

MASSIF

Quarterly report Q4 2016

Set up in 2006 and managed on behalf of the Dutch Ministry of Foreign Affairs, MASSIF is FMO's financial inclusion fund. MASSIF enhances financial inclusion for micro-entrepreneurs and small and medium enterprises (MSMEs) that are disproportionately affected by a lack of access to high quality financial services. The Fund supports intermediaries that reach out to MSMEs in fragile and low-income countries, MSMEs in rural areas and those dependent on agriculture, women-owned MSMEs, and intermediaries that provide access to productive goods and services for base of the pyramid individuals.



1. FUND OVERVIEW

1.1 FUND KEY FACTS

| Key Fund Facts | Q4 2016 |
|---|------------|
| Start of investment period | 2006 |
| End of investment period | 2026 |
| End of management period | - |
| Funds made available by the Dutch Ministry of Foreign Affairs (MoFA) ² | €324.0 mln |
| Total funds drawn from MoFA | €317.0 mln |
| Total funds available to be drawn from MoFA ³ | €3.1 mln |
| Total number of investments since inception (2006) | 399 |

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.



926,310

Micro-entrepreneurs supported⁴



47,498

SMEs supported with debt



€ 89 mln

SMEs supported with equity⁵



158%

Revolvability⁶

1.3 CAPACITY DEVELOPMENT

MASSIF supports 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. During the fourth quarter of 2016, 4 projects were contracted.

| Capacity Development | Cumulative 2006 - now |
|------------------------------------|-----------------------|
| Number of CD projects ⁷ | 248 |
| CD funding | €29.4 mln |

1.4 PERFORMANCE AND REVOLVABILITY

| Performance and Revolvability of Financing Portfolio | Cumulative 2006 - now |
|--|-----------------------|
| Total funds received from investors ³ / Total commitments from investors ⁸ | 100.0% |
| Revolvability ⁶ | 158.2% |
| Average Interest Margin Loans | 5.0% |

1.5 PORTFOLIO OVERVIEW

| Current Portfolio | Q4 2016 |
|---------------------------------------|------------|
| Committed portfolio | €594.1 mln |
| Outstanding portfolio | €480.7 mln |
| Committed not disbursed | €113.4 mln |
| Value adjustments and amortized costs | -€50.3 mln |
| Net portfolio | €430.4 mln |

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. This amount was lowered by € 3.9 mln as of 30 December 2016.

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.

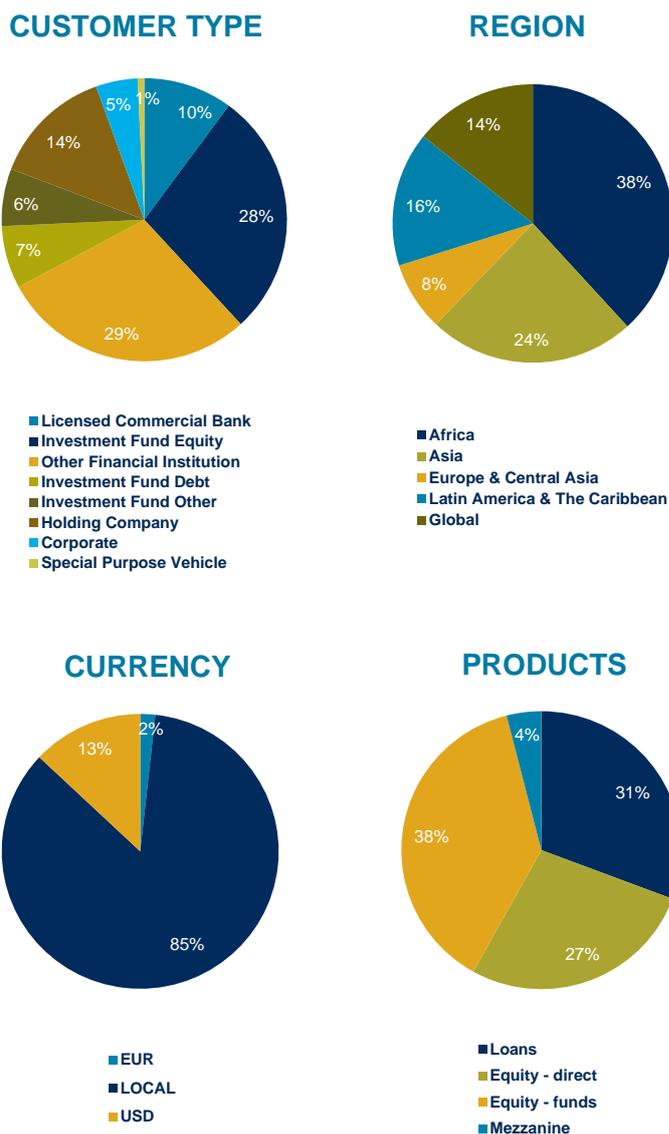
⁵ Through its investment in SME PE funds, totaling € 89 mln at the end of Q4, MASSIF also provides scarce equity to SMEs.

⁶ 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, meaning 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.

⁷ Rectification of Q3 report: number of CD projects at September 30, 2016 was 244.

⁸ MoFA and FMO are the sole investors into MASSIF. MoFA and FMO's total cumulative commitments to MASSIF for financing activities have been, respectively, € 312.8 mln and € 7.8 mln.

At the end of Q4, the MASSIF portfolio was distributed in the following way⁹:



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.

| FMO Government Funds Management ¹⁰ | Q4 2016 |
|--|--------------|
| Total assets under management government funds | €913.7 mln |
| Total committed portfolio government funds | €1,212.1 mln |
| Active government funds | 3 |
| Active investments | 178 |

⁹ Portfolio breakdown is based on committed portfolio amounts.

¹⁰ Please note that FMO also manages FOM (a government facility), FOM-OS (a government fund, of which the investment period has ended), PDF (FMO’s Partnership Development 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

MICROFINANCE IN THE HEART OF THE BALKANS

ACCESS TO FINANCIAL SERVICES IN RURAL KOSOVO

Kreditimi Rural I Kosoves (KrK) is a microfinance institution in Kosovo offering tailored loan products to farmers, traders, and micro and small businesses in rural areas. MASSIF became a shareholder of KRK in 2008 and provided local currency loans in 2009 and 2016. In addition to financing, FMO has offered various services for KrK's further professionalization.



DIRECT CREDIT TO ENTREPRENEURS

Land-locked in the Balkans and affected by recent war, Kosovo is the poorest nation in Europe, with a GDP per capita of US\$ 8,000. One in three people is unemployed and many micro and small entrepreneurs remain unbanked because of structural issues in the microfinance sector, such as fragmentation, regulations, and local banks averse to investing in the sector. Delivery of financial services at affordable costs to low-income segments of society is infrequently available. Several MFIs have retrenched to urban areas and turned to consumer-type lending, while banks have abandoned small-scale agricultural financing, considering it too labor intensive. Meanwhile, KrK is one of the few organizations that directly provides credit to individuals in Kosovo's rural areas.

CLOSER TO REMOTE CLIENTS

After KrK transformed from working through intermediaries into direct credit provision, it improved its efficiency and control and has been consistently profitable since 2011. By hiring local loan officers knowledgeable of and close to borrowers, KrK combines strong rural outreach with high portfolio quality. Nearly 60% of KrK's clients are located in rural areas of the country. Dairy, meat, and vegetable production are identified as KrK's core segments that it hopes to grow in the coming years.

IMPROVING PROFESSIONALIZATION

MASSIF took a stake in KrK in 2008, herewith supporting the capital restructuring of the institution. MASSIF also provided a €1.500.000 loan¹¹ in 2009 to fund the organization's growing portfolio, and provided another loan amounting to €3.000.000 this year.

Through its Capacity Development program FMO has actively contributed to strengthening the governance and strategic direction of KrK over the years, financed an independent board member since 2010, and supported a market study to help set longer-term strategy. These changes were important in bringing other international investors to support KrK's 12% average annual portfolio growth since 2010.

Kosovo remains a difficult environment for MFIs, consolidation pressure and regulatory uncertainty looming. Through MASSIF, FMO continues to be an important sparring and financing partner for KrK in this process.

¹¹ This loan has been fully repaid.

COMPANY INFORMATION

CLIENT NAME

Kreditimi Rural i Kosoves LLC

COUNTRY

Kosovo

SECTOR

Microfinance

INVESTMENT INFORMATION

MASSIF INVESTMENT HISTORY

€1.9 mln equity

€1.5 mln local currency loan

€3.0 mln local currency loan

YEAR OF INVESTMENT

2008, 2009, 2016

END-BENEFICIARIES

Micro-entrepreneurs and small businesses

IMPACT INFORMATION



Providing responsible access to finance for 7,500 micro-entrepreneurs and small business



Supporting job creation in rural areas: 60% of clients are small-scale farmers



Strengthening governance and strategic direction of KrK through Capacity Development

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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