

# Statement on principal adverse impacts of investment decisions on sustainability factors

**Financial market participant:** IDH Farmfit Fund B.V.

**Reference period:** 1 January to 31 December 2022

## Summary

IDH Farmfit Fund B.V. (the Fund) considers principal adverse impacts of its investment decisions on sustainability factors. The present statement is the consolidated statement on principal adverse impacts on sustainability factors of the Fund.

This statement on principal adverse impacts on sustainability factors covers the reference period from 1 January to 31 December 2022, within the scope of the Fund's portfolio. The Fund invests in agricultural Small and Medium Enterprises (SMEs), value chain companies, financial service providers and Fintech, and agricultural technology companies that target smallholder farmers directly or indirectly.

All mandatory Principal Adverse Impacts (PAI) applicable to investments in investee companies are considered. Mandatory principle adverse impacts related to investments in sovereigns and supranationals, as well as real estate assets, are not within the scope of the Fund's mandate and therefore not applicable.

The Fund's reporting over 2022 covers its active portfolio at year-end, including eight investee companies with a total portfolio size of €15.9 million. Data for one investee company is pending and therefore not included in this PAI statement.

### Data sources and limitations of the data reported

The Fund highlights that PAIs are challenging to collect from agribusinesses and financial services providers in emerging markets and there are limitations both in terms of data availability and quality. More specifically, it is challenging to obtain quantitative data on the smallholder supply chains of investee companies. In addition, such data collection puts additional burden on investee companies which operate in contexts of emerging economies where issues like the available energy mix the company cannot influence and which may not be their highest of priority considering the difficult context in which they operate. Therefore, the Fund aims to collect PAI data from investees and its supply chains on a best effort basis for this first reporting period over 2022.

Where data gaps exist or the quality of reported information is insufficient, the Fund relies on proxy data provided by a Proxy Provider. The provider's data is based on its worldwide Impact Database, integrating several databases capturing social and environmental factors, including GTAP, Exiobase,



Eora, ILOstat and other sources. The proxies are calculated following the calculation guidance as per the Sustainable Finance Disclosure Regulation. Proxies make use of national data which by its nature does not reflect well the context of the investee company, smallholder supply chains, and does not respond to mitigative action taken by the investor and its investee. This may imply that reported data is over or underestimated depending on the investees' activities, supply chain, context and how well these align with the sector at large from which the proxy data is sourced. For each PAI, the Fund indicates the data source and whether proxy data has been used.

## Indicators applicable to investments in investee companies

Adverse sustainability indicator	Metric	Impact 2022	Explanation, actions taken, actions planned, targets set for the next reference period, data source
<b>Climate and other environment-related indicators</b>			
<b>1. Greenhouse gas emissions</b>	Total Scope 1 GHG emissions in tCO <sub>2</sub> e	8,585	<b>Explanation:</b> This is the first time the Fund approximates this data using proxies, so no prior data is available to compare against. What should be noted is the distribution of GHG emissions across the three scopes. Based on the Fund's target investees, business models that source or service smallholder farmers, a larger proportion of emissions in scope 3 (the supply chain) would have been expected. The Fund presumes this discrepancy to stem from the underlying proxy data for the agricultural sector which more likely includes data for larger agribusinesses in the respective countries. As opposed to the Fund's investees, these may not necessarily serve smallholders but may have higher emission intensity in scope 1. Therefore, the allocation of emissions could be biased towards this scope.
	Total Scope 2 GHG emissions in tCO <sub>2</sub> e	233	
	Total Scope 3 GHG emissions in tCO <sub>2</sub> e	4,627	
	Total GHG emissions in tCO <sub>2</sub> e	13,446	
<b>2. Carbon Footprint</b>	Carbon footprint in tCO <sub>2</sub> e / million € invested	1,131	<b>Actions taken:</b> as per the Fund's Environmental and Social Management System, all of the Fund's investees are required to identify environmental risks, including pollution. This includes the supply chain (smallholder farmers) of the investees. As part of its E&S due diligence the Fund assesses inefficiencies and sources of pollution and where relevant engages with investees on improving resource efficiency.
<b>3. GHG intensity of investee companies</b>	GHG intensity of investee companies: tCO <sub>2</sub> e / € million revenue	1,221	<b>Actions planned/targets set:</b> Whilst reducing GHG emissions is not the Fund's primary objective, the Fund will continue its engagement with investee companies, aiming for resource efficiency. Where material inefficiencies or avoidable pollution is identified at investee level, the Fund agrees mitigative



Adverse sustainability indicator	Metric	Impact 2022	Explanation, actions taken, actions planned, targets set for the next reference period, data source
			<p>action with investees through its Environmental &amp; Social Action Plan (ESAP). In addition, the Fund will seek out opportunities to reduce GHG emissions within its investees' smallholder supply chains on a best effort basis.</p> <p>The Fund recognizes that proxy approaches to estimate emissions of its investees, particularly within smallholder supply chains, are not yet optimal and will continue to improve its measurement and reporting on GHG-related PAI within the scope of its investees' abilities and resource constraints at Fund level.</p> <p><b>Data source:</b> Proxy data (GTAB) by Proxy Provider.</p> <p>Whilst the Fund's E&amp;S risk due diligence is based on the IFC PS and relevant World Bank Group Environment, Health, Safety (EHS) Guidelines, a best practice in emerging markets, these guidelines do not result in quantification of GHG emissions as required by SFDR. Therefore, the Fund applies proxy data for estimating GHG emissions of its portfolio.</p>
<p><b>4. Exposure to companies active in the fossil fuel sector</b></p>	<p>Share of investments in companies active in the fossil fuel sector</p>	<p>0%</p>	<p><b>Explanation:</b> None of the Fund's investments are active in the fossil fuel sector.</p> <p><b>Actions taken:</b> The Fund's mandate does not permit active investment in any form of non-renewable energy project or company. As part of its due diligence, the Fund screens the activities performed by its investee companies to ensure that investees' activities are aligned with the Fund's exclusion list and pose no other reputational risk.</p> <p><b>Actions planned/targets set:</b> The Fund continues to minimize its exposure to fossil fuel sectors. In some instances, transactions in Fund investees will be supported through local or international banks, which may hold investments in fossil fuel sector activities. Whilst these local banks are not directly investees, the Fund will carefully evaluate whether suitable alternative service providers without fossil fuel exposure exist in the market on a case-by-case basis.</p> <p><b>Data source:</b> IDH Farmfit Fund portfolio data</p>
<p><b>5. Share of non-renewable energy</b></p>	<p>Share of non-renewable energy consumption and</p>	<p>77%</p>	<p><b>Explanation:</b> The Fund's investee companies do not engage in energy production and primarily draw energy from the national electricity grid. Hence, the Fund omits energy production from PAI 5 and applies proxy data to estimate</p>



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<b>consumption and production</b>	non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as a percentage of total energy sources (portfolio weighted average)		<p>the share of non-renewable energy consumption of its investee companies. Data to assess investees' consumption of non-electricity types of energy (fuel, gas, etc.) is currently unavailable.</p> <p><b>Actions taken:</b> It is not the Fund's primary objective to reduce the use of non-renewable energy in its investee companies. Where applicable, the Fund engages with its investee companies in line with applicable IFC PS aiming to avoid unnecessary resource use or pollution are avoided.</p> <p><b>Actions planned/targets set:</b> The Fund will continue its assessment of investees in line with applicable IFC PS. No specific reduction target has been set in relation to PAI 5.</p> <p><b>Data source:</b> Our World Data – <a href="#">Energy Mix</a></p>
<b>6. Energy consumption intensity per high impact climate sector</b>	Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector	No data	<p><b>Explanation:</b> At present the Fund's investees cannot reliably report this information and no proxy data is available to estimate PAI 6.</p> <p><b>Actions taken:</b> It is not the Fund's primary objective to reduce the energy consumption intensity of its investee companies. Where applicable, the Fund engages with its investee companies in line with applicable IFC PS aiming to avoid unnecessary resource use or pollution.</p> <p><b>Action planned/targets set:</b> The Fund will continue its assessment of investees in line with IFC PS, but no specific reduction target has been set in relation to PAI 6. The Fund will further explore how this data can be collected from its investee companies in a reliable manner over time.</p> <p><b>Data source:</b> Not applicable.</p>
<b>7. Activities negatively affecting biodiversity-sensitive areas</b>	Share of investments in investee companies with sites/operations	0%	<p><b>Explanation:</b> The Fund's Financing Exclusion List prohibits any financing of companies involved in significant conversion or degradation of Critical Habitat (according to definition of IUCN) to ensure its financing does not exacerbate further biodiversity loss.</p>



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	located in or near to biodiversity-sensitive areas where activities of those investee companies negatively affect those areas		<p><b>Actions taken:</b> The Fund performs its E&amp;S Risk due diligence in line with IFC PS 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources and World Bank EHS Guidelines, focusing on requirements for agricultural supply chains. It screens all prospects against its Exclusion List which prohibits investment in conversion/degradation of critical habitat. If IFC PS 6 is triggered, the Fund applies a land-use screening protocol, mapping company and smallholder farmer locations in relation to biodiversity-sensitive areas to identify the materiality of the risk, agreeing on mitigative action with investees as applicable.</p> <p><b>Action planned/targets set:</b> The Fund shall continue its assessment and monitoring of investee companies in accordance with its exclusion list and IFC PS 6. It shall continue to minimize or mitigate the impact of investees' activities negatively affecting biodiversity-sensitive areas in relation to PAI 7.</p> <p><b>Data source:</b> IDH Farmfit Fund E&amp;S Risk due diligence</p>
<b>8. Emissions to water</b>	Tons of nitrate (N) emissions to water generated by investee companies per million EUR invested, expressed as a weighted average	20.4	<p><b>Explanation:</b> The Fund focuses its reporting on PAI 8 on nitrate and phosphorus as primary pollutants that can be expected from its investees' activities and their respective supply chains. The Fund's investees cannot reliably measure and report the amount of leakage of nitrate and phosphorus to water bodies, especially not within their supply chains of smallholder farmers. Therefore, the Fund relies on proxy data.</p> <p><b>Actions taken:</b> The Fund's E&amp;S Risk due diligence assesses investee companies in line with IFC PS and dedicated World Bank Environment, Health, Safety (EHS) Guidelines. The Fund is aware of the use of fertilizers and pesticides by smallholder farmers served by its investees and assesses investees' usage of agrochemicals and whether these are distributed to smallholder farmers with appropriate training to avoid inappropriate resource use and pollution.</p>



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9. Hazardous waste and radioactive waste ratio	Tons of hazardous waste and radioactive waste generated by investee companies per million EUR invested, expressed as a weighted average	No data	<p><b>Action planned/targets set:</b> The Fund shall continue its assessment and monitoring of investee companies in accordance with applicable IFC PS and relevant World Bank EHS Guidelines to implement mitigative action where needed. Where relevant the Fund engages with investees to encourage regenerative agricultural practices to reduce agrochemical input use and reduce farmers' production cost.</p> <p><b>Data source:</b> Proxy data (Exiobase, Eora) by Proxy Provider.</p> <p><b>Explanation:</b> At present the Fund's investees cannot reliably report this information and no proxy data is available. Whilst radioactive waste is not applicable in the Fund's context, investee companies may produce hazardous waste in relation to agrochemicals or other production processes.</p> <p><b>Actions taken:</b> as per the Fund's Environmental and Social Management System, all of the Fund's investees are required to perform their business in alignment with applicable IFC PS. This includes the supply chain (smallholder farmers) of the investees. As part of its E&amp;S due diligence the Fund assesses which IFC PS are triggered and will identify sources of pollution or hazardous waste and take mitigative action where necessary.</p> <p><b>Action planned/targets set:</b> The Fund shall continue its assessment and monitoring of investee companies in accordance with applicable IFC PS and relevant World Bank EHS Guidelines to implement mitigative action where needed. The Fund will investigate how to report information on PAI 9 in the future.</p> <p><b>Data source:</b> Not applicable</p>



Adverse sustainability indicator	Metric	Impact 2022	Explanation, actions taken, actions planned, targets set for the next reference period, data source
<b>Indicators for social and employee, respect for human rights, anti-corruption, and anti-bribery matters</b>			
<b>10. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises</b>	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	0%	<p><b>Explanation:</b> The Fund’s policy commitments include the IFC Performance Standards, the UN Global Compact principles, as well as the OECD Guidelines for Multinational Enterprises. No violations have been reported by the Fund’s investee companies during the reporting period. As the Fund relies on self-reported data by investee companies, a grievance mechanism at Fund level is in place to ensure stakeholders can voice any concerns or report violations.</p> <p><b>Actions taken:</b> The requirements of the UNGC principles and the OECD Guidelines are embedded in the Fund’s ESMS. In turn, the Fund contractually requires its investees to implement Environmental &amp; Social Management Systems (including a Grievance Mechanism), as a result of the mentioned policy commitments to ensure its investees compliance, in line with IFC PS 1. The Fund has taken a risk-based approach to implement policy commitments in the portfolio. Investee companies biannually report on the status of implementation.</p>
<b>11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises</b>	Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance /complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	0%	<p><b>Action planned/targets set:</b> No further actions planned for PAI 10 or PAI 11 in 2023, unless updates on relevant standards occur.</p> <p><b>Data source:</b> PAI 10: Self-reported data of investee companies. PA 11: IDH Farmfit Fund E&amp;S Risk due diligence, monitoring, and legal agreements.</p>



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<b>12. Unadjusted gender pay gap</b>	Average unadjusted gender pay gap of investee companies	20%	<p><b>Explanation:</b> The Fund applies a gender lens in its investment activities focusing primarily on the gender-inclusiveness of prospects' supply chains to ensure that women smallholder farmers have equal access to services and markets, and less so on gender topics at investee level. On investee level the Fund ensures that the required HR policies, e.g. regarding non-discrimination and payment of the legal minimum wage, are in place. Therefore, the Fund does not monitor the gender pay gap of investee companies as its primary focus lies on the smallholder supply chain and relies on proxy data for this PAI. Data on investees' board composition is collected as part of the Fund's due diligence and monitoring.</p>
<b>13. Board gender diversity</b>	Average ratio of female to male board members in investee companies, expressed as a percentage of all board members	13%	<p><b>Actions taken:</b> The Fund assesses prospects using an in-house developed Gender tool to promote equal access and appropriate service delivery to women farmers in the supply chain. The Fund's risk assessment regarding gender is guided by the IFC Performance Standards. IFC PS 2 requires investee companies to ensure non-discrimination and equal employment opportunities, as well as occupational health and safety of both women and men.</p> <p><b>Action planned/targets set:</b> The Fund shall continue its engagement with investees on gender issues within supply chains, as well as its assessment of investee companies in line with IFC PS 2. It is not the Fund's objective or mandate to engage with investee companies on PAI 12/13. Therefore, no further actions are planned for 2023, unless updates on relevant standards occur.</p> <p><b>Data source:</b> Proxy Data (ILOstat) by Proxy provider for PAI 12; IDH Farmfit Fund due diligence and monitoring data for PAI 13.</p>
<b>14. Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons)</b>	Share of investments in investee companies involved in the manufacture or selling of controversial weapons	0%	<p><b>Explanation:</b> None of the Fund's investments are involved in the manufacture or selling of controversial weapons.</p> <p><b>Actions taken:</b> The Fund's Exclusion List prohibits investments in weapons and ammunition of any kind.</p>





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and biological weapons)			<p><b>Action planned/targets set:</b> The Fund shall continue screening its investees against its Exclusion List, aiming to this PAI at 0%.</p> <p><b>Data source:</b> IDH Farmfit Fund due diligence.</p>

### Additional climate and other environment-related indicators

<b>15. Deforestation</b>	Share of investments in companies without a policy to address deforestation.	0%	<p><b>Explanation:</b> Smallholder farmers are the primary driver of deforestation in the agricultural sector. Therefore, the Fund screens for material deforestation risk with all its (prospect) investee companies. All the Fund's investees, where deforestation is identified to be a material risk, are required to implement policies to address deforestation as part of their Environmental and Social Management System. The Fund reports this PAI within the portion of its portfolio where a deforestation risk has been identified, as to other investees a deforestation policy is not applicable.</p> <p><b>Actions taken:</b> The Fund performs its E&amp;S Risk due diligence following IFC PS 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources and World Bank EHS Guidelines. Where the Fund identifies material deforestation risks, triggering IFC PS 6, it requires investees to embed monitoring of deforestation risks in the investees' Environmental and Social Management Systems to ensure investees have the policy basis to address deforestation in their operations and supply chain.</p> <p><b>Action planned/targets set:</b> No further actions planned for 2023. In line with its Environmental and Social Management System the Fund aims to maintain this PAI at 0%.</p> <p><b>Data source:</b> IDH Farmfit Fund E&amp;S Risk due diligence</p>
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Adverse sustainability indicator	Metric	Impact 2022	Explanation, actions taken, actions planned, targets set for the next reference period, data source
<b>Additional indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters</b>			
<b>16. Lack of grievance/complaints handling mechanism related to employee matters</b>	Share of investments in investee companies without any grievance/complaints handling mechanism related to employee matters	0%	<p><b>Explanation:</b> The Fund performs its due diligence following applicable IFC Performance Standards, which include a requirement for implementation of a grievance mechanism.</p> <p><b>Actions taken:</b> As part of the Fund’s E&amp;S risk due diligence the Fund assesses the availability of grievance/complaints handling mechanisms related to employee matters, as well as for the community and smallholder farmers in the investee company’s supply chain. If not in place the Fund contractually requires investees to develop a grievance mechanism with high priority as part of its Environmental and Social Action Plan, which the Fund receives biannual reporting on.</p> <p><b>Action planned/targets set:</b> No further actions planned for 2023. In line with its Environmental and Social Management System the Fund aims to maintain this PAI at 0%.</p> <p><b>Data source:</b> E&amp;S Risk due diligence and monitoring</p>



## Description of policies to identify and prioritize principal adverse impacts on sustainability factors

The Fund's Environmental and Social Management System (ESMS), including Environmental and Social Policy (E&S Policy), entered into force November 2019. The ESMS is in line with the International Finance Corporation Performance Standards on Environmental and Social Sustainability and meant for presenting the Fund's policies and procedures to identify and prioritise principal adverse impacts on sustainability factors.

The E&S Policy and ESMS are complementary to the Fund's General Investment Policy and Investment Guidelines, as well as the Client Due Diligence Policy. These policies determine how the Fund performs its investment activities. IDH Investment Management B.V. is appointed as the Executive Board (the Board) of the Fund and acts as Fund Manager. The Fund Manager is responsible for the Fund's E&S risk management and the implementation of the E&S Policy and ESMS, including compliance with laws and regulations.

The types of transactions that the Fund seeks out within its mandate and impact objective may imply certain environmental and social risks and adverse impacts. These risks could result from prospects' or smallholder farmers' activities, or from the Fund's objective to scale up the operations of the Fund's investee companies and their supply chain, as well as the (agricultural) activities of targeted smallholder farmers. Scaling investee companies' and farmers' activities could result in increased use of resources, in terms of land, agricultural inputs, labor, energy, etc. with potentially adverse environmental and social impacts, particularly on (hazardous) child labor, forced labor, operational health and safety issues, e.g. resulting from agrochemical application, deforestation, (critical and natural) habitat conversion, and biodiversity loss.

The PAIs as per the regulation only partially capture these risks and adverse impacts. Recognizing that it operates in a very specific context, the Fund performs a bespoke E&S risk due diligence that relies more on qualitative analysis (as opposed to a quantification of the PAI), on each prospect to ensure all material risks and adverse impacts are understood and where necessary mitigated.

For details on the limitation of PAI measurement, please refer to the Summary at the beginning of this document. The data source used for the various PAI is indicated per indicator as part of the explanation.

## Engagement policies

Throughout its investment process, the Fund performs an E&S risk due diligence commensurate with the risk of operations exhibited by the prospect and within the scope of the Fund's investment, in line with its ESMS and E&S Policy. When prospects engage in activities where E&S risks are perceived to require mitigation, the Fund will set a timeframe in its agreements with investee companies within which investee companies must achieve compliance or remediation. Rather than focusing on specific PAI, the Fund performs a thematic, qualitative E&S risk assessment. The Fund acknowledges that prospects may not fully meet all the applicable standards at the time of contracting. In case the identified E&S risk(s), or materialized impact(s), associated with the activities of prospects cannot be mitigated or remediated to a satisfactory level, the Fund Executive Board reserves the right to refrain from investment.



The E&S risk due diligence and engagement the Fund performs with its investee companies is expected to result in low levels of adverse impacts across PAI that fall within the Fund's mandate. Per PAI, an indication is provided as to whether the Fund aims to reduce adverse impacts. The Fund's E&S Policy and ESMS shall be reviewed annually for their effectiveness and shall be adapted to include additional measures in case adverse impacts are observed to increase over time.

## References to international standards

The Fund adheres to the following responsible business conduct codes and internationally recognized standards for due diligence and reporting:

### **All investee companies:**

- The Finance Exclusion List which is reviewed to be aligned with peers;
- Legal compliance with the local and national applicable environmental and social laws and regulations;
- The eight fundamental International Labour Organization (ILO) Conventions (the Core Labor Standards);
- UN Global Compact principles; and
- OECD Guidelines for Multinational Enterprises.

### **Context or risk-dependent; applicable in full or in part:**

- The Performance Standards for Environmental and Social Sustainability of the International Finance Corporation;
- World Bank Group Environmental, Health & Safety Guidelines; and
- No Deforestation, No Expansion on Peat, and No Exploitation (see [NDPE Framework](#)).

Other best practice standards, guidelines, and tools may be applied where these provide additional guidance or requirements that support E&S risk identification and mitigation.

## Historical comparison

Not applicable as this report presents the first reporting period on the SFDR by the Fund.