

MASSIF

Quarterly report Q1 2016

Set up in 2006 and managed on behalf of the Dutch Ministry of Foreign Affairs, MASSIF is FMO's financial inclusion fund. It provides financing and technical assistance to microfinance institutions (MFIs), banks, and private equity funds around the globe, thus supporting access to finance for micro-, small- and medium enterprises (MSMEs). MASSIF invests early on, taking higher risks that other investors are unable to take. By doing so in a financially sustainable manner, MASSIF also plays an important role in bringing new investors into the financial inclusion space.

MSMEs are the backbone of most developing economies; they generate employment and more equal distribution of wealth in economies with high levels of inequality. One of the main barriers for MSME growth is access to financial services such as credit, savings accounts, payment services, and insurance. In Sub-Saharan Africa, a MASSIF focus region, 6% of adults have access to formal borrowing and only 1 in 3 have an account at a financial institution¹. Businesses struggle with high collateral requirements, short tenor of loans, and scarce private equity for the smallest businesses. This is where MASSIF plays an important role.



1. FUND OVERVIEW

1.1 FUND KEY FACTS

	Q1 2016
Start of Investment period	2006
End of Investment period	2016
End of Management period	-
Funds made available by the Dutch Ministry of Foreign Affairs (MFA) ²	€ 323.9 mln
Total funds drawn from MFA	€ 316.6 mln
Total funds available to be drawn from MFA ³	€ 7.3 mln
Total number of investments since inception (2006)	387

1.2 IMPACT

Over the lifetime of the fund (2006-2016), MASSIF has generated significant impact and outreach in the financial inclusion space. It has done so in a financially sustainable way.



1.3 CAPACITY DEVELOPMENT

We support our clients in improving their management skills and technical expertise through our Capacity Development program. Under the program we can contribute to the cost of hiring external consultants or trainers to facilitate this capacity building.

Capacity Development (2006-2016Q1)	
Number of CD projects	203
MASSIF commitments to CD ⁷	€ 29.6 mln

In Q1 2016, FMO contracted €156,039 in Capacity Development grants to MASSIF clients through 4 unique projects in the areas of environment and social performance, professional development, product development and MIS/IT systems.

In Q1, MASSIF signed a CD contract with Kompanion, one of the largest microfinance institutions in the Kyrgyz Republic with about 113,000 clients, of which more than 70% women. Kompanion assists communities with natural resource conservation and management (many borrowers are active in land-degrading activities such as shepherding). The institution is moving from a community-based lending approach to an individual lending strategy. Massif CD has been provided to support the bank's implementation of this individual lending strategy through a team of international consultants.

¹ World Bank Group (2015), The Global Findex Database 2014: Measuring Financial Inclusion around the World, p.11 and p. 50.

² This excludes G-20 SME Finance Challenge funds, funding flowing through the MASSIF books but functionally separate.

³ The remaining undrawn commitments are earmarked for MASSIF's grant program. All new investments that MASSIF makes are funded out of the proceeds and exits of the existing portfolio.

⁴ Support is defined as the provision of one credit cycle to an SME or micro-entrepreneur. These calculations are based on estimated loan sizes and tenors for SME- and micro-loans of MASSIF portfolio companies.

⁵ Through its investment in SME PE funds, totaling € 60 mln at the end of Q1, MASSIF also provides scarce equity to SMEs.

⁶ Ratio calculated as "Residual Value / Funds received from Investors." Please see section 1.5 for more information.

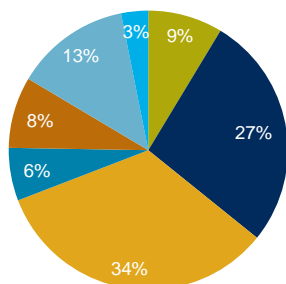
⁷ It is MASSIF's policy to fund up to half of a CD project, the residual amount is paid by the client or other financier(s). The reported numbers represent MASSIF's contribution to projects.

1.4 PORTFOLIO OVERVIEW ⁸

Current Portfolio Breakdown	
Committed portfolio	€ 541.2 mln
Outstanding portfolio	€ 420.8 mln
Committed not disbursed	€ 120.4 mln
Value Adjustment	€ - 37.0 mln
Net Portfolio	€ 382.8 mln

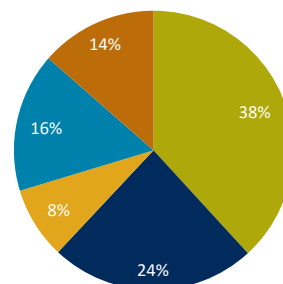
At the end of Q1, the MASSIF portfolio was distributed in the following way:

CUSTOMER TYPE



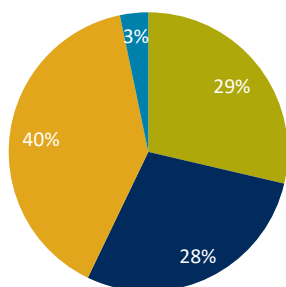
- Licensed Commercial Bank
- Investment Fund Equity
- Other Financial Institution
- Investment Fund Debt
- Investment Fund Other
- Holding Company
- Corporate

REGION



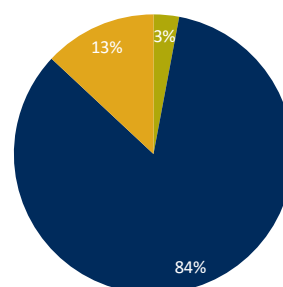
- AFRICA
- ASIA
- EUROPE & CENTRAL ASIA
- LATIN AMERICA & THE CARIBBEAN
- GLOBAL

PRODUCTS



- Loans
- Equity - direct
- Equity - funds
- Mezzanine

CURRENCY



- EUR
- LOCAL
- USD

Please see section 2 for a case study of MASSIF client Central Africa SME fund (CASF)

1.5 PERFORMANCE AND REVOLVABILITY ⁹

Total Funds received from investors / Total Commitments from investors ¹⁰	100%
Residual Value / Total Funds received from Investors ¹¹	141%
Average interest margin loans	5.8%

⁸ Portfolio breakdown is based on committed portfolio amounts.

⁹ This section addresses the performance of the financing portfolio of MASSIF. It therefore excludes grants.

¹⁰ MFA and FMO are the sole investors into MASSIF. MFA and FMO's total cumulative commitments to MASSIF for financing activities have been, respectively, € 308.9 mln and € 7.8 mln. A value of 100% indicates that all funding pledged to the fund has been drawn, and that all new investment activity is funded from the repayments, exits, and proceeds of the fund's existing investments.

¹¹ This ratio benchmarks the current net value of the fund to the total funds placed in the fund over time. Any value above 100% indicates that the fund is revolvable. This ratio is calculated by dividing the net asset value of the fund by the cumulative capital placed in the fund.

1.6 FMO GOVERNMENT FUNDS MANAGEMENT

In addition to MASSIF, FMO manages several other funds for the Dutch Government, which we invest in higher-risk projects. These government funds cover the financial risks that FMO is not able to bear alone, thus allowing us to support projects with a high risk profile that promise substantial development impact and demonstration effects. The other government funds are:

- Access to Energy Fund (AEF) – The AEF 'Energy for Growth' funds private sector projects that create sustainable access to energy services.
- Infrastructure Development Fund (IDF) – The IDF provides long-term financing for infrastructure projects in low-income countries.
- FOM-OS – FOM-OS stimulates Dutch enterprises to invest in emerging markets.

FMO government funds management ¹²	
Assets under management	€ 797.2 mln
Government funds under management	4
Active portfolio companies	180

¹² Please note that FMO also manages FOM (a government facility) and BCD (FMO's capacity development program for FMO-A clients) on behalf of the Dutch government. FMO also oversees FMO Investment Management (FIM), which manages third party funds. None of these are included in the above.

2. CLIENT CASE

BUILDING BUSINESSES IN POST- CONFLICT REGIONS

EQUITY SOLUTIONS FOR ENTREPRENEURS IN THE CONGO'S

The Central Africa SME Fund (CASF) is a private equity fund providing capital to 32 small and medium enterprises (SMEs) in the Democratic Republic of Congo (DRC) and the Central African Republic (CAR). Although they might not be the most obvious areas for business, these countries are home to many ingenious and motivated entrepreneurs.



UNDERVALUED MARKET

While mainly known for conflict, corruption, and colonial exploitation, DRC and CAR are home to an overlooked group of talented entrepreneurs that have started their businesses in a difficult, but often untapped, market. For these men and women, finding finance is highly challenging given limited formal banking penetration and perceived credit risk. CASF supports these under-served SMEs, creating lasting opportunities for economic and social development.

SHAPING FLOURISHING SMES IN TURBULENT TIMES

CASF is the first private equity fund in DRC and CAR, providing scarce, high risk capital to SMEs, predominantly by providing debt or mezzanine and selectively equity investments. These companies are active in the services, ICT, retail, education, transport, and healthcare sectors, providing vital goods and services for the local population. Besides capital investments, pre- and post-investment technical assistance is an important part of the CASF's work, including business plan development, financial systems and controls strengthening and environmental, social and governance support. Through this investment, FMO (together with IFC as cornerstone investor) provides capital for further development in DRC and CAR. Currently, the Fund Manager is in the process of raising a successor fund to CASF to continue supporting entrepreneurial enterprises in Central Africa for the foreseeable future.

STRONG ENTREPRENEURIAL SKILLS

Within the 32 SMEs, CASF has discovered a richness of entrepreneurial skills. Many founders studied abroad and returned with specific knowledge, expertise and a desire to be part of the country's economic revival. Three doctors from Congo, for instance, started a small medical clinic that was transformed with the financial support of CASF into one of the few well-functioning hospitals in Kinshasa with 24 beds, an ambulance, and nightly house call services. CASF also financed the startup of DRC's first good quality copy shop for digital prints. Demand for these and other services is large and competition low. But that does not make business easy. Some of the entrepreneurs lost their business more than once. Operating in DRC and CAR is not easy with high operating costs, lack of electricity, corruption, bureaucracy and lack of transparency as some of the key challenges entrepreneurs face. Therefore, creativity, flexibility, and especially perseverance are of great importance. This spirit, combined with CASF's tailored investment offerings and pre- and post- technical assistance work very well in creating trustworthy, long lasting business partnerships and sustainable companies positively contributing to the economic and social development of the Central African Region.

Client information

NAME

Central Africa SME Fund

SECTOR

Private Equity

TOTAL PROJECT SIZE

US \$ 19 mln

Investment information

MASSIF INVESTMENT

US \$ 5 mln

FINANCIAL PRODUCTS USED

Equity, Debt, Mezzanine

YEAR OF INVESTMENT

2010

Impact and performance



32 SMEs reached



First private equity fund in KRC and CAR



Stimulating economic development and job creation



Focus on professionalizing business skills and management

ABOUT FMO

FMO is the Dutch development bank. FMO has invested in the private sector in developing countries and emerging markets for more than 45 years. Our mission is to empower entrepreneurs to build a better world. We invest in sectors where we believe our contribution can have the highest long-term impact: financial institutions, energy and agribusiness. Alongside partners, we invest in the infrastructure, manufacturing and services sectors.

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