



Heifer Impact Capital

2022 ANNUAL REPORT

A Message from our Senior Vice President



Dear Heifer Impact Capital community,

In 2018, Heifer International launched Heifer Impact Capital (HIC) to improve access to affordable investment and finance options for the farmers and cooperatives Heifer works with in the field. Since that time, Heifer Impact Capital has brought impact investment to these communities through debt, equity and other innovative investment mechanisms, enabling farmers to meet consumer demand and build sustainable livelihoods.

This past year has presented challenges and opportunities for all of us as we pick up the pieces from the devastating effects of Covid-19. Marginalized smallholder farmers were impacted more than most. As the physical symptoms of the pandemic and related responses began to fade, it has become clear that the financial gap has grown disproportionately for many marginalized, impoverished and rural communities around the globe. This will take time and effort to overcome.

In this context, the concept of access to capital for smallholder farmers and agriculture related small-to-medium sized enterprises, as an accelerator to Heifer's programmatic activities, becomes even more crucial and will be vital to strengthening rural economies and supply chains in the future. The world has changed dramatically over the past two and a half years and so have we as an organization. We are more dedicated than ever to creating an impact in the lives of our partner farmers — to build and leverage all the resources and partnerships possible to help farmers make a sustainable living income.

I'm proud of the collective impact the Heifer Impact Capital community has been able to achieve over the past year, detailed within this report. We look forward to continuing to scale our efforts together in the communities we work in and building upon the global partnerships that are essential to our success.

None of the work we do would be possible without the generous support of our investors, the incredible work of our partners, and the ongoing dedication of our team, which makes this transformational work possible.

A handwritten signature in blue ink, appearing to read 'Terry Wyer', with a long horizontal flourish extending to the right.

Terry Wyer,
Senior Vice President of Investment Programs



Our Purpose: Access to Finance

Heifer International has built a network of agricultural programs around the world, giving it an unparalleled footprint in the field, complemented by in-country knowledge and expertise. This network provides a unique origination platform for a strong agricultural impact investment pipeline, while ensuring strong relationships of trust within the farming communities.

Heifer strongly believes that the close and collaborative partnerships developed with smallholder farmers at the technical and operational levels lay the foundation for strong results in providing capital to scale and expand their businesses. This is central to the success of agricultural communities and provides reasonable returns.

Access to finance is often key for ensuring profitability and sustainability of smallholder farmers' activities. This capital deployment unlocks opportunities for smallholder farmers to create or scale farmer-owned agribusinesses, cooperatives and social enterprises, enabling them to participate in pro-poor, wealth creating value chains and make a profit.

As Heifer Impact Capital increases farmers' access to capital, focusing on pro-poor, wealth-creating value chains, farmers have more choices and margin to improve scale and efficiency, increase their productivity, commercialize differentiated quality products and services and increase their profits. This creates jobs and generates economic opportunities, leading to more inclusive and resilient rural economies. With increased choices, farmers can directly improve their incomes and more easily meet their household needs and live dignified lives.

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Our Impact

\$17.2m

committed

28

investments

\$7.1m

deployed

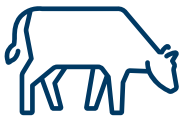
13

countries
invested in

80,000

farmers' lives changed
through direct and
leveraged third-party
investments

Value Chains We Invest In



Livestock



Dairy



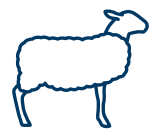
Poultry



Spices



Coffee &
Cacao



(Small
Ruminants)

Portfolio snapshot

COOPERATIVES AND AGRIBUSINESSES

16

investments

50k+

farmers impacted,
40% female

\$15m

committed

\$5.9m

deployed



32%
of employees
are female*



3%
job growth
during the
past year*



30%
of leadership
roles are held
by females*



38%
of board
positions are
held by
females*

**Heifer Impact Capital surveyed our cooperative and agribusiness direct investees and received responses from 75% of the portfolio. These figures are based on the survey results.*

LOAN FUNDS

12

investments in
loan funds managed
by financial
intermediaries

16k+

farmers
impacted

\$1.2m

deployed

\$2.2m

committed



6,600
loans made to
cooperatives and
individual farmers
from the loan funds



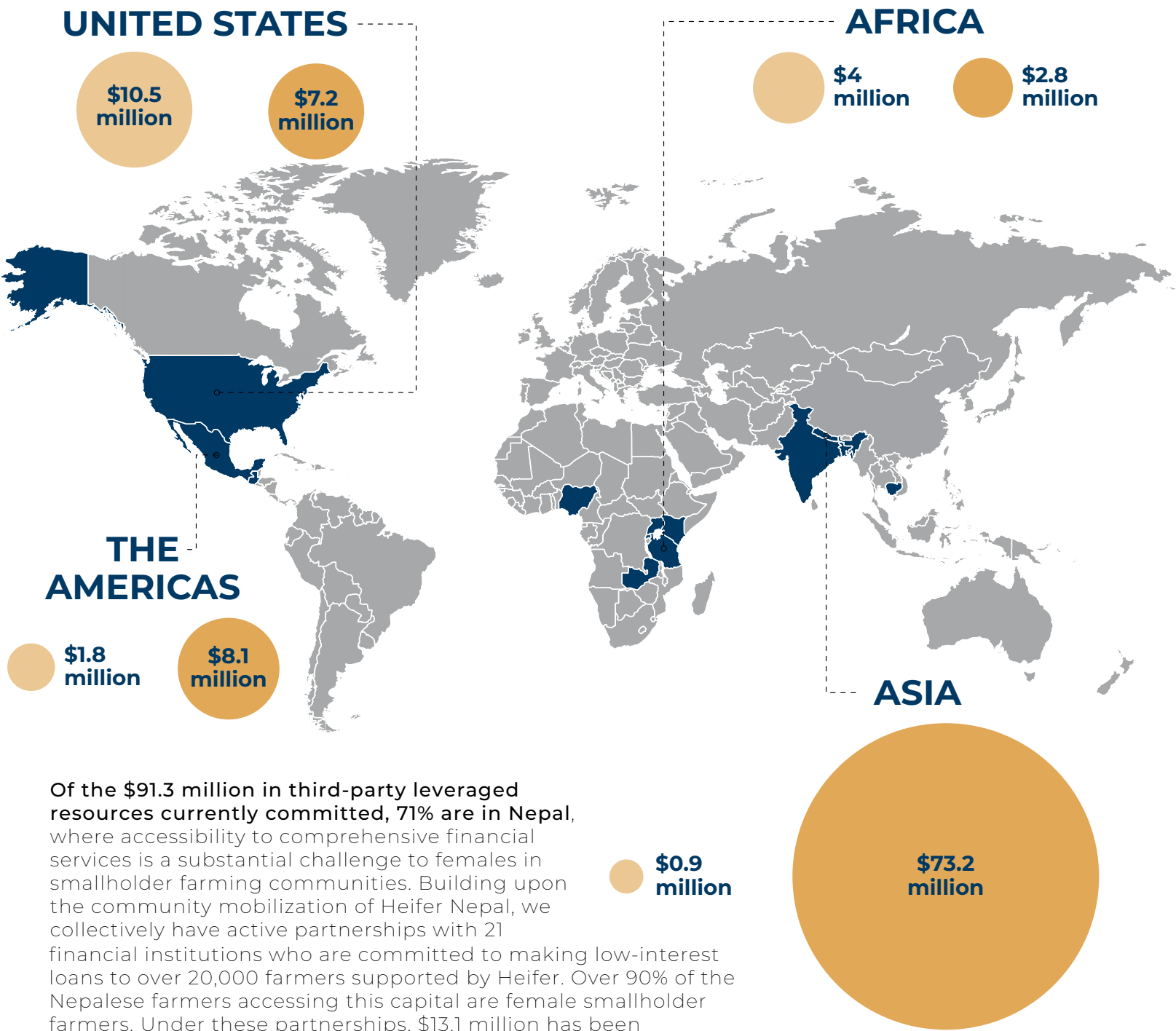
98%
of loan
recipients
were female*

**Heifer Impact Capital surveyed the financial intermediaries we have directly invested in and received responses from 58% of the portfolio. These figures are based on the survey results.*

Leveraging Resources: \$91.3 million of Third Party Capital

Heifer Impact Capital recognizes the value of leveraging resources to amplify impact, therefore we partner with financial institutions, government organizations, corporations and others to make our investments go further. Through these partnerships, **we have brought third-party capital to 77% of our investment portfolio**. Heifer Impact Capital, in partnership with Heifer International, has also secured third-party loan commitments to benefit Heifer program participants where direct investments were not necessary or did not exist. These leveraged resources have had a significant impact in bringing access to finance to Heifer’s program beneficiaries.

Direct Investment Leveraged Capital



Of the \$91.3 million in third-party leveraged resources currently committed, 71% are in Nepal, where accessibility to comprehensive financial services is a substantial challenge to females in smallholder farming communities. Building upon the community mobilization of Heifer Nepal, we collectively have active partnerships with 21 financial institutions who are committed to making low-interest loans to over 20,000 farmers supported by Heifer. Over 90% of the Nepalese farmers accessing this capital are female smallholder farmers. Under these partnerships, \$13.1 million has been disbursed to 9,895 farmers, helping meet the capital needs of smallholder farmers.



Hatching Hope Mexico: The Importance of Access to Finance and Full Value Chain Intervention

Hatching Hope is a groundbreaking global initiative founded by Cargill and Heifer International that aims to **improve the nutrition and livelihoods of 100 million people by 2030**. Through the program, farmers increase their technical and entrepreneurial skills to improve resilience, household nutrition or access to local markets.

In Mexico, Hatching Hope strived to improve the nutrition and economic livelihoods of farmers through enhanced production, promotion and consumption of poultry products. The project helped families and communities prosper by strengthening social capital, improving access to finance, market linkages, inputs and technical expertise, and maximizing productivity, sustainability and biosecurity.

The Importance of Improving Access to Finance

One of the most significant barriers that farmers face is accessing and availability of finance. As with most entrepreneurial operations, funding is often needed to support day-to-day operations of their production and commercial business as well as scale-up, expansions, consolidation, logistics, commercialization and growth. Ensuring farmers have access to readily available financial instruments is key to addressing gaps in coverage from existing conventional banking and investment institutions.

Strengthening the financial education and entrepreneurial capacities of small holder farmers, coupled with extending financial services to unaddressed or hard to address segments that are overlooked by traditional financial systems, represents an impactful opportunity to further ignite and foster microenterprise and micro, small and medium-sized enterprises (MSMEs) in production value chains globally.

With the availability and efficient application and use of reliable and affordable access to finance, farmers can help ensure their activities are profitable and sustainable. This enables smallholder farmer organizations to invest in the necessary infrastructure, human capital, equipment and smooth the cash outflow and inflows curve, dedicating further resources to produce, purchase, store, process, transport, access better markets and commercialize their products.



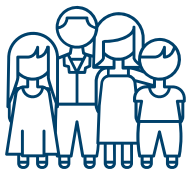
Heifer Impact Capital's Role: Challenges Overcome and Lessons Learned

In Mexico as in other countries in the Americas, access and availability to sustainable finance for small holder farmers is limited. To affect this change, Heifer Impact Capital led the process to, coupled with a parallel capacity building in financial education initiative, identify a financial partner and design a loan product that could be affordable, available and accessible, with reasonable conditions, for qualifying and interested producers. The team identified El Buen Socio (EBS) as the lead partner. The organization is a female-owned an impact investment social finance with a deep commitment to improving finance conditions in the sector and supporting MSMEs.

With capital from Cargill and Heifer Impact Capital, the loan program was designed as a revolving fund with more accessible terms that included a below-market interest rate for long-term sustainability of the affected sector. Heifer Impact Capital (HIC) led the execution of the financial model developed by Hatching Hope Mexico, and EBS implemented the lending program.

This financial product offered small-scale farmers, mostly women, a way to scale-up their flocks, improve conditions of their farm and increase volume of production and sales.

The loans allowed producers to scale: the project considered a plan to offer two loans to each qualified farmer to allow producers to double the size of their original flocks (from 50 to 100 birds) in a first stage and triple them in a second stage (to 150 birds). In this way, the producers could generate sales to overcome the 50% barrier of the living income gap; this scaled up flock size could stabilize cash flow and generate a revenue level for reinvestment and further increased capacity.



**900 families
received financial
education**



**148 received
loans to scale
operation**

Throughout the project, more than 900 families gained access to and benefitted from credit and financial education programs. Of these, 148 families qualified and receive loans directly from El Buen Socio to scale their operation.

To build on the financial relationship and leverage experience, lessons learned and impact, HIC will continue to provide support to the loan program as El Buen Socio extends and increases its direct management of current loans, while seeking to consolidate and expand the program to benefit other regions and entrepreneurs.

Based on the current rate of lending, payback and the program management costs, Heifer and El Buen Socio estimate that this program should be able to fund an additional 110 individual operations through 2026.



Mónica Judith Mendoza: Entrepreneur and Mother

Mónica Judith Mendoza is a young entrepreneur and mother who began with a backyard chicken coop for 50 chickens at her house and today has created a community farm together with 15 other entrepreneurs.

Mónica is 29 years old; she's married and the mother of a 1-year-old daughter. She is the legal representative of Bixhana Trabajando, which translates into Brothers and Sisters at Work. Bixhana Trabajando, is a poultry business based in Villa de Zaachila, Oaxaca, where she is from.

Mónica was one of the Hatching Hope Mexico participants who applied for a loan for 100 chickens from the project. She told the Hatching Hope staff that this support came at the right time. She and her colleagues wanted to start a community chicken coop, but they were putting it off because they didn't have the resources. Monica says:



“ *I had applied for one loan once and it was with a financial institution that had a low interest rate, but it is nothing like the one we received. Entering into a loan is scary, getting into debt, the interest, not having the possibility of repaying it and then the many requirements to meet, not all producers can have access and the bank has no idea what it is like to produce in the field, but the project supported us as a group to make a business plan together with El Buen Socio, which gave me and gave us certainty to ask for the loan. It was all well planned. From our group of producers, 10 of us requested the loan.*”

Mónica requested a second loan to add 150 chickens to her farm, as her egg orders increased, and she could not keep up with the demand. She was granted the loan because she is an entrepreneur who made prompt payments. "The loan is great support. It helped us to speed up the launch of our enterprise under a fair system. When the loan was granted, they gave us three months to invest in the poultry while they start laying and you start paying in the fourth month, when you can sell, so the loan pays for itself," she says.

Currently, this group has 1,750 chickens under a community farm approach, producing nearly 10,500 eggs per week, representing sales of \$33,060 MXN, approximately \$1,650 USD. Mónica's goal is to gradually expand to 3,500 or 5,000 chickens. As the cost of conventional eggs has risen, their orders continue to increase and there is an opportunity for them to take advantage of this and better position themselves in the Oaxacan market.

"Being part of this has shown us that we as women can have an active participation in the economy of our families, and at family level it has united us a lot," says Monica.

ACCESS TO FINANCE OUTCOMES

At the end of the project, those who received loans had **higher incomes** compared to those who did not.

Investment in the African Dairy Value Chain

Dairy is a strategic commodity and crucial for rural development, poverty reduction, and food and nutrition security in Africa. Dairy offers a path out of poverty households with livestock, and for those who provide services and value addition to the supply chain.

Despite progress in the dairy sector, challenges have remained. Farmers had low milk productivity due to poor animal nutrition, poor access to extension and animal health services, and poor access to improved animal breeds. Farmer organizations needed collective action to market milk and needed access to inputs and services. Farmers needed better management skills for milk collection, processing, and marketing. Farmers, especially women and youth, have had limited access to credit. And key institutions needed legal, regulatory, and capacity- development efforts to encourage industry growth.



East Africa Dairy Development

To address these challenges, in 2008, the East Africa Dairy Development (EADD) project, supported by the Bill & Melinda Gates Foundation, provided extensive training on dairy productivity, business practices and operation, and dairy product marketing to 179,000 farming families in Kenya, Rwanda and Uganda. EADD has grown into a leader in market-oriented development initiatives in East Africa, and participating farmers have earned more than \$131 million from investments in dairy production and marketing. We came a long way, but there was more work to be done.

EADD Phase II, with help from a \$25.5 million grant from the Bill & Melinda Gates Foundation, is working with more than 136,000 farmers to improve dairy production and access to markets. The second phase is strengthening the approach, making the project scalable and replicable. It expanded into Tanzania while continuing work in Kenya and Uganda. By 2019, smallholder farmers in Uganda, Rwanda, Kenya and Tanzania had increased their incomes and improved their livelihoods through dairy farming.

In 2019, building on the impact from EADD, Heifer Impact Capital approved an investment in Impuzamashyirahamwe y'Aborozi ba Kijyambere ba Byumba (IAKIB) Dairy, a farmer-owned cooperative in Rwanda, as part of the Rwanda Dairy Development Project (RDDP). The RDDP project continues EADD's work in addressing dairy sector challenges in the country and capitalizes on the gains and opportunities created by past

programmatic work in the sector. IAKIB provides milk collection, milk chilling and pasteurization, maize flour production and animal feed grains for over 4,000 farmer members.

The HIC investments of more than \$400,000 financed an expansion of their successful maize processing unit that has been in operation since 2011. The farmers welcomed the new factory, which opened in May 2022, saying it will save them from traveling long distances and incurring extra costs to access animal feeds. The additional revenue from maize sales creates resilience in IAKIB beyond relying only on milk revenues. Further, the higher gross margins from the more profitable processed maize business line enables the cooperative to pay its milk farmers higher milk price per liter without affecting the overall gross profitability to the enterprise.

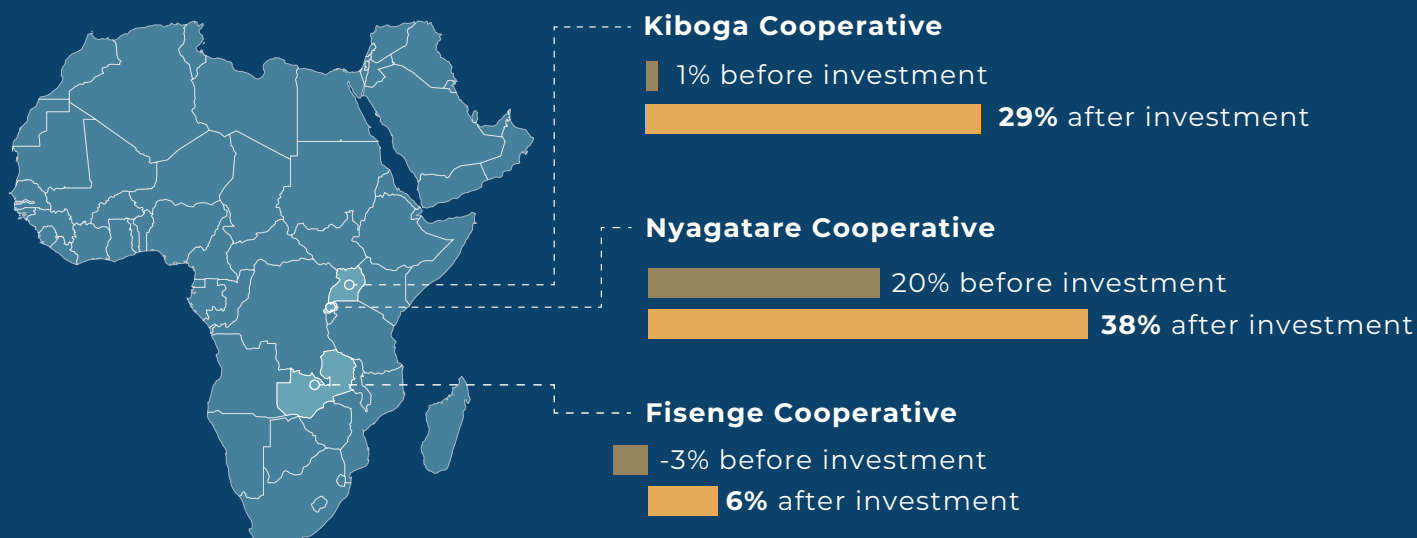
While the EADD project supported farmers to improve dairy production and business operations, Heifer's impact lives on through the advancement of investment capital. Another investment that originated through the EADD project is Ol Kalou Dairy LTD in Kenya, which in September 2019, secured an investment from Heifer Impact Capital to purchase their own pasteurizing plant that would allow them to process in-house and at greater volumes, allowing the business to remain competitive in the market and increase pay prices to farmers, toward a living income.



A CLOSER LOOK: Access to Finance at the Cooperative Level

Heifer recently conducted an analysis on three African investments-- two associated with EADD and one incorporated through a Heifer Zambia project focused on women smallholder farmers and rural livelihoods. The analysis showed that on average, monthly profits were 18% higher during the period following HIC investment. It also showed that on average, cooperative membership increased 68% during that period.

Average growth in profits





Investment in the US Food System

The dominance of “Big Ag” in the United States makes it difficult for local farmers to build financially viable smallholder, sustainable crop and livestock businesses. Gaps in this highly centralized food and farming model led to empty shelves in food stores across the country during the COVID-19 global pandemic, while crops were left to rot in the fields and mature animals were destroyed due to a lack of processing capacity. With industrial agriculture increasingly attracting attention for its pandemic shortfalls and damaging impacts on the environment, there is a renewed focus on more sustainable and fair food and farming systems.

Heifer International has promoted sustainable agriculture in the United States for decades. In 2015, Heifer USA shifted its strategy to focus on supporting small-scale farmers in delivering sustainably grown food to reliable markets for a fair price. The Heifer USA model is made up of three separate organizations that come together to create an ecosystem to meet farmers’ needs from farm to fork: Heifer USA, Cypress Valley Meat Company and Grass Roots Farmers’ Cooperative. **A key component of this strategy is investment and growth in parts of the food system that provide market access to smallholder farmers.** This is where the partnership between Heifer Impact Capital and Heifer USA began.

Since we first partnered, Heifer Impact Capital has committed \$10.5 million in financing to agri-businesses and cooperatives in the United States and catalyzed \$7.2 million of third-party capital into the value chains that Heifer USA works with.

Direct Investment

**\$10.5
million**

Leveraged

**\$7.2
million**



Grass Roots Farmers' Cooperative

At Grass Roots, access to capital has allowed the business to expand from a single farm operation to a professionalized cooperative providing markets to 51 small and medium-sized farms. The market was created through an e-commerce platform that connects consumers to farm fresh sustainably raised meat which is shipped all over the country. During this past year, the 18-employee business has grown gross sales to \$8.4 million and purchased \$3.1 million in inventory from farmers. A key differentiator for Grass Roots is the cooperative's stake in the greater value chain which they operate in, allowing for greater farmer input and representation. This was achieved through investments in two processing businesses that Heifer and Heifer Impact Capital provided financing and guarantees for. Commitments from Heifer Impact Capital have also allowed the cooperative to secure a line of credit from a third-party bank, that provides added resiliency to seasonality and allows Grass Roots the agility to make strategic decisions around purchasing.

Heifer USA

As Grass Roots has gradually grown, Heifer USA has been by their side tackling challenges and finding solutions. One such challenge was ensuring the cooperative had sufficient product to meet customer demand, while being mindful of when to responsibly bring new farmers into the fold. The solution was to bring a cattle operation to Heifer Ranch to supplement the cooperative's inventory. **Over the past 4 years, Heifer USA has partnered with Heifer Impact Capital to finance the purchase of cattle in order to build a herd. Now the herd is 192 strong and Heifer USA sold 67 steers to Grass Roots last year, allowing the cooperative to keep popular cuts of meat in stock and build its customer base.** Cattle have played a critical role in improving the soil and forage for Heifer Ranch by providing positive impact and disturbance via holistic planned grazing. A secondary impact of the cattle has been creating a living classroom at Heifer Ranch. Farmers from all over the country have come to the ranch to take part in livestock training and many more have watched training videos on YouTube, many of which showcase the herd and how to raise cattle using regenerative practices.

Cypress Valley Meat Company

("Cypress Valley"), a provider of high-quality processing services to local farmers, began from humble roots in rural Arkansas with a vision to improve the status quo. Cypress Valley exists to reinvent the role of the processor, by becoming a strategic partner to the farmer and a destination job for their team members. Unmet processing demand in Arkansas, including that of the Grass Roots farmers, presented a unique expansion opportunity and access to finance was a critical component in the solution. With a knowledgeable and dedicated team, Cypress Valley explored and analyzed multiple expansion options, finally concluding that renovation of one of the existing processing facilities was the most feasible option. Unable to finance the project on their own, Cypress Valley approached Heifer Impact Capital to help find a solution. The solution was a blend of debt and equity financing to start and then a guarantee to help leverage a construction loan and line of credit from a local bank. This blend of capital and support led to a successful expansion that opened earlier this year. Because of the access to finance support from Heifer Impact Capital, **Cypress Valley was able increase capacity by 275% and is amplifying their impact in the livestock value chain,** making cost-effective processing available to more smallholder farmers all over the region.





Small Enterprise Assistance Fund (SEAF)

Late in 2020, HIC made a \$2.0 million loan to Small Enterprise Assistance Fund (SEAF), an impact investment management group founded in 1989 by the international development organization CARE. SEAF provides growth capital and operational support to small and medium-sized enterprises (SMEs) in emerging markets underserved by traditional finance. During the past three decades, SEAF has become a global leader in impact investing and strategic partner to SMEs through investments in over 430 SMEs across 42 funds in 33 countries. SEAF has deployed over \$500.0 million dollars in investment since its inception. As of December 31, 2020, SEAF had 39 active portfolio companies who reported a 9.23% annual increase in revenues during the year, despite challenges brought on by the Covid-19 Pandemic. SEAF also reported that 60% of all portfolio company employees were women.

A key element of SEAF's strategy has been its Centers for Entrepreneur and Executive Development (CEED) which was created by SEAF in 2006 to help address the complex challenges entrepreneurs in emerging markets face as they look to grow their businesses. Today, CEED's footprint has grown to 15 locations worldwide and a global network of over 30,000 entrepreneurs who receive peer support, mentoring, and training.

In 2020, SEAF launched the Gender Equality Scorecard, to guide investment professionals in assessing a company's demonstrated commitment to gender equality, identify areas for improvement, and implement improvement plans. As part of our partnership, HIC and SEAF are exploring how Heifer's Living Income Methodology could be incorporated in a such a scorecard.

A main focus of HIC's original investment thesis was a partnership between SEAF and HIC to co-manage impact investment funds. This concept continues to be explored as we collectively work to grow our impact.



Investment in Cambodia's Agri-Tech: Kenko Shoku

Heifer works with smallholder women farmers across Cambodia to organize them into self-help groups, agricultural cooperatives, and unions for business. These strong networks enable farmers to join forces and access markets and financial capital. This initiative aligns with Heifer Impact Capital goal to improve access to finance and investment across the agricultural value chains that Heifer Signature Projects are working on.

In partnership with Heifer Impact Capital, Kenko Shoku invested over half a million US dollars to develop a marketing platform that promotes vegetables, fruits and country chicken that are locally produced by smallholder farmers in Cambodia. The investment will improve profitability at the farm level by facilitating market access to farmers and bring Cambodian agricultural produce to the world by using IT technology (building ecosystems to support farmers), modernize farm technology, and build B2B and B2C platforms.

The investment will allow the company to procure 10 to 15 tons of produce per month from 87 agricultural cooperatives working with Heifer in the country. Contracted farmers' incomes will increase to an estimated \$200 per month from current income of \$108 per month.

Kenko Shoku regards the joint investment as a milestone for the company to expand its business in the local market and build more trust among local consumers. The investment will support Kenko Shoku in improving its product reach by using a digital technology platform. To improve quality of production Kenko Shoku is supporting farmers to adopt

Good Agricultural Practices (GAP) standards of production for vegetables and fruits.

“

Our main goal of joint investment with Heifer Impact Capital is to build an online and offline marketing platform that buys produce from Agricultural Cooperatives supported by Heifer Programs in Cambodia. The engagement is expected to create a demand-pull effect for Heifer supported farmers and agricultural cooperatives. A credible buyer's contract will strengthen AC's business plans to access financing opportunities in the country.”

- Managing Director of Kenko Shoku, Mr. Khin Marith.

Through the process of engagement with farmer collectives and franchisees, Kenko Shoku is building supply chains for the smallholder producers and markets for young entrepreneurs. Currently Kenko Shoku owns six farms with a distribution target area of eight provinces and investment of approximately \$20,000 per farm. Through this engagement, the firm plans to expand in a franchisee model to 91 retail shops and 10 wholesale shops by 2025 and cover the entire country, providing the infrastructure needed for farmers to build a living income.

Looking Ahead

Looking at summaries and financial reporting alone can often hide the human side of impact investment. Reading the individual stories and investment narratives in this report, it is encouraging and heartwarming to see the real-world impact of our investments and loans. It is also encouraging to see that the impact data gathered this year from several projects reinforces our thesis that access to finance, as defined and applied by HIC, is an undeniable accelerator of income.

The Heifer Impact Capital investments and current portfolio provides measurable and anecdotal evidence that an impact investment focus, complementing and building along with Heifer International's existing and evolving signature program initiatives and a strong field presence,

can deliver impact at the farmer level. This strong complementarity also leverages additional resources, is instrumental in improving access and availability to capital, and works to strengthen the entrepreneurial and financial capacities for smallholder farmers and their communities, while also delivering financial returns. The long-term goal is to leverage this platform to create a range of sizeable regional impact investment funds, funded predominantly by third-party investors but helmed and guided by HIC, focused on access to capital and creating resilience within our value chains. The goal is improving smallholder farmer living income, working alongside signature programs, in the geographies where we operate.





Acknowledgments

This report was prepared by Jensyn Hallett, Katie St. Amour and Mike Heald with the support of the rest of the Heifer Impact Capital team.

We would like to express our sincere gratitude to the Heifer International Foundation for enabling us to pilot and build out our impact investment program over the past 5 years.

We also want to thank Heifer International for their support and partnership, allowing us to help advance the mission and impact by bringing access to finance to programs around the world. A special acknowledgment to our global partners on the Program Teams who collaborate with the HIC Investment Team to identify pipeline and plan access to finance interventions. Thank you to the Monitoring, Evaluation, Research, and Learning Team for your thought leadership and support in gathering the data within these pages. Although too great to capture here, HIC is extremely grateful for the collaboration and support across all Heifer International departments.

