Fairtrade Access Fund
Annual report 2018
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## Definitions

In this document the following words and expressions have the following meanings:

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<th>Expression</th>
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<tr>
<td>FAF or Fund</td>
<td>Fairtrade Access Fund SICAV FIS</td>
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<tr>
<td>E&amp;S</td>
<td>Environmental &amp; Social</td>
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<tr>
<td>Agriculture-focused Financial Intermediaries or MFI (Agri MFI)</td>
<td>Financial services providers that are not themselves part of the agricultural value chain but may provide supporting services to producers or other actors in the value chain; and that address fair trade or sustainable certified smallholder farmers. This may include but is not limited to NGO’s, non-bank financial institutions, credit unions, microfinance banks, commercial banks, regional financial holdings, leasing companies…</td>
</tr>
<tr>
<td>Incofin IM or IIM</td>
<td>Incofin Investment Management Comm VA and any of its overseas offices and subsidiaries</td>
</tr>
<tr>
<td>Investees</td>
<td>An Eligible Institution in which the Fund has made an Investment as defined in the Investment Policy of FAF.</td>
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<tr>
<td>Investors</td>
<td>Means the “A” Class Investors, the “B” Class Investors and Investor means any one of them.</td>
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<tr>
<td>PO</td>
<td>Producer organization; also see Small Producer Organization (“SPOs”).</td>
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<td>Agri SME</td>
<td>Agriculture Value Chain SMEs such as, but not restricted to, plantation/rented Labour Organizations (“HLOs”), traders, buyers and processing facilities supporting fair trade or sustainable Small Producer Organizations and smallholder farmers in the local agricultural value chain (“Traders/Processors/Buyers”)</td>
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It is our pleasure to report that the Fair Trade Access Fund (FAF) had a successful 2018 despite a challenging environment characterized by price volatility of key crops like coffee and cashew, political instability in key portfolio countries such as Nicaragua, as well as the increasing effects of climate change leading to crop failure and disrupted supply chains.

Indeed, 2018 can be characterized as the year of consolidation as the FAF’s results exceeded projections in terms of portfolio growth and quality, profitability and outreach. The 32% increase in the year-end invested portfolio to $50m exceeded the budgeted increase of 19%.

Industry Leading Portfolio Quality
While the peer industry PAR>90 days averaged 18.4% for 2018, the FAF closed the year with an affected portfolio of just 4.01%. The two major problem loans - leading to a partial impairment and a loan restructuring, respectively - were both in Nicaragua and were largely due to political and climate change events outside the control of our clients.

Continued Solid Financial Performance
The FAF posted record net income of $1.1m with a ROE of 4.4%, again exceeding budget. Both Class A and B shareholders saw their investment returns significantly surpass the original forecasts. Strong investor returns are important for this new fund class and helps the FAF optimize its preferred business model of supporting small holder agricultural supply chains seeking to sustainably scale up operations.

The 54 FAF investees group more than 252,000 farmers and collectors reaching 342,265 of sustainable cultivated land. Note that 100% portfolio clients are sustainable certified with 93% holding valid Fairtrade certification, many of them having received premiums over market prices as a result of their export activities. Part of the premiums go to community projects including over $12m for medical care and education and 500 beneficiaries of business literacy programs.

Moreover, combining strategic deployment of the Fund’s Technical Assistance (TA) resources with feedback from Incofin IM staff have led to considerable capacity building in terms of governance, financial management and technical certifications. Impact has been particularly acute among the small farmer producer organizations.

The recent success of this “Capital Plus” strategy demonstrates the professionalism with which Incofin IM, as Fund Advisor, has recruited and deployed staff resources to scale-up lending operations in a responsible and efficient manner. A dedicated investment team with deep understanding of value chains in each region and a strong network of contacts as well as robust investment procedures developed has been key to portfolio growth and quality. Major contributors to success are the comprehensively tailored “risk management policy” and the natural portfolio diversification coming from investments across 18 countries, 2 regions, 11 crops and 3 financial instruments.

With 27 Small Producer Organizations, 22 Agricultural SMEs and 5 MFIs focused on agro-lending, the Fund Advisor has also diversified risk through certain “anchor investments” that balance the riskier loans to small holder farmers groups. Finally, the development of social assessment tools like the ECHOS 2.0© by Incofin IM is an important contribution to the industry’s better understanding of the social returns of this type of credit.

The FAF has learned important lessons from industry peers with a longer track records and serious risk management challenges.

Combined with the experience and depth of the Fund’s team and the continued support of its stakeholders, prospects for 2019 are bright.

On behalf of the Board, I would like to extend our gratitude to the Fund Advisor and its team as well as the investors who have made these efforts to reach tens of thousands low income farmers with credit and TA services possible.

Carlos Castello
Chairperson, Fair Access Fund

Dear investors, stakeholders and friends of the FAF

*Affected portfolio: PAR>90% + Restructured = 4.01%
FAF at a glance

**FAF by the numbers**

- **54** active investees during 2018
- **Located in** 18 countries
- **Across** 11 different crops
- **More than** 252,000 Smallholder Farmers and Collectors Reached in 2018
- **$ 126m** committed in 2018
- **16** ongoing Technical Assistance Projects

- **6** new investees in 2018
- **1** investee served as the first international lender in 2018
- **79%** of farmers reached own less than 5 Has of land
- **Long-term financing represents 24%** of 2018 portfolio
- **FAF is contributing directly to 14 SDGs**

FAF evolution

**Founded in 2012**

- **Regional Offices** LATAM & AFRICA

The FAF’s original investment mandate to become the first self-sustaining agro-focused impact fund has been achieved. FAF’s dedicated team has continuously increased portfolio value and quality, while positioning the Fund as one of the most successful among peers.

**Invested portfolio 2012 - 2018**

- CAGR 91%

**Portfolio PAR >90**

- Industry average

**Disbursements in $ k**

- **$ 184m** Invested, since inception, in Sustainable Responsible Agro Clients
- **92** Transactions in 2018
- **$ 1.4m** Average ticket size during 2018
The FAF ensures adequate portfolio quality by applying exposure limits on four key dimensions:

1. Geography, 2. Investee Type, 3. Investment Products and 4. Crops
The FAF Technical Assistance Facility (TAF) aims to address challenges faced by smallholder farmers by strategically mobilizing grant funding for capacity building services to FAF investees and potential investees. A record of close to $750k donor funds disbursed.

18 Effective Technical Assistance projects since inception

5,957 Smallholder farmers trained through Technical Assistance programs

268 Trainings and workshops organized during 2018
Success by the numbers

Portfolio Growth

In 2018, the Fairtrade Access Fund (“FAF”) continued to grow: compared to 2017, the Fund’s portfolio increased by 32%. This sharp rise confirms that the Fund is playing an increasingly important role in the area of impact investment.

Its success is attributable to the following factors:

1. Several existing clients needed more financial support as they increased market share.

2. With a total of 18 long term transactions active during the year, the FAF has a stable long-term loan portfolio that mitigates high investee seasonality, anchors future growth, and sets the Fund apart from its competitors.

3. The FAF further diversified its portfolio with stronger institutions that meet the Fund’s impact vision and its high social standards. During 2018, the FAF invested in 6 new clients and 2 new crops. The FAF now counts 54 active investees across 18 countries in 11 crops.

4. The FAF budget for technical support grew 21% in 2018. Through its Technical Assistance Facility, the Fund improves the investees productivity while de-risking its portfolio.

5. The FAF added one new investor in 2018: Lombard Odier Gateway-Development Finance managed by Lombard Odier ($3m in B Class shares). Starbucks provided the Fund for a new credit facility ($5m in Senior Debt) and vdk bank offered the Fund a short-term credit facility of €5m. In 2019, the Agricultural Financing Initiative (AgriFI), managed by EDFI, will make a €5m investment in the FAF’s Class A shares. Finally, FMO joined as a new TA Facility donor in 2018 with a €200k contribution.

These developments enabled the FAF to reach more smallholder farmers and, at the same time, take a critical look at the plans for future portfolio diversification. With its successful “Capital Plus” approach (Investment + Technical Assistance) the FAF continuously strengthens its ambition to have an impact on the lives of the people who need it.
Portfolio Diversification

Fund Policy:
In accordance with fund policies, the following rules for diversification were established:

Exposure (in % of the average Fund’s Investment Portfolio over the previous 12 months)

- Maximum exposure per country: 20% Countries with large populations (>30 million inhabitants) and a low-risk profile, can have a maximum exposure of 30%.
- Maximum exposure per investee: 10%
- Maximum exposure per commodity excl. coffee: 30%
- Maximum exposure to coffee:
  - Portfolio up to $30m: 60%
  - Portfolio between $30m and $50m: 50%
  - Portfolio greater than $50m: 40%
- Minimum exposure to long term loans: 40%

FAF Geographical Diversification

- Country exposure:
  - LAC: 76%
  - Africa: 24%

Due to a highly diversified portfolio, the highest country exposures are Colombia (16.5%), Bolivia (16.1%) and Nicaragua (12.1%). All below the 30% limit.

For the first time ever, Colombia holds the first position in terms of exposure; displacing Nicaragua to the third position. This is due to the arrival of new investees onto the Colombian Coffee portfolio and the cautious investment strategy in Nicaragua that followed the political crisis.

FAF Portfolio per product

- Trade Finance: 63%
- Long term Finance: 27%
- Working Capital: 10%

Working Capital in 2018 increased to 10% vs 3% in 2017 due to the disbursement of 2 new transactions for coffee in Peru and Colombia; and 1 new transaction in sugar cane in Paraguay.

Long maturity transactions grew by 30% in comparison to 2017 exposure level. In 2018, this portfolio accounts for 27% of the exposure per product.

FAF exposure by investee type

- PD: 45%
- Argi SMEs: 39%
- Argi MFI: 16%

FAF investee Diversification

Producer Organizations continue to be the main FAF investees representing 45% of the portfolio.

The exposure of Agriculture Focused MFIs is at 16%, well below the limit of 30% and its concentration has decreased compared to 2017 due to the higher relative growth of the rest of the portfolio.

At investee level, the highest exposure is only 7.7%, below its limit of 10%.

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Portfolio quality and risks

Thanks to a prudent diversification and expansion strategy, the FAF holds a high portfolio quality, well above its competitors.

In fact, since inception (2012), the FAF has recorded impairments on only 9 investees for a total amount of $2,618k, which represents a low 1.4% historical default rate.

Coffee continues to be the strongest crop in the portfolio with a 42% share, distributed in 6 countries in Latin America and 3 countries in Africa.

The other crops exposure is below the limit of 30%.
Mission & Objectives

Mission
To contribute to the development of an agriculture sector defined by transparency and fairness in business practices across the value chain by addressing the financial and Technical Assistance needs of smallholder farmers.

Approach
The FAF operates in Latin America, The Caribbean and Africa, offering lending products for agricultural exporters who work primarily with smallholder farms and have a strong commitment to sustainable development. The FAF invests in fair trade and sustainable certified organizations (producer organizations, agri SMEs and agricultural focused microfinance institutions) that have gone through a strict screening process based on financial, social and environmental performance.

100% of POs and agricultural SMEs are sustainable certified
The Fund can invest in non-certified agri-businesses only when they are in the process of obtaining a fair trade or sustainable certification or are engaged in “food security” crops; and only up to 20% of the FAF’s portfolio. Through its Technical Assistance Facility (TAF), the FAF also supports smallholder farmers in meeting the standards required to obtain & maintain organic, fair trade and/or other sustainable responsible certifications.

25% of the FAF’s Technical Assistance Facility projects are focused on certification
FAF portfolio clients are able to demonstrate a high level of financial, social and environmental performance through clear economic indicators, environmental practices and labor standards. Impact is measured rigorously using Incofin IM’s proprietary “Impact Methodology”, utilizing a comprehensive Social and Environmental Audit (via the Incofin tool: ECHOS 2.0©). This tool assesses the investment alignment to the United Nations Sustainable Development Goals (SDGs) and produces a final score critical to investment evaluation: organizations with score below 55% are not eligible for FAF funding.

Objectives
The FAF investment objectives go beyond the simple response to capital needs. Through the Fund’s “Capital Plus” investment approach (Investment + Technical Assistance), the FAF aims at:

1. Contributing to the development of a fair and sustainable agriculture sector.
   The FAF can operate with up to 14 sustainable responsible certifications. It currently works with 7 labels (Fairtrade International, Rainforest Alliance, UTZ, USDA Organic, EU Organic, Café Practices, SPP).

2. Breaking the cycle of agrarian poverty by providing smallholder farmers:
   - Better access to finance, particularly long-term capital, enabling productivity gains.
   - Promoting the inclusion to sustainable value chains and sustainable markets, which allows them to benefit from fair and more stable prices and premiums.
   - Knowledge sharing and critical actionable information that allows them to enhance yields, reduce/prevent the impact of diseases, and gain better access to markets.

Since inception FAF has provided more than $ 184m in loans to its agro clients, reaching thousands of smallholder farmers across Latin America, the Caribbean and Africa. Its long-term portfolio accounts for 24% of total balance.

3. Strengthen portfolio companies, through effective Technical Assistance, thereby allowing them to provide better services and reach more smallholders.
   Since 2016, TAF has allocated $ 863k in grant funding to support 18 projects in 10 countries in Latin America and Africa. The projects helped smallholder farmers improve their productivity, obtain certifications, introduce more resistant crop varieties and strengthen their financial, business planning and governance capacities.

4. Provide a fair return to investors.
   Excellent fund results with a net year result of $ 1.1m and a Return on Equity of 4.4%.
**Partners for Impact**

Since inception, the FAF has been sponsored by renowned institutions that support the fund’s vision.

**Grameen Foundation**

Grameen Foundation (www.grameenfoundation.org) is a global nonprofit whose mission is to enable the poor, especially women, to create a world without poverty and hunger. The programs combine expertise and services in three key areas: digital financial services for women; mobile agricultural solutions for smallholder farmers; and health financing and access for the poor. It was founded in 1997, inspired by the work of Nobel Laureate Professor Muhammad Yunus and the Grameen Bank. Professor Yunus was a founding member of its board of directors and today serves as member emeritus. Grameen Foundation is headquartered in Washington, D.C., with offices in Asia, Latin America, Sub-Saharan Africa and the United States.

**KfW**

As a promotional bank, KfW (www.kfw.de) supports change and encourages forward looking ideas – in Germany, Europe and throughout the world. On behalf of the Federal Government, KfW Development Bank administers Germany’s official Financial Cooperation in more than 100 developing and transition countries in Africa, Asia, South and Central America, the Middle East and the Caucasus. Its priority areas of activity include poverty reduction and economic development, good governance, education and health care, and protection of the climate and the environment. KfW Development Bank is a leader in supporting responsible and sustainable microfinance around the world.

**Fairtrade International**

Fairtrade International (www.fairtrade.net) is an internationally recognized, nonprofit organization that works to secure fairer trade terms so that farmers and workers in developing countries can invest in a better future for themselves and their communities. Fairtrade International is responsible for the strategic direction of the Fairtrade system, setting the international Fairtrade Standards and supporting producers to gain Fairtrade certification. Fairtrade International owns the FAIRTRADE Mark, a registered trademark which shows that a product has met the Fairtrade Standards. Fairtrade International’s members include producer networks that represent the interest of producers in the Fairtrade system and national Fairtrade organizations that promote Fairtrade to business and consumers in the countries of sale. Over 7 million people (farmers, workers and their family members) in 75 countries directly benefit from the global Fairtrade system.

**Incofin cvso**

Incofin cvso (www.incofincvso.be) is a Belgian social investment fund specializing in debt and equity investments. The fund focuses in particular on Financial Inclusion at the base of the pyramid, and supports 3.2 million driven micro-entrepreneurs through 51 local financial partner institutions in over 30 developing countries. Their mission is to reach and help as many people as possible with a low income, and guarantee the sustainability of projects. That is why, in addition to financing, Incofin cvso offers their financial partners also customized technical support.

**FMO**

FMO (www.fmo.nl) - the Dutch development bank, supports sustainable private sector growth in developing and emerging markets by investing in businesses, projects and financial institutions. To strengthen organizational capabilities, FMO have a Capacity Development Program to promote and facilitate transfer of knowledge and skills.

**Carla Veldhuyzen van Zanten**

Senior Advisor Sustainable Livelihoods at Fairtrade International

“Technical Assistance is crucial to strengthen the capacity of smallholder farmer organizations, so they can become sustainable businesses and reliable credit partners. Better access to finance enables farmers’ organizations in turn to deliver better service to their members and help them escape the downwards spiral of poverty.”

**Sabine Prinz**

Capacity Development Officer, Agribusiness at FMO

“It is important for FMO to support the FAF TA Facility, because it is highly aligned with FMO’s MASSIF Fund strategy to improve access to finance for smallholders, strengthening the institutions that improve their access to markets, and to increase food security.”

**Lars Zimmermann**

Senior Project Manager, Regional Funds at KfW

“TAF is an important element of the FAF fund that supports a proper preparation, implementation and execution of investments, and maximizes their potential to generate financial, social and environmental returns.”

**Carla Veldhuyzen van Zanten**

Senior Advisor Sustainable Livelihoods at Fairtrade International

“The Technical Assistance Facility ‘TAF’ services provided by FAF are crucial to enact the Fund’s vision to promote sustainable agriculture; thanks to the support of its committed donors.”
The ECHOS 2.0© tool is an online platform comprised of various proprietary Social and Environmental Audit (SEA) measurement systems. The tool is based on an interactive and adaptable questionnaire and provides a score comprehensively evaluating the investee’s impact performance. The results are visually divided into five comprehensive dimensions. Each questionnaire and dimension is then traced back to the SDGs targets and sub-targets, thus allowing the FAF to map each investee’s contribution to the SDGs and better facilitating impact reporting over time.

39 identified SDG sub-targets applied to SPOs & 36 for Agri SMEs.

**Mission, Fairness & Transparency**
- 85%
- of FAF investees have a fair social mission with clear social objectives and measurable indicators. Social goals are included in their business plan with strong commitment from their governmental bodies. The investees demonstrated transparency in their reporting and a fair inclusion of all members/suppliers.

**Outreach & Access**
- 76%
- of the FAF’s portfolio focuses on smallholder farmers with a good demographic outreach in terms of gender and age. They hold nondiscriminatory conditions in admission and make an effort to open its services to members/suppliers that are difficult to reach.

**Quality of Member / Supplier Services**
- 73%
- of the FAF investees offer additional services to its members/suppliers such as Technical Assistance, educational training, loans and advances. Their services are provided through defined, transparent and fair policies.

**Human Resources & Labour Management**
- 75%
- of FAF investees have a formalized HR department that empowers and communicates the corporate culture. It oversees staff compensation and career development in a competitive way. The HR department holds a nondiscriminatory code of ethics with good performance incentives.

**Environment Responsibility**
- 84%
- of FAF Investees’ environmental practices demonstrate a very good performance. They have internal environmental policies that typically include topics like pest management, GMO use, chemicals and pesticides exclusion lists and natural resources management.
Beyond investment

SDG Alignment

The UN Sustainable Development Goals (SDGs) are the internationally recognized blueprint to achieve a sustainable future. In that respect, the SDGs are an effective and practical framework with which to align the Fund’s impact strategy.

In 2018, Incofin IM, as FAF’s fund advisor, integrated the SDGs within its existing impact and investment methodology. By incorporating the SDGs into its due diligence and investment management process, Incofin aligns all investments and Technical Assistance projects to the sustainable indicators at the SDG level and for each of its 169 sub-targets. This mapping enables the FAF team to track, monitor and report how investments are contributing towards the SDG goals in a tangible, measurable and actionable way.

The full integration of SDGs informs FAF’s investment decision-making and Technical Assistance offerings.

Impact at sourcing & due diligence

At the investee level, the FAF first seeks to ensure that investees subscribe to its broader financial, social, environmental and commercial goals. For example, all agricultural investees must demonstrate sustainable practices, often reflected by sustainability accreditation (such as Fair Trade, Organic, Rainforest Alliance, etc.). Investees are then evaluated through an online tool (Echos 2.0©) and receive a weighted score indicating their contributions to the SDGs. All those considered for investment must meet a minimum score. Based on the evaluation, the FAF team will customize each proposal to ensure that the capital investment pursues specific UN SDGs and records its alignment. The evaluation also identifies areas for investees to improve and informs the potential provision of Technical Assistance.

Impact at investment structuring & decision

The FAF investment team and its investees develop impact indicators, mapped to their relevant SDG targets, on which investees agree to track and report. Through this process, the FAF educates its investees and their end clients about the SDGs and ensures that the indicators are practical, measurable and useful. The Investment Committee decision encompasses the investee’s capacity to deliver on the expected impact and its alignment towards the aforementioned indicators.

“The Fairtrade Access Fund is an investment fund with a distinctive social and environmental profile. As such, the IC measures each transaction against strict multi-dimensional criteria to identify organizations that embody sustainable and inclusive business approaches that not only generate financial returns, but also social and environmental results.”

Mark Lundy - Chair of the FAF Investment Committee

Technical Assistance

Measuring the Technical Assistance impact fully aligns with the Fund’s impact framework, complemented by a set of additional specific indicators that help to assess project success.

Impact monitoring

FAF measures and reports annually on its investments performance against the impact indicators, showcasing the contributions to the SDGs and overall impact objectives going forward. Aligning impact indicators to SDG targets benefits investees who can use these indicators to communicate their social and environmental impact within a globally recognized framework.
Impact investing for the #GlobalGoals

The FAF’s sustainable business strategy sets out its commitment to maximize the social and economic benefits its investments can deliver. The Fund’s contribution to the SDGs is measured based on an overall SDG score approach: the investee’s contribution towards each goal receives a percentage score out of the potential highest result (100%) on an internal questionnaire (ECHOS 2.0®) measuring impact performance. Individual scores are then aggregated, sampling SDGs at the portfolio level.

Through the extensive and far reaching lending products and its Technical Assistance services, the FAF actively influences and delivers impact on 14 out of 17 SDGs:

1. No poverty
2. Zero hunger
3. Good health and well-being
4. Quality education
5. Gender equality
6. Clean water and sanitation
7. Affordable and clean energy
8. Decent work and economic growth
9. Industry, innovation and infrastructure
10. Reduced inequality
11. Responsible consumption and production
12. Climate action
13. Peace and justice, strong institutions
14. Life below water
15. Life on land
16. Sustainable cities and communities
17. Partnerships for the goals

FAF’s commitments:
- End poverty in all its forms everywhere.
- Zero hunger; and promotes better financial planning and management.
- Promote sustainable, inclusive and sustainable economic growth, full and productive employment and decent work for all.
- Reduce inequality within and among countries.
- Take urgent action to combat climate change and its impacts.
- Promote the conservation and sustainable use of biodiversity, and the prevention of desertification and restoration of degraded land and forests.

FAF’s commitments:
- FAF’s mission is to provide better access to finance and technical assistance to mitigate income inequalities by empowering farmers to have control over their future and improving their economic conditions when using the funding for productive purposes. Such an effect is accentuated when coupled with certified agricultural trading. In fact, certifications can mitigate market risks since they ensure producers receive a fair price and a price premium (either for quality differentials or related to the certification).
- FAF’s long term portfolio contributes to faster and sustainable growth, welfare and income premiums (either for quality differentials or related to the certification). Furthermore, by reducing rollover risks and lengthening the investment horizon for borrowers, the FAF’s long term portfolio contributes to faster and sustainable growth, welfare and income stability; and promotes better financial planning and management.

Since inception, The FAF has served 10 investees as their 1st international lender.

MORE THAN 252,000 smallholder farmers reached, through 54 sustainable certified investees in 2018.

About 199,000 (79%) of farmers served own less than 5 Has of land. About 42,000 (17%) of farmers served own between 6 – 10 Has of land.

In 2018, the long - term transactions account for 24% of the portfolio, committed among 18 different investees in 9 different countries, with an average loan size of $ 800 k.
ZERO HUNGER - End hunger, achieve food security, improved nutrition and promote sustainable agriculture

About 815 million people worldwide are undernourished. The rising global food demand exacerbates this number. Paradoxically, according to The Sustainable Development Goals Report 2018, farmers belong to the most affected population due to conflict, poverty and natural disasters. As a result, profitable and sustainable agricultural production is imperative and urgently needed.

FAF’s mission to support certified smallholder farmers organizations actively contributes to the promotion of the sustainable agricultural value chains.

Sustainable responsible certifications within FAF’s portfolio

Addressing food security can also be beneficial for the environment.

An environmentally sustainable solution to hunger
Cooperative CAPUCAS, Honduras

The FAF Technical Assistance Facility is working with Capucas to diversify the member’s farms with new crops and livestock, creating reliable sources of nutritious food for coffee-growing families and of raw materials to produce organic fertilizers.

How it works

New production units were established:
3 new types of livestock to be raised (goats, pigs, fish) for meat & manure.

Manure + 200,000 kg of coffee pulp is reused in the production of high-quality organic fertilizers that helps increase soil health and productivity.

Results

1,200 smallholders to be served with organic fertilizers & new food sources.

Bonus: 22,000 liters of wastewater will not end up in the nearby water sources.
CLEAN WATER AND SANITATION - Ensure availability and sustainable management of water and sanitation for all

Water scarcity and the lack of proper wastewater management inhibits socio-economic development and hinders public health, food security, and energy provision. Within the agricultural sector, ensuring water efficiency and improving its management is critical to balance production, the natural environment and the sanitation of neighboring communities.

FAF ensures that its investees remain on an environmentally conscious path while remaining faithful to its social vision and mission.

Through finance implementation projects, the FAF is acting broadly on climate change resilience, and particularly on water management.

FUNDING CLIMATE CHANGE ADAPTATION & MITIGATION
De los Andes Cooperativa

The client:

With more than 60 years in operation, Cooperativa de los Andes is one of the largest coffee cooperatives in Colombia. Currently, the Cooperative has more than 3,700 active members, 1,135 of which are women heads of household. Their operations cover 4 departments in Colombia (Antioquia, Chocó, Caldas, and Huila) with approximately 25,300 Has of coffee cultivated land; yielding an average of less than 7 Has per farmer.

Other services provided by De Los Andes:
- Soil testing laboratories,
- Storage facilities,
- Technical Assistance,
- Educational programs,
- Microloans and advancements, at interest rates below market.

The SPO holds sustainable responsible certifications such as Fairtrade International (3,498 certified members), UTZ, Rainforest Alliance and C.A.T.E Practices.

The Investment: La Chaparrala Eco Mill:

The ECO MILL project is a large-scale wet mill plant with water efficient state-of-the-art machinery that includes its own water treatment facility. Moving from a large number of household-level mills to a large-scale centralized mill with water-efficient milling technology improves water resource management and, through clear economies of scale gains, provides positive social benefits for the cooperative members and its surrounding community. (Antioquia, Chocó, Caldas, and Huila) with approximately 25,300 Has of coffee cultivated land; yielding an average of less than 7 Has per farmer.

Area of Impact: Sustainable Agribusiness, Climate Change Mitigation, Climate Change Adaptation. SDG 1, 6, 7, 9 & 13.

FAF Services: Long term financing + TA support on Impact Measurement.

Geography: Colombia in Southern Antioquia and Chocó regions.

Project Beneficiaries: 320 small holder farmers (avg. 6.2 Has) – 37% women.

La Chaparrala was financed by a blended type of finance structure: the cooperative own contribution with resources coming from Fairtrade premiums (15%), Donations (25%) and a syndicated Loan with FAF & AgRIF* (60%).

The Investment Approach:

Syndicated Loan (AgriF + FAF) + FAF TA
Deal Size: $ 3m

Conscious of the potential sustainable impact of this project, FAF and AgRIF worked together to structure a 5-year syndicated loan (providing $ 1.5m each) with shared collateral granted by a mortgage and coffee pledge. Technical Assistance was also provided to hire an independent third party to measure the potential social and environmental impacts and benefits on the local community. This project was co-financed 80/20 by a FAF grant and the client, respectively.

The Impact

ENVIRONMENTAL
- Solar panels providing 45% of the annual energy consumption.
- Heat produced through a singular boiler fueled by dry parchment skin (reduced waste and cleaner heat generation).
- Mechanical removal of mucilage (little to no water involved).
- The water treatment plant aligns to international wastewater disposal standards.

+60 MILLION LITERS ON WATER SAVINGS

Water consumption is expected to decrease from 40 liters of water per kg of coffee to 3 – 5 liters per kg. Thanks to the water treatment plant, 35,000 inhabitants of the region will have access to cleaner water.

SOCIAL
- Improve quality of life for coffee farmers: since the time spent on processing is reduced, they have more time to allocate to other productive tasks, for leisure or to their families.
- Reduction of on-farm costs (avg 30%).
- Premiums to farmers upon cherry coffee delivery.
- Faster cash-conversion cycle: Faster payments means more liquidity and reduces the need for indebtedness.

ECONOMIC

INCREASED EFFICIENCY AND PRODUCTIVITY FOR DE LOS ANDES
- Greater traceability and standardization.
- Quality coffee is promoted: full control over the wet milling process.
- Origin story: buyers looking to support eco-friendly produce.
**PEACE, JUSTICE AND STRONG INSTITUTIONS** – Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.

Armed conflicts and other forms of violence often occur within societies that have uneven and unfair citizenship participation. In that respect, goal 16 advocates for a full integration on a broad range of public participation that could ensure responsive and representative decision making at all levels. Strengthening access to finance and inclusive markets to vulnerable populations and other marginalized stakeholders improves and restructures their representation and consideration within socio-economic and environmental issues.

**SOPACDI’s CONTRIBUTION TO PEACE AND RECONCILIATION**

The FAF saw a social opportunity to support the Democratic Republic of Congo (DRC) farmers grow stable incomes through engaging in the specialty coffee sector. Applying its proprietary social and environmental impact analysis tools, the Fund was able to offer sustainable financing to promote SOPACDI’s operations. As the PO’s members are located in a geographically scattered, remote and conflicted area, the FAF is supporting reconciliation and peace (SDG 16) in the country through spurring growth in the coffee sector despite political instability challenges.

**Client Type:**
Level 1 Coffee Cooperative

**Geography:**
Eastern Democratic Republic of Congo

**FAF Services:**
Trade Finance Loan ($ 400k)

**Certifications:**
Fair trade & Organic

**Beneficiaries:**
11,500 small holder farmers from different ethnic groups (Kirundi, Kihavu and Kinyarwanda); 3,350 of them are women (mostly widows).

**Area of impact:**
Sustainable AgriBusiness, Women in agriculture, Reconciliation and Peace. SDGs 1, 5, 10, 16

Ravished by violent civil war for many decades, the Eastern part of DRC has seen how most of its residents fled for their lives. In the South Kivu region, many farmers were forced to smuggle coffee across Lake Kivu to have access to markets. This dangerous route led to a rise in widows as husbands drowned during the crossing.

In an effort to forge peace and reconciliation, a producer organization (PO) called La Solidarité pour la Promotion des Actions Café et le Développement Intégral (SOPACDI) was established in 2003 to revive the smallholder coffee sector after decades of conflict. With four coffee washing stations in four different villages, the organization offers services from pulping and drying at the washing stations, to storage facilities and coffee export sales.

SOPACDI’s coffee exporting activities is restoring the region’s forgotten reputation of producing exceptionally high-quality washed Arabica coffee.

With SOPACDI offering a stable market and increased coffee production in the post-conflict region, the community has re-established itself with women (mostly widows) being at the forefront. In fact, the membership has grown to stand at 11,500 farmers with 3,350 being women. A “Women’s Coffee” premium is paid and used to finance various women’s committees and women led small business ventures. Plus, the sons and daughters of coffee producers make up a large part of the PO’s staff.

SOPACDI’s farmer community are extraordinary people whose resilient spirit has seen them survive the horrors of civil war and the hardships of intense poverty.

This organization has been the first in many things: first to produce fine specialty grade coffee from Eastern DRC; first to build modern coffee washing stations in 40 years; and the first to achieve fairtrade and organic certifications in Eastern DRC. The fairtrade certification, specially, inspired farmer participation. The minimum price plays a key role in ensuring farmers morale and a fair living wage while buffering them from losses during low global market conditions. For the PO, the premium is fundamental to improve its production and productivity. In the past, the premiums were used to invest in the establishment of vibrant coffee nurseries, the construction of washing stations with raised drying platforms, offices, a warehouse, a new coffee lab with trained cuppers and a tools fund.

“We received our first Fairtrade premium from our 2010 coffee harvest. Since we were only certified at the end of the harvest, our Fairtrade sales were minimal. Still it was with great excitement that our farmers decided how to spend the premium. We opted to purchase a roofing sheet for every farmer. During the rainy season, it can be a great challenge to keep our homes dry.”

Mr. Joachim Munganga - SOPACDI founding member

In short, despite their different ethnic backgrounds and variety of languages, coffee growers are firmly united in one vision: to create a peaceful and thriving community, as equals, through the development of their PO and their sustainable coffee business.
The team

A qualified and committed team contributes to successful FAF investments. Efficient back-office processing and best-practice governance are no less important to the Fund’s success.

Investment team dedicated to FAF

**DAVID DEWEZ**
Regional Director LATAM / Fund Manager Agro
FAF IC Member
M. Economics, B. Economics
11 years at Incofin IM
(ACTION, IDRC)

**ROSARIO MOSQUEIRA**
Senior Investment Manager - LATAM
MBA Finance, B. Agribusiness Engineering
7 years at Incofin IM
(GIZ, SNV, Care International, World Vision, Save The Children)

**JOHANN FOURGEAUD**
Investment Manager - Africa
M. Agriculture Engineering, M. Corporate Finance
3 years at Incofin IM
(AFD, CIARD)

**TOMAS DE LA SERNA**
Investment Analyst
MBA International Relations & CSR, B. Business Administration
(Wallonia Foreign Trade and Investment Agency)

**LIA GONZALEZ**
Director Debt Investments
MBA Responsible Management, B. Finance & International Relations
5 years at Incofin IM
(Grupo Odissea and Vinci)

**FALLON CASPER**
Senior Investment Manager - LATAM
M. International Affairs, B. International Business
2 years at Incofin IM
(Clinton Foundation, TechnoServe, StartingBloc, Accenture)

**SALOME NDUNDA**
Investment Manager - Africa
M. Finance & Investment Management, B. Accounting & Business Administration
(DOB Equity, Horizon Africa Capital Ltd, Transcentury Investment)

**DANIELA MARIN PUENTES**
Investment Analyst
M. Development Economics & Public Policies, B. Economics
(United Nations Dept. Economics and Social Affairs)

FAF’s Finance Manager

**WIM VAN LOOVEREN**
Finance Manager
M. International Relations, M. Economics
10 years at Incofin IM
(Ernst & Young)

**LIA GONZALEZ**
Director Debt Investments
MBA Responsible Management, B. Finance & International Relations
5 years at Incofin IM
(Grupo Odissea and Vinci)

**FALLON CASPER**
Senior Investment Manager - LATAM
M. International Affairs, B. International Business
2 years at Incofin IM
(Clinton Foundation, TechnoServe, StartingBloc, Accenture)

**SALOME NDUNDA**
Investment Manager - Africa
M. Finance & Investment Management, B. Accounting & Business Administration
(DOB Equity, Horizon Africa Capital Ltd, Transcentury Investment)

**DANIELA MARIN PUENTES**
Investment Analyst
M. Development Economics & Public Policies, B. Economics
(United Nations Dept. Economics and Social Affairs)

**WIM VAN LOOVEREN**
Finance Manager
M. International Relations, M. Economics
10 years at Incofin IM
(Ernst & Young)

**FAF Technical Assistance team**

**VIKTORIA POPOVA**
Technical Assistance Manager
M. European Studies, B. International Relations
2 years at Incofin IM
(Finance in Motion, GIZ, International Trade Centre)

**MICHÈLLE DOLD**
Technical Assistance Associate
B. International Development
2 years at Incofin IM
(Microcapital, Dechert LLP)

**BOARD OF DIRECTORS**
The Board is composed of at least 3 and no more than 7 members appointed by the general meeting of Shareholders from a list of candidates proposed by each Sponsor. For the past few years, the Board has been chaired by an independent member. The Board has the power to take any action necessary or useful to carry out the Fund’s “corporate objectives”, with the exception of those powers reserved by the law or the Articles to the General Meeting of Shareholders and subject to consultation/recommendation of the Investment Committee. At its discretion, this government body may choose to set specific targets for the Investment Advisor with respect to the composition of the investment portfolio by the type of organizations financed. The Board of Directors of the Fund held 4 meetings in 2018 and took various decisions by 3 circular resolutions. During the meetings, the Board discussed and/or decided upon strategic matters related to the FAF including the changes to the Issue Document, valuation of the portfolio, performance fee and the compliance with AML/KYC procedures among other topics. The Board of Directors is at year-end 2018 composed as follows:

**DAVID DEWEZ**
Regional Director LATAM / Fund Manager Agro
FAF IC Member
M. Economics, B. Economics
11 years at Incofin IM
(ACTION, IDRC)

**CARLOS CASTELLO**
Board Chair; Independent Member
M. Economics, M. Foreign Service
Chief Operating Officer
FTI
(CARE Australia, Federal Court of Australia, ACTID)

**VIKTORIA POPOVA**
Technical Assistance Manager
M. European Studies, B. International Relations
2 years at Incofin IM
(Finance in Motion, GIZ, International Trade Centre)

**ROSA RITO MOSQUEIRA**
Senior Investment Manager - LATAM
MBA Finance, B. Agribusiness Engineering
7 years at Incofin IM
(GIZ, SNV, Care International, World Vision, Save The Children)

**CARLOS CASTELLO**
Board Chair; Independent Member
M. Economics, M. Foreign Service
Chief Operating Officer
FTI
(CARE Australia, Federal Court of Australia, ACTID)

**WIM VAN LOOVEREN**
Finance Manager
M. International Relations, M. Economics
10 years at Incofin IM
(Ernst & Young)

**VIKTORIA POPOVA**
Technical Assistance Manager
M. European Studies, B. International Relations
2 years at Incofin IM
(Finance in Motion, GIZ, International Trade Centre)

**LOIC DE CANNIERE**
Nominated by INCOFIN CVSO
M. Economics
CEO
Incofin IM
(DEME, Flemish Government)

**LAUREN HENDRICKS**
Nominated by GF
M. Political Science and Government
Executive Vice President, Program Strategy & International Relations
Grameen Foundation
(CARE)

**SALOME NDUNDA**
Investment Manager - Africa
M. Finance & Investment Management, B. Accounting & Business Administration
(DOB Equity, Horizon Africa Capital Ltd, Transcentury Investment)

**FAF Technical Assistance team**

**VIKTORIA POPOVA**
Technical Assistance Manager
M. European Studies, B. International Relations
2 years at Incofin IM
(Finance in Motion, GIZ, International Trade Centre)

**GREG BROWN**
Nominated by FTI
M. Management, M. Economics
Chief Operating Officer
FTI
(CARE Australia, Federal Court of Australia, ACTID)

**ALEXANDRA ALBIN**
Nominated by KfW
M. Economics
Head of Division
KfW
(Maxwell Stamp Plc)

**MICHELLE DOLD**
Technical Assistance Associate
B. International Development
2 years at Incofin IM
(Microcapital, Dechert LLP)

**WIM VAN LOOVEREN**
Finance Manager
M. International Relations, M. Economics
10 years at Incofin IM
(Ernst & Young)

**LAUREN HENDRICKS**
Nominated by GF
M. Political Science and Government
Executive Vice President, Program Strategy & International Relations
Grameen Foundation
(CARE)

*Mr. Brown has been replaced by Ms. Petz in February 2019*
### Investment committee

The set up of the Investment Committee (or “IC”) consists of at least 3 and no more than 11 members appointed by the Board from a list of candidates proposed by each Sponsor. Currently, the IC is composed by 2 independent specialists and 3 members designated by Sponsors; and chaired by an independent member.

The Investment Committee is responsible for implementing the FAF’s investment policy, as defined by the Investment Policy Document and Issue Document. The IC has the authority to make decisions on all investments and disinvestments within the limits of the Investment Policy and the powers delegated to it by the Board of the FAF. The IC meets as often as is necessary to fulfill its functions and to allow for an efficient and reasonable development of the investment pipeline.

Currently the IC is composed of 2 independent specialists + 3 members designated by sponsors.

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### MARK LUNDY
Chair of the IC; Independent member  
M.A, M. Latin American Studies  
Senior Researcher  
International Center for Tropical Agriculture, CIAT (Unilever, Corpoversales)

With over 20 years of experience linking farmers to markets, Mr. Mark Lundy is an expert on sustainable food systems, value chain analysis and upgrading, business models for sustainable trading relationships, inclusive business and innovation systems with multiple actors. His previous experience includes working as an Advisory board member for Unilever, where he advised on sustainable agriculture with a special focus on the inclusion of small-scale farmers in emerging economies.

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### CARLOS CASTELLO
Independent Member  
M. Economics, M. Foreign Service  
Independent Consultant  
ROOT CAPITAL, ACCION, PACT

Mr. Carlos Castello has more than 30 years of experience in Microfinance and Rural SMEs Finance. Before becoming an independent consultant, he served as Senior Vice President for Root Capital managing the global program operations, including lending, risk management and financial advisory services. Previously, as a Vice President of ACCION International, he managed and coordinated ACCION’s Technical Assistance and management services for more than 30 microfinance partner institutions in Africa, China, India and Latin America.

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### ENRIQUE HENNINGS
Nominated by FTI  
PhD Candidate Agricultural Economics  
Lead Technical Specialist Rural Markets  
International Fund for Agricultural Development, IFAD (FLO International, CDM Ltd)

In 2012, Mr. Enrique Hennings was appointed by Fairtrade International to become a FAF IC Member, position that reflects his years of experience as a Senior Manager of the Global Producer Finance Unit at Fairtrade International. In this position he oversaw the market development for Latin America, Africa and Asia. He also worked in the agro-finance field with organizations such as ACDI/VOCA and the Center for Farm and Rural Business Finance at the University of Illinois.

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### DAVID DEWEZ
Nominated by CVSO  
M. Economics  
Regional Director LATAM/ Fund Manager Agro  
INCOFIN IM (ACCION, IDRC)

Mr. David Dewez specializes in Socially Responsible Investments, Corporate Governance and Social Performance Assessments thanks to more than 15 years of experience in impact investing. Currently, as the Regional Director for Latin America & Caribbean, and the Agro Fund Manager for Incofin IM, he is responsible for coordinating LATAM’s regional office, which extends to debt, equity and agri-finance portfolio. He is also a Board member of several MFIs including Financiera Fundeser (Nicaragua) and ACME (Haiti).
Incofin Investment Management (Incofin IM) (www.incofin.com) is the Fund Advisor of the Fairtrade Access Fund. Incofin IM is an independent and globally focused impact investment firm, focused on rural and agricultural finance and driven by a desire to promote inclusive progress. Incofin IM is an AIFM licensed fund manager and currently has over $1 billion in assets under management. Driven by a strong interest of business solution that promotes inclusive progress, Incofin IM seeks to improve the lives of vulnerable, less privileged populations. While doing so, Incofin IM is committed to deliver attractive returns to its investors. Its loyal investor base comprises leading development funds, banks, insurance companies, pension funds, alternative investment funds, high net worth and retail investors. Incofin IM has a team of more than 50 professionals spread over the headquarters in Belgium and regional office hubs in India, Colombia, Kenya and Cambodia.

“Through the different lending products and the Technical Assistance services to capable, competent and profitable businesses and producer organizations, the Fairtrade Access Fund aims to consolidate an environment in which vigorous agro-businesses generate income and build a more dignified future for smallholder farmers in Latin America, the Caribbean, and Africa.”

Mark Lundy - Chair of the FAF Investment Committee
What’s next?

2018 has been a challenging but positive year for the Fair Trade Access Fund both in terms of Impact and Financial results as shown in this Annual Report.

2019 will be an ambitious year:

From a portfolio perspective, we want to grow the fund to a level surpassing a portfolio size of $60m while supporting more than 70 partners located in about 20 countries. These 2019 objectives are part of a 5-year plan that aims to reach a portfolio size of $80m by 2022. To achieve these results, our fundraising efforts will need to continue to bring in investors interested in the high impact of the Fair Trade Access Fund.

While Latin America will remain our core geography, for 2019 we have the objective to strengthen our portfolio allocation in Africa. As part of that plan, we expect to include investments in at least two new countries (located in West and East Africa) and in two new value chains. With this purpose, our African portfolio would be allocated to 13 partner entities located in 6 different countries.

Our medium-term impact objectives include but are not limited to:

- improving the livelihood of over 500,000 smallholder farmers;
- generating over 10,000 permanent jobs;
- supporting over 2 million hectares of sustainably cultivated land;
- disbursing over $320m (equivalent to >530 loans).

In addition, through the fund’s focus on promoting sustainable agriculture, we expect to support the obtention of premiums and price differentials for more than $7m for 2019 to be distributed across a significant number of smallholder farmers.

Finally, and not less important, the FAF will continue its work supporting our partners beyond our investments. Thus, we also built an ambitious capacity building / Technical Assistance plan for 2019 in which we expect to strengthen our partners’ competencies in the areas of productivity and quality improvements, certifications, knowledge sharing, and governance. We are also looking into adding at least 2 new countries to our Technical Assistance project portfolio.

All these objectives would not be achievable without the strong and committed professional team. I take this opportunity to thank all of them.

David Dewez
Agro Fund Manager and Latam Regional Manager at Incofin IM.