

FMO

Entrepreneurial
Development
Bank

CAPACITY
DEVELOPMENT
PROGRAM
(B-CD FUND)

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Annual report

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TECHNICAL ASSISTANCE FOR GREEN
AND GENDER PROJECTS



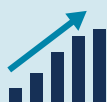


Introduction

The aim of the Capacity Development program is to enable clients and prospective clients to improve their performance and to become more competitive in a sustainable way. The program achieves this by promoting and facilitating the transfer of knowledge and skills, ultimately to strengthen organizational capabilities. This aligns with FMO's objective to offer its clients access to knowledge and expertise in a manner that differentiates FMO from other financiers.

The Capacity Development Program (B-CD Program) is operational since November 2015 when the first tranche of the subsidy was made available by the Ministry of Foreign Affairs to FMO. The B-CD Program concentrates in part on projects to support green opportunities (40% of total funds). To this end, projects are run under topics such as climate change mitigation and adaption; footprint reduction in the areas of water, waste, energy use and biodiversity. Further 40% of total funds are dedicated to projects that empower women (creating equal gender opportunities). Within this spectrum, the main focus areas are currently to empower female entrepreneurs and to provide better access to finance for women. The tenor of the B-CD program is four years, extending to the end of 2018.

This report provides an overview of the projects approved and executed under the CD program during 2016. It highlights some of the most notable interventions during the period, and outlines prospects for the 2017 Capacity Development year.



€4,95 million

Funds annually available for the period 2015-2018



40% Green

Investment target



40% Gender

Investment target

Contact details

Should you have any feedback or questions, please feel free to contact us.

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Fund code

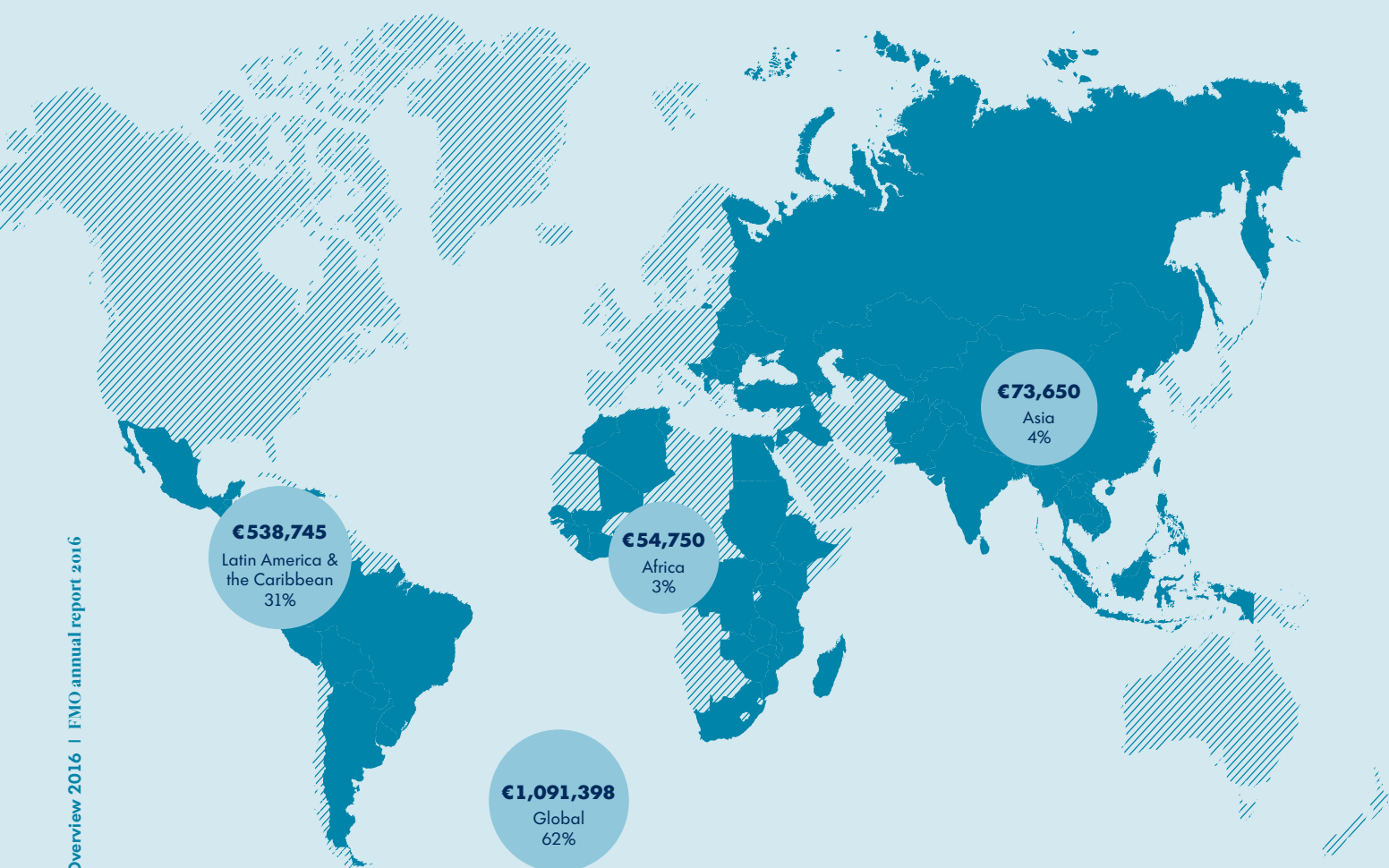
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Cover photo

Picture is taken by Opmeer Reports.

OVERVIEW 2016

Overview 2016 | FMO annual report 2016



Total committed portfolio: €1,758,543



13 new committed projects



10 Green projects



€135,272 average project value



8 contracts signed



2 Gender projects



€1,758,543 committed



6 disbursements



1 project Green & Gender



€135,094 disbursed

LETTER FROM THE FUND MANAGER

2016 was the first full year that this CD Program has been operational. Since November this year, the team is part of the newly formed department 'Public Investment Management', which clusters the management of all government-related and other public funds in one department. Public Investment Management (PIM) envisions to finance the gap between non-commercial products and FMO or other investment products of Development Finance Institutions (DFIs) by:

- taking publicly funded and early stage business opportunities and supporting them with advisory services, Corporate Governance expertise and high risk financing to develop businesses towards FMO and other DFI funding;
- catalysing DFIs and allowing them to unlock higher risk and high impact markets.

Under PIM, also FMO's energy and infrastructure-related funds IDF and AEF are managed. The 'green'-related part of this CD Program is thus striving to more and more align its strategy with the green project investments under those funds. Since technical assistance is limited under both funds we see a great opportunity to provide this under the CD Program for higher risk investments in the energy and infrastructure sectors.

A further organizational change, namely the outreach to all of the FMO sector departments has worked well in 2016 and contributed to a total of five projects with the infrastructure, manufacturing and services (IMS) and energy departments. Historically, FMO's CD team had little interaction with these two departments as well as the agribusiness department. To this end, the funding for this Program has been catalytic to implement a wider and better outreach internally.

On gender, the CD team has taken steps to craft a programmatic approach, based around partnerships, to gender, and in particular, gender lens financing. This holistic approach combines several sub-projects that

address different gaps or inefficiencies in the market that adversely impact women entrepreneurs.

I am very happy to share the key figures of this CD Program: A total amount of EUR 1,758,543 has been committed to thirteen new projects; of which eight projects have already been contracted in 2016. Naturally for a new funding facility, actual disbursements and contracting lag behind the project commitment stage. This has been particularly the case for the 'Gender meta project' in which interest of several players such as IFC and the Goldman Sachs Foundation need to be aligned. This large project has global outreach, covering all continents including Africa, which accounted for the lowest share of commitments in 2016. For 2017, several green related projects in Africa are in the pipeline and this will be a clear focus for the year.



A challenge in the future will remain how to steer on the green and gender spending targets of 40% each. Last year, we have made a first decision to only have gender or green projects under this Program and not use the remaining 20% of funding for other purposes, which will give some flexibility to overspend on one theme but still achieve 40% of the other. Yet, because of the Gender meta project the expenditure on gender versus green has skewed for last year while green has overall the higher number of

projects. We would like to embrace FMO's initiatives on both subjects without any limitation and not avoid gender projects in the near future just for the sake of re-balancing the actual spending ratio. Throughout 2017, however, we will explore more natural ways to bring the spending ratio more in line with a 50:50 approach, such as to engage in one higher ticket size also for a green project. Finally, we need to also concentrate more on Africa and Asia in moving forward to reach the spending targets of 35-45% for Africa and 25-35% for Asia.

With kind regards,

Martin Steindl





Gender

One of the projects the CD Program supports under the Gender theme is an educational project with BAC Credomatic Network (BAC Group), a financial services company that operates in Mexico, Panama, Guatemala, Costa Rica, Honduras, El Salvador and Nicaragua. BAC's priority is to generate and distribute economic and social wealth, and it has more than 3.2 million active clients and almost 4 million debit and credit cards out in the market. The project facilitates the broadening of BAC's **Financial Education Program** to include a special focus on **MSMEs led by women**. The CD-Program contributes to the hiring of consultants who will design the curriculum and provide training to BAC employees. They will also launch a train-the-trainer approach for employees to become trainers themselves and will give them the tools and skills to provide training to women-owned MSMEs.

Green

In the area of Green, the CD Program has committed funds to several projects under climate mitigation, climate adaptation and resource efficiency. One of these projects is the further development of **Global Forest Watch (GFW)**, which is an online tool using satellite imaging and other data (including crowdsourced data) that makes information easily accessible to enable the conservation and management of forests around the world.

FMO is supporting the development of GFW Finance, which is an application (or app) that uses the GFW platform to enable financial institutions or other supply chain players to understand and to manage their forest related risks. FMO engaged in this project due to our experience in Paraguay, where financial institutions (FIs) are systematically exposed to forestry risk due to the number of their clients that are involved in agriculture, such as cattle ranching, that can lead to deforestation.

Our clients piloted the app and it makes a big difference: for example, when they are approached with a financing request they are now able to upload the farm coordinates and then see a recent and historic satellite images of the location. This enables the bank to determine whether deforestation has occurred, and if so, whether it was legal or illegal. In the past, this would have necessitated a long drive and a manual verification.

The project is highly relevant for FMO's strategy in Paraguay as it lifts the quality of E&S management in the country's financial sector. There is a good fit with FMO role as a sector-wide change agent in a country with urgent and challenging E&S dilemmas and few local incentives for improved E&S performance. The project addresses a pressing need for accurate and timely data for decision-making and client engagement, and furthermore has utility beyond Paraguay.

Gender projects

Client

Envirofit International Inc

Project name

Cookstoves health impact study

Sector

Energy

Geography

Honduras



Funding objective

Envirofit is a global social enterprise and leading player in the manufacturing and distribution of clean cookstoves. This project comprises a study to scientifically measure the long-term health impact of large-scale cookstove interventions in Honduras. Every year 4,3 million people die worldwide from indoor air pollution because of traditional cooking this is more than because of HIV, malaria and tuberculosis combined. This study aims to demonstrate the positive health impacts of using a clean cookstove, allowing for more efficient and cleaner cooking solutions. The study serves both, Envirofit in its product development and sales opportunities, as well as the clean cookstove sector in general.

Client

BAC Credomatic Network (BAC Group)

Project name

Financial education for women-owned SMEs in Costa Rica

Sector

Financial Institutions

Geography

Costa Rica



Funding objective

The project facilitates the broadening of BAC's Financial Education Program to include a special focus on MSMEs led by women. The CD-Program contributes to the hiring of consultants who will design the curriculum and provide training to BAC employees. They will also launch a train-the-trainer approach for employees to become trainers themselves and will give them the tools and skills to provide training to women-owned MSMEs.

Green projects

Clients

Four subsidiary banks of the Promerica Group

Project name

Greenline development

Sector

Financial Institutions

Geography

Costa Rica, Ecuador, El Salvador and Guatemala



Funding objective

The objective of this project is to assist the subsidiaries of the Promerica Group in developing green credit products and to successfully allocate FMO's greenline funding to clients that meet our greenline's criteria. The core areas of support to the banks are: market analysis and identification of green projects in line with the banks' investment criteria and FMO's green criteria; assessment of concrete projects; procedures development and training.

Client

Forestry East Africa (FEA)

Project name

Capacity development Forestry East Africa

Sector

Energy

Geography

East Africa



Funding objective

FEA is the East African regional forestry association and has been founded by two of FMO's Forestry clients (The New Forests Company and Green Resources) at the beginning of 2016. The associations' objectives are two-fold: to lobby and to provide research. FMO will support the research activities of FEA. This enables FEA to address fundamental weaknesses that exist in the forestry sector in East Africa. Increased dissemination of research is currently lacking and of great importance to the forestry sector in East Africa and can become a driver to provide a valuable proposition to the FEA members.



GBA All-Stars Academy on women & finance

A conversation with Andrew Shaw, Senior Capacity Development Officer at FMO

The Global Banking Alliance for Women (GBA) is the leading international consortium of financial institutions and other organizations interested in building women's wealth worldwide. The academy program was set up to increase the capabilities of the financial services community to target women as a distinct market.

In June this year, FMO hosted the GBA All-Stars Academy on women & finance. Andrew Shaw joined the sessions and shares some of the main lessons learned.

Why did FMO host this Academy?

FMO is increasingly active in the field of financing for women. One aspect of our role is to highlight and show the business case to those financial institutions that we currently work with and that we want to work with in the future. The course leaders were bankers who have developed and launched financial products for women in their banks. All the cases, examples, data and anecdotes were genuine and first hand. This was one of the key reasons the GBA All-Stars Academy was so successful. As we have seen before, peer learning is very powerful.

Is financing for women truly demand driven?

Investing and financing with a gender lens has great potential to create economic and social impact by increasing women's access to finance, increasing their wealth, health and livelihoods, and therefore those of their families. It also has other associated benefits such as raising awareness of gender issues, promoting gender diversity in the workplace, and stimulating the creation of products and services that contribute to improving the lives of women and girls.

The demand for women oriented financial products exists. There remains, however, a large gap in the delivery of financial services, both in terms of access and service quality, to women relative to men. There are around 7 million women-owned SMEs in the formal sector in the developing world, of which 70% are unserved or underserved by financial institutions. This amounts to a financing gap of \$285 billion (Goldman Sachs, 2014).'

Who participated in the GBA All-Stars Academy?

Naturally as a development bank our focus is on the economic empowerment of women, and we see this a key pillar in the aims of Sustainable Development Goal 5: Achieve gender equality and empower all women and girls.

One of the great things about the GBA AllStars Academy was the diversity of participants, because we were joined in The Hague by Banco BAC from Costa Rica, Bai Tushum Bank from Kyrgyzstan, KCB from Burundi, City Bank from Bangladesh and a number of others from all around the globe. It may be surprising to hear that the Royal Bank of Scotland attended the academy and has already made a lot of progress and carved a niche in the British market with its focus on women.

What did FMO learn from the All-Stars Academy?

One of the things that I am proud of is FMO's willingness to listen and learn from its clients and its network. By inviting people to the Netherlands and welcoming them into our offices, we create the opportunity for dialogue and learning for not only our partners, but also our own colleagues and partners. That is how you begin to build something more meaningful than just a relationship based on financial transactions. For us this is also a great learning opportunity.

What's next?

As a result of the All-Stars Academy several attending banks have reached out to FMO for continued support in helping them to better serve their female clients. With Banco BAC in Costa Rica we have started a Capacity Development project to help them develop training courses for their female entrepreneur clients, using blended learning (i.e. online and face-to-face). We are also investigating a number of financing opportunities with these banks. Finally, we have a partnership with IFC and Goldman Sachs Foundation, and we will be leveraging this to make sure that more women and women owned businesses have access to capital. Scale is really important here given the size of the opportunity.

Why do we always refer to gender, and not just women?

It's true to say that the impact we are looking for is on women and girls, but this is only a part of the picture. By referring to gender, we are making it clear that we are looking at how—over time—culture and society will have created norms, conferred responsibilities and built expectations of how men and women, boys and girls, act and play their roles. By referring to gender, we bring both men and women into the equation, and this is the starting point for change. I was glad that the All-Stars Academy was attended by both men and women, because gender is not just an issue for women.



Andrew Shaw is FMO's Senior Capacity Development Officer. With a degree in Anthropology and an MBA, he has over 15 years' experience in SME development, project management and consultancy services. He works with FMO's clients to build their organisational capacities to increase their competitiveness and bring about greater sustainability and impact. He is in the lead for developing FMO's non-financial and advisory offering when it comes to financing women owned enterprises.

Gender

FMO has an important role to play in advancing gender equality through its activities in emerging markets, and in the last half year, the CD team has made sure that this role has been front of mind for our colleagues. FMO's focus is on the economic empowerment of women: our network of client financial institutions are ideal partners and impact agents to increase access to finance for female entrepreneurs, but, as mentioned above, so too are our partners such as IFC, Goldman Sachs Foundation and others. In 2017, our focus will be on ensuring that the projects that are ongoing are successful and impactful, but it will also be about building upon our initial efforts, finding new projects and new partners.

We are keen to explore the project possibilities within the other sectors that FMO focuses upon, namely agribusiness and energy. For example, within agribusiness we are currently starting a smallholder farmer project with the company Zanzibar Sugar. One of the first milestones for the client is to design a plan on how the impact for youth and women can be positively enhanced through the project activities. Another potential project with a prospective client in Nicaragua will have a component dedicated to land governance and specifically land titles. Here, we also would like to explore potential gender aspects.

Finally, we are collaborating with colleagues from FMO's evaluation unit to initiate an effectiveness study and impact evaluation that focuses upon both our investments and the role of CD in gender related interventions in the financial sector. The effectiveness study will be useful in providing a validation of our approach and will play a role in improving our strategy. The impact study will be longitudinal over 3 – 5 years, and the aim will be to provide ex-post evaluation on our past interventions.

Green

Since the beginning of 2016, the CD Team engages more pro-actively with FMO's energy department, a decision for which this funding source has been catalytic. As a result, new projects under Green will come from FMO's energy department. In line with the department's strategic re-orientation, the focus will be on off-grid solutions and alternative energy. CD's role will be to support the roll-out of innovative products and help on studies and research. To this end, we are currently contemplating a study on cookstoves for Envirofit in Honduras. The remaining third of new projects will come from our FI department and will engage FMO's bank clients and other financial institutions in launching green products to their own clientele.

Budget 2017

For 2017, we expect a similar commitment level as in 2016 of Euro 1.5 million. Based on the already contracted projects in 2016, we expect Euro 927,295 in disbursements over 2017.

FINANCIALS

Balance sheet at December 31, 2016 (B-CD)	31/12/2016	31/12/2015
Assets		
Banks	1,082	(0)
Current account with FMO	-	1,229
Accrued income & Other receivables	-	-
TOTAL ASSETS	1,082	1,229
Liabilities		
Current account with FMO	126	-
Accrued liabilities & Other liabilities	44	3
Total liabilities	170	3
Contribution DGIS previous years	1,238	-
Contribution DGIS current year	-	1,238
Total contribution DGIS	1,238	1,238
Undistributed results previous years	(12)	-
Result current year	(179)	(12)
Grants	(135)	-
Evaluation costs	-	-
Total fund capital	912	1,226
TOTAL LIABILITIES AND FUND CAPITAL	1,082	1,229
Total subsidy amount according to "beschikking" CD	4,950	4,950
Total subsidy received from DGIS	1,238	1,238
"Beschikkingsruimte"	3,712	3,712

Statement of comprehensive income at December 31, 2016 (B-CD)	31/12/2016	31/12/2015
Income		
Interest income	(3)	-
Fx other	4	-
Total income	1	-
Expenses		
Remunerations FMO	(180)	(12)
Other operating results	(0)	(0)
Total expenses	(180)	(12)
Value adjustments, impairments and grants		
Value adjustments on loans	-	-
Results from grants	-	-
Total value adjustments, impairments and grants	-	-
Net profit (and total comprehensive income)	(179)	(12)

Cashflow Statement at December 31, 2016 (B-CD)**31/12/2016****31/12/2015**

Position of cash at January 1	1,228	0
Contribution DGIS current year	-	1,238
Disbursements on grants	(135)	-
Management fees FMO	(180)	(12)
Other	43	3
Position of cash at end of period	956	1,229

Management fee**2016****2015**

Allocated costs	CD	CD
Investment related Department costs:		
Direct costs Investment Departments	-	-
Allocated costs for ICT, Facility Services and Human Resources	-	-
Total Investment related Departments	-	-
Allocated costs for:		
· Corporate & Board	-	-
· Mid Office and Finance & Risk	-	-
Fixed fee	180	12
Total costs	180	12

Remuneration with regard to Portfolio size, production & portfolio results*Fees FMO*

The fees for 2016 for CD are based on a fixed fee of EUR 180.000

Costs related to the fund

The direct and indirect expenses allocated to CD for its share of activities are presented below. The total costs allocated are EUR 180.000.

ANNEX 1: COMMITTED PROJECTS IN 2016

Department	Customer	Month	Our Total Share Amount EUR	Region	Country of Exposure Risk	Industry Class
Energy	AFRICAN FORESTRY*	2016.06	42,250	AFRICA	AFRICA	OTHER DIVERSE SECTORS
Energy	ENVIROFIT INTERNATIONAL, INC.**	2016.09	100,000	LATIN AMERICA & THE CARIBBEAN	HONDURAS	Other / Mixed Renewable
Energy	HIDRONOR-MANDIA S.A.*	2016.11	116,820	LATIN AMERICA & THE CARIBBEAN	ECUADOR	Hydro Energy
Financial Institutions	NEDERLANDSE FINANCIERINGS-MAATSCHAP**	2016.01	1,012,000	GLOBAL	GLOBAL	Other FI
Financial Institutions	NEDERLANDSE FINANCIERINGS-MAATSCHAP*	2016.03	20,948	GLOBAL	GLOBAL	Other FI
Financial Institutions	NEDERLANDSE FINANCIERINGS-MAATSCHAP*	2016.03	1,100	GLOBAL	GLOBAL	Other FI
Financial Institutions	NEDERLANDSE FINANCIERINGS-MAATSCHAP*	2016.03	7,200	GLOBAL	GLOBAL	Other FI
Financial Institutions	BANCO BAC SAN JOSE S.A.**	2016.04	81,925	LATIN AMERICA & THE CARIBBEAN	COSTA RICA	Universal Banking
Financial Institutions	CENTRO DE PRODUCCION MAS LIMPIA DE*	2016.05	100,000	LATIN AMERICA & THE CARIBBEAN	LATIN AMERICA & THE CARIBBEAN	OTHER DIVERSE SECTORS
Financial Institutions	WORLD RESOURCES INSTITUTE*	2016.11	140,000	LATIN AMERICA & THE CARIBBEAN	PARAGUAY	OTHER DIVERSE SECTORS
Infrastructure, Manufacturing & Services	ASSHETON CARTER LTD.*	2016.06	50,150	GLOBAL	GLOBAL	Mining
Infrastructure, Manufacturing & Services	P. EN R. HOLDING BV*	2016.02	73,650	ASIA	ASIA	Agri Production
Private Equity	AFRICAN INFRASTRUCTURE INVESTMENT M*	2016.04	12,500	AFRICA	SOUTH AFRICA	Infrastructure
TOTAL			1,758,543			

*Green projects committed in 2016

**Gender projects committed in 2016

