



ANNUAL REPORT

2019

alterfin 



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Colophon

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1. FOREWORD

Dear readers,

The conflagrations in the Amazonian rainforest and southern and western Australia have increasingly brought the world's attention to the causes of global warming. In particular, fingers are being pointed at industrial activity and intensive agriculture.

It is worth emphasizing that **Alterfin** has been committed to sustainable development in rural areas of countries with low- and middle-income countries around the world for 25 years by investing directly and indirectly in **sustainable agriculture** with greater respect for the environment and in the welfare of local communities. The disastrous consequences of a disrupted climate have only strengthened our sense of commitment.

However, we are well aware that, as the risks increase, we will need to expand the range of tools at our disposal. This is why **Alterfin** successfully concluded a series of agreements in 2019 with various institutions that are willing to help us in our mission. These will start to bear fruit in 2020:

- The European Investment Bank (EIB) will provide us with funding in local currency to facilitate our provision of rural **microfinance** in Africa.
- The Belgian Investment Company for Developing Countries (BIO) and the European AgriFI fund have committed to providing long-term financing in US dollars to balance our books and our funding for **sustainable agriculture**.
- Banca Etica and vdk bank will provide us with supplementary credit facilities in euros to meet our seasonal portfolio growth need.

2019 was not an easy year for smallholder farmers, especially in Latin America where the political situation has deteriorated in many of the countries where we work. Our financial results do not reflect our expectations at the beginning of the year, but are still very respectable under the circumstances. **Alterfin** can take pride in an expanded portfolio with better diversification and a record number of partners and value chains. I would like to thank the **Alterfin** team for its passion, integrity and unfailing hard work.

Our commitment to **sustainable agriculture** is unique in Belgium, but it remains a risky undertaking. Over the last five years, **Alterfin** has developed new risk management tools, expanded its team and revamped its investment policies and procedures. In order to continue to play this role in a relevant manner and to stay true to our mission, we also need you. So don't hesitate to join us as a co-op member or to increase your stake if you already invested.

The whole team would like to join me in expressing our appreciation for your loyalty and trust.

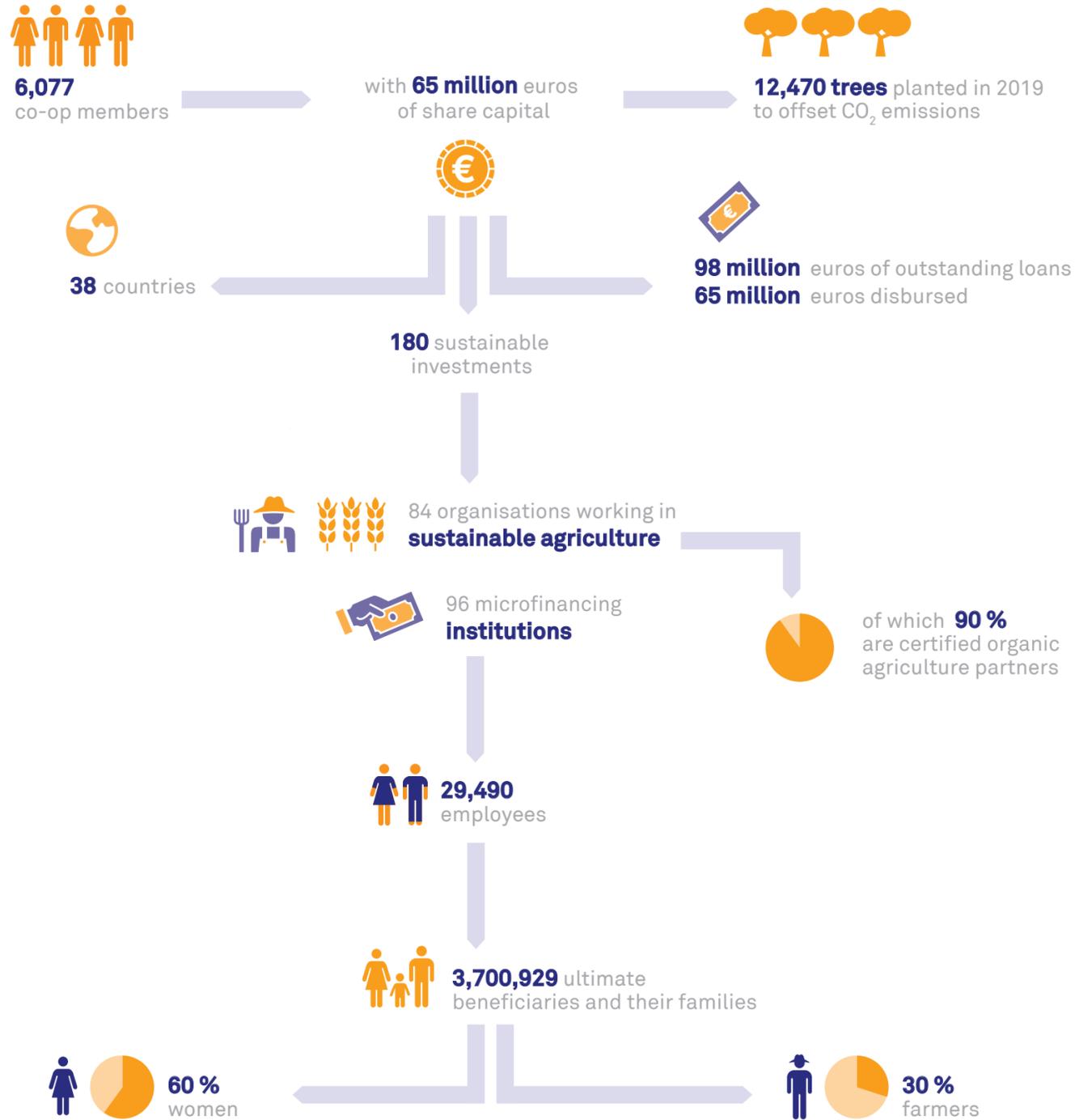
In solidarity,

Jean-Marc Debricon
General Manager

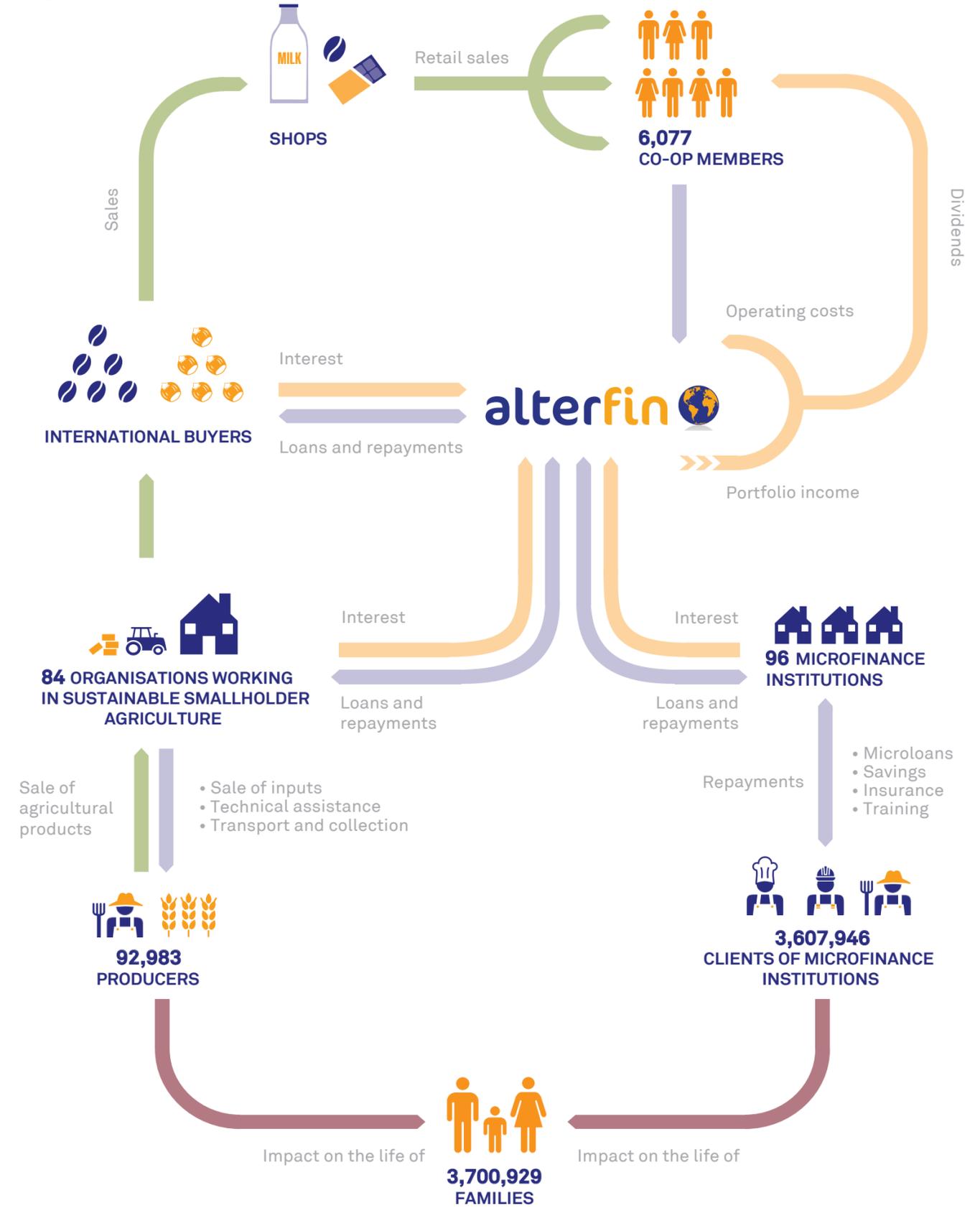


2. ALTERFIN AT A GLANCE

KEY FIGURES



FLUX & IMPACT



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.

By doing so, Alterfin contributes to the United Nations Sustainable Development Goals.



3. OUR SOLIDARY CO-OP MEMBERS

As at 31 December 2019, **Alterfin** had 6,077 co-op members providing capital of 64,529,875 euros. 88% of the capital is held by individual co-op members and the remaining 12% by institutional co-op members. An individual co-op member invests an average of 9,664 euros with **Alterfin**, while the average investment of an institutional co-op member is 37,619 euros.

In the interests of creating a fairer and more sustainable world, these co-op members have the opportunity to work towards these goals through the cooperative by pooling their resources to allocate them to partners that have a great social and environment impact.

In 2019, the net increase in capital was 2,357,125 euros.

BREAKDOWN OF CAPITAL BY TYPE OF CO-OP MEMBER



56,7 million euros provided by **5,867 individual co-op members**



7,9 million euros provided by **210 institutional co-op members**

Testimonial of a co-op member: Pascal Lemmens



How did you find out about Alterfin?

My first contact with **Alterfin** was professional, as an IT development consultant. When I went looking for information about the cooperative, I was immediately attracted to the type of investment it offers and the projects it supports.

What was it about the concept that won you over?

Why put your money into big business when there are so many opportunities to invest in smaller organisations whose goal is to support fair trade and **sustainable agriculture**? I have never wanted to invest my money in the big names on the stock exchange. However, realising that it could be used to support small operations and producers with a human face convinced me to take a definitive step.

Did you find out more before investing?

While I was working for **Alterfin**, I found all the information I was looking for, and I had a favourable impression. That impression was strengthened by

the enthusiasm of my colleagues. It only took me two weeks to make up my mind.

Do you think Alterfin offers an alternative to today's economic model?

Yes, but I think the public needs to be informed better about what cooperative organisations like **Alterfin** do, so that they have the chance to make up their own minds. Not everyone thinks in terms of return on investment and we could certainly benefit from that extra increase in interest.

Would you recommend buying shares in Alterfin?

Yes, absolutely!

Testimonial of a co-op member: Xanthippe Van De Genachte



How did you find out about Alterfin?

I found out about **Alterfin** from Loes, a friend of mine who is the human resources officer at **Alterfin**. She is always full of enthusiasm about the great projects **Alterfin** is doing, and that piqued my curiosity.

What is it that you like most about the Alterfin concept?

I really like the fact that **Alterfin** creates opportunities and has a respectful form of social impact in developing countries. By granting loans to people who want to start or develop a business in the most difficult regions, **Alterfin** provides them leverage for a better future. When we invest in **Alterfin**, we enable these people to obtain local resources to develop their activity.

Did you do your research before investing?

Yes, of course! If you invest and buy shares, I think it's important to read the financial prospectus so that you know what you are investing in and weigh the risks.

Do you think the principle of financial investment needs to be reviewed?

I think that the microcredit system is a sustainable,

supportive way of investing, because it is based on a win-win situation. On the one hand, the local social goals are achieved and on the other, you sign up for social and financial benefits as an investor. Personally speaking, I might emphasise the social impact more than the tax benefits, for example.

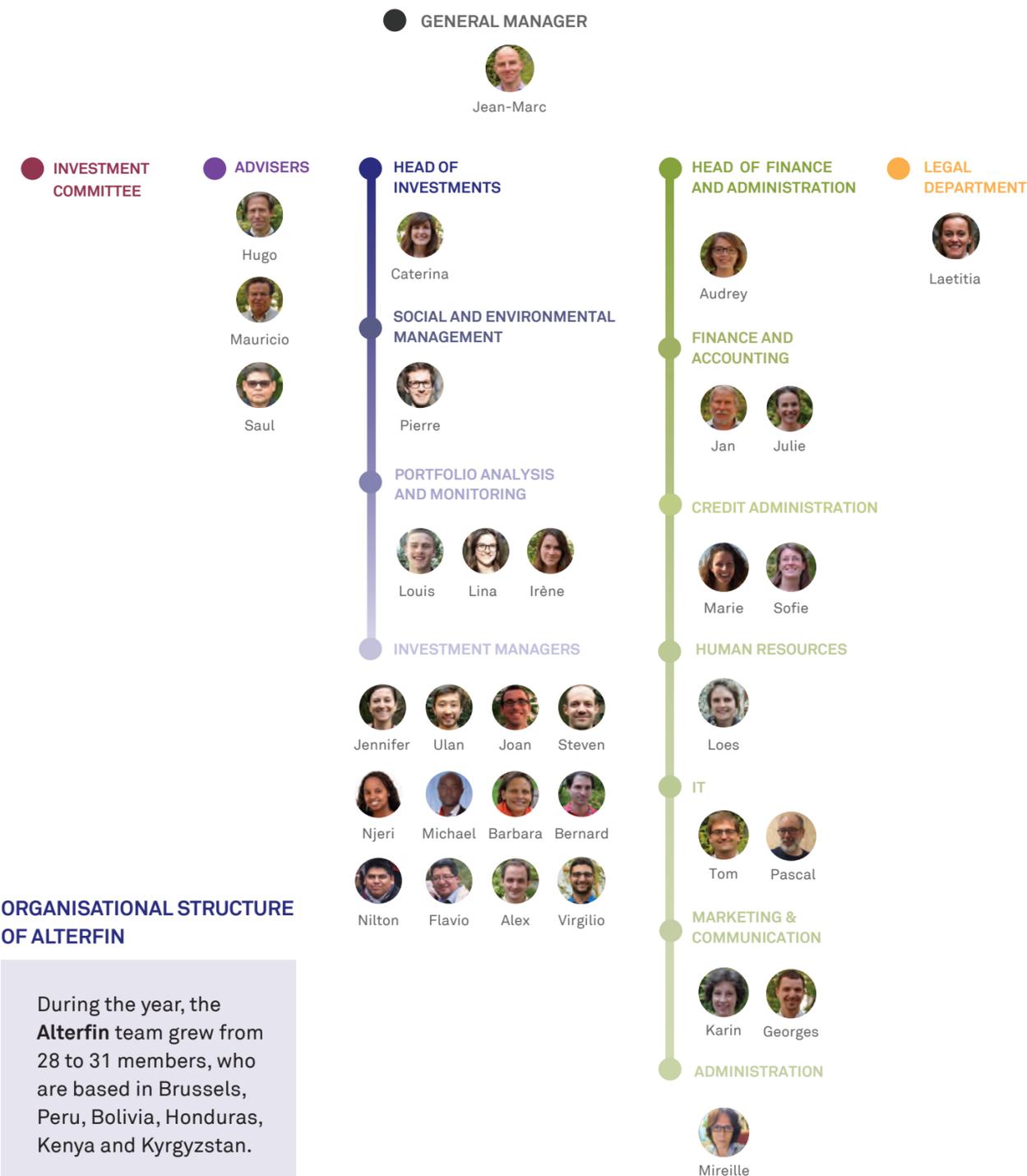
Would you recommend buying shares in Alterfin to other people?

I love travelling and I am often astonished by the differences between countries. When I visit a country, I often want to contribute to that country's economy but I don't know how to go about it. For me, investing in **Alterfin** shares is a response to that. So I wouldn't hesitate to invest in **Alterfin** shares so that all of us can make a difference together!

4. TEAM, GOVERNANCE & EXPERTS

 6,077 CO-OP MEMBERS

 BOARD OF DIRECTORS



ORGANISATIONAL STRUCTURE OF ALTERFIN

During the year, the **Alterfin** team grew from 28 to 31 members, who are based in Brussels, Peru, Bolivia, Honduras, Kenya and Kyrgyzstan.

Board of Directors

Name	Representing	Name
Catherine Houssa	Independent director	Banking and financial law, digital finance
Chris Claes	Rikolto	Rural development
François de Harven	Independent director	Banking, internal auditing, agronomy
Ingrid Van der Veecken	Independent director	Banking services to businesses
Jean Matton	Private co-op members	Legal and tax advice
Klaartje Vandersypen (chairperson)	Private co-op members	Banking and impact investment
Laurent Biot	SOS Faim	Microfinance and rural development
Mark Breusers	Independent director	Anthropology

Our external experts on 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
Vincent De Brouwer	Rural development banking
Jim Anderson	Commercial banking, development and microfinance

5. OFFSETTING OUR CARBON FOOTPRINT

The environmental awareness of our cooperative is reflected even in its day-to-day practices. Specifically, the **Alterfin** team has adopted a sustainable approach to its internal operations. For example, we consume certified products every day, sort our waste and use recycled paper and ecological cleaning products, as well as opt for low-impact mobility. The recruitment of local staff in the

regions where we operate, which has enabled us to considerably reduce our air travel, also illustrates our will to reduce our carbon footprint. Our emissions, expressed in tons of CO₂ equivalent per full-time equivalent employee, have also decreased since 2017. The arrival of many locally-based investment managers has considerably contributed to this.

ANNUAL CO₂ EMISSIONS PER FULL-TIME EQUIVALENT EMPLOYEE

Emissions per person employed by Alterfin (full-time equivalent) are mainly dependant on air travel. Employing locally-based staff has enabled us to considerably reduce our carbon footprint.



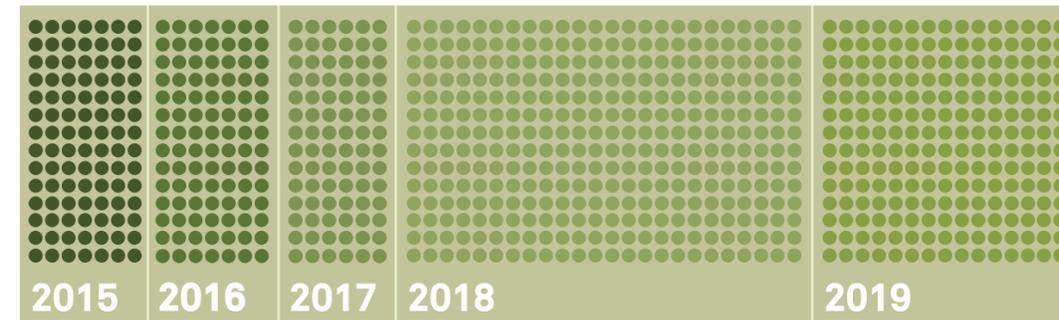
To offset its carbon footprint, **Alterfin** has partnered up with Acopagro, a cooperative of cocoa producers in northern Peru, in the San Martin region. We finance the planting of trees each year on the land of producers who are members of the cooperative. The CO₂ that these trees draw down over their lifetimes is the equivalent of our CO₂ emissions for the previous year. For example, our emissions in 2017 were particularly high due to the training of new

investment managers. This entailed many trips to visit our partners. Consequently, this increase in emissions was converted into a number of trees planted that was higher than in previous years.

Since the beginning of our partnership with Acopagro in 2015, more than 41,000 trees have been planted on land belonging to 51 families, all of whom are members of the cooperative.

OFFSETTING CO₂ EMISSIONS

Alterfin has had 41,592 trees planted since 2015. This represents an area equivalent to 32.6 hectares or about three times the Park of Brussels.



6. PARTNERSHIPS FOR ACHIEVING OUR GOALS

Alterfin is committed to its 180 partners spread across 38 countries, and is also engaged in initiatives that are working together on a daily basis 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.

In view of this, we would like to point out that Alterfin moved its offices to the Mundo-Madou complex in May 2019. Based on the desire for social and environmental responsibility, the design of the buildings in this complex is intended to minimise their environmental impact, and the resident organisations pool the resources made available to them.



CERTIFICATION, LABEL AND PRICING

Alterfin has obtained various types of certifications that demonstrate the ethical and sustainable nature of its commitment towards its co-op members, its staff and its partners. Whether national or international, these labels demonstrate Alterfin's role as an organisation striving for a fairer world.



SUSTAINABLE PARTNERSHIPS IN BELGIUM

By becoming a member of other Belgian cooperatives and organisations in turn, 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 of a number of umbrella networks of organisations involved in similar or complementary activities. The knowledge sharing that prevails within these networks is designed to serve the needs of everyone involved, all the way to the final beneficiaries. It should also be noted that these networks play an active part in defining and promoting good practices within the sector, in the spirit of transparency and always for the good of the beneficiaries.



FINANCING

Alterfin has entered into partnerships with institutions inspired by similar principles: working to finance organisations whose activities are rooted in a social and environmental mission. In this light, Alterfin will benefit from the financial support of the European Investment Bank (EIB), as well as two ethical banks in Italy (Banca Etica) and Belgium (vdk bank). This support provides additional levers to extend our mission to a wider audience.



FUNDS MANAGED FOR THIRD PARTIES

To finance its partners, Alterfin uses its own share capital and the loans mentioned above, as well as third-party funds that it co-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.



7. OUR SUSTAINABLE INVESTMENTS

Alterfin is active in 38 countries, including:

● 36 before 2019 ● 2 new in 2019

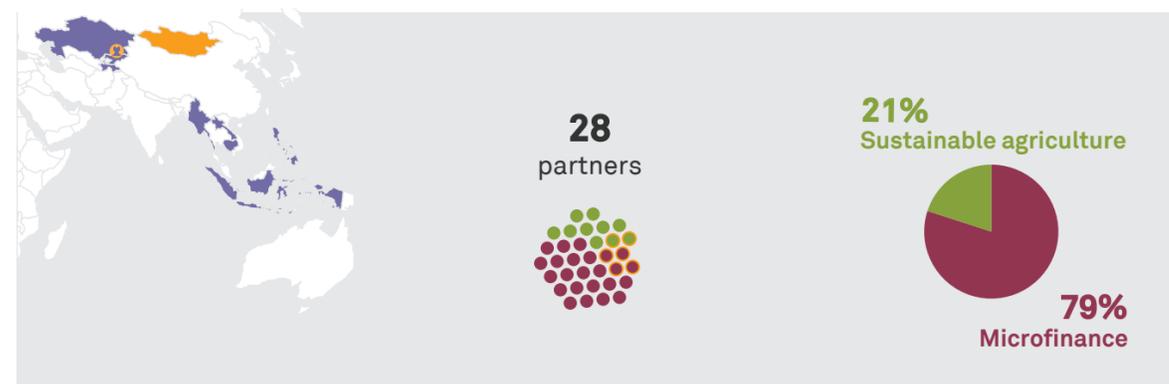
A local hub exists in 5 countries:



Honduras, Peru, Kenya, Kyrgyzstan and Bolivia

Alterfin is committed to 180 partners, of which:

- 96 in **Microfinance**
- 84 in **Sustainable agriculture**
- 22 new in 2019

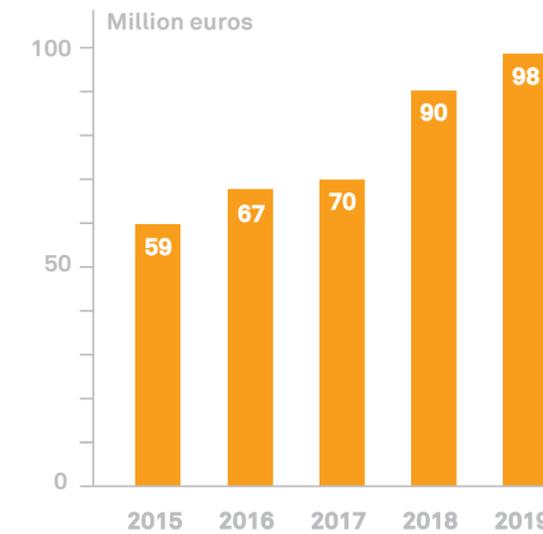


2019 SAW A REBALANCED PORTFOLIO AND A CONSOLIDATED LOCAL PRESENCE

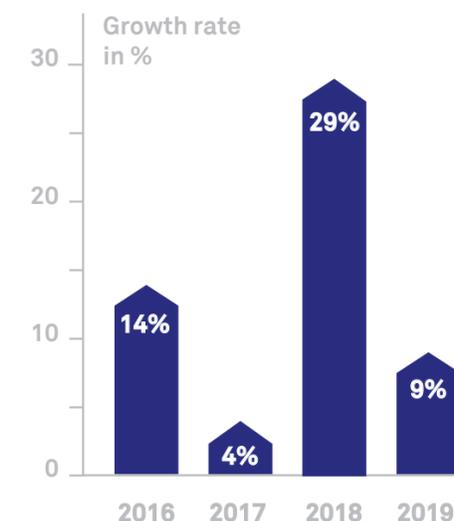
2019 brought a historic amplitude, but one that was above all symbolic: our outstanding loans came close to the 100 million euro mark for the first time in **Alterfin's** history, reaching 97.7 million euros on 31 December. Behind this figure are 180 organisations that have benefited from financial support. This in turn translates into an impact greater than the amounts invested (see the section on Our Impact, page 31). This commitment has enabled **Alterfin** to embed its activity firmly in 38 countries around the world.

CHANGES IN THE OUTSTANDING PORTFOLIO AS AT 31 DECEMBER OVER THE LAST 5 YEARS

The outstanding loans at the end of the year increased considerably between 2015 and 2019.



The annual growth rate of the outstanding loans varied greatly between 2016 and 2019, with a sharp increase in 2018 of almost 30%.



The investment portfolio grew by 9%, less than what we achieved in 2018 (+29%), but it does represent a multitude of achievements that reflect the strategy we have adopted.

Indeed, 2019 was full of positive, practical action: from January 2019 onwards, our local presence was boosted by the arrival of three new investment managers in Peru and Kenya. When it comes to the key jobs in managing our portfolio, **Alterfin** will dedicate the allocation of new human resources to the consolidation of these local branches from now on, with the aim of facilitating investment activity as well as monitoring current loans. This strategy has already been implemented in Latin America and Asia, but it is new in Africa. Hence, we are setting up regional hubs in Lima and Nairobi that also serve the neighbouring countries. As such, we have also expanded the geography of our activities: Rwanda and Mongolia have come on board with partnerships in **microfinance**. Partnerships in the coffee sector in Rwanda have also been initiated, but they have only taken concrete form since the beginning of 2020.

This expansion on the continents of Asia and Africa is fully in line with the strategy of regional rebalancing that is currently coming to fruition. Latin America has been the historic focus of much of our activity, although the desire to bring Africa and Asia to the level of the Latin American portfolio has been guiding our day-to-day portfolio management for the past few years. This strategy is supported by a better distribution of the risk at global level and by a desire to pursue our mission in areas that have not yet been explored, providing our services to populations that are often isolated, with limited access to financial support. We achieved this ambition in 2019: distribution across the regions was more balanced than ever by the end of the year (see the section on geographic distribution and sector, page 20).

In sectoral terms, **Alterfin** has consolidated the diversification of its support to **sustainable agriculture** by financing a new type of stakeholder: institutions that are located in Europe but work closely with a multitude of organisations for smallholder farmers or craftspeople in developing countries. Examples are Ethiquable (in France), Altrmercato (in Italy) and The Organic Village (in the Netherlands), which market a wide range of fair trade products or products from responsible and organic production networks. Initiating sustainable relationships with them is part of a threefold approach. Firstly, we share the values of a production system that respects human beings

and the environment. Secondly, these partnerships offer us the opportunity to significantly increase our reach by indirectly supporting these producers' organisations, which are characterised by a relatively small scale. Their limited size would make it difficult for them to receive direct financing from **Alterfin**. Lastly, financing stakeholders who continually market a vast range of products ensure stability in our current loans, a goal which remains essential to ensure good management of our resources (see the section on seasonality & products, page 23).



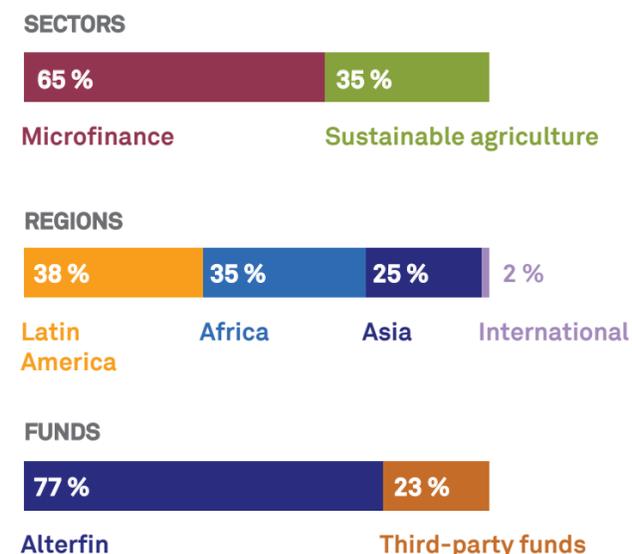
In the **microfinance** sector, **Alterfin** has sealed a partnership with the European Investment Bank (EIB), allowing us to increase our reach in Africa by granting loans to **microfinance** institutions in their national currency. This financial support provides considerable leverage to achieve our strategy to increase our investments made in national currency, a key element for many **microfinance** institutions, whose activities are purely local. Besides its partnership with the EIB, **Alterfin** has made use of its own resources, specifically with the support of the **Alterfin** Guarantee Fund, to provide loans in 16 local currencies, three of which were new in 2019: the Rwandan franc, Mexican peso and Mongolian tugrik.

In terms of financial resources, **Alterfin** used the cooperative's entire capital to finance its partners throughout the year, for the first time since 2012. Significant efforts have therefore been made to supplement our own funds and respond to the needs of the institutions we finance. Ethical banks, mentioned in the foreword to this report, also

granted **Alterfin** additional financial resources. In terms of human resources directly involved in portfolio management, **Alterfin** also made the choice to expand the team responsible for portfolio analysis, bringing the number of staff to four, specifically by creating the job of monitoring coordinator for outstanding loans.

In parallel, however, 2019 was marked by a combination of factors that limited the growth of our activities. On the one hand, several Latin American countries had to face significant challenges in situations where both the political context and the mainstays of the national economies disintegrated. In Bolivia, Nicaragua, Argentina and Chile, the entire local activity was turned upside down. Consequently, certain loans could not be renewed and new commitments could not be undertaken. This inadvertently put a damper on the vitality that usually characterises our commitment to these countries. On the other hand, several of our partners informed us during the year that they no longer needed our financial support. Although this had a negative impact on our business, we cannot help but feel proud: we were among the first international investors to believe in these organisations, playing a key role as pioneers and also as catalysts, opening the door to other stakeholders who have set up long-term partnerships with these local organisations in their turn (see the section on Our Impact, page 27). Now that they are able to strike out on their own, after many years of support, they are confirming the benefits of our loyal support in earlier years.

COMPOSITION OF THE OUTSTANDING PORTFOLIO IN 2019



On 31 December, the outstanding loans were distributed according to the chart above. Distribution by sector changed only slightly, whereas regional distribution saw considerable rebalancing. This is due to a strategy initiated a few years ago, as mentioned above. Ultimately, the balance between funding by the **Alterfin** cooperative and third-party funds whose investments it manages has progressed to **Alterfin**'s advantage, in anticipation of the closure of the Fefisol fund scheduled for 2021. This fund, co-created by **Alterfin**, was a key tool in developing the portfolio in Africa at a point when **Alterfin** did not yet have sufficient resources of its own to commit directly, including the capacity to grant loans to **microfinance** institutions in local currency. Over the last few years, therefore, **Alterfin** has been working to bring in the resources it needs to develop its activities in Africa, in parallel to Fefisol. Today, as Fefisol is starting to wind down, **Alterfin** is intervening to ensure continuity for Fefisol's partners and to take up the baton in a long-term commitment that has lasted almost a decade.

GEOGRAPHICAL AND SECTORAL DISTRIBUTION

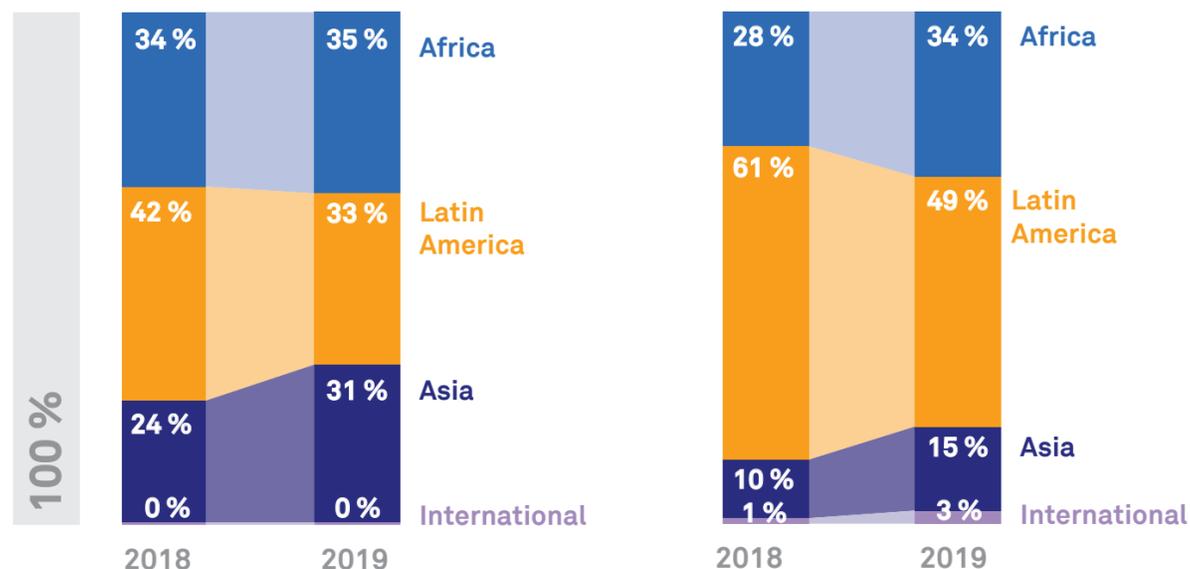
As mentioned above, **Alterfin** has been working for several years to harmonise the regional distribution of its portfolio in order to manage risk and to increase its social impact on ultimate beneficiaries globally. To counter the predominance of activities in Latin America, **Alterfin** also focused on developing its activities in Africa and Asia, recording annual growth of its current loans in euros of 20% and 53%, respectively. Conversely, it has recorded a drop in investments of 14% per year in Latin America, reflecting the political and economic challenges mentioned above. As a result, these opposing developments in different regions led to a more balanced redistribution of the outstanding loans at the end of year, both in the **sustainable agriculture** sector and the **microfinance** sector.



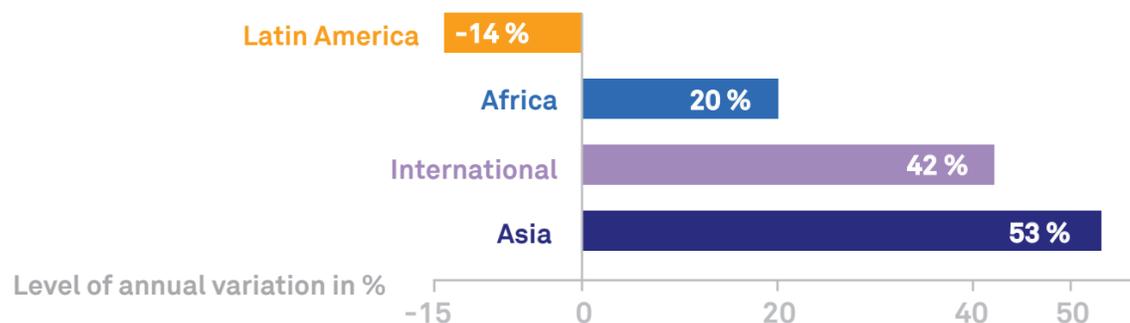
CHANGE IN THE REGIONAL DISTRIBUTION OF MICROFINANCE AND SUSTAINABLE AGRICULTURE

The portfolio dedicated to **microfinance** has become more balanced across the regions, benefiting Asia.

The **sustainable agriculture** portfolio has also become more balanced across the regions, with significant growth in parts of Africa and Asia.



ANNUAL GROWTH IN % PER REGION IN 2019



This strategy has been especially beneficial in **microfinance**, where the end-of-year distribution is well balanced between the regions, each of which represents about a third of the total. In this respect, Latin America's share dropped below that of Africa for the first time in 2019. We should recall that financial inclusion is weaker in the latter region than in other regions which justifies the efforts made to increase our support for the African **microfinance** sector, particularly with the EIB. Latin America has also witnessed a relative drop in the **sustainable agriculture** sector, although it is still in first place.

As in the previous year, the main growth in **microfinance** was in Asia. **Microfinance** investments in Asia increased by 58%, far ahead of Africa (+27%)

and Latin America (-2%). Nevertheless, this growth rate must be put into perspective, considering the low volume of investments in this region of the world until 2017, generating a significant proportional increase. Furthermore, Asia has specific features that make it fruitful soil for sustained growth. To begin with, the high population density that characterises many areas of the continent leads to a high number of clients for **microfinance** institutions and consequently relatively high financial needs. Moreover, these are institutions whose maturity and solidity encourage us to respond to their needs. Finally, **Alterfin** has been active in Mongolia since the beginning of 2019. This is a country where we had not previously worked and where we also expect our portfolio to grow in the future.

In fact, Asia channelled 41% of disbursements in the **microfinance** sector in 2019. This means that for the first time, Asia is benefiting from the majority of loans granted to **microfinance** institutions during the year, with 31% of such disbursements going to Africa and 28% to Latin America in 2019.

Thus **microfinance** continues to dominate in Asia, accounting for 80% of the outstanding loans at the end of year. However, this may rise to more than 90% if the agricultural season results in fewer investments in our sustainable agriculture partners in Asia. In fact, the **sustainable agriculture** sector in Asia is developing from a more limited basis, given the low number of organisations in Central Asia that export certified organic or fair trade products. Conversely, many agricultural value chains in Southeast Asia belong to networks of stakeholders that **Alterfin** supports. These include sustainable fisheries, cocoa and rice farming, all of which have received support from **Alterfin**. What is more, disbursements in this region represent 20% of the total disbursements for **sustainable agriculture**, almost double what they were in 2018.

Africa, in turn, has benefited from new resources with the arrival of an additional investment officer,

adding a third member to the team responsible for African investments, two of whom are based in Kenya. This development is bearing fruit across all our activities in East Africa, including an intensification of our operations in Tanzania and the exploration of a new country, Rwanda. What is more, **Alterfin** has managed to grow the African portfolio by introducing new partnerships in the West African cocoa sector in particular, turning this product into the best represented agricultural product in our portfolio (see the graph showing cumulative disbursements by product type on page 25). Concurrently, an organisation of date producers in Tunisia or a **microfinance** institution in Sierra Leone illustrate **Alterfin's** willingness to turn increasingly towards countries that are not yet strongly represented in its portfolio.

In parallel, there is the Fefisol fund, which historically stimulated the development of the African portfolio managed by **Alterfin**. Fefisol is now starting to wind down its activities in view of its closure in 2021. In this regard, 2019 marked a turning point, with Fefisol's **microfinance** portfolio contracting for the first time, due to the lack of possibility of renewing loans, whose maturity would go beyond the fund's lifespan. For this reason, **Alterfin** has taken up the



baton and made commitments to these **microfinance** institutions with its own funds.

Latin America has confirmed its majority position within our portfolio, representing 38% of outstanding loans at the end of the year, despite the political or sectoral difficulties mentioned above. The continent is marked by the importance it attaches to the world of agriculture and the diversity within it: there are at least 15 value chains in Latin America that benefit from **Alterfin's** financial support. Indeed, this is the region where our support to **sustainable agriculture** is the strongest: half of our disbursements in the agricultural sector go here. Many of the partnerships in this sector require a strong presence and a commitment that is renewed annually, reflecting the agricultural year. Subsequently, Latin America also welcomed a new investment officer based in Peru, bringing the number of investment manager in the region to five. Four of them are based in very close proximity to our partners. Thus the team has grown to meet the growing needs of our partners,

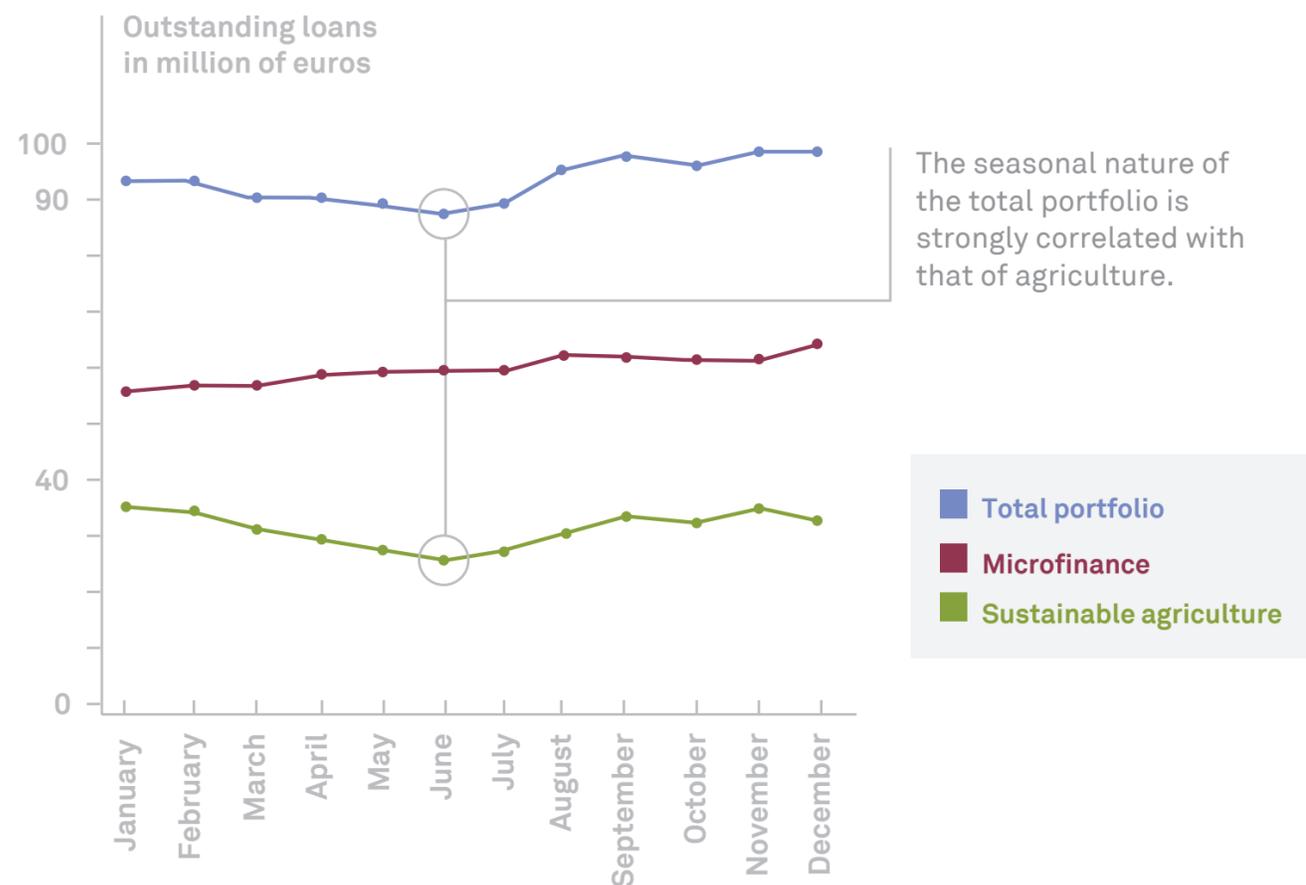
increasing our reach at the same time: the portfolio in Mexico, which previously consisted almost entirely of investments in **sustainable agriculture**, has now been supplemented by an investment in **microfinance**. The latter is for one of the six new partners in Latin America, evenly distributed between **microfinance** and **sustainable agriculture**.

SEASONALITY AND PRODUCTS

Our portfolio is still characterised by seasonality in 2019, resulting from a commitment, in which investments in organisations active in the West African cocoa sector and the Central American coffee sector still predominate (23% of the average monthly outstanding portfolio in 2019). We should bear in mind that **Alterfin** has historically supported small coffee and cocoa farmers in these regions, spearheading a fair trade policy that is deeply inscribed in **Alterfin's** mission. In general, coffee and cocoa are the main raw agricultural products

SEASONAL NATURE OF THE PORTFOLIO AS A WHOLE

The outstanding loans in the portfolio are characterised by a seasonal dip around June-July. This is largely due to the seasonal nature of certain agricultural products that predominate within the portfolio.



marketed at international scale and grown by smallholder farmers, who represent the main target of our activities.

Following on from this commitment, investments in these activities have followed their growth over the years, reinforcing this predominant place in our agricultural portfolio. Now it is a good idea to correct this imbalance by introducing new value chains to our portfolio or by developing existing chains, whose seasonality is different to that of the predominant products.

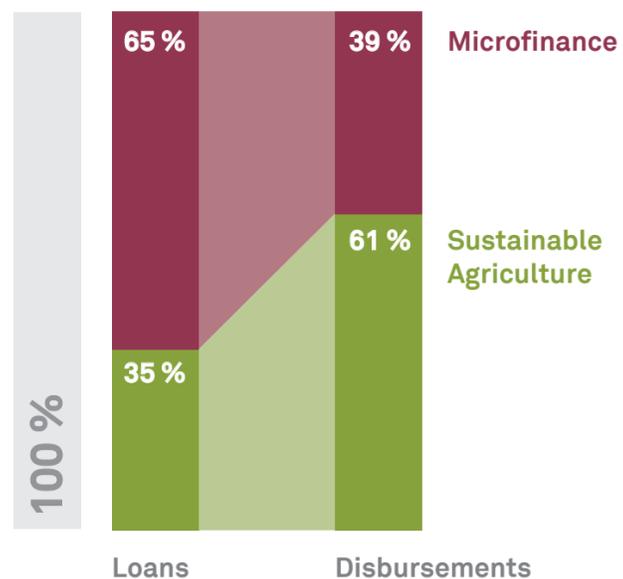
This seasonality, reflected in the loans, is also apparent in the annual amounts disbursed, which represent the entirety of funds disbursed by **Alterfin** to its local partners. Where the outstanding loans provide a snapshot at a given moment of all the investments granted to our partners, these flows provide an accurate reflection of our degree of commitment to these partners and the volume of activity generated each year.

As such, **sustainable agriculture** remains the main recipient of these flows, due to the specific nature of the financing that is usually repeated annually.



COMPOSITION OF THE PORTFOLIO BY SECTOR

Although sustainable agriculture only represents a third of the outstanding loans at the end of 2019, it accounts for almost two-third of disbursements in 2019.



In line with the opportunities detailed above, coffee and cocoa are still at the top of the list for agricultural disbursements, representing three quarters of these disbursements in 2019. Although the disbursements

allocated to the cocoa sector have considerably increased this year, coming close to the amounts disbursed to the coffee sector, disbursements in the coffee sector have experienced a slight decline. This drop is linked to the fact that financing came later in the season in Central America than in 2018: a significant number of disbursements were not made until January 2020. This was coupled with a drop in the price of coffee on the international market, leading to our partners experiencing financial needs slightly lower than in previous years. However, the proportion of disbursements allocated to this product in South America and East Africa (these regions have the opposite seasonality to Central America) grew while the proportion of disbursements allocated to partners in this sector in Central America decreased. This reallocation of disbursements to coffee is due to the strategic work mentioned above, intended to even out the portfolio by increasing the financial support allocated to agricultural value chains with the opposite seasonality, whether they are unexplored or have been there for many years but are underrepresented. As such, other opportunities have already presented themselves from within **Alterfin's** activities, or are currently being consolidated. They range from partnerships in the nut and quinoa sectors in South America to honey in Central America and coffee in Rwanda. The commitment to

the organisations in question is still relatively low at present, but we are working to intensify it in the future.

Furthermore, the recent financing of organisations that market fair trade products or environmentally responsible production networks is helping to

stabilise the agricultural portfolio. This is because multiple agricultural seasons are combined here, meaning that products can be marketed throughout the year. In other words, the point is to seize opportunities to keep this seasonal effect under control by diversifying the agricultural value chains financed and reaching a number of smallholder



farmers that is much larger than our own capacities would allow, particularly because of the risk inherent to each of these small producers' organisations.

Nevertheless, we should keep in mind that **Alterfin** already works directly with a wide array of agricultural products presented here in categories. This graph shows the distribution of

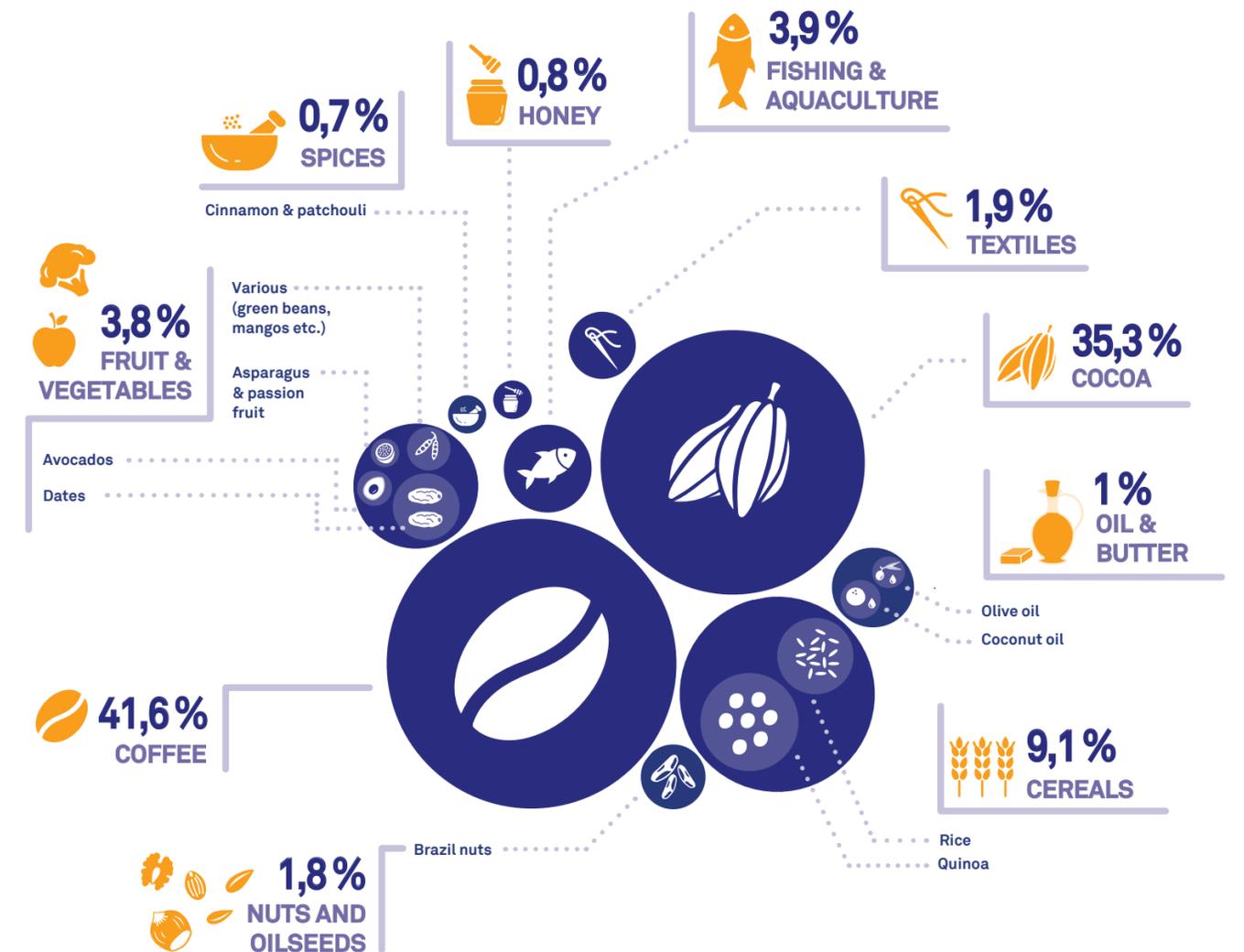
disbursements made throughout the year to our agricultural partners.

Last but not least, **microfinance** experienced relatively steady growth in 2019, with little effect on the seasonality of the total portfolio. With this in mind, maintaining a healthy and stable portfolio in this sector is entirely appropriate to a strategy of smoothing the overall portfolio.

AN OPPORTUNITY TO REDUCE SEASONALITY IN THE FUTURE



CUMULATIVE DISBURSEMENTS BY PRODUCT TYPE



PORTFOLIO QUALITY

Rooted in the dynamics of portfolio management, the quality of the portfolio remains an essential component of the financial and social performance of our activity. Hence, our internal procedures are entirely dedicated to the creation of a healthy investment portfolio, responding to the needs of organisations which, although they are sometimes fragile, demonstrate an undeniable social value.



At the end of December 2019, the proportion of our portfolio at risk, representing the value of loans on which one or more repayments had not been made, rose to 9%. However, a quarter of this portfolio at risk consists of new loans in default, where the reasons for the difficulties in repaying the loan or the perspectives associated with them have led us to put their current weight into perspective. Among them, for five of the partners who have been unable to honour their repayment obligations in 2019, stable communications and encouraging perspectives have allowed us to agree to a new repayment schedule together, adjusted to the partners' current situation. Incidentally, some of these debts were repaid and renewed as early as the beginning of 2020. Together, they represent 19% of the volume of loans at risk. Our portfolio at risk also increased because of four defaulting loans that **Alterfin** inherited from a fund (Fopepro) that was closed in December 2019 and co-managed by **Alterfin**. These loans represent 7% of defaults. If these two types of newly defaulting loans that present little risk are removed from the figures, the portfolio at risk amounts to 7% of our total portfolio.

Furthermore, **Alterfin** has continued the consolidation work it has been doing for several years. Specifically, four loans that have been in default for more than three years have been written off from the portfolio, since the probability of recovering them now seems to be

negligible. The latter have been entirely written down over the last few years, which means that their residual value was zero and their removal did not lead to any additional reduction in book value.

Along with these loans that have been removed from our portfolio, **Alterfin** registered new instances of default. Here the situation is being monitored daily, but it has not yet prompted us to make write-downs. We can offer the example of a partner that produces sesame and chia in Bolivia, which experienced difficulties in 2019 due to the sudden contraction in global demand that led to a drop in prices and difficulties in making repayments, compounded by the lack of possibility of exporting its produce for many months at the end of the year due to national political events. A partner in Kenya also experienced difficulties making repayments, since it is faced with a lack of liquid assets caused by a delay in the implementation of a new mango pulp production line. Last but not least, one of our long-standing partners in the cocoa and coffee sector in Peru is also having liquidity issues following a programme of significant investments over the previous years, coupled with the drop in prices on the coffee market. Together with our other international creditors who are members of the CSAF (Council for Smallholder Agriculture Finance, see the section on our partnerships, page 16), we are exploring different avenues to support the partner in this critical phase. Please note that the agricultural sector is generally more exposed to risks than the **microfinance** sector, whether these risks are due to the climate or linked to the fluctuation of prices on the international market.

The write-downs made during the year were therefore mainly on these loans, but also on a contract that has been defaulting on its payments since 2018. This has to do with financing granted to a fund whose objective is to support small and medium-sized enterprises in Central America which is faced with ongoing liquidity shortages.

At the end of the year, after subtracting all the write-downs from our risk portfolio, it amounted to 5%. Nevertheless, 35% of this net portfolio at risk is made up of the loans explained above, where encouraging perspectives or the settlement of defaults at the beginning of 2020 have prompted us to subtract them from the calculation of our net portfolio at risk. Finally, we have first-loss guarantees for certain defaulting loans which means that we are guaranteed to receive the amounts due as soon as we decide to claim them from the providers of these guarantees. Accordingly, we can speak of reduced risk amounting to 3% of our entire net portfolio.

8. OUR IMPACT

ALTERFIN'S SOCIAL AND ENVIRONMENTAL PERFORMANCE

The Sustainable Development Goals (SDGs) are a call to action from the United Nations to end poverty while protecting the planet. They were adopted in 2015 by the UN member states with the objective of being achieved by 2030. **Alterfin** contributes to the SDGs by mobilising capital to invest in developing countries through **microfinance** institutions and organisations active in **sustainable agriculture**.

Through the nature of its activities, of course, **Alterfin** makes a genuine contribution to several SDGs. Primarily by supporting microenterprises and smallholder farmers working in sustainable family agriculture, **Alterfin** is therefore reducing poverty, hunger and gender inequalities. **Alterfin** is also working to ensure decent jobs and sustainable economic growth with respect for the environment.



GOALS



End poverty in all its forms everywhere

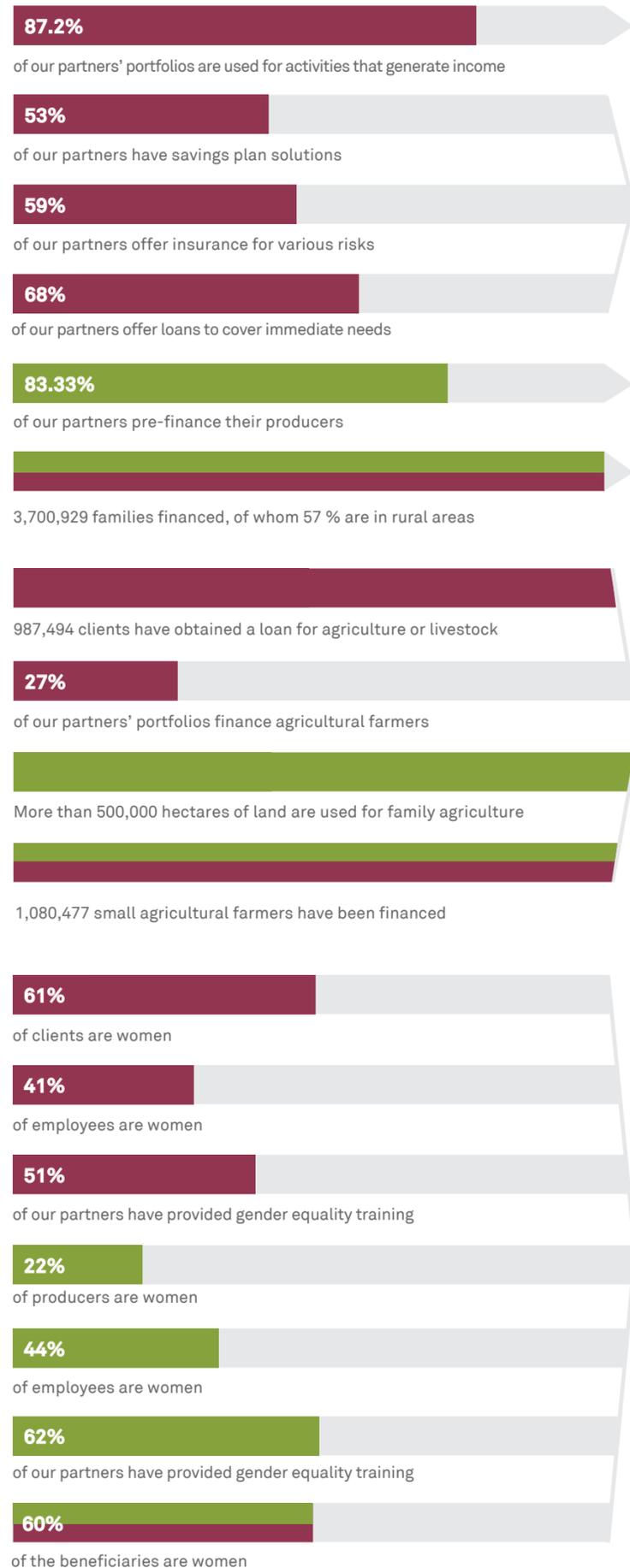


End hunger, achieve food security and improved nutrition, and promote sustainable agriculture



Achieve gender equality and empower all women and girls

INDICATORS ■ Microfinance ■ Sustainable Agriculture



FOCUS

Offering economic opportunities

Reduction of vulnerability

Get people out of the poverty trap

Targeted outreach

Promotion of sustainable agricultural production

Reduction of gender inequalities

GOALS



Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all



Ensure sustainable consumption and production patterns



Take urgent action to combat climate change and its impacts by regulating emissions and promoting developments in renewable energy



Strengthen the means of implementation and revitalize the global partnership for sustainable development

INDICATORS ■ Microfinance ■ Sustainable Agriculture



FOCUS

Job creation

Increases in productivity

Decent income

Decent working conditions

Promote the protection of the environment

Promotion of sustainable agricultural production

6,077 CO-OP MEMBERS AND 180 PARTNERS
This goal is discussed on page 16 of this report.

ALTERFIN'S ACTIVITIES CONTRIBUTE TO ACHIEVING 7 SUSTAINABLE DEVELOPMENT GOALS

ALTERFIN'S IMPACT

Alterfin's mission is to improve the living conditions of socially and economically disadvantaged individuals in developing countries. That is why **Alterfin** selects partners with high social and environment impact, ensuring that they meet strict criteria evaluated by our investment managers. Besides assessing its activities in the light of the SDGs mentioned above, it is essential for **Alterfin** to measure its direct impact on its partners and its indirect social and environmental consequences for its beneficiaries. To do so, **Alterfin** has developed an innovative method that focuses its attention on its partners, thus enabling us to highlight the benefits of our actions throughout the impact chain in which we aim to act. In this light, **Alterfin's** role as a pioneer and also as a catalyst are having a positive and long-lasting effect on the lives of the individuals targeted by our mission.

Alterfin is indeed proud to emphasise its role as a pioneer for 30% of its partners: it committed to and invested in organisations whose activities are still limited but whose potential it identified at a point when other international investors were not ready to support them. Committing to these organisations enables **Alterfin** to maximise the impact of each euro it invests because, without our stimulus, they would have very few opportunities of developing as rapidly and to the same extent.

“Alterfin is the first international lender to have put its trust in us. It is always difficult for us to obtain financing, but at the time of the first investment it was impossible for us to find a viable alternative”

(Coconut Holdings, Kenya)

This visionary talent is even more marked in agriculture than in **microfinance**, where **Alterfin** is demonstrating visionary talents for 50% of its partners. This is explained particularly by the fact that agriculture is a sector perceived as higher risk, which means it attracts fewer investments. Thanks to its unique expertise, accumulated over more than 25 years, **Alterfin** can limit the risks inherent to the sector and stay financially viable. Thus, **Alterfin** positions itself as an important player in the financing of **sustainable agriculture**: a sector where the impact on poverty reduction is even more significant than in **microfinance**.

“When we received the loan from Alterfin, Tajikistan was suffering from a major economic crisis. Certain funders left, and Alterfin arrived just at the right time to

enable us to keep going without worry. Also we couldn't find a viable alternative for our financing. After we received the loan from Alterfin, other investors followed.”
(Furuz, Tajikistan)

After this initial financing, our partners finally had the resources they needed to embark upon a sustainable growth process, whether in terms of the volume of agricultural products bought from farmers whose markets were often reduced, or financing for the professional activities of microenterprises with equally limited access to financial services. In other words, there is an entire chain of stakeholders who benefit, and although **Alterfin's** main role is to provide initial financing, the effects of this are felt far beyond the monetary value of the loans it provides. Because of this growth in quantitative terms, as well as in terms of qualitative aspects (increased income for final beneficiaries, development of fair trade or organic certification, etc.), our partners are able to consolidate their reputation and credibility at international scale, attracting the permanent interest of a growing number of investors. So **Alterfin's** role as a catalyst is revealed when a first loan is granted and other stakeholders realise the potential that **Alterfin** saw and decide to invest too. For 67% of our partners, who have seen the number of lenders increase during the term of **Alterfin's** loan, **Alterfin** has indeed played a key role in attracting these new investors.

“Alterfin has made us more attractive to other lenders.”

(OXUS, Kyrgyzstan)

“Alterfin put us in touch with other investors.”

(Kennemer Foods, Philippines)

In **sustainable agriculture**, **Alterfin** has also played a decisive role in attracting new buyers for 76% of our partner organisations.

“We have succeeded in attracting two new clients in the eurozone because, thanks to the Alterfin loan, we were able to fulfil their expectations efficiently.” (Phyma, Kenya)

“Alterfin has introduced us to buyers.”

(ECEG, Guatemala)

Beyond this initial trust that **Alterfin** puts in organisations with attractive growth potential and indisputable social impact, identifying and financing these organisations is necessary but not sufficient



to maximise impact. **Alterfin** distinguishes itself from other investors by adapting to partners' needs, which enables them to further create value for their beneficiaries.

Once a loan has been granted, **Alterfin's** responsiveness allows its partners to plan their activities better and intervene with their clients or producers at the appropriate time. For instance, if a cooperative can secure funding early enough before the harvest of its producers, it can anticipate and maximise the amount of produce it buys from its producers so they do not need to sell to intermediaries at a lower price. Adequate financial planning then is crucial for organisations, since it enables them to generate more profits while improving the lives of their beneficiaries. According to half of our partners, **Alterfin** was indeed quicker to approve and disburse their loans than other lenders.

“The speed at which Alterfin approved the loan enabled us to plan and make orders with producer cooperatives a month before the beginning of the season. Since we received the correct amount quite early, we were able to aim for an increase in production of 50% and sales at the same level. A delay in obtaining funding would have forced the producers to sell their products to middlemen at lower prices.”
(Liza Coffee Washing Station Limited, Rwanda).

“With local banks, we sometimes received the financing 3 or 4 months after the beginning of the buying period, and we had to purchase at a higher price. Thanks to Alterfin, we can start the season on time and purchase at an affordable price.”
(South Organic, Tunisia)

Besides consistent and appropriate timing for disbursements, how the repayment plan is scheduled is also crucial to an organisation. If the latter has a schedule that corresponds to the seasonality of its activity, the partner will be capable of offering its **microfinance** clients new services or allocating its resources adequately during an agricultural season. For more than a third of its partners, **Alterfin** has demonstrated its ability to understand the specific features of the business of its partners by offering a repayment schedule that is more suitable than that offered by other lenders.

“Alterfin allows its loans to be repaid gradually, offering a grace period of one year for repayment of the capital which, combined with six-monthly repayments of the interest and capital, results in a repayment schedule that is optimal for us.”
(Oxus, Kyrgyzstan)

“We like working with Alterfin because it is an institution that understands the opportunities and challenges that we are faced with in our business.”
(Kennemer Foods, Philippines)

Last but not least, **Alterfin's** service is not limited to the conditions of the loan, but also includes financial advice passed on by the investment managers and investment committee. This additional support complements the benefits already mentioned and encourages our partners to improve their operations and services intended for the final beneficiaries. In fact, more than 45% of **Alterfin's** partners have indicated that they have received financial advice from **Alterfin**. 85% of those who have received advice from **Alterfin** have set up specific measures to implement these recommendations.

“It is important for us to let you know that without you, it would not have been possible to make such rapid progress in such a short time and that thanks to your support and advice, we have been able to develop in the best possible way.”
(Najil CAB, Mexico)

“Alterfin has been an ally in the development and growth of our organisation.”
(Procaja, Panama)

By combining pertinent, custom financial services and technical advice, **Alterfin** is creating a multiplier effect to increase its impact, which is passed on from its partners to their beneficiaries. Identifying, selecting, supporting and coaching: all of these are forms of decisive action in the financing process that generate positive, amplified effects at every level, throughout the chain, at financial, social and environmental levels. Thus, almost half of our partners have made improvements at social level or set up projects with a social or environmental impact, all directly thanks to **Alterfin**.

“Alterfin is a solid institution. Its credit programme for Latin America helps local organisations reach populations who do not have access to traditional banks.”
(Fundenuse, Nicaragua)

“Thanks to Alterfin, the business is growing: we have expanded our operations, worked on new crops, increased the number of producers we work with and improved our training programme.”
(Kennemer Foods, Philippines)

COCONUT HOLDINGS: A RESPONSIBLE CATALYST AT THE SERVICE OF KENYAN SMALLHOLDER PRODUCERS

Coconut Holdings Limited (CHL) is a Kenyan business based in the Kwale region, which works

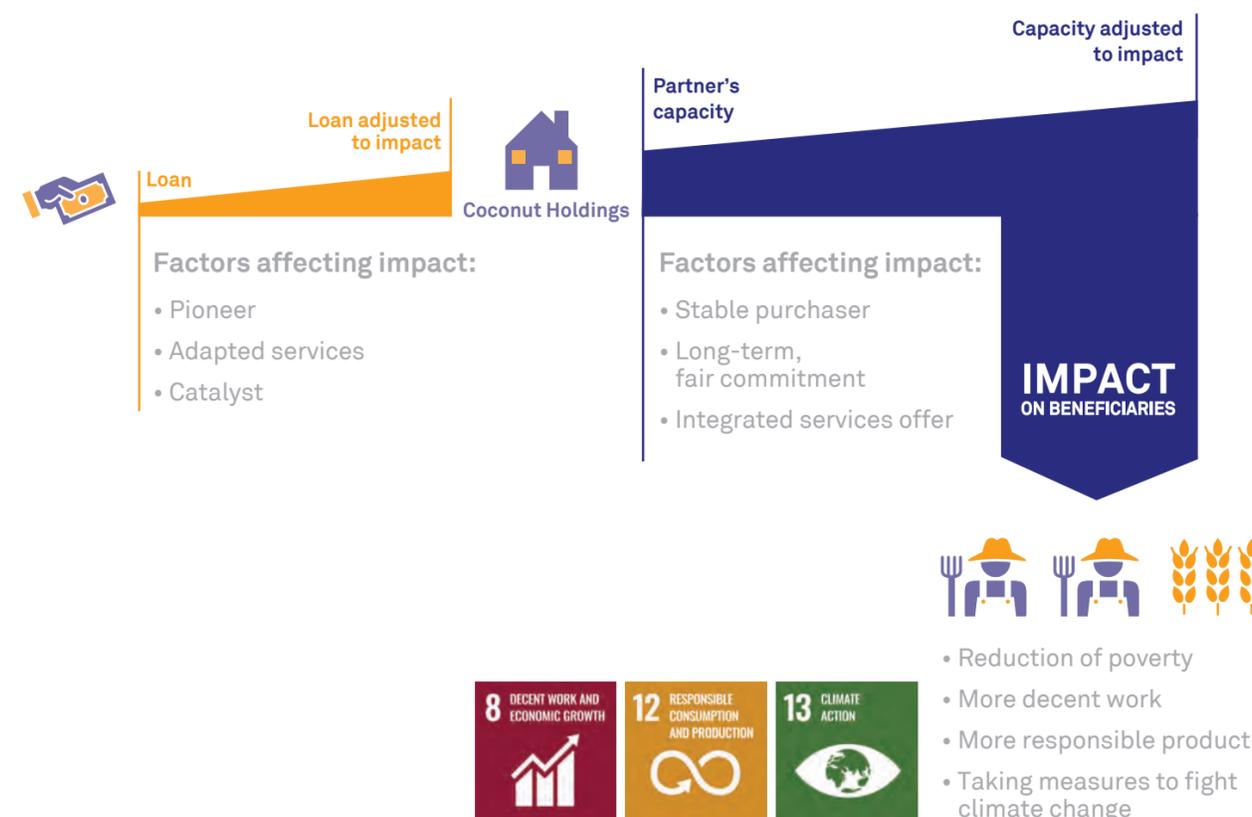
with more than 3,200 small coconut farmers. CHL's 150 employees, more than half of whom are women, produce certified organic, fair trade coconut oil and derivatives intended for the local market. **Alterfin** surveyed 310 coconut producers¹ in Kwale to find out about the impact CHL has on coconut producers on the Kenyan coast.

CHL acts as a stable buyer that offers unique market access to coconut producers in one of Kenya's poorest regions. Unlike the middlemen who buy coconuts at irregular intervals, CHL offers its producers a formal contract guaranteeing them access to attractive market opportunities. The possibility to work with CHL is genuinely unique for the vast majority of them: for more than 86% of producers, it would be difficult if not impossible to find a viable alternative to CHL.

Moreover, CHL has proved its commitment to creating a fair and sustainable value chain. On the one hand, the CHL contract guarantees its producers a fixed price that is 50% higher on average than the market price. On the other hand, CHL works to ensure that the farmers can get access to organic and fair trade certifications,

ALTERFIN IS MAXIMISING ITS IMPACT

By joining forces with Coconut Holdings, Alterfin has triggered a double multiplier effect for its partner and its ultimate beneficiaries.



¹ 50 of these will be joining CHL in 2020.

entirely at its own expense. This gives the farmers the right to obtain premiums and, subsequently, improve their incomes. Thus, CHL has succeeded in creating a remarkable culture of responsible farming among its producers, with 95% of producers valuing more on the quality than the quantity of their coconuts since they started working with CHL. This has had positive effects on profit for 96% of them.

CHL's commitment to the farmers goes even further, taking the form of a holistic approach. Specifically, CHL makes an integrated service offer whose effects are felt throughout the production chain. To begin with, CHL pre-finances its producers and provides them with seedlings so that they can start producing. CHL has its own collectors who then select the ripe coconuts and send them directly to its processing factory. In particular, this service stops the oldest producers, who are no longer able to climb trees, from having to employ collectors at their own expense.

In this way CHL makes agriculture profitable: in fact, the producers who already work with CHL are 12% more likely to make a profit than those who are going to join the organisation in 2020. For almost two thirds of the producers, it would be impossible to make a profit without CHL, whereas 96% of them have seen the profit generated by their agricultural activity grow since they started working with CHL. This increase in income allows them to get a better future for their children, since a majority of producers reinvests their additional income in the education of their children.

CHL also directly reduces the vulnerability of its producers to climate change, enabling them to face external shocks better (drought, pests, etc.). To begin with, the increase in their income due to the sale of their coconuts enables them to invest in new crops, which is the case for almost a quarter of them, and to diversify their future income. Furthermore, by offering them training to manage better adverse climatic conditions (such as the lack of water) and optimise their crop yields, CHL is helping them to mitigate and adapt better to exogenous shocks. In fact, producers who have suffered shocks of this kind are 30% more likely to state that agriculture would not be profitable without CHL.

By committing to the organisation in 2017, **Alterfin** has played a pioneering role for CHL, which worked with just 700 producers at the time and did not have any other source of financing besides the loan from **Alterfin**. As well as backing CHL's social mission, **Alterfin** believed in the financial viability of its plans, giving hope to

smallholder farmers in a region with poor soil and few alternatives.

Thus, **Alterfin** has also played an important role as a catalyst for CHL, because its support contributed to the institution's credibility with other lenders. Since CHL has attracted other lenders, the institution has come to attach great value to the speed at which **Alterfin** disburses its loan, enabling CHL to buy coconuts from producers at the right time. This in turn means that the producers do not sell their coconuts to middlemen at lower prices due to a lack of cash. This creates a virtuous circle in which every stakeholder in the chain provides essential support downstream. Since CHL was granted its first funding, our steps have been guided by the desire to use our resources and the trust of our co-op members to contribute to the valorisation of a fruitful chain of actions.

FURUZ: A TAJIK MFI OFFERING OPPORTUNITIES FOR VULNERABLE SMALLHOLDER FARMERS

Furuz is a Tajik **microfinance** institution that supports more than 3,500 microenterprises in rural areas in southwestern Tajikistan. More than half of the Gross Domestic Product of Tajikistan comes from money transfers from vulnerable labour emigrants, many of whom work under temporary contracts that offer little stability. By targeting microenterprises with little access to financial services, Furuz is contributing to income generation locally at the household level and stimulating rural economies.

Only a quarter of the population of Tajikistan borrows from financial institutions annually ². This figure is well below the regional average: in the neighbouring countries, more than a third of Afghans and Kyrgyz and more than half of Turkmens borrow money. Access to financial services remains limited for the majority of Tajiks and, in particular, for smallholder farmers who have no guarantees to offer. In order to respond to this pressing need, almost a third of Furuz's portfolio is dedicated to financing agriculture and livestock farming.

To understand Furuz's impact on its agricultural beneficiaries better, **Alterfin** surveyed almost 300 producers, whose previous agricultural season had been financed by Furuz. The institution is a genuine force for financial inclusion targeting populations



²Source: World Bank Indicator (2014)

marginalised by the financial sector. In fact, hardly any of these producers has a loan from another institution, and for more than half of the farmers, Furuz is the first institution, from which they have ever been able to borrow money.

Financial inclusion and Furuz's ability to offer products suited to the needs of smallholder farmers have created a genuinely virtuous circle that is leading to improvements in the living conditions of the farmers and their families. To begin with, these farmers mainly use the loans to buy seed and manure so that they can start farming. Their loan enables them to increase the quantities of inputs, obviously in order to reach a critical level of production at which they can start to make a profit and get greater earnings. For 35% of producers, agriculture would not be profitable without Furuz, which has moreover enabled them to increase their profits on average by a third.

This impact also has a multiplier effect: by making agriculture more profitable for these producers, Furuz enables them to reduce their vulnerability to external shocks such as droughts, variations in climate that

adversely affect agriculture, pests that destroy harvests and the volatility of market prices. More than 90% of the surveyed clients have suffered such shocks in the last twelve months. These shocks reduce their income by an average of 20% per year. The increase in their income linked to the use of a loan from Furuz enables them to compensate for this loss and thus to reduce their vulnerability.

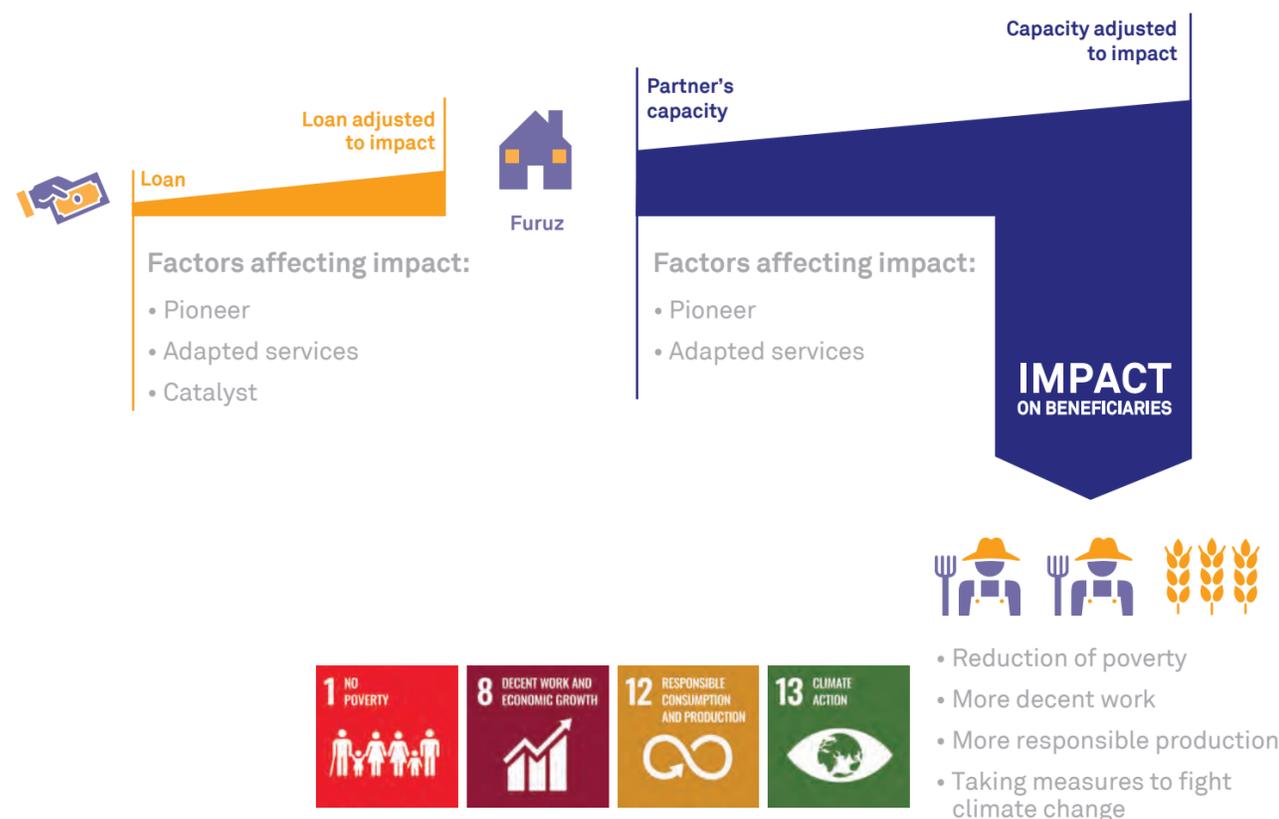
Thanks to the increase in income resulting from Furuz's financing, 40% of them buy livestock that they can sell if they need to, and more than a third are building up monetary savings. For more than half of the farmers affected by external shocks, moreover, these savings are what will be used to deal with sudden difficulties. Finally, if they have additional needs, more than a third of the farmers takes out a new emergency loan from Furuz to meet their financial needs and prepare for the next harvest.

In 2018, Tajikistan was faced with economic instability that discouraged investors. Furuz was unable to find sources of financing with viable conditions for its activity. Convinced of the institution's social mission



ALTERFIN IS MAXIMISING ITS IMPACT

By joining forces with Furuz, Alterfin has triggered a double multiplier effect for its partner and its ultimate beneficiaries.



and its impact on Tajik microenterprises in rural areas, **Alterfin** decided to support the institution despite the difficult local context. Alterfin then made a timely disbursement, which allowed Furuz in turn to offer timely financing to its borrowers.

According to Furuz, its partnership with **Alterfin** has given the institution more visibility and credibility in the eyes of other international lenders who have thus been able to provide it with financial support as well. Moreover, they have aligned with **Alterfin's**

conditions, which are more favourable than local options and were also more favourable than those offered by international funders. Besides enabling Furuz to access more resources to support a growing number of Tajik farmers and entrepreneurs, **Alterfin** has also enabled the organisation to do so more efficiently, lowering the interest rate it offers its clients.

9. FINANCIAL PERFORMANCE

BALANCE SHEET

As at 31 December 2019, **Alterfin**'s balance sheet in total was 134.4 million euros, representing a growth of 13% over the previous year.

In terms of liabilities, the paid-in capital remains the principal source of financing for our activity. It stood at more than 64.5 million euros as at 31 December 2019, which represents an annual increase of 4%.

The capital was raised in euros, whereas the majority of our partners require financing in dollars or local currency hedged to the dollar. A large proportion of the capital is therefore invested in banks. These investments and available assets are subsequently used as a guarantee by the banks to obtain dollar loans. These loans enable **Alterfin** to provide financing in dollars (or local currencies) while covering the exchange rate risk between the euro and the dollar on the balance sheet.

Aside from the debt in dollars, **Alterfin** has also contracted credit lines in euros, allowing it to finance the seasonal growth of the portfolio, particularly at the end of year. This policy explains the change in the debt level (+23% compared with 2018), which tracks the growth of the investment portfolio.

The general risk reserve increased by 80% in 2019, reaching 1.7 million euros. This increase followed the decision of the General Meeting not to distribute all of the 2018 profit as dividends, in order to consolidate its equity and transfer some of the legal reserve to the general risk reserve.

An untaxed reserve was created due to an investment in the production of a documentary film on sustainable family farming. Furthermore, the investment has been able to benefit from the tax shelter scheme, enabling **Alterfin** to reduce its tax base.

In terms of assets, the tangible fixed assets consist mainly of properties obtained in place of a defaulted loan. These fixed assets have decreased slightly,

following the sale of some of the properties confiscated in Honduras. The other goods are still being sold.

Alterfin's net investment portfolio (excluding the 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. Further explanations of the growth and content of our portfolio can be found on pages 18 to 30.



Balance sheet expressed in euros before the distribution of results		2018	2019	Difference 2018-2019
ASSETS	Fixed assets	3,431,787	3,230,165	-6%
	Intangible fixed assets	10,214	75,978	644%
	Tangible fixed assets	774,940	727,220	-6%
	Financial fixed assets	2,646,634	2,426,966	-8%
	Current assets	113,797,921	129,065,706	13%
	Net credit portfolio	58,585,169	70,432,676	20%
	Cash and cash equivalents	54,594,737	58,082,195	6%
	Other accounts receivable	618,016	550,835	-11%
	Transitory accounts (interest to be received)	1,824,931	2,071,439	14%
TOTAL ASSETS		119,054,639	134,367,310	13%
LIABILITIES	Equity	64,448,406	66,978,836	4%
	Paid-in capital	62,172,750	64,529,875	4%
	Legal reserve	348,425	10,000	-97%
	Untaxed reserve	-	124,600	-
	General risk reserve	916,860	1,653,875	80%
	Accumulated results	-	-	-
	Results of the period	1,010,371	660,486	-35%
	Liabilities	54,228,379	66,713,705	23%
	Long term liabilities (> 1 year)	9,304,119	9,508,155	2%
	Short term liabilities (> 1 year)	43,861,021	56,094,772	28%
	Other liabilities	1,063,238	1,110,778	4%
Transitory accounts (interest to be paid)	377,855	674,768	79%	
TOTAL LIABILITIES AND EQUITY		119,054,639	134,367,310	13%



PROFIT AND LOSS ACCOUNT

In 2019, interest and fees received by **Alterfin** on the loans granted to partners remained the main source of **Alterfin's** income. These items totalled 5.3 million euros as at 31 December 2019, 23% higher than in 2018. This upward trend is due mainly to the growth of the portfolio, since the rates of interest applied to the loans granted to our partners have remained stable.

Despite an increase in the investments in euros (used as a guarantee for borrowing dollars), the income from investments in euros has decreased compared with 2018 (-2%). This decrease is due to the reduction in their average return in an exceptionally low interest rate environment.

The growth in debts that is necessary to fund the development of the dollar portfolio, and the significant increase in the dollar interest rates, impacted considerably the annual financial charges. The latter increased by 43% compared with last year. Their relative weight (expressed as a percentage of the size of the investment portfolio) increased from 2.95% in 2018 to 3.44% this year.

The operational charges totalled 2.5 million euros, 11% higher than in 2018, which was due in particular to the expansion of the team. These charges decreased from 4.19% in 2018 to 3.61% when expressed as a percentage of the investment

portfolio, demonstrating an improvement in the organisation's efficiency in reality.

58% of the write-downs made in 2019 are for partners in the **sustainable agriculture** sector. You will find more information about the quality of our portfolio and the loans which were written down on page 26.

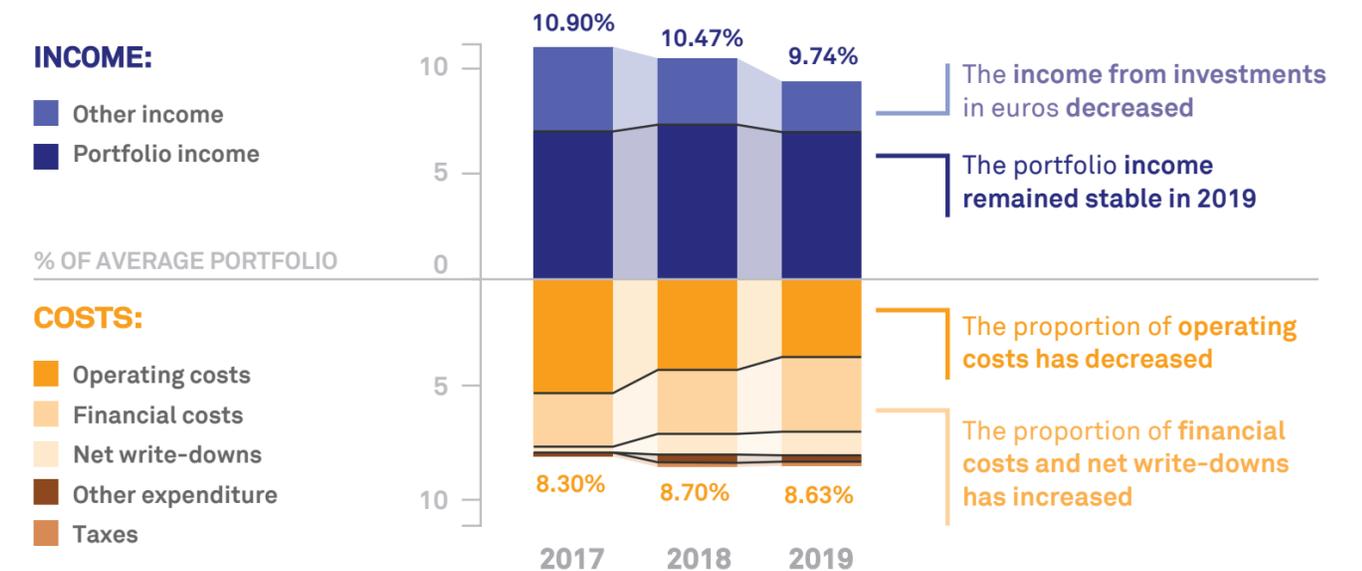
The amount of write-backs is lower than expected and does not reflect the efforts to collect the loans that are still underway but need more time to bear fruit. These procedures can indeed be very slow and bureaucratic in the countries where we operate.

The negative foreign exchange result is due to an investment in the capital of a **microfinance** institution in Nicaragua. However, the loan portfolio remains entirely covered for currency risk. Under the valuation rules, the foreign exchange result will be deducted from the reserve for general risks.

The allocation to the untaxed reserve has to do with an accounting expense linked to an investment that benefits from the tax shelter scheme (see above). Besides supporting the production of a documentary that will explain the issues at stake in sustainable family farming to the general public, this cost reduces our tax base and thus the amount of taxes to be paid for the 2019 financial year.

The analysis of **Alterfin's** financial performance

BREAKDOWN OF COST AND INCOME STRUCTURE: 2017-2019



is more pertinent before the deduction of this accounting expense.

Thus, **Alterfin** ended the year with a positive result of 785,086 euros. The increase in financial costs,

the decrease in yield from our investments in euros and the level of net write-downs were offset by the increase in portfolio income and the improvement in operational efficiency.

Profit and loss account expressed in euros	2018	2019	Difference 2018-2019
Income from Alterfin portfolio	4,288,873	5,296,715	23%
Income linked to portfolio managed for third parties	407,773	347,884	-15%
Other commissions	8,530	13,102	54%
Income from investments in euros	1,178,352	1,156,938	-2%
Financial and operational income	5,883,529	6,814,639	16%
Financial costs	-1,689,263	-2,411,374	43%
Financial margin	4,194,266	4,403,264	5%
OPERATIONAL COSTS	-2,287,152	-2,529,202	11%
- Personnel	-1,662,219	-1,854,266	12%
- Office and marketing	-277,979	-365,202	31%
- Services	-39,454	-86,411	119%
- Costs of monitoring portfolio	-114,232	-98,951	-13%
- Costs of recovery of loans in default	-193,269	-124,372	-36%
Gross operating margin	1,907,114	1,874,062	-2%
Write-downs on loans	-835,036	-811,046	-3%
Write-back on loans	269,849	46,836	-83%
Premiums: insurance and guarantees for the portfolio	-107,586	-53,847	-50%
Net operating margin	1,234,341	1,056,005	-14%
Currency operations: net result	103,715	-140,422	
Extraordinary result	-128,718	-24	
Taxes	-198,967	-130,473	
Result before allocation of untaxed reserve	1,010,371	785,086	-22%
Allocation of untaxed reserve (tax shelter)		-125	
Result of the year	1,010,371	660,486	-35%

*Results before approval by the Ordinary General Assembly of 2020. These figures are therefore subject to change. The definitive results will be published on the website of the National Bank of Belgium (www.nbb.be)



10. PERSPECTIVES

In our annual report for 2018, we alluded to Belgium's national motto "Unity makes strength" and the African proverb "Alone we go faster, together we go further". These wise words still apply and continue to guide our approach. In 2020, we intend to set up a series of innovative initiatives, including the different financing agreements mentioned in the foreword that we negotiated over the course of 2019. These initiatives were the fruit of long labour with various partners around the world, aimed at strengthening **Alterfin** in its mission to promote sustainable development in a general environment of increasing risks.

A COMMITMENT TO SUSTAINABLE AGRICULTURE

Alterfin's mission is focused on smallholder farmers, who are the first victims of climate change. In 2020, **Alterfin** has committed to dedicating at least 50% of its disbursements to smallholder farmers, small farming businesses organised in cooperatives and small and medium farming businesses devoted to non-intensive, organic, certified fair trade family farming.

To achieve this, we can call upon more than 25 years of experience, with the creation of a solid network of partners including development agencies, non-governmental organisations and other investors with impact who have comparable missions to that of **Alterfin**. The latter category includes the 11 other members of the "Council for Smallholder Agriculture Finance" (CSAF). **Alterfin** is a founding member of CSAF and a member of its steering committee¹. 2020 will see the launch of an ambitious programme entitled "Aceli Africa", a programme whose objective is to support the efforts of stakeholders such as **Alterfin** in favour of the "Missing Middle"². Simply put, Aceli Africa will enable us to grant more loans

to small partners in East Africa by covering part of our risk and paying some of our mission expenses.

Furthermore, **Alterfin** will benefit from financial support from BIO Invest, the Belgian Investment Company for Developing Countries, and the European fund AgriFI in 2020³. Together, they will provide **Alterfin** with 6 million euros of long-term financing in dollars, for the benefit of our activity supporting **sustainable agriculture** in Africa, Asia and Latin America. This financing will also be accompanied by the provision of funding for technical assistance: a first for **Alterfin**.

A COMMITMENT TO BEING A CATALYST

We are also committed to highlighting the additional benefits we create by financing rural **microfinance** organisations⁴ that remain underserved by the main players on the **microfinance** market. This is the reason why the financing agreement with the European Investment Bank (EIB)⁵ has been signed, making 6 million euros of financing available to **Alterfin** to grant loans in local currency to **microfinance** organisations in Africa. For the first time, **Alterfin** is in a position to finance organisations in West Africa directly, in CFA francs. This agreement also covers East Africa.

In 2020, **Alterfin** will illustrate this role as a catalyst, which plays an important part in our agricultural financing, by means of the first results of surveys, studies and other analyses conducted in the context of our new environmental and social impact programme. The Ordinary General Assembly will be the occasion for an initial presentation, but our marketing and communication team will focus on highlighting the partners, for whom **Alterfin** has played an essential role.

A RESPONSIBLE COMMITMENT

With the recruitment of teams in the countries where we operate, the number of trips we take by aeroplane has dropped considerably, reducing our annual CO₂ emissions per full-time equivalent from 16 tons in 2016 to 10 tons in 2019. In 2020, **Alterfin** will continue to strengthen its local teams and is committed to keeping its CO₂ emissions below 10 tons.

In Belgium, **Alterfin** will renew its BCorp status and continue its work with Belgian companies to launch the Belgian BCorp movement and convince other Belgian companies to adopt these standards for financial, social and environmental responsibility and sustainability.



¹ <https://csaf.org/>

² The "Missing Middle" includes the rural economic stakeholders whose needs are too extensive to be covered by microfinance organisations but too small to interest banks.

³ <https://www.bio-invest.be/> and <https://www.agrifi.eu/>

⁴ Tier II and III institutions

⁵ <https://www.eib.org/fr/index.htm>

