FMO

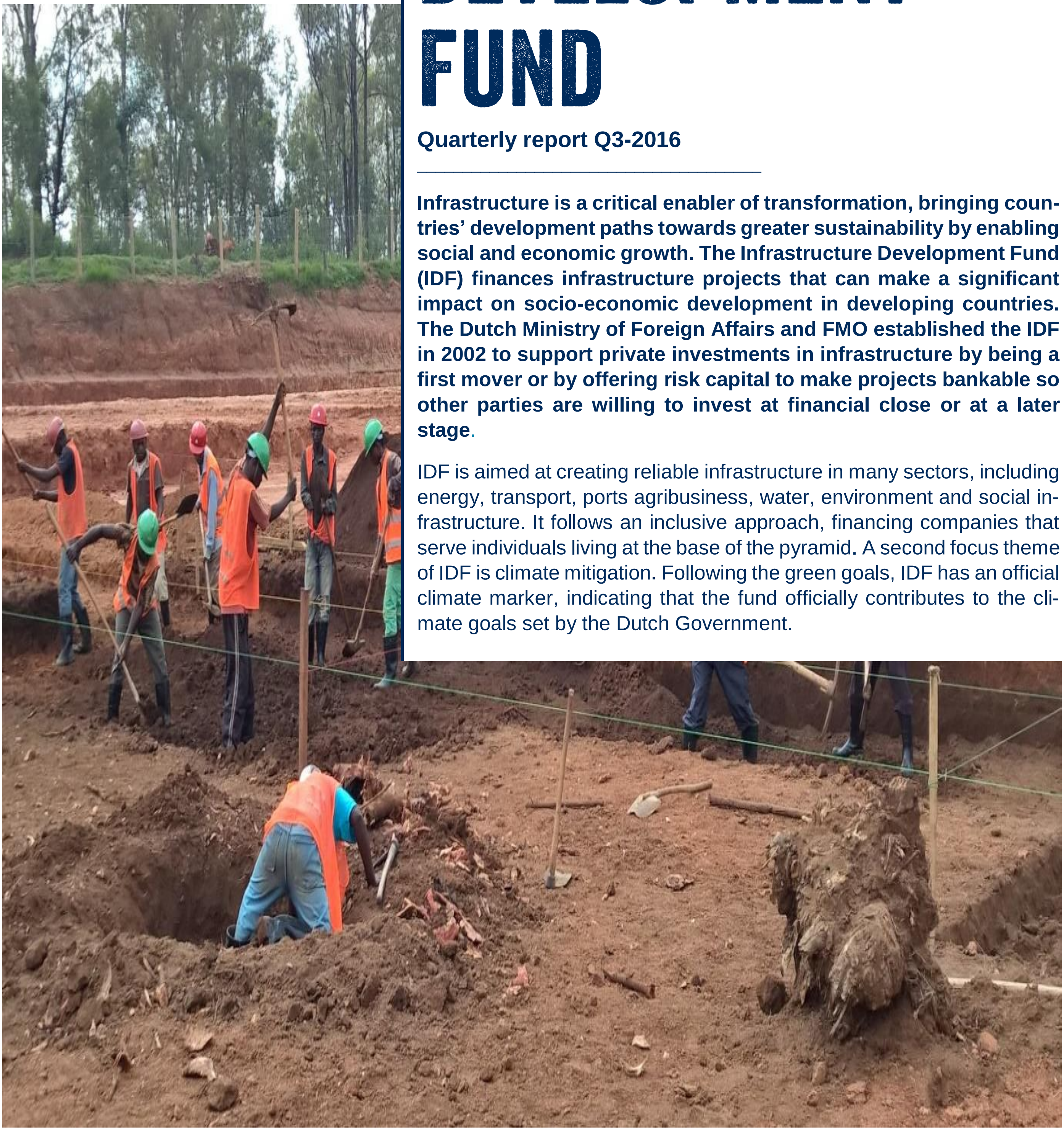
Entrepreneurial Development Bank

INFRASTRUCTURE DEVELOPMENT FUND

Quarterly report Q3-2016

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

IDF is aimed at creating reliable infrastructure in many sectors, including energy, transport, ports agribusiness, water, environment and social infrastructure. It follows an inclusive approach, financing companies that serve individuals living at the base of the pyramid. A second focus theme of IDF is climate mitigation. Following the green goals, IDF has an official climate marker, indicating that the fund officially contributes to the climate goals set by the Dutch Government.



1. FUND OVERVIEW

1.1 FMO GOVERNMENT FUNDS MANAGEMENT

FMO is the Dutch development bank that 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. FMO has 4 government funds under its management:

- 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 – FOM stimulates Dutch enterprises to invest in emerging markets (concerns a Guarantee Facility that closed as per 1st of July 2016).
- MASSIF: financial inclusion fund, provides financing and technical assistance to microfinance institutions (MFIs), small banks, and private equity funds, supporting access to finance for micro-, small- and medium enterprises (MSMEs).

FMO Government Funds Management	Q3 2016
Assets under management	€ 868.0 mln
Total committed portfolio government funds	€ 1,151.5 mln
Active Funds	4
Active Portfolio companies	181

1.2 FUND KEY FACTS

The Infrastructure Development Fund (IDF) was established in 2002 by the Dutch Ministry of Development Co-operation and FMO. IDF is a diversified fund with almost €500 million of committed capital, aimed at making significant impact on long term socio-economic development by contributing to the availability of sustainable private sector infrastructure services

Due to the broad spectrum of the fund and the higher risk appetite, IDF is unique in bringing business models together. To illustrate the type of projects that make IDF's portfolio, an example is reported in chapter two.

Key Facts	Q3 2016
Start of Investment Period	2002
End of Investment Period	2018[1]
End of Management Period	2038
Total funds available according to "Beschikking"	€362.0m
Total funds received	€293.8m
Remaining funds available ("beschikkingsruimte")	€68.2m
Total number of investments in portfolio	62

1.3 IMPACT

Several targets have been set regarding results on impact. By 2018, investments of IDF should have contributed to[2]:

- Total number of (direct) jobs created: 104.854
- Total financing catalyzed (both DFI and commercial financing) will be € 3.1 bln

The number of direct jobs created is currently below target. This can be explained by the type of projects IDF finances. Direct jobs in building infrastructure are typically high during construction, but low during operations (i.e. of an energy plant, a toll-bridge or a telecom towers network). The number of Indirect jobs created however is much higher.

[1] Please be advised that in line with the 'Beschikking' from MFA, FMO can close commitments up until and including 31-12-2018; final disbursements under the commitments have to be paid out by 31-12-2022.
[2] Please note that these impact targets were agreed Mid 2013. The definitions applied for measuring impact have meanwhile been adjusted and updated, in harmonization with FMO-A targets and internationally harmonized definitions. The definitions and assumptions underlying above reported numbers are subject to ongoing discussions with the State.

The catalyzing target is expected to be made.

In the table below the impact results of the current portfolio are presented.

DIRECT JOBS SUPPORTED

Through its investees, the IDF supports **34,392** direct jobs in low income economies (active portfolio data as per YE2015).

DIRECT JOBS SUPPORTED - WOMEN

From these jobs supported, **13,174** can be attributed to women.

INDIRECT JOBS SUPPORTED

2,073,940 indirect jobs are supported, by backward linkages in supply chains or forward linkages caused by the investment.

INDIRECT JOBS SUPPORTED - WOMEN

951,422 of these indirect jobs supported can be attributed to women.

BENEFICIARIES REACHED

95.9 mln people are reached through the IDF investees on a cumulative basis. They include for example additional energy users, beneficiaries of water connections, new telecom users etc.

INSTALLED CAPACITY

Deals in the IDF portfolio together add up to an installed annual power capactiy of **1,533 MW** for the current portfolio as YE 2015. 80% thereof can be labeled as ‘green’.

ANNUAL GHG AVOIDENCE

With climate mitigation as a focus theme, **3.6 mt CO2 eq** will be avoided on a yearly basis due to the portfolio’s clean energy investments, for the cumulative portfolio.

CATALYTIC EFFECT

The portfolio catalyzed a total of **€ 2.8 bln** of public finance and **€ 2.9 bln** commercial finance on a cumulative basis.

1.4 GRANT COMMITMENTS

IDF has the objective to be 100% revolving. In July 2012, when DGIS renewed its commitment for IDF, € 5mln was made available for impact and effectiveness studies and a specific tranche of € 5mln has been made available by the State 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 prove of bankability by deploying convertible grants
- Capacity development / Technical Assistance to support interventions at existing clients to strengthen or improve the commercial viability and
- To pay for board members’ remuneration if on IDF projects this is not covered by the investee company.

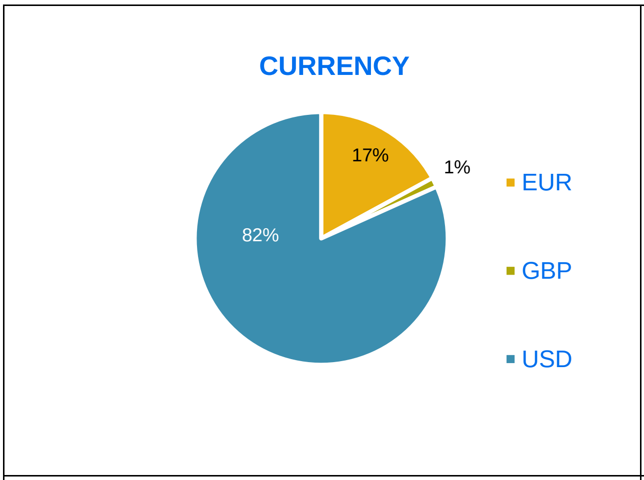
Only realized (convertible) grant losses will be earmarked under this non-revolving ‘facility’ of the IDF fund. Since the tranche has been made available within IDF in 2013, 16 grants have been made available for a total commitment of € 9.2 mln (committed disbursed € 7.2 mln, committed not disbursed € 2.0 mln)). This is more than the reserved €5 mln and can be justified as follows: end 2015 IDF successfully sold the Azura investment and made approximately € 2 mln profit, which was added to the € 5 mln grant envelope. Of the currently outstanding convertible grants 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 mandate.

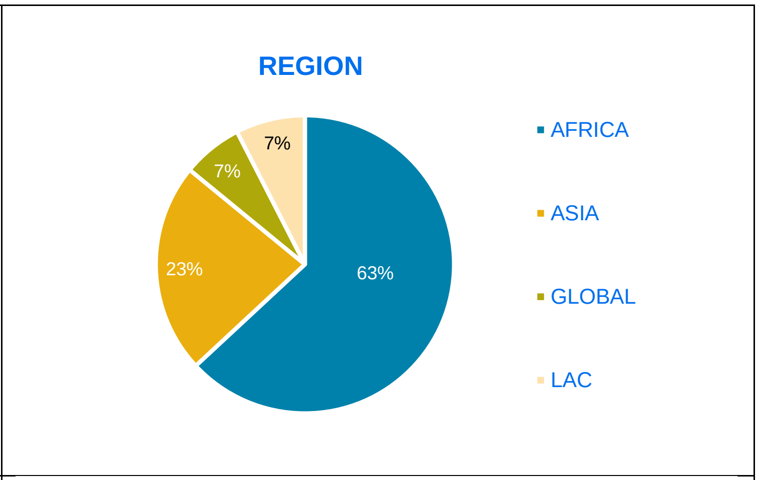
	Q3 2016
Number of grant commitments	16
Grant funding committed	€ 9.2 mln

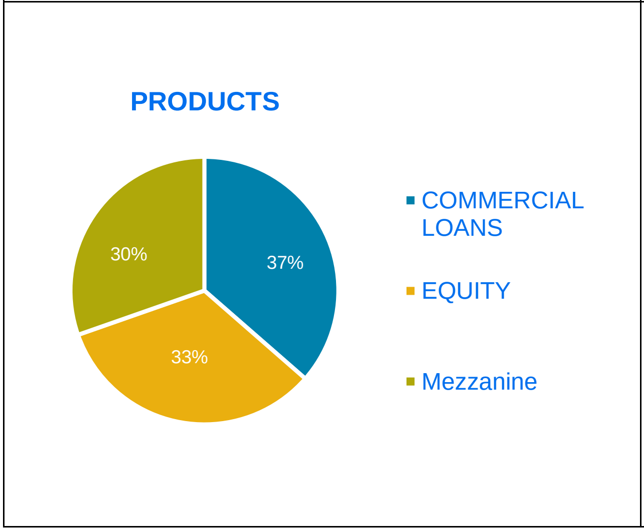
1.5 PORTFOLIO OVERVIEW IDF

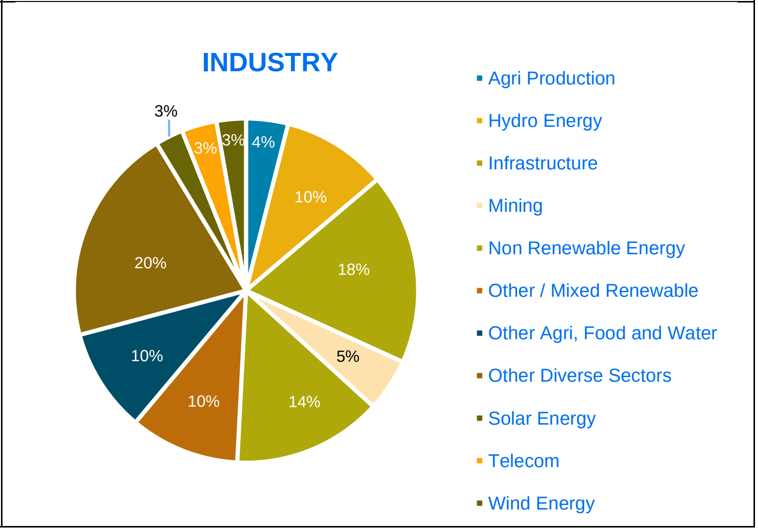
- A total of € 495.4 mln is committed, predominantly in Africa (63%), representing a € 17.9 mln decrease in commitments vis-à-vis Q2 2016 (€ 513.3 mln). The decrease can for the largest part be explained by the results of the restructuring of Kenmare and by the foreign exchange rate fluctuations over Q3-2016.
- Product types are evenly spread over commercial loans, equity and mezzanine.
- The portfolio is well spread over different industries. The fund is active in several renewable energy industries like hydro, solar and wind energy. Other large industries include infrastructure, agriculture food and water, non-renewable energy and mining.

Current Portfolio Breakdown	
Committed portfolio	€ 495.4 mln
Outstanding portfolio	€ 381.4 mln
Committed not disbursed	€ 114.1 mln
Value Adjustments and amortized costs	€(120.5) mln
Net Portfolio Value	€ 260.9 mn









1.6 PERFORMANCE AND REVOLVABILITY

To date the IDF has received 81.1% of available funding from DGIS. The funds have a Residual Value over Total Funds received from investors (“RVPI”) of 92.2% in Q3-2016 (83.1% Q2-2016). IDF has a 100% revolvability requirement, meaning that every €1.00 invested should generate sufficient interest income and principal repayments to allow € 1.00 to be reinvested.

The RVPI sets off the total outstandings against total funds received from DGIS (please be referred to the Balance Sheet in Chapter 4 below). This value shows the current value of the assets and whether this can pay back the subsidy made available by DGIS.

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

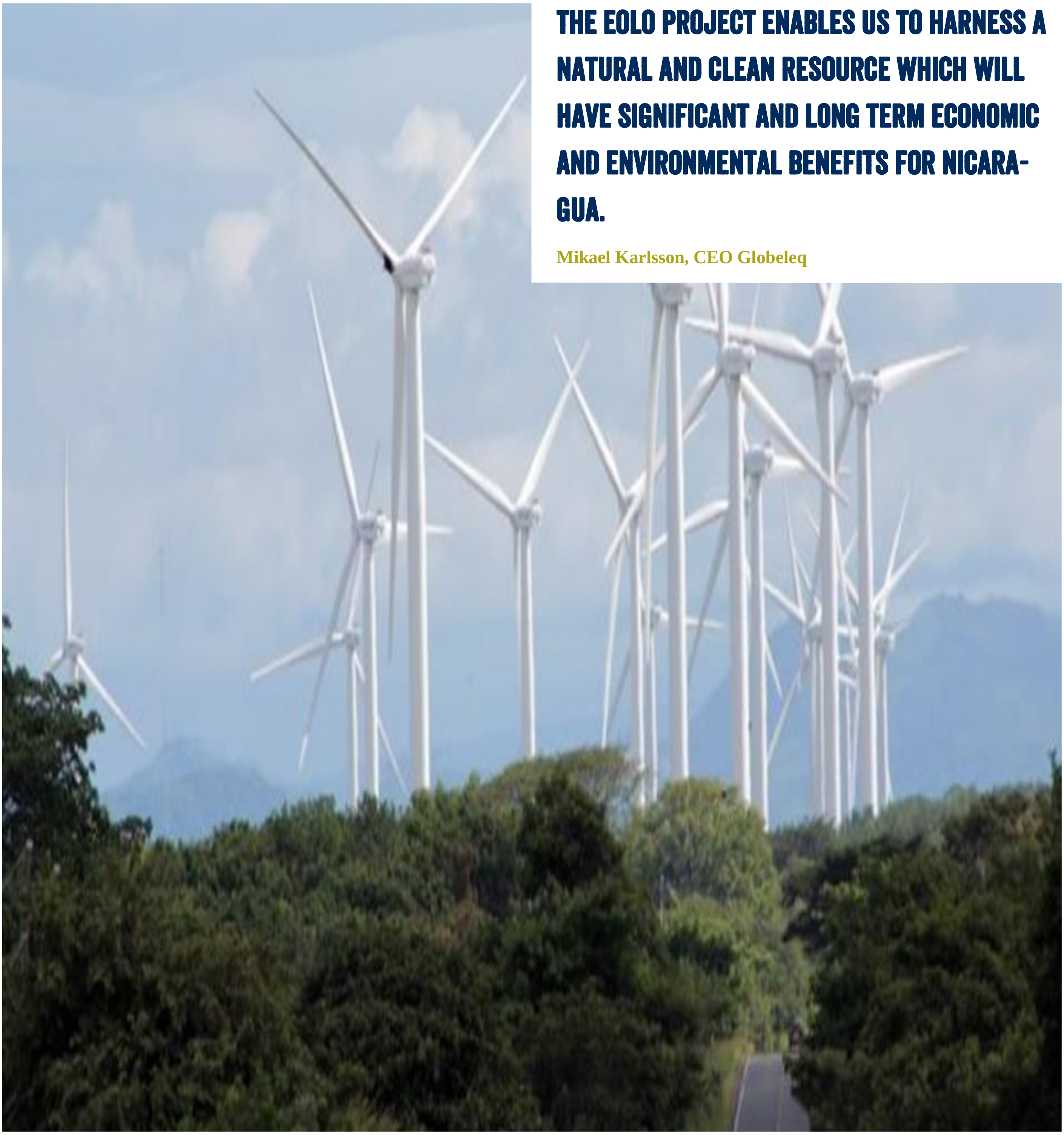
Performance and Revolvability	
Total Funds received from DGIS to Committed Capital by DGIS	81.1%
Residual value / Total funds received from investors [3]	92.2%

[3] 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.

2. CLIENT CASE

EOLO DE NICARAGUA

RENEWABLE ENERGY FOR NICARAGUA



THE EOLO PROJECT ENABLES US TO HARNESS A NATURAL AND CLEAN RESOURCE WHICH WILL HAVE SIGNIFICANT AND LONG TERM ECONOMIC AND ENVIRONMENTAL BENEFITS FOR NICARAGUA.

Mikael Karlsson, CEO Globeleq

SUPPLYING POWER IN A CHALLENGING REGION

Nicaragua had the lowest power generation capacity per capita in Central America, leading to frequent black-outs.

Heavy fuel-oil or diesel units provided a quick, but costly and environmentally unfriendly solution in emergencies. Fossil fuels accounted for two thirds of the total generation capacity, which was the highest in the region despite the cheaper renewable energy options available to the country.

The Wind farms, located on the shores of Lake Nicaragua, were the first wind projects in FMO`s portfolio.

EOLO & AMAYO – WINDS OF CHANGE

A proven technology with a good financial profile made it possible to enter this segment. Onshore wind projects have the advantage of being quickly installable, scalable over time, and having a long economic life of over 20 years. The short construction period enable generation of income within a year of the investment.

On an aggregated basis, the 33 wind turbines increased the country's installed capacity by 8%, providing access to electricity for an equivalent of nearly 500,000 people.

Wind provides greener and cheaper energy, leading to cost savings of 40 - 65% compared to fossil fuel prices (at the time of financing).

SOLID APPROACH, SOUND PARTNERS

The projects constitute valid examples of collaboration between strong sponsors, qualified technical providers and reliable off-takers.

In Eolo, FMO partnered with Globeleq Mesoamerica Energy, the largest manager of wind farms in Central America.

The proven scalability, velocity of installation, and long economic life of onshore wind projects allowed the project to achieve a good and stable financial performance within a year of the investment.

The wind farms have contributed to Nicaragua's spectacular energy transformation. In 2014 Nicaragua generated an average of 50% of its electricity from renewable sources.

COMPANY INFORMATION

NAME

Eolo de Nicaragua

COUNTRY

Nicaragua

SECTOR

Renewable Energy

TYPE OF BUSINESS

Wind farm

INVEST INFORMATION

FMO INVESTMENT EOLO

USD 12 mln Subordinated Loan IDF
USD 28 mln Senior Loan FMO-A

TOTAL PROJECT SIZE

USD 91 mln

FINANCIAL PRODUCTS USED

Loan

IMPACT INFORMATION

22 Wind Turbines built in 2012

44MW

5% of installed capacity

110.000 metric tons CO2

equivalent p.a. GHG avoided

Providing Electricity to 260.000 people

ANNEX 1 INDICATORS

IDF Indicators		
	FORMULA	**SOURCE**
Direct Employment supported	Number of full-time equivalent employees as per local definition working for the client company or project at the latest financial year-end. This includes directly hired individuals and individuals hired through third party agencies as long as those individuals provide on-site services related to the operations of the client company. Also, this includes full-time equivalent worked by seasonal, contractual and part time employees. Part-time jobs are converted to full-time equivalent jobs on a pro rata basis, based on local definition (e.g., if working week equals 40 hours, a 24 hr/week job would be equal to 0.6 FTE job). Seasonal or short-term jobs are prorated on the basis of the portion of the reporting period that was worked (e.g., a full-time position for three months would be equal to a 0.25 FTE job if the reporting period is one year). If the information is not available, the rule-of-thumb is two part-time jobs equal a full-time job. Note: employment for the purpose of the construction of the client company's hard assets is not to be included in this indicator.	Latest available audited annual report. If the number of employees is not included in the Annual Report: Impact Reporting Template.
Direct Employment supported - Women	Estimation of number of full-time equivalent female employees as per local definition working for the project based on female participation rates by country and sector.	FMO Female Employment Estimation tool
Indirect Employment supported	Estimated employment related to the indirect effects of FMO's financing. Indirect effects include backward, induced and forward effects. Backward effects: sum of impacts at the end-beneficiary's direct and indirect suppliers that are related to FMO's financing. Induced effects: sum of impacts of the re-spending of salaries earned by employees of the end-beneficiary and its (in)direct suppliers that are related to FMO's financing. Forward effects: sum of impacts at the direct consumers of energy and infrastructure projects that can be related to FMO financing.	FMO Impact Model
Indirect Employment supported - Women	Estimated number of indirect jobs for women based on female participation rates by country and sector.	FMO Female Employment Estimation tool
Beneficiaries Reached	Estimated number of additional people reached by the project or investment.	For energy projects: FMO Impact scoring tool For other infrastructure projects: Client report
Gross Installed Electricity Capacity	Capacity of energy plant(s) constructed or rehabilitated (MW).	Independent engineering consultant's report
Total power production (GWh per year)	Energy delivered to off-taker(s) during the reporting period.	At contracting: Independent engineering consultant's report At review: Annual operational report.
Annual Avoided GHG Emissions	Difference between the project GHG emissions and a baseline scenario.	Independent engineering consultant's report or FMO Impact scoring tool
Catalytic effect	Amount of commercial financing[4] in the project or fund. The scope is limited to the financing round in which IDF takes part.	Legal documents or financial model

[4] "Commercial financing" refers to financing from a commercial party: all except governments, DFIs and NGOs.

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CONTACT

Rosemarijn van der Meij
E: R.van.der.Meij@fmo.nl
T: +31 70 314 94 59
M: +31 6 21 80 75 93