

Management letter MASSIF and B-CD evaluation

As a development finance institution, FMO's aim has always been to advance local prosperity by seeking ways to empower the local economy. We help reduce inequality by providing access to finance, and by investing in initiatives that support climate action, including a green energy transition.

Every five years, the Dutch government commissions an external evaluation of MASSIF to examine to what extent the fund's activities meet the goals and expectations set by the subsidy agreement. We manage the MASSIF fund on behalf of the Dutch government. MASSIF's objective is to increase access to financial services for micro-, small- and medium-sized entrepreneurs. With the fund, we can invest early on, taking high risks and by doing so, catalyze new investors into the financial inclusion space, which includes FMO. The evaluation conducted by SEO Amsterdam Economics examined MASSIF's performance in achieving its mandate for the 2015-2019 period. This is relevant, not only because we want to ensure we deliver on the mandate entrusted to us, but also because the evaluation provides us with critical feedback that helps us constantly improve.

A second objective of the evaluation was to assess whether the B-CD fund was effectively and efficiently used. In 2015, the Ministry provided FMO with a EUR 4.95 million grant to support its Capacity Development (CD) program with funding for 'Green' and 'Gender' projects.

Main findings and recommendations - MASSIF

We appreciate the findings that MASSIF operates in line with its mandate and in close alignment with the Ministry's development policies, with around 40 percent of investments taking place in Africa and 25 percent in Asia and primarily in the four key areas: the unbanked, agriculture and rural livelihoods, women (M)SMEs and innovation in inclusive business. FMO is also pleased with the results confirming that MASSIF is run efficiently and is additional to the commercial market and DFI capital, including FMO's, and mobilizes other investors by reducing the companies' perceived or actual risks. Furthermore, we value the finding that the Capacity Development projects financed through MASSIF offered significant non-financial value by positively impacting the companies and end-beneficiaries.

The evaluation report also highlights a number of recommendations, among them the need for improving MASSIF's results framework and impact measurement. While we agree and acknowledge further developments can be made, at the same time, we would like to note that MASSIF's impact reporting is in consonance with the agreement between FMO and the Ministry of Foreign Affairs. The outcome of previous evaluations and reports have already resulted in MASSIF stepping-up reporting by publicizing its Annual Reports and increasing the reported impact indicators over the last two years. FMO remains committed to enhancing impact



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measurement and will convene with the Ministry of Foreign Affairs to discuss improvements in the results framework.

The evaluation also notes to improve FMO's elaboration of additionality and distinguishing additionality relative to commercial investors, DFIs, and FMO-A in the Financial Proposals. FMO recognizes the value of further capturing the additionality of the investments. This recommendation will feed into a review of how FMO documents and substantiates additionality.

To improve articulation and measurement of impact, the evaluation recommends to better capture demonstration and mobilization effects, and benchmarking investment's impact targets to the contexts of the countries we invest in. We partly agree with these recommendations. While we value the importance of capturing mobilization and demonstration effects more systematically and will explore concrete steps we can take to improve on this point; FMO does not consider optimal developing its own database to benchmark. Staff can take advantage of already available external sources or databases to benchmark impact targets and we will explore how to facilitate this.

Main findings and recommendations B – CD fund

The evaluation commissioned by MoFA concludes that the fund was an effective instrument to encourage FMO to do more 'gender' and 'green' capacity development projects. The fund exceeded the target for Green projects, almost met its target for Gender projects and concludes that it was a useful instrument to encourage FMO to enter new focus areas or new markets.

The evaluation report highlights a few points for improvement, among them, it is worth mentioning the strengthening the substantiation of additionality, the resourcing of the CD team (which was also a finding in the Massif evaluation) and improving the overall measuring and monitoring of the long-term outcomes and impact. These recommendations are useful and will be also relevant to CD projects from other funding sources. FMO recognizes the value of the CD projects for clients and to this effect, will work on the professionalization of our current CD impact measurement system as part of the CD operationalization project.

FMO thanks the evaluation team and the numerous stakeholders who contributed to this evaluation. The recommendations provided will sharpen our focus and progress towards the SDGs.

About FMO

FMO is the Dutch entrepreneurial development bank. As a leading impact investor, FMO supports sustainable private sector growth in developing countries and emerging markets by investing in ambitious projects and entrepreneurs. FMO believes that a strong private sector leads to economic and social development and has a close to 50-year proven track-record of empowering people to employ their skills and improve their quality of life. FMO focuses on three sectors that have high development impact: financial institutions, energy, and agribusiness, food & water. With

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