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EVALUATING FMO INVESTMENTS IN FINANCIAL INSTITUTIONS

FINAL REPORT

01.07.2020 | **FMO Evaluations**

WHAT DOES THE REPORT COVER?

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EXECUTIVE SUMMARY

The 2020 sector evaluation assessed the development impact, Environmental, Social and Governance (ESG) results and role of FMO (additionality and mobilization) in relation to the Financial Institutions (strategic) sector during the period 2014-2019. The objective of the evaluation was to develop actionable recommendations to support the organization increase its performance and inform our shareholders of the results that FMO has delivered in the Financial Institutions sector in this period.

The context of development finance towards financial institutions strongly developed in this period with an increasing amount of investment activity and private sector interest – The total amount of finance for financial inclusion available to developing countries has increased by 80% from 2011 to 2018. Next to that, competition between public funders increased, with the share of public funding in the overall amount of finance increasing from 68% to 72% in the same period.

FMO financial institutions financing grew in line with this global trend. Annual portfolio production from the Financial Institutions and Private Equity: Financial Institutions departments doubled from 2014 to 2016 (from EUR600m+ to nearly EUR1,300m in 2017), leveled off to EUR1,200 in 2018 and recovered to 1,300m in 2019. Average deal sizes increased towards 2017 and then fell slightly, and a stable share of FI sub-markets serviced (~60% of annual investments are in universal banks). Finally, risk appetite has remained fairly stable over time - though in recent years move towards lower-risk deals visible.

EXECUTIVE SUMMARY | DEVELOPMENT IMPACT

8 DECENT WORK AND ECONOMIC GROWTH

Thanks to an inherent focus on (M)SME financing, the sector made a significant contribution to SDG8 development impacts. (M)SMEs contribute strongly to job and growth creation yet face a financing challenge in developing countries. The financial institutions (FI) sector contributed a comparatively high number of jobs supported across the evaluation years (40% of total FMO jobs supported in 2019) and grew its SME loan portfolio by 35% in the evaluation period. In addition, the sector supported local growth through a growing LCY portfolio (from 4 to 24 deals between 2014-2019) and developed a promising (from a development perspective) portfolio guarantee product. Only a share of this impact is currently adequately captured though, since ‘only’ jobs and volume of MSME loans are tracked in FMO’s systems. Expanding impact measurement to include more SDG8 dimensions can further strengthen steering on and the communication of SDG8 impact.

10 REDUCED INEQUALITIES

Earmarking loans to financial institutions (FI) clients for use towards vulnerable groups has helped the FI sector create a significant impact on SDG10, in particular on reducing *within country* inequalities. Annual FMO production of Reduced Inequalities investments more than doubled from 2015 to 2019: from 131m in 2015 to 365m in 2019, thereby exceeding its own target set in the 2017-FI strategy. Especially gender finance grew strongly, from EUR 11m in 2015 to 85m in 2019. The positive development impact of microfinance and gender-financed deals were confirmed by completed evaluations as well as case studies done for this evaluation. Banking on vulnerable groups is not without risks, though, and with a fast-growing portfolio these should be actively monitored and managed in the future to sustain positive impacts. Also, the volume of inclusiveness finance in Africa and LAC is relatively low, while the extent of SDG10 challenges in these regions is large. There is also room to do more to tackle rural-urban inequalities by growing the agri and smallholder finance portfolio across all regions.

13 CLIMATE ACTION

Developing green-earmarked finance and FMO’s Green Label have helped the sector grow its impact on SDG13 in the evaluation period: from EUR80m FMO production of green finance in 2015 to EUR120m in 2019. However, growth has slowed in 2019 and self-imposed green targets in the 2017-strategy (of EUR370m annually by 2021) seem very challenging to meet. Competition in the market has increased strongly and clients’ rate FMO’s non-financial green service offering lowest. Capacity Development (CD) activity in the field of green has also declined in recent years. Yet, case studies show that development impact can be significant, even though the precise impact depends on which activities are made eligible under the loan. FMO’s impact systems do not capture the precise climate impact of earmarked Green loans. If done, it would help establish FMO’s impact on SDG13 through FIs. The impact of FMO on the green finance market could also be improved by expanding the adaptation offering and venture into more risky countries.

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Environmental &Social (E&S): Considerable improvements were made to E&S management in the evaluation period, amongst others with the introduction of the ESG Performance Tracker and an updated E&S FI approach in 2007. Based on case studies conducted, FI clients overall seem to have taken a step forward and moved from challenges with designing sound E&S systems to challenges with implementing: Some 60% of FI-A and B+ clients have red or amber scores on proper E&S due diligence, establishing external E&S agreements and E&S monitoring and follow-up. However, no actual changes in the performance of ESG risk management at FI clients could be observed among those clients present in the ESG PT system since 2018.

Mobilization: Mobilization volumes grew rapidly from EUR91m in 2014 to a peak of 550m in 2017. In 2018, however, mobilization dropped to ~EUR370m. In 2019, it recovered to 424m. The number of times FMO mobilizes went from 1 in 2 deals in 2017 to 1 in 3 deals in 2019. A large share of this drop is explained by a drop in mobilization with commercial parties other than FIM. Mobilization has become more difficult in recent years to due increasing competition, FMO's shift to Tier 2 banks and a raise of FMO's minimum hold. Recent new partnerships are expected to have a positive impact on volumes going forward. Also leveraging FMO's impact management and product innovations could also present opportunities for further increasing mobilization volumes.

Additionality: Non-financial additionality has become increasingly important for FI. The volume of deals done based on both ESG and financial additionality has grown faster (39% annually) than those based only on financial additionality (18% annually). Tenor remains the main source of financial additionality (40-50% of total debt deal value). At least 50% of debt FI clients 'strongly agree' or 'agree' that FMO provides value through its network, training offer and knowledge transfer and all would appreciate more support in these areas, particularly digital transformation & fintech, ESG, risk management and gender/green finance. Further product development of LCY, green, agri and smallholder finance, and particularly microfinance in Africa, are opportunities for increasing financial additionality.

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I) Increasing development impact with financial institutions (FI) sector products

1. Investigate the possibility to improve the sector's contribution to rural-urban inequality globally, as well as inclusiveness deals in Africa in general
2. Create a category for FinTech deals in FMO's finance and portfolio systems, so that success of the FinTech strategy can be more easily monitored
3. Evaluate the success and impact of portfolio guarantees

II) Impact management & measurement framework

4. Strengthen the SDG8 impact narrative for FI deals by (i) increasing the opportunity to report SDG8 relevant impact information in deal documentation and (ii) exploring the integration of FI client's portfolio information in impact systems
5. Improve provision and tracking of information on risks to FMO core SDG-impacts, in particular for SDG10
6. Measure the specific impact of individual green credit lines and incentivize higher impact activities
7. Consider expanding Green Label to include more adaptation measures and/or brand a separate adaptation product

III) Non-financial additionality

8. Strengthen green non-financial service provision to increase additionality and improve client appreciation
9. Further increase the effectiveness of FMO's CD and ESG efforts by:
   a) Sharpening project objectives towards results-based indicators and evaluating the success of projects
   b) Gathering project success information on CD projects together with more descriptive project information (which can help to more strategically deploy funds towards most effective projects)

MANAGEMENT RESPONSE

RESPONSE BY MANAGEMENT

Overall, the evaluation shows our achievements in growing the Financial Institutions (FI) portfolio successfully in the SME space (SDG 8) as well as in the gender-, youth-, and micro-finance segments (SDG 10: Reducing Inequalities) and green space (SDG 13: Climate Action). It also shows progress in areas of E&S management, mobilizing (private) capital towards our markets and the recognition for the value-add initiatives we bring to our clients. At the same time, we appreciate the recommendations we received on the areas where we can improve to become even more effective in realizing impact and making it measurable and visible. The way in which we jointly (the investment, impact and reporting departments) aim to follow up on the recommendations provided is detailed below.

Recommendation		Joint response
I) Recommendations for FI investment teams on how to increase impact with existing products		
1	**Investigate the possibility to improve the sector's contribution to rural-urban inequality globally, as well as inclusiveness deals in Africa**	*Addressing within-country inequalities is of key importance to FMO. Investments in financial institutions have a strong potential to contribute to these, as the evaluation has also shown. FMO will therefore investigate the degree to which their investments may still have contributed to reducing inequalities, without having received the RI investment label (in which case the evaluation has not picked up their contribution). Depending on the outcome, additional follow-up action will be considered. Important input to this potential follow-up action will be the new FMO corporate evaluation that will focus on FMO's contribution towards SDG10. As part of the evaluation, opportunities for additional RI investments through the FI sector will be mapped.*
2	**Create a category for FinTech deals in FMO's finance and portfolio systems, so that success of the FinTech strategy can be more easily monitored**	*FMO has started working to operationalise this. In general, FMO will benefit from more granularity in the FI portfolio classification as currently a sizeable part of the portfolio is classified as "other FI". Indeed, even more relevant in view of our fintech strategy.*
3	**Evaluate the success and impact of portfolio guarantees**	*With the pipeline currently being built, an evaluation would come too soon. We propose to do an evaluation once there is a (small) portfolio with some track record (expected 2022).*

RESPONSE BY MANAGEMENT

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Recommendation		Joint response
II) Recommendations to strengthen impact management & measurement		
4	**Strengthen the SDG8 impact narrative for FI deals:**	*It is possible to expand the use of currently available information for analysis and therefore consider how capital and business development time are allocated by the regional managers. As recognised in the evaluation, SMEs are considered an important vehicle to develop new jobs in our markets and therefore another component of our contribution to SDG 8. Impact data on SMEs supported would also contribute to the analysis and prioritization of clients and business development efforts. We are working on an Impact Data Progress Report as prototype for each department to receive portfolio information. This report can be the base for future analysis and discussion. Later a more thorough analysis of FMO's contribution to SDG 8 can be done to determine whether additional indicators and components of the SDG can be highlighted and strengthened in FMO's impact management framework. The analysis could investigate the potential to expand on the information provided in investment documentation.*
a)	**increasing the opportunity to report SDG8 relevant impact information in deal documentation**	
b)	**Explore the integration of FI client's portfolio information in impact systems**	*FMO collects portfolio data before contracting a new facility as well as throughout the lifetime of the facility. Information is collected as part of the impact card and in some cases for portfolio of loans restricted by use of proceeds in the transaction. The annual updates are stored but currently not utilized to its full potential. Before integrating this information in the impact system, we recommend that the "need to have" information is identified first. The Impact Domain Project, which is ongoing, will improve the use of information already collected for analysis and processing of our impact models for jobs supported and GHG emissions. The review of the Client Credit Review template and impact card, will allow for increased use of the client data use in impact calculations and modelling.*
5	**Improve provision and tracking of information on risks to FMO core SDG impacts, in particular for SDG10**	*FMO's Risk Management Framework considers impact related risks part of our Business Model Risk and drivers of it. The risk of supporting irresponsible practices when lending to vulnerable groups is mitigated by following clear client protection principles (CPPs). Last year, FMO prepared a memo for an updated CPP policy framework. We are currently increasing awareness and knowledge of staff on this reviewed framework and the options FMO has to implement it and support clients in doing so. The experience of FI will also serve as basis for the CPP policy application in relevant EN and AFW transactions.*
6	**Measure the specific impact of green credit lines and incentivize higher impact activities**	*Management considers it key to continue developing our measurement tools relating to SDG 13. In 2019, a green line reporting template was developed (use of proceeds report), which has now been rolled out. Preliminary discussions are being held now on how to translate the received information into a tool that supports further data analysis. We are currently looking at ways to incorporate this information into impact measurement systems and/or for improving the impact calculations.* *We are also improving the way we measure climate impact of FI investments. In the medium term, we expect to improve the indicators we track for green investments, while limiting the burden on clients regarding reporting requirements. We are investigating the option to enable better collection of disaggregated data about the underlying green portfolios that we finance through FIs in the meantime.*

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Recommendation		Joint response
7	**Consider expanding Green Label to include more adaptation measures and/or brand an adaptation product**	*Currently a green and reduced inequalities labels review is being undertaken. The current green label already mentions climate adaptation as part of the goal, but the review will increase visibility of climate adaptation and improve the criteria required to determine eligibility. It is important to note, however, that the adaptation taxonomy is not nearly as well defined as climate mitigation and that the local context plays a critical role in what activity can be seen as 'adaptive.' Once adaptation criteria are more clearly defined, we will be better positioned to focus more efforts in this area, e.g. through a specific product. Currently, we are working on one transaction with the DFCD, with a focus on adaptation which could serve as a source of learning. Once adaptation criteria are more clearly defined, we will be better positioned to focus more efforts in this area, e.g through a specific product.*
III) Recommendations to help increase non-financial additionality		
8	**Strengthen green non-financial service provision to increase additionality and improve client appreciation**	*Not all clients that receive green lines make use of the technical assistance option. In most cases, this is because they consider it unnecessary since they have sufficient know-how in house, or they consider the FMO approach costly. In addition, anecdotally, the value add is perceived to come from FMO acting as a general 'sparring partner' in discussing new ideas/products rather than a specific CD offering. We have already worked, and will continue working, on tailor made CD projects for specific situations, such as for green bond issuances. Another area of focus could be more generic 'pre-feasibility' studies, product development, webinars and research. This is possible under FMO-A CD if deemed a priority to enable business development and as precursor to impact.* *A review of Green Lines / Green CD should be conducted to determine what features could be incorporated into the product offering, and what capacities could be built within investment teams, to make the offering more attractive. Additionally, when looking to the successes of other DFIs in providing green credit lines, accompanying technical assistance facilities have been imperative for building the requisite capacities at the bank to implement green financial products. A desk study of these credit line / TA programs is suggested to be performed.*
9	**Further increase the effectiveness of FMO's CD and ESG efforts by sharpening project objectives and improved monitoring and evaluation**	*The report highlights limitations FMO is aware of and working on addressing. An operationalisation project plus the scoping for a new system which aims to address these issues and more will be launched. Furthermore, there is a pilot ongoing on the delegation of monitoring of projects to Portfolio Analysts or Associates.* *In 2019, an FTE was appointed to improve how Sector Initiatives (SIs) are originated and managed. This is expected to ensure that the findings of the SI evaluations are followed-up and integrated into future SIs. CD could also take a more programmatic approach, which includes developing theories of change and results frameworks against which projects will be tracked and assessed. A monitoring, evaluation, and learning (MEL) function is also considered.* *Also a concise 'satisfaction survey' will be developed that could be sent to clients with CD projects half-way and after completion of joint CD projects to get feedback on the success of the CD project. The mid-project survey could be used to still steer and improve the implementation of the project by the selected consultant. The ex-post survey could be used to measure the results of the project and ask for the satisfaction of the client and the performance of the consultant.*

INTRODUCTION

OBJECTIVE & SCOPE

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The 2020 sector evaluation analyses the development impact, ESG results and role of FMO (additionality and mobilization) in relation to the FI sector during the period 2014-2019

- Every year, FMO conducts an evaluation of one its investment sectors. This year, the focus is on FMO's activities towards Financial Institutions (FI). Both debt and equity investments towards FI are taken into account, as well as its non-financial activities in the field of ESG and CD.
- The scope of this evaluation is on investments from 2014 – 2019.
- The objective of the evaluation is to develop actionable recommendations to support the organization increase its performance (*learning*)**.** Secondly, the evaluation serves to inform our shareholders of the results FMO has delivered in these areas (*accountability*).

The detailed research questions used are:

1. How has FMO's portfolio in FIs developed in the last five years?
2. How have investments in FIs performed in terms of contributions to SDGs 5, 8, 10 and 13?
3. To what extent has FMO's financing been additional and how has it mobilized other financiers?
4. To what extent can improve its financial or non-financial impact towards clients, partners or the SDGs?

The methods used to analyze these questions include literature review, analysis of all data gathered by FMO in its internal systems, a tailored Customer Satisfaction Survey for FI clients, case studies (shown in table below) as well as interviews with FMO staff and selected external experts (public and private peers).

The case studies

1. Yes Bank – India – Green line – FMO A - Debt client – E&S A
2. NMB Bank – Nepal – FMO A - Equity client – E&S B+
3. Banco de la Producción – Nicaragua – FMO A - Debt client
4. Fidelity Bank – Ghana – FMO A - Debt client
5. Unibank – Armenia – MASSIF – Debt client

FMO'S INVESTMENT IN FINANCIAL INSTITUTIONS

FMO aims to impact the SDGs through financial and non-financial investments

- FMO supports Financial Institutions through financial and non-financial investments which ultimately aim to create an impact on the main SDGs:

- The Theory of Change (ToC) on the next slide helps identify how FMO contributes to these SDGs by investing in Financial institutions. The ToC distinguishes between outputs directly at the level of FMO, outputs at the level of our clients and outcomes at the level of the end beneficiaries.

The Financial Institutions (FI) strategy has changed focus over the last five years

Over the last five years FMO's strategy for investing in financial institutions focused on:

- Increasing the number of inclusive deals, including increased investments in FinTech
- Increasing the percentage of green volume
- Increasing the mobilization percentages
- Increasing the number of Women-SME (WSME) deals
- Offering our knowledge and network to go beyond providing finance
- Expanding local currency offering
- Expanding offering of portfolio guarantees
- Increasing investments in Africa, MENA and Asia

The evaluation looks at whether the ambitions have been met and what can be learned from the developments over time, using the Theory of Change (ToC) as the basis.

FMO FINANCIAL INSTITUTIONS | THEORY OF CHANGE

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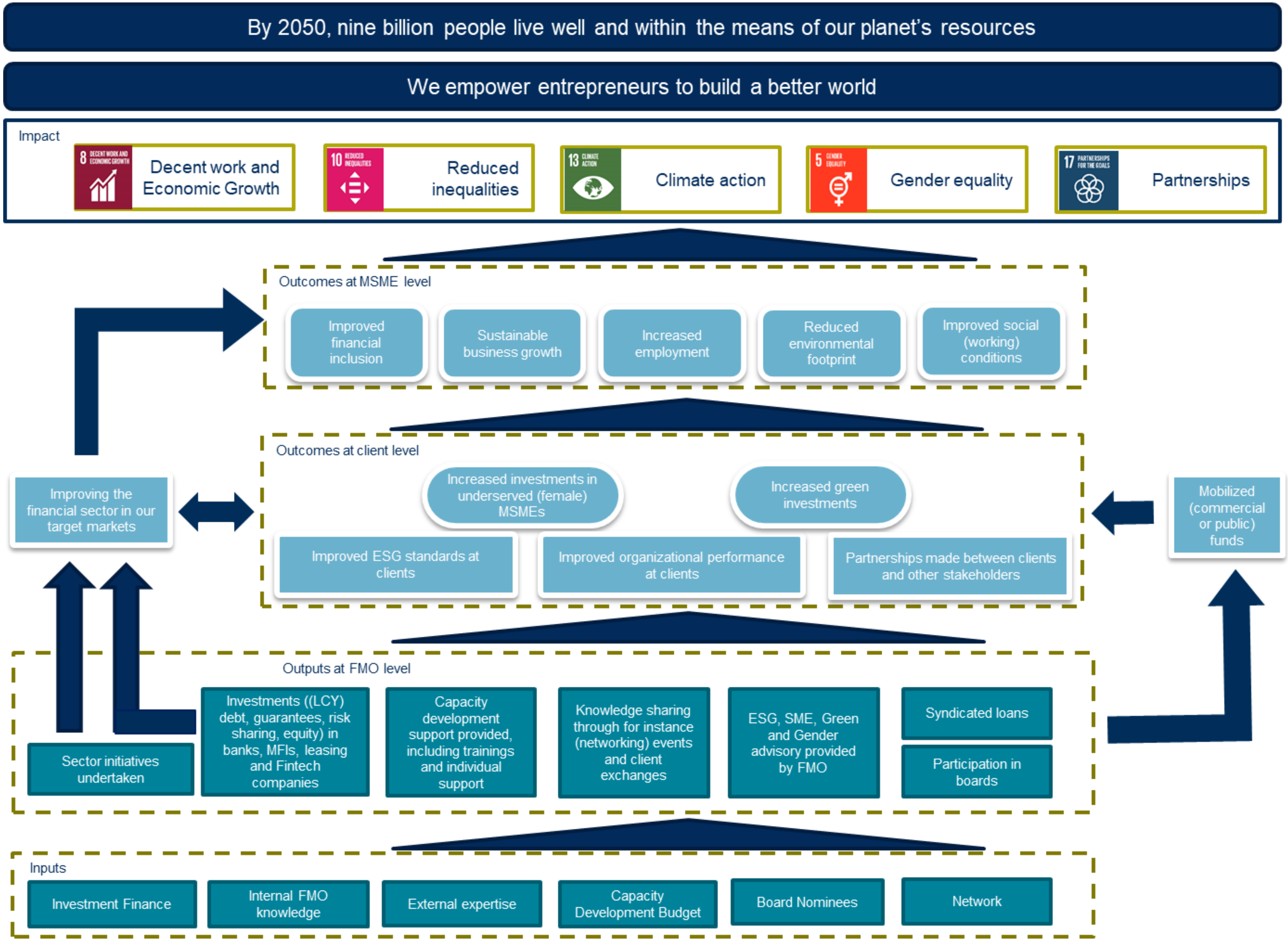

DEVELOPMENT OF THE FINANCIAL INSTITUTIONS SECTOR IN FMO
2014 - 2019

KEY FINDINGS ON THE DEVELOPMENT OF THE FI SECTOR

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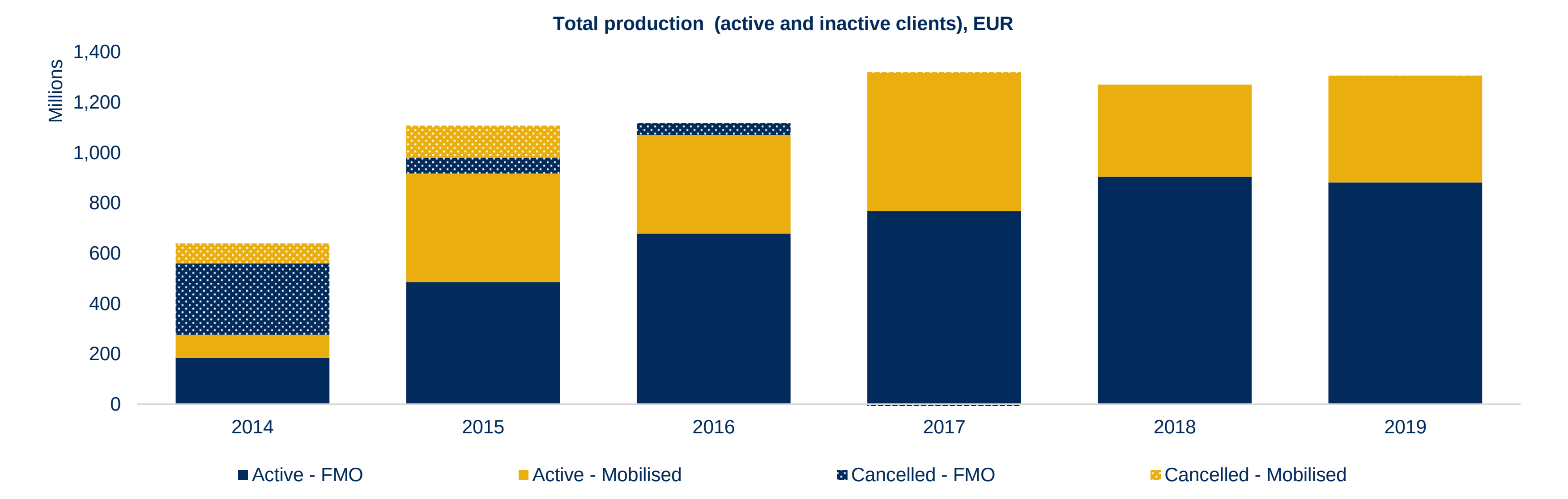
FI portfolio first grew strongly, then stabilized and then shrank a little

- During the evaluation period, the FI portfolio witnessed three phases in production development:
  1. **Steep growth between 2014-2017:** *driven by increasing mobilization amounts and FMO-A growth*
  2. **Slight decline in 2017-2018:** *driven by a drop in mobilization volumes*
  3. **Recovery in 2019:** *similar volume of mobilization and FMO production*
- **Average deal sizes increased towards 2017 and then fell slightly –** FMO's average deal size increased from EUR 11m & 15m (FMO-A and total) in 2014 to EUR 19m & 27m (+~75%) in 2017, but after 2017 dropped gradually to EUR17m & 21m (-10% and -22%). In 2017 a new FI strategy was adopted, but there is no direct link.
- **Stable share of FI sub-markets serviced -** The majority (~60%) of annual investments are in universal banks.



Mobilised = Total value of private and/or public participations other than government funds and FMO-A in FMO-led contracts
Total = Total value of FMO-A, government funds and mobilised portions per contract

KEY FINDINGS ON THE DEVELOPMENT OF THE FI SECTOR

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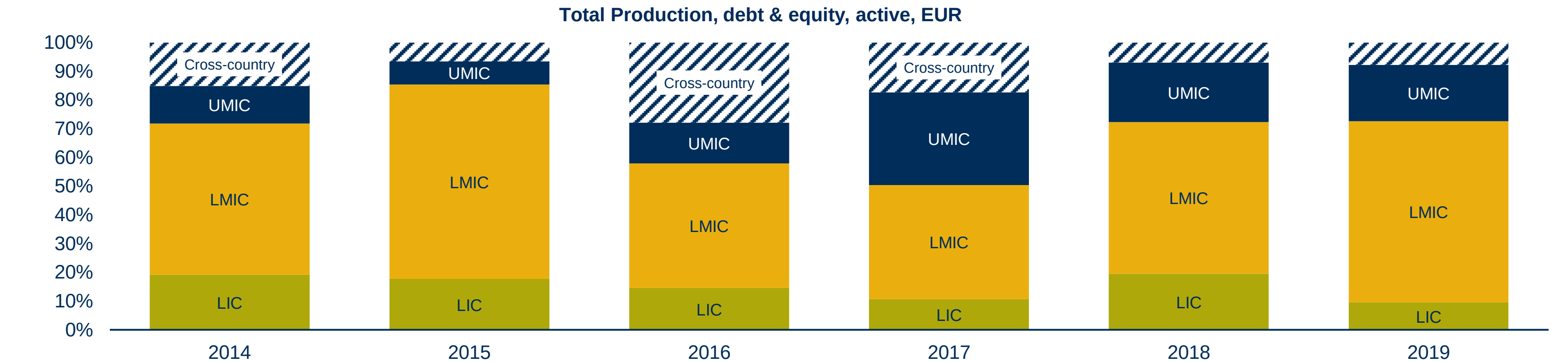
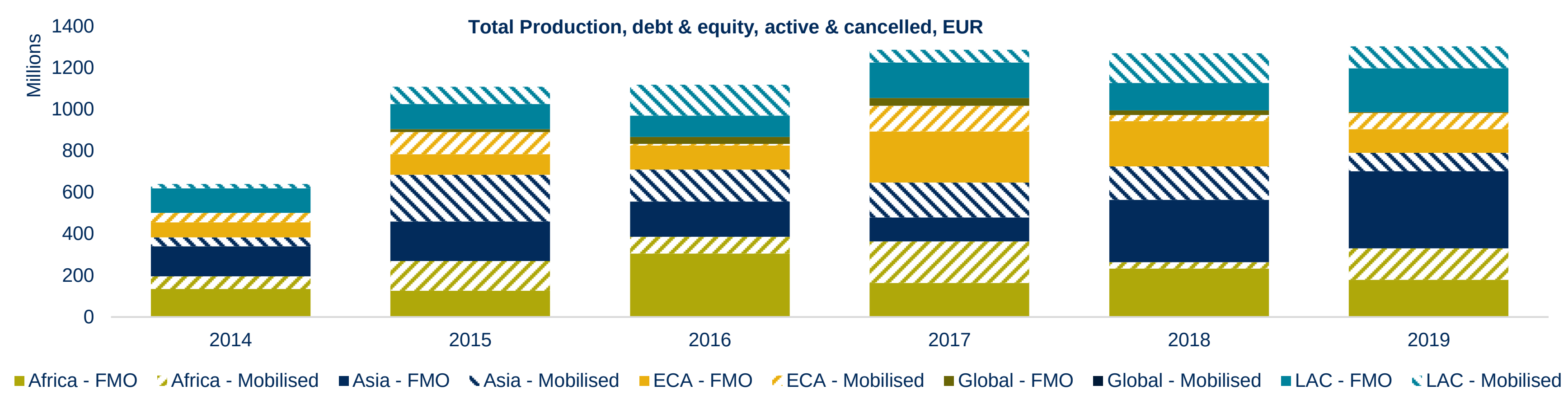
High growth in Asia, Africa and ECA volatile and LAC stable

- Focus on LIC and LMIC back on track after 2017-strategy (in 2018 and 2019 >70% of production in LIC and LMIC). In 2016, the LIC/LMIC focus was distorted due to the large investment in Arise (cross-country), while in 2017 Turkey was open for FMO and attracted a large amount of investments (while typical previous countries did not as much).
- Strong regional growth in Asia (mainly India), while Africa (volatile production) and ECA (declining production) are not growing as strongly. In ECA, the Turkish market closed for FMO in 2019, causing a significant drop in total production.





DEPLOYMENT OF CAPACITY DEVELOPMENT WITH FI CLIENTS

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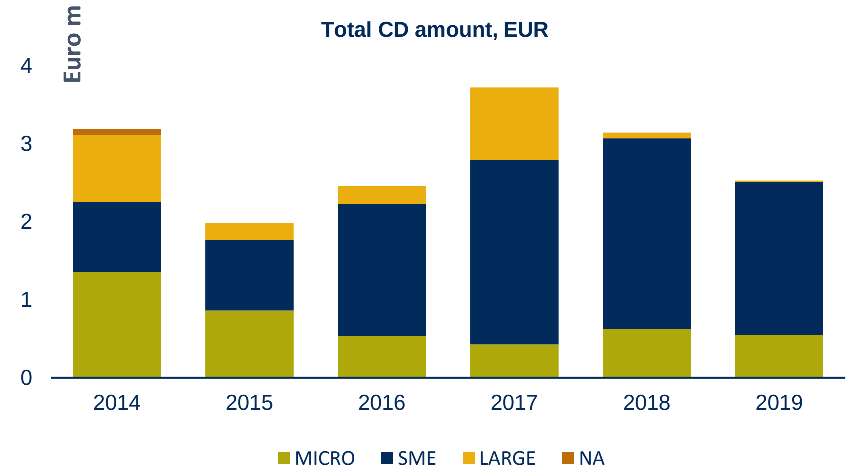
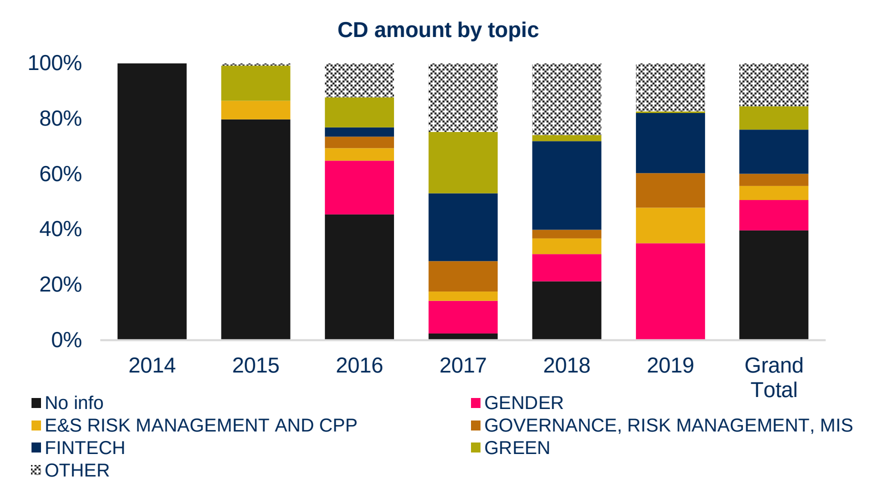
Strong developments in the Capacity Development portfolio with FI clients in the past five years

- Volume of CD funds deployed with FI clients grew alongside FI portfolio from 2015 to 2017 and declined afterwards. Five years ago, CD funds were predominantly granted to FI clients that served either micro and large enterprises. SME-oriented banks clients received only ~28% of all CD funds deployed. Over time, **the focused has shifted completely:** away from large and micro **towards SME focused banks,** which constituted >75% of the total CD funds deployed in 2019. This is in line with the 2017-FI strategy to focus on SME oriented banks.
- **Reporting of the type of CD projects conducted in FMO's systems improved significantly** in the past five years: in 2014, not a single project contained information about its type. Since then the data show that:
  - Fintech and Gender projects have received consistent prioritisation, especially gender projects growing in volume
  - CD in the field of 'green' was significant in the years 2015-2017, but has been very marginal in the past two years. The plans for 'green' CD were ambitious with a EUR1m budget prepared in 2017, but demand from investment teams for this budget has been relatively low since then.
  - TA in the field of risk management, governance and compliance increasing in importance over time, but in total in the past five years relatively minimal





DEPLOYMENT OF CAPACITY DEVELOPMENT WITH FI CLIENTS

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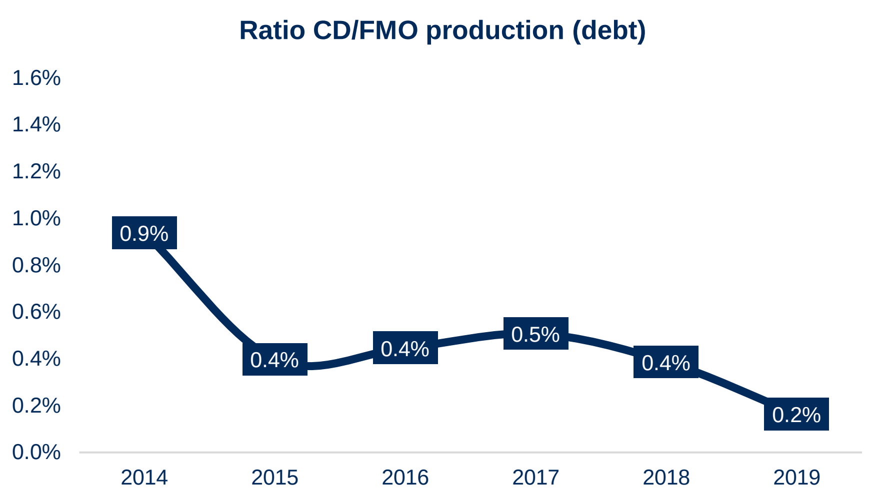
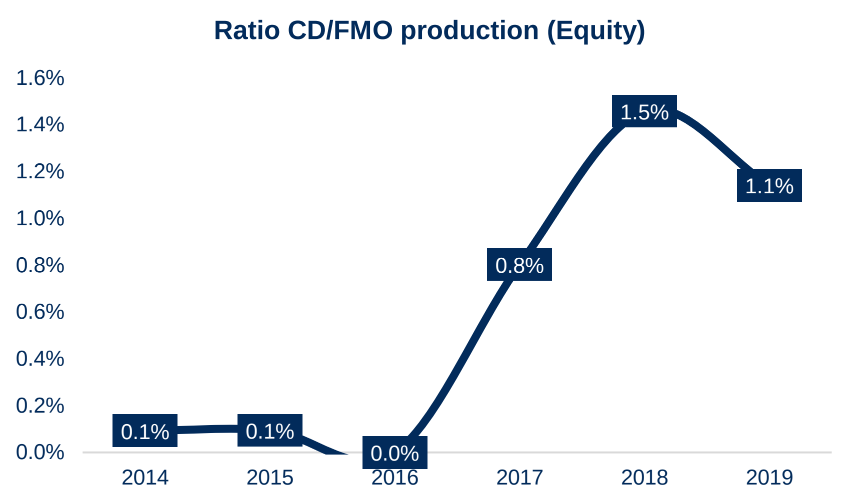
Share of CD funds deployed with equity clients increased and declined for debt clients

- Despite following the overall growth and decline of the FMO portfolio, the total volume of CD funds deployed with debt clients have gone down over time (from 0.9% in 2014 to 0.2% of FMO contracted amount in 2019). On the other hand, CD funds are increasingly used with our equity clients, from practically zero in 2014-2016 to 1.1% in 2019.
- **Despite an improvement in registering the type of CD projects conducted in a central database as illustrated in the previous slide,** it is unfortunately still hard to trace all CD funds to FI clients as many CD contracts are recorded with the external consultants as ultimate beneficiary without information about the ultimate FI beneficiary.
- In this evaluation period, **only 17% of the total FMO CD amount made available could directly be linked to an FI client**. This makes it hard to track the total amount of projects conducted with clients across the portfolio and developments in these indicators over time. There is also no portfolio data measuring the 'success' of CD projects.
- As a result it has not been possible to conduct an assessment of the effectiveness of CD funds at portfolio level. This is done in the case studies instead. It is recommended in relation to strengthening FMO's non-financial additionality role (see more in section on additionality) to improve traceability of CD funds to clients in order to steer better.





THE RESULTS:

DEVELOPMENT IMPACT

INTRODUCTION

- Creating development impact is at the heart of FMO's mission and vision: We empower entrepreneurs to build a better world. Since 2017, FMO aligned its development impact strategy to the UN Sustainable Development Goals and chose three SDGs to focus its development impact on across all investments in the portfolio:
  - **SDG8:** Promote sustained, inclusive and sustainable economic growth, full and productive employment and Decent Work for all
  - **SDG10:** Reduce inequality within and among countries
  - **SDG13:** Take urgent action to combat climate change and its impacts
- Development impact is a societal concept and each of these core SDGs show that it is important to understand what impact FMO support with its investments, beyond the development of the local private sector, on local populations and the environment. In the case of the FI sector, it is therefore important to "look-through" the FI's investment portfolio and understand its contribution to each of the three core SDGs.
- This section aims to do so with the information available. The section is structured per FMO core SDG and presents:
  1. Analyses of data available in FMO's systems (green and Reduced Inequalities (RI) labels used, direct employment supported and (W)SME loans provided by FIs)
  2. Evidence on development impacts created from field visits conducted for four case studies
  3. Additional knowledge available on development impacts in-house based on interviews.

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No SDG8-label to steer FMO investments, but inherent focus on MSMEs in FI Strategy

8 DECENT WORK AND ECONOMIC GROWTH

- **As opposed to SDG10 and SDG13, there is no FMO-wide label that FMO uses to classify investments as contributing to SDG8.** Instead:
  1. FMO measures and reports direct jobs supported with its investments, and estimates the number of jobs indirectly supported by means of economy-wide knock-on effects. For the FI sector this implies collecting data on the number of jobs at the FI level and estimating the level of the indirect employment created at sub-client level.
  2. The FI sector formulated a strategy (in 2017) in which it applied a focus on SDG8 by *predominantly targeting FIs in LICs and LMICs and those targeting MSMEs.*
- **SMEs contribute significantly to development impacts and face a financing challenge.** FI's focus on (M)SMEs is appropriate from the perspective of SDG8. SMEs are found to play a very important role in the development of economies in developing countries (e.g. World Bank). Often they represent the vast majority of businesses and employ a large share of workers in these economies. According to WorldBank estimates, they are responsible for 7/10 formally created new jobs in developing economies. Next to their development impact potential, SMEs face a financing challenge. Due to their smaller balance sheets and track records, funding SMEs is riskier than larger companies (see OECD). Banks in developing countries might thus not prioritise lending to this segment as loan sizes are also smaller. An ongoing FMO-evaluation on access to finance confirms this picture in a fragile state: DFI and donor funding prioritize funding for vulnerable groups and MSMEs, while commercial banks target the larger corporates.
- **Indeed, the FMO FI sector supported a significant number of jobs through its clients** across the evaluation years, ranging between 211,000 and 353,000 per year that can be attributed to FMO. In 2019, 40% of FMO's total jobs supported originated from the FI sector, **an above-average share across the three strategic sectors**.
- **A large share of FI clients confirm that FMO has helped them to better serve MSME customers** (data next slide):
  - Clients rated FMO's impact on increasing investments for MSMEs at **7.3/10**. Less than 15% of clients rated the impact as lower than 5, which may not even suggest a dissatisfaction with FMO's impact on MSMEs as these clients might not even target MSMEs. It is noteworthy that debt clients rate FMO's impact on MSME finance higher than equity clients.

DEVELOPMENT IMPACT | SDG8

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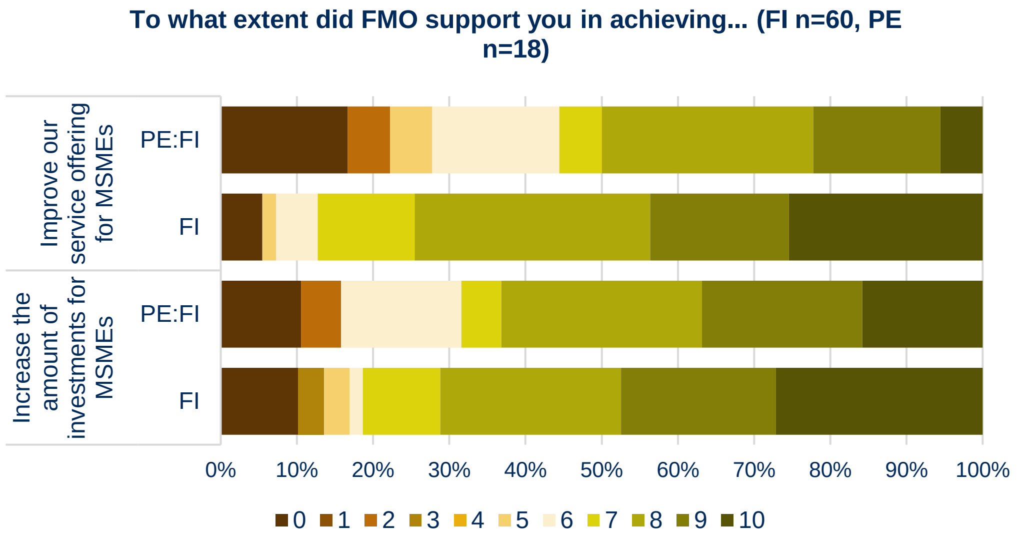

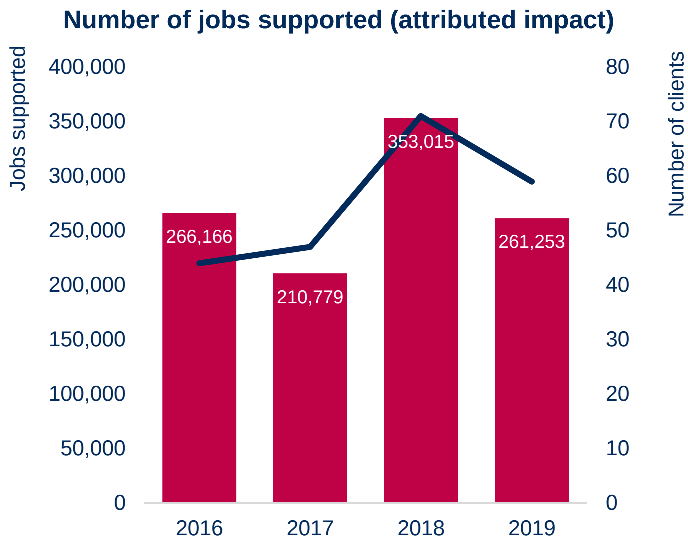

   - **FMO also helped them improve their service offering towards MSMEs**. They rated FMO's impact on improving their service offering to MSMEs to be an 8.0/10 for FMO-debt clients and 6.1/10 for equity clients. A larger number of equity clients rated the impact as '0', which could also be given in case the bank simply does not have an SME focus, but also a larger number of equity clients gave a 6/10.
   - Overall, therefore, FMO's impact on SDG8 via the MSME angle appears smaller for equity than for debt clients.
- It is unclear though how this impact is split between SMEs and micro-enterprises. Both SMEs and micro-enterprises stimulate local economic development, but while a focus on micro-enterprises is impactful particularly from an SDG10 lens, a focus on SMEs is particularly impactful from an SDG8 perspective due to the larger number of jobs supported.
- **Specifically for SMEs, FMO's impact appears (even) more positive** – FMO's ~75 active FI clients (see graph on next slide) rate FMO's impact on increasing finance for SMEs by **8.2/10** and FMO's impact on improving their service offering to SMEs by **7.6/10,** despite a number of PE:FI clients that did not experience any impact of FMO on their service offering for SMEs. **These numbers confirm that FMO's strategy of providing finance to SME-oriented banks helps its clients reach this important group of businesses in developing countries.**

DEVELOPMENT IMPACT | SDG8

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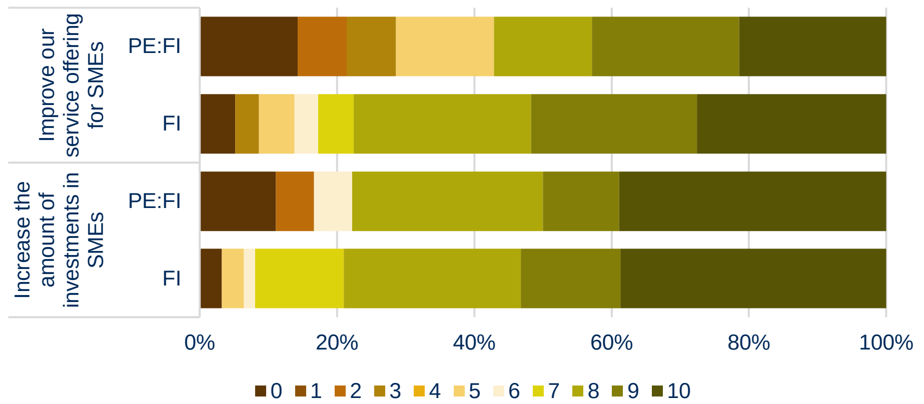
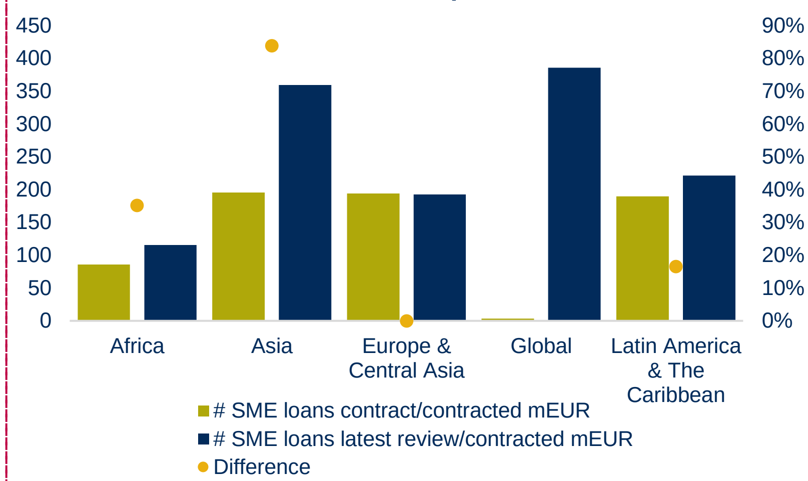


To what extent did FMO support you in achieving... (FI n=60, PE n=18)



Growth in no. of SME loans per EURm contracted

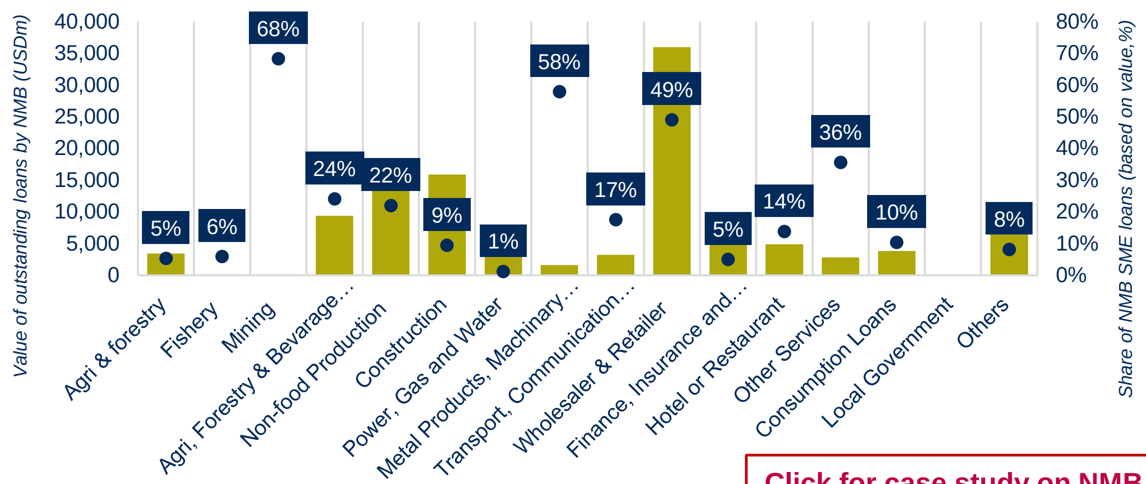
- **Thanks to its strategy, FMO contributed to significant growth of FI clients' SME loan portfolio.** Based on FMO internal data, FMO contributed to the growth of the SME portfolio of its customers between 2014 and 2019:
  - On average, reporting clients at contracting had an average number of 4,800 SME loans and grew this portfolio on average by 35% to 6,477 SME loans in the evaluation period.
  - Corrected for the number of years the client is a relation, the number of SME loans grew on average by 13% p/year.
  - The growth in the number of SME loans is particularly driven by investments in the microfinance sector, where FMO clients grew their SME portfolio (next to their possible MSME portfolio) relative to the investment it made by 173% over the reporting period. Thanks to its large share of investments in microfinance clients, Asia has also been the region where the growth in the number of SME loans provided was highest.
- **The case study on NMB Bank in Nepal illustrates** how FMO can and has also helped a client transform its operations from a corporate bank to a universal bank that also offers SME products. The case however also illustrates that SMEs may not always create large knock-on effects to local economic development (see annex and next slide). It illustrates well that **SDG8 is about economic development and quality jobs and thus goes beyond (M)SMEs**

FMO Entrepreneurial Development Bank

Case study: NMB Bank's transition to an SME-oriented portfolio

NMB BANK एनएमबि बैंक

- NMB Bank Nepal started as a corporate bank. By 2013, Nepal had transferred to a federal structure, which implied the creation of 750+ local governments. By then, NMB had also grown more mature. An internal strategic review showed that their banking had to transition to local level, in line with the country's policy.
- NMB had to improve their banking on SMEs. FMO has actively helped NMB in that journey since 2016, amongst others by providing CD for funding an SME consultant to help develop the SME product from various perspectives, for example process wise: Being focused on corporates, the processes were inefficient and heavy. The project helped loan application times down from 22 to 15 days, and 1-day approval loans from 0% to 42%. The focus on the SME programme and such improvements helped NMB grow its SME portfolio from 16bn NPR in 2017, to 21bn in 2018 and 29bn in 2019. This average annual growth (of +/-40%) has been twice as fast as industry average.
- The majority of the NMB portfolio is now in the 'wholesale & retail' segment (60% of all SME loan volume). These are typically small shops that import goods from abroad and sell them. These businesses thus do not support longer supply or value chains in the domestic economy very much, aggravating the country's strong current account imbalance (fueled by a large amount of remittances from Nepalese abroad).
- NMB wants to support SMEs in 'productive sectors' of the economy, such as agri and non-food production, but admits it is not easy with few clients in the 'formal' sector. They estimate that ~50% of SMEs in the country are un-registered.



Click for case study on NMB

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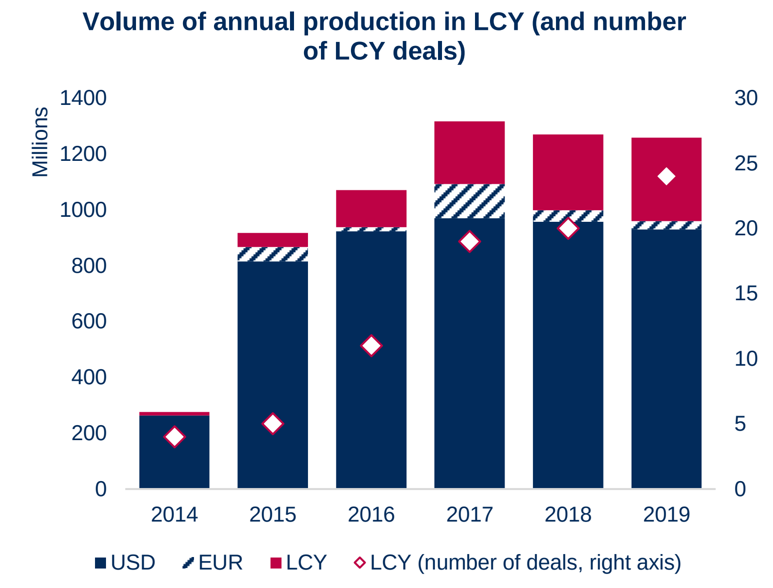
(M)SMEs are a valid enabler of SDG8 impact and additional impact is created through LCY and guarantees

- **Only focusing on (M)SME financing cannot be the end goal on SDG8, but still MSMEs are a valid focus.** The contribution of (M)SMEs to economic growth and quality job creation can differ strongly by sector and/or individual company performance. Sustainable economic growth is particularly driven through improvements in productivity of firms, whether large or small, and quality jobs can be provided by any type of firm. Nevertheless they are a valid enabler of wider impacts on SDG8 due to their job creation potential and potentially high productivity improvements (as small firms become more successful). Moreover, the higher risk profile fits FMO's additionality purpose.
- Additionally, **the 2017-FI strategy aims to create additional impact on SDG8 via two particular products:**

1. **Portfolio Guarantees** – which help clients experiment themselves with financing higher risk clients, which could indeed help kick-start growth in segments of the market that would otherwise be deprived of finance. With two realized deals in 2018 and 2019 (in Jordan and Ethiopia), it is too soon to draw conclusions though.
2. **Offering more LCY products** – which particularly help support growth and jobs in sectors that depend on domestic revenues and do not operate on international markets. The product is therefore complementing the impact made with USD-denominated loans in developing countries. Both peers and FMO staff confirm the high demand for local currency financing. FMO has offered LCY finance directly as well as hedged in 'synthetic' form. LCY volume has indeed grown over time from 4 deals in 2014 to 24 deals in 2019, but are still concentrated in few currencies (34% in Indian Rupee, 14% in Georgian Lari & 13% in Turkish Lira). IOs confirm that there is enough demand also in other currencies to grow the portfolio still further.



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Global challenges to SDG8 remain large, FI's contribution to them could be further clarified

- According to the latest **SDG Report,** various challenges to sustainable economic growth and jobs remain, with wide disparities in labour productivity among regions and informal business and jobs remain a big hurdle to Decent jobs. The ensuing COVID-19 related economic crisis places an urgent need to focus on achieving growth and jobs.
- FMO's FI sector is in a prime position to contribute to these challenges and has shown to contribute to progress on SDG8 in a number of ways. By indirectly supporting the growth of numerous business and creating jobs, **SDG8 provides a large share of the overall development impact narrative of FMO's FI sector.**
- Among FMO's core SDGs, **the measurement and steering framework for SDG8 is least well developed, though:**
  - The latest template investment documentation (FPs) do specify indicators for SDG8, but only one of them is specific for the FI sector (ie the share of loans to (M)SMEs). Providing information on the degree of MSME orientation of banks is helpful and aligned with the FI strategy focus on MSMEs, but it only covers a part of the SDG8 impact nor does it reflect information about the ultimate goal of SDG8 on economic growth & decent jobs
  - The number of direct jobs created is reported and communicated both in investment stage and ex-post, but in the case of an FI client the number of jobs indirectly supported is more significant. These are only reported ex-post and cannot be used for steering purposes.
- While the inherent focus of the sector on MSME banks ensures a certain significant impact on SDG8 as also found in this evaluation, a better understanding of the extent to which (i) FI deals contribute to the end goal of economic growth and jobs through the client portfolio, and (ii) FI deals also contribute to SDG8 other than through MSMEs or direct jobs would facilitate better impact-oriented decision making and results monitoring/tracking.

DEVELOPMENT IMPACTS SDG8 | SUMMARY

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SDG8

8 DECENT WORK AND ECONOMIC GROWTH

- **FMO helped local FIs grow their (M)SME portfolio** – The FI sector has an embedded focus on targeting MSME-oriented FIs. MSMEs contribute significantly to creating SDG8 development impact based on their growth and job generation potential. Indeed, the FI sector contributed 40% of FMO's total jobs supported in 2019, an above average share across FMO's strategic sectors. The FI sector contributed to SDG8 by helping clients increase their SME loans by 35% between 2014 and 2019, or on average by 13% per year. FI clients also rated FMO's impact on increasing finance to SMEs with an 8.2/10.
- **The case study on NMB Bank** illustrates that FMO can make a significant contribution in improving the SME product offering of a bank through CD and board membership, but that financing SMEs is not a guarantee for SDG 8 development impact (a means to an end).
- Moreover, **FMO helped FIs fuel local economic development through LCY and portfolio guarantees**– The demand for LCY financing in developing countries is large as many companies do not earn foreign currency on international markets. FMO grew its LCY portfolio from 4 deals/year in 2014 to 24 in 2019, particularly in India, Georgia and Turkey. FMO thereby meets an important need for economic development. It also piloted portfolio guarantees, which will help local FIs do more risky deals and thus stimulate economic growth in areas that may not otherwise have been supported easily. Finally, FMO's FI sector contributed to SDG8 through its indirect impact on 'pulling' businesses into the formal sector, which remains a barrier to further economy development in many countries.
- **Existing impact indicators on SDG8 do not comprehensively capture the impact of the FI sector on SDG8. Additional instructions and/or indicators on SDG8 in the impact section of FPs could help strengthen the narrative for FI deals.** Currently, 'only' supported jobs, number and volume of (M)SME loans are recorded in deal documentation. This is not a comprehensive coverage on how impact on SDG8 is created by the FI sector. Efforts to capture Decent Work impact better are underway and could be complemented by additional indicators or suggestions to capture relevant aspects such as (the impact of) LCY financing, portfolio guarantees and access to finance impacts. This would aid decision making and towards higher impact deals.

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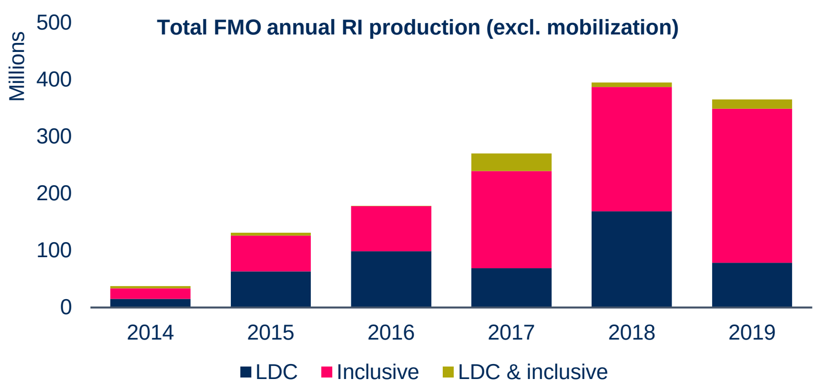
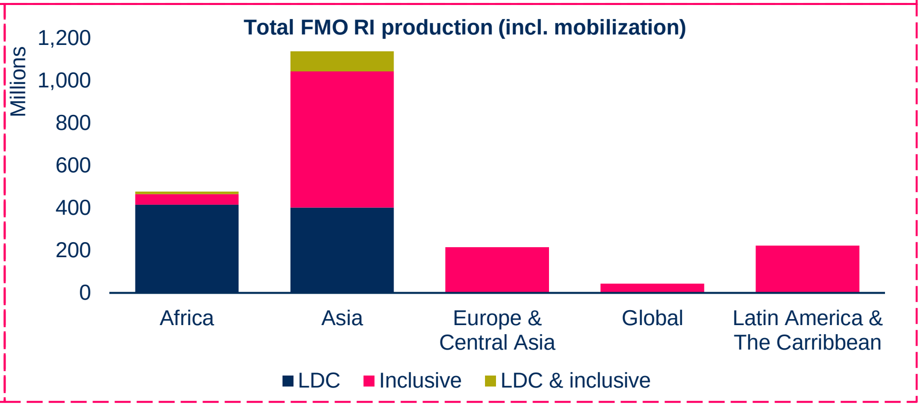
The FI sector made a strong and growing contribution to addressing inequalities

10 REDUCED INEQUALITIES

- **FMO steers the impact of its investments towards SDG10 by means of the Reducing Inequalities label,** which certifies investments as contributing to SDG10 when its done either (i) in an LDC or (ii) based on a ‘checklist’ of eligible economic activities geared towards vulnerable groups, such as women, youth, agricultural SMEs etc. In this way, by capturing both within country and between country aspects, the analysis of the FI sector’s results in relation to the RI label is a good way of understanding its impact on SDG10.
- **According to FMO’s impact experts, the label also suits the FI sector particularly well** since its products can be earmarked towards the activities mentioned in the label, making the application process clear and transparent.
- Well aligned with its business activities, the sector formulated an ambitious target in its 2017 strategy to grow RI deals from 14 in 2016 to 26 by 2021 (and from EUR 111m in 2016 to EUR 290m in 2021). **As shown, this target has already been met with EUR389m (and 42 contracts) in 2018 and EUR365m (and 37 contracts) in 2019.**
- **RI labelled deals show a very similar risk profile as non-RI labelled deals, yet they are on average smaller** (54% of RI deals are smaller than 15m, compared to 32% for non-RI labelled) (see graphs in annex)
- **The FI-sector’s contribution to SDG10 has mainly been driven by inclusiveness investments** and thus contributed strongly to ‘*within inequality’* in recent years. Most of these inclusiveness deals were arranged in Asia and ECA, only to a small extent in Africa, where the sector mainly contributed to *between inequality* by investing in LDCs.





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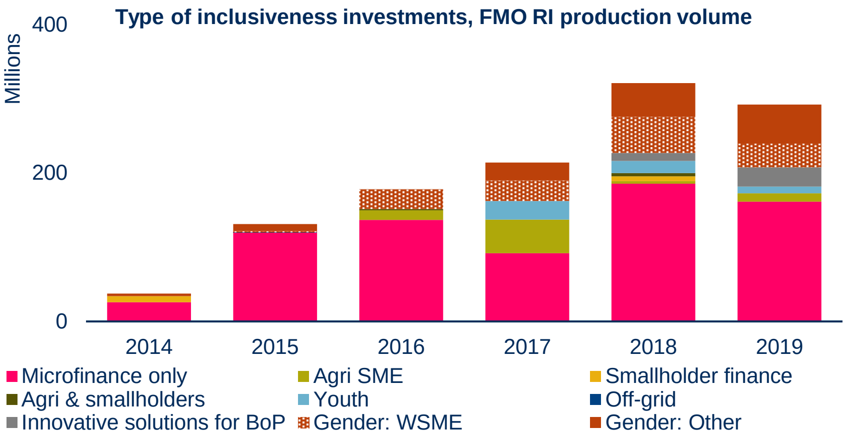
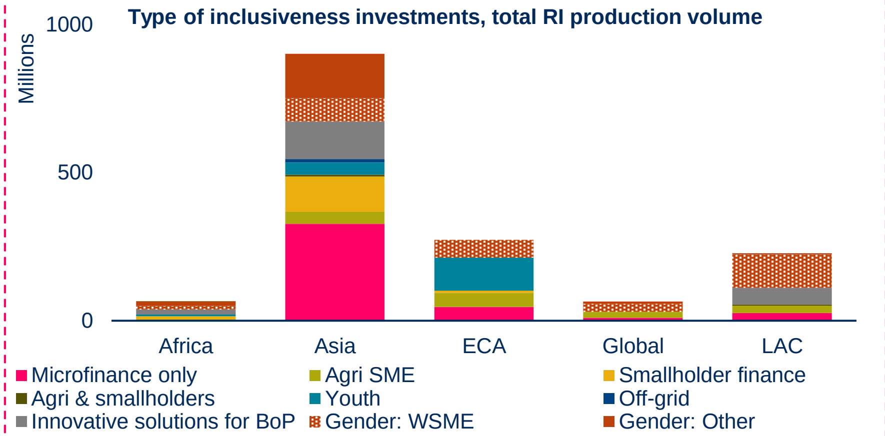
The FI sector is not only growing its impact on SDG10, it is diversifying its impact as well

10 REDUCED INEQUALITIES

- **The graph below shows that the sector has also diversified the *type of* inclusiveness impacts created strongly since 2015**. Microfinance related deals continue to play an important role for inclusiveness deals throughout the evaluation period, but its relative importance declined over time (from 90% of total FMO inclusiveness finance in 2015 to 60% in 2019). Since 2017 other type of inclusiveness investments grew fast. In particular, **gender finance** grew strongly with 18% annual growth since 2017: EUR 11m FMO volume in 2015 to EUR 85m in 2019 (see next slide). The Agri SME impact was particularly created in 2017, due to a single large deal in Turkey. The category 'innovative solutions for the BoP' was particularly used in 2018 and 2019 covering a variety of transactions (from Fintech, to guarantees for financing for migrants to more general lines to universal banks with an MSME lending focus)
- **Asia is the regional driver of inclusiveness investments during the evaluation period –** as concluded on the previous slide, most inclusiveness deals have been arranged in Asia. In particular a large share of all microfinance deals were sourced in the region, but also most of the 'smallholder finance' were arranged in Asia. ECA stands out for its share of 'Youth' finance and the LAC region contributes a significant share of WSME lines. As concluded in the previous slide also, the volume of inclusiveness finance in Africa is relatively low.





Note: There a few instances of double counting left in these graphs as a few deals are labelled with more than one subcategory.

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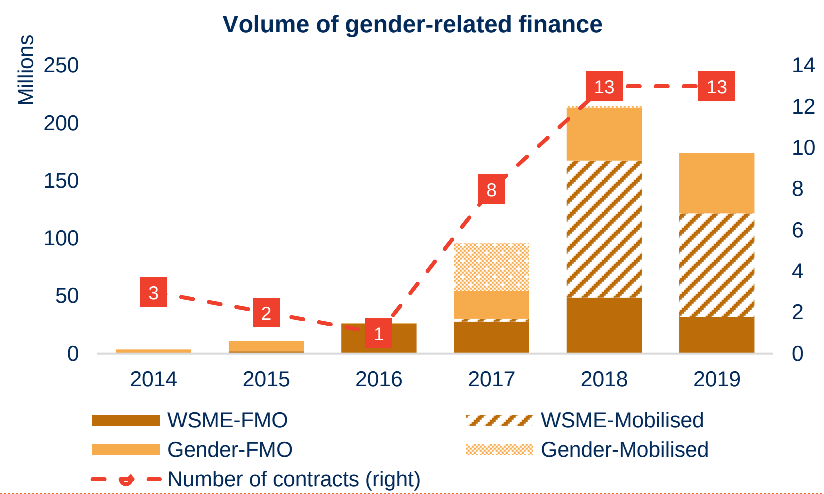
Additional SDG10 FI initiatives: Fintech and Gender

5 GENDER EQUALITY

- **The FI department also developed specific Gender and Fintech strategies to increase impact on SDG10** – The 2017-FI strategy specified dedicated staff time and clear targets and actions for achieving progress in both impact areas. The strategy argued FinTech (FT) "*to be a key driver for financial inclusion by enabling the closing of financing gaps"* for underserved groups. Banking on women (gender) directly contributes to SDG5 (closely related to SDG10).
- **The prioritization of gender finance in the 2017-Strategy contributed to its rapid growth.** A target for woman-owned SME loans had been set in 2017 at 20 deals by 2021 (from one in 2016). In 2018 and 2019, the sector had already realized 13 WSME deals annually. There is thus good progress to meet that target. However, the growth in gender related deals halted in 2019 and the total volume of gender finance dropped in 2019 again. A lack of dedicated gender deal capacity in 2019 is likely to have caused the slow-down in deal flow and is planned to be addressed.
- **An ongoing FMO-evaluation confirms the positive development impact potential of gender finance** – the growth in gender finance is relevant and impactful, because gender lens investing in FI is found to deliver significant positive social and economic development results on end-beneficiaries, as well as positive business results for FI clients (more info in the case study on next slide).
- **Progress on the FinTech strategy hard to track –** FMO's portfolio and impact systems do not include easy identifiers for FinTech deals. FT deal teams do not consistently apply for a (specific category) of the RI label. Thus no separate impact analysis for FT deals could easily be made. It is however important to establish whether the assumption that FT makes finance cheaper and more accessible to underserved market segments to establish its true contribution to SDG10, and continue monitoring this. Indicators for FT deals in FMO's systems are therefore recommended.



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Case study: Development impact of WSME line to Unibank

- **Unibank is a midsized universal bank in Armenia,** which focuses on MSME and retail customers. With ~800 staff the bank operates the 4th largest network in the country. Originally Unibank started as a retail bank with additional focus on large corporates since 2012. The retail and consumer finance activities have been developed successfully with a leading position in the market behind number 1 Inecobank.
- **FMO supported Unibank with a $10 million gender line**, which intended to support their gender strategy. When negotiations with Unibank started, they had not done any analysis on the female entrepreneurs in their portfolio and no specific gender strategy.
- **The loan has opened Unibank's eyes to the potential of female entrepreneurs.** They have been able to grow their business for female entrepreneurs and have also realized that female entrepreneurs are actually 'better' clients. The success rate for female entrepreneurs is higher than with male entrepreneurs. Women have a high level of education, are more risk avoidant and make more conscious decisions. NPLs for female entrepreneurs are also much lower than for male entrepreneurs and they are more punctual in making repayments.
- Unibank currently does not offer specific products for female entrepreneurs and the conditions of the loan are the same. A difference is however visible in the support which is provided to women entrepreneurs. **Unibank provides more financial consulting / coaching to female entrepreneurs (through their loan officers).** They also offer round table sessions to their female entrepreneurs for them to share experience and to also test new products. Finally, Unibank links clients to each other, to learn from each other and to do business together.
- **Unibank is a good example of where FMO has really been able to steer a client into the direction of an underserved target group.** By doing so the business case of investing in women became apparent and our clients is planning on continuing to serve female entrepreneurs in the long run, even if FMO would no longer provide a loan.

To the full case study on Unibank

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Global challenges on SDG10 are large. FI should build on its strong results to address these challenges further

- **The global progress towards SDG10 is poor according to the latest UN SDG report.** In particular, *rural-urban inequality* is increasing: 87% of people without electricity live in rural areas, extreme poverty in rural areas more than 3x higher than in urban areas (17% vs 5.3%). *Gender equality* is also still large witnessed by the gender pay gap (12% average globally) and education gaps (30% of young women not in training or school vs 10% of young men, differences in certain developing regions much stronger). These figures show that there is still much to be done in this area. The FI sector could grow its strong contribution still further by for example:
  - **Increasing inclusiveness deals in Africa and LAC and focusing on rural and agri financing:** Rural-urban inequalities and poverty challenges are particularly large in Africa and South Asia according to the UN. Yet in Africa the number of FMO inclusiveness deals was lowest. Gender, agri and smallholder finance lines did grow in Asia in 2018 and 2019. Such lines seem particularly tailored to the rural-urban, poverty and gender challenges that exist in these regions. The impact that FMO makes on these challenges in Africa should be investigated through and beyond the RI-label, and followed up if deemed insufficient. To a lesser extent this also holds for LAC, where FMO's number of inclusiveness deals have also not grown that strongly.
  - **Explicit consideration of risks to development impacts throughout the project cycle:** Earmarked finance for vulnerable groups (like youth, gender, microfinance) remains a means to an end: improving the lives of those groups. But banking on those groups also comes with risks, such as overindebteness. To continue to safeguard positive development impacts, an in-depth understanding of the risks to end-beneficiaries of the earmarked products should continue to exist and strengthened where possible. FMO currently actively manages overindebteness through its CPP framework and conducts evaluations on end-beneficiary impact. Information from the CPP analyses as well as information on risks to development impacts could however be more explicitly integrated into the impact narrative of FPs (where only positive impacts are stressed) and continue to be monitored in CCRs alongside impact information. The evaluation framework around earmarked finance products could also be made more systematic by adding a planning cycle of evaluations around the risks and impacts of earmarked finance. The additional information from evaluations on impacts and risks could also benefit business development for new deals.

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SDG10

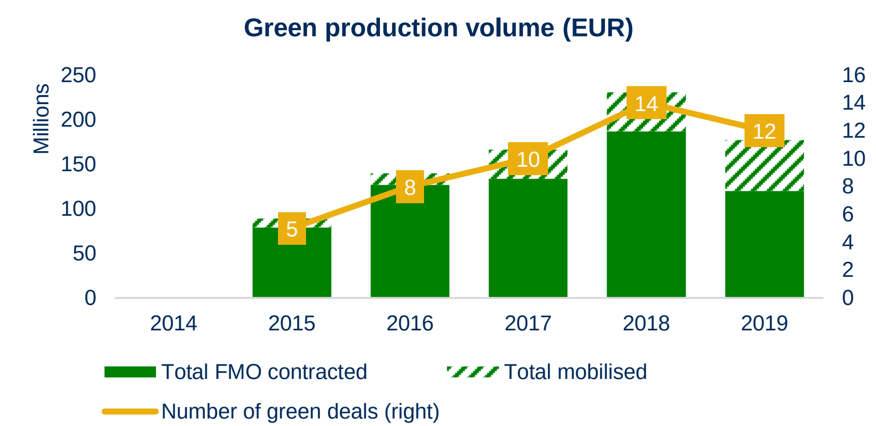
10 REDUCED INEQUALITIES

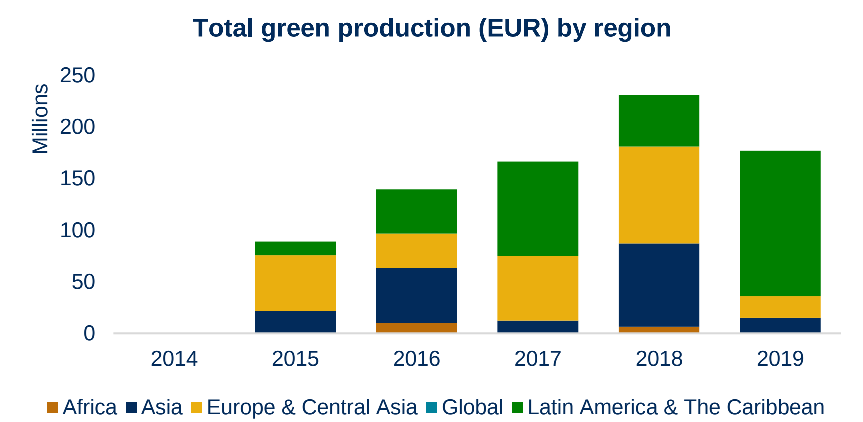
- **The FI sector made a strong and growing contribution to addressing inequalities –** The annual FMO production of Reduced Inequalities (RI) investments more than doubled from 2015 to 2019: **from 131m in 2015 to 365m in 2019**. The sector thereby exceeded its own growth targets set in its 2017 strategy of reaching EUR290m per year by 2021. The sector particularly grew its contribution to addressing *within country* inequalities (inclusiveness deals, ~2/3 of total deal value between 2014-2019), more than through *between country* inequalities (LDC deals, ~1/3 of total). Most of these inclusiveness deals were arranged in Asia and ECA. Africa saw little inclusiveness (non-LDC related) deals.
- **The FI sector is also diversifying its impact and reaching more and different vulnerable groups –** in particular *gender finance* grew strongly, from EUR 11m in 2015 to 85m in 2019. Microfinance remained an important pillar. Clients rated FMO's impact on increasing access to finance to MSMEs with a 7.3/10. The positive impact of micro- and gender-finance deals were confirmed by current evaluations for the government funds as well as case studies done for this evaluation. The sector also made FinTech a key pillar of its overall 2017- and SDG10 Strategy, but due to a lack of identifiers for FinTech deals in FMO's systems, its contribution and impact could not specifically be analyzed.
- **Increased information about the impact on end-beneficiaries is needed to ensure a continued positive development impact and could help further business development** – Ongoing evaluations indicate that the development impacts on end-beneficiaries is positive. But banking on vulnerable groups is not without risks. For example overindebtness could create negative development impacts. These are monitored already, but there could be more explicit consideration of potential risks throughout the project cycle by moving existing information about risks (e.g. on CPPs) into the impact narrative in deal and monitoring documentation.
- **Global challenges in the SDG10 space remain significant, but not all inequalities and regions are equally served by FMO thus far** – in particular rural-urban inequality is increasing and gender equality, despite progress, is still large in many of FMO's focus regions. There is thus a need to do more especially in agri and smallholder and in places where FMO's current RI deals have not developed as strongly (Africa and LAC in particular).

The FI sector made a growing contribution to global climate mitigation, but less than projected

13 CLIMATE ACTION

- **FMO steers its contribution to SDG13 at investment level in particular with the Green Label**, which relies on a list of eligible green investments (Master Green List) to assign all or a portion of an investment as 'green'. The list is not (yet) very complete with respect to eligible projects that contribute to a *climate adaptation* perspective, so an analysis of the FI sector's performance from the perspective of the green label only provides indications about its contribution to the mitigation aspect of climate change (and SDG13).
- **The FI sector has grown its number of annual deals receiving a green label from 5 in 2015 to 12 in 2019.** The volume of FMO green production volume almost doubled from EUR 80m in 2015 to EUR 120m in 2019 (+11% annually). The portfolio grew fast until 2018, but dropped again in 2019, both in number of deals and total volume.
- **Despite the growing portfolio, the progress falls short of the targets set by the sector in its 2017-Strategy**, which aimed for an increase of the green production volume from EUR 145m in 2016 (32% of FMO-A production) to EUR 370m by 2021 (40% of FMO-A production). With 120m annual production in 2019, this progress is likely not sufficient. Most of the green production originated in the LAC and ECA (in 2017 & 2018). Turkey closed for FI investments in 2019, which explains the drop in ECA volume, but was more than compensated by production in LAC. Regardless, green volumes in Asia and Africa are small (despite their important contribution to overall FI production).





DEVELOPMENT IMPACT | SDG13

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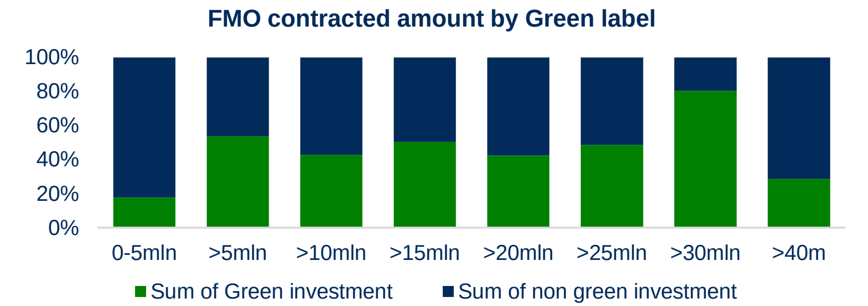
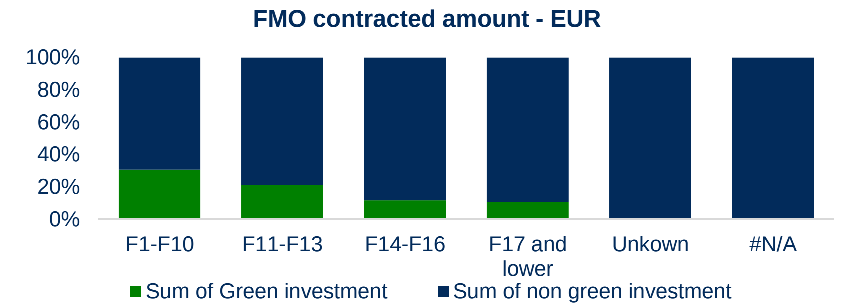
Ultimate impact of green deals depend on type of activities made eligible

13 CLIMATE ACTION

- **Production volumes slow due to increasing competition in the market -** Data shows that green deals are on average larger and less risky than non-green FMO deals, attracting above average interest from commercial parties. IOs confirm they experience the market as highly competitive (and sometimes unfair due to high share of concessional finance), mostly in the field of renewable energy financing. Indeed, average pricing for green deals has also dropped 2x as fast for green deals (-34%) than the average FMO-A price drop in the same period (-17%).
- **Most of FI's green deals between 2015 and 2019 were closed with universal banks (60%) and other FI's (25%)** by earmarking the investments in line with FMO's Master Green List. A significant number of green deals (13%) were also made with leasing companies, often financing fleet replacements with more fuel-efficient (at least 20%) vehicles. It is however not possible to see from FMO's ImpactCard what projects were financed under all green lines.
- **The precise impact of FMO's green lines depend on supported activities -** Yes Bank illustrates that significant GHG emission avoidance can be achieved by earmarking for solar and wind projects. The case study on Banpro (click) revealed that it is more difficult to establish the impact of green lines that allow also other type of green investments (such as investments in sustainable agriculture, where CO_2 mitigation impacts were not tracked).
- **FMO can also have a more direct impact on SDG13 by developing a green market -** FMO helped Banpro to develop the green lines and facilitated funding from other development institutions. Thus FMO helped to develop a larger green line market in Nicaragua. This was less the case for Yes Bank in India, where this market already existed.





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The impact of FMO's first investment in a locally issued Green Bond

YES BANK

- **In 2017, FMO invested USD 50m equivalent an INR-denominated Green Bond issued by Yes Bank**. At the end of 2017, Yes Bank committed as the first and only Indian bank to support the Taskforce on Climate-related Financial Disclosures (TCFD) and the Green Bond Principles, both of which place transparent reporting about the climate impact of investments at their core. Based on the detailed Green Bond Impact reports that Yes Bank develops under these frameworks, the precise impact of FMO's Green Bond proceeds are known. Based on these reports we know that:
  - Until dec-2018, FMO's bond proceeds were used to (co-) finance 9 unique renewable energy projects in India, of which 9 (ground- and rooftop based) PV projects and 1 wind project, amounting to a total 520 MW of electricity. However some of those projects were later refinanced with other than FMO funds. There were three solar projects and 1 wind project financed consistently with the FMO bond proceeds since FMO investment.
  - India relies for a very large share of its electricity generation on coal (~75% in 2017), which produces 1t CO2 per MWh in India in 2017 (the highest emission intensity of conventional fuels after lignite). Adding renewable energy power on the Indian grid (with do not emit GHGs) therefore results in a high volume of CO2 emissions avoided.
  - The 4 RE projects consistently sponsored by FMO's Green Bond jointly yielded 693 kt CO2 avoided as at Dec-18. Compared with the 2,162 MT CO2 emissions in India in 2018, it is a small share (0.03%), but due to the high emission intensity in India, the individual project impact is considered high.

	Solar	Wind
Projects funded	**3** (9)	**1**
Electricity Generation capacity (MW)	**490**	**30**
GHG emissions avoided (ktCO_2-eq/yr)	**624**	**69**

To the full case study on Yes Bank in the Annex

Sources: IEA India statics overview & Yes Bank Green Bond Impact Reports

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Increasing competition and decreasing additionality demand rethinking of product approach

13 CLIMATE ACTION

- There is mounting evidence, including in the UN SDG Status Report of 2019 that the world is not on the right trajectory to meet a global maximum 1.5 degree warming scenario by the end of the century. This also makes action in the field of climate adaptation increasingly important. Thus solutions should be developed in order to remain active in the market, while safeguarding our additionality position and expanding the scope of services. Opportunities include:
  - **Increasing the share of green finance to more risky countries.** Currently, green deals are done for 90% in UMIC (35%) and LMIC (55%) with virtually no green deals in LDC/LICs. Most of FMO's green deals have so far been done in LAC and ECA, whereas Africa and Asia are the growth regions with also a large share of LDCs. These countries will also bear the highest costs of climate change, so not only climate mitigation deals would have a large impact in these countries, also (or even more so) climate adaptation deals. The challenge in these regions is the availability of bankable projects, though, which reduces the demand for green lines there.
  - **Earmarking for more innovative techniques and climate adaptation.** In crowded markets, FMO's (non-financial) additionality could be maintained by earmarking only ambitious and/or innovative green products. The Yes Bank line is a good example from that perspective, by only allowing solar and wind energy projects. But even more ambitious projects should be supported where possible, such as energy storage and/or mini-grid projects. FMO could also explore to pioneer the field of earmarking for climate adaptation deals, either by extending the Green Label to include more adaptation measures or to develop a separate Adaptation Label, for which demand in developing countries may is high (as mentioned above). Knowledge exchange could DFCD should help.
  - **Further financial green product innovation could also be considered**, such as continue to increase green LCY offering, increasing green bonds and green risk sharing activities offering.
  - **Placing renewed emphasis on CD project/funds deployment in the field of green to support our clients with any of the opportunities above –** and assessing what is a strategic value offering to develop and deploy in an increasingly sophisticated and competitive green market

DEVELOPMENT IMPACTS SDG13 | SUMMARY

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SDG13

- **The FI sector made a growing contribution to SDG13 through the Green Label, but less than targeted –** The sector's Green Labelled portfolio fast from 2015 to 2018, but growth has levelled off in 2019. FMO green production volume also increased from **EUR80m to EUR 120m in 2019**. Yet, despite this growth, the green production targets set in the 2017-FI strategy (of 370m annually by 2021) seem very challenging to meet given this progress.
- **By design, the Green Label ensures a positive development impact of labelled deals to SDG13, but a precise contribution could not be established** - FMO's systems do not systematically report information on what projects are financed by green loans and/or what climate change contribution they made and thus the precise contribution of the overall FI portfolio to SDG13 cannot be assessed at portfolio level. Due to the design of the Green Label, at least a certain improvement can be assumed, but there is no portfolio level data to report on the precise impact.
- **Case study information suggests FMO's contribution to SDG13 through Green Labelled deals varies but can be significant, also based on indirect impact –** Depending on the type of green activities allowed, high climate impacts were found by financing wind and solar energy projects in a country with high fossil fuel electricity generation, but also an unclear (but expected lower) contribution from financing sustainable farming practices. In Nicaragua, FMO also helped to create an additional indirect positive impact of attracting more finance into local green markets.
- **FMO's green FI-products face strong competition and clients rate FMO's impact on their green portfolio to be mediocre.** Green products are typically larger and done with lower risk clients, making them attractive for commercial parties also. In addition, green finance also benefits more often from concessional money, causing pressure on pricing (which halved from 2015-2019). An additional challenge is that existing FI clients rate FMO's impact on increasing their green investments and on improving their green service offering as relatively low. CD in the field of green has declined substantially in recent years, despite high forecasted demand for this CD internally.
- **The global need for increased green finance remains. Opportunities include** pioneering green finance in more risky countries (Africa, Asia, LDCs), where availability of projects (and thus appetite from FI clients) may be lower, but SDG13 development needs and additionality high. Also further stimulating the use of adaptation investments, increasing the volume of green LCY finance, green bonds and green risk sharing facilities should be considered.

THE RESULTS:

ENVIRONMENTAL AND SOCIAL

INTRODUCTION

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- Responsible investing is core to FMO's mission statement. Making sure that FMO's investments meet strict Environmental, Social and Governance (ESG) standards make sure that the projects supported are responsibly and sustainably developed. FMO's ambitions with respect to responsible investment are captured in its Sustainability Policy Universe.
- The FI evaluation also reviews FMO's approach and results with respect to responsible investing through in the FIs. In the FI sector, this implies analysing the results FMO achieved by working with its FI clients on their E&S systems and related support provided via Capacity Development and sector initiatives.
- A detailed introduction to FMO's E&S approach in the FI sector is presented in Annex B. It introduces the way E&S officers work with FI clients and the step-by-step expected results and impacts from that interaction by means of a **Theory of Change.**
- In the following the results from the FI ESG approach between 2014 and 2019 are presented for three levels in the Theory of Change:
  1. **The direct *output* from the work with FI clients (an E&S Action Plan):** The first section reviews the type of actions included in ESAPs, which share is completed and how fast they are completed.
  2. **The outcome of clients implementing their ESAPs:** Secondly, by studying the ESG Performance Tracker results of FI clients, we understand better where clients stand with the implementation of a robust E&S management system
  3. **The (intermediate) impact of trying to implement an E&S risk management system:** Reviewing the effectiveness of FMO's role with FI clients and results at *intermediate impact* level through case study information
- But the next slide first summarises the main findings of the section

E&S RESULTS | SUMMARY

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ESG results

- **New approach developed and monitoring systems improved -** The FI sector implemented an updated E&S approach towards FIs in 2017. The updated approach allows more focus on actual E&S risks FI clients are exposed to. In addition, the ESG Performance Tracker was launched as of Jan-2018. The system helps to assess what level of E&S risk management FI clients have, and thus also the impact of FI clients working with FMO's E&S Action Plans.
- **Relatively lower share of higher E&S risk clients in FMO portfolio** – while the share of FI-A clients has remained fairly stable over time (approx. 10 per year), the volume E&S-B clients has gone down in recent years and is offset by an increase in FI-C clients. As a result, E&S officers are able to focus more on higher-risk clients. For example, they are more involved in E&S B deals than before due to stricter requirements for some E&S B clients. It may also have been a reason that ESAP action items have been ever faster (average time to complete -60% for FI-A and -87% for FI-B in the last five years). The average time that items were overdue, however, increased slightly in the same period.
- **Case study evidence shows that FMO's ESG efforts helped to advance clients risk management –** Significant efforts with NMB Bank Nepal have helped to develop an ESMS 'on paper' from scratch and FMO's push on Yes Bank's existing E&S system forced them to clarify the policy and better engrain it into existing processes. Fidelity Bank actively collaborated to pilot and develop EDFI's harmonized E&S approach for FIs.
- **No progress in E&S risk management could, however, be observed in the ESG-PT** – for all clients with approved and archived trackers, there have been no changes in the 'color' of any of their risk categories in the past two years. At portfolio level, we could thus not find evidence for an impact of the E&S approach with these clients.
- **PT results show that most clients struggle with effective implementation of their E&S systems** – Some 60% of FI-A and B+ clients have red or amber scores on proper E&S DD, establishing external E&S agreements and proper E&S monitoring and follow-up. FMO's E&S experts confirm that the current challenges are with actual implementation, not so much with developing proper systems and E&S templates anymore (which was the case five years ago).
- **As a result FMO's additional support with clients through CD and sector initiatives** can be key to help clients advance with implementation. Better evaluation and target setting for CD projects and sector initiatives could help to increase the effectiveness of these tools for that purpose.

OVERVIEW OF FI PORTFOLIO FROM E&S PERSPECTIVE

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Overall E&S risk appetite has declined in evaluation period: More E&S-C and less E&S-B deals

- **Increasing attention for higher risk clients** - Overall, some 20% of FMO's total contracted amount in the FI sector has been with E&S rated A clients (high risk), some 25% with E&S-C clients (low risk) and 65% with B clients. The share of C clients has grown steadily over the years 2014-2019, while the share of E&S B clients decreased. The share of A clients has remained fairly stable over the years. Since there is no E&S staff involvement for E&S C clients and the number of A clients has remained fairly stable, FMO's E&S-B clients are likely to have received an increasing amount of attention from FMO's E&S experts (assuming a stable number of E&S FTEs). Due to stricter requirements in the new 2017-E&S approach for E&S B clients with IFC PS triggered transactions, this time was also needed.
- **The number of action items agreed with clients in their Environmental and Social Action Plans (ESAPs) increases with the risk profile of the client -** On average, E&S-A clients have some 10 ESAP action items, E&S B clients 6 and E&S C clients (if they have an ESAP at all), only 2. The focus of the ESG work with E&S-A clients is on E&S management and its management system, whereas with B and C clients, also more CPP and CG actions. There was hardly any data on ESAPs for equity deals. Since the alignment of resources between PE-FI and FI, also equity deals will be monitored more systematically in the improving information systems.
- The analysis of the completion of ESAP action items however cannot tell what the actual results of the action items has been on the ground with the client and does not reveal what progress a client has made overall to sound E&S risk management by completing action items. For that purpose, FMO developed the **ESG Performance Tracker (PT).**
- **The PT records the performance of FMO's clients with respect to ESG management.** All FMO's FI-A clients should be (and are) monitored in the system. On top of that, FI ESG officers aim to include all clients they actively manage (also a sub-set of FI-B clients) in the PT. As of March 2020, 10% of E&S-B and C clients were in the system.

E&S RESULTS BASED ON PERFORMANCE TRACKER

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The ESG PT can, but does not show progress yet with FI clients in its two active years

- The Performance Tracker (PT) indicates whether the client manages its E&S risks adequately (green), is making good progress to manage them better (amber) or does not do sufficiently to manage them well (red). ESG managers steer on reducing the number of red items as much as possible, but at the maximum 10% of high priority risks can be red. Currently, there is a proposal for a new version of the PT in an advanced stage, which includes a 5-scale score for example. Since it is not active yet and has not been active in the evaluation period, we use the results from the current version of the PT.

- **An analysis of the results in the ESG Performance Tracker for FI clients reveals**
  - **Four of the 25 clients (16%, 2 FI-A and 2 FI-B) had at least one red risk and two clients managed all their FI-relevant E&S risks adequately.** The average number of red and amber risks per FI-client is 3.5 (which means on average 2.5 risk categories are managed at green).
  - **Most clients struggle with the actual implementation of an E&S management system and its related consequences** of conducting a proper E&S DD, establishing E&S agreements and monitoring & follow-up. **60% of FI clients** were either trying their best to do this (but did not get their yet; amber) or do not show good progress at all in these E&S risk categories.
  - **PT also does provide an indication (yet) on whether the FI-ESG approach has been successful in improving client's ESG risk management practices in these two years.** In the two years the PT has been used now, there were no clients that progressed on any of their red or amber risks.

Therefore, two case studies of an E&S-A and the E&S B+ client (see slide after next) provide more insights into the results the FI-E&S approach have produced on the ground with clients in the longer term. The case study on Fidelity Bank in the annex (click) also provides additional illustration of the results achieved with an E&S A bank in Africa.

IMPACT OF FI-ESG APPROACH FOR TWO E&S-A CLIENTS

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Setting up the first bank ESMS in Nepal

NMB BANK
एनएमबि बैंक

- NMB wants to become an internationally leading bank, fully endorsing the banking-on-values approach, but is also the first bank in Nepal to be concretely developing an ESMS. There is a national framework on E&S developed by IFC with the government, but it is voluntary and the standards it are in many aspects lower than IFC PS.
- **NMB Bank has had to develop all expertise from scratch** FMO, with CDC, are actively helping NMB since 2019:
  1. By encouraging NMB to hire a full time E&S expert;
  2. By co-funding (CD) a consultant (Earth Active) to help NMB develop an ESMS and train them on the job. The project is one of FMO's largest CD projects.
- **Implementation is slower than expected, though -** as the consultants need to guide NMB staff actively and adjust to new local circumstances. There has been little E&S work in Nepal thus far. NMB thus feels like it is requested to perform at international best practice level, even though the reality on the ground is much less ambitious.
- **NMB now almost has its ESMS outlined internally –** the policy will help NMB to comply with a recently adopted national law requiring Environmental Impact Assessments. However, the ambition regarding the implementation of E&S policies across banks in Nepal can still strongly differ.
- In order to avoid that competitive pressures will results in a race to the bottom, FMO has also started a national E&S sector initiative with NMB to help bring the rest of the sector on board as well.

Click

Improving an existing E&S system

YES BANK

- FMO also invested in Yes Bank (India) in 2016. Yes Bank was one of India's largest commercial banks and already had an E&S system in place as well as an Impact reporting department. IFC had invested a similar Green Bond two years prior to FMO and already assessed Yes' E&S system.
- FMO's E&S due diligence identified points of significant improvement in Yes Bank's existing E&S system (developed with IFC). FMO, therefore, asked the Bank to revise its E&S Policy and strengthen its implementation, in order to enable the bank to significantly improve its ESMS framework in line with global best practices.
- Based on FMO's assessment, Yes Bank's ESAP included:
  1. Hiring 1 additional E&S FTE within a year (completed)
  2. Conducting an ESMS review and Implementation Team (completed)
  3. Develop revised ESMS policy and integration into business policy (completed)
  4. Formal Board approval of revised ESMS (completed)
  5. Full roll-out of the revised ESMS for the whole portfolio
- Yes Bank proudly showed its revised ESMS during the case study visit. It was approved by Yes Bank's Board in April 2019. The ESAP with Yes Bank is therefore almost completed. More evidence is needed to demonstrate a full roll-out of the ESMS in Yes Bank's portfolio, but anecdotal project evidence shown was encouraging.
- As a result, FMO successfully encouraged Yes Bank to further improve its E&S system beyond initial policy.

Click

BEYOND CREATING VALUE THROUGH ESAPS

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- **FMO E&S experts note that the global progress in the field of ESG management and sustainability meant that more and more clients have ESG systems and documents in place**, moving the challenge to actual implementation and use of these in a consistent and solid way. At the start of the evaluation period, most clients had to be helped still with templates of documents and frameworks, but currently and going forward, the challenge is rather with actual implementation. The case studies and the PT results of the FI portfolio confirm this trend.
- **Implementation of the E&S systems is mainly hindered by capacity at the client level and the 'fear' of competitive disadvantage and costs of holding local clients to stringent E&S standards when a national framework on this fails -** FMO aims to support clients with these challenges by providing CD funding support when needed as well as gathering all FI actors in a country in a voluntary sector initiative, with the aim of developing joint ambitions and E&S frameworks in order to level the playing field in the sector. An evaluation of two sector initiatives found that more effective target setting would likely have made them more effective, see the box below.
- **These contributions will be key in the future to help client's implement their E&S systems better -** The CD projects studied in the case studies showed that effectiveness of the CD projects could also be further improved by setting more SMART project goals and evaluating results with clients afterwards in order to improve. A part of the CD budget has already been transferred to E&S officers, so that they can manage CD projects in support of their work, which is a good way of increasing the relevance and effectiveness of the CD projects.

Evaluations of the Paraguay and Honduras sector initiatives

The findings showed that sector initiatives can be effective in contributing to a level playing field in the financial sector. In order to make them even more effective, main lessons learned for future sector initiatives are:

- Setting and testing basic principles for selection before choosing the country.
- Designing a clear Theory of Change, set realistic SMART objectives and evaluate results
- Keeping the coordinating committee small increases efficiency and develop a responsible exit plan.
- Mapping stakeholders, engaging with stakeholders and co-designing a process tailored to the national context.
- Engage with international agencies funding institutions responsible for the compliance and monitoring of E&S standards.
- Developing a benchmark tool helps to determine if there is a levelled playing field in the sector.

THE RESULTS:

MOBILIZATION

INTRODUCTION

- Mobilization or catalyzation is a key overall FMO target. Based on FMO's agreement with the Dutch Government, all its investments should be tested for FMO's catalytic role**:** *FMO should seek to maximize the flow of finance to its target groups and countries, especially by mobilizing other (private/commercial) investors and financiers.*
- In line with the definition above, mobilisation amounts presented in this section refer to the volume of finance provided by third parties (both commercial or non-commercial) in FMO-arranged deals. Funding provided by the government funds MASSIF, AEF and/or Building Prospects are not considered mobilisation.
- This section presents FMO's results, challenges and opportunities in the FI sector with respect to this mobilisation role by:

1. Presenting the main trends and results based on portfolio data for all active and closed investments
2. Presenting the view of clients on FMO's mobilization role based on their answers to the client satisfaction survey and case study input
3. And reflecting on the main outcomes based on interview input from FMO staff and public and private sector peers

MOBILIZATION | SUMMARY

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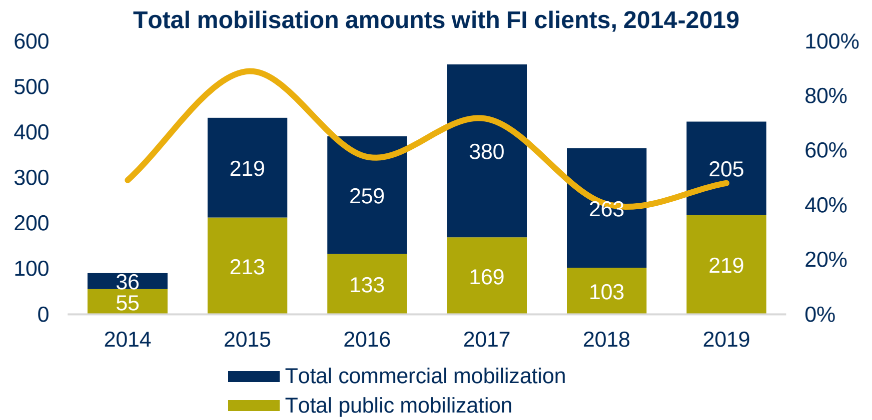
Main findings

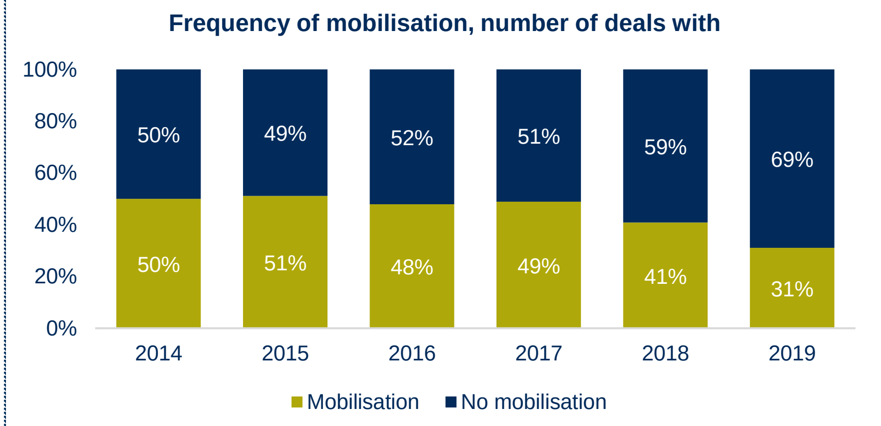
- **Total volume of mobilization has been declining since 2017 –** Mobilization with commercial and public partners grew from EUR91m in 2014 to a peak of EUR550m in 2017, but then dropped to ~370m per year in 2018. It recovered to 424m in 2019. Relative to FMO-A contracted volumes, the share of mobilization has dropped from a peak of 100% in 2015 to 40% in 2018 (and 48% in 2019). The FI sector also mobilizes less often: from once in 2 deals during '15-'17, to once in 3 deals in '19. A large share of this drop is explained by a drop in mobilization with commercial parties other than those managed by the FMO FIM team.
- **Over time, the number of very small [0-5m] and very large [30+m] mobilization amounts have grown –** in the early evaluation years mobilization amounts were more equally spread across various sizes. Over time, the number of small amounts have grown strongly and also the larger tickets. Medium-sized deals are less common now.
- **Most of our clients think that we 'generally' help them mobilize new finance –** 60% of current FI clients think that FMO generally helps them attract more finance through its market signaling function. For 6% of clients FMO had a direct mobilization role (clients said FMO was needed to secure a new deal). Equity clients are generally better able to mobilize from commercial sources after FMO participation than debt clients.
- **Mobilization has become harder in recent years due to increased competition in our markets and FMO's product and service development does not always favour increased mobilisation –** Demand for LCY is growing in our markets, but mobilisation with LCY is (still) very difficult. In addition, the FI sector's declining deal sizes are less attractive for commercial mobilization and the raise of the minimum hold for FMO-A participation amounts lowers the volumes for partners. FMO's shift to Tier 2 banks also lowers mobilization appetite.
- **Opportunities to increase mobilisation amounts in the FI sector remain –** The FI sector understands mobilisation deals very well and existing peers continue to see a strong relationship with FMO in the future. FMO's expertise in impact measurement and management as well as product development (e.g. portfolio guarantees) could for example be leveraged further to develop into competitive strengths more and attract increased interest from potential partners in the market.

HOW MUCH DID WE MOBILIZE?

Total volume of mobilization with FI clients is on declining trend since 2017

- **Overall volumes have dropped** – FMO's mobilisation towards FIs increased from 2014 to 2017, but have dropped significantly towards 2018. Volumes recovered somewhat in 2019. The 2017-FI Strategy formulated a target for mobilisation of EUR 630m per year by 2021 (a 70% increase compared to 2016). In 2019, some 424m was mobilised in FMO-led FI deals (67% of the target). Meeting the target will therefore be challenging (in particular with COVID).
- **Relative contribution have declined** – Overall production volumes have increased, resulting also in a declining relative contribution of mobilisation to total FMO production volumes. The share of total mobilisation with respect to the FMO-A has declined from 89% in 2015 to less than 50%. The mobilisation/FMO-A ratio is expected to further decrease in the future since as per mid-2019, the ExCo has agreed to a minimum hold volume of 10m for FMO-A (up from EUR5m previously), which is likely to reduce mobilisation shares further (more on next slide).
- **Commercial mobilisation stronger than public** – in all years except for 2019, the volume of commercial mobilisation was larger than public (the share of commercial to total mobilisation varying from 46% to 72%). Given FMO's additionality mandate, this is a good and desired result.
- **Frequency of mobilization has reduced** – The data in particular show that the *number of times* that FMO mobilizes has reduced strongly. In 2015, 1 in 2 deals were arranged with partners. In 2019, this reduced to less than 1 in 3 deals.





MOBILIZATION AMOUNTS HAVE CHANGED

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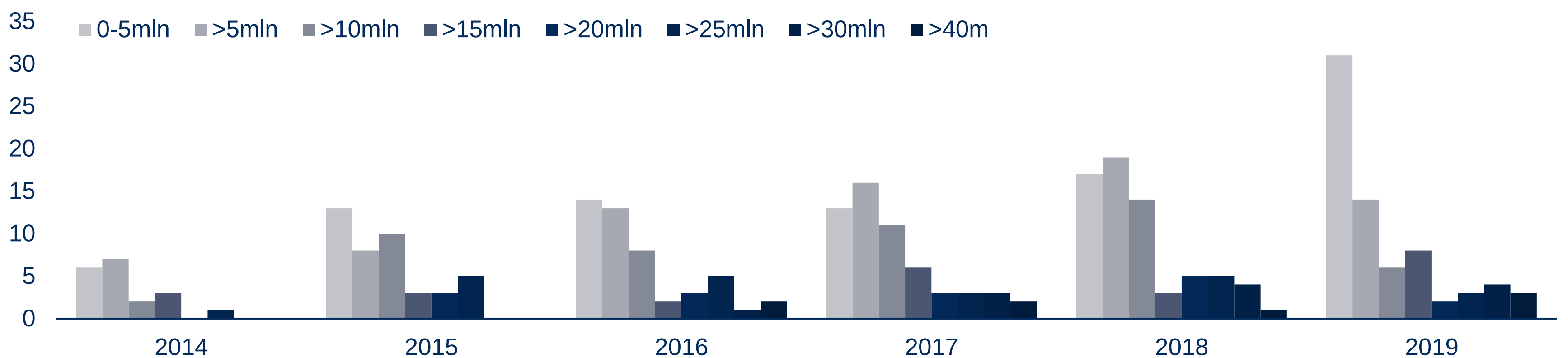
Over time, the number of very small and very large mobilization amounts have grown

- **Size of mobilization participations changed –** More and more often, total mobilization volumes committed per deal was between EUR 0-5m. Initially, also total mobilization volumes of between 5-10m and 10-15m kept increasing, but in 2019 that development halted. Increasingly, when we still mobilize, the total volume mobilized was either very small or very large. Especially 2019 also saw an increase in number of large mobilization volumes per deal of >30 and >40m). The increase in compulsory contribution of FMO-A to 10m per deal as per mid 2019, and an average deal size of 21m in 2019, meant that more mobilization amounts became smaller. If we assume a stable average deal size, this implies that the 'medium sized' mobilization amounts would become increasingly scarce.
- **The average mobilization amount went down –** it peaked in 2015 with 26m and went down (with ups and downs) to 21m in 2019
- **Regional differences exist –** Mobilization declined in particular in Asia (from 238m in 2015 to 51m in 2019). LAC's mobilization amounts are relatively stable over time and quite volatile in Africa and ECA. ECA is strongly affected by individual country limits (opening up of a particular country, e.g. Turkey in 2017 resulted in large mobilization, but its closing also meant almost no mobilization in 2018). Africa's mobilization is volatile, but on an increasing trend.

Value of mobilisation amounts, number of deals



WITH WHOM DID WE MOBILIZE?

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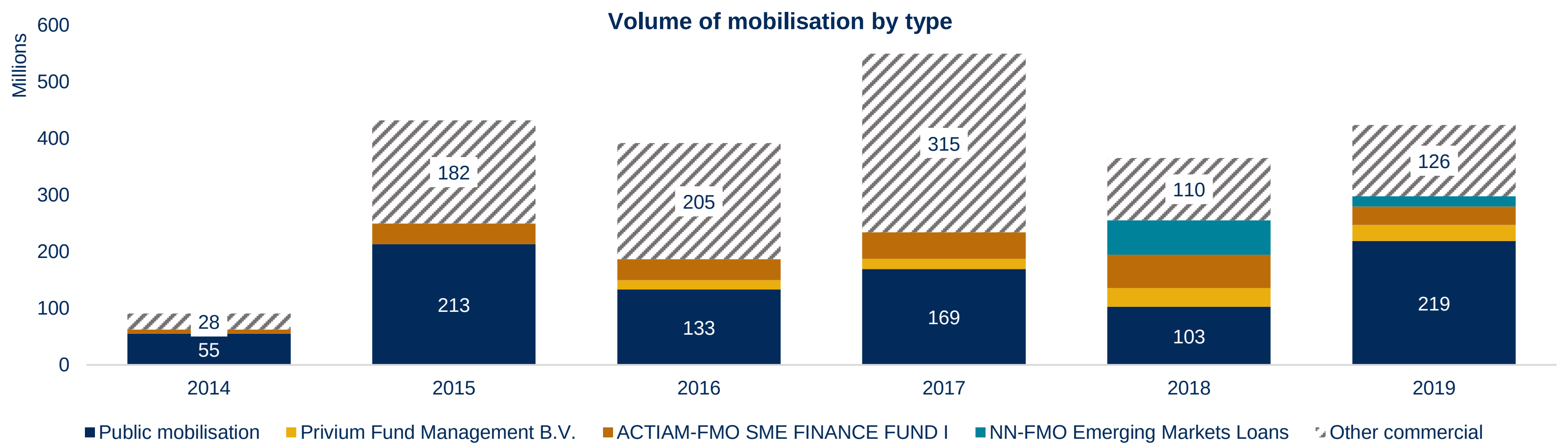
The number of commercial partners FMO mobilizes with is declining

- **The number of partners FMO mobilizes with is declining in in the last two years, importance of FIM funds increasing** - The largest FIM funds shown in the graph contribute an increasing share of total mobilization. In 2014 the share was ‘only’ 8% of total mobilization, but it grew to 19% in 2019 and even 42% in 2018.The growth in 2018 and 2019 of FIM funds, came ‘at the expense of’ mobilized with other commercial partners. This volume initially grew from 42% in 2015 to 57% in 2017 and then dropped to 30% of the total mobilisation volume in 2018 and 2019.
- The increased focus on FIM funds is a part of the answer for this trend. Apart from that, according to the SYN team, there is no other cause explaining this drop. In 2018, a couple of large syndicates did not materialize and 2019 saw a couple of relatively large sub-debt syndicated transactions, which are more suitable for public mobilization. Some investment staff however noted that they think FMO relies a lot on a limited number of mobilization partners and that it is hard to diversify to e.g. commercial banks due to the risk profile of our investments. Naturally, the partners we work with also continue to develop. In the case of commercial partners, this may also mean they are able to increasingly do deals themselves. Diversifying the partner base may therefore help.



DO CLIENTS THINK WE HELP MOBILIZE FUNDS?

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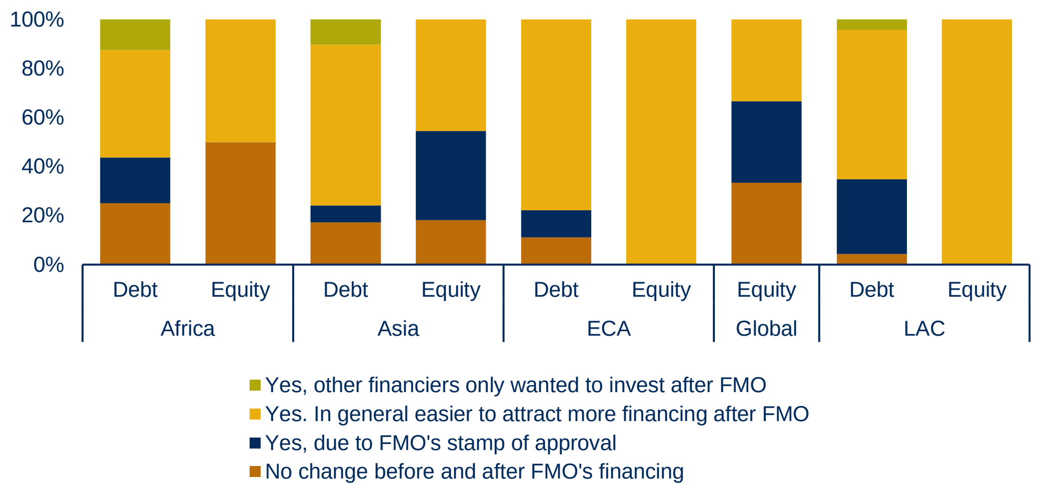
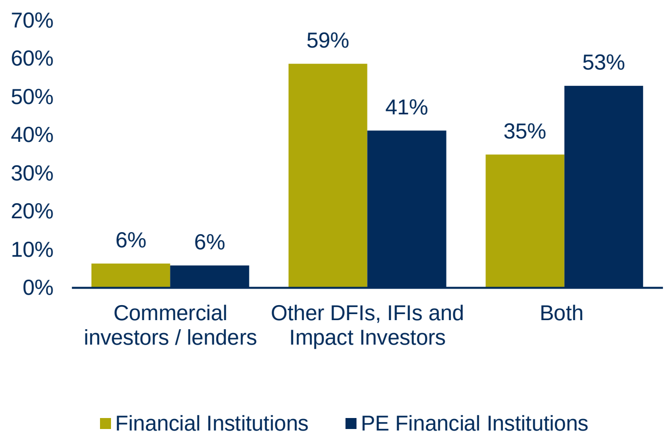
Most of our clients think that we ‘generally’ help them mobilize new finance

- **The majority of clients (60%) thinks that the FMO funding has ‘generally’ helped them to attract additional investments -** This means they do not get the direct feedback that it was because of FMO’s presence that additional finance could be obtained, but that they feel that it helped their visibility and negotiations. In particular equity clients appreciated FMO’s stamp of approval function as key tool that helps to mobilize new funds (18% of total clients). Some 6% of the clients said FMO was “really key” to obtain more finance, otherwise the additional finance would not have been materialized.
- **17% of clients said that FMO made no difference with respect to the impact on obtaining new funding -** This is especially the case in Africa, which could also capture the general difficulty of obtaining access to funding there.
- **Equity deals are more likely to lead to commercial mobilization than debt deals**: 53% of equity clients were able to attract more funding from *both* commercial and public sources vs 35% in the case of debt clients. Conversely, a larger share of debt clients were only able to attract more finance only from public sources.

Did FMOs financing help you attract additional investment? (n=100)



If yes, from what type of financiers?
(# debt=63.#equity=17)



CHALLENGES

Most of the FI and PE staff acknowledge the difficulties in mobilising finance in recent years as competition has increased in our markets. Some partners like ResponsAbility and Symbiotics have more liquidity of their own and less dependent on syndicate deals like with FMO. Other partners also focus on their own dealflow (just like FMO) by raising the minimum hold. In addition the following challenges were mentioned:

1. There are only few prospects large enough to be able to absorb a larger syndicate loan or deal. Moreover, clients have a general preference for large amounts from one lender since it saves time and money.
2. There is a strong market demand for LCY financing (see SDG8), but mobilisation on LCY deals is not possible
3. FMO executes an allocation policy based on first mobilising commercial partners, but for a number of reasons FIM funds have had to decline quite a number of potential mobilisation opportunities in recent years still:
   - **Large number of deals declined or non-eligible.** For example for ELF/NNIP, of the 34 potential loans in 2019, 61% were non-eligible for FIM participation as the amounts were too low (<15m), the deal was in LCY or a too high-risk product (subdebt for example). Another 25% of deals were declined by the FIM funds because the risk/return ratio was unfavourable for the funds.
   - **Country exposures or group exposures more quickly reached in the smaller FIM funds.** In recent years, especially the LAC team requested mobilisation amounts through FIM, but often in countries that could not be accepted anymore in certain FIM funds due to overexposure in these funds on those countries. FIM funds are inherently smaller, which implies that country limits are more quickly reached there.
4. Commercial partners do not automatically value a focus on investments in FIs as they are less sure about what risk they are getting into. It takes proactive negotiations (e.g. in the latest Allianz deal) to increase the allowed share of FI investments (in that case from 220% to 40%).

OPPORTUNITIES

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At the same time, there is a feeling that mobilisation as a service still offers opportunities for FMO in the FI sector going forward. The FI sector understands mobilisation the best in the organisation and syndicates are more easy to arrange. Indeed some 60% of syndications work is sources with FI clients. As a result, processes are efficient and have been optimised for FIs over time. There continue to be (emerging) impact investors, both public and private, that value FMO's lead arranging capacity, e.g. Symbiotics sees FMO more as a partner than a competitor to help them into larger deals and smaller DFIs also benefit from that role. FMO is one of the few DFIs with specific mobilisation targets and thus an attractive partner. Recent new partnerships with Munich RE and Allianz are expected to result in increased mobilization volumes. Other opportunities sourced from FMO staff, peers and/or the data analysis include:

- **Explore LCY mobilisation potential** - There is a large (theoretical) potential to combine FMO's strategic goal of increasing LCY lending with mobilisation goals according to FMO investment staff. Options to hedge other participants for currency risk also could be explored and could potentially be added as mobilisation service offering. FMO is a pioneer in the field of LCY lending and it is experienced one of the main barriers for more mobilisation. These have been explored in the past, but without (financial) success. These results of those pilots should be revisited and re-assessed against current market conditions and developments, for example.
- **Further professionalising communications on impact and performance for managed funds**. FMO continues to develop its impact management approach and continues professionalising its reporting on (development) impact. This capacity is of value in the impact investing space. There is a difference to the depth and extent of development impact report for FIM funds and FMO in general (e.g. its annual report). ResponsAbility is also seen as best practice in the field. Further professionalising and exploiting the synergies with FMO reporting capacities could increase FMO's attractiveness as fund manager.
- **Deepening impact information.** Impact reporting and communication would also benefit from more detailed information about on lending details in the FI sector, particularly in the fields of interest of the Funds. For example, the Actiam SME fund could benefit from the increased visibility of information on the characteristics of the portfolio of clients of clients supported, just like the SDG8 impact framework for FMO as a whole would. The recent initiative of standardising use of proceeds information in the FI sector (Jan-2019) should help.

THE RESULTS:

ADDITIONALITY

INTRODUCTION

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- FMO is for 51% owned by the Dutch government and the government also provides a state guarantee to FMO. As a result, FMO provides financing in a way or in places that commercial investors do not dare to venture. This complementary role that FMO plays in the market is called 'additionality': "*providing services that the market does not provide, or does not provide on an adequate scale or on reasonable/workable terms*."
- FMO operationalized the terms additionality and good corporate governance in Scorecard and tests ex-ante whether its investment are:
    1. **Financially additional** – risk mitigation through the financing product offered, which is not readily available from commercial parties on workable terms;
    2. **ESG additional** – derived from value addition in the field of ESG standards by ensuring that outcome/returns to society will be higher than would otherwise be the case with other parties.
- All FMO investments need to be either financially or ESG additional or both. Investment teams provide a rationale for their additionality assessment based on a standard set possible additionality sources for both financial and ESG additionality that are provided in scorecard.
- In this section, we analyse the FI sector's performance with respect to both financial and ESG additionality by:
    1. Analysing the data on the source(s) of additionality for all FI sector deals claimed *ex-ante* at investment stage;
    2. Analysing the *ex-post* input from FI sector clients (client satisfaction survey) on their reasons to work with FMO and their appreciation of FMO's non-financial role and impact on them;
    3. Illustrating the additional role FMO played with case study illustrations
    4. Providing a synthesis of threats to and opportunities for FMO's additionality in the FI sector (triangulating findings from across all sections)

SUMMARY | ADDITIONALITY

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Main findings

- **Non-financial additionality increasingly important, especially for PE:FI deals** - the volume of deals done based on both ESG and financial additionality has grown faster (39% y.o.y) than those done only on financial additionality grounds (18% y.o.y) in the evaluation period. 5% of deals were done only on ESG additionality (mainly equity), and they have been closed in 2018 and 2019 mainly. ESG additionality matters especially for equity: 73% of deals done based on ESG only or ESG & financial additionality. For debt, this share was 47%.
- **Tenor main source of financial additionality, long term partnership as source increasingly important** - Between 40 and 50% of debt deal value is done through providing clients with longer term financing than the market would provide. This share increases the poorer a country is: 55% of deals in LICs and 42% in UMIC. Being an 'anchor investor', establishing a long-term partnership or plugging a financing gap are most important in equity. Entering a 'Long Term Partnership' is an increasingly important source of additionality for both equity and debt, particularly so in Africa and LAC, not so much in ECA and Asia.
- **The contribution of green/inclusive is growing the increase in ESG additionality over time -** from 38% of all ESG additionality in 2016 to 58% in 2019. This is particularly driven by growth of these deals in Asia and LAC. In Africa (and ECA in recent years), most ESG additionality deals are done based on E&S risk mitigation. This is partly driven by the higher share of LICs in Africa: 55% of ESG-A in LICs is E&S vs. 32% in LMIC & 8% in UMIC.
- **At least 50% of debt FI clients 'strongly agree' or 'agree' that FMO provides (non-financial) value added through its network, training offer and knowledge transfer –** and all would appreciate more support from FMO in these areas, particularly digital transformation & fintech, ESG, risk management and gender/green finance.
- **The fiercely increasing competition, especially in Asia and Africa and for green lines, are seen as challenge to FMO additionality.** Further product development in the space of LCY, green, agri and smallholder finance in general, and gender and microfinance in Africa are opportunities for financial additionality.
- **Further increasing ESG additionality will be key in the future –** opportunities include more, and more strategic CD use, incl. by E&S officers, digital and fintech service provision, and growing the gender & green support.

FI SOURCES OF ADDITIONALITY

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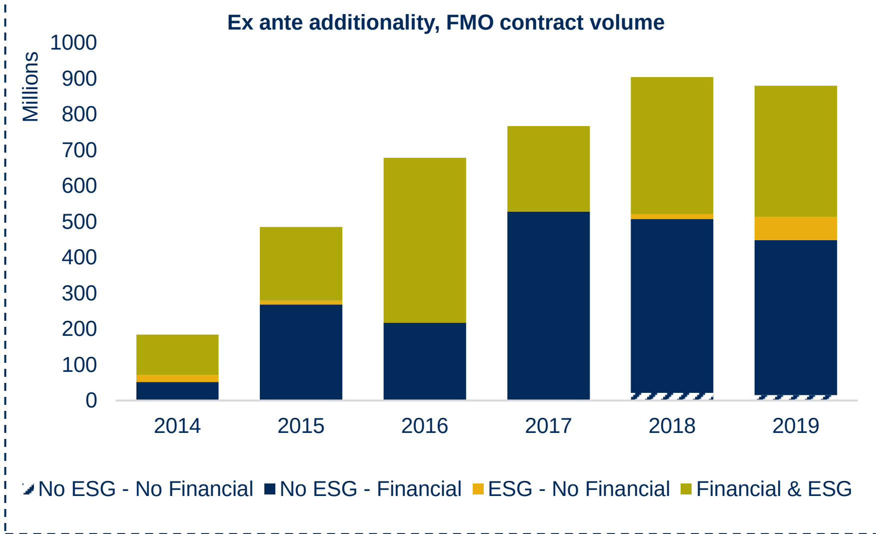
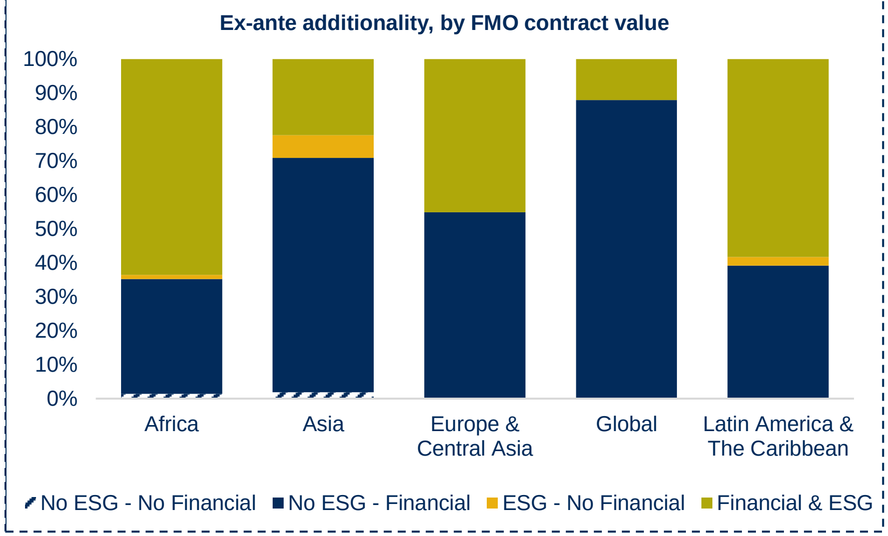
Financial additionality present in nearly all deals, non-financial additionality increasingly important

- **The relative contribution of non-financial additionality in the FI sector is increasing -** 96% of FI sector deals are done on financial additionality basis. Yet, the volume of deals done based on both ESG and financial additionality has grown faster (39% y.o.y) than those done only on financial additionality grounds (18% y.o.y). In addition, the 5% of deals done only on ESG additionality (mainly equity) have been closed in 2018 and 2019 mainly, increasing the relative importance of ESG additionality in recent years.
- **ESG additionality plays a larger role in equity deals vs debt deals** – Some **73% of equity deals** are done based on ESG only or ESG & financial additionality (27% based on financial additionality), versus **47% of debt deals** (53%)
- **Share of ESG additionality high in Africa and low in Asia** – a key reason being the highest share of E&S-A clients in Africa and E&S-C clients in Asia. ESG additionality in Africa is mainly E&S risk management (see next slide), which E&S-C clients do not receive. In ECA, there is strong trend towards both ESG and financial additionality (in 2015 most deals only financial, in 2019 mostly both), while in LAC, the relative share of ESG additionality is declining over time.





DETAILED SOURCES FINANCIAL ADDITIONALITY

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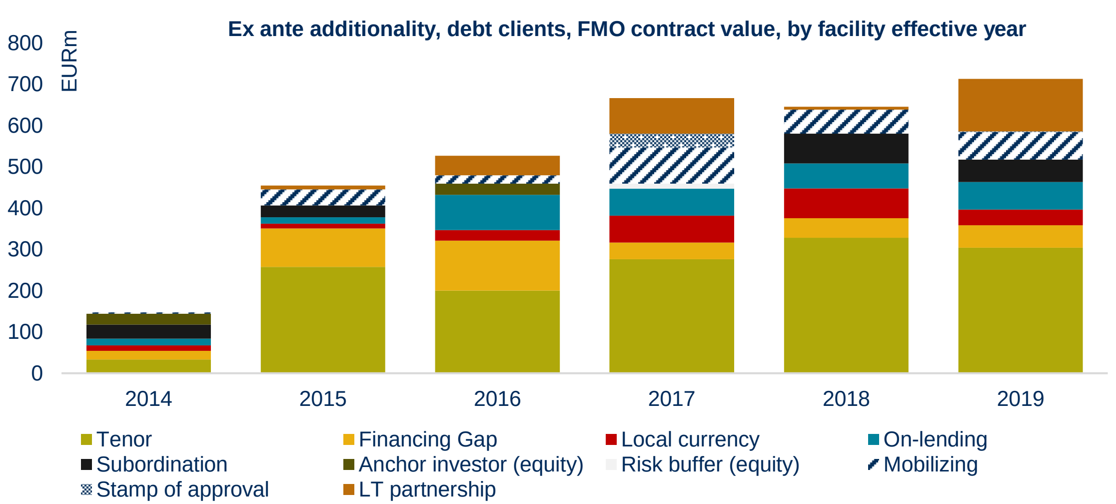
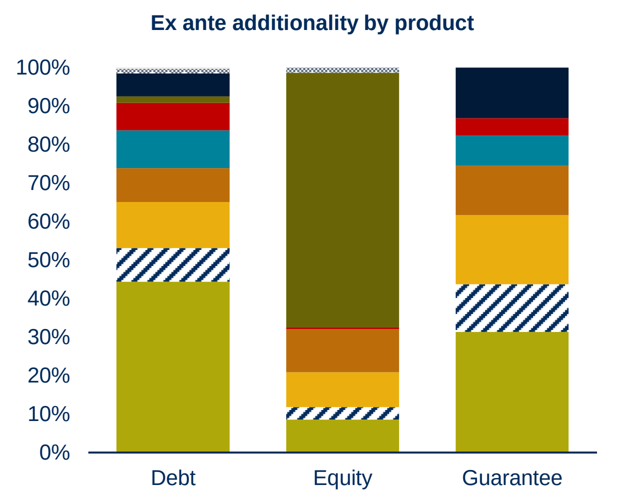
Tenor main source of financial additionality, particularly in poor countries, partnership increasingly important

- **'Tenor' and 'anchor investor' are the main sources of financial additionality –** Between 40 and 50% of debt deal value is done through providing clients with longer term financing than the market would provide. The majority (>60%) of equity deal value is based on FMO being an 'anchor investor', though this result is strongly influenced by the large deal with Arise in 2016 (2/3 of total equity deal value between 2014-2019).
- **The poorer the country, the larger the share of 'tenor' as additionality source**: 55% of deals in LICs and 42% in UMIC. 'Financing gap' is another major source of additionality in LICs (38%), which hardly ever is a source in LMIC and UMIC. Mobilization as additionality source is, in turn, more dominant in UMIC (16%) than LIC (3%).
- **Entering a 'Long Term Partnership' increasingly important source of additionality for both equity and debt** – particularly so in Africa and LAC, not in ECA and Asia. This would indicate a larger number of repeat deals. The actual source of additionality is however not directly clear from this category as it requires additional substantiation in the FP (FMO should still not crowd out the private sector and show higher prices and/or non-financial additionality). This is a risk as it requires this additional follow-up.





DETAILED SOURCES ESG ADDITIONALITY

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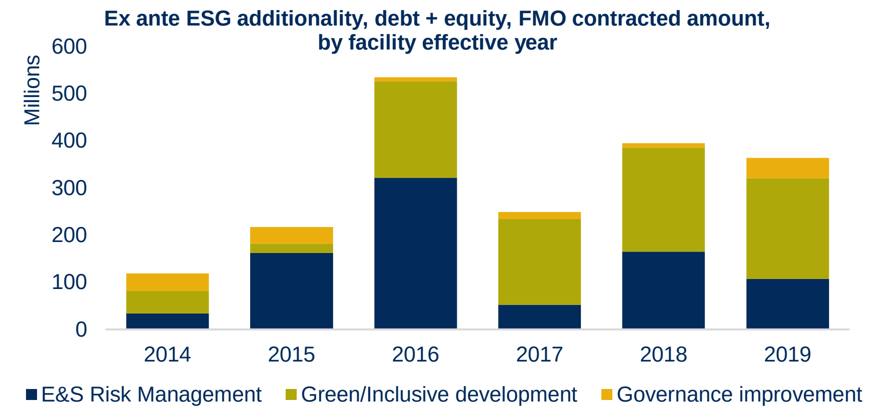
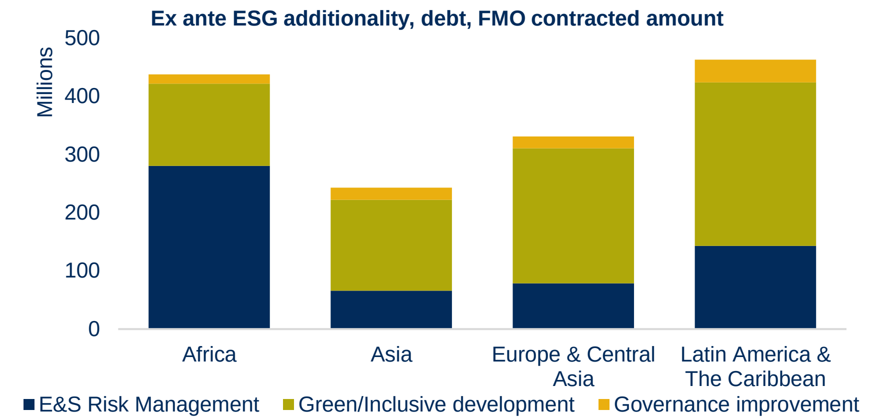
Green & inclusive development increasing source of ESG additionality, yet strong regional differences

- **Contribution of green/inclusive development to overall ESG additionality increasing over time** – Together with E&S risk management, green/inclusive development make up 92% of the reason why FMO claims non-financial additionality in the FI sector. Over time, the relative contribution of green/inclusive has grown: **from 38% of all ESG additionality in 2016 to 58% in 2019.** The year 2016 stood out in terms of ESG additionality due to the large PE investment in *Arise*, where FMO claimed both E&S risk management additionality and financial additionality. The rise in green/inclusive additionality can be explained by the growth of inclusiveness deals during this time (see SDG10).
- **Strong regional differences in the source of ESG additionality** – Asia and LAC drive the first overall finding: 90% of deals with ESG additionality in LAC in 2017-2019 were based on Green/Inclusive, whereas before (2014-2016), most ESG additionality there was E&S risk management. Asia contributes least to ESG additionality and its major contributions were made in recent years via Green/Inclusive. ECA shows the opposite picture with most Green ESG additionality (and no E&S) until 2017, after which E&S risk additionality became important. Africa provides most E&S risk mitigation additionality: some ~80% of their annual ESG additionality in all years to 2019.
- **More E&S risk management in poorer countries –** more than 55% of ESG additionality in LICs is E&S risk management, compared with 32% in LMIC and 8% in UMIC. In UMICs, most ESG additionality (90%) is green/inclusive.



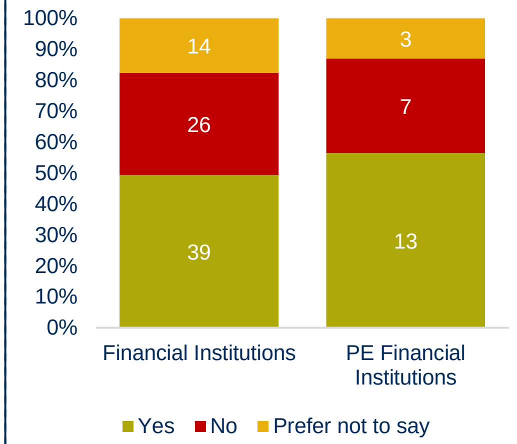


EX-POST VALIDATION OF ADDITIONALITY

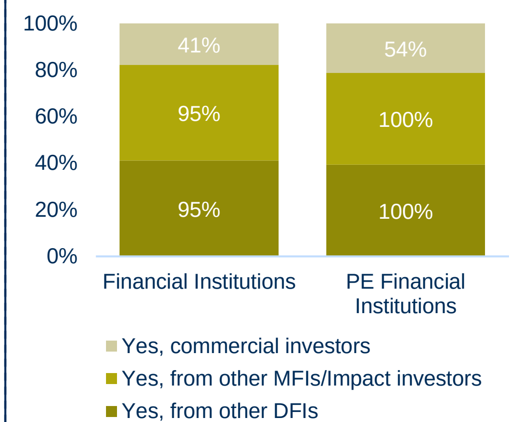
FMO does not always compete directly, but when it does, mostly with other DFIs and IFIs

- **An ex-post validation of FMO's additionality is difficult, but indications from clients suggest that FMO competes most often with other DFIs and IFIs –** Based on direct input from FI sector clients, FMO was the only party they negotiated with for ~30% of FI and PE:FI clients. Some ~50% of FI clients also obtained other offers during negotiations with FMO and all of them did with other DFIs and IFIs/impact investors, and ~50% of those also obtained offers from commercial parties. An ex-post validation of additionality is difficult, though, as the presence of commercial offers may not yet mean these are affordable, nor does the presence of DFIs/IFIs guarantee the private sector is not crowded out.
- Based on the feedback from 29 PE:FI clients*, **FMO's non-financial support is viewed as key selling point** by a majority of clients, next to continuing a relationship or acting as anchor investor. The combination of these additionality sources match the FMO-ex ante assessment relatively well (see slides before).

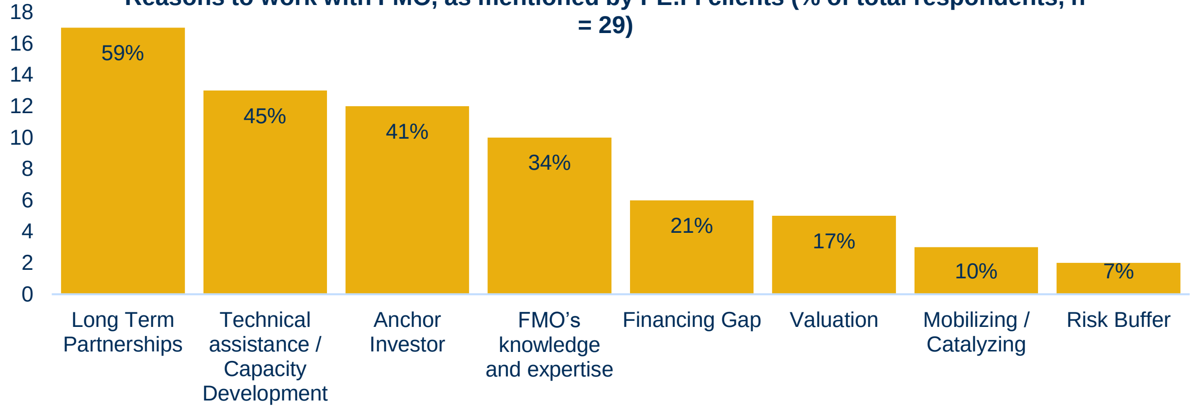
Did you obtain any other financial offers during the negotiations with FMO (n=104)



From who?



Reasons to work with FMO, as mentioned by PE:FI clients (% of total respondents, n = 29)



* These data were unfortunately not gathered for FI clients

EX-POST VALIDATION OF ADDITIONALITY – CASE STUDIES

FMO Entrepreneurial Development Bank

NMB Bank – Nepal – USD 30m equity FMO-A | **High financial additionality** | **High ESG additionality**

- At the time of investment (2016), FMO was one of the first foreign equity investor in the Nepalese FI market (but not the first). There were stringent Central Bank controls and an unstable political climate, making the country unattractive for foreign investors. FMO is respected for its role in the country and helped NMB Bank further professionalize. Nepal has developed very strongly since then, but foreign interest remains relatively low still.
- E&S standards in the country are low and not effectively applied. As of late, FMO is helping NMB develop the first robust E&S management system in the country, though implementation will be challenging.

Yes Bank – India – USD 50m debt FMO-A | **Low financial additionality** | **Medium ESG additionality**

- FMO copied the IFC green line approach one-to-one during origination. However, FMO insisted to conduct its own due diligence (instead of relying on IFCs work). Yes Bank already had also arranged a green bond in the domestic market in 2015 (before FMO) and could have easily arranged another according to the Bank.
- FMO did provide some ESG additionality by pushing to improve the E&S system requested by IFC, which resulted in a much better E&S policy in April 2019

Banpro– Nicaragua – USD 15m + 30m debt FMO-A | **High financial additionality** | **High ESG additionality**

- In 2014, a 10-year tenor for green lines was not available, and in 2018 it was only offered by development institutions. These first green lines opened the Nicaraguan market to other development institutions.
- FMO and Banpro co-developed the first green line implemented by FMO globally, and the first line implemented by Banpro locally. FMO "put the money where its mouth was", one FMO E&S Officer worked together with Banpro, an FMO Investment Officer was seconded to Banpro, and FMO co-funded a CD project with Banpro.

Fidelity – Ghana – USD 15m + 114m (SYN) debt FMO-A | **Med. financial additionality** | **High ESG additionality**

- The tenors offered were 5-year (2010), 7-year (2014), and 5-year (2016). These tenors are yet to be available to Fidelity from commercial lenders for on lending to SMEs. Large syndications suggest high interest from both public and private sector participation. Fidelity collaborated with FMO to pilot / develop the EDFI's Harmonized E&S Approach for FIs and FMO helped Fidelity increase its service offering and focus on SMEs.

CLIENT INPUT ON NON-FINANCIAL ROLE FMO

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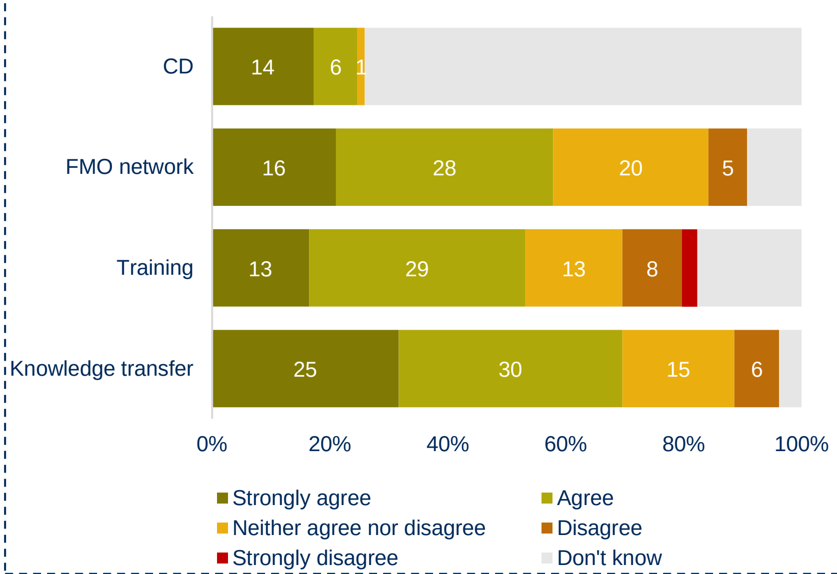
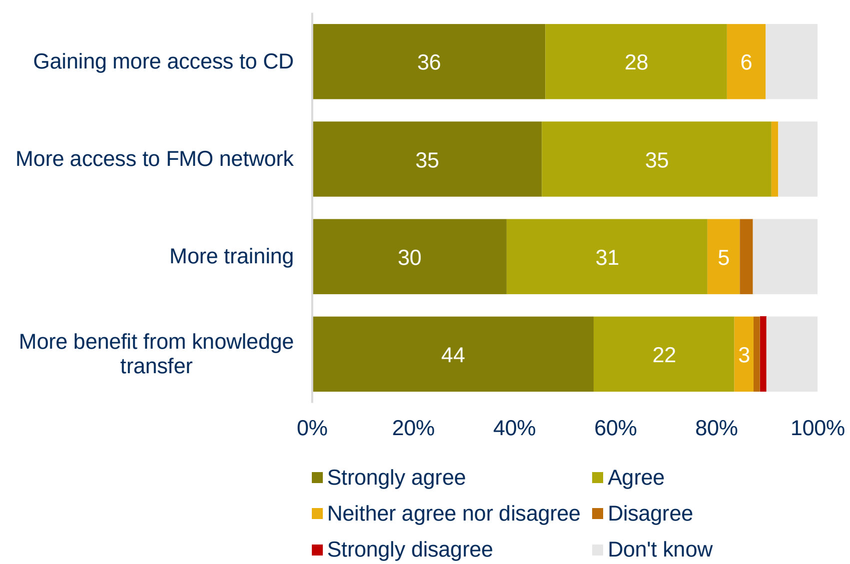
Clients think FMO provides added value with its non-financial support

- **At least 50% of debt FI clients 'strongly agree' or 'agree' that FMO provides value added through its network, training offer and knowledge transfer** – Still, some 5-10% of clients think FMO does not provide value added in these fields and 15-25% of clients neither agree or disagree to the statement, suggesting there is room for improvement with a significant share of the clients still. Those that received CD support were unanimously positive.
- More than 90% of those clients would also appreciate more support from FMO in these areas. The following topics, were mentioned in particular:
  - **Knowledge transfer**: Digital transformation & Fintech (20% of clients), risk management (11%), ESG/Sustainability (11%), gender finance and green finance (8%).
  - **Training:** Risk management (25% of clients), ESG (20%), digital/fintech (20%), SME finance (12.5%)
  - **CD:** ESG (26% of clients), digital strategy (15%), gender finance, green finance and risk management (12%)

FMO provides value added through... (n=79, debt clients)



Interested in... (n=79, debt clients)

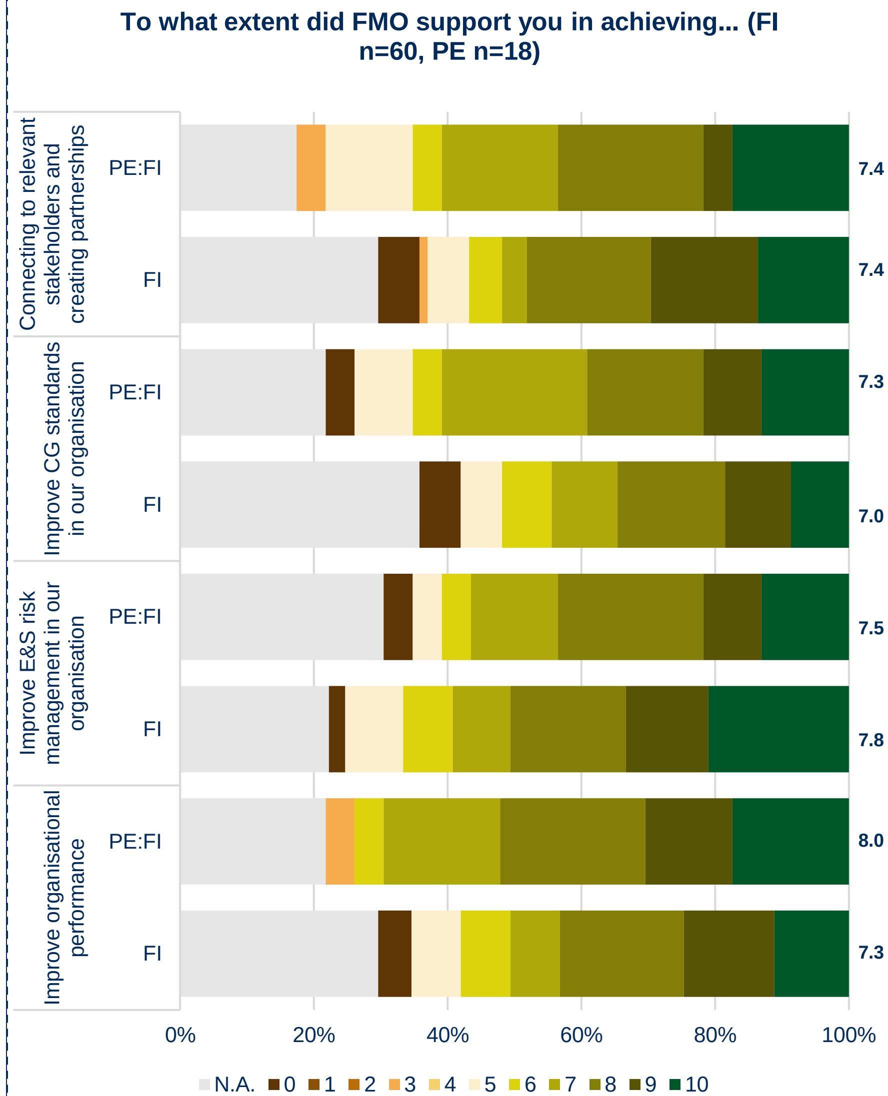


CLIENT INPUT ON NON-FINANCIAL ROLE FMO

FMO Entrepreneurial Development Bank

Clients think the non-financial support also creates a positive impact on their business

- **The majority of existing clients rate FMO's impact on improving their organizational performance as a 7/10 or higher** - in particular PE:FI clients rate this impact highly (avg 8.0/10), perhaps due to the fact that they also rate FMO's board members very highly.
- **Conversely, FMO's E&S work has more impact on FI (debt) clients and CG on PE clients -** likely influenced by the fact that there are more E&S A and B clients in the debt portfolio and CG work is more effective when FMO has a board seat.
- **The largest share of clients give FMO a low score** (5 or lower) **for its impact on connecting to relevant stakeholders and creating partnerships** suggesting the area where progress on impact could be made
- **Clients suggest that FMO could do the following to better support them** (open question)**:**
  - Provide more technical assistance, trainings and knowledge on impact, E&S and digital (see previous slide) (40% of clients)
  - Provide additional funding for business development (11% of clients)
  - Provide better financial products (lower interest and price, local currency) (10% of clients)
  - Help connect more to other investors (8% of clients)



THE OPPORTUNITIES:

RECOMMENDATIONS TO FURTHER IMPROVE

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I) Increasing development impact with existing FI sector products

1. **Investigate the possibility to improve the sector's contribution to rural-urban inequality globally, as well as inclusiveness deals in Africa in general**
   - Rural-urban inequalities globally are increasing and development challenges remain particularly large in rural areas, in particular in Africa and Asia according to the latest UN SDG report.
   - Agri-finance and smallholder finance deals however currently constitute a minority share of inclusiveness deals in the sector. The sector also realized the overall least amount of inclusiveness deals in Africa. Initiatives were developed in the past, such as local offices in South Africa and Kenya, a farmer finance expert in Kenya as well as a gender initiative in Zambia.
   - It is insufficiently clear however to what extent past initiatives and/or current products of the sector may contribute to the SDG challenge of rural inequality and inclusiveness more widely in Africa beyond the RI label. It is not easy to filter out the contribution of for example FinTech deals (see below) and/or for portfolio guarantees, which in theory could address this challenge.
   - The sector should therefore investigate the extent to which current products address this development need, particularly in Africa, and follow-up on the outcome with additional business or product development if needed.

2. **Create a category for FinTech deals in FMO's finance and portfolio systems, so that success of the FinTech strategy can be more easily monitored**
   - FinTech has been an important element of FMO FI's strategy since the 2017-strategy, with an important development impact as well as business rationale. It is however not easy to identify FinTech deals in FMO's portfolio data as there are no specific identifiers for the deals.
   - Adding an 'industry' code for 'FinTech' will facilitate impact and financial analyses for the sector and thus evaluate success better

3. **Evaluate the success and impact of portfolio guarantees**
   - The FI sector developed portfolio guarantees and successfully realized some first deals. The product could in theory make an important contribution to local economic development and FMO additionality. The success of product guarantees should be evaluated when there is record gathered from an additionality, development impact and financial perspective. If assessed positively, the product should be developed and rolled out further. At that moment, an indicator on portfolio guarantees in the SDG8 impact framework should be added to recognize the contribution of the product to SDG8 impact.

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II) Increasing FI development impact by refining FMO's impact management & measurement framework

4. Strengthen the SDG8 impact narrative for FI deals by:

a) Increasing the opportunity to report SDG8 impact information in the impact sections of deal documentation

Currently, deal templates contain indicators for (M)SMEs in client's loan portfolio as well as job impacts. These do not cover the contribution FIs make to SDG8 comprehensively. Monitoring documentation only ask for updates to SDG10 and SDG13 labelled deals. Next to the ongoing efforts to include Decent Work aspects into the SDG8 impact framework, deal documentation should incentivize deal teams to report on other known deal aspects relevant to SDG8, such as for example the recognition of *LCY financing* (Y/N), the use of *portfolio guarantees* (Y/N), a qualitative expectation on the impact on *formalization of businesses and jobs,* and/or information related to the impact expected from *increasing access to finance.*

b) Explore the integration of FI client's portfolio information in impact systems

It should be explored to what extent standardized information about FI client's portfolio that is collected at due diligence stage can provide impact relevant to the SDG8 Theory of Change. If so, it should be integrated into deal documentation and/or monitoring processes. In particular, more information about FI clients' clients, especially on their growth and jobs, would help clarify the contribution of the sector to SDG8 as this is where most significant impact is made.

5. Improve provision and tracking of information on risks to FMO core SDG impacts, in particular for SDG10

- Evaluations find that the development impacts of SDG10 FI products (e.g. microfinance and gender lines) is positive, but also find that providing finance to vulnerable groups is not without risks, e.g. in relation to overindebteness. FMO monitors risks of over-indebtedness via the CPP framework, but that information is assessed separately from the impact information.
- Despite known risks, the FI sector's impact on SDG10 is primarily judged by the volume of RI *production* realized, without a systematic ex-post reflection on the actual impacts on end-beneficiaries reached, including the development in risks to the ex-ante expected positive impact on the vulnerable groups. **More explicit consideration of the risks to realize SDG10 development impacts right from the beginning, i.e. in the impact sections of deal documentation, could help monitor the development of those risks more actively throughout the project cycle.**

FMO Entrepreneurial Development Bank

II) Increasing FI development impact by refining FMO's impact management & measurement framework

- Indicators could be developed at FP stage and followed in impact systems, so that updates can be presented in CCRs. Such indicators will likely cover information already known and gathered, e.g. on overindebteness from the CPP analyses: e.g. *APR of the (micro-)loans compared to the average APR in the country, retention rate, % of clients rejected due to over-indebtedness, number of complaints*
- In a similar fashion, indicators for risks to SDG8 and SDG13 development impacts could be considered simultaneously, notably through harnessing data already gathered/reported by the E&S analyses.

6. **Measure the specific impact of individual green credit lines and incentivize higher impact activities**
   - The actual contribution of FI's Green-Labelled lines to SDG13 could not be established at portfolio level.
   - Case study data suggests that actual impact varies depending on the activities financed and thus in order to understand the specific impact of Green-labelled lines on SDG13, information from financed projects of individual lines is needed
   - Use of proceeds information is gathered but not used for impact reporting. When gathered and stored in a standardized format, potential estimations on GHG savings or adaptation contributions could be made. Such information could help the sector incentivize green activities that are more impactful

7. **Consider expanding Green Label to include more adaptation measures and/or brand a separate adaptation product**
   - Climate adaptation measures currently do not feature prominently in the FIs Master Green List, while developing countries' need for adaptation measures is large.
   - To help FMO set itself apart in the competitive green finance market and to increase its impact on climate adaptation, more adaptation activities could be identified and promoted under its green lines. If successful, the feasibility of a separate 'adaptation' green line could also be explored as a product that may be in demand in developing countries.

RECOMMENDATIONS

FMO Entrepreneurial Development Bank

III) Increasing non-financial additionality in the FI space

8. Strengthen green non-financial service provision to increase additionality and improve client appreciation

- Available CD budgets for green product support have been underused and client appreciation of green service support is lowest across FMO service offering. Since competition developed strongly in this field, both in terms of volume of capital made available as well as non-financial service provision, a strategic assessment should be made as to what type of support would be efficient and effective in this field.
- For example, developing specific support in the field of climate adaptation finance could work well together with recommendation (6) and help to develop more adaptation related activities under Green Lines.

9. Further increase the effectiveness of FMO's CD and ESG efforts by:

a) Sharpening project objectives towards results-based indicators and evaluating the success of projects

- ESG results indicate that most FI-clients currently struggle with the implementation of E&S measures. FMO's growing portfolio of sector initiatives have shown to have the potential to be effective towards further E&S implementation. Also CD support is appreciated by clients and has been found to be effective to help FI clients with implementation challenges.
- Recommendations from two recent sector initiative evaluations however find that 'SMART' objective setting for the initiatives could be improved in order to increase the effectiveness of the initiatives. Client feedback on CD projects also includes that more frequent evaluation of results-based progress (rather than outputs), and intermediate steering if needed, could help improve the success of CD support. There is currently little systematic data gathering on the success of concluded CD projects.
- That means clearly specifying expected project results to show improvements at implementation level and developing 'SMART' KPIs. CD projects could benefit from a quick evaluation after completion, such that ingredients for success can be identified.

b) Gathering project success information on CD projects together with more basic project information should can then be used to more strategically deploy funds towards the most effective projects

- Only 17% of the CD project portfolio could be linked to FI clients in this evaluation, making it difficult to track centrally which clients received CD and which did not. More systemically gathering data from CD project evaluations and improving the information storing of basic project characteristics in central FMO portfolio systems will help to identify the most effective projects and steer the deployment of future funding more strategically.

ANNEX

CASE STUDIES

YES BANK

Client	Country	Contracted
Yes Bank	India	2016
Financial support	**E&S Risk Category**	**Capacity Development**
Green credit line (debt): INR 3300m (USD 50m)	A	-

- **Yes Bank** was incorporated in India in 2004 as a ‘new generation’ listed private sector bank. The initial $40m equity was provided for 50% by Rabobank. Initially the focus was on corporate products to grow the portfolio. After the 2009 financial crisis, Yes Bank expanded to retail and SME banking. Currently, the portfolio is split between approximately 60% corporate and 40% SME. In early 2020, Yes Bank was among the top-5 largest commercial banks in India.
- **Project finance** is a specific segment of interest for Yes Bank. Not many commercial banks provide it due to uncertain support from the government and the need for long term funding sources, which is still scarce in India.
- **FMO supported Yes Bank with long term project funding in the form of a senior green bond of USD50m** in INR in dec-2016 (maturity of 7 years with a bullet repayment). Yes Bank had successfully launched two similar Green Bonds in 2015 (one of which with IFC). Yes Bank places sustainability at the core of its strategy and subscribed to various international certification and reporting standards.
- *Note: At the time of the evaluation (Q1-2020), Yes Bank was going through financing challenges including risks of a bank run. The RBI stepped in as ‘lender of last resort’ at the end of March, taking over shares and providing a special liquidity facility. Interviews and the field visit to the bank were affected as less staff could be made available for interviews.*

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Local projects or businesses supported

- The proceeds of the green bond have solely been used to finance large-scale solar PV and wind energy projects in India.
- In total 9 projects had been financed until June 2019, of which 1 wind project and 8 solar PV projects, in various regions across India (see the map below). However some of those projects were later refinanced with other than FMO funds. There were three solar projects and one wind project financed consistently with the FMO bond proceeds.

Impact of the projects on the local economy (SDG 8)

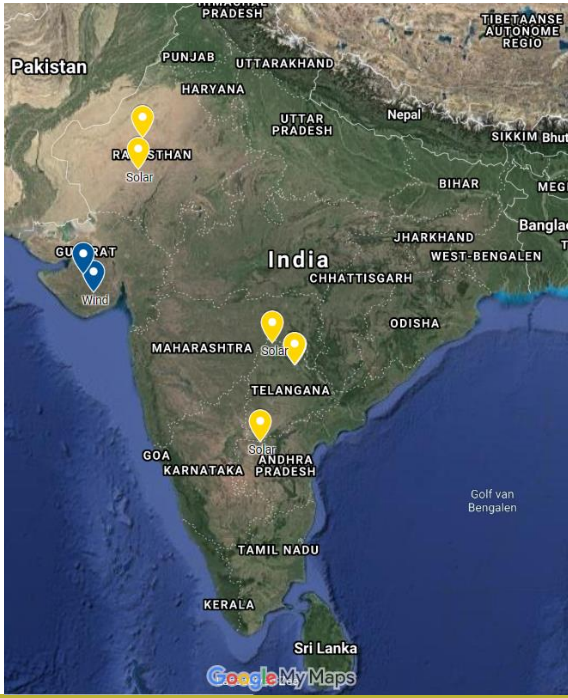
- The renewable energy projects created (temporary) construction jobs as well as permanent monitoring and management jobs on site. Unfortunately, no energy finance officers were available to speak about the employment generation potential that the RE projects created. A Decent Work impact is created through application of Yes Bank's E&S policy (see below).

Impact of the projects on wider social and/or environmental results (SDG 5, 10 & 13)

- The case study box in the main text on SDG13 further illustrates the details on the impacts on climate change created through the projects: Since India relies so strongly on coal for electricity production (~75% in 2017), the projects help avoid a large amount of GHG emissions in India (693 kT by end of 2018, or the equivalent of 0.3% of the Dutch total CO2 emissions in 2018)

Enhancing development impact through support on ESG

- The E&S staff engaged by Yes Bank have shown the implementation of the E&S policy in the RE projects financed by FMO. They demonstrated how EIA findings were adopted in contracts. In particular for energy projects they acknowledged that **formal grievance mechanisms** and **health & safety standards** (in terms of labour accommodation, shoes & helmets and access to drinking water) are the most significant challenges that they address in contracts. By addressing these issues in their contracts, Yes Bank contributes to **SDG8 on Decent Work.**



THE ROLE OF FMO

Financial additionality

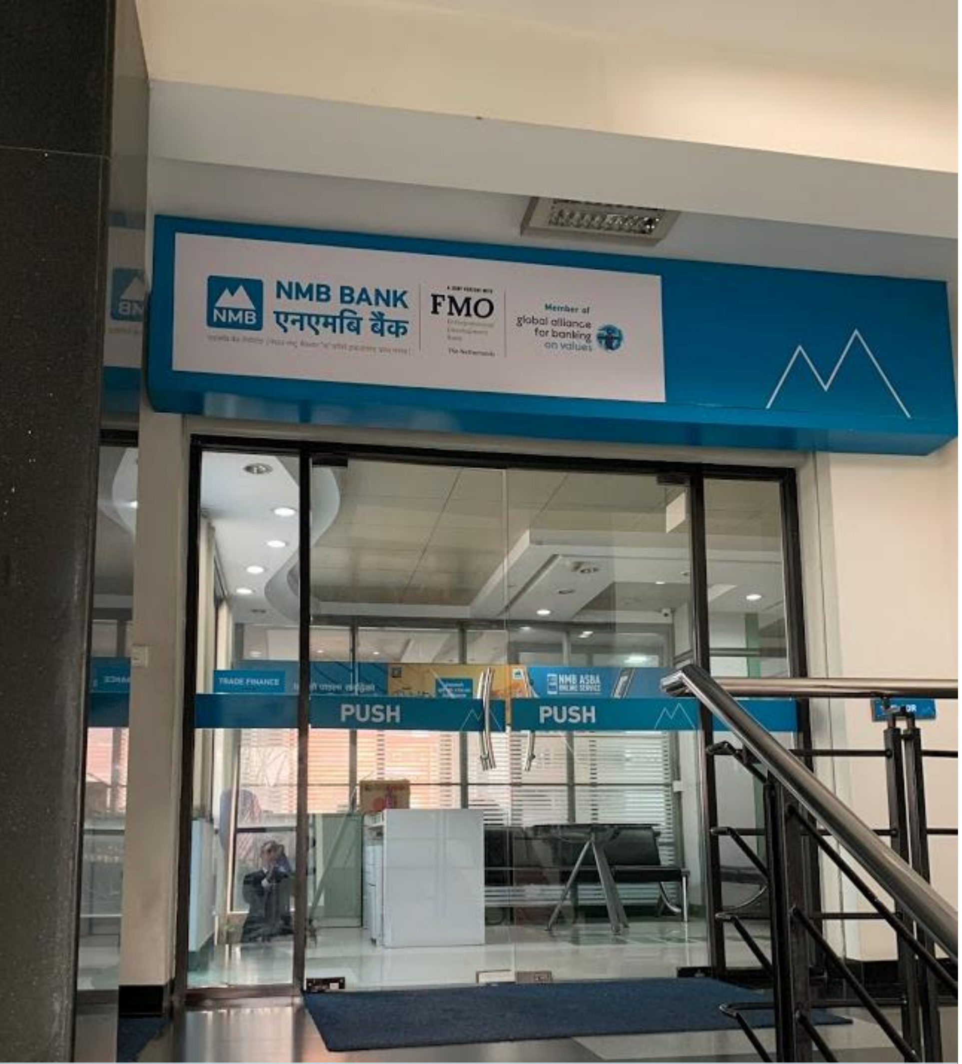
- At the time of investing, Yes Bank was one of the largest Indian commercial banks that already had access to long term USD funds (e.g. by Proparco, DEG and OPIC) and had already issued two similar INR denominated green bonds (one with IFC and one with Indian investors). However, long term INR denominated finance was still regarded scarce. Despite a low margin, the conditions were deemed sufficient for FMO's financial additionality.
- Yes Bank however mentioned that they could "*could have easily*" arranged another green bond in the domestic market in INR at the time, which they also did before FMO came in. The ex-post evidence for FMO's financial additionality is therefore weak. The benefit of engaging FMO as investor was additional 'confidence capital' according to Yes Bank.

Non-financial additionality

- Despite the challenging case for financial additionality, FMO provided a significant non-financial additionality role with Yes Bank. During due diligence, FMO did not regard the E&S policy developed by Yes Bank in collaboration with IFC as sufficient and pushed for improvements in the way the policy would be implemented. FMO, therefore, asked the Bank to revise its E&S Policy and strengthen its implementation. FMOs push led to hiring of additional E&S staff as well as the adoption of an improved E&S policy in 2019. An example of an improvement is that there are now checklists and direct questions to loan officers as standard procedure in their deal structuring process.
- Anecdotal evidence shown in hard-copy during the field visit also showed the integration of E&S points of attention in loan covenants. No systematic check of all financed possible was possible though.

Conclusion on role FMO

- FMO likely did not play a significantly financial additional role to Yes Bank. It is a large commercial bank that had already attracted similar finance from the domestic market and IFC. FMO did however provide long term INR (green) project finance, which is scarce in India. FMO played a more important non-financial additional role by setting strict E&S standards and requiring material improvements to the way they managed E&S risks on their energy projects. Through the Green Bond with Yes Bank, FMO does achieve important climate impact in India.



Client	Country	Contracted
NMB Bank	Nepal	2016
Financial support	**E&S Risk Category**	**Capacity Development**
€31.7m equity (original cost price), latest valuation €38.7m (both CCR '19)	B+	1) Branch efficiency (2017) – USD86k 2) SME product (2018) – USD200k 3) Digitisation (2019) – USD150k 4) ESMS (2019) – USD75k

NMB BANK

FMO
Entrepreneurial
Development
Bank

- **NMB Bank** was founded in 1996 and started off as a small finance company. NMB obtained an A-class banking license in 2008 and focused on corporate banking. After a strategic review in 2013 and the change to a federal structure in Nepal, NMB acquired four regional banks in 2015 and decided to 'localise' its banking strategy. Among the four banks was the *Clean Energy Development Bank (CEDB)*, an FMO investee. FMO's share in NMB thereby became 3%, but in 2016 FMO increased its shareholding to 20% (minimum for foreign shareholders in commercial banks back then).
- **FMO** thereby became NMB's largest shareholder. It still is, but FMO's share has diluted to 14.18% currently.
- **NMB Bank** currently is in the top-10 of largest commercial banks in Nepal. It has a diversified portfolio across sectors and products. Largest exposures in Wholesale & retail, construction and non-food related production segments, but with a particular focus on energy, agriculture and infrastructure finance. All segments of 'corporate', 'mid-corporate', 'SME', 'MSME', 'retail', 'Renewable energy' and 'microfinance' are served
- NMB's differentiating factor in the country is in its strong 'value-based banking' focus (in particular sustainability and corporate governance) and its international orientation

SDG PERFORMANCE

FMO
Entrepreneurial Development Bank

Local projects or businesses supported

- NMB is a universal bank and provides financial services to all sectors and segments in the economy. The graph in the case study highlight on NMB Bank in the development impact section ('SDG8') shows the sectoral allocation of NMB's portfolio: over 50% of outstanding portfolio is in wholesale & retail, construction and non-food production business. Since NMB started out as a corporate bank, there was an initial focus on large customers, but since 2015 a conscious choice to develop a strong SME portfolio was made. The SME portfolio currently constitutes ~25% of outstanding portfolio.

Impact of the projects on the local economy (SDG 8)

- Nepal's economy is characterized by a large reliance on agriculture (30% of GDP) as well as tourism (10% of GDP). The country is highly reliant on imports, which are predominantly funded by remittances from workers living abroad. There is a large retail trade sector consisting of small shops that import goods and sell locally. NMB has significant exposure in this segment. The segment however does not produce much value added domestically (see also body text 'SDG8').
- NMB therefore also strategically focuses on supporting business in the agricultural, infrastructure and energy segments. Moreover, NMB grew its impact on SDG8 in Nepal by increasing the importance of SMEs (with help of FMO – see next slide) in its portfolio and thereby expanding its impact on jobs supported in the Nepali economy.
- In addition, the Nepali economy grew strongly since FMO's support in 2016 and NMB Bank's portfolio grew alongside it. It can thus indirectly be concluded that NMB Bank delivered an importance contribution to SDG8.

Impact of the projects on wider social and/or environmental results (SDG 5, 10 & 13)

- **SDG13** – Since taking over the CEDB in 2015, NMB has been increasing its positive impact on SDG13 by increasing its presence in the renewable energy sector. Nepal has enormous potential for hydro-power: the government plans to develop 15,000 MW in the coming 10 years. By increasing E&S standards both for NMB as well as the sector as a whole (see next slide), FMO contributes significantly to increasing the sustainability of the hydro projects developed in Nepal.
- **SDG10** – Nepal is a Least Developed Country and thus FMO's investments in NMB contributes to reducing between-country inequalities. Within the country, NMB hopes that its recent efforts to increase digital banking will help it to reach underserved (and/or difficult to reach) customers in Nepal (where still some ~40% are unbanked).

THE ROLE OF FMO

FMO
Entrepreneurial
Development
Bank

Non-financial additionality

- FMO's non-financial role with NMB Bank is very large. As largest shareholder, FMO has an important role in the Board (Nico Pijl dedicated Board member) and can steer decisions. NMB regards the role of Nico to be extremely valuable and adding international expertise to the bank. NMB brands itself as value-based bank with international orientation and therefore also uses FMO's role in the bank as active marketing strategy (see example corporate communication in photo)
- FMO has initiated a number of CD projects with NMB Bank (see list on first page), enabled an Employee Xchange and also exerts additional E&S efforts in the country by hosting a sector-wide workshop. The SME CD project was deemed most successful with notably improvements in administration and product development. A branch efficiency CD project was regarded least successful due to the choice of the consultant.
- FMO's CD projects create a wider demonstration effect by competitors that are believed to 'copy ToRs' on new initiatives that are launched by NMB and FMO. FMO thus also creates a larger indirect impact on the banking sector in Nepal.
- FMO's push to improving the bank's E&S framework in combination with CD funds to help build expertise have resulted in strengthened policies at the bank, but have yet to deliver significant results on the ground. A lax regulatory environment is a significant barrier to further implementation and testing of the E&S framework.

Financial additionality & Mobilization

- FMO has been a pioneer in the country and still receives respect and compliments from peers. FMO was the first foreign equity investor in the Nepalese FI market at the time. FMO invested in previous unattractive conditions, with stringent CB controls and an unstable political climate. Other DFIs are only now targeting FIs, now that regulations have somewhat loosened (a 4% margin is now reality). The sector is still not attractive enough for large-scale investments and thus FMO's investment in NMB remains additional for the time being (and certainly during COVID -19 pandemic).
- Yet due to its international orientation, its value-based banking approach and long-term relation with FMO, NMB is perceived as attractive and professional investment target for the commercial sector.
- FMO also created a mobilization effect for NMB since other DFIs afterwards provided long term debt funding to NMB Bank. Moreover, FMO leveraged its international network for NMB's management, who have started to line up other interested investors as well as already benefited from knowledge exchange.

Client	Country	Contracted
Banpro	Nicaragua	2014 & 2017
Financial support	**E&S Risk Category**	**Capacity Development**
Green lines (risk participations sold to Triodos, NN, Privium) USD 15 & 30 million	B	USD .26 million / 2015

Banpro Case Study

- Nicaragua maintained good growth rates of 4.6% in 2016 and 4.7% in 2017. Due to social and political unrest since April 2018, the economy contracted 4% in 2018 and 3.9% in 2019. For 2020, growth is expected to fall 6.0%, for Covid-19 pandemic.
- According to the 2016 LSMS, general poverty dropped from 29.6 to 24.9% between 2014 and 2016; and extreme poverty fell from 8.3 to 6.9%. Based on the projected GDP per capita, poverty is estimated to increase by more than 3 percentage points between 2016 and 2019.
- The agricultural / agribusiness sector is the country's main economic driver (coffee, beef, shrimp, lobster, sugar, peanuts).
- Nicaragua is still one of Latam's least developed countries, where access to basic services is a challenge.
- Banpro is a well run and the largest bank in Nicaragua (assets USD 2,036 million in sept 2020), with 69% of its portfolio allocated to corporates (63%) and SMEs (6%). The bank has also the largest market share in the agriculture and agribusiness sector (48.69%).
- FMO and Banpro co-designed in 2014 a first Green Line financing with the aim to stimulate green modernization among the bank's agricultural client base.

Development Impact

- The Banpro's green line portfolio is about USD 75 million focused on corporates and SMEs in the agriculture / agribusiness, service, and retail / wholesale. Current allocation:
  - Renewable Energy (64%): solar, wind, hydro, and biomass systems.
  - Sustainability Certifications (17%): Forest Stewardship Council (FSC), Rainforest Alliance (+UTZ), and Global Gap.
  - Efficiencies in Agribusiness Value Chains (11%): coffee, peanuts, grains, fruits, and vegetables (e.g., irrigation, plants' renovation, coffee mills).
  - Energy Efficiency (8%): refrigeration, heating, steam and other equipment and system improvements.

- The Banpro's green lines help the country to increase productivity and to address its adaptation and mitigation commitments. This is the relevant because making a significant dent in the country's prevailing vulnerability (SDG1 and 10) requires faster job-creating growth (SDG8). This is typically achieved by countries among other transmission channels via productivity increases and the delivery of the NDC commitments to mitigation and adaptation (SDG13) as facilitated by the Banpro's green lines.

- For example, a Banpro's client, Delmor is a private company owned by the initial 30 employees at the time it was privatized (mid 1990's – 12 remain now in its leadership). It is the market leader in the financially sustainable production and distribution of sausages and cold cuts. The company now:
  - Is HACCP certified and works toward the ISO 22000 certification (food safety management).
  - Employs 250 people in its plant in Managua and a sales force of 100 employees. Additionally, it has developed a network of 6,500 clients including local town markets, supermarkets, hotels, mom-and-pop stores, and restaurants. It has lately diversified it client base internationally (about 5% of revenues coming from Panama, Honduras, and Costa Rica).
  Developed a low-cost product line (Nutriser) with higher protein and lower sodium / fat content focusing on the "bottom of the pyramid" consumers.
- Banpro's technical / financial support helped Delmor to achieve significant energy, water, and GHG efficiences. Moreover, Delmor also developed the technical capacity needed to prepare on its own a follow-up efficiency project (a new refrigerating chamber to replace several refrigerated containers).

Additionality and general role of FMO

- FMO delivered financial additionality in the following categories:
  - Tenor: In 2014 a 10-year tenor for green lines was not available, and in 2017 it was only offered by development institutions.
  - On-lending: FMO provided financing through Banpro so that it would increase the supply of green finance to specifically the agribusiness sector.
  - Mobilization: Not only because risk participations were sold to partners (which appreciated FMO's "pioneer" role), but also the green lines opened the market for new green lines from other development institutions (e.g., BCIE, IDB Invest, IFC, GCPF).
  - Long-term Partnership: FMO built on a previous relationship to developed together with Banpro a first green line and deepened the relationship by providing a second (and larger) green line (SDG 17).
- FMO also delivered ESG Additionality in the following categories:
  - E&S Risk Management: FMO built the capacity of Banpro to manage E&S risks. This included support to set in place the relevant, procedures, guidelines, and organization (including specialized bankers and E&S officer).
  - Green Development: FMO and Banpro co-developed the first green line implemented by FMO globally, and the first line implemented by Banpro locally. FMO *"put the money where its mouth was"*, one E&S Officer worked hand-in-hand with Banpro, an FMO Investment Officer was seconded to Banpro, and a CD project co-funded.

General Role of FMO:

- The development impact was significant, because FMO helped Banpro to develop the green lines, facilitated the funding from other development institutions, and ultimately created the basis for a green line market in Nicaragua. Stakeholders interviewed appreciated that FMO persisted in its support of Banpro in challenging times in the political economy and financial crisis. They attributed this FMO's support to the Dutch government guarantee which they assess as a true competitive advantage over other development institutions. These efforts had also a significant positive impact on FMO, because FMO could thereafter use a newly developed product in other markets.

- According to the stakeholders interviewed, there seems to be room for FMO to play a larger role because:
  1. Banpro does not seem to have developed alternative commercial sources of funding for its green lines
  2. Unlike others, FMO did not provide a handy tool to measure GHG.
  3. Due to the current country crisis, international commercial banks seem not to be strongly supporting as before the local short-term trade finance business, which is key to the export-oriented sector supported with green lines.
  4. Banpro is developing another green initiative in the Esteli River basin which includes reforestation of land deforested by the cattle sector and commercialization of the wood produced. FMO could potentially consider support for this new product.

Client	Country	Contracted
Unibank	Armenia	2018
Financial support	**E&S Risk Category**	**Capacity Development**
Gender line (debt) 10 million USD	C	-

UNIBANK

- Unibank is a midsized universal bank in Armenia who focuses on MSME and retail customers. With ~800 staff the bank operates the 4th largest network in the country with 53 branches, 105 POS outlets and 116 ATMs. With ~$420m balance sheet they rank number 10 in the sector.
- Originally Unibank started as a retail bank with additional focus on large corporates since 2012. The retail and consumer finance activities have been developed successfully with a leading position in the market behind number 1 Inecobank. The large corporate activities were less successful which led to asset quality problems and diminished profitability starting late 2014.
- In 2014 Unibank shifted its strategy to focus more on SME customers. During the economic stagnation in 2014-16 the bank's MSME clients proved to be much more stress resilient than the large corporates. In addition, the margins are better and the service model cheaper. This positive experience motivated the management and shareholders to continue this path and stop targeting large lending.
- FMO supported Unibank with a $ 10 million gender line, which intended to support their gender strategy. As per YE17, UB has grown a women's loan portfolio of $12m. In the coming years they want to increase this to a minimum of $22m financed by FMO and further supported by TA.

FMO Entrepreneurial Development Bank

Local projects or businesses supported

- The loan has been used to provide loans to female entrepreneurs, mostly in the trade and services sectors. Unibank indicated to have already provided more loans to women than the FMO loan (appr. 1,5 times) and therefore would like to continue and grow the relationship with FMO. Unibank expects 40% growth for their women in business segment as opposed to 20% for the overall portfolio.

Impact of the projects on the local economy (SDG 8)

- The female clients are mostly micro and small sized businesses, although Unibank also has a select number of medium sized clients. During the field visit seven clients were visited, that were generally positive about the effects of the loan provided by Unibank. Some of these clients had been able to grow their business substantially as the result of the loan, whereas for others this was more moderate. More detailed figures on the effects of the loan on the local economy will be included in an external evaluation conducted by PwC.

Impact of the projects on wider social and/or environmental results (SDG 5, 10 & 13)

- Unibank specifically targeted female entrepreneurs with the FMO loan and therefore the impact is most profound on SDG 5 and SDG 10. In the external evaluation a more in depth analysis will be provided of the effects of the loan on the business of the female entrepreneurs and their lives ultimately.
- Unibank doesn’t offer specific products for female entrepreneurs and the conditions of the loan are the same. A difference is however visible in the support which is provided to women entrepreneurs. Unibank provides more financial consulting / coaching to female entrepreneurs (through their loan officers). They also offer round table sessions to their female entrepreneurs for them to share experience and to also test new products. Finally, Unibank links clients to each other, to learn from each other and to do business together.
- The success rate for female entrepreneurs is higher than with male entrepreneurs. Women have a high level of education, are more risk avoidant and make more conscious decisions. NPLs for female entrepreneurs are also much lower than for male entrepreneurs and they are more punctual in making repayments.

THE ROLE OF FMO

Financial additionality

- Unibank partnered with FMO because of the longer tenor of the loan and because of the stamp of approval it provided. This is line with what was mentioned in the FP.
- Unibank is positive about the relationship with FMO. The only issue with the current loan is the price. Unibank could get a lower interest rate in the local market, only the tenor of these loans are much lower.
- Unibank would like to discuss with FMO further deepening of the relationship such as subordinated loans, shares or providing guarantees (and sharing risks).

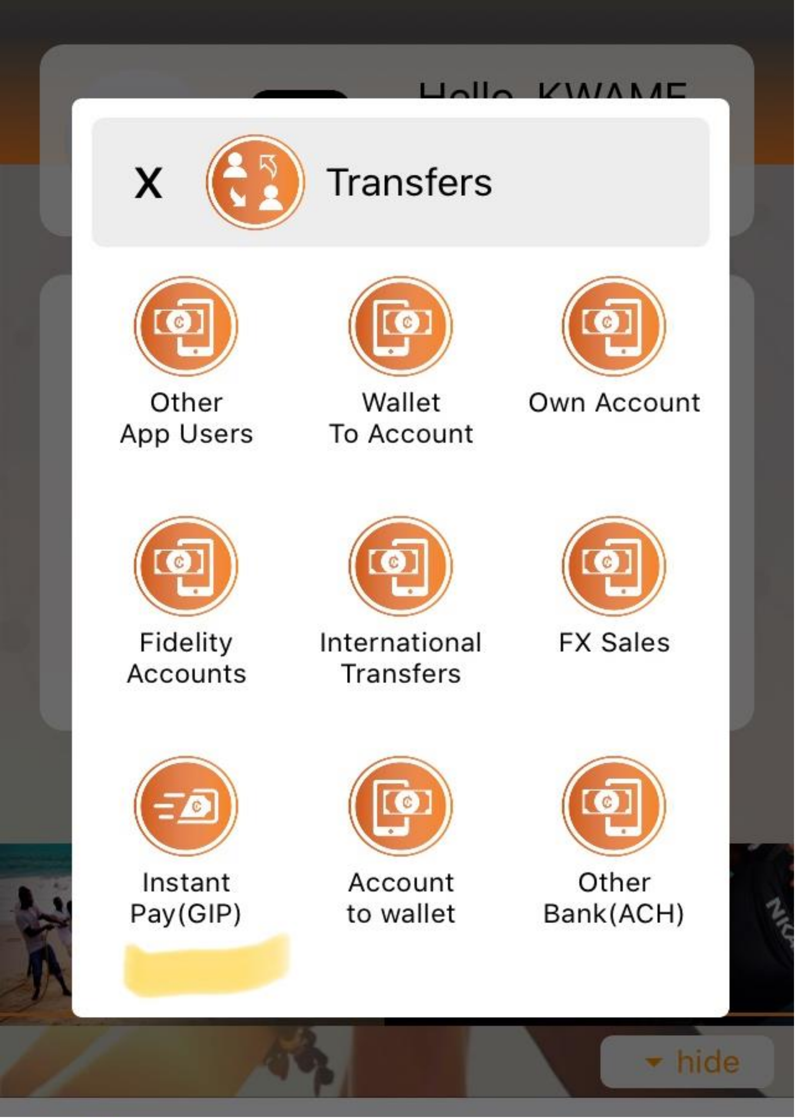
Non-financial additionality

- The primary source of additionality according to the FP was the on-lending to women entrepreneurs. This also became evident during the field visit. The loan has opened Unibank's eyes to the potential of female entrepreneurs. They have been able to grow their business for female entrepreneurs and have also realized that female entrepreneurs are actually 'better' clients. For example, female entrepreneurs take more prudent business decisions, take less risks and are better at timely repayments.

Conclusion on role FMO

- Unibank is an excellent example of where FMO has really been able to steer a client into the direction of an underserved target group. By doing so the business case of investing in women became apparent and our clients is planning on continuing to serve female entrepreneurs in the long run, even if FMO would no longer provide a loan.

Fidelity Bank Case Study



Client	Country	Contracted
Fidelity Bank	Ghana	Inv. 2010, 2014, 2016
Investment	**E&S Risk**	**Capacity Develop.**
(i) FMO loan USD 15 million; (ii) DEG led synd. USD 60 million; (iii) FMO led synd. USD 54 million	A	2011 – ALM & Risk Man. 2015 – Org. & Employee Develop. 2020 - Digitalization

- Ghana's economy is expected to grow from 6.3% in 2018 to 7% in 2019, and to average around 5% over the next few years, supported by new potential oil discoveries and mining.
- The country deficit is projected to reach 7% of GDP in 2019, driven by lower-than-expected revenues and spending on flagship programs. Central government debt is expected to increase to 63% of GDP by the end of 2019, driven in part by exceptional energy and financial sector costs.
- Ghana achieved middle-income status through steady economic growth. It placed the country at the forefront of poverty reduction in Africa. Ghana achieved the first MDG by reducing poverty from 52.7% in 1991 to 24.2% in 2012. Since then poverty only dropped by 0.8% (2016, latest survey).
- The Bank of Ghana continues to step up the financial sector reform, with strong focus on restoring the confidence in the sector (plagued by poor capitalization and corporate governance, and high NPLs).
- Fidelity is a well-run bank with the ambition to become one of the top three banks in Ghana (assets USD 1,34 billion, and the largest privately-held bank). Roughly, 10% of its portfolio of USD 286 million is allocated to SMEs, and it is diversified across most sectors of the economy. FMO has focused on supporting the bank's SMEs focus.

Development Impact

- **The growing focus of Fidelity on SME lending contribute to the growth of the Ghanaian economy and the increase of its productivity. Therefore, it also fosters the creation of high-quality jobs (SDG8), which are relevant for making a significant dent in the country's prevailing social vulnerabilities (SDG1, SDG5, SDG10). The following are some of the underlying reasons:**

  - Fidelity's supply-chain approach to SME financing focuses on sectors with strong potential for job creation for the poor, the unskilled, and the uneducated people. They are sectors such as agriculture, agribusiness, food, beverage, wholesale and retail trade, health, education, textile, accommodation, and tourism. This is important in the Ghanaian context because:
    - Though the rate of job creation has kept pace with population growth (except for the youth segment), it has not kept pace with economic growth which was driven by the capital-intensive and jobs-poor extractive sector.
    - MSMEs and self-employment continue to absorb a large share of the labor supply. Almost 54% of total employment is provided by *informal* MSMEs and household enterprises; meanwhile, the *formal* private sector provides only 2% of total employment. Moreover, SMEs suffer from a *'missing middle'* issue as they struggle to access to finance and grow.

  - The strategic focus of Fidelity on lending to SMEs introduces competition in the context of their limited access to finance, at high interest rates, and with a fragile microfinance sector. Interest rates and spreads on loans to SMEs are high because of a combination of lack of competition, banking sector inefficiency, and risk premiums for smaller borrowers associated with lack of collateral or information on creditworthiness.

  - Fidelity's efforts to improve SMEs' financial literacy and the expansion of digital financial services are crucial to enhance financial inclusion. Ghana lags other middle-income African countries in terms of financial inclusion: 42% of adults remain without formal access (e.g., women, youth, the poor, and those living in rural areas), and access to mobile money is still low at 29%. FMO's upcoming CD on digitalization has the potential to play a significant role in updating Fidelity's digital footprint.

FMO's Additionality and General Role

FMO Entrepreneurial Development Bank

FMO delivered financial additionality:

- Tenor: The tenors offered were 5-year (2010), 7-year (2014), and 5-year (2016). These tenors are yet to be available to Fidelity from commercial lenders for on lending to SMEs.
- On-lending: FMO's funding increased the supply of SME finance in the country.
- Subordination: FMO participated in a subordinated loan syndicated by DEG of USD 60 million (2014), providing a risk buffer to commercial investors in the bank.
- Mobilizing / Catalyzing: FMO arranged in 2016 a USD 54 million syndication: A-lenders, FMO and BIO; and B-lenders, Oikocredit, Symbiotics, and Incofin (FMO also sold a risk participation to Privium). FMO's leadership allowed to increase the funding available for SME lending, as well as provided an opportunity to other impact investor to deliver on their mandates.
- Stamp of Approval: The early FMO's engagement with the Fidelity Discount House (early 2000s) provided comfort to other development banks and commercial investors which later supported Fidelity (according to interviews).
- Long-term Partnership (SDG 17): FMO has remained a committed partner since the early 2000s in times of "boom-and-bust". Beyond the financial support, Fidelity valued the quality of the strategic advice received, and the knowledge shared via CD, as well as the FMO's flexibility to adjust covenants to the country context (unlike other DFIs & MDBs).

FMO also delivered ESG additionality:

- E&S Risk Management: FMO built the capacity of Fidelity to manage E&S risks. This included: (i) support to set in place the relevant, procedures, guidelines, and organization (including moving E&S from Risk to Credit); and (ii) more importantly, Fidelity collaborated with FMO to pilot / develop the EDFI's Harmonized E&S Approach for Fis and its embedment in the bank's MIS.
- Inclusive Development: FMO through the combined strategic deployment of advice, capacity development, and financial support catalyzed the Fidelity's focus on SME reach.

General Role of FMO:

- FMO nurtured a partnership with Fidelity which helped this Ghanaian bank to approach the SME segment, which is plagued by limited: access to finance, financial literacy, and digital finance. In this process, FMO also helped to increase competition in the SME-lending market in the country.
- Going forward, there seems to be room for FMO to enhance its current efforts to support Fidelity with developing green lines, supporting financial literacy, and increasing digitalization.