



# ANNUAL REPORT

2018



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## Colophon

### Editing team

Irène Angot, Caterina Giordano, Pierre Rialland, Audrey Timmermans, Jean-Marc Debricon and Georges Karras

### Translation

IGTV

### Proofreading

Njeri Muita and Michael Musau

### Design

Georges Karras

### Data visualizations

Pierre Massat ([mavromatika.com](http://mavromatika.com)) and Marta Sierra García ([martasierragarcia.com](http://martasierragarcia.com))

### Images

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# FOREWORD

Dear readers,

Twenty-five years on, Alterfin remains an important and unique player in sustainable development.

Important, because since its inception, Alterfin has distributed no fewer than 1,400 loans to 300 partners, with a cumulative total approaching half a billion euro. Over the years, our shareholders have been able to meet some of these partners at our General Assemblies and witness their remarkable journeys. For many of them, Alterfin was the first international lender. For the majority, the first loan was just 150,000 euro. They include ECOOKIM and FDL, and today, one provides services to thousands of Ivorian cocoa smallholder producers and enables them to access the fair trade market, while the other offers loans to tens of thousands of Nicaraguans in a political and social context that is known to be difficult.

Unique because Alterfin remains faithful to the rural sector despite the difficulties. During the summer of 2018, Alterfin took part in a review of its agricultural financing activity from 2010 to 2016. This was carried out in conjunction with the other members of the CSAF<sup>1</sup>, of which Alterfin is a founding member. This review revealed that based on the activity of all the CSAF members, agricultural loans of USD 500,000 or less are empirically unprofitable! That explains why actors such as these are neglected by the traditional financing systems and also insufficiently covered by our peers.

With an average loan of USD350,000, which is well below the average loan of the other CSAF members, Alterfin demonstrates that it remains committed wherever the need is greatest, while still being able to pay a dividend in 18 years out of 19 since 2000. We owe this to our long-term approach, combining microfinance and sustainable agriculture, and also to the various partners and actors who have supported a team whose professional commitment is total and is consistent with the values promoted by Alterfin for 25 years.

The General Assembly of March 2019 is an opportunity for our shareholders to take part in a debate on the balance between social return and financial return. This discussion is at the heart of what defines Alterfin. We are not a fund manager handling hundreds of millions of euro, nor are we a non-profit organisation. For 25 years, we have been working for a balanced approach and for sustainable development at all levels – social, environmental and economic.

Thank you for your trust.



Jean-Marc Debricon  
General Manager

<sup>1</sup> The “Council on Smallholder Agriculture Finance” (CSAF) comprises Alterfin, Incofin Investment Management, Global Partnership, Oikocredit, Rabo Rural Fund of Rabobank, responsAbility Investments AG, Root Capital, Shared Interest Society and Triodos Investment Management.

## OUR MISSION

**Alterfin’s goal is to improve the livelihoods and living conditions of socially and economically disadvantaged people and communities, predominantly in rural areas in low- and middle-income countries around the world.**

**In order to achieve this goal, Alterfin provides financial and non-financial services to its partners by:**

- 1 raising funds, mainly from individual investors and socially responsible institutions;**
- 2 structuring and promoting ethical and sustainable investments;**
- 3 networking with like-minded organisations.**

**In this way, Alterfin contributes to the United Nations Sustainable Development Goals.**

# ALTERFIN AT A GLANCE

6,028  
62.1

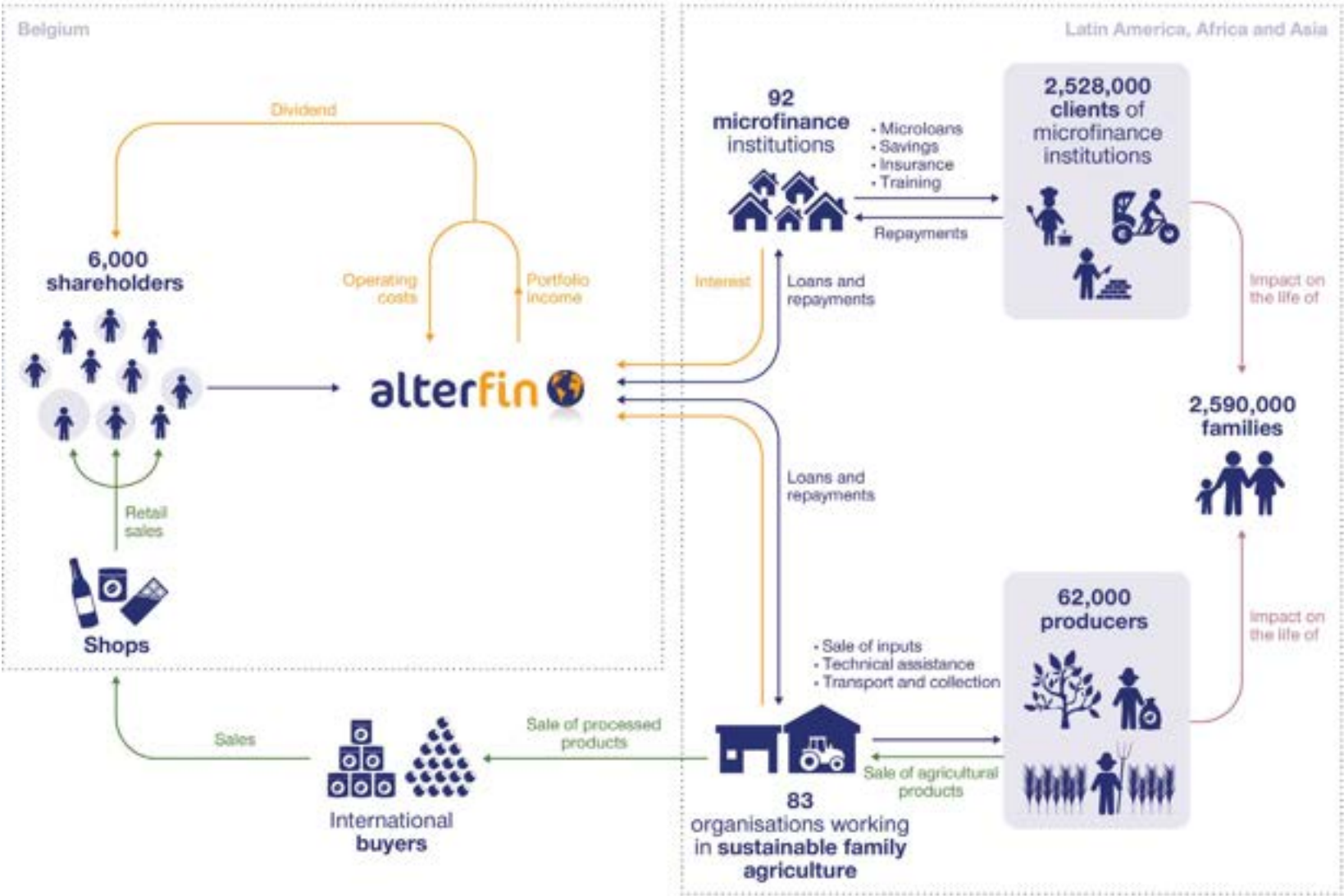
shareholders in Belgium  
million euro of share capital

175  
83  
92

sustainable investments  
organisations working in sustainable agriculture  
microfinance institutions  
million euro of outstanding loans at the end of 2018  
million euro disbursed in 2018  
countries

2,589,926  
713,180  
60%  
100%  
76%  
12,485

households reached by Alterfin's partners  
smallholder farmers financed  
of the beneficiaries are women  
of our partners support micro-entreprises  
of our agriculture partners are certified organic  
trees planted by Alterfin to offset its carbon impact

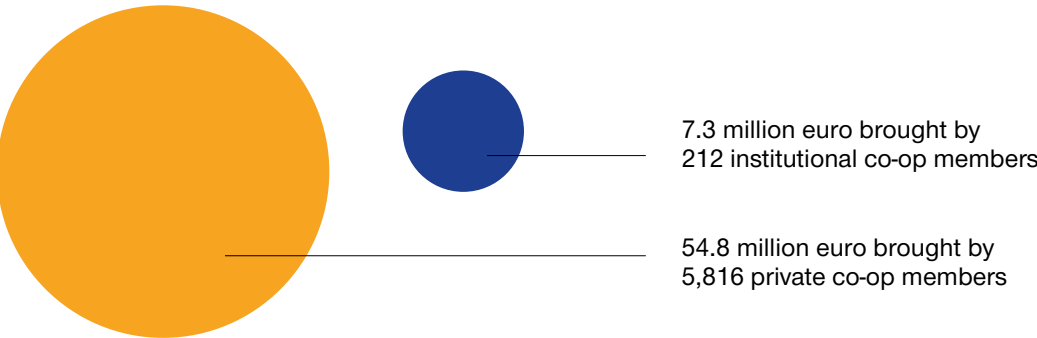


# OUR SOLIDARITY CO-OP MEMBERS

As at 31 December 2018, Alterfin had 6,028 shareholders providing capital of 62,172,750 euro. 88% of the capital is held by individual shareholders and the remaining 12% by institutional shareholders. An individual shareholder invests an average of 9,422 euro with Alterfin, while the average investment of an institutional shareholder is 34,433 euro.

In 2018, the net increase in the capital was 1,213,625 euro.

## DISTRIBUTION OF THE ALTERFIN CAPITAL BY CO-OP MEMBER TYPE



### Alterfin shares ‘Financité & FairFin’ certified

Alterfin shares have the ‘Financité & FairFin’ label. This label certifies financial products earmarked for activities that generate social and/or environmental value by assessing five social criteria, including transparency, solidarity and social responsibility (see p. 30).



### Alterfin B-Corp certified

B Corp is a certification for for-profit companies that address societal, environmental, governance and transparency requirements in the public interest. Its goal is to set the private sector on the path to sustainability. This certification allows Alterfin to position its societal and environmental impact within a demanding international context and join a network of businesses that are like-minded and work towards a viable model centred on human beings and the living world (see p. 44).

## TESTIMONIAL OF A CO-OP MEMBER

***“My children’s savings may be useful for people in the South”***

As a parent, you hope that your children have a promising future. However, that future doesn’t always look bright. The large number of protest actions carried out locally and globally on social and environmental topics illustrate this point: a dignified existence begins with a change...now!

One of these changes is to stop thinking that savings must produce as much money as possible. The money you will need tomorrow but which you don’t need today can make such a big difference right away to so many people in the South. So what’s stopping us?

For our children, finance is still very abstract. It is also not really “their” money, even though we let them choose where we should invest their savings and the shares are in their name. They chose Alterfin.

The idea that their savings can help people carry out their own projects appeals to them.

We don’t know how long it will be until our children need this money but, in the meantime, it may be very useful for smallholder farmers in the South.”

**Ine Van Den Eynde is an Alterfin shareholder. She bought some Alterfin shares for her children so that their savings could be used right away to help communities in the South.**



**Martijn holding his ‘Solidarity co-op member’ certificate delivered by Alterfin during the ‘Youth4Youth’ campaign**

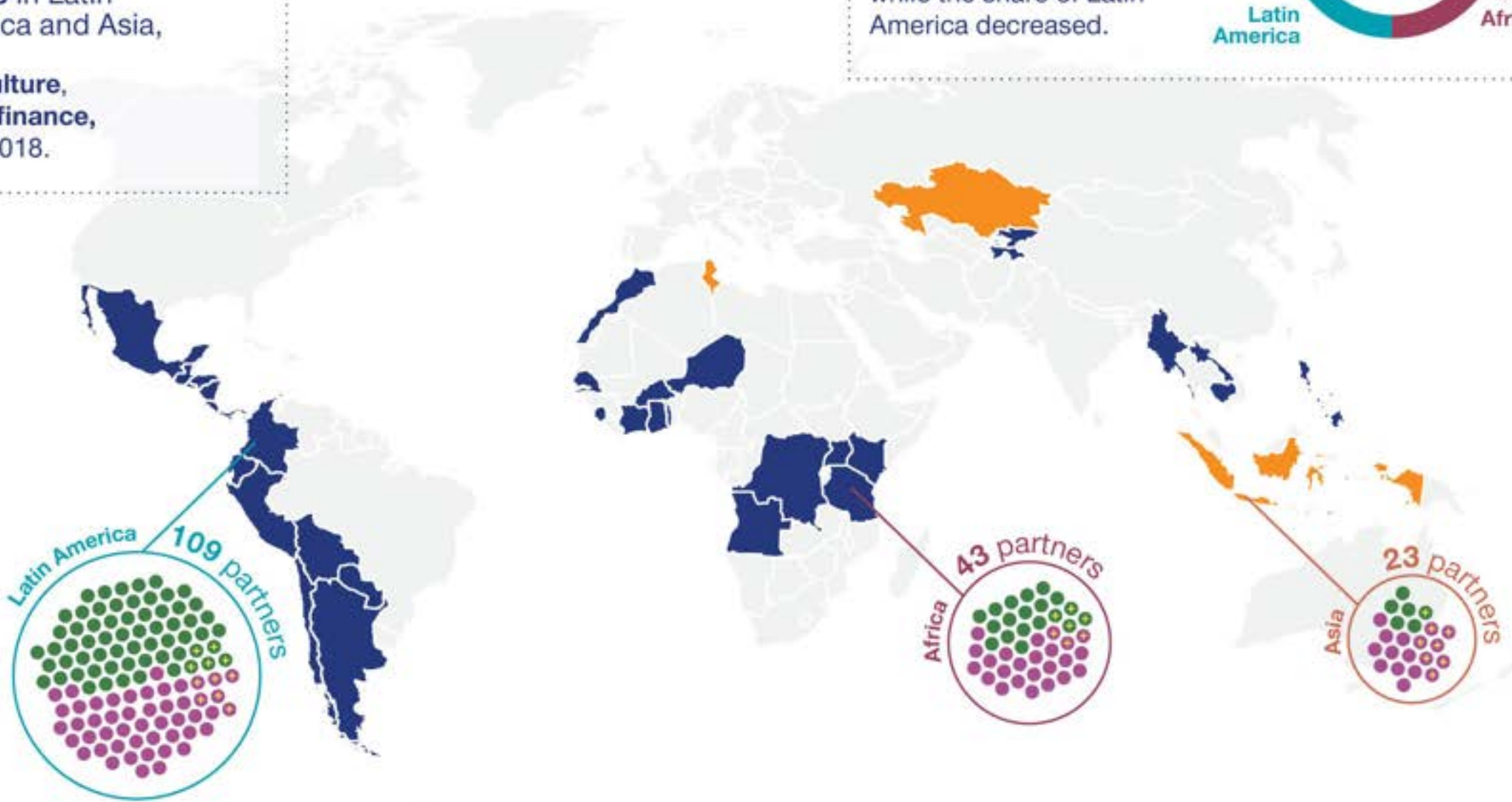
# OUR SUSTAINABLE INVESTMENTS

Alterfin is active in **37 countries** in Latin America, Africa and Asia, including:

- **34** before 2018,
- **and 3** new in 2018.

**175 partners** in Latin America, Africa and Asia, including:

- **83** in **agriculture**,
- **92** in **microfinance**,
- **26** **new** in 2018.



Portfolio evolution

During 2018, 175 partners spread across 37 countries benefited from Alterfin’s support. At year end, the investment portfolio totalled 89.8 million euro.

Across the continents

The distribution of the portfolio continues to evolve towards a greater Asian involvement, driven by investments in newly explored countries: the Philippines, Myanmar, Kyrgyzstan and Tajikistan since 2017 and Kazakhstan and Indonesia since 2018.

Firstly, it is worth emphasising the high population density in some of these areas. This is reflected in the large size of the microfinance institutions (MFIs), which have, on average, higher client numbers than elsewhere. This factor, combined with the maturity and robustness of several of these MFIs, has allowed us to commit significant financial support very quickly, taking our investments in Asia to levels previously unseen on that continent ( 16 million euro). Our contribution to the development of Asian institutions can be seen in the amounts allocated to each partner, which are higher on average than in the other two continents (50% of Asian institutions receive loans of more than a million euro as opposed to 15% in Latin America and 32% in Africa).

Secondly, although the microfinance sector is dominant in our Asian portfolio, sustainable agriculture will be the major focus in 2019 with the aim of funding a wide range of agricultural products, particularly in South-East Asia.

Finally, it should be mentioned that two investment officers cover the Asia region, one of whom is based in Kyrgyzstan, facilitating our development in Central Asia.

Africa is also a continent in which investments are increasing: the annual growth in disbursements was strongest in Africa (+54%, compared with +37% in Asia and +22% in Latin America). East Africa and Central Africa are consolidating their dominance within the regional outstanding loans. As a result, with the exception of an institution in Tunisia, all of our new partners in Africa are in the Democratic Republic of Congo, Kenya, Uganda and Tanzania. In West Africa, it should be mentioned that Ivory Coast leads the way, with a quarter of African outstanding loans distributed among four partners at the end of 2018. This is due to the presence of a Union of cooperatives working in the cocoa sector and a long-standing partner of Alterfin, which was the first social



investor to support this organisation six years ago. Its activity has grown considerably over the years, now justifying significant financial support spread across the various funds managed by Alterfin.

Once again, the presence of investment officers on the continent, which will begin in 2019 with the opening of our office in Kenya, will be beneficial for the development of our African investments. This coincides with the expansion of the team covering Africa, which will grow from two to three investment officers (see p. 44).

Our portfolio in Latin America, although of relatively lesser proportion than previously, continues to grow and reflect the sectoral diversity of our portfolio: that region has the largest proportion of sustainable agriculture (49% compared with 34% in Africa and 22% in Asia) while also being the most diversified. It has 16 agricultural products, compared with 10 in Africa and 5 in Asia.

Intraregional distribution is also well-balanced in Latin America: during 2018, the same level of investments

were earmarked for Central America as for South America, even though the monthly variations are very great according to the agricultural season. Thus, Central American concentrates the disbursements at the beginning and end of the year to meet the needs of our partners working in the coffee sector. Conversely, in the middle of the year, it is South American that channels the regional investments, again to support the coffee season in that region.

In terms of outstanding loans, Peru and Ecuador maintain their top spots. As far as Peru is concerned, our investments are concentrated in agriculture due to the diversity of the value chains financed. The Ecuador portfolio, on the other hand, is driven by microfinance, where long-standing partners with growing needs work alongside new partners whose solidarity means we are able to commit significant investments very quickly.

As in Asia and Africa, the portfolio development strategy in Latin America is illustrated by the fact that we are strengthening our local presence: a new investment officer will join the team in 2019 and will be based in Peru, taking to six the number of investment officers for that region (see p. 44).

Alterfin and third-party funds

The majority of the investments come directly from Alterfin’s capital, while the remainder is constituted from eight third-party funds managed by Alterfin (see p. 35). Once again, these funds have deployed their own resources to meet the specific needs of our partners, supplementing the support provided by Alterfin.

For example, Kampani, a fund that invests capital in organisations working in sustainable agriculture, entered into an agreement with a cooperative in Costa Rica to support the organic pineapple production of its members. Simultaneously, FEFISOL deployed its investments solely in Africa and had access to a technical assistance programme. This fund has helped the growth of the African portfolio while supporting our partners in one-off, technical needs: financial management, an information and management system, specific agriculture support, etc. In 2018, six of our partners being financed via this fund benefited from technical assistance of this nature.

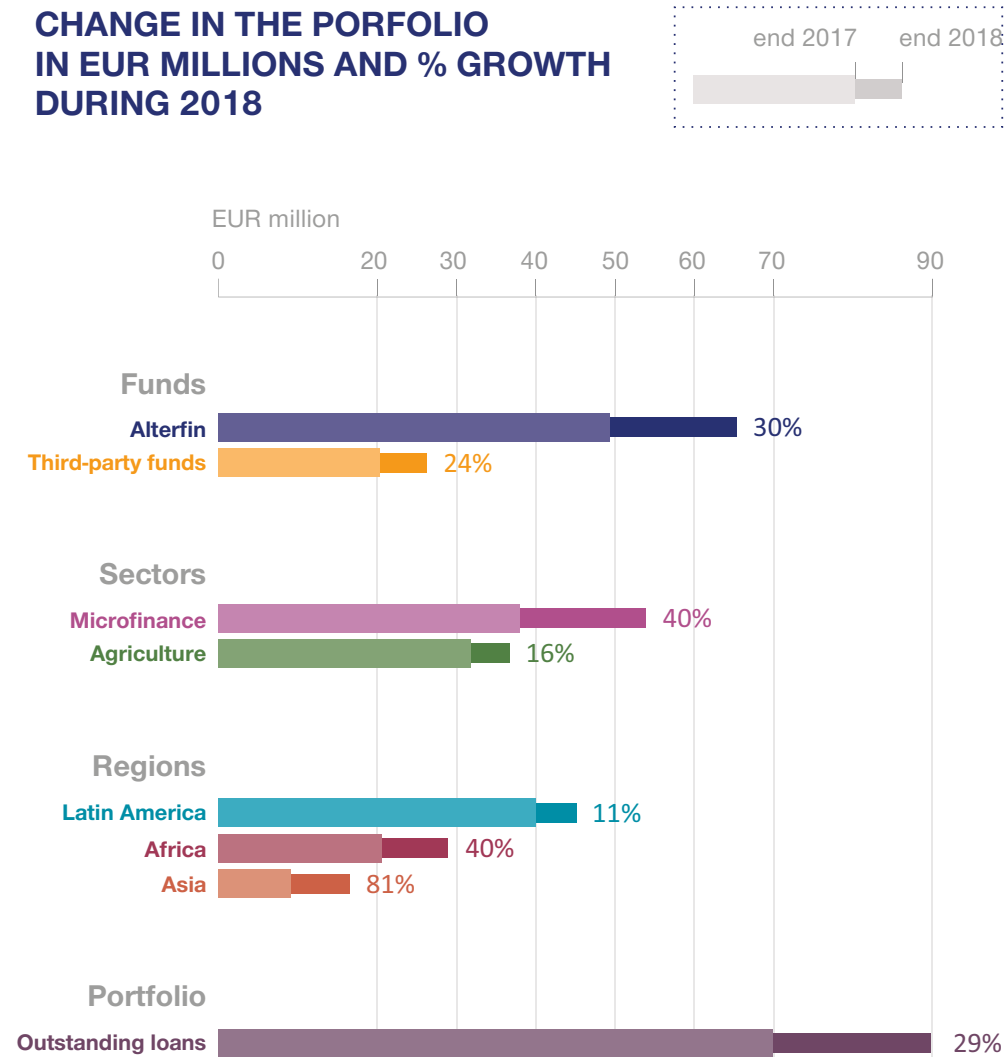
COMPOSITION OF THE PORTFOLIO (OUTSTANDING LOANS) IN 2018



Distribution by sector

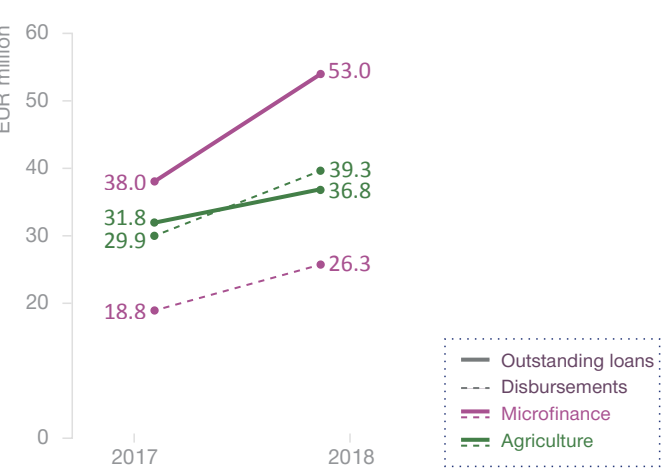
In terms of sectoral distribution, microfinance, which has already been dominating the outstanding loans for many years, saw the strongest annual growth. This growth is due to the expansion of this sector in Central Asia. In parallel, the agricultural portfolio gained some new products (dates, avocados, patchouli, cinnamon, chia seeds and pineapples), illustrating the sectoral diversity supported for several years.

CHANGE IN THE PORFOLIO IN EUR MILLIONS AND % GROWTH DURING 2018

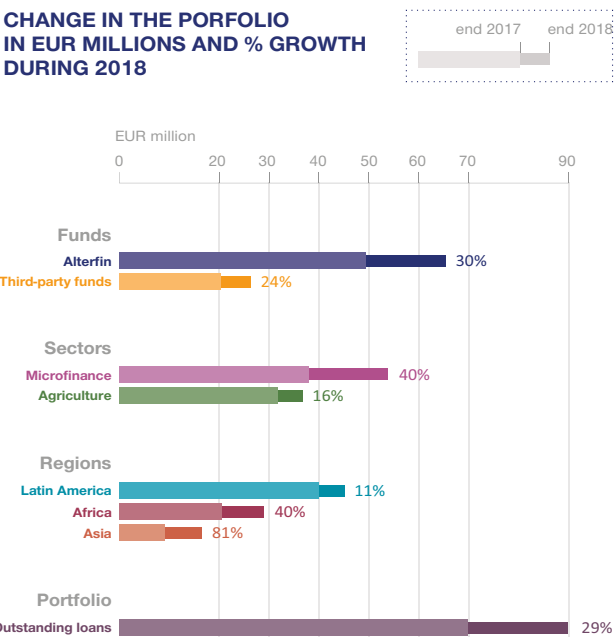


This analysis of the portfolio relates to the picture of our investments as at 31 December 2018. Simultaneously, if we examine the total disbursements made during the year, which reflects Alterfin's activity, a flow of 65.6 million euro is recorded, distributed to 90 partners. In keeping with previous years, sustainable agriculture is the main recipient of these flows.

CHANGE IN THE PORTFOLIO BY SECTOR BETWEEN 2017 AND 2018



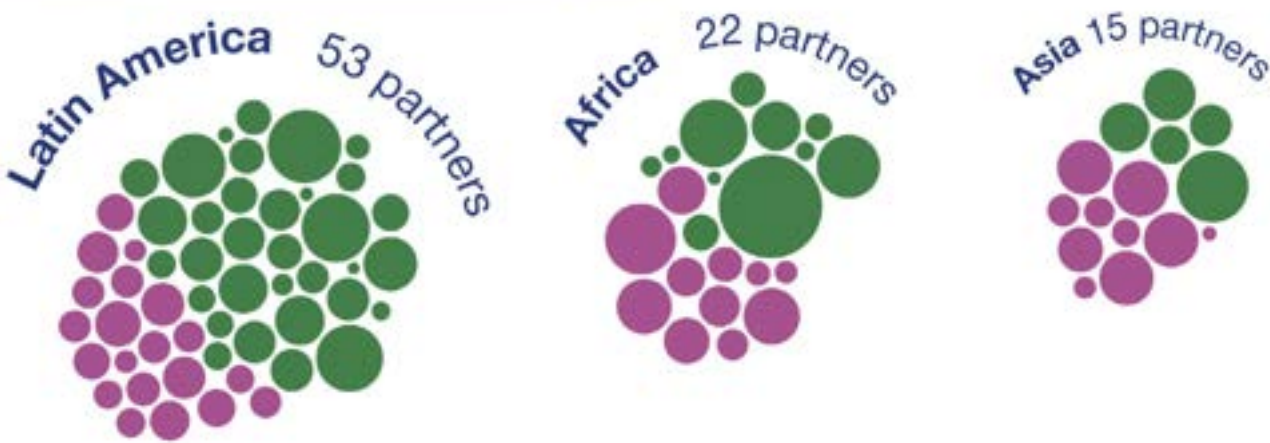
CHANGE IN THE PORFOLIO IN EUR MILLIONS AND % GROWTH DURING 2018



PARTNERS WHO RECEIVED A LOAN IN 2018

Active partners do not necessarily receive a loan every year.

The loans granted sometimes run over several years.



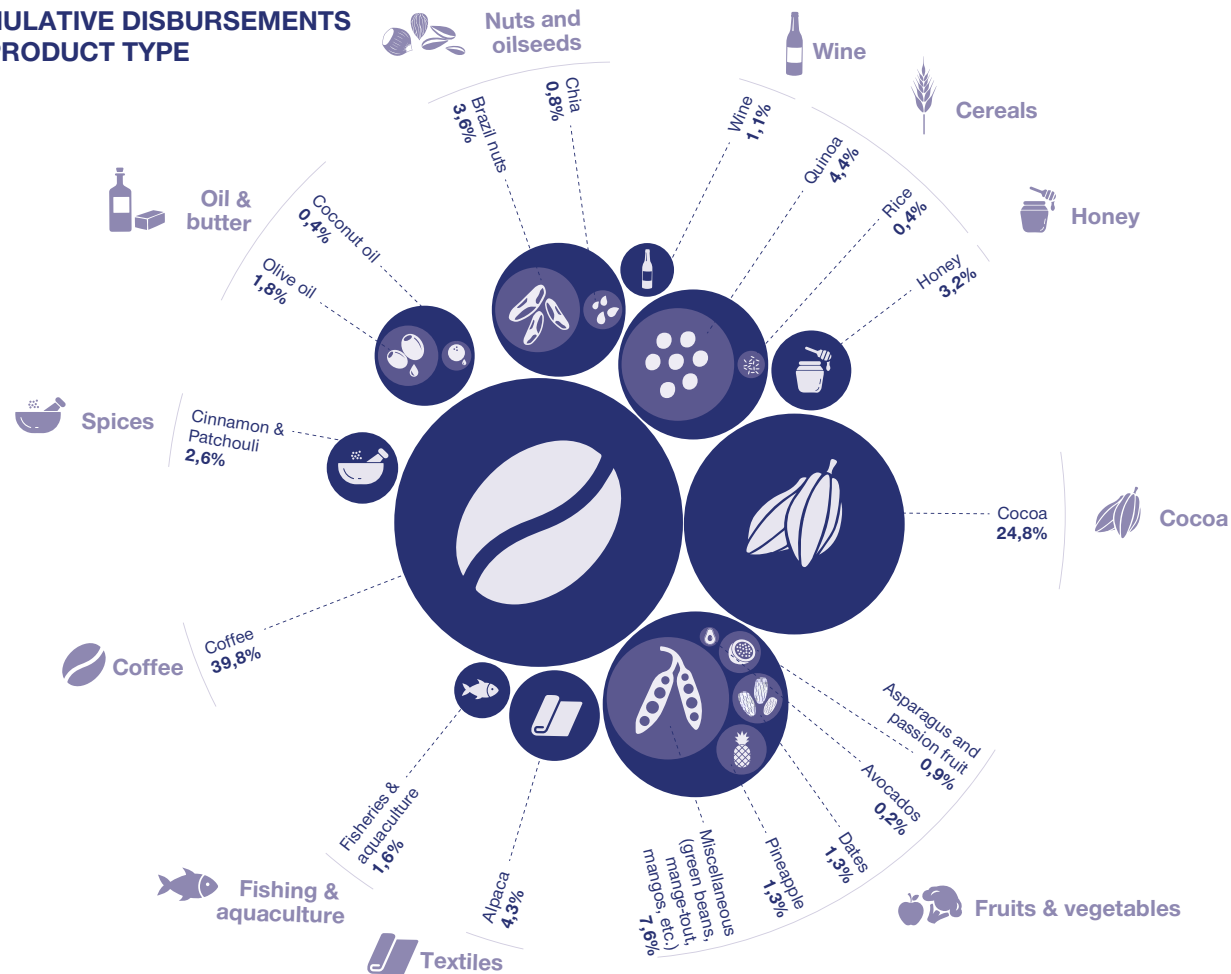
Disbursements in 2018 (in EUR)



Sector

- Agriculture
- Microfinance

CUMULATIVE DISBURSEMENTS  
BY PRODUCT TYPE



Investments through the seasons

While our microfinance partners benefit from long-term loans (3 years on average), the funding granted to partners working in sustainable agriculture follows the agricultural seasons: from the beginning of the harvest to the sale of the products on the local or international market. The frequency and duration of these agricultural cycles are specific to each product and region. For a long time, this diversity of seasonality has led to a gradual reduction in the outstanding loans up to the end of the third quarter, followed by a marked increase at year end, reflecting the strong presence of coffee in Central America within our portfolio (cf. graphic below).

This variation in outstanding loans used to affect the level of profitability and use of capital (see p. 36). Reducing this variation was therefore one of the major objectives

of 2018. Alterfin's efforts have paid off: the investments in human resources over the past two years, combined with the sectoral and geographic expansion of the portfolio, have, for the first time in three years, generated a growth in our investments which remained constant throughout the year.

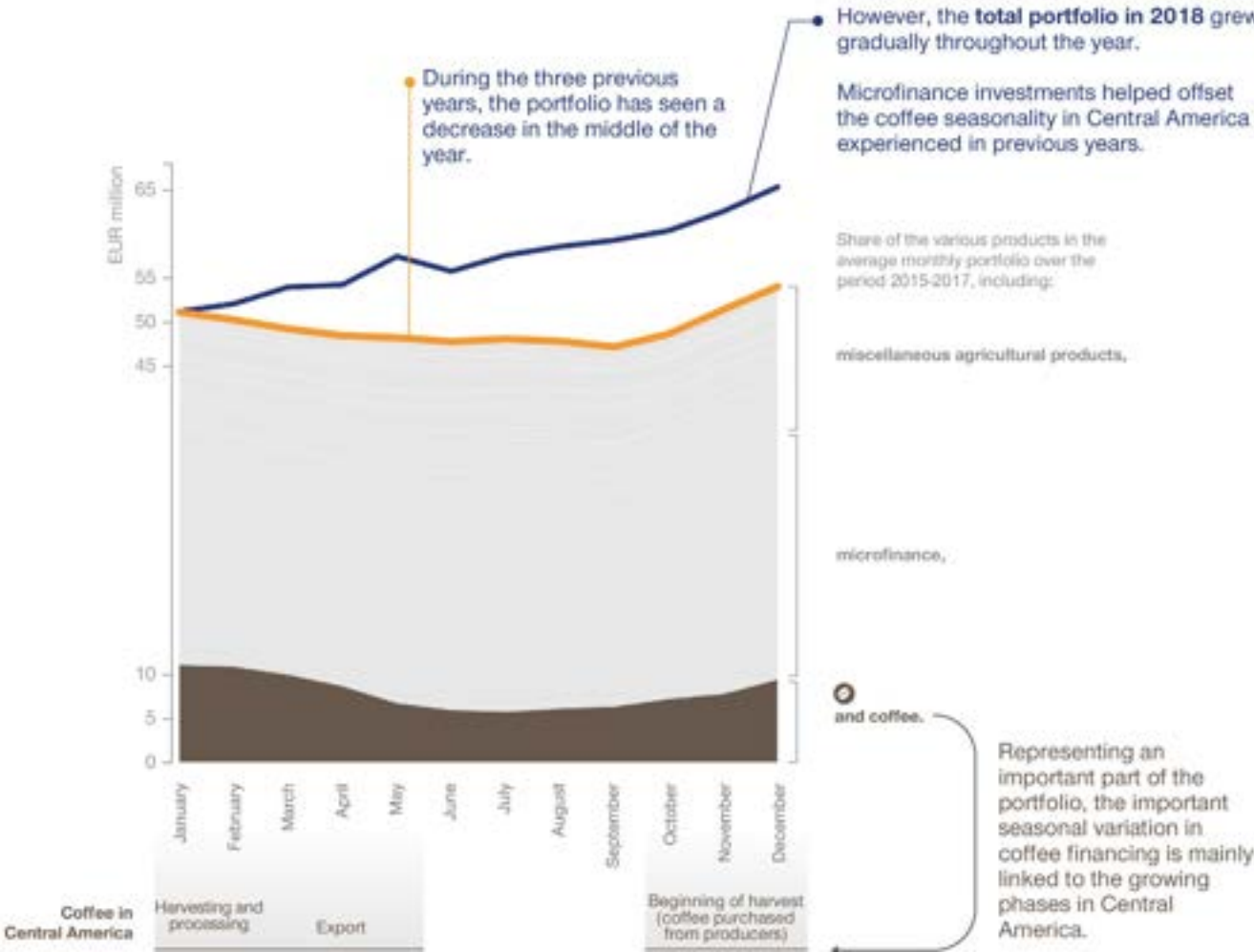
From a social perspective, this growth also brought some more significant benefits, with an increasing number of partners (26 new partners in 2018), while benefiting more end recipients and their households (see p. 23).

Pursuing diversification, both geographical and sectoral, remains a major objective for 2019. As well as contributing to the development of an ever-increasing number of organisations and end-beneficiaries, the aim is to

ensure a reduction in risk while also counteracting the seasonality of the portfolio. 2019 promises, therefore, to be a year in which this continued growth is consolidated through regional and sectoral developments supported by new local presences (in Kenya) or strengthened local presences (in Peru). Alterfin also aims to bolster or introduce services in addition to loans: firstly, currency hedging, an important tool for MFIs who want financing in local currency, the usual currency for their microfinance activities; secondly, credit risk hedging, an essential service for partnering with organisations that are institutionally and financially weak but whose social scope is great; and, finally, a technical assistance

programme to complement the programme offered by FEFISOL to our African partners. Providing all of these services is made possible through our partnership with the Alterfin Guarantee Fund association, which will benefit from additional fundraising during the year and will thus be able to support a growing number of partners in the cooperative.

MONTHLY CHANGE IN THE PORTFOLIO



## Portfolio quality

The quality of the loan portfolio is an essential aspect of our activities. There is an inherent risk in the investments due to the local context and the vulnerability of some of our partners. However, engaging with such partners is at the heart of our mission, particularly on account of their remarkable social impact. We therefore ensure, prior to each investment, that the conditions are met to prevent any defaults.

In 2018, the quality of our investment portfolio XXX. During the year, the risk portion was cleaned up, with a risk portion, including loans default (payment overdue by more than one day) fell from 13% to 8%.

This improvement is linked to the work carried out to clean up our default portfolio at the beginning of the year. The latter was made up for two-thirds of loans of partners who had encountered payment problems more than three years ago. This led us to remove from the portfolio a number of these loans which are now considered as non-recoverable, equal to 3% of our portfolio. It should be mentioned that these loans had been already been fully written down in the past, therefore leading to no additional costs being recorded.

However, some additional write-downs were made in 2018, including on a loan granted to a partner in the Philippines who was not yet in default as at 31 December 2018 but who had informed us of their financial difficulties before the payment deadline scheduled for January 2019 (see p. 38). It is worth emphasising, however, that these recently written-down loans have not altered the structure of the default portfolio as at 31 December 2018.

At the end of 2018, once all the write-downs had been deducted, the remaining risk relating to loans overdue by more than one day represented 3% of the net total portfolio, compared with 6% the previous year.

Finally, for nearly all of these loans, Alterfin has guarantees to safeguard the ultimate recovery of the funds, limiting the immediate need for write-downs. This is therefore referred to as a limited residual risk, equal to 0.6% of Alterfin's net portfolio.

Simultaneously, we have redefined the payment schedule for some loans. These loans relate to partners who, although they have had payment problems in the past, have been able to commit to repay their loans on the basis of a new payment schedule. This so-called 'restructured' portfolio amounted to 2% of the portfolio at year end. As at the same date, all these partners were adhering to their new payment schedules.





# CONTRIBUTING TO A BETTER WORLD

## ALTERFIN'S SOCIAL PERFORMANCE IN TERMS OF SUSTAINABLE DEVELOPMENT GOALS

With its sustainable financing, Alterfin is working to improve the quality of life of thousands of families and contribute to the many Sustainable Development Goals (SDGs) set by the United Nations.

In this section, you will find an overview of the main actions undertaken by Alterfin and its partners in their quest to make a positive contribution to numerous social, financial and environmental issues. For each goal, we present a description of our actions and various key indicators.

**THE 17 SUSTAINABLE DEVELOPMENT GOALS**  
<https://sustainabledevelopment.un.org/>



# 01 NO POVERTY

More than three billion people live on less than 2.5 dollars per day. Tackling poverty remains the primary objective for Alterfin, which, to that end, secures funding to structure and promote long-term, ethical investments in sustainable and family agriculture and microfinance. Involvement with various networks of actors who share our values also helps to stimulate lasting socio-economic development, driven by joint action through the pooling of resources and expertise. By bringing together a wide variety of capabilities in this way, Alterfin dedicates its resources to 175 partners in 37 developing countries, for the benefit of more than 2.5 million people and their households. To maximise its impact, Alterfin works primarily in rural areas where 80% of global poverty is concentrated.

One obstacle that prevents many poor families from escaping poverty is the lack of capital to develop income-generating activities. To address this need, 84% of our sustainable agriculture partners prefinance their farmers so that they can produce goods despite this initial lack of capital. Secondly, Alterfin supports microfinance institutions (MFIs), where 83% of the average portfolio is earmarked for income-generating activities. In order to maximise our impact, we specifically target disadvantaged areas characterised by limited financial

inclusion, where savings levels are low. Thus, only 45% of individuals living in the countries where Alterfin invests said that they saved money in 2017, and only 10% did so via a financial institution.

To help individuals escape poverty in a sustainable manner, encouraging income-generating activities is a necessary but insufficient condition. We need, simultaneously, to help them face up to the risks that could plunge them back into great poverty. Individuals living in deprivation are, for example, very vulnerable to external shocks: drought can affect their income dramatically, especially if they do not have the resources to reinvest to cover their losses. To cope with these unforeseeable income shocks, they can use their savings, take out an emergency loan or claim on their insurance. 44% of Alterfin's microfinance partners offer savings accounts, 69% offer consumer loans for immediate needs and 56% offer insurance against various risks.

## KEY INDICATORS

### MICROFINANCE

83% of our partner portfolio is earmarked for income-generating activities  
44% offer savings solutions  
56% offer insurance against various risks  
69% offer loans to meet immediate needs rather than for income-generating activities

### SUSTAINABLE AGRICULTURE

84% of our partners prefinance their farmers

### TOTAL

175 partners  
2,589,926 families are reached via Alterfin's partners  
116,705 families benefit directly from Alterfin financing  
62% of families live in rural areas



# Prisma in Peru : Microfinance, an emancipation tool

Prisma is a Peruvian microfinance institution (MFI) which supports 7,500 clients in rural areas, including more than 5,000 women. In order to escape poverty and not to sink into more extreme poverty, vulnerable individuals need financial services in order to invest in their future and cope with the uncertainties of daily life. To meet these multiple needs, Prisma offers a variety of services: loans, insurance and specific savings solutions.

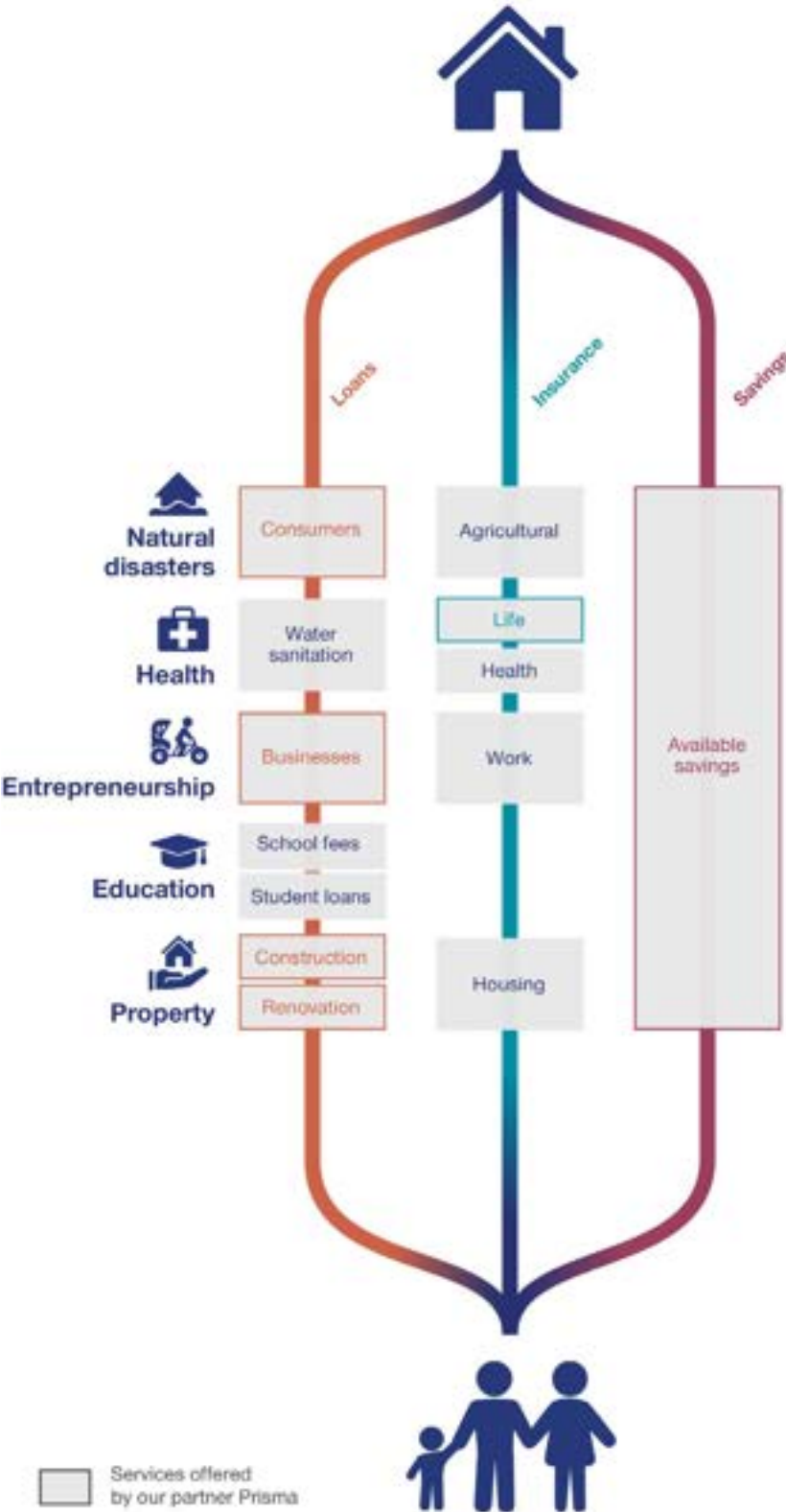
Prisma clients live in rural areas and are mainly micro-entrepreneurs with low incomes. In order to improve their living conditions and increase their income, they need, for example, to invest in inputs, stock or machinery. To assist them, Prisma offers loans tailored to the particular characteristics of their various economic activities. In 2018, Prisma financed more than 8,000 micro-enterprises, nearly 60% of which were in agriculture.

Another way for these micro-entrepreneurs to escape poverty is to invest using their savings. However, saving levels are generally very low in Peru, and only 8% of the population said that they had saved in a financial institution in 2017. To encourage saving, Prisma offers free savings accounts, which benefits more than 6,500 recipients, including 4,800 women.

The institution also helps its clients to cope with certain risks so that they do not slide into even greater poverty. Two common and widespread examples for Prisma clients are climate risks, such as the floods that occurred in 2018, or the death of the loan recipient, which can plunge the entire family into greater deprivation. To address these two uncertainties, Prisma offers emergency loans to enable families to reinvest in economic activity and life insurance, which gives them access to a death benefit. In 2018, these emergency loans benefited 7,400 families.

**“Prisma guarantees that I receive my loan on time to develop my orchard while at the same time insuring family.”**

RANGE OF SERVICES OFFERED BY OUR MICROFINANCE PARTNERS



# 02

## ZERO HUNGER

According to the United Nations, 821 million individuals are undernourished, and the majority of these people live in a developing country. Paradoxically, those most affected by poverty and hunger are the 500 million smallholder farmers who produce most of the food consumed worldwide. In order to tackle hunger effectively, Alterfin strives to make family agriculture viable. This enables the farmers to increase their income, which has two consequences. Firstly, they can reinvest in subsistence crops or other productive activities and thus increase the food security of their family. Secondly, by making agriculture more attractive, Alterfin helps to reduce the rural exodus and contributes to global food security.

Making family agriculture viable is therefore an objective at the very heart of Alterfin's mission. To that end, we encourage the creation of outlets for the products of local small producers by financing 83 organisations that play an intermediary role between the producers and the buyers. By negotiating directly with the buyers, among others, thus enabling the producers to obtain certifications, our partners also give the producers the opportunity to highlight their produce and therefore receive higher prices. The majority of the 127,713 small

producers we support via our agriculture partners grow certified organic and fair trade crops.

Another difficulty which smallholder farmers must address in order to increase their production and make their business more profitable is their limited ability to invest in productive and human capital. In agriculture, Alterfin selects organisations that supply their producers with inputs (77% of the organisations financed). Alterfin also engages with partners who train their producers: 90% of the recipients have therefore attended training courses on, for example, good agricultural practices. In microfinance, Alterfin is also working to finance MFIs situated mainly in rural areas, which grant loans enabling farmers not only to purchase inputs to produce goods but also to acquire machinery to increase their long-term productivity. 23% of the portfolio of our microfinance partners is earmarked for financing 585,467 smallholder farmers.

### KEY INDICATORS

#### MICROFINANCE

**585,467 clients** receive a microloan for an agricultural business  
**23% of our partner portfolio** is earmarked for financing farmers

#### SUSTAINABLE AGRICULTURE

**More than 44,452 farmers** have received training on good agricultural practices  
**90% of farmers** have received technical assistance  
**77% of our partners** supply their producers with inputs

#### TOTAL

**713,180 smallholder farmers**



# 05

## GENDER EQUALITY

There are several factors that drive us to remain alert to the scope of our financing for women. In addition to the economic inequalities between men and women which inhibit economic growth, women tend to have a greater impact on development than men since, on average, they invest more in their children's education and in health while saving more than their husbands. 60% of Alterfin's work benefits women and promoting women and supporting their independence remains one of our central concerns.

However, promoting the financing of women in order to maximise the economic benefits in terms of investment is effective only if women are free to choose how to spend their income. Alterfin devotes its investments to organisations based in countries where women are not legally constrained in their decision-making power (unlike 10% of countries globally where women must obey their husbands, according to the World Bank). 66% of the clients of our MFI partners are women developing a small, commercial, production or service business. It

should be mentioned that a loan application from such women demonstrates financial independence from their husbands. This is also the case for the 30% of women farmers who supply their produce to the agricultural organisations that Alterfin supports.

In order to promote gender parity and contribute to reducing gender inequality, Alterfin also works with partners who take action in this area. More than 41% of our partners' staff are women. In addition, more than 19,461 producers and 564,182 clients of the MFIs supported by Alterfin have attended seminars to raise awareness of gender inequality.

### KEY INDICATORS

#### MICROFINANCE

66% of the clients of our microfinance partners are women

564,182 of our partners' clients have attended seminars to raise awareness of gender inequality

41% of staff are female

#### SUSTAINABLE AGRICULTURE

30% are women farmers

19,461 producers have attended seminars raising awareness of gender inequality

45% of staff are female

#### TOTAL

60% of the people benefited by Alterfin are women



# 08

## DECENT WORK AND ECONOMIC GROWTH

Promoting income-generating activities through the creation of decent, long-term jobs is a key challenge of economic and social development.

According to the World Bank, a large proportion of employment in developing countries is in microenterprises, which have huge potential in terms of job creation and growth. Alterfin works solely with MFIs that grant loans to microenterprises and organisations that help small farmers grow their business. In this way, Alterfin contributes directly to creating jobs via its investments in 175 organisations employing 22,077 people.

One of the engines of growth is to increase worker productivity through education and professional training. Nearly half of the institutions Alterfin finances offer training courses for adults, which promotes productivity among attendees and contributes to sustainable growth.

### KEY INDICATORS

**MICROFINANCE**  
47% of our partners offer training courses for adults  
100% of our partners support micro-enterprises

**SUSTAINABLE AGRICULTURE**  
73% of the producers we finance are fair trade-certified  
76% have adopted the decent work initiative.

**TOTAL**  
22,077 employees

Growth is sound only if it is not detrimental to the stakeholders. Alterfin ensures that it finances ethically-oriented organisations: nearly all of them have a clear, well-defined ethical code which protects employees and beneficiaries. In addition, 76% of the organisations we finance have adopted the decent work initiative and 73% of our agriculture partners are fair trade-certified, confirming their desire to improve the living and working conditions of their employees and farmers.



# 1213

## RESPONSIBLE CONSUMPTION & PRODUCTION CLIMATE ACTION

Long-term economic development would be futile without preservation of our environment, its biodiversity and its natural resources. Agricultural production methods, together with the choices we make as consumers, have a lasting impact on the protection of this environment.

In this regard, support for organically-certified crops and the initiatives managed by our partners, particularly the implementation of environmental management policies and the granting of microloans to produce green energy, is implicit in Alterfin's mission.

Our ambition is also to work towards respect for human beings, which is reflected in the financing of fair trade-certified value chains, in which producers receive a minimum price as well as bonuses. In this regard, 12% of the bonuses received by our sustainable agriculture

partners are allocated to financing social projects, and 14% are paid directly to the producers.

This philosophy is also expressed by the Alterfin team in the daily use of certified products and in eco-friendly practices: waste sorting, using recycled paper and environmentally-friendly cleaning products and making soft mobility choices. The recent recruitment of local staff in Africa and South America, which helps to reduce transcontinental flights among other things, is part of this environmental approach. To offset its carbon footprint, Alterfin has funded the planting of 12,485 trees in Peru in collaboration with Acopagro.

In 2018, Alterfin's efforts were rewarded with the Fairtrade@Work award.

### KEY INDICATORS

**MICROFINANCE**  
66% of our partners have an environmental management policy  
75% of our partners have an environmental policy relating to the clients and the microenterprises they finance

**SUSTAINABLE AGRICULTURE**  
76% of our partners are certified organic

74% of our partners are fair trade-certified  
80% of our partners have an environmental management policy

**ALTERFIN**  
462 kg of paper recycled  
12,485 trees planted to offset our carbon footprint

### INDICATORS AT THE HEAD OFFICE

CO <sub>2</sub> emission (in kilo per full time employee)	2016	2017	2018
Utilities (gaz and electricity)	337	249	248
Paper	80	30	23
Commuter traffic	869	1,070	1,197
Travel by plane for follow-up South partners	14,388	21,253	11,609
TOTAL EMISSIONS	15,674	22,602	13,078



## Nucafe in Uganda: cocoa producers tackling climate change

Nucafe is an umbrella organisation for Ugandan cooperatives involving nearly 250,000 coffee producers. Agriculture is the first victim of global warming, temperature variations and natural disasters. In order to prevent such events from plunging its farmers into greater poverty, Nucafe is implementing a series of measures to reduce the impact of climate change, along with some measures to adapt to the effects of climate change.

To tackle climate change, Nucafe insists on training its producers. Thus, in 2018, the NGO trained 100 trainers and more than 40% of its producers in innovative, sustainable agricultural techniques and ecosystem conservation. The training courses focus especially on agroforestry techniques and on communicating ways to recycle nutrients and to preserve the soil and water and optimise their use.

During periods of drought, such as the one that affected 30% of the production

this year, producers benefit from measures implemented by Nucafe to adapt to crisis situations. For example, the association prefinances solar energy pumps and domestic irrigation kits. This allows farmers to limit their production losses while respecting the environment.

To deal with unpredictable climatic conditions, Nucafe has also helped to implement an insurance system, which has enabled its producers to receive compensation to offset the losses related to the droughts in 2018.

To maximise the profitability of its sales and guarantee its financial soundness despite lower production volumes due to the drought in 2018, Nucafe has focused on buyers who are sensitive to the product quality and social values conveyed rather than those whose sole interest is in buying large quantities.

“We can clearly see climate change, and it affects our operations by changing the coffee seasons and the projected production volumes.”

# 17

## PARTNERSHIPS FOR THE GOALS

Alterfin is committed to its 175 partners spread across 37 countries, and is also engaged in initiatives that, on a daily basis, are working jointly towards a more socially and environmentally responsible world. These initiatives, which pool their resources and expertise, take a variety of forms: networks of solidarity investors, partnerships with organisations that have skills and activities to complement those of Alterfin, and certification organisations.

### ALTERFIN SHAREHOLDER NETWORK

As an actor in the solidarity economy, Alterfin brings together more than 6,000 shareholders who care about creating a fairer, more sustainable world (see p. 8). The cooperative gives them the opportunity to work towards that goal by pooling their resources so that they can be allocated to partners who have a strong social and environmental impact.

### CERTIFICATIONS

Alterfin has obtained certifications that demonstrate the ethical and sustainable nature of its commitment, towards its shareholders, its staff and its partners (see p. 8). Whether national or international, these labels demonstrate Alterfin's role as an actor striving for a fairer world.



### SUSTAINABLE PARTNERSHIPS IN BELGIUM

By becoming, in turn, a member of other Belgian cooperatives, Alterfin aims to stimulate exchanges and foster a cooperative movement with identical aspirations and values.



### INTERNATIONAL NETWORKS IN MICROFINANCE AND SUSTAINABLE AGRICULTURE

In both the microfinance and the sustainable agriculture sectors, Alterfin is an active member in a number of umbrella networks for actors involved in similar or complementary activities. The knowledge-sharing that prevails within these networks is designed to help everyone involved, right down to the end recipients. It should also be mentioned that these networks play an active part in defining and promoting sectoral good practices, in a spirit of transparency and always for the good of the recipients.



### FUNDS MANAGED FOR THIRD PARTIES

To finance its partners, Alterfin uses its own share capital and also third-party funds, part of which it manages. These third parties share with Alterfin a common vision to support socially and economically disadvantaged people. To complement the services provided through Alterfin's capital, these funds offer additional support, whether financial (via equity participation) or technical (via technical assistance). This enables Alterfin to share the risk associated with its business by mobilising several funds to finance a partner with significant needs. It is also worth emphasising that the combination of tools at Alterfin's disposal benefits the partners greatly owing to the diversity of needs we are able to address in this way.



### Testimonial: From auditor to co-op member



"As auditor, I have followed Alterfin since its beginning in 1995 and I have been able to approve its accounts unreservedly for 21 years.

I have always been attracted by the idea of having an impact on society by supporting a number of small initiatives. Providing microloans is the driving force behind these initiatives, while at the same time expressing pride, self-esteem and confidence in the future.

A second aspect that attracts me to Alterfin is the cooperative ideology. Many small initiatives are supported by their investors and shareholders. The Alterfin shareholders, meanwhile, of which there are already more than 6,000, deliver a clear message: we can make a difference and contribute decisively towards sustainable agriculture and tackling poverty, hunger and social inequality, whatever the size of our contribution.

Finally, we must not forget the energy of the Alterfin team. For years, it has worked passionately

to help deliver a large number of sustainable agriculture projects and develop microfinance institutions in Latin America, Africa and Asia.

At the beginning of 2018, after completing my audit work for Alterfin, I too became an enthusiastic Alterfin shareholder and I intend to remain so for at least the next 20 years."

**Erik Clinck**

# FINANCIAL PERFORMANCE

## Balance sheet

As at 31 December 2018, Alterfin's balance sheet total was 119.1 million euro, therefore an increase of 18% over the previous year.

In terms of liabilities, the subscribed capital remains the principle source of financing for our business. It stood at 62 million euro as at 31 December 2018, which represents an increase of 2% over the previous year. With the debts representing 84% of the equity, Alterfin has a very good level of capitalisation which will enable it to increase its leverage in future.

The capital is partly used to directly finance our portfolio of loans granted in euro. However, since such loans represent only 11% of our entire portfolio, the majority of the capital is invested in banks and used as a guarantee to obtain dollar loans. These loans then enable Alterfin to provide financing in dollars or in local currencies hedged to the dollar, while covering the exchange rate

risk between the euro and the dollar on the balance sheet. This policy explains the change in the debt level (+44% compared with 2017), which tracks the growth of the investment portfolio, and the increase in investments and available assets (+2% compared with last year), which tracks capital growth.

It should be mentioned, in this regard, that Alterfin also grants loans in local currency. As at 31 December, the portfolio included 14 currencies other than the dollar and the euro. In such cases, the exchange rate risk is actively managed using hedging techniques to cover both capital and interest.

The reserve for general risks increased by 138% in 2018, reaching 916,860 euro. This increase followed the decision of the General Meeting not to distribute all of the 2017 profit as dividends in order to consolidated its equity.

In terms of assets, the increase in tangible fixed assets is due to the acquisition of properties in Honduras which were given to us in place of a defaulted loan. The objective is to sell these assets, and those acquired previously, under the best possible conditions, which requires patience. An agreement was reached, for example, with the Peruvian partner who had provided us with properties in 2016 so that it could buy them back under a 7-year payment plan. The plots of land situated in Bolivia, which were acquired in 2017, were cleaned and their price was reduced in order to accelerate the sale process.

Alterfin's investment portfolio (excluding third-party funds managed by Alterfin) is divided between financing, in the form of loans, and financial assets, which are equity interests in partner institutions. It increased by 37% compared with December 2017. Further explanations on the growth and content of our portfolio can be found on pp. 9 to 19.

BREAKDOWN OF THE CAPITAL FLOWS IN ALTERFIN'S OPERATION



BALANCE SHEET EXPRESSED IN EURO BEFORE THE DISTRIBUTION OF RESULTS		2017	2018	DIFFERENCE 2017-2018
ASSETS	<b>Fixed assets</b>	<b>2,912,842</b>	<b>3,431,787</b>	<b>18%</b>
	Intangible fixed assets	-	10,214	
	Tangible fixed assets	452,670	774,940	71%
	Financial fixed assets	2,460,172	2,646,634	8%
	<b>Current assets</b>	<b>96,369,016</b>	<b>113,797,921</b>	<b>18%</b>
	Net credit portfolio	42,272,780	58,585,169	39%
	Cash and cash equivalents	53,483,818	54,594,737	2%
	Other account receivable	612,419	618,016	1%
	<b>Transitory accounts</b>	<b>1,425,028</b>	<b>1,824,931</b>	<b>28%</b>
	<b>TOTAL ASSETS</b>	<b>100,706,886</b>	<b>119,054,639</b>	<b>18%</b>
LIABILITIES	<b>Equity</b>	<b>62,819,044</b>	<b>64,448,406</b>	<b>3%</b>
	Paid-in capital	60,959,125	62,172,750	2%
	Legal reserve	348,425	348,425	0%
	General risk reserve	384,493	916,860	138%
	Accumulated results	-	-	
	Results of the period	1,127,001	1,010,371	-10%
	<b>Liabilities</b>	<b>37,611,212</b>	<b>54,228,379</b>	<b>44%</b>
	Long term liabilities (> 1 year)	8,920,863	9,304,119	4%
	Short term liabilities (< 1 year)	27,975,152	43,861,021	57%
	Other liabilities	715,197	1,063,238	49%
	<b>Transitory accounts</b>	<b>276,631</b>	<b>377,855</b>	<b>37%</b>
	<b>TOTAL LIABILITIES</b>	<b>100,706,886</b>	<b>119,054,639</b>	<b>18%</b>

Income statement

In 2018, the interest and fees received by Alterfin on the loans granted to partners remained the main source of income. These items totalled 4.3 million euro as at 31 December 2018, in other words 42% higher than in 2017. This upward trend is due mainly to better use of the capital throughout the year as a result of the efforts to expand and diversify the investment portfolio (see pp. 10-19).

Despite a slight increase in volume, the income from the euro investments used as a guarantee for borrowing dollars (see p. 36) decreased slightly compared with 2017 (-1%). This decrease is due to the reduction in their average return in a context of interest rates which remain exceptionally low.

The growth in debts, which are necessary to fund the development of the dollar portfolio, and the significant increase in the dollar interest rates impacted Alterfin’s financial charges, which increased by 55% compared with last year. They represented 2.95% of the average investment portfolio in 2018, compared with 2.51% in 2017, thus substantially counteracting the income from the portfolio.

The operational charges totalled 2.3 million euro, in other words 4% higher than in 2017. However, as shown in the illustration on p. 40, these charges fell from 5.31% in 2017 to 4.19% when expressed as a percentage of the average investment portfolio, demonstrating in reality an improvement in Alterfin’s efficiency.

The write-downs made in 2018 were mainly due to a default or an increased risk of default in relation to loans granted to three partners. The first partner is a fund whose objective is to support the development of sustainable economic activities through the financing of small and medium-sized enterprises in Central America. This business is currently facing significant liquidity concerns which is reducing its ability to repay the loan granted. The second is a microfinance institution operating in the Philippines which is facing difficulties recovering loans from its clients. In both cases, a decision was taken partially to write down the loans whilst their restructuring was not formalised. The third is a coffee partner in Bolivia which has been in default since 2015. The granted loan had already been partially written down in recent years, with the remaining value covered by mortgage collateral. The enforcement of this

mortgage collateral is compromised as it involves a plot of agricultural land whose sale is strictly regulated under Bolivian law. A decision was therefore taken to write down the loan in full on our balance sheet.

The write-down reversal amount essentially involves a loan granted to a Cambodian microfinance institution. Alterfin had restructured this loan and, as a precautionary measure, had written it down last year. The institution has now confirmed its return to good performance.

The net write-downs (write-downs where write-down reversals have been deducted) increased from 0.31% of the average investment portfolio in 2017 to 0.99% in 2018, putting pressure on Alterfin’s profitability level in 2018.

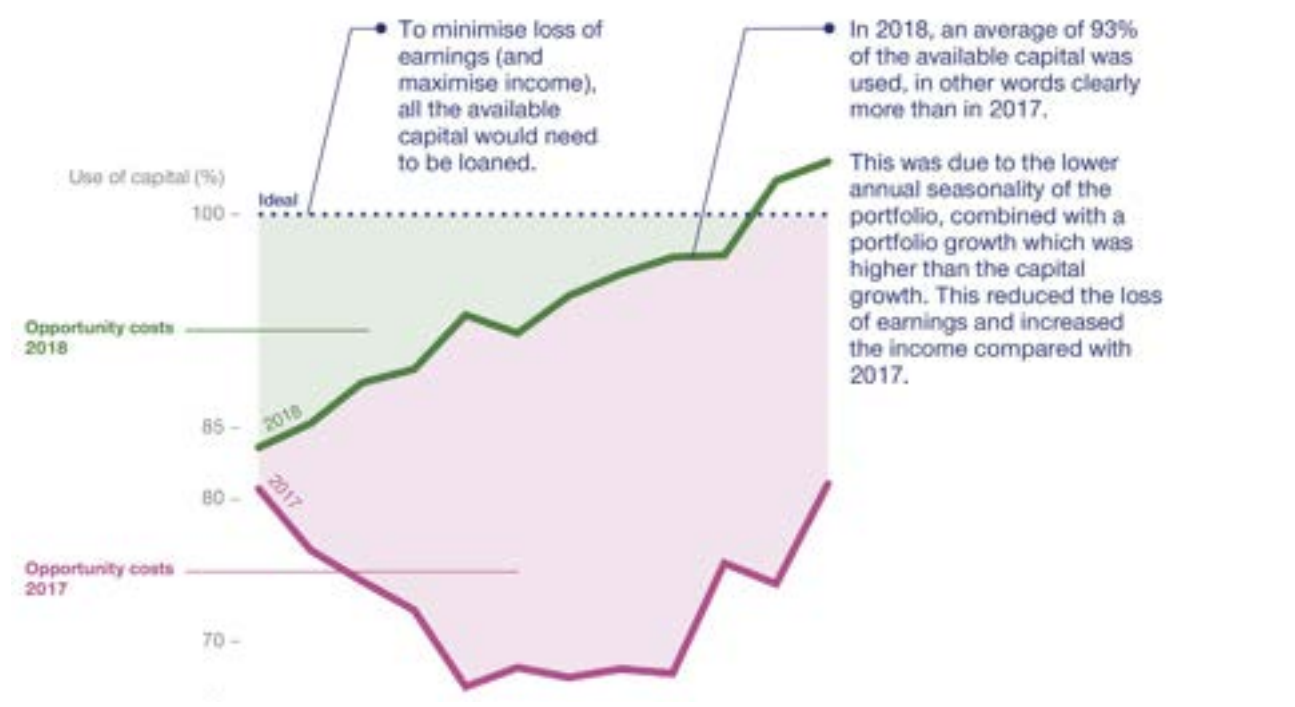
The positive foreign exchange result is due to a difference between the total assets and the total debts in dollars. Under the valuation rules, this result will be added to the reserve for general risks.

The exceptional negative result is due to the downward revaluation of the value of shares held by Alterfin in a microfinance institution in Nicaragua whose financial results have suffered as a result of the political crisis that continues to rock the country.

The annual earnings before tax was up by 7% over 2017. However, the various tax credits that Alterfin is able to receive (notional interest, carry-over of the tax loss from the 2016 financial year and exemption granted by the Service des Décisions Anticipées [Tax Ruling Commission]) mean that, this year, it is not possible to reduce in full the corporation tax sum to be paid, which is estimated to be 198,967 euro.

Alterfin ended 2018 with a positive result of 1,010,371 euro, in other words a profit level very similar to that achieved in 2017. Alterfin’s profitability rose as a result of the increase in income from the portfolio and through a marked improvement in the organisation’s efficiency. However, these factors were offset by an increase in financial costs and write-downs and by the amount of tax payable.

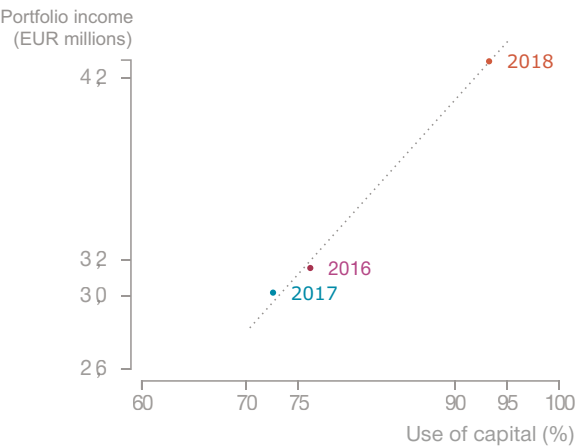
USE OF CAPITAL IN 2017 AND 2018



INCOME ACCORDING TO THE RATE OF CAPITAL USE BETWEEN 2016 AND 2018

Over these three years, the income from the portfolio correlated strongly with the rate of capital use.

The income was maximised in 2018, with use of capital at 93% on average.



CHANGES IN ALTERFIN'S COST AND INCOME  
STRUCTURE AND PROFITABILITY



PROFIT AND LOSSES STATEMENT IN EURO	2017	2018	Difference 2017-2018
Income from Alterfin portfolio	3,016,911	4,288,873	42%
Income from portfolio managed for third parties	340,767	407,773	20%
Income from consultancy and other commissions	10,591	8,530	-19%
Income from deposits	1,193,109	1,178,352	-1%
Total operational and financial income	4,561,378	5,883,529	29%
Financial costs	- 1,086,420	- 1,689,263	55%
Financial margin	3,474,959	4,194,266	21%
Total operational costs	-2,199,259	- 2,287,152	4%
- Personnel	- 1,502,082	- 1,662,219	11%
- Office and marketing	- 216,110	- 277,979	29%
- Services	- 49,198	- 39,454	-20%
- Monitoring portfolio	- 149,245	- 114,232	-23%
- Costs for recovery of credits in default	- 282,624	- 193,269	-32%
Gross operating margin	1,275,699	1,907,114	49%
Provisions for risks	- 543,405	- 835,036	54%
Recoveries	411,037	269,849	-34%
Insurance Credendo (country risk)	- 78,629	- 78,138	-1%
Commission for Alterfin Guarantee Fund	-21,095	- 29,448	40%
Net operating margin	1,043,608	1,234,341	18%
Current exchange result	- 75,106	103,715	38%
Extraordinary result	158,499	- 128,718	-19%
Result before taxes	1,127,001	1,209,338	7%
Taxes	-	- 198,967	
Result of the year	1,127,001	1,010,371	-10%

\*Results before approval by the General Assembly of 30 March 2019. The definitive results may, therefore, be amended by the Assembly and will be published on the website of the National Bank of Belgium.

# TEAM, GOVERNANCE & EXPERTS

## The Alterfin team

The Alterfin team had 28 members at the end of 2018, based mainly in Brussels but also in Peru, Bolivia, Honduras and Kyrgyzstan. Drawing on its various skills, this team carries out all the duties required to fulfil Alterfin’s mission (see illustration on the right).



From left to right: Alex, Audrey, Bernard, Caterina, Flavio, Georges, Hugo, Irène, Jan, Jean-Marc, Jennifer, Joan, Julie, Karin, Laetitia, Lina, Loes, Louis, Marie, Mauricio, Nilton, Pierre, Saul, Sofie, Steven, Tom, Ulan and Virgilio.

## Board of Directors

Alterfin’s Board of Directors is composed of eight members. The directors are elected by the General Meeting of shareholders which gives them a mandate to govern Alterfin. See the composition of the Board of Directors, as approved by the General Meeting of 24 March 2018.

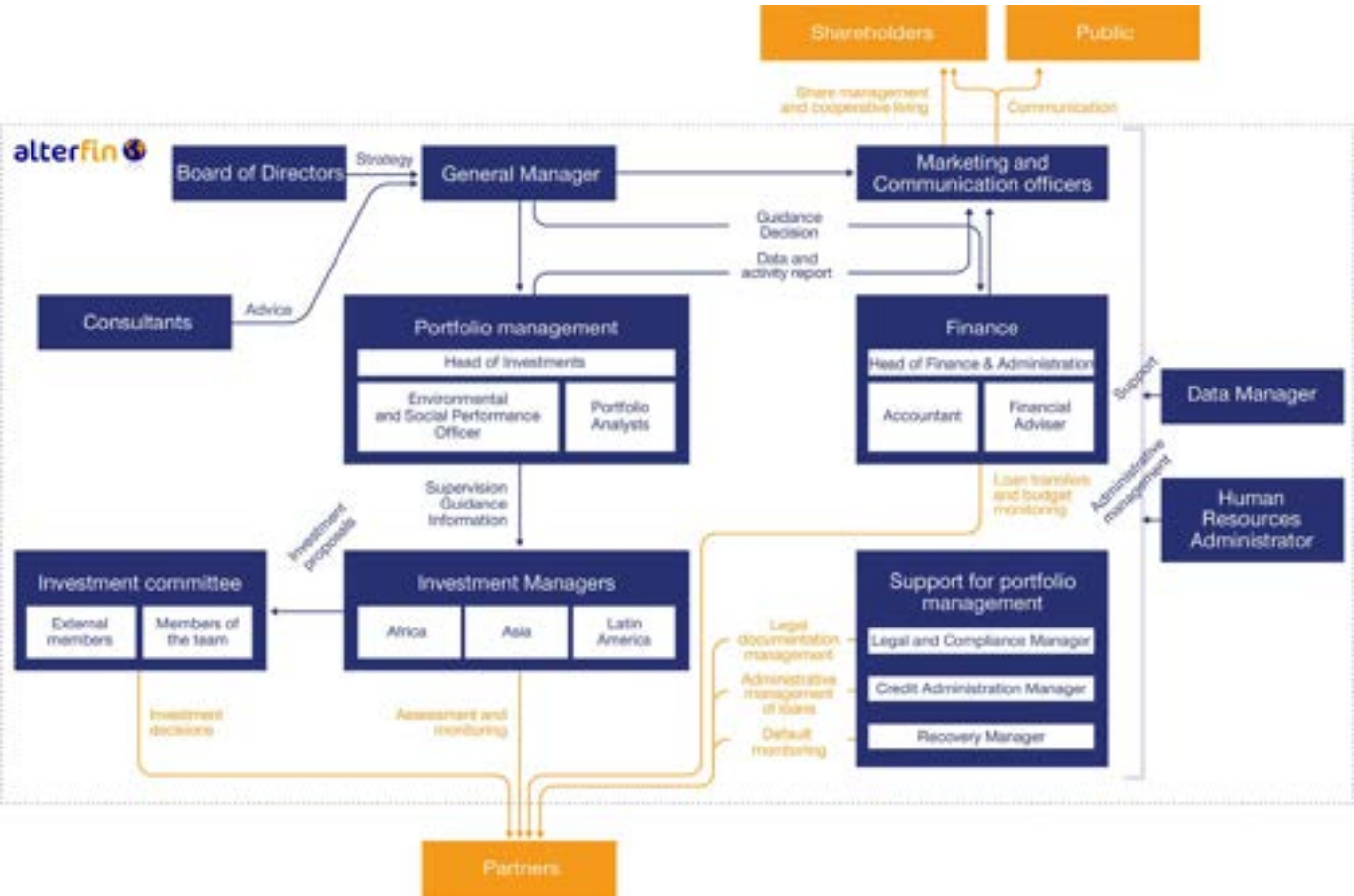
NAME	REPRESENTING	EXPERTISE
Anne-Marie Hendrickx	Individual shareholders	Banking
Chris Claes	Rikolto	Rural development
Dominique Morel (chairperson)	Independent director	Agriculture and rural development
Jean Matton	Private shareholders	Legal and tax advice
Klaartje Vandersypen	Private shareholders	Banking and impact investment
Laurent Biot	SOS Faim Belgium	Microfinance and rural development
Mark Breusers	Independent director	Anthropology
Vincent De Brouwer	Individual shareholders	Development and banking

## Our external experts of the Investment Committee

The external experts are involved in investment decisions.

NAME	EXPERTISE
Ignace Vanden Bulcke	Banking services to businesses and commercial financing
Marc Ransart	Risk management in the financial sector
Marcus Fedder	Investment and development banking and microfinance
Nawfal Jorio	Credit analysis in the public sector
Vincent De Brouwer	Rural development banking

## Internal functioning of Alterfin



# PERSPECTIVES

In 2019, we are planning to set up a managerial team composed of Jean-Marc Debricon, assuming the functions of Chief Executive Officer (CEO), Caterina Giordano, assuming the functions of Chief Impact Officer (CIO) and Audrey Timmermans, assuming the functions of Chief Financial Officer (CFO). This new structure is a logical step in the professionalisation work undertaken since 2015.

In keeping with the Belgian national slogan ‘Strength through unity’, Alterfin will be continuing throughout 2019 various cooperative ventures with its partners in the North and the South to carry out its mission to the full. And, borrowing from the African proverb, ‘Alone we go faster, together we go further’!

In the countries in which it operates, Alterfin is going to launch the first version of its new Environmental and Social Performance Management (ESPM) framework. This important project expresses our desire to improve not only how we communicate Alterfin’s impact but also how we make investment decisions.

We are going to continue our fund-raising efforts to increase the capital of our Alterfin Guarantee Fund in order to increase the scope and depth of our action with weaker partners who require guarantees, technical assistance projects and exchange risk hedging not available on the market. We are also working on the following areas of development:

## IN AFRICA

- Bolstering the Africa team by recruiting two investment officers based in Nairobi, Kenya.
- Membership of the Management Board of CSAF, which is working on a large project that benefits the African agricultural sector through the implementation of mixed loans with guarantees and other aid provided by supranational and governmental organisations that support sustainable development.<sup>1</sup>

- Alterfin and SIDI, our co-founding partner at FEFISOL, are drafting new strategic plans for the launch of a FEFISOL II.

## IN ASIA

- Partnership with investors whose mission is aligned with our own, in order to share the risks of agricultural financing projects in South-East Asia.
- Setting up a technical assistance fund dedicated to our regional partners.
- Strengthening our investment committee with the addition of an external expert based in Asia.

## IN LATIN AMERICA

- Additional recruitment, taking to 4 the number of investment officers based locally. Alterfin now has 2 investment officers in Peru, 1 in Bolivia and 1 in Honduras. Over time, we intend to further increase this local presence.
- Supporting the restructuring efforts of the Peruvian cooperative Naranjillo, overseen by our partners at Althelia, through involvement in its governance. The long-term success of this undertaking will ensure income sustainability for thousands of small producers and protection of the forest environment.

Furthermore, **in Belgium**, Alterfin remains more than ever a committed and responsible player in the solidarity economy by mobilising its shareholders and by pooling its efforts with the other players in the solidarity economy and the cooperative movement.

- Alterfin is one of the seven Belgian companies that have received the “B Corp”<sup>2</sup> certification, and it has joined the B Corp Belgium working group to promote a B Corp movement in Belgium and encourage other for-profit businesses to adopt these standards of financial, social and environmental responsibility and viability.
- Alterfin has also joined the “F’In Common” cooperative launched by Financité, whose aim is to promote Belgian cooperative financing through

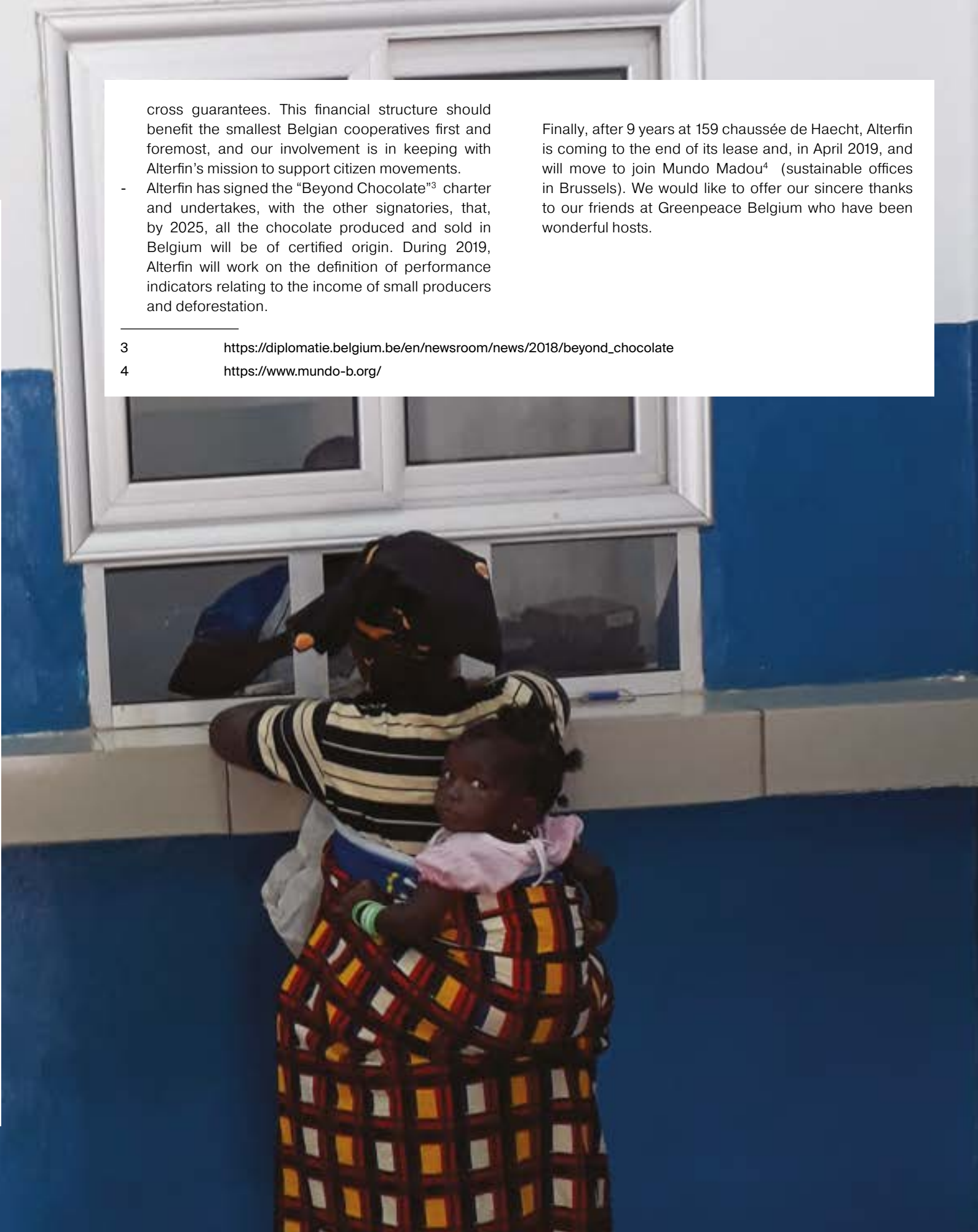
cross guarantees. This financial structure should benefit the smallest Belgian cooperatives first and foremost, and our involvement is in keeping with Alterfin’s mission to support citizen movements.

- Alterfin has signed the “Beyond Chocolate”<sup>3</sup> charter and undertakes, with the other signatories, that, by 2025, all the chocolate produced and sold in Belgium will be of certified origin. During 2019, Alterfin will work on the definition of performance indicators relating to the income of small producers and deforestation.

Finally, after 9 years at 159 chaussée de Haecht, Alterfin is coming to the end of its lease and, in April 2019, and will move to join Mundo Madou<sup>4</sup> (sustainable offices in Brussels). We would like to offer our sincere thanks to our friends at Greenpeace Belgium who have been wonderful hosts.

3	<a href="https://diplomatie.belgium.be/en/newsroom/news/2018/beyond_chocolate">https://diplomatie.belgium.be/en/newsroom/news/2018/beyond_chocolate</a>
4	<a href="https://www.mundo-b.org/">https://www.mundo-b.org/</a>

1 Prosper Africa/Stawi Africa  
2 <https://bcorporation.eu/about-b-lab/country-partner/benelux>



Active partners during 2018

Region	Country	Microfinance	Agriculture
AFRICA	Angola	1	
	Burkina Faso	1	
	Burundi		1
	Ivory Coast	2	4
	Ghana	1	1
	Kenya	6	4
	Morocco	2	
	Niger	1	
	Democratic Republic of the Congo	1	2
	Senegal		1
	Sierra Leone	1	
	Tanzania	1	1
	Togo		2
	Tunisia		1
	Uganda	3	2
	Africa (active in multiple countries)	4	
	<b>Total Africa</b>	<b>24</b>	<b>19</b>
LATIN AMERICA	Argentina	3	1
	Bolivia	1	12
	Chile		2
	Colombia	1	
	Costa Rica	3	2
	Ecuador	10	1
	El Salvador	7	1
	Guatemala	7	2
	Honduras	3	6
	Mexico		4
	Nicaragua	7	3
	Panama	2	
	Paraguay		2
	Peru	7	19
	Latin America (active in multiple countries)		3
	<b>Total Latin America</b>	<b>51</b>	<b>58</b>
ASIA	Cambodia	3	1
	Indonesia		1
	Kazakhstan	2	
	Kyrgyzstan	4	
	Laos	1	1
	Myanmar	2	
	Palestina		1
	Philippines	2	1
	Tadjikistan	3	
	Asia (active in multiple countries)		1
	<b>Total Asia</b>	<b>17</b>	<b>6</b>
<b>Total</b>	<b>175 partners</b>	<b>92</b>	<b>83</b>



