FMO

Entrepreneurial Development Bank

External Management Response – Mid-term evaluation Access to Energy Fund and Building Prospects

In 2024, the Dutch Ministry of Foreign Affairs (MFA) commissioned an independent mid-term evaluation of two funds that FMO manages: *Building Prospects* (BP) and *the Access to Energy Fund* (AEF). We appreciate this independent external evaluation, as we are keen to learn to what extent these funds enable people to create their own prosperity, ultimately contributing to local (economic) stability.

The evaluation reaffirms that concessional resources are key to supporting customers operating in challenging markets and customers with innovative business cases. With the support of Building Prospects and AEF, these customers get access to finance and can scale up their businesses, allowing them to (i) create a robust and sustainable agri-value chain, (ii) provide local and sustainably produced energy, (iii) adapt to climate change, and (ii) create jobs. The evaluator shows that AEF and Building Prospects enable FMO to support innovative business models, reach underserved populations, and support good-quality job creation (also for young people). Above all, we welcome the recommendation towards the Dutch government to keep supporting AEF and BP in the longer term.

HPW Ghana is an example that shows how concessional resources enable our customers to create impact by scaling up their businesses. By receiving financing via Building Prospects, HPW Ghana was able to increase production and improve environmental sustainability. This enabled the company to purify its own water, generate energy with solar panels, and convert fruit waste into biogas. Furthermore, HPW created 450 new jobs, with salaries well above the minimum wage, and provided facilities for women workers and permanent contracts - a rarity in a sector traditionally dependent on seasonal labor. Local authorities stress that the improved working conditions and increased employment opportunities for young people have contributed to a safer and more stable living environment. Thanks to FMO's financing, HPW now meets international standards, paving the way for new export markets and investors.

The evaluator also highlights that there is room for improvement, and we see relevance in various recommendations of the evaluator. At the same time, the evaluation covers the period 2019-2023 and, therefore, does not consider a wide variety of improvements that already have been made in the meantime. We perceive these recommendations as an acknowledgment that we are taking the right steps to maximize our impact. Furthermore, we welcome specific recommendations for AEF and BP in light of the longer-term support of the government for these programs.

The evaluation reaffirms the contribution of Technical Assistance (TA) to progressing customers to non-concessional funding courses (in line with the independent progression model evaluation commissioned by FMO in 2024). In the context of AEF and Building Prospects, we mainly focused TA on reducing (ESG) risks, creating customer value, and scaling impact. TA in these areas ultimately promotes development, fosters innovation, and contributes to long-term impact, for instance in the field of food security. We plan to continue working on these themes. Moreover, we are experimenting with the concept of tags (an ex-ante tool) to identify projects aimed at positively contributing to, for instance, climate adaptation. To conclude, this evaluation again shows that continued donor-community support to TA is fundamental for scaling up impact.

We strongly support the call of the evaluator for a robust monitoring, evaluation, and learning framework and a robust responsible exit approach. This is why we conduct regular evaluations to learn from our experiences and improve our operations. We are also a founding signatory to the Operating Principles for Impact Management (OPIM). OPIM provides a reference point against which the impact management systems are assessed, drawing on emerging best practices in the field. A fundamental OPIM principle relates to responsible exits. FMO’s publicly disclosed OPIM statement outlines our approach to responsible exits. Furthermore, an evaluation will be conducted on the topic of responsible exits in 2025. Moreover, we have launched the *Joint Impact Model*, a non-profit platform providing affordable tools to all private parties that want to calculate financed emissions, impacts, and climate risk. With all these steps, FMO is now one of the front-runners in the field of monitoring, evaluation, and learning.

We also agree with the evaluator that managing climate-related and environmental (C&E) risks is of the utmost importance. In this regard, it is worth mentioning that the Dutch Central Bank (DNB) requires all banks to consider C&E risks, applying the *ECB guide on climate-related and environmental risks* (since 2021). This guide describes how FMO needs to consider C&E risks and has formed the basis of our *climate risk policy*. This policy applies to individual loan and equity transactions and is (where suitable) also applicable to the AEF and BP investments.

We endorse the evaluator's attention to creating opportunities for women. This is why we aim to advance gender equality through increased gender lens investments, why this is an explicit element of our strategy *Pioneer Develop Scale,* and why we are participating in the *2X Challenge*. Providing prosperity that is also beneficial for women is a key element of our priority to develop a EUR 10 bln. *Reducing Inequalities* (SDG 10) portfolio in 2030. Due to this ambition, and the inclusion (in 2024) of new agriculture and energy gender-lens categories, there is a clear incentive to seek these opportunities in the BP and AEF portfolios.

We also acknowledge the importance of developing transmission and distribution (T&D) networks to support stable, affordable, and sustainably produced energy. As the evaluator notes, most T&D projects have a purely public character, making it impossible for FMO to support such projects due to the restrictions in our mandate. Yet, FMO can and will keep supporting the development of private T&D networks and will always assess T&D conditions when it invests in on-grid energy projects.

The evaluator furthermore pays attention to local currency financing (LCY), implying that customers supported via our own balance sheet have difficulty obtaining LCY financing. However, this view is incorrect; all our customers (financed via public funds or our own balance sheet) have the opportunity to obtain LCY financing (without pricing differences). This type of financing creates the needed financial stability for local businesses. Nonetheless, we see that LCY financing can be perceived as costly. Subsidizing hedging-related costs (as also suggested by the evaluator) might be justified for investments in challenging markets, for instance in Sahel countries. This is why TCX, an FMO spin-off, has set up subsidizing schemes with the support of the European Commission. There might be a logic for the donor community to further expand these schemes with TCX.

Finally, we applaud the call of the evaluator to explicitly support early-stage business models. As we observed that these models are vehicles for impact, we launched the *Ventures Program* in 2020. Because of its success, we even launched the *Ventures Program* 2.0 in 2024.

We thank ADE for conducting the evaluation, helping us better understand the impact of AEF and BP, and sharing insights to optimize our efforts.