources management**
66% of companies have a gender policy

**Number of man´s day work level**
183,820

**Water use vs standard water use**
Companies use on average 18% more water than the standard industry

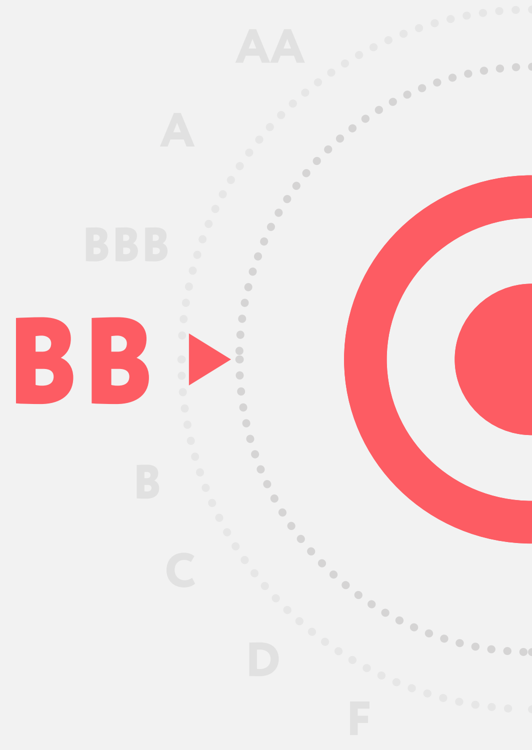
**Land use vs standard land use**
Companies have on average 23% more output of product per hectare than the standard industry

**Annual expenditure in pesticides vs standard annual expenditure**
Companies spent 57% less money on chemical pesticides than the average of the industry

**Annual expenditure in fertilizer vs standard annual expenditure**
Companies spent 33% less money on synthetic fertilizers than the average of the industry

# Risk

**Average risk rating**




IMPACT MANAGEMENT PROJECT

## Substrategy Analysis
## Integrated Farming

## Substrategy
# Circular Industry

Companies working to create innovative solutions for waste recovery.

B

C C B A B A

KharmaxScore

**Challenges:** In today's linear economy, raw materials are taken from the environment to be turned into consumer products that are thrown away eventually. This system is depleting our Earth's already limited natural resources and leads to the accumulation of polluting waste.

In a circular economy, on the other hand, products and materials are used more efficiently by using them as long as possible. It means using, re-using, sharing, repairing, recycling, and in the last stage converting the waste into a source of energy. This way, more value is created for the same resources, while minimizing the pressure on the environment.

**Focus on:** Companies working to create innovative solutions for waste recovery. The agribusiness creates a lot of waste, which makes it essential to think of circular solutions to reduce that waste to a minimum. The companies we focus on should strive for the following:

- Eliminate waste by composting biodegradable materials, or, when it's a non-biodegradable material, to recycle the waste and turn it into a new product.
- Cut down on the use of chemicals (another way to help regenerate the ecosystem) and bet on renewable energy.

# *INDEF*

INDEF is an integrated forestry company in Chile active in the entire forestry chain. The company, based in Los Angeles (Chile), was founded by agroforestry engineer Héctor Troncoso, and it employs more than 800 people in the region. INDEF is the only Chilean company active in the entire forestry chain. The cycle begins with the planting of 100% FSC-certified trees, mainly for the paper industry, and ends with the transformation of timber waste into wooden pellets for the biomass energy industry.

Indef, a group of companies, specializes on two pillars. The first is the management of forestry services, such as the planting and maintenance of pine forests. Second is the recollection, processing and selling of biomass for energy production. This timber waste, such as sawdust, wood chips and shavings, would otherwise end up accumulating and polluting the environment since composting this waste is difficult. By transforming the waste into pellets, the biomass becomes a sustainable source of energy. Initially, Indef sold its biomass on the local energy market. However, the competition of other renewable energies in Chile, such as wind and solar, is high, which is why in 2017 the company decided to start transforming their biomass into sustainable wooden pellets destined for energy production plants in the European Union and Japan. Both are in the process of shifting to renewable energies to cut down on the use of coal and nuclear energy.

In 2019, INDEF processed 1,375,669 cubic meters of biomass. Its current production capacity is 125,000 tons of pellets per year, with a projected growth to 375,000 tons of pellets per year.

IMPACT
story

## What

**Outcome level in period**
Use of waste produced by a specific industry, mainly in agro-industry

**Importance of the outcome to stakeholder**
Amount of waste processed

**SDG targets**
#8 Decent work and economic growth
#12 Responsible consumption and production

## Who

**Stakeholder**
Planet

**Geographical Boundary**
South America

**Outcome level at baseline**
Accumulation of waste is detrimental to the environment

**Stakeholder characteristics**
All kind

## How much

**Scale**
Not relevant (planet)

## Contribution

**Energy generation from renewables**
143,640 Kwh/year

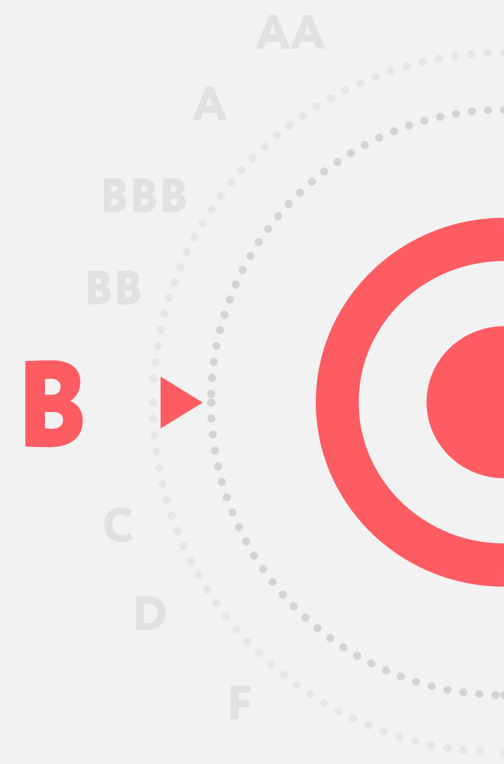
**Tons of waste valorized**
64.5 million tons

**Tons of raw material unused**
15,000 tons

**$CO_2$ emissions compared to standard**
5.3%

## Risk

**Average risk rating**




IMPACT MANAGEMENT PROJECT

Substrategy Analysis
# Circular Industry

## Substrategy
# Financial Inclusion

Companies providing access to finance to micro-entrepreneurs, with a focus on rural areas.

B C B A A A A

KharmaxScore

1 NO POVERTY · 12 RESPONSIBLE CONSUMPTION AND PRODUCTION · 8 DECENT WORK AND ECONOMIC GROWTH

**Challenges:** Financial Inclusion is key to reduce poverty and enable upwards mobility. Since the beginning of the century, access to microcredit has been increased exponentially. In 2019, in Latin America, 22.2 M entrepreneurs received loans, enabling them to start or expand their businesses. But rural areas, where most poverty is concentrated, accounted for only 23% of these loans. Many smallholder farmers, for various reasons, cannot access the credit needed for investments in their farms –they often live in remote areas with lack of infrastructure, and also the seasonality of their crops complicates getting a loan and thus, they find themselves unable to make investments. They cannot buy seeds or fertilizers, nor invest in technologies to make a better use of their land and resources. This keeps smallholder farmers in the same vicious cycle of poverty and vulnerability.

Through microfinance, these smallholder farmers - excluded from traditional financing services - can gain access to the capital needed for their farms. These microloans should have a repayment scheme tailored to the seasonality of the agribusiness, meaning that a farmer may not be able to pay back until after the harvest for example.

**Focus on:** Microfinance institutions specialized in financing agricultural activities in rural areas. These institutions should offer the following:

- Fair interest rates.
- Innovative approaches to limit the risks of the loans, such as group lending, village banking, and value chain financing.
- Other services that favor rural economic development, like the introduction of farm technologies and education, through alliances with providers of agricultural services.

# sembrar sartawi

Sembrar Sartawi is a Bolivian Development Finance Institution (DFI) focused on financing and supporting smallholder farmers in rural areas. The DFI, with a portfolio of USD 47,7 M and more than 28,000 clients, stands out for its integrated approach to rural financing and development. Its financial services are tailored to the needs of rural smallholder farmers, complemented with financial education, technical assistance to improve their crops, and access to markets, with the aim of improving their quality of life. Currently 45 % of the portfolio is placed in the productive and agricultural sector.

The DFI has the support of expert institutions in the creation and development of microfinance institutions in Bolivia such as BancoSol and Banco PRODEM, institutions that have become world benchmarks in microfinance. Since 2009, Sartawi has the goal to bring microfinance to rural areas with little financial connection. To balance the risk of the rural portfolio, the rural side of the operation is complemented and subsidized with a (more predictable) urban portfolio. Sembrar Sartawi provides individual loans, communal banking, insurances, and basic financial services. Before getting access to credit, clients receive financial education about investing principles and business skills.

Sembrar also assesses the individual situation of every client to advise, for example, which crops to plant, followed by visits of local agronomists for technical assistance on the spot. Moreover, since 2019 Sembrar has introduced the first agricultural micro-insurance in Bolivia, to mitigate the effects of climatic events such as drought, frost or floods, which are the most common threats for smallholder farmers. Finally, Sembrar Sartawi has made alliances with large buyers from different industries to help the farmers sell the products financed with their loans. With this integrated approach the risks characteristic for agricultural financing are minimized, enabling smallholder farmers to sustainably grow their businesses.

IMPACT story

## What

**Outcome level in period**
The objective of the working capital loan is to allow Sembrar to fulfill its pledge of providing financial services to entrepreneurs at the base of the pyramid.

**Importance of the outcome to stakeholder**
Loans disbursed In 2019

**SDG targets**
#1 No Poverty
#12 Responsible consumption and production

## Who

**Stakeholder**
Entrepreneurs at the base of pyramid

**Geographical Boundary**
Bolivia & Mexico

**Outcome level at baseline**
29,200 total clients in 2017

**Stakeholder characteristics**
Urban entrepreneurs
Small producers students

## How much

**Scale**
159,919 Small holder farmers

271,682 of other beneficiaries at the BoP

8,831 students

## Contribution

**Portfolio at Risk >30 days Ratio**
Average 10.75%

**Write-off ratio**
Average 2%

**Percentage of unique clients**
0%

**Rural focus**
Average 24.3%

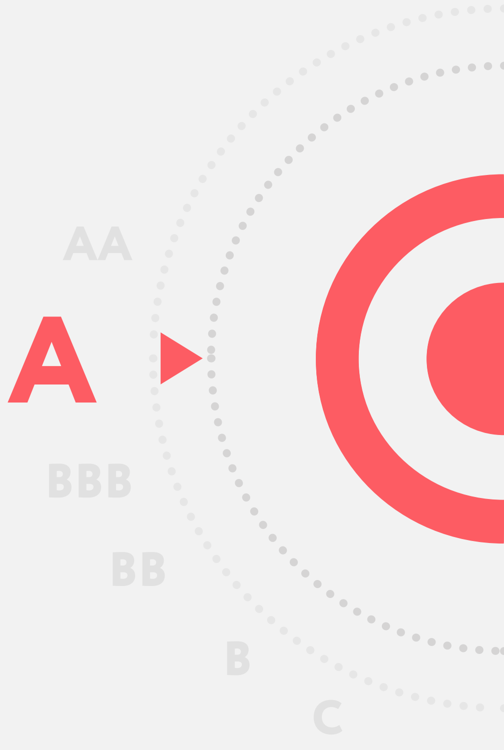
**Ethical staff behavior**
66% of the companies conduct active controls with particular focus on the ethical behavior of the staff, and they provide trainings to the staff and information to the clients about their rights

**Client training and transparency**
100% of companies offer a wide array of trainings related to product use, business, advisory on overindebtness

**Interest rate differential**
Average 22% below MFI industry

## Risk

**Average risk rating**




IMPACT MANAGEMENT PROJECT

Substrategy Analysis
# Financial Inclusion

## Methodology
# Kharma Score

Kharmax collects 61 indicators that are applied to each company, regardless of their sector and sub-strategy. 38 indicators are qualitative ones. These 61 indicators are classified in 6 categories and 17 sub-categories, and the rating of each category is the result of its accumulated indicators.

We distinguish 4 ratings: “A”, meaning that a company strives to benefit its stakeholders, “B”, and “C”, which indicate that the company avoids doing harm, and “D”, which shows that the company is uninterested in benefiting its stakeholders.

In our new measuring scheme, Kharmax serves primarily as a tool to provide companies with benchmarks to improve their general approach towards impact and CSR.

### Economic
(14 indicators)

**Profit sharing inside the company**: The wealth generated by the company is distributed to its inner stakeholders in an equilibrated way.

**Community:** A set of indicators considering the investments done and the impact on the communities in which or with whom the company works.

### Environmental
(7 indicators)

**Pollution:** Indicators regarding the disposal of used water and waste, and the monitoring of greenhouse gases emissions during the production process and transport.

### Governance
(14 indicators)

**Commitment and social mission:** Indicators revealing the values and the explicit mission towards avoiding harm and doing good.

**Representation of stakeholders in the governance:** The diversity of the board and the presence of independent members are key elements of its capacity to respond to its mission.

**Transparency:** The quality of information enables the company to take the right decisions and to avoid conflict of interests.

**Corruption:** The key element is to avoid conflict of interests in particular with suppliers and stakeholders.

### Human rights
(5 indicators)

**Procurement:** The company is revising that its key suppliers are respecting human rights.

**Workers-union:** The company respects the employees' right and capacity to organize themselves.

**Child labor:** The company actively avoids child labor inside the company as well as among its suppliers. In particular for those working with smallholder farmers, the prevention of child labor should be a focus of attention.

**Forced labor:** The company actively avoids forced labor among their staff and their stakeholders.

### Labor practices
(15 indicators)

**Diversity & equality:** Gender equality of opportunities and conditions are important.

**Employment:** Working conditions are good and transparent as well as the recruitment process and the career plans.

**Health & safety:** Best practices are followed to ensure the health and safety of the staff.

**Training:** On-going training of the staff in order to have them evolve with the company.

### Product responsibility
(6 indicators)

**Product quality:** The company shall ensure the best production process and adequate control as well as channels for customers' complaints.

**Transparency and compliance:** Information shall be fully disclosed on the products as well as to the customers.

# Kharmax Score

Methodology

# Impact Management Project

The main strength of the IMP methodology is its focus on the intentionality and additionality of each investment. Instead of a rating, IMP provides a framework to assess the breadth and depth of the intended impact of each company.

The impact of a company is presented through 5 dimensions, which together give a comprehensible overview of the impact of an enterprise. Each dimension counts with impact data categories. Out of the 15 impact data proposed by the IMP methodology, we have decided to use 10, and we decided to add 41 new indicators under the 'contribution' category, distributed over the 5 substrategies. For more information about the Impact Management Project visit:

**impactmanagementproject.com**

IMPACT MANAGEMENT PROJECT

## What

**The first dimension focuses on defining the intentionality. It defines the impact aimed by the company and its importance to the stakeholders.**

**Nature of the impact aimed / outcome:** Definition of the outcome that the investment project is looking for.

**Importance of outcome to stakeholder:** Assesses the relevance of the outcome to the intended stakeholder.

## Who

**This dimension identifies the stakeholder that the impact is aimed at, and the relevance of that outcome in their everyday life.**

**Stakeholder:** Who is the investment project targeted at? Stakeholder experiencing the aimed impact.

**Geographical Boundary:** The geographical location where the outcome is being experienced.

**Outcome level at baseline:** What are we expecting to change. Assess the baseline reference to which we will compare the aimed impact.

**Stakeholder characteristics:** Description of the socio-demographic and/ or behavioral characteristics and/or ecosystem of the stakeholder.

## How much

**The third dimension assesses the breadth (how many stakeholders were impacted) and depth (degree to which a project provides lasting, positive changes in a person's life) of the outcome.**

**Scale:** The number of individuals experiencing the outcome. When the planet is the stakeholder, this category is not relevant.

**Depth:** Difference between the outcome level at baseline and the outcome in period.

**Duration:** The period for which the stakeholder experiences the outcome

## Contribution

**Contribution is frontally tackling the question of additionality and frames the outcomes. The estimated degree of change is calculated through a list of indicators that are comparable for each project in a specific substrategy.´**

We have decided to limit the indicators to the most relevant common denominators and comparable among the different projects. The contribution also enables the manager to compare the outcomes of each investment and define whether it is worth to continue supporting it.

## Risk

**The IMP methodology defines nine types of possible risks. Through the risk due diligence that Impact Finance sytematically performs before investment and every year, we are overviewing them all. If the company does not perform well, it will never achieve its aimed impacts.**

**Risk rating:** Impact Finance proprietary risk rating considers internal and external risks of the company around three pillars:

**Organization risk (17 ratings):** shareholders, governance, management , human resources

**Economic risk (33 ratings):** assets, liabilities, income statement, cash flow

**Value chain risk (15 ratings):** supply, product, process, market

## Substrategy
# Small-scale Producers

10 indicators

## Contribution

**Timely Payment:** Indicator that assesses when the payment is made to the producer.

**Farm gate price over market price:** Indicator that measures the differential of the average sale price in relation to the local market price.

**Percentage of production purchased to producers:** Production purchased from smallholder farmers over their total production

**Technical Assistance- % of hectares converted to organic:** Number of hectares that were converted to organic certified production during the period over total number of hectares.

**Suppliers receiving technical assistance over total suppliers:** Number of suppliers receiving technical assistance over total suppliers.

**Access to financial support:** Indicator that measures the number of suppliers that received financial support during the period over total number of suppliers.

**Premium amount invested in community per capita:** Total premium amount over total members of community.

**Productivity compared to standard productivity:** Indicator that measures the differential between the productivity of the suppliers of the company and the national average.

**Volume of FT and Organic or equivalent sold:** Tons of Fair Trade and Organic product sold during the period.

**Turnover of FT and Organic or equivalent:** Total sales of Fair Trade and Organic products made during the period

## Substrategy
# Integrated Farming

13 indicators

## Contribution

**Child labor with indirect employees:** Qualitative indicator that seeks to measure how rigorous the company's control policies are against child labor among its indirect employees.

**Measures to prevent child labor inside the company:** Qualitative indicator that seeks to measure how rigorous the company's control policies are against child labor inside the company.

**Salary and social benefits:** Qualitative indicator that assesses how the company's salaries and social benefits compare to the local employment market in a similar activity.

**Gender and Human Resources management:** Qualitative indicator that evaluates to which extent gender issues are included in Human Resources management.

**Number of man´s day work level:** Number of man´s day worked level per hectare times total amount of hectares exploited by the company.

**Water use vs standard water use:** Indicator that compares the volume of water used per hectare by the company to the standard industry use of water per hectare.

**Land use vs standard land use:** Indicator that compares the output per hectare to the standard industry output per hectare.

**Annual expenditure on chemical pesticides per hectare compared to standard:** Indicator that compares the annual expense on chemical pesticides per hectare to the industry expense per hectare.

**Annual expenditure on synthetic fertilizer per hectare compared to standard:** Indicator that compares the annual expense on synthetic fertilizer per hectare to the industry expense per hectare.

**Pest Control:** Qualitative indicator that evaluates the use of natural pesticides and techniques to manage pests.

**Use of fertilizers:** Qualitative indicator that evaluates the use of natural fertilizers and alternative techniques to increase productivity.

**Working conditions of employees - On-site housing:** Qualitative indicator regarding the safety, hygiene and power conditions of the on-site housing provided to employees.

**Quality and variety of training for managers and staff:** Qualitative indicator that examines the quality and variety of the training provided to the staff and the management.

Methodology

# Impact Management Project

## Substrategy Circular Industry

5 indicators

### Contribution

**Energy generation from renewables:** Indicator that measures the energy produced during the period with the product (kwh/year).

**Tons of waste valorized:** Indicator that measures how much waste was taken out of the cycle by the end of the year.

**Tons of raw material unused:** Indicator that measures how many tons of raw material were replaced.

**$CO_2$ emissions compared to standard:** Indicator that compares the direct emissions of Greenhouse Gases (GHG) by weight with the standard direct emissions of GHG by weight.

**Tons of substitute material unused:** Indicator that measures how many tons of the substitute material were replaced by the end of the year.

## Substrategy Financial Inclusion

7 indicators

### Contribution

**Portfolio at Risk >30 days ratio:** Indicator that measures the amount of the portfolio due at 30 days and the capital remaining to be paid over gross outstanding portfolio.

**Write-off-ratio:** Indicator that measures the amount of loans written-off at the end of the period.

**Percentage of unique clients:** Indicator that measures the number of exclusive clients within the portfolio at the end of the year over total number of clients.

**Rural focus:** Indicator that measures the number of clients that live in rural areas over total number of clients.

**Ethical staff behavior:** Qualitative indicator that assesses if there is a way to control and check the staff's ethical behavior toward clients.

**Client training and transparency:** Qualitative indicator that examines the range and the quality of the trainings provided to clients.

**Interest rate differential:** Indicator that measures the difference between the average interest rate offered by the company compared to the local microfinance industry rate.

## Substrategy Agroforestry

5 indicators

### Contribution

**$CO_2$ captured:** Indicator that measures how much $CO_2$ is captured by an average tree planted during the period.

**Hectares of forest protected:** Indicator that quantifies how many hectares of forest are preserved.

**Number of trees planted:** Indicator that quantifies how many trees were planted during the period.

**Number of hectares of forest planted/restored:** Indicator that measures the number of forest planted/restored during the period.

**Number of species that reappeared:** Indicator that measures the total number of species (plants and animals) that reappeared by the end of the year.

# IMPACT FINANCE

IMPACT REPORT 2019

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