MASSIF

Quarterly report Q2 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 institution[1]. 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

Key Fund Facts	Q2 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 (MoFA)[2]	€323.9 mln
Total funds drawn from MoFA	€316.6 mln
Total funds available to be drawn from MoFA[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.

880,901
Micro-entrepreneurs supported[4]

46,831
SMEs supported with debt

€ 80 mln
SMEs supported with equity[5]

152%
Financial sustainability[6]

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.

Capacity Development[7]	Cumulative 2006 - now
Number of CD projects	191
CD funding[8]	€28.4 mln

In Q2 2016, FMO contracted €239,184 in Capacity Development grants to MASSIF clients through 4 unique projects. One of these project is for Mitra Bisnis Keluarga (MBK). MBK is a microfinance institution (MFI) in Indonesia and a MASSIF investee client since 2012. In 2015, the institution flagged a serious risk of over-indebtedness in the Garut District. The number of clients in arrears had increased from 180 to nearly 6,000 clients between March and mid-August 2015. Immediate steps to understand the situation and take mitigating action were paramount to prevent the local situation from becoming worse and affecting other regions as well.

To this end, FMO financed a CD project to analyse the situation and provide recommendations to MBK but also to other lending institutions in the country. The project was part of a larger initiative involving other DFIs that focused on improving overall lending practices for micro-lenders in Indonesia. Yet, only FMO was able to step in quickly and address the immediate need expressed by MBK.

The study has now been completed and it shows that the dramatic increase in over-indebtedness was caused by several issues, most importantly by easily available credit from many formal lenders (multiple

[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. Please note that average loan sizes for 2006 - 2015 were updated vis-à-vis what was reported in Q1 2016 to reflect original average loan size used in past 'Resultatenfiches'.
[5] Through its investment in SME PE funds, totaling € 80 mln at the end of Q2, 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] Rectification of Q1 report: number of total funding amount of CD projects at March 31st, 2016 was 187 and €28.1 mln, respectively.
[8] World Bank Group (2015), The Global Findex Database 2014: Measuring Financial Inclusion around the World, p.11 and p. 50.

lending). To improve this situation, the study contributes, one the one hand, to a better understanding of the current lending practices and, on the other hand, provides concrete recommendations to improve the lives of the people at the base of the pyramid in Indonesia.

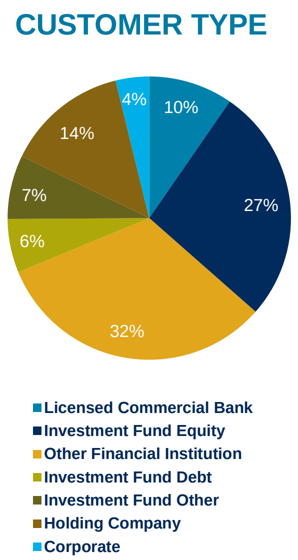
1.4 PERFORMANCE AND REVOLVABILITY

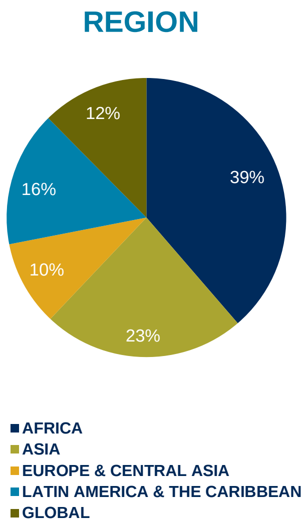
Performance and Revolvability of Financing Portfolio	Cumulative 2006 - now
Total funds received from investors[3] / Total commitments from investors[9]	100.0%
Residual value / Total funds received from investors[10]	151.7%
Average Interest Margin Loans	5.9%

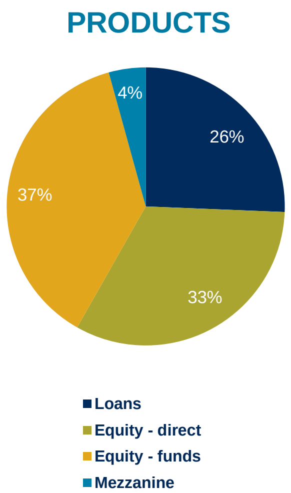
1.5 PORTFOLIO OVERVIEW [11]

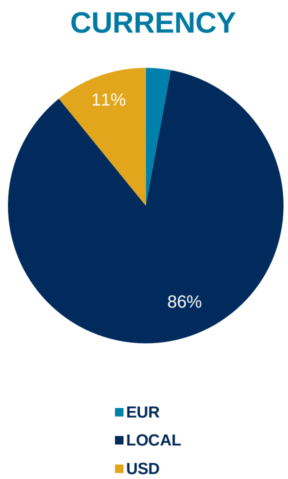
Current Portfolio	Q2 2016
Committed portfolio	€550.2 mln
Outstanding portfolio	€457.6 mln
Committed not disbursed	€92.5 mln
Value adjustments and amortized costs	-€46.4 mln
Net portfolio	€411.3 mln

At the end of Q2, the MASSIF portfolio was distributed in the following way:









[9] MoFA and FMO are the sole investors into MASSIF. MoFA 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.
[10] 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.
[11] Portfolio breakdown is based on committed portfolio amounts.

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]	Q2 2016
Total assets under management government funds	€845.0 mln
Total committed portfolio government funds	€1,172.3 mln
Active government funds	4
Active portfolio companies	185

[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

RURAL FINANCING IN NICARAGUA

SUPPORTING MICROFINANCE OUTSIDE OF URBAN AREAS

Fondo de Desarrollo Local (FDL) is a Nicaraguan NGO microfinance institution founded to enable micro, small and medium entrepreneurs to improve their standard of living. FMO invested in FDL via the Dutch Government's MASSIF financial inclusion fund, and will accompany the organization in its growth over the coming years.

CEMENTING ECONOMIC STABILITY

Nicaragua is a small Central American country with a population of 6 million. In 2014 Nicaragua boasted a GDP growth rate of 4.7%, more than twice the average for the region. It however remains the second poorest nation in the region after Haiti; it continues to face critical challenges in ensuring access to basic goods and services.

FDL is an NGO microfinance institution founded in 1992 by the Jesuit-sponsored Research and Development Institute Nitlapán. FDL's mission is to enable micro, small and medium entrepreneurs to improve their standard of living by providing them with a broad range of financial services. FDL partners with other organizations to also offer their clients non-financial services such as business skills training, legal support, and improved market access opportunities.

SOLIDIFYING ITS BUSINESS POSITION

Financial penetration in Nicaragua remains low and access to finance is scarce, especially amongst lower-income farmers and small-scale entrepreneurs in rural areas. Only 14% of the population above the age of 15 borrows from a formal source; 8% has a savings account. The No Pago (or "No payment") crisis of 2010 – 2011 bankrupted many microfinance institutions and shrunk the microfinance sector to nearly one-third of its previous size.

But, after surviving the No Pago movement in 2011, FDL has cemented its position as the largest microfinance institution (MFI) in the country, with assets of nearly US$ 90 mln at the end of 2014. FDL has been working towards becoming a regulated MFI since 2010. The conversion is expected to happen in 2015 and will allow FDL to offer a broader product range that includes savings. FDL's ambition lies in leveraging its country-wide network to grow in a sustainable manner driven by customer demand and in accordance with its mission.

RURAL MICRO FINANCE

FDL has a substantial rural footprint, with an estimated 73% of its portfolio invested in smallholder farmers or micro-entrepreneurs active in rural areas. FDL serves an estimated 58,000 clients through a network of 37 branches with loans averaging US$ 1,000.

The investment provides needed long-term financing for an organization that has relied on shorter-term financing in the past. FMO will accompany the organization in its further growth over the coming years, of new clients but also of additional products like savings. FDL's transition into a deposit-taking institution actively supported by FMO, will be an important milestone to achieving this.

COMPANY INFORMATION

NAME
Fondo de Desarrollo (FDL)

COUNTRY
Nicaragua

SECTOR
Financial Services

INVESTMENT INFORMATION

MASSIF INVESTMENT
US$ 7 mln

PRODUCT
Unsecured commercial loan

YEAR OF INVESTMENT
2014

TENOR
5 years

IMPACT INFORMATION

58,000 customers reached:
86% micro-entrepreneurs
14% SMEs

50% of loans for women

73% of loans in rural areas

30% of portfolio in agricultural loans

FMO
Entrepreneurial
Development
Bank

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.

CONTACT

Jeroen Harteveld
Fund Manager
E: j.harteveld@fmo.nl
T: +31 (0)70 314 9772

Charissa Bosma
Portfolio Analyst
E: c.bosma@fmo.nl
T: +31 (0)70 324 6187