FMO

Entrepreneurial
Development
Bank

INFRASTRUCTURE DEVELOPMENT FUND

Annual report

2017

Infrastructure Development Fund (IDF) is a critical enabler of transformation towards sustainable social and economic growth in developing countries

Government of the Netherlands

FMO has a dedicated team – Public Investment Management (PIM) – for the management of government and public funds, which consists of MASSIF, the Infrastructure Development Fund (IDF), and the Access to Energy Fund (AEF). The total committed portfolio of these funds amounts to €1,171.2 mln as per December 31, 2017.

IDF is a critical enabler of transformation towards sustainable social and economic growth in developing countries.

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IDF AT A GLANCE

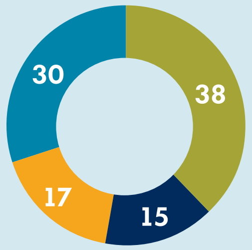
The Dutch Ministry of Foreign Affairs and FMO established Infrastructure Development Fund (IDF) in 2002 to support private investments in infrastructures in developing countries. IDF is a critical enabler of transformation, bringing countries' development paths towards greater sustainability by enabling social and economic growth. By acting as first mover and by offering risk capital to make projects bankable, IDF catalyzes private parties willing to invest at financial close or at a later stage. The IDF finances infrastructure projects that can make a significant impact on socio-economic development in developing countries.

Achievements 2017

contribution by government

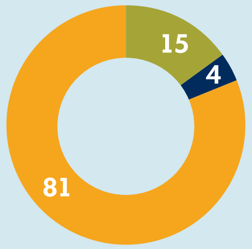
€354.5 million

Portfolio by Product
(in % as of 31 Dec 2017)



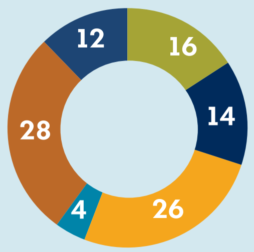
Loans
Equity direct
Equity fund
Mezzanine

Portfolio by Currency
(in % as of 31 Dec 2017)



EUR
Local
USD

Portfolio by Customer type
(in % as of 31 Dec 2017)



Agribusiness
Infrastucture
Other diverse sectors
Telecom
Mixed renewable
Non-renewable

61
Total investments

€2 bln
Public finance catalyzed

€1.4 bln
Commercial finance catalyzed

26 mln
Beneficiaries reached

40,138
Direct jobs supported

10,302
Direct jobs supported women

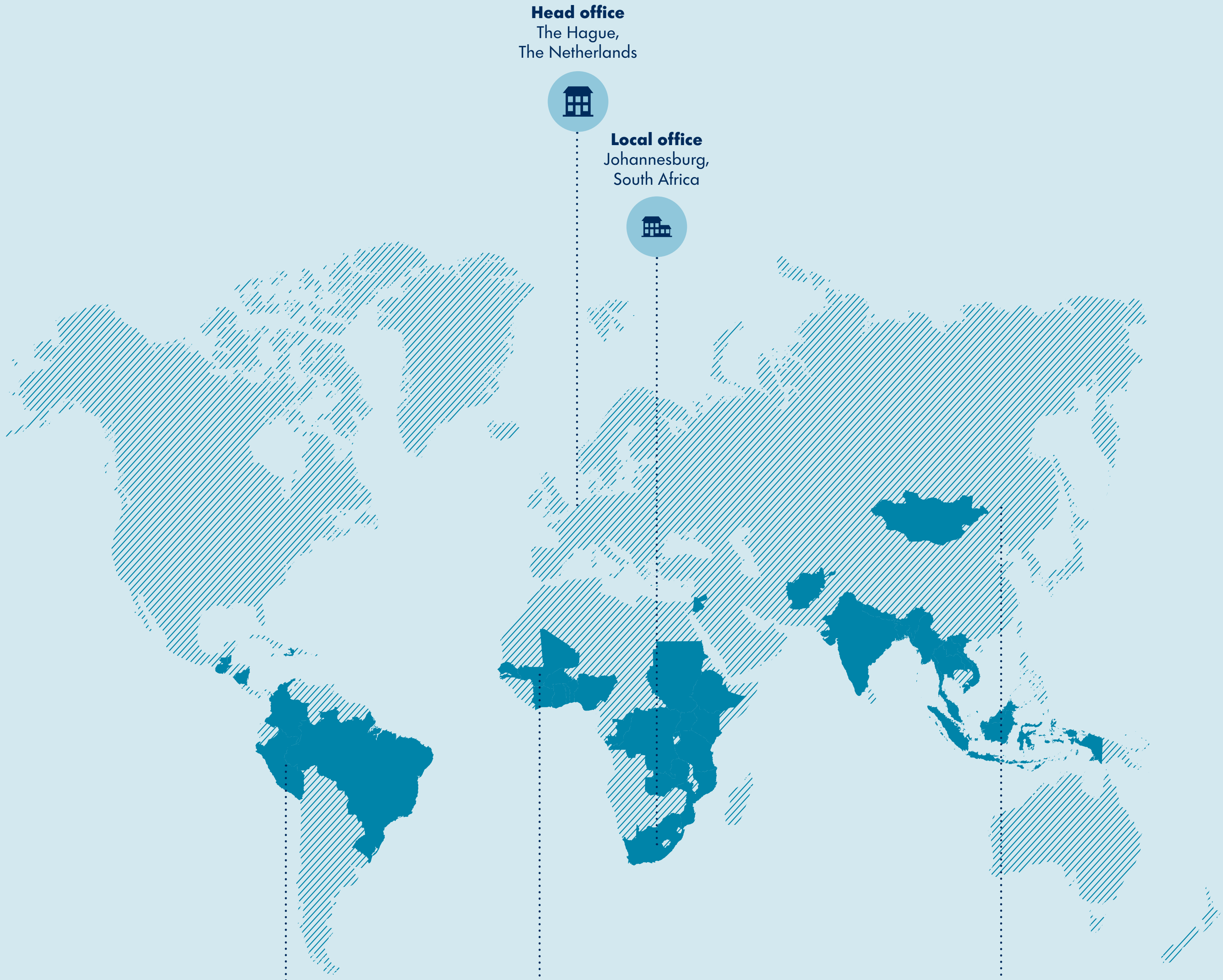
882 MW
Installed capacity

1.3 mln
Indirect jobs supported

557,882
Indirect jobs supported women

8,291,049
tCO_2eq/yr
GHG Avoidance

92,1%
Revolvability



Total committed portfolio by region (per 31 december 2017)

Latin America & the Caribbean	Africa	Non-specific region	Asia
€32 mln	€284 mln	€35 mln	€80 mln

Total committed portfolio

€431 million

LETTER FROM THE FUND MANAGER

We are pleased to present to you the IDF Annual Report for 2017, a year in which IDF returned to calmer waters. After record disbursement levels in 2016, the Fund needed to adjust its commitment levels downwards in order to align to the Fund's long-term liquidity requirements. The total commitments in 2017 for IDF amounted to EUR 28.4 mln, which is a good result and helped bring back stability to IDF. The deal flow is steady and contributes to a robust pipeline. Now that the liquidity situation for the Fund has normalized, an increase back to EUR 50-60 mln in commitments is expected for 2018.

During 2017, FMO reviewed its strategy and made the decision to select key focus sectors[1]. This raised some questions about FMO's vision on investing in infrastructure and the compatibility with IDF for the future. Some analysis shows the impact on IDF is limited. Currently, 85% of IDF's portfolio consists of projects in FMO's new focus sectors, aligning with FMO's[2] Strategy 2025.

In 2017, an external evaluation took place which is expected to be finalized in Q2 of 2018. The evaluation covers the entire history of IDF since 2002 and comes as the end of IDF's current mandate is approaching.

In these 15 years, IDF has gone through many stages, evolving from a EUR 181.5mln Fund with the purpose to invest in 6 Lower Income Countries (LICs), into a EUR 362mln Fund. The Fund has been predominantly deployed in Least Developed Countries (LDCs) and Lower Middle-Income Countries (LMIC), with 76% of the portfolio in LDCs. Today, a total of EUR 431 mln has been committed into high risk projects covering 61 facilities, 51 different clients and 26 countries. IDF has a climate marker, which is assigned by the Dutch Ministry of Foreign Affairs when more than 40% of investments have a positive effect on climate.

FMO greatly values the IDF and will propose to the Netherlands Ministry of Foreign Affairs to extend the mandate and continue the close cooperation to ensure that Dutch public finance can have a multiplier effect on private investments in sustainable infrastructure.

In 2017, three new blended energy projects were initiated. These blending structures use a minimal amount of IDF funding to catalyse a maximum amount of FMO's own funding ('FMO-A') into projects that are deemed too risky to be supported by FMO's capital alone. In total, such structures within IDF's portfolio have resulted in EUR 13.6mln of IDF funding in 2017, which catalysed EUR 29.9mln FMO-A Funding.

IDF fills a niche by focussing on projects that have a risk profile that is too high for FMO. Inherent to high risk is that projects can default. The Special Operations ('SO') team is specialized in handling difficult situations. Their ultimate goal is to restructure and return projects to the Front Office. Currently five IDF projects are managed by SO as compared to nine projects in 2016. During 2017, two projects were completely written off[3])). There was also a complete transfer back to the front office of Kenmare Resources (outstanding EUR 7mln) and Polaris Energy (outstanding EUR 5.2mln). Of the five projects that are still at Special Operations, four were transferred to SO years ago and they make up EUR 67mln or 91% of the non-performing portfolio.

The revolvability of IDF[4], was, 92.1% per Dec 17, from 94.9% in Dec 2016. The total asset value has decreased as a result of the depreciation of the USD dollar. This resulted in a negative FX result of 22.8mln.

The total financing catalyzed at 31st December 2017 (both from development finance institutions and commercial finance parties) is EUR 3.4bn. Compared to the funding received from the Ministry of Foreign Affairs, this is a multiple of more than nine. The total number of jobs supported through IDF financings in the current portfolio is 40,138. We estimate the number of people reached to be 26 mln.

A total of 45% of IDF's portfolio per year end 2017 is committed to Green projects (total of EUR 199 mln). Investments are considered "green" when they mitigate climate change, support biodiversity conservation, reduce waste usage or when they promote sustainable forestry and agriculture practices. In 2017, 67% of new IDF commitments were considered green.

IDF remains a highly relevant and impactful policy instrument. Its structure, broad mandate and financial solidity enable IDF to support projects and opportunities that have the potential to generate high impact. By being a first investor, IDF can take on the high pioneer risks and adjust the project's overall risk profile in such a way that it attracts private capital. Looking ahead, IDF will continue to support the development of broad infrastructure, while focusing on mitigating climate impact and the inclusion of individuals at the base of the pyramid.

1. These are Agri, Food & Water (AFW), Energy, Financial Inclusion. In addition, FMOs Private Equity department is active in various sectors.
2. https://www.fmo.nl/news-detail/710b9b39-af2b-4638-9c52-309b753ddb45/fmo-your-preferred-partner-to-invest-in-local-prosperity
3. Usher Agro (EUR 7mln) and DLO Haiti (EUR 1mln)
4. Revolvability is the Net Asset Value of the current portfolio over the Funding received from the Dutch Ministry of Foreign Affairs.

OUR STRATEGY

Sector strategy

IDF finances infrastructure projects that could have significant impact on socio-economic development in emerging countries. Additionally, Climate Mitigation is an important focus theme for both the Fund and FMO. Investing globally in more and new projects with an infrastructure character, promoting renewables and improving energy efficiency will continue to solidify the climate marker status for IDF.

At the end of 2018, IDF's current mandate will end. Since early 2017, the end evaluation has been on-going, commissioned by the Dutch Ministry of Foreign Affairs, which hired a consortium called ADE to perform the evaluation. The conclusions and recommendations are expected in Q2 2018. On the basis of the evaluation and in consultation with FMO management and staff, preparations for a new strategy will start. On the basis of this strategy, a dialogue will take place with IDF's funder, the Dutch government, to explore the feasibility of renewing the mandate of the Fund. There remains an undiminished need in the market for infrastructure-related development finance.

In the meantime, IDF fund management will continue to work under the current existing investment mandate of de-risking and unlocking capital into high-impact enterprises. At the same time, new innovative concepts are being explored. New sector initiatives could benefit from IDF funding. At present a Sector Strategy Paper for Forestry and Rice are pending with FMO's Private Equity and Agri Front Office departments.

Investment themes

Agriculture Food and Water ("AFW")
The AFW department is focusing on agroforestry, agro processing/co-generation, backward integration (e.g. renovation of plantations) and climate smart agriculture (e.g. drip irrigation).

The mandate of IDF includes Forestry projects. Forestry projects have a high development impact: the CO2 reduction is very high and there is an additional social/inclusive impact through community development projects in rural areas and employment creation. The investments in Forestry need to have long tenors, with back-ended cash flows. Several forestry projects are under development in FMO. These deals are high-risk, complex transactions that have a long lead and structuring time. A dedicated team has been working on a strategy paper for Forestry that will set clear criteria for the further development of this sector within FMO so that we ensure a constructive approach.

Energy
Operating in the renewable energy market remains risky and challenging. This makes it difficult for investors to find partners to team up with. The combination of risk-bearing IDF funding and FMO investment expertise and knowledge, provides an excellent position to support a range of players in the market.

In the off-grid sector, access to sufficient and stable income is a major challenge for many households. FMO is exploring the market of off-grid energy players. We scrutinize the different business models and do small development equity investments funded by IDF to support promising businesses. IDF can then follow up with a larger equity investment when the business proves to be successful. We support those off-grid businesses that provide the best and most affordable energy solutions to the end clients. The equity stake in Kingo, Ignite Holding (converted in 2017 from development equity to a pure equity stake in the company) is such an investment example.

Private Equity ("PE")
Following intensive market research in the course of 2016, in 2017 the PE department has complemented the focus of Fund investment opportunities, indirectly investing in portfolio companies across different industries and countries, with platform investment opportunities. This will help build partnerships within the framework of that platform, with direct access to direct equity investments in development, construction and operational projects. This allows for differentiating financial risk over different types of asset classes

Venture Capital ("VC")
FMO is in the process of setting up a VC platform that will become relevant for IDF as well. The Fund has already in the past supported investment opportunities in very early stage companies, sectors and technologies. The investment in Envirofit and Kingo are such examples. Another example is the Novastar Co-investment Facility. Investing in this segment is a clear strategic fit with IDF, that can select opportunities that have the potential to be brought to scale. The Novastar Facility, for example, allows IDF to invest in three to five ventures that have an infrastructure element (like sanitation, healthcare, Wi-Fi and microforestry) that are specifically focused on the base of the pyramid. The proposed VC platform will have a blending character in which IDF can play a role catalyzing FMO-A and ensuring more focus on this early stage technology segment in infrastructure.

NL Business
The NL Business department is set up along two lines of business: Project Development and Export Finance. Within the department, several drinking water projects have been identified that need an interim financing solution. This will allow them to incorporate various operational improvements and subsequently reach bankability. We are currently assessing how IDF can support these projects.

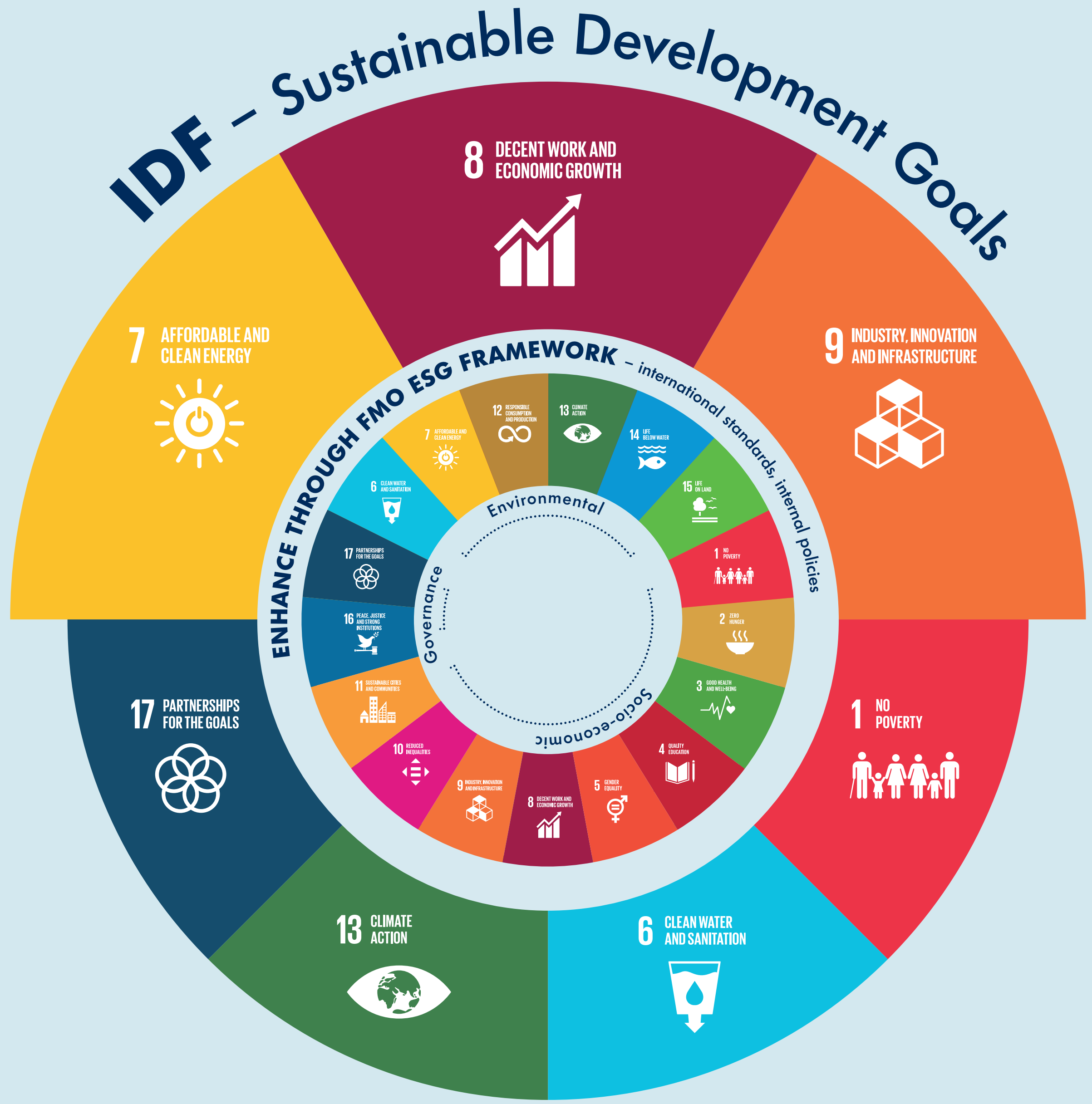
IDF AND THE SUSTAINABLE DEVELOPMENT GOALS

On 1 January 2016, the 17 United Nations Sustainable Development Goals officially came into force. The SDGs call for action by all countries and parties – government, civil society and the private sector – e.g. to end extreme poverty, reduce inequality and tackle climate change by 2030.

The SDGs provide a framework for different stakeholder groups to align and prioritize impact objectives. Our stakeholders consistently emphasize the importance of reducing inequality, with particular attention for improving gender equality, and combatting climate change. The Dutch government is actively incorporating the SDGs into its agenda, and the financial sector as a whole is also increasingly endorsing the SDGs. At the Global Impact Investing Network, held in Amsterdam in December 2016, FMO and seventeen other Dutch financial institutions, collectively managing over € 2.8 trillion in assets, invited the Dutch government and Dutch Central Bank to continue to make a concerted effort with them in support of the United Nations Sustainable Development Goals. The initiative is the first in the world to bring together national pension funds, insurance firms, and banks around a shared SDG investment agenda.

Key focus: Reliable infrastructure
Although infrastructure is an important component in many sectors, the mapping of the investments of IDF showed that most investments contribute to SDG 7, SDG 8 and/or SDG 9. Through investments in on- and off-grid solutions, the fund provided people with access to energy thereby contributing to SDG 7. SDG 8 is positively impacted with the development of infrastructure projects through the support of direct and indirect jobs. Through investments in tollways, ports, and transport IDF contributes to SDG 9: Infrastructure, Industrialization and Innovation.

Investment themes
Through its investments in infrastructure IDF indirectly contributes to additional SDGs. With investments in forestry projects GHG emissions are avoided, which positively impacts SDG 13. The fund contributes to SDG 6 with investments in water projects, as a result of which people have access to safe and affordable drinking water. As infrastructure is related to an integrated part of development, investments in reliable infrastructure in LDC reduces the inequalities between countries. Thanks to the collaboration with the Dutch government and the catalyzing role of IDF, the Fund is a great example of how the partnerships for the goals should work (SDG 17).



OUR BUSINESS MODEL

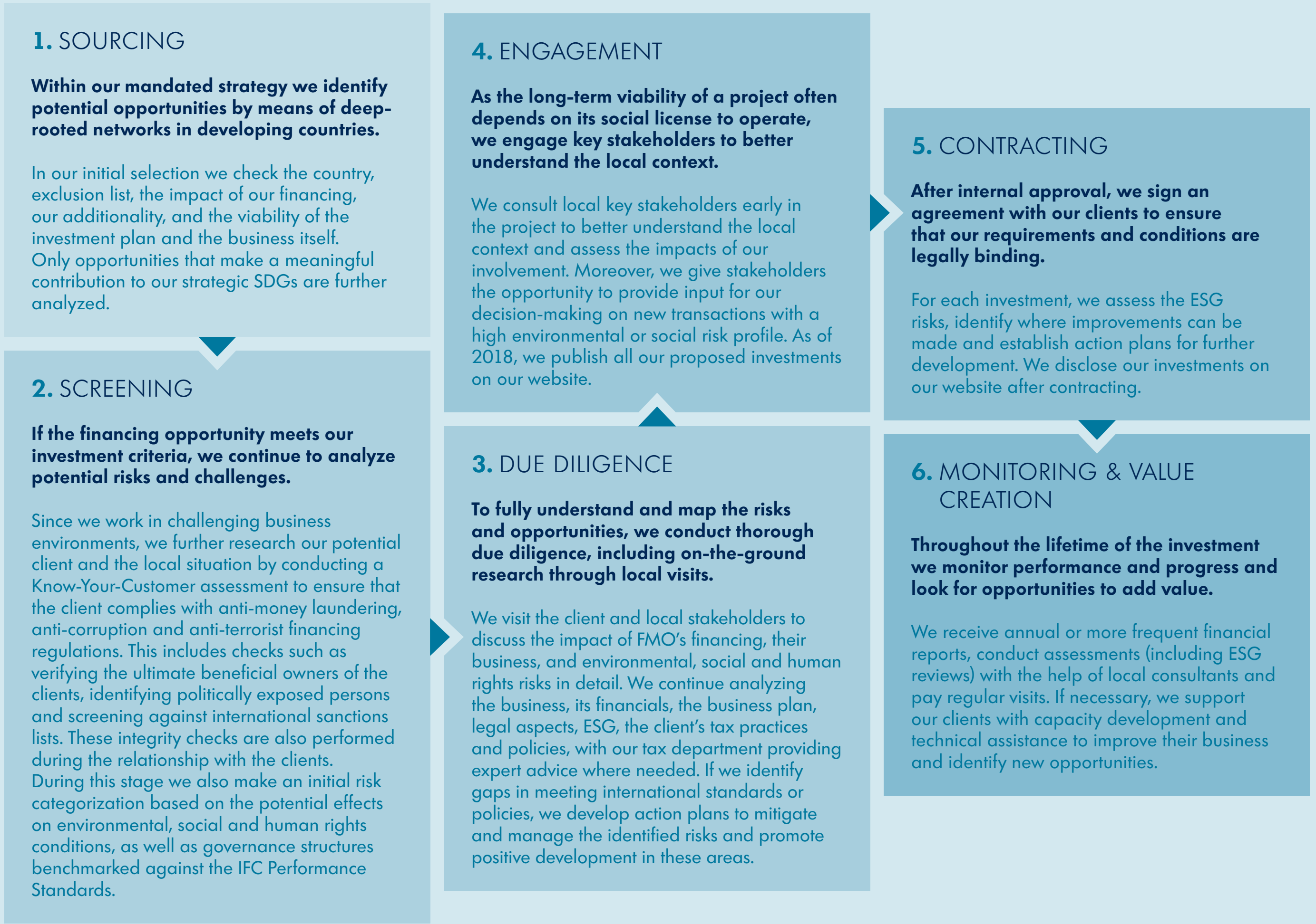
The visual shows how IDF creates value for its stakeholders, by steering on the strategic priorities that we set and making use of the various financial and non-financial capitals (inputs) that we control.

Our strategic priorities
Our strategic priorities are developed and adjusted in response to our key stakeholders. Naturally, we align our priorities to broader worldwide developments and priorities. The SDGs are of overarching importance, as they provide a joint public and corporate agenda that supports us to steer its priority areas on impact.

Our key inputs
We have cutting-edge knowledge of ESG and finance in developing countries, as is illustrated by our solid track-record as a Fund Manager. This strength is supported by an internal culture that is typified by a drive to fulfil our mission and the willingness to take risks; yet balanced by a strong risk awareness. FMO's employees exemplify our corporate values: engagement, excellence, cooperation, and making a difference.

Our networks, including networks of clients or financial partners as well as knowledge partners, are also crucial to our business model. Our financial partners are other development finance institutions, commercial investors and banks as well as governments. They leverage our own capital, allowing us to increase our impact beyond our own financial means. Our knowledge partners help us transfer best practices to our clients.

OUR INVESTMENT PROCESS



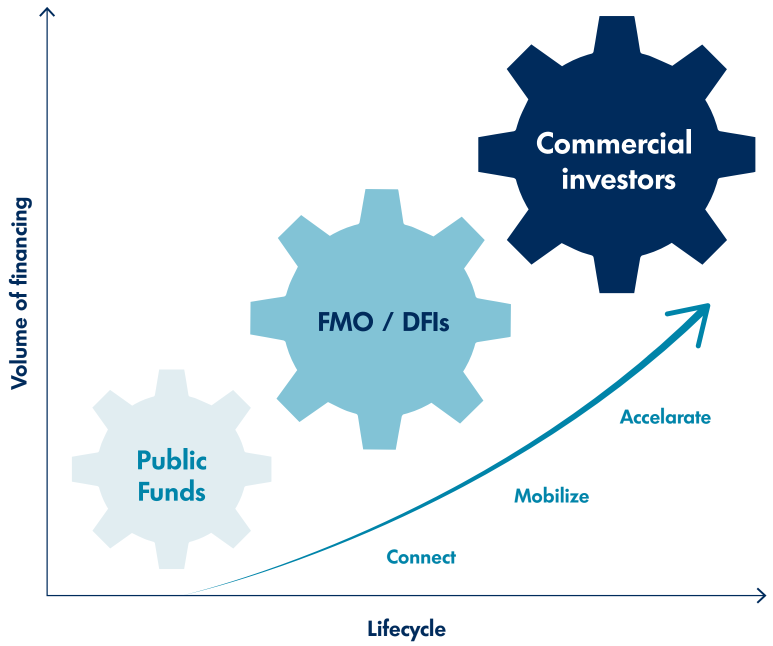
IDF & PRIVATE SECTOR DEVELOPMENT: OUR BLENDING APPROACH

FMO manages several Private Sector Development (PSD) programs on behalf of the Dutch Ministry of Foreign Affairs. In 2002, FMO and the Dutch Government established IDF to support private investments in infrastructure in developing countries to better serve entrepreneurs and consumers at the lower end of the financial market. In addition to IDF, FMO also manages other public funds for the Dutch Government, which all invest in higher-risk projects. The other funds are Access to Energy Fund (AEF) – which funds private sector projects that create sustainable access to energy services, and MASSIF – the financial inclusion fund that focuses on small businesses and micro-entrepreneurs, women and youth entrepreneurs, as well as supporting innovations in inclusive business.

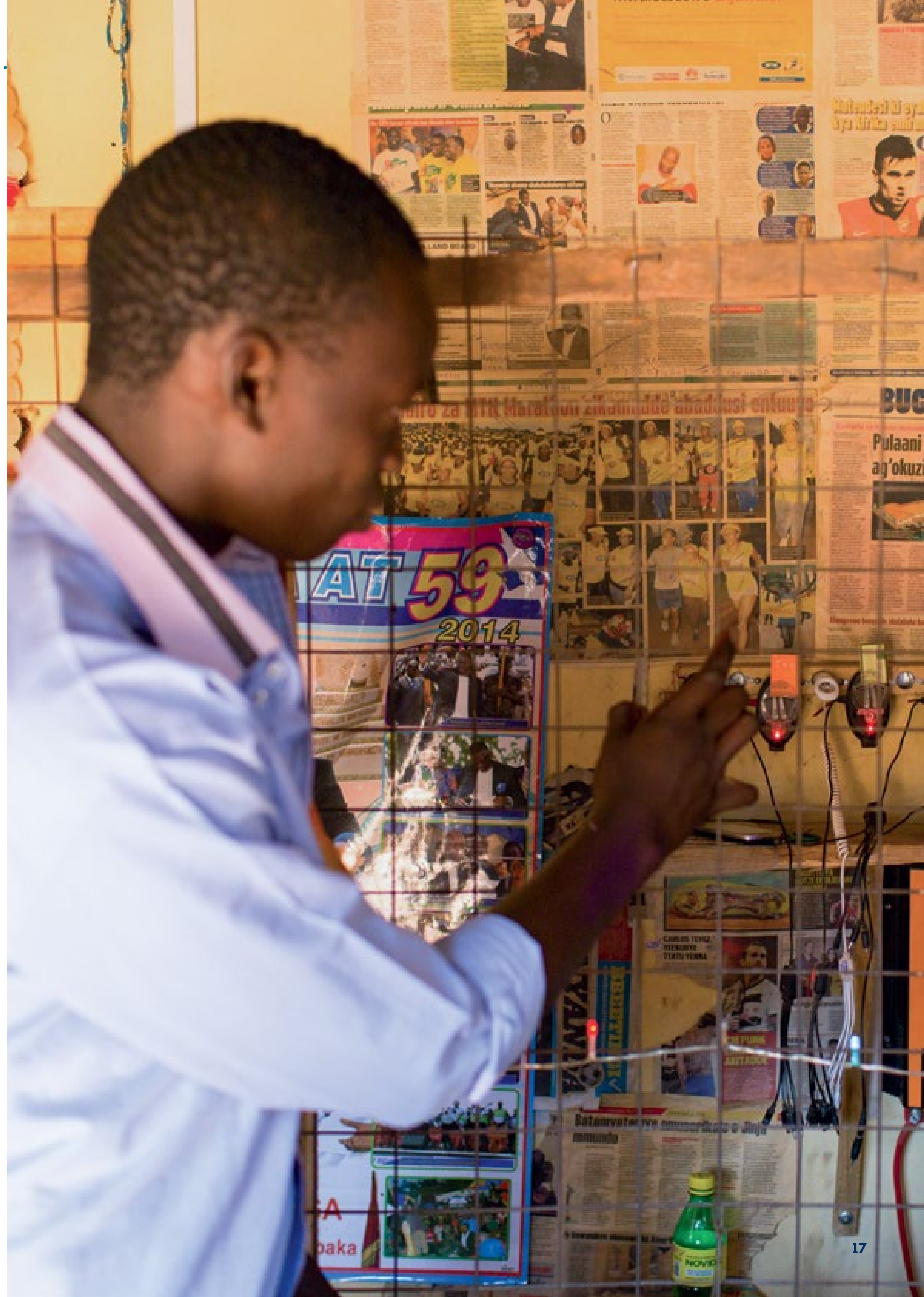
The SDG development agenda requires significant levels of investment and partnerships between governments, donors, investors and the private sector. If investments continue at current levels, they will be insufficient to achieve the goals: the existing investment gap for developing countries is estimated to be USD 2.5 trillion a year (UNCTAD[3]). As such, there is a large need to mobilize and channel capital from the private sector. The investment gap requires significant additional finance from parties that are currently not investing in projects and markets that are crucial to achieving the SDGs.

To achieve the SDGs, it is of utmost importance that investment capital is flowing to those countries that are least developed, and where the SDG development agenda can create the largest impact. But while having sound business models and projected returns, many investments in developing markets are perceived to have a higher risk profile – often associated with immature financial markets, information asymmetries, market failures, or more general economic and political instability. Blended finance, which has the objective to mobilize finance for the SDGs through the blending of public and private funding, can play an important role by de-risking high-risk markets that otherwise would not be served. Public funds can therefore be highly additional to markets as they contribute to the development and growth of local economies in emerging markets where stable public and private funding sources are scarce, and the risk appetite of local commercial investors is limited.

The funds that FMO manages on behalf of the Dutch government have a longstanding record of catalyzing other investors, for example by providing a junior tranche, a longer tenor, or a local currency product. In addition, the funds' financing and technical assistance grows and strengthens organizations to eventually graduate them out of the funds' portfolios to FMO, other development finance institutions, or commercial investors. By improving the immediate risk profile of an investment (e.g. by taking a junior tranche) or the long-term risk profile of an organization (e.g. by enabling early stage businesses to grow into organizations that are bankable for commercial parties), more commercial funding can be attracted. Through the blended finance approach, whereby MASSIF, IDF and AEF de-risk transactions and crowd-in FMO and other development finance institutions (DFIs) as well as other market parties, the government funds operate as a lever that catalyzes additional capital into higher risk markets.



5. UNCTAD (2014), Investment, Infrastructure and Financing the Sustainable Development Goals, retrieved from: http://unctad.org/Sections/dite_dir/docs/diae_stat_2015-02-16_WTO-aid-for-Trade_en.pdf



Jordan, Refugees and Solar Energy

The Government of Jordan estimates that over 1.3 million Syrians (of whom 661.859 registered with UNHCR as refugees) and around 2.5 million people from other countries such as Iraq, Yemen, Palestine and Sudan have sought sanctuary within Jordan. The country proves to be a safe haven in times of regional crises, such as during the Syrian war which is still ongoing. The large number of people entering Jordan and especially the pace in which the influx of Syrian refugees took place in the past years, has put a high burden on Jordan's public services and host communities.

Primary goods such as food, water and housing, and public services such as electricity, health and education need to be shared with a lot more people, leading to scarcity and rising prices. In addition, the country`s economic growth is low and unemployment, especially under young people is high. This threatens Jordan`s social stability. Besides patience and compassion from Jordanians, external support from the international community is required to face the country`s challenges.

I therefore highly support FMO`s recent developed strategy for Northern Africa and the Middle East to make lending available for recovery and reconstruction efforts in these countries which are impacted by the refugee crisis, including Jordan. FMO with the help of the Infrastructure Development Fund (IDF) and in cooperation with our embassy, has proven to be able to provide targeted support in the development and construction of key infrastructure projects. The provision of access to long term finance for several investments in Jordan, add directly to the country`s resilience and solve some of the urgent hurdles the country must overcome in order to realize sustainable economic growth.

In 2017, the Infrastructure Development Fund invested for instance in the development, construction and maintenance of a solar power plant in the Mafraq region in northern Jordan. This solar power plant will generate approximately 143GWh annually, serving approximately 60,000 customers. By generating electricity from a renewable energy source, this solar plant is expected to contribute to a diversification of Jordan's fuel mix and to provide for more energy security. By generating electricity from a domestic resource, this kind of interventions turn challenges into opportunities.

I would like to express my sincere gratitude to FMO for their professionalism and flexibility and I am looking forward to our continued cooperation.

Barbara Joziasse
Ambassador of the Kingdom of the Netherlands to Jordan

SDGs
Novastar will be investing in basic goods and services for low income customers, thereby helping them out of extreme poverty, reducing the inequalities within the countries.

Searching for business model innovation, Novastar contributes to higher productivity and thus economic growth.

Novastar is an early stage growth capital fund focused on developing and growing businesses in Kenya and Ethiopia that have innovative and scalable business plans that are inclusive.

Novastar ventures

Novastar invests in innovative companies that aspire to be transformational in solving bottlenecks for low income and base of the pyramid (BoP) target groups. MASSIF invested in Novastar in 2013. IDF and MASSIF have set up a facility to co-invest alongside Novastar to enable follow-on investment in these high impact and high performing investees. Via the above mentioned facility, IDF now directly contributes capital to high impact companies and is facilitating Novastar to optimally allocate across a broader portfolio. So far, the facility has invested in Komaza, SolarNow and Sanergy.

Current situation
Early stage and SME growth capital is scarcely available in the East African region. Still many at the BoP and low income households lack access to affordable goods and services.

Challenge
Investing in these early stage companies translates into a high risk, since many of the investments are still in a pre-profit phase. Nevertheless, each portfolio company has its own challenges that come along with the investment.

Opportunity
By providing scarce capital the fund enables the portfolio companies to explore new business models, targeting the BoP with products and services in essential sectors, such as healthcare, education and energy.

Sector
Fund

Investment
USD 5 mln (2017)

Instrument
Equity

Highlights

Over the course of 2017 we have reached our strategic targets, created lasting development impact and have maintained significant levels of production. Nevertheless, 2017 was also a challenging year for IDF, in which we coped with new market dynamics.

FMO is closely monitoring the portfolio and aiming for increased revolvability by scrutinizing risk factors of new transactions and encouraging smaller deal sizes in order to reduce concentration risk.

Production

FMO set the 2017 internal target at EUR 30mln; as per end of Q4-2017commitments amounting to a total of EUR 28.4mln have been signed.

Novastar Co-investment Facility: US$5 mln – equity co-investment facility MASSIF (Kenya)
Novastar invests in innovative companies that aspire to be transformational in solving bottlenecks for low income and base of the pyramid target groups. MASSIF invested in Novastar in 2013. IDF and MASSIF have set up a facility to co-invest alongside Novastar to enable follow-on investment in these high impact and high performing investees. So far, the facility invested in three companies, namely Komaza (Komaza is a vertically integrated micro-forestry-to-wood products company working with subsistence farmers in Eastern Kenya to address a large and fast growing market for wood and wood products.), Sanergy (Sanergy takes a systems-based approach to making hygienic sanitation accessible, affordable and sustainable in Kenya's urban slums.) and SolarNow (SolarNow was established in 2011 to meet the pressing demand for affordable high quality solar home systems among 4 mln off-grid households and entrepreneurs initially in Uganda, with planned expansion to other countries in East Africa).

Africa Improved Foods (Holding) BV: US$5 mln equity investment (Rwanda)
Africa Improved Foods (AIF) has been established in 2015 with DSM (47%), IFC (20%), CDC (20%) and FMO (13%) as shareholders. AIF is about to finalize construction of its food processing plant and start production of high nutrition foods. Key off-taker is the World Food Program (WFP). Due to adverse changes in market prices the expected earnings generated under the program will be reduced with US$11.5 mln. As a result of this and other setbacks the company will have a cash shortage of approximately US$16.5 mln for which shareholders agreed to jointly finance the cash shortage. Parties have agreed to a capital commitment by FMO of US$5 mln which is activated only if losses under the WFP are realized as well as increasing the equity stake in AIF Holding BV from 13.3% to 20.5%.

Ignite Holding Company Inc.: US$2.6 mln (€2.3 mln) – grant converted into equity investment (Guatemala)
Kingo Inc. (Kingo), tradename for Ignite Holding Company, is the first commercial venture in Central America rolling out off-grid prepaid energy solutions for households. Kingo installs solar home systems, which remain the company's property and distribute prepaid energy credit through local distributors (shopkeepers). Customers can purchase energy credits according to their budget and their energy needs. The objective of the US$2 mln convertible loan was to allow Kingo to continue expansion in the market and be able to show significant growth on solid/validated business model to support the US$12 mln equity raise through series B contemplated at the end of 2016. The convertible loan has been successfully converted into an equity stake of 5.1%.

Alsafawi for Green Energy Private Shareholding Company – US$ 4,682,687 (Jordan)
Alsafawi for Green Energy PV is 50MW power plant project. The Project site is located within the Badiya Al-Shamaliyeh district, which contains several cities and villages; the closest is Al-Safawi village, located 13km to the northeast of the Project site. FMO-A provides its finance (USD 29.7 mln) together with EBRD under a B-Loan. Both the IDF and the FMO-A tranches are part of the same senior secured B-loan facility, pari passu to EBRD's senior secured A-loan. The project aims to have positive environmental and economic impacts on the strategic and national level given the current challenges the energy sector in Jordan is facing.

Africa Sustainable Forestry Fund Limited II – US$10 mln (Africa)
AFF II, USD 20m co-investment from FMO-A and IDF, will take controlling stakes in timberland assets across SSA, with a focus on Southern and East Africa. The strategy will focus primarily on rehabilitation of existing plantations, associated downstream processing opportunities, biomass heat and energy cogeneration. By supporting sustainable forest plantation management - all investees are Forest Stewardship Council (FSC) certified or working towards FSC certification - the investment in AFF II is expected to deliver a range of positive environmental and social impacts including climate change mitigation and adaptation, through carbon sequestration and renewable energy generation; protection of biodiversity by reducing pressure on existing forests; and protection against soil erosion.

Angkor Kasekam Roongreung Co. Ltd. – US$1,679,472.65 (Cambodia)
Angkor Kasekam Roongreung Co. Ltd. ("AKR") is engaged in the business of rice milling and processing in Cambodia. AKR is one of Cambodia's largest fully-integrated rice mills with on-site drying capacity, storage warehouse (up to two months of production) and a cogeneration plant. AKR was founded in 2000 by the Chieu family, who have more than 60 years of experience in the rice industry in Cambodia and Thailand. The financing will be applied to increase the milling volumes to 840 tons per day (currently 600 tons of paddy per day) and mill utilization capacity of 70% by 2018.

Orb Energy Pte.Ltd. – US$ 3,366,719.97 (Global)
The investment concerns a follow-on to FMO's USD 2mln investment from AEF into Orb Energy Kenya in 2015. Orb Energy sells and finances rooftop solar PV installations for corporates and industrial (C&I) players in India and sells plug-and-play rooftop PV installations for households in Kenya. FMO's USD4m preferred equity investment will be applied to fund the credit sales of C&I rooftop PV installations in India, addressing one of the key bottlenecks in convincing SME entrepreneurs to switch over to rooftop solar PV which for C&I in India is now economically viable without any direct subsidies, with a levelized cost of electricity at approximately half of what C&I entrepreneurs would pay for power to their utility provider and a payback period of less than four years.

Dutch Business

Although it is not a prerequisite for executing a transaction, the presence of a Dutch link in a transaction is regarded as an advantage. Below are the Dutch Business links that have been established as of 2013, when reporting on Dutch Business involvement was added to the IDF beschikking.

Name	Purpose of contact	Qualification	Status
Aguas El Carmen	Co-developed by Dutch developers. Run-of-the-river hydro project in Nicaragua named 'El Carmen'. IDF has provided a convertible grant to the project	Developer	Portfolio
Africa Improved Foods	FMO financed a DSM plant for producing fortified cereal in Rwanda	Developer	Portfolio
Flying Swans	Developing a bid book for supply chain development in Djibouty and Ethiopia with a Dutch Consortium (research by Mercator Novus)	Dutch Consortium	Capacity Development Portfolio

Events and external network
Since January 2017, FMO has undertaken the marketing initiative below to promote the fund:

Event	Topic	Role FMO	Location
UNDP Social Good Summit 2017	Scaling Impact Globally	Participant	Geneva
Private Equity International Responsible Investment Forum Europe	Forum to discuss ESG issues and market trends, take part in workshops, roundtables and listen to talks on current responsible investment topics in private equity. Areas that will be covered include climate change risk, global developments in ESG integration and the evolution of data usage	Participant	Berlin
Lunch presentation of IGG and ESA	100% renewable energy in 2050 – realistic or utopia?	Participant	The Hague
University of Amsterdam Business School – International Business and Sustainable Development	SDGs, in particular SDG 7 Access to Energy	Speaker and Panel Member	Amsterdam
Guatemala Innovation Forum 2017	Forum on Innovation in Guatemala, both in the public, private as well as academic sector	Participant	Guatemala
Overcoming barriers to blenden finance	Blended finance	Organizer	FMO, The Hague
IFC/Friends of Europe	Unlocking Private Sector Investments in Fragile States	Participant	Brussels
MoMo IGG	MoMo IGG Climate Financing	Participant	The Hague
TCX congress	The limits of currency risk	Participant	Amsterdam
VWO Presentation	Government Funds & Blended finance	Speaker	Leiden
UN Summit	Blended Finance	Participant	Geneva
GINN & Cardano seminar	Blended finance	Participant	Amsterdam
Artradius exporter annual day	CIO presentation and showcasing	Participant/ Organizer	Amsterdam
Responsible investment Forum	Putting ESG at the heart of PE funds	Participant	Berlin

Furthermore, five workshops were held in 2017. The Dutch Government funds and Climate Investor One were an example and our counterparts at DDE and IGG were participating as well.

SDGs
With this investment IDF contributes to and promotes the use of renewable energy and energy efficiency

By investing in this CD project FMO/IDF directly engage in climate change mitigation.

Althelia Climate Fund

The vision of fund manager Althelia Climate Fund is centered on natural capital. Althelia aims to address the drivers of deforestation and unsustainable land-use. With a focus on blended value investments that deliver the highest caliber of social, environmental and economic performance, Althelia wants to demonstrate that financial performance can be fully aligned with sound environmental stewardship and social development. Althelia is an existing IDF client and the grant provided by the B-CD Fund will help to this.

Current situation
Nearly one fifth of global greenhouse gas emissions is from deforestation and forest degradation; add agriculture and it is nearer to one fifth. By comparison this is more than what is emitted from the entire global transportation sector.

Challenge
The challenge is to slow and stop conversion and degradation of forest and other natural ecosystems, which is critical to reaching the target of limiting future global temperature rises to 2 degree Celsius.

Opportunity
By financing a transition to sustainable land use and thereby creating new environmental assets that reflect the value of natural capital, the Fund contributes with its investments to reducing deforestation, mitigating climate change and protecting biodiversity.

Sector
Infrastructure

Investment
USD 200,000 (2017)

Instrument
Grant

"People think that if you stay at home, you don't need light, but it´s very necessary. It allows me to do things faster and make them better."

Demetria – from the village of Valle de la Esperanza in Guatemala

Kingo Energy (Ignite Holdings) provides prepaid solar systems to rural communities that lack access to an electricity grid. Families with a Kingo no longer need to rely on candles, kerosene or batteries for light and power in their homes and they can turn off their noisy and expensive diesel generators. In 2016, FMO invested US$2 million in Kingo from the Infrastructure Development Fund that we manage on behalf of the Dutch State.

SDGs
Jordan is a country currently suffering from a severe power crisis. Investing in the generation of energy gives more people access to energy, which is essential.

During the construction phase 240 jobs will be provided for a duration of ten months, thereby increasing employment.

With this investment in Al Safawi Green Energy, energy infrastructure is improved, with a positive climate impact.

Al Safawi for Green Energy

Al Safawi for Green Energy PV is 66MW power plant project. The project site is located within the Badiya Al-Shamaliyeh District which hosts several cities and villages; the closest is Al Safawi village, located 13km to the northeast of the project site. IDF (USD 4.7mln) catalyzes FMO-A (USD 25mln) and provides its finance (USD 29.7mln total) together with EBRD under a B-Loan. The project aims to have positive environmental and economic impacts on the strategic and national levels given the current challenges the energy sector in Jordan is facing.

Current situation
Currently the Jordanian power sector is 99% fossil-fueled. Due to the unstable Egyptian gas supply and political unrest, Jordan has had to revert to expensive imported liquid fuel.

Challenge
Reducing Jordan's reliance on expensive imported fuels, which are also subject to price volatility and supply the market with reliable electricity. The reality of operating at the border with a very fragile state further complicates the project.

Opportunity
With this transaction IDF makes a 100% green investment and in addition provides a reliable supply of electricity without fuel risk and thereby reducing Jordan's reliance on expensive, imported fuels.

Sector
Energy

Investment
USD 4.7 mln (2017)

Instrument
Loan

DEVELOPMENT EQUITY

IDF has the objective to be 100% revolving. In July 2012, when DGIS renewed its commitment for IDF, an additional € 5mln was made available for impact and effectiveness studies as well as a specific envelope of € 5mln to be applied to Technical Assistance and Capacity Development facilities.
The latter € 5mln do not have to be revolving and can be applied in the following situations:

- Contribution to the development phase of potentially eligible IDF projects in order to complete feasibility and/or proof of bankability by deploying convertible grants
- Capacity development / Technical Assistance to support interventions at existing clients to strengthen or improve commercial viability and
- Paying for board members' remuneration if this is not covered by the investee company.

Only realized (convertible) grant losses will be earmarked under this non-revolving 'facility' of the IDF fund. Since the tranche has been made available within IDF in 2013, a number of grants have been made available and two of them have been converted succesfully and made a profit for the grant envelope.

End 2015 IDF successfully sold the Azura investment and made approximately € 2 mln profit, which was added to the € 5 mln grant envelope. In 2017 the Convertible Equity investment in Ignite Holdings was converted to an equity stake which made a profit of € 547,000. As a result, the total grant envelope has increased to € 7.5 mln.

Of the eleven currently outstanding (active) convertible grants, representing a total commitment of € 4.5 mln with € 3.2 mln outstanding, we are still expecting that upon success part may be converted into equity or may be repaid. Please note that convertible grants also fit within the regular IDF investment criteria.

IDF targets projects characterized by high risk profiles. To refine the bankability of impact making initiatives in their early stage, IDF provides high risk financing instruments that allow them to kick start their activities or to enlarge their outreach. The fund hence provides grant-like products which upon success will be converted in equity stakes.

By operating in this early stage of development IDF embodies an additional role with respect to FMO or to other DFIs.

Production Convertible Grants 2017

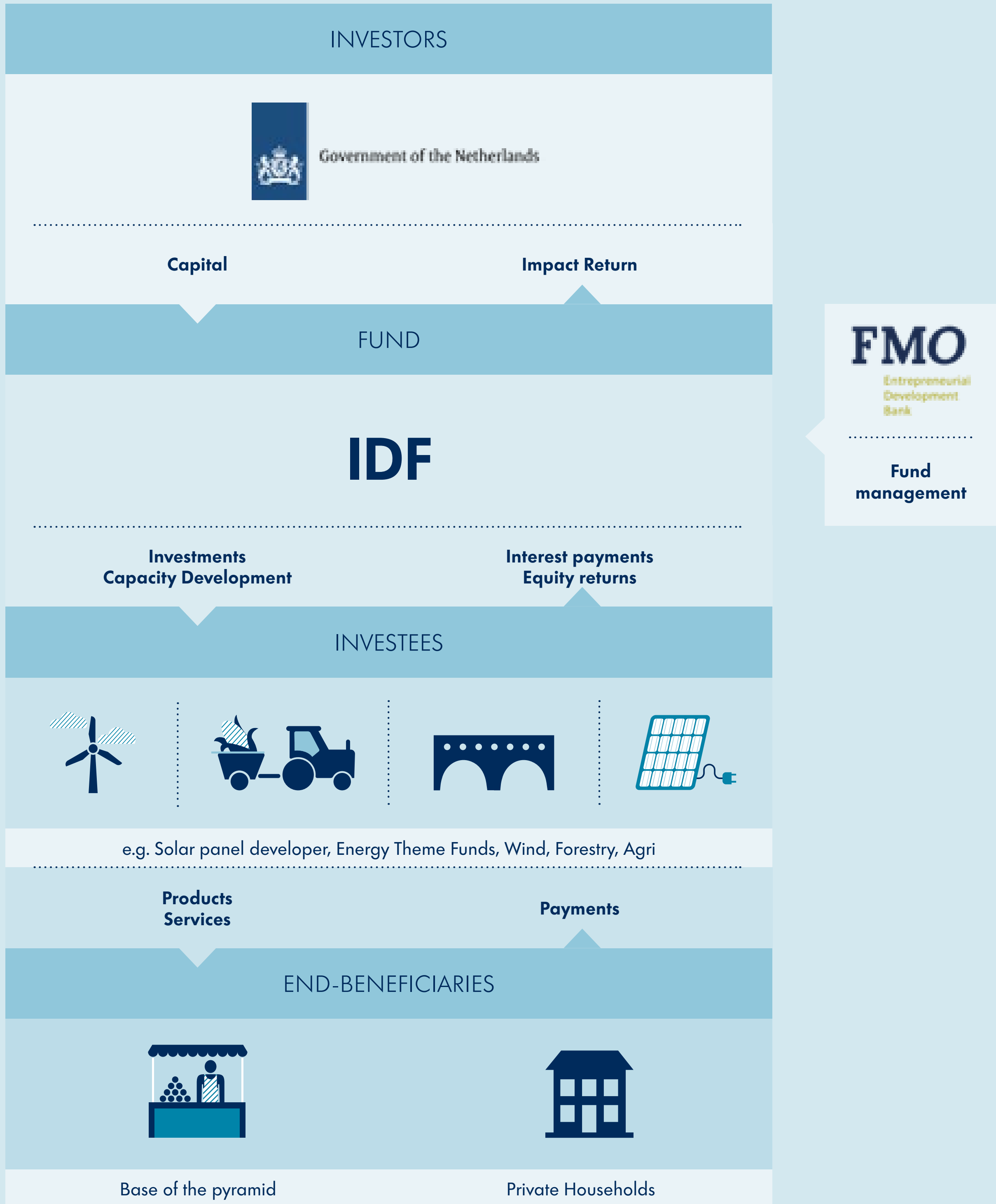
- **Hydropenta S.A.:** Over the last eight years, the current developers of five small, run-of-river type, hydro power plants (HPPs) have deployed their own resources on acquisition of part of the land, on initial studies and design, with focus on E&S according to local requirements, as well as related permits. With additional funding from IDF, these developers and their local staff & experts will be able to involve professional firms to level this project within two years to a bankable stage, i.e. adding value and de-risking compared to current stage.

- **Nederlandse Financierings Maatschappij - Boardmembers:** When IDF (through FMO) invests in emerging markets, FMO not only provides funding but also attaches high importance to institution building and governance. A well-functioning board will be beneficial to IDF's clients in articulating their strategy, policy formulation, oversight and control, as well as accountability. This project centralizes all decision making around the nomination of board members on our Corporate Governance Unit, which is in this way able to cover the remuneration fees and costs of FMO's External Nominee Directors on the boards of IDF's Investee Companies.

Customer Name	Facility Description	Effective Date	Expiration Date	General Industry Class Description	Country Of Exposure Risk Description	Facility Currency Code	Limit Amount	Limit Used Amount	Limit Available Amount	Limit Amount EUR	Limit Used Amount EUR	Limit Available Amount EUR
Nederlandse Financierings-Maatschap	IDF-XX-006-1FRW BOM FEE GR EUR91800	20-10-2015	31-12-2040	Other FI	Global	EUR	346,800.00	65,925.98	280,874.02	346,800.00	65,925.98	280,874.02
Nederlandse Financierings-Maatschap	IDFXX06-1B GR.OMERA - HR VERBOVE	07-08-2015	31-12-2018	Other FI	Global	EUR	75,000.00	16,885.48	58,114.52	75,000.00	16,885.48	58,114.52
Nederlandse Financierings-Maatschap	IDFXX06-1C GR AZURE-MEYER USD5.020	24-02-2014	24-02-2020	Other FI	Global	EUR	29,200.00	4,530.90	24,669.10	29,200.00	4,530.90	24,669.10
Nederlandse Financierings-Maatschap	IDFXX06-1D GR AL MANARA-STARKENBURG	23-06-2015	23-06-2019	Other FI	Global	EUR	60,000.00	17,500.00	42,500.00	60,000.00	17,500.00	42,500.00
Nederlandse Financierings-Maatschap	IDF-XX-006-1E GR AIF - HIEMSTRA 40K	09-11-2015	09-11-2019	Other FI	Global	EUR	80,000.00	27,009.60	52,990.40	80,000.00	27,009.60	52,990.40
Nederlandse Financierings-Maatschap	IDFXX06-1F GR Ignite/Iwan Meister	13-10-2017	13-10-2021	Other FI	Global	EUR	32,000.00	0.00	32,000.00	32,000.00	0.00	32,000.00
AFC- Fmo Project Development	AFC_FMO- COST FACILITY CONV. GR	10-01-2013	21-12-2021	Other FI	Africa	USD	752,500.00	473,482.21	279,017.79	625,961.82	393,862.84	232,098.98
Sucafina Holding S.A.	SUCAFINA FARMERPROJ. GR EUR 225K	28-09-2015	15-09-2017	Agri Production	Africa	EUR	225,000.00	225,000.00	0.00	225,000.00	225,000.00	0.00
Aguas El Carmen Sociedad Anonima	AGUAS EL CARMEN CONV. GRANT USD1.5M	08-12-2014	31-12-2040	Hydro Energy	Nicaragua	USD	1,510,000.00	989,480.00	520,520.00	1,256,082.85	823,091.96	432,990.89
Mercator Novus B.V.	IDF-ET-003-1 MERCATOR GR EUR 115K	06-10-2015	31-05-2016	Infrastructure	Ethiopia	EUR	120,600.00	120,600.00	0.00	120,600.00	120,600.00	0.00
Hydropenta S.A.	CIO HYDROPENTA CONV GRANT USD 2M	15-12-2015	15-12-2025	Hydro Energy	Nicaragua	USD	2,000,000.00	1,797,912.00	202,088.00	1,663,685.90	1,495,580.42	168,105.48
									Total EUR	**4,514,331**	**3,189,987**	**1,324,343**

FUND STRUCTURE

Organizational Structure



FUND MANAGEMENT

With 50 years of experience in high impact investment in emerging markets, and over EUR 1 billion in assets under management for the Dutch Ministry of Foreign Affairs, FMO has a proven track record as fund manager. IDF is managed by FMO's Public Investment Management (PIM) team, part of the Funds, Syndications and Value Creation (FSV) department. The PIM team utilizes FMO's strong infrastructure of dedicated sector departments, product expertise and competence centers (e.g. for local currency).

Floor van Oppen
Fund Manager

Floor started as IDF Fund Manager in 2015. She joined FMO over 12 years ago, after having started her career in commercial banking. At FMO she has held different roles in the Special Operations team, working on restructurings in South Asia and subsequently joined the Private Equity team, investing in Funds and Direct Equity in Eastern Europe and Central Asia, before assuming the role of Fund Manager. Floor holds an MSC in Econometrics.

INTERNATIONAL PRINCIPLES

FMO follows a number of guidelines and principles, which helps us to improve the quality of our work and standardize our reporting.

IFC Performance Standards

OECD Guidelines

UN Guiding Principles on Business and Human Rights

International Labour Organization

Global Reporting Initiative

Principles for Responsible Investment

Equator Principles

Natural Capital Declaration

UNEP FI

UN Principles for Investors in Inclusive Finance

International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation – the FATF Recommendations

International Aid Transparency Initiative (IATI)

For our own operations, we maintain the following standards:
MVO Prestatieladder
The Gold Standard Corporate Governance Development Framework

LIST OF ABBREVIATION

AEF	Access to Energy Fund
CD	Capacity Development
DFI	Development Finance Institution
ESG	Environmental Social and Governance
FMO	Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden
FOM-OS	Fonds Opkomende Markten – Ontwikkelingssamenwerking
FTE	Full Time Equivalent
GHG	Green House Gas
LCY	Local currency
LDC	Least Developed Countries
LMIC	Lower Middle Income Countries
NPL	Non-Performing Loans – Loans in default
ODA	Official Development Assistance
OECD	Organisation for Economic Coorperation and Development
PE	Private Equity
PIM	Public Investment Management – Within FMO
PSD	Private Sector Development
PV	Photovoltaic
RE	Renewable Energy
SDGs	Sustainable Developments Goals
SO	Special Operations
SSA	Sub-Saharan Africa
UMIC	Upper Middle Income Countries
VC	Venture Capital
YE	Year End

Read more about

CIO	www.climatefundmanagers.com/nl/
FMO	www.fmo.nl/
ODA	www.rijksbegroting.nl/system/files/10/odaenoesodac-criteria.pdf
OECD	www.oecd.org/
SDGs	sustainabledevelopment.un.org

ACCOUNTING POLICIES

Basis of preparation: The accounting policies selected and applied by the fund manager are to a large extent in line with IFRS. The main exceptions to IFRS standards are related to a limitation in disclosure of balance sheet and P&L items. The annual accounts are prepared under the historical cost convention, except: equity investments, investment in associates and all derivative instruments that are measured at fair value.

ESTIMATES AND ASSUMPTIONS

In preparing the annual accounts, management is required to make estimates and assumptions affecting reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. The use of available information and application of judgment are inherent to the formation of estimates. Although these estimates are based on management's best knowledge of current events and actions, actual results could differ from such estimates and the differences may be material to the annual accounts. The most relevant estimates and assumptions relate to the determination of the fair value of financial instruments based on generally accepted modeled valuation techniques and the determination of the counterparty-specific and group-specific value adjustments.

Fair value of financial instruments

Fair value is the price that would be received when selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When available, the fair value of an instrument is measured by using the quoted price in an active market for that instrument. If there is no quoted price in an active market, valuation techniques are used that maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Foreign Currency translation

The Fund uses the euro as the unit for presenting its annual accounts. All amounts are denominated in thousands of euros unless stated otherwise.Foreign currency transactions are translated to euro at the exchange rate prevailing on the date of the transaction. On the balance sheet date, monetary assets and liabilities and non-monetary assets that are not valued at cost denominated in foreign currencies are reported using the closing exchange rate. Exchange differences arising on the settlement of transactions at rates different from those at the date of the transaction and unrealized foreign exchange differences on unsettled foreign currency monetary assets and liabilities, are recognized in the profit and loss account under 'results from financial transactions'. Unrealized exchange differences on non-monetary financial assets (investments in equity instruments) are a component of the change in their entire fair value. For non-monetary financial assets, which are classified as available for sale, unrealized exchange differences are recorded directly in shareholders' equity until the asset is sold.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Interest income

Interest income and expense are recognized in the profit and loss account for all interest-bearing instruments on an accrual basis using the 'effective interest' method based on the initial fair value at inception. Interest income and expense also include amortized discounts, premiums on financial instruments and interest related to derivatives. When collection of loans becomes doubtful, value adjustments are recorded for the difference between the carrying values and expected recoverable amounts. Interest income is thereafter recognized based on the original effective yield that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Fee and commission income

The Fund earns fees from a diverse range of services. The revenue recognition for financial service fees depends on the purpose for which the fees are charged and the basis of accounting for the associated financial instrument. Fees that are part of a financial instrument carried at fair value are recognized in the profit and loss account. Fee income that is part of a financial instrument carried at amortized cost can be divided into three categories:

1. Fees that are an integral part of the effective interest rate of a financial instrument
2. Fees earned when services are provided
3. Fees that are earned on the execution of a significant act

Dividend income

Dividends are recognized in dividend income when a dividend is declared. The dividend receivable is recorded at declaration date, taking the uncertainties of collection into account.

Cash and cash equivalents

Cash and cash equivalents consist of banks (assets and liabilities) and short-term deposits that mature in less than three months. Short-term deposits are designated at fair value. Unrealized gains or losses of these short-term deposits (including foreign exchange results) are reported in the results from financial transactions.

Loans to the private sector

Loans originated by the Fund include loans to the private sector in developing countries for the account and risk of FMO; Loans are recognized as assets when cash is advanced to borrowers. Loans are initially measured at cost, which is the fair value of the consideration paid, net of transaction costs incurred. Subsequently, the loans are valued at amortized cost using the effective interest rate method. Interest on loans is included in interest income and is recognized on an accrual basis using the effective interest rate method. Fees relating to loan origination and re-financing are deferred and amortized to interest income over the life of the loan using the effective interest rate method.

Value adjustments on loans

At each reporting date FMO assesses the necessity for value adjustments on loans. Value adjustments are recorded if there is objective evidence that FMO will be unable to collect all amounts due according to the original contractual terms or the equivalent value. The value adjustments are evaluated at a counterparty-specific level based on the following principles: Individual credit exposures are evaluated based on the borrower's characteristics, overall financial condition, resources and payment record, original contractual term, exit possibilities and, where applicable, the realizable value of the underlying collateral. The estimated recoverable amount is the present value of expected future cash flows, which may result from restructuring or liquidation. In case of a loan restructuring, the estimated recoverable amount as well as the value adjustments are measured by using the original effective interest rates before the modification of the terms. Value adjustments for credit losses are established for the difference between the carrying amount and the estimated recoverable amount.

A value adjustment is reported as a reduction of the asset's carrying value on the balance sheet. All loans are reviewed and analyzed at least annually. Any subsequent changes to the amounts and timing of the expected future cash flows compared to prior estimates will result in a change in the value adjustments and will be charged or credited to the profit and loss account. A value adjustment is reversed only when the credit quality has improved to the extent that reasonable assurance of timely collection of principal and interest is in accordance with the original or revised contractual terms. A write-off is made when all or part of a claim is deemed uncollectible or forgiven. Write-offs are charged against previously recorded value adjustments. If no value adjustment is recorded, the write-off is included directly in the profit and loss account under the line item 'value adjustments'.

Equity investments

Equity investments in which the Fund has no significant influence are classified as available for sale assets and are measured at fair value. Unrealized gains or losses are reported in the available for sale reserve net of applicable income taxes until such investments are sold, collected or otherwise disposed of, or until such investment is determined to be impaired. Foreign exchange differences are reported as part of the fair value change in shareholders' equity. On disposal of the available for sale investment, the accumulated unrealized gain or loss included in shareholders' equity is transferred to the profit and loss account.

Impairments

All equity investments are reviewed and analyzed semi-annually. An equity investment is considered impaired if its carrying value exceeds the recoverable amount by an amount considered significant or for a period considered prolonged. If an equity investment is determined to be impaired, the impairment is recognized in the profit and loss account as a value adjustment. The impairment loss includes any unrealized loss previously recognized in shareholders' equity. The impairment losses shall not be reversed through the profit and loss account except upon realization. Accordingly, any subsequent unrealized gains for impaired equity investments are reported through shareholders' equity in the available for sale reserve.

Available for sale reserve (AFS reserve)

The available for sale reserve includes net revaluations of financial instruments classified as available for sale that have not been reported through the profit and loss account.

Undistributed results previous years

The undistributed results consists of the part of the annual results that the Fund is accumulating to maintain the revolvability of the funds.

Adoption of new accounting standard IFRS 9

IFRS 9 "Financial Instruments" is a new accounting standard, which will become effective as of January 1, 2018. IFRS 9 is replacing IAS 39 "Financial Instruments: Recognition and Measurement". The standard introduces new requirements for the classification and measurement of financial assets and liabilities and the impairment of financial assets. The standard will be applied retrospectively, leading to an adjustment of the opening balances of the affected components of fund capital at January 1, 2018. The implementation of IFRS 9 will have an impact on Total Assets, Fund Capital, Net Profit and/or Other Comprehensive Income. The final impact of IFRS 9 is yet to be determined in the first months of 2018.

BALANCE SHEET

At December 31, 2017

	31/12/2017	31/12/2016
Assets		
Banks	38,152	14,208
Loans	191,992	191,518
Equity investments & Investments in associates	93,244	89,194
Accrued income & Other receivables	32,605	36,395
Total assets	**355,993**	**331,315**
Liabilities		
Current account with FMO	4	1,028
Accrued liabilities & Other liabilities	29,453	34,540
Total liabilities	**29,457**	**35,568**
Fund capital		
Contribution DGIS previous years	311,516	272,012
Contribution DGIS current year	43,000	39,504
Total contribution DGIS	**354,516**	**311,516**
Available for sale reserve	12,351	17,316
Undistributed results previous years	-18,123	-38,539
Result current year	-7,730	20,416
Grants	-13,051	-14,279
Evaluation costs	-1,427	-682
Total fund capital	**326,536**	**295,747**
Total liabilities and shareholders' equity	**355,993**	**331,315**
Irrevocable facilities	**60,755**	**109,506**
Total subsidy amount IDF according to "Beschikking"	362,012	362,012
Total subsidy received from DGIS for fund	-354,516	-311,516
"Beschikkingsruimte"	**7,496**	**50,496**

all amounts in €× 1,000

STATEMENT OF COMPREHENSIVE INCOME

At December 31, 2017

	31/12/2017	31/12/2016
Income		
Interest income	19,003	17,878
Results from equity investments and associates	140	422
Dividend, Fee and Commission income	1,270	2,530
FX loans	-22,842	6,345
FX other	-855	268
Total income	**-3,284**	**27,443**
Expenses		
Remuneration FMO	8,213	5,089
Total expenses	**8,213**	**5,089**
Value adjustments, impairments and grants		
Value adjustments on loans	5,001	9,062
Impairments on equity investments	-1,781	-11,000
Results on grants	547	-
Total value adjustments, impairments and grants	**3,767**	**-1,938**
Net profit	**-7,730**	**20,416**
Other comprehensive income		
Available for sale equity investments	-4,965	6,625
Other comprehensive income	**-4,965**	**6,625**
Total comprehensive income	**-12,695**	**27,041**

all amounts in €× 1,000

STATEMENT OF CASH FLOWS

IDF Statement of Cash Flows at December 31, 2017

	31/12/2017	31/12/2016
Cash flow from operating activities		
Inflows		
Interest received on loans	19,299	14,733
Repayments on loans	9,137	18,242
Sales of equity instruments (book value)	5,802	4,389
Results from equity investments	-703	422
Sales to FMO (book value)	1,005	-
Results from sale to FMO	843	-
Dividends and fees received	1,299	4,344
Other received amounts	78	805
Outflows		
Disbursements on loans	-28,152	-64,865
Investments in equity instruments	-15,271	-8,902
Disbursements on grants	-568	-3,520
Other paid amounts	-1,316	-730
Net cash from operating activities	**-8,547**	**-35,082**
Cash flow from financing activities		
Inflows		
Contribution of DGIS current year	43,000	39,504
Outflows		
Management fees FMO	-9,485	-5,089
Net cash from financing activities	**33,515**	**34,415**
Net change in cash & cash equivalents	**24,968**	**-667**
Position of cash at January 1	13,180	13,847
Position of cash at end of period	**38,148**	**13,180**

all amounts in €× 1,000

RISK MANAGEMENT

ORGANIZATION OF RISK MANAGEMENT

For FMO, acting in its role as Fund Manager (hereafter 'FMO') to be able to carry out the Fund's strategy, it is essential to have an adequate risk management system in place to identify, measure, monitor and mitigate financial risks. IDF (hereafter 'the Fund') has a pre-defined risk appetite translated into limits for group, client, country, region and currencies exposures. Limit usages are monitored on a monthly basis and for each proposed transaction.

The Fund Manager reviews each transaction and provides consent to eligible proposals. The Investment Committee, comprising of senior representatives of several departments, reviews financing proposals for new transactions. Each financing proposal is assessed in terms of specific counterparty, product risk as well as country risk. All financing proposals are accompanied by the advice of the Credit department. This department is responsible for credit risk assessment of both new transactions and the existing portfolio. For small exposures, Credit department has the authority to review new transactions.

In addition, financial exposures in emerging markets are subject to a periodic review, which are in general executed annually. Exposures that require specific attention are reviewed by the Investment Review Committee. The larger and higher risk exposures are accompanied by the advice of the Credit department. If the Investment Review Committee concludes that a client has difficulty in meeting its payment obligations, the client is transferred to the Special Operations department – responsible for the management of distressed assets – where it is intensely monitored.

RISK PROFILE AND APPETITE

The Fund actively seeks to take risk stemming from debt and equity investments in private institutions in developing countries. This risk profile is supported by maintaining prudent levels of capital and liquidity and strong diversification of the portfolio across regions and sectors.

CAPITAL MANAGEMENT

The Fund aims to optimize development impact. This can only be achieved with a sound financial framework in place, combining a healthy long-term revolvability of ≥100% and sound capital adequacy. Therefore, FMO seeks to maintain a strong capital position for the Fund. The Fund's structure is based on a 100% contribution from the Dutch government. Total contribution from the Dutch government is € 354.5 mln at 31 December 2017 (31 December 2016: € 311.5 mln). Total fund capital – which is the sum of the contribution by the government, the available for sale reserve, undistributed results from previous years, results from the current year, grant and evaluations costs – increased to € 326.5 mln in 2017 (2016: € 295.7 mln).

REPUTATIONAL RISK

The Fund's investments in developing and emerging markets are exposed to reputational risks such as environmental and social risks and various types of legal risks. The Fund has a limited appetite for reputation risk when such risks would prompt key stakeholders to intervene in the decision making or running of our daily business. Outside of this, the Fund has a moderate appetite for reputation risk, accepting that reputational impacts of activities may incidentally lead to negative press coverage, NGO attention, client feedback, or isolated cases of financial losses, as long as these activities at the outset have a clear expected contribution to the FMO's goal to achieve development impact with the Fund. FMO cannot fully avoid such risks due to the nature of its operations, but chooses to mitigate them as much as possible through strict policies, upfront assessment and, when necessary, through agreements with the Fund's clients. FMO manages issues from the perspective of learning lessons and prevention. Through transparency and a willingness to respond to challenges made, we aim to remain accountable and reduce our reputational risk.

Environmental, social and governance risk

The Fund faces environmental and social risks in its emerging market projects. These risks stem from the nature of our projects, which in some cases could carry negative environmental and/or social impacts. The Fund accepts that in the pursuit of development impact there is a risk of negative press and/or negative reactions from NGOs in the context of ESG performance and mitigates this risk through environmental and social action plans and monitoring. The risk appetite for deviations from the exclusion list and human rights violations by projects financed by FMO is zero. Internally, FMO strives to limit the footprint of its own workplace and strives to the highest standards in employee satisfaction. Ensuring a high diversity in staff is a leading Human Resources principle.

CREDIT RISK

Credit risk is defined as the risk that the Fund will suffer economic loss because a counterparty cannot fulfill its financial or other contractual obligations arising from a financial contract. Credit risk is the main risk within the Fund and occurs in two areas of its operations: (i) credit risk in investments in emerging markets and off-balance instruments such as loan commitments and guarantees; and (ii) credit risk in the treasury portfolio, only consisting of bank accounts and money market instruments.

Management of credit risk is FMO's core business, both in the context of project selection and project monitoring of Fund investments. In this process, a set of investment criteria per sector is used that reflects benchmarks for the required financial strength of the Fund's clients. This is further supported by internal scorecards that are used for risk classification and the determination of capital use per transaction. As to project monitoring, the Fund's clients are subject to periodic reviews. Credit policies and guidelines have been formulated covering treasury operations; these are reviewed regularly and approved by the ALCO.

Credit risk in the emerging markets loan portfolio

The Fund offers loans in emerging market countries. Strong diversification within the Fund's emerging market portfolio is ensured through stringent limits on individual counterparties (single client limit of 10% of the Fund's capital), countries and sectors (max. 40% of the annually available budget to be invested in one sector, fund or country).

Internal credit approval process

Credit risk from loans in emerging market countries arises from a combination of counterparty risk, country risk and product specific risks. These types of risk are assessed during the credit approval and credit review process and administrated via internal scorecards. The lending process is based on formalized and strict procedures. Decisions on authorizations depend on both the amount of economic capital and the risk profile of the financing instrument. For distressed assets, the Special Operations department applies an advanced workout and restructuring approach.

In measuring the credit risk of the emerging market portfolio at counterparty level, the main parameters are the credit quality of counterparties and the expected recovery ratio in case of defaults. Counterparty credit quality is measured by scoring counterparties on various dimensions of financial strength. Based on these scores, FMO assigns ratings to each counterparty on an internal scale from F1 (lowest risk) to F21 (highest risk), equivalent to a scale from AAA to CCC ratings.

Gross exposure IDF portfolio distributed by internal ratings [6]

Indicative counterparty risk rating 2017	Gross outstanding	%	FMO-A %
F1-F10 (BBB- and higher)	-	0.0	3.7
F11-F13 (BB-,BB,BB+)	32,872	12.5	38.7
F14-F16 (B-,B,B+)	84,747	32.2	45.9
F17 and lower (CCC+ and lower ratings)	145,549	55.3	11.7
Total	**263,168**	**100.0**	**100.0**

6) Please note that this does not include the entire portfolio, but only rated clients and their respective exposure. Equity investments are not rated, and there are some other cases in which it may not be possible to make a rating for a client..

There has been a substantial change in ratings: whereas last year IDF had 10.7% of the portfolio in category F1-F10, there are none outstanding in this category anymore. The growth was is the category F14-F16, which is in line with the Fund's purpose. The lowest category (F17 and lower) shows in percentages a small improvement.

all amounts in €× 1,000

Loans past due and value adjustments

At the end of 2017, the counterparty-specific value adjustments as a percentage of the gross loan portfolio equaled 26.4% (2016: 31.6%).

Non-Performing Loans (NPL) are defined as loans with a counterparty-specific value adjustment and/or loans with interest and/or principal payments that are past due 90 days or more. The Fund's NPL ratio improved from 41.2% (2016) to 32.7% (2017).

When the terms and conditions of a loan have been modified significantly, the Fund considers these loans as restructured. Changes in terms and conditions usually include extending the maturity, changing the interest margin and changing the timing of interest payments. The loans are assessed to determine if they qualify for de-recognition and if that is the case, they are recognized as a new loan with valuation differences through profit and loss. Value adjustments related to restructured loans are being measured as indicated in the accounting policies under 'Value adjustments on loans'.

In 2017, the write-offs were limited to two loans (2016: one): Usher Agro Limited (€ 6.9 mln) and Chanyanya Infrastructure Company (€ 0.3 mln).

Loans due and value adjustments 2017

Quality loan portfolio at December 31, 2017	Loans not value adjusted	Loans value adjusted	Gross exposure	Counterparty specific value adjustment	Total
Loans not past due	177,166	11,263	188,429	-5,632	182,797
Loans past due:	-	-	-	-	-
· Up to 30 days	-	-	-	-	-
· 30-60 days	-	-	-	-	-
· 60-90 days	-	-	-	-	-
· more than 90 days	-	74,739	74,739	-63,809	10,930
Subtotal	**177,166**	**86,002**	**263,168**	**-69,441**	**193,727**
Less: amortizable fees	-1,589	-146	-1,735	-	-1,735
Carrying value	**175,577**	**85,856**	**261,433**	**-69,441**	**191,992**

Number of Non-performing loans	5
Value adjustments / loans	26.4%
NPL percentage	32.7%

all amounts in €× 1,000

Country risk

Country risk arises from country-specific events that adversely impact the Fund's exposure in a specific country. Within FMO, country risk is broadly defined. It includes all relevant factors that have a common impact on the Fund's portfolio in a country such as economic, banking and currency crises, sovereign default and political risk events. The assessment of the country rating is based on a benchmark of external rating agencies and other external information.

The level of the country limits depends on the sovereign rating. FMO recognizes that the impact of country risk differs across the financial products it offers. In 2017 the ratings of Africa (19% of the portfolio) is downgraded from F15 in 2016 to F16 in 2017. Congo was also downgraded from F16 in 2016 to F17 in 2017.

Overview country ratings IDF Portfolio	IDF %	FMO-A %
Indicative external ratings equivalent		
F9 and higher (BBB and higher ratings)	5.3	6.5
F10 (BBB-)	5.7	7.9
F11 (BB+)	0.0	0.0
F12 (BB)	0.0	12.2
F13 (BB-)	3.3	15.1
F14 (B+)	11.5	21.6
F15 (B)	32.0	14.6
F16 (B-)	7.8	11.2
F17 and lower (CCC+ and lower)	34.4	10.9
Grand Total	**100.0**	**100.0**

Treasury counterparty credit risk

Credit risk in the treasury portfolio stems from bank account holdings and placements in money market instruments to manage the liquidity in the Fund. The Risk Management department approves each obligor to which the Fund is exposed through its treasury activities and sets a maximum limit for the credit exposure of that obligor. Depending on the obligor's short and long-term rating, limits are set for the total and long-term exposure. FMO pursues a conservative investment policy.

EQUITY RISK

With regard to equity risk that results from equity investments, a distinction can be made between:

- Exit risk, the risk that FMO's equity stake cannot be sold for a reasonable price and in a sufficiently liquid market;
- Equity risk, the risk that the fair value of an equity investment decreases

The Fund takes a long-term view of its equity portfolio, aiming to sell its equity stake within a period of five to ten years. The Fund can accommodate an increase in the average holding period of its equity investments and so wait for markets to improve again to realize exits. We have no deadlines regarding the exit date of our equity investments. Equity investments are assessed by the Investment Committee in terms of specific obligor as well as country risk. The Investment Review Committee assesses the valuation of the majority of equity investments quarterly. The performance of the equity investments in the portfolio is periodically analyzed during the fair value process. Based on this performance and the market circumstances, exits are pursued in close cooperation with our co-investing partners. The total outstanding equity portfolio on December 31, 2017, amounts to € 108.5 mln (2016: € 133.4 mln) of which € 44.6 mln (2016: € 35.5 mln) is invested in investment funds.

CURRENCY RISK

Currency risk is defined as the risk that changes in foreign currency exchange rates have an adverse effect on the value of the Funds financial position and future cash flows. Limits have been set on currency positions and are monitored on a regular basis.

Interest rate risk

Interest rate risk is the risk of potential loss due to adverse movements in interest rates. Given the balance sheet and capital structure of the Fund's interest rate risks are considered limited.

Liquidity risk

Liquidity risk is the risk that insufficient funds are available to meet financial commitments. The Fund has a conservative liquidity management ensuring sufficient liquidity is available. In case of a liquidity shortfall the Fund can make a funding request to FMO for up to 10% of the Fund's net portfolio.

OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed processes, people and systems or loss caused by external events. FMO aims to manage operational risk for the Fund in a cost-effective way. Operational risks – including those related to information security and personal data breach – are identified, measured and controls are implemented and their effectiveness is monitored. Operational risks are managed and monitored in accordance with a three line defense governance principle. In the first line of defense business management executes and reviews processes, reports incidents and performs risk and control self-assessments. In the second line of defense monitoring is performed by specialized risk departments and committees. The third line of defense is performed by the Internal Audit function. Although controls are in place, incidents sometimes happen and damage may occur. FMO registers and analyses operational risk events and losses systematically. Analysis of these data triggers actions to improve controls.

Operational risks resulting from new products or activities are considered in FMO's Product Approval and Review Process. FMO monitors the trends of operational risks, including information security risks and where deemed necessary anticipates on the unfavorable effects.

COLOPHON

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