FMO

Entrepreneurial
Development
Bank

MASSIF

Annual report

2017

MASSIF is the financial inclusion fund that FMO manages on behalf of the Dutch government.

Government of the Netherlands

FMO has a dedicated team – Public Investment Management (PIM) – for the management of government and public funds, consisting of MASSIF, the Infrastructure Development Fund (IDF) and the Access to Energy Fund (AEF), and FOM-OS. The total committed portfolio of these funds amounts to € 1,171.2 mln as per December 31, 2017.

MASSIF enhances financial inclusion for micro-entrepreneurs and small and medium enterprises, hereby supporting growth of responsible businesses that create jobs, provide income and improve livelihoods where it is needed most.

This picture was taken at Susan Nalumansi's small business in Kibuli, Uganda. Susan Nalumansi is a customer of M-KOPA. The M-KOPA lights help support the work in her shop.

TABLE OF CONTENTS

MASSIF AT A GLANCE

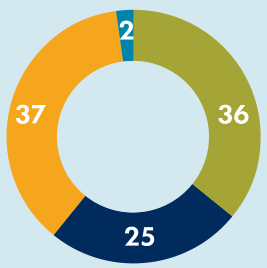
Set up in 2006 and managed on behalf of the Dutch Ministry of Foreign Affairs, MASSIF is FMO's financial inclusion fund. MASSIF enhances financial inclusion for micro-entrepreneurs and small- and medium-sized enterprises (MSMEs) that are disproportionately affected by a lack of access to financial services. 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 providing access to productive goods and services for base-of-the-pyramid individuals.

Achievements in 2017

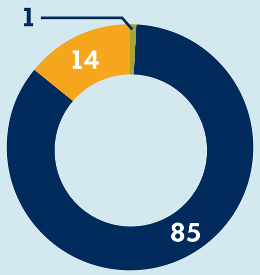
contribution by government
336 million

contribution by FMO
8 million

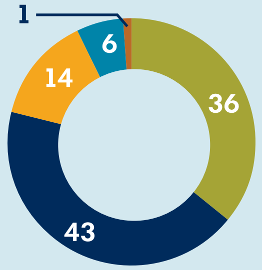
Portfolio by Product
(in % as of 31 Dec 2017)



Portfolio by Currency
(in % as of 31 Dec 2017)



Portfolio by Customer type
(in % as of 31 Dec 2017)



20
investments

24
CD projects

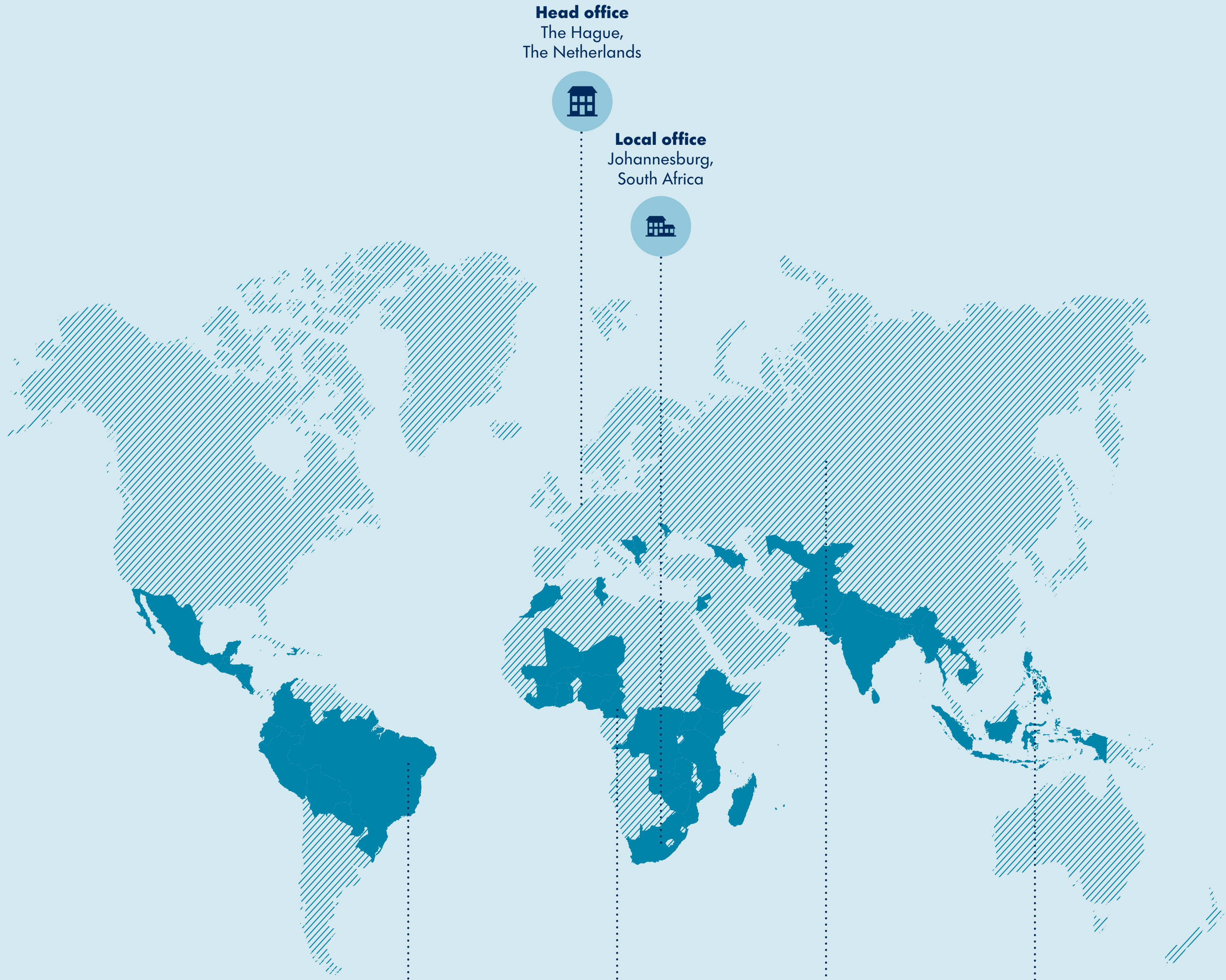
94 mln
disbursements

27
active currencies

92,000
micro-entrepreneurs reached

1,330
SMEs reached

136%
revolvability



Total committed portfolio by region (per 31 December 2017)

Non-specific region	Latin America & the Caribbean	Africa	Eastern Europe & Central Asia	Asia
€73 mln	€70 mln	€228 mln	€49 mln	€142 mln

Total committed portfolio
€562 mln

This picture was taken during monitoring visit to Nigeria

LETTER FROM THE FUND MANAGER

The year 2017 marked the launch of The Next Frontier, the strategy for taking MASSIF to a next phase. MASSIF was founded in 2006 with the aim to support micro, small and medium sized companies (MSMEs) in developing countries. By supporting entrepreneurs and companies, MASSIF aims to stimulate local economic growth, create jobs, and improve livelihoods in places where that is needed most. The strategy focuses on four themes: (i) supporting MSMEs in fragile and least financially penetrated countries, (ii) MSMEs in rural areas and smallholder farmers, (iii) women-owned MSMEs and (iv) new technologies and business models that increase access to basic goods and services for the poor and disadvantaged.

To reach these MSMEs, MASSIF invests in financial intermediaries, such as microfinance institutions, banks, leasing companies and private equity funds that can contribute to their development. The Fund's added value lies in its wide product offering, ranging from seed capital, debt products, and mezzanine finance to direct equity and investments in funds offering tailored solutions. The fund is also a pioneer in local currency finance. Providing its investees with local currency financing reduces a client's risk of losses from currency mismatches, allowing them to offer stable local currency products to their MSME end-clients. In addition to financing, MASSIF also provides grant-based technical assistance to its clients and end-beneficiaries at the base of the pyramid through its dedicated Capacity Development program.

As one of the world's largest investors in the financial inclusion space, MASSIF has always been at the frontier of impact investing paving the way for other investors. Partnerships are crucial when addressing financial inclusion and will be a focus going forward, reaching-out by strengthening and establishing relations.
The Sustainable Development Goals (SDGs) have provided the world with a framework for promoting sustainable development and provide guidance on impact that the investor community has to generate. Through its investments and technical assistance, MASSIF directly contributes to SDG 8 (decent work and economic growth), SDG 9 (industry, innovation and infrastructure) and SDG 10 (reduced inequalities). It does this while ensuring that MASSIF's funding remains complementary to the market. In this way, FMO ensures that the Dutch government funds are used as efficiently as efficient as possible and are pivotal to delivering incremental impact.

In 2017, a record 20 new investments were made in frontier markets, such as Afghanistan Myanmar, and the Middle East and North Africa region. The MASSIF portfolio expanded in fragile countries, as did our exposure on the African continent. Through nine capital increases we also continued to service the growth of existing clients. MASSIF successfully exited an Indian non-banking financial institution in which the Fund invested in 2008 as one of the first foreign investors. The company is now listed and can raise commercial funding.

We have made several investments in companies active in digital finance and supported a number of initiatives focussing on new promising technologies. Investments in digital technologies help extend access to finance for millions of women and men. MASSIF takes a dual approach with respect to its digitization efforts: the Fund supports digitization of existing clients and also invests in a select few FinTech companies, either directly through the convertible grant product or indirectly through private equity funds. We also contributed to the FinForward initiative in Africa, which is a platform that links financial institutions to FinTechs and helps to digitize the financial institution while creating a market for early stage FinTechs.

Several challenges emerged during the year. The United States dollar and several correlated (local) currencies depreciated against the euro. This resulted in currency losses for the Fund,negatively affecting the Fund's capital. Also, impairments and provisions needed to be taken on several investments, mainly related to adverse macroeconomic challenges in Africa. Although the impact was significant, the equity base and diversification of the portfolio are well positioned to absorb the impact. This clearly demonstrates that to address financial inclusion in a sustainable manner, portfolio size, stable funding and long-term focus remain very important.

We are pleased that our efforts under the new strategy are already bearing fruit, given projects. The EUR 25 million in extra capital received from the Dutch Ministry of Foreign Affairs has enhanced the budget for high impact investments in the coming years. On behalf of FMO, we would like to thank the Ministry of Foreign Affairs for its continued support, commitment and trust in FMO's management of MASSIF.

OUR STRATEGY

About MASSIF

Since its inception in 2006, MASSIF has been extending risk capital, medium- and long-term debt in local (LCY) and hard (HCY) currency to financial intermediaries in developing countries to enhance financial inclusion. These institutions in turn serve their end-beneficiaries: micro-entrepreneurs, small- and medium-sized enterprises (MSMEs), and lower income households. MASSIF offers its clients a wide array of financial services including, but not limited to, saving products, business lending, guarantees, leasing, and insurance. MASSIF projects are characterized by their high risk and high development impact. A special feature of MASSIF is that the Fund can bear currency risks and provide clients with loans in their local currency. By being able to take higher risks than other market parties – for example by being the first foreign investor in an organization, or by taking a longer tenor or a junior tranche – MASSIF plays an important catalyzing role towards FMO, other development finance institutions (DFIs), impact investors, and commercial market parties. The Fund has a revolving nature – i.e. at any moment, fund capital is equal to or exceeds the initially contributed amount.

New frontiers

The financial inclusion space has seen several significant developments over the recent years. Greater interest amongst investors, and the fast growth of so-called impact investing, have resulted in an increase in investments into inclusive finance, supporting this increase in financial inclusion. In addition, digital technologies have been disrupting and transforming the global economy, where the digitization process is an important driver for growth, productivity, competitiveness, and innovation.

Nevertheless, financial exclusion continues to hamper economic, human and social development, specifically in certain regions and segments of the population. Today, 2 billion adults still lack a bank account[1]. People at the base of the pyramid (BoP) in low-income and fragile countries, women, and rural and agriculturally-based households are disproportionately affected by a lack of access to financial services.

Investment strategy

2017 marked the kick-off of MASSIF's new strategy: *The Next Frontier*. FMO has identified and developed four investment themes centered around end-client user groups that are most financially excluded: 'The Unbanked', 'Agricultural and Rural Livelihoods', 'Women-owned MSMEs', and 'Innovations in Inclusive Business'. For each investment theme, MASSIF selects the most appropriate distribution channels and partnerships to provide tailored financing and capacity development benefitting these end-beneficiaries.

Across these themes, local currency financing is a strategic priority for the Fund. MASSIF is a pioneer in local currency financing and one of the very few market parties to offer such a product. The Fund provides its investees with local currency financing, reducing the risks of losses from currency mismatches for financial intermediaries and allowing them to offer stable, local currency products to their MSME clients.

The Unbanked

Investments within this theme are centered around a specific subset of countries with very low levels of financial inclusion, covering the World Bank-designated low-income countries (LICs) and fragile and conflict-affected states. Low income and highly unequal societies continue to hold large populations of unbanked entrepreneurs, while armed conflicts, natural disasters, and pandemics have a disruptive effect in certain regions, deteriorating the business environment, and entrepreneurs' access to finance.

MASSIF allocates significant capacity towards on-going, broad-based support of MSMEs in such countries. To maximize impact, the Fund targets the intermediaries best situated to scale access to finance for MSMEs in these countries, which can be a financial institution, a corporate, or a private equity or debt fund providing finance to MSMEs in these LICs and fragile countries.

Agricultural and Rural Livelihoods

As part of its 'Agricultural and Rural Livelihoods' theme, MASSIF invests in access to finance for MSMEs in rural areas and in support of agricultural production and value chains. Through this investment theme MASSIF contributes to viable livelihoods for small-scale farmers and rural communities, improved yields and decreased posts-harvest losses. Different intermediaries will be targeted: supply chain managers and cooperatives, agri-dedicated microfinance institutions, rurally-based financial institutions, agri-focused private equity funds, and FinTech companies. These intermediaries not only provide access to finance, but often also access to markets, inputs, and employment.

Women-owned MSMEs

Women-owned MSMEs (WMSMEs) are the target beneficiaries of the third investment theme. MASSIF contributes to tackling supply-side issues. Capacity Development (CD) funding is often critical in addressing both the demand- and supply-side issues. Such funding helps clients to identify, serve, and monitor the WMSME-client segment and supports projects that help to increase women's access to education, financial literacy training and networking opportunities.

Women's and youth access to finance are closely connected issues. FMO actively seeks to identify opportunities with partners to serve and broaden the youth segment through dedicated financing and CD grants.

Innovations in Inclusive Business

MASSIF's 'Innovations in Inclusive Business' theme focuses on new technologies and business models that hold the promise of lowering the production and delivery costs for productive goods and services targeting the base of the pyramid. MASSIF aims to play a continuing role in lowering the barrier of access to finance for companies that are developing innovative productive goods and services for base of the pyramid individuals. In line with the SDGs, the Fund will support financial institutions enabling base of the pyramid individuals to finance the purchase of these productive goods and services in the realm of clean and renewable energy, education, health and sanitation. Investments along this theme are funneled through one of the following distribution channels: base of the pyramid-dedicated private equity funds, financial institutions facilitating financing of productive goods, or FinTech companies.

Similarly relevant and connected to this field are the market developments in the financial and mobile technologies, that help drive financial inclusion in several of MASSIF's markets. MASSIF helps to fund these digital solutions, via its investments in MFIs and helps to overcome challenges in this learning process in developing countries.

Capacity Development program

FMO's Capacity Development team supports MASSIF (end-) clients. The Capacity Development program focuses on the following topics: governance, risk and management information systems, environment and social, green, gender, agribusiness, and FinTech. Projects include development of gender (WMSMEs) and agriculture finance products, deployment of agent networks and mobile technologies. On the one hand, MASSIF-CD focuses on building capacity at the level of MASSIF's direct investees. At the same time, the CD program also aims to reach out more directly to base of the pyramid clients of our clients. Consequently, the Fund has the ability to allocate CD funds towards end-client projects in the areas of financial literacy and bankability, product education and uptake, training farmers in Good Agricultural Practices (GAP) and supporting them in receiving certifications such as FairTrade.

1. World Bank (2014). Global Findex: Measuring Financial Inclusion around the World. Retrieved from: http://documents.worldbank.org/curated/en/187761468179367706/pdf/WPS7255.pdf

MASSIF AND THE SUSTAINABLE DEVELOPMENT GOALS

On January 1, 2016, the 17 United Nations Sustainable Development Goals (SDGs) officially came into force. The SDGs call for action by all countries and parties – government, civil society and the private sector – e.g. to end extreme poverty, reduce inequality and tackle climate change by 2030.

Through investments in financial inclusion MASSIF actively contributes to the SDGs. While the SDGs do not explicitly target financial inclusion, greater access to financial services is a key enabler for many of them (CGAP, 2016). Mapping MASSIFs investments against the SDGs, has shown that MASSIF has a positive impact at two distinct levels: the focus of the Fund – being financial inclusion – and the SDG contributions that are made via the investment themes. Adhering to international standards on ESG risk management and taking an active approach to client engagement, MASSIF indirectly contributes to all the other SDGs.

Financial inclusion

By investing in micro, small and medium-sized enterprises (MSMEs), MASSIF promotes economic growth and contributes to SDG 8. For industries to grow, easy access to credit and other financial services that facilitate investments is required. By investing in innovative opportunities for industries to grow MASSIF, positively impacts SDG 9. People at the base of the pyramid (BoP) in low-income and fragile countries, are still disproportionately affected by a lack of access to financial services. People with access to financial services are better positioned to succeed and build a decent life, therefore investments in financial inclusion ultimately contribute to SDG 10: reduced inequalities.

Investment themes

Through its investments themes MASSIF contributes to additional SDGs. Through investments in agri-focused intermediaries, MASSIF contributes to improved yields and decreased post-harvest losses, thereby positively impacting SDG 2. The Fund contributes to SDG 5 with investments in women-owned MSMEs, creating equal opportunities for leadership and giving women equal rights to financial services.
An example of an investment where women-owned MSMEs are supported is ASA Pakistan Limited. Through investments in the unbanked MASSIF gives the poor access to basic services: a bank account, which can help them escape poverty (SDG 1). Also, through collaboration with the Dutch government and its catalyzing role, MASSIF is a great example of how the partnerships for the goals should work (SDG 17).

2. CGAP (2016), Achieving the Sustainable Development Goals – The Role of Financial Inclusion, retrieved from: http://www.cgap.org/sites/default/files/Working-Paper-Achieving-Sustainable-Development-Goals-Apr-2016_0.pdf

OUR BUSINESS MODEL

The visual shows how MASSIF creates value for its stakeholders by steering on the strategic priorities that we set and making use of the various financial and non-financial capital (inputs) that we control.

Our strategic priorities
Our strategic priorities are developed and adjusted in response to our key stakeholders. Naturally, we align our priorities to broader worldwide developments and priorities. The SDGs are of overarching importance, as they provide a joint public and corporate agenda that supports us to steer its priority areas on impact.

Our key inputs
We have cutting-edge knowledge of ESG and finance in developing countries, as is illustrated by our solid track-record as a Fund Manager. This strength is supported by an internal culture that is typified by a drive to fulfil our mission and the willingness to take risks; yet balanced by a strong risk awareness. FMO's employees exemplify our corporate values: engagement, excellence, cooperation, and making a difference.

Our networks, including networks of clients or financial partners as well as knowledge partners, are also crucial to our business model. Our financial partners are other development finance institutions, commercial investors and banks as well as governments. They leverage our own capital, allowing us to increase our impact beyond our own financial means. Our knowledge partners help us transfer best practices to our clients.

INPUTS

Social & relational capital	Intellectual & human capital
Network of clients, financial partners, governments, and civil society.	Cutting edge knowledge of ESG and finance.

EXTERNAL ENVIRONMENT

Sustainable Development Goals

STRATEGY

Higher impact portfolio

Deepen relationships

Operational excellence

OUR STAKEHOLDERS

Clients (local, NL), Dutch state, shareholders

Employees, NGOs, investors, local communities

HOW WE CREATE VALUE

Financial, social & relational capital	Human, social & relational capital	Natural, social & relational capital	Intellectual, social & relational capital
Financially sustainable clients with high rates of satisfaction	Increase levels of financial inclusion and support sustainable livelihoods and job creation for micro-entrepreneurs, SMEs and individuals at the base of the pyramid.	Support sustainable development with attention for climate change, equal opportunities and human rights through our investments.	Contribute to changing the way local sectors invest and run their business through ESG sector initiatives.

OUR INVESTMENT PROCESS

1. SOURCING

Within our mandated strategy we identify potential opportunities by means of deep-rooted networks in developing countries.

In our initial selection we check the country, exclusion list, the impact of our financing, our additionality, and the viability of the investment plan and the business itself. Only opportunities that make a meaningful contribution to our strategic SDGs are further analyzed.

2. SCREENING

If the financing opportunity meets our investment criteria, we continue to analyze potential risks and challenges.

Since we work in challenging business environments, we further research our potential client and the local situation by conducting a Know-Your-Customer assessment to ensure that the client complies with anti-money laundering, anti-corruption and anti-terrorist financing regulations. This includes checks such as verifying the ultimate beneficial owners of the clients, identifying politically exposed persons and screening against international sanctions lists. These integrity checks are also performed during the relationship with the clients.
During this stage we also make an initial risk categorization based on the potential effects on environmental, social and human rights conditions, as well as governance structures benchmarked against the IFC Performance Standards.

3. DUE DILIGENCE

To fully understand and map the risks and opportunities, we conduct thorough due diligence, including on-the-ground research through local visits.

We visit the client and local stakeholders to discuss the impact of FMO's financing, their business, and environmental, social and human rights risks in detail. We continue analyzing the business, its financials, the business plan, legal aspects, ESG, the client's tax practices and policies, with our tax department providing expert advice where needed. If we identify gaps in meeting international standards or policies, we develop action plans to mitigate and manage the identified risks and promote positive development in these areas.

4. ENGAGEMENT

As the long-term viability of a project often depends on its social license to operate, we engage key stakeholders to better understand the local context.

We consult local key stakeholders early in the project to better understand the local context and assess the impacts of our involvement. Moreover, we give stakeholders the opportunity to provide input for our decision-making on new transactions with a high environmental or social risk profile. As of 2018, we publish all our proposed investments on our website.

5. CONTRACTING

After internal approval, we sign an agreement with our clients to ensure that our requirements and conditions are legally binding.

For each investment, we assess the ESG risks, identify where improvements can be made and establish action plans for further development. We disclose our investments on our website after contracting.

6. MONITORING & VALUE CREATION

Throughout the lifetime of the investment we monitor performance and progress and look for opportunities to add value.

We receive annual or more frequent financial reports, conduct assessments (including ESG reviews) with the help of local consultants and pay regular visits. If necessary, we support our clients with capacity development and technical assistance to improve their business and identify new opportunities.

MASSIF AND PRIVATE SECTOR DEVELOPMENT: OUR BLENDING APPROACH

"MASSIF's distinctive approach to financial inclusion distinguishes it from other funds. It blazes a trail for other investors, extending its reach and raising its effectiveness even more."

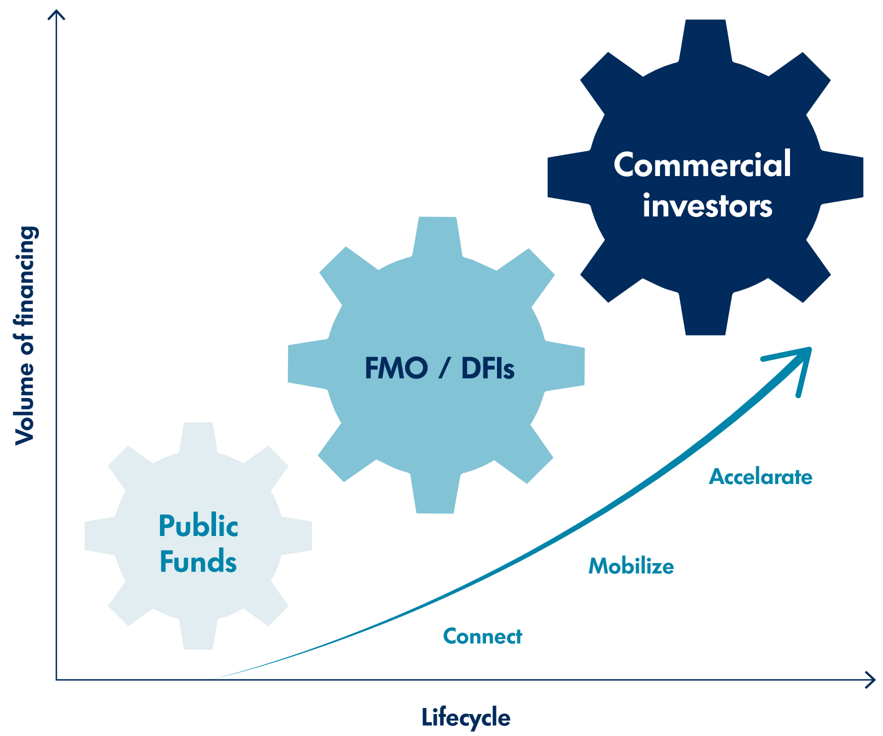
Hans Docter, Director for Sustainable Development at the Netherlands Ministry of Foreign Affairs

FMO manages several Private Sector Development (PSD) programs on behalf of the Dutch Ministry of Foreign Affairs. In 2006, FMO and the Dutch Government established MASSIF to contribute to developing and strengthening the financial infrastructure in developing countries to better serve entrepreneurs and consumers at the lower end of the financial market. In addition to MASSIF, FMO also manages other public funds for the Dutch Government, which all invest in higher-risk projects. The other funds are The Access to Energy Fund (AEF) – which funds private sector projects that create sustainable access to energy services, and the Infrastructure Development Fund (IDF) – which provides long-term financing for infrastructure projects in low-income countries.

The SDG development agenda requires significant levels of investment and partnerships between governments, donors, investors and the private sector. If investments continue at current levels, they will be insufficient to achieve the goals: the existing investment gap for developing countries is estimated to be USD 2.5 trillion a year (UNCTAD[3]). As such, there is a large need to mobilize and channel capital from the private sector. The investment gap requires significant additional finance from parties that are currently not investing in projects and markets that are crucial to achieving the SDGs.

To achieve the SDGs, it is of utmost importance that investment capital is flowing to those countries that are least developed, and where the SDG development agenda can create the largest impact. But while having sound business models and projected returns, many investments in developing markets are perceived to have a higher risk profile – often associated with immature financial markets, information asymmetries, market failures, or more general economic and political instability. Blended finance, which has the objective to mobilize finance for the SDGs through the blending of public and private funding, can play an important role by de-risking high-risk markets that otherwise would not be served. Public funds can therefore be highly additional to markets as they contribute to the development and growth of local economies in emerging markets where stable public and private funding sources are scarce, and the risk appetite of local commercial investors is limited.

The funds that FMO manages on behalf of the Dutch government have a longstanding record of catalyzing other investors, for example by providing a junior tranche, a longer tenor, or a local currency product. In addition, the funds' financing and technical assistance grows and strengthens organizations to eventually graduate them out of the funds' portfolios to FMO, other development finance institutions, or commercial investors. By improving the immediate risk profile of an investment (e.g. by taking a junior tranche) or the long-term risk profile of an organization (e.g. by enabling early stage businesses to grow into organizations that are bankable for commercial parties), more commercial funding can be attracted. Through the blended finance approach, whereby MASSIF, IDF and AEF de-risk transactions and crowd-in FMO and other development finance institutions (DFIs) as well as other market parties, the government funds operate as a lever that catalyzes additional capital into higher risk markets.



3. UNCTAD (2014), Investment, Infrastructure and Financing the Sustainable Development Goals, retrieved from: http://unctad.org/Sections/dite_dir/docs/diae_stat_2015-02-16_WTO-aid-for-Trade_en.pdf

Women empowerment in Pakistan

Too often people only look at Pakistan in terms of challenges rather than business opportunities. It is in places where things are difficult that you can make a difference. Pakistan is now the sixth most populous country on earth and has made enormous progress in restoring stability and security.
The economy is growing at a rapid pace and many people have been able to start building better lives for themselves.

Pakistan's growing middle class represents a powerful engine for change, demanding both better services and access to opportunities. They are also key in driving growth and creating jobs as income has doubled since 2010. With almost two thirds of people under 30, Pakistan has one of the youngest populations in the world. Young people have many ideas on how to establish new business and how to move the country forward. When I speak to young entrepreneurs I see a wealth of creativity and innovation.

The population boom in Pakistan means that 1.5 million young people reach working age each year. Agriculture still employs 47% of the country's workforce and supports about 80% of its rural population. Most food in Pakistan is still produced by smallholdings run by women who are valued for specific agricultural skills. But in a country that ranks 147th out of 188 in the United Nations Gender Inequality Index, the challenge is to enable women to convert their skills into economic empowerment.

Equal opportunities for men and women can support economic development and prosperity. Currently, women face disproportionate financial access barriers that prevent them from participating in the economy and from improving their lives.

In Pakistan less than 10% of women use some form of credit. Expanding women's access to financial services is crucial in achieving inclusive growth.

In 2017 MASSIF invested in ASA Pakistan Ltd., a microfinance institution (MFI) that primarily targets women micro-entrepreneurs. ASA Pakistan is using the funding to empower women entrepreneurs, to create jobs and an income, and to enable them to prosper and support their families. MASSIF also enables ASA Pakistan to provide funding and financial education to some 50,000 women and their families.

Another investment MASSIF made in 2017 was in Kashf Foundation, a Pakistani MFI that provides microcredit, micro-savings, business development services and social advocacy interventions aimed at raising awareness of gender discrimination and social issues at community level. The organisation empowers poor women in a country where women have a structurally subordinate position and aims to bridge the financing gap for women by helping on both the supply and the demand side to finance women-owned micro enterprises.

The Dutch embassy works closely with FMO in Pakistan to advance financial inclusion. Much still needs to be done to improve use of financial services, particularly among women, and to reach the country's ambitious target of 50% account ownership by 2020. This is clearly a complex task here iª as it is around the world iª but step by step, real progress is being made.

Ardi Stoios-Braken
Ambassador at Embassy of The Kingdom of The Netherlands, Islamabad, Pakistan

Picture was taken on a due diligence visit to Pakistan

Access to formal financial services in Zimbabwe

Access to financial services in a fragile economy like Zimbabwe is highly relevant. Micro, small and medium enterprises (MSMEs) account for 50% of GDP and employ 96% of the workforce. Lack of access to finance is cited as the primary obstacle to growth in Zimbabwe. The Dutch government helps MSMEs start or grow their business and contribute to sustainable, inclusive economic growth. Promoting access to finance at the lower end of the market is MASSIF's core mission in Zimbabwe.

Having access to formal financial services offers individuals and businesses new opportunities to transact, manage risks, smooth consumption and invest in education, health and business. Access to savings accounts empowers women in particular and boosts investment. In 2016 MASSIF provided NMB Bank with a line of credit worth USD 15 million for lending to SMEs focusing on smallholdings or medium-sized businesses run by women.
Via Microcred, a leading microfinance institution in Zimbabwe MASSIF also provides financial services to people with no or only limited access to finance.

Zimbabweans face harsh challenges when it comes to accessing capital and gaining employment. There is a severe shortage of cash and the economy continues to flounder. Lack of trust and confidence in banks means that loans and remittances from friends and family, in addition to savings and lending groups, fill a key demand for highly trusted and customisable financial services. These informal methods work, but can be risky, expensive and unpredictable.

In 2014, MASSIF invested in the Takura Fund, a private equity vehicle that invests primarily in growing local companies. A few years ago, Takura invested in Lobel's Bread Holdings, helping it overcome the challenges of escalating raw material prices to keep its bread affordable. It was the first baker to introduce a half loaf size into the local market. Thanks to the growing popularity of its products, Lobel's Bread Holdings now holds a large part of the bread and confectionery market and was able to hire many new employees to meet the growing demand.

Due to recent liquidity issues, most payments in Zimbabwe are made electronically, with more than 96% of transactions conducted using plastic, internet and mobile money. This has put Zimbabwe ahead of other countries in the global shift towards a cashless society. The Dutch government will support financial sector development through FMO and MASSIF because this transition to mobile technology can have a key impact on financial inclusion in Zimbabwe and drive inclusive economic growth.

Barbara van Hellemond
Ambassador at Embassy of The Kingdom of The Netherlands, Harare, Zimbabwe

Picture was taken on a monitoring visit to Zimbabwe

FRAGILE STATES

Today, two billion people live in countries and regions that are affected by fragility and conflict (World Bank)[4]. Fragility and conflict destroy jobs, limit opportunities, and decrease the resilience of households. In consequence, these countries are often among the poorest and least developed in the world. The World Bank expects that by 2030 half of the world's poorest people will be living in these countries, many of them children and youth. With such a significant share of poor people living in these countries, it is of the utmost importance to ensure that these people are prioritized on the development agenda in order to achieve the Sustainable Development Goals (SDGs).

For the global investment community, fragile and conflict-affected states are mostly out of scope. Investing in fragile states is associated with high political risks. High systemic instability, vast macro-economic shocks, volatile exchange rates, and fragile, shallow financial markets are just a few of the other issues that these countries are dealing with – resulting in an unattractive investment climate Access to financial services is therefor often poor, limiting opportunities for people to build sustainable livelihoods.

Efforts to address these market failures include the promotion of frontier investments. Pioneering investors can open up markets but may be unable within their own projects to cover the start-up costs in high risk environments. MASSIF has an important role to play here by blending public money to crowd-in development finance institutions, such as FMO and private sector investors. With its newly introduced investment strategy, The Next Frontier, MASSIF has moved its playing field to even more frontier and higher risk markets with the aim to mobilize investment capital and increase access to finance in those regions and countries where this is needed the most.

Throughout 2017, MASSIF invested in many frontier market opportunities and has been a frontrunner in the financial inclusion investment space. The Fund supported first-time fund manager InFrontier in Afghanistan, a fragile state without a proven private equity (exit) market. In the same country, MASSIF provided a second loan to existing client First Microfinance Bank Afghanistan, which recently opened up its first women branch in Kabul. The Fund provided several loans to microfinance institutions in Myanmar, a market that was only recently opened to international investors, e.g. Acleda Myanmar MFI and Early Dawn MFI. We invested in SME financier SANADCOM and MSME debt fund SANAD, operating in Jordan and the broader Middle East and North Africa region, where conflict and fragility are severely affecting access to finance.

The fragility of these markets and the challenges that this brings to our investees also demonstrate the significance of our Capacity Development program. In addition to providing equity or debt, it is just as important to build capacity in local organizations and value chains. Technical assistance can play an important role in strengthening governance, (IT-) systems, or for the development of (better) products to serve a larger or specific client base, such as women. Through its financing and technical assistance, MASSIF provides much-needed access to finance for entrepreneurs, thereby creating employment opportunities and stimulating innovation.

4. World Bank (2018), Conflict and Fragility, http://ida.worldbank.org/theme/conflict-and-fragility, accessed on 22/02/2018

This picture was taken on a due diligence visit to Pakistan.

Abdul Wahid (35) has a kids toys shop in the Taimani Project area in Afghanistan. As a client of First Microfinance Bank Afghanistan, he took a 50 000 Afs loan to buy more stock. He now sells for 700 to 800 Afs toys per day.

SDGs

FMFB-A provides sustainable financial services to MSMEs in a country where many people lack the access to financial services, in turn alleviating poverty.

FMFB-A has a strong focus on reaching women, and contributes to inclusive and gender finance, e.g. through its female only branch in Kabul.

FMFB-A contributes to economic growth through employment effects in the MSME segments, which is the backbone of Afghanistan's economy and currently highly un(der)banked.

The First Microfinance Bank

First Microfinance Bank Afghanistan (FMFB-A) is a leading financial services provider in Afghanistan, and is contributing to poverty alleviation and economic development through the provision of sustainable financial services to micro and small businesses and households. FMFB-A targets the base-of-the-pyramid, micro-entrepreneurs, SMEs and corporates and the bank also is actively involved in the provision of nonfinancial services such as construction appraisal and free agricultural advice to farmers and livestock owners through its agronomists. MASSIF already provided FMFB-A with a USD 3 mln loan in Afghan Afghani in 2008.

Current situation

Low income countries and highly unequal societies continue to prevent large populations of unbanked entrepreneurs in one of the least financially penetrated, fragile and conflict-torn countries from getting access to finance.

Challenge

The challenge is to provide access to financial service in a highly political unstable country. Taking internet coverage into account, the development of the mobile banking sector is one of the major challenges.

Opportunity

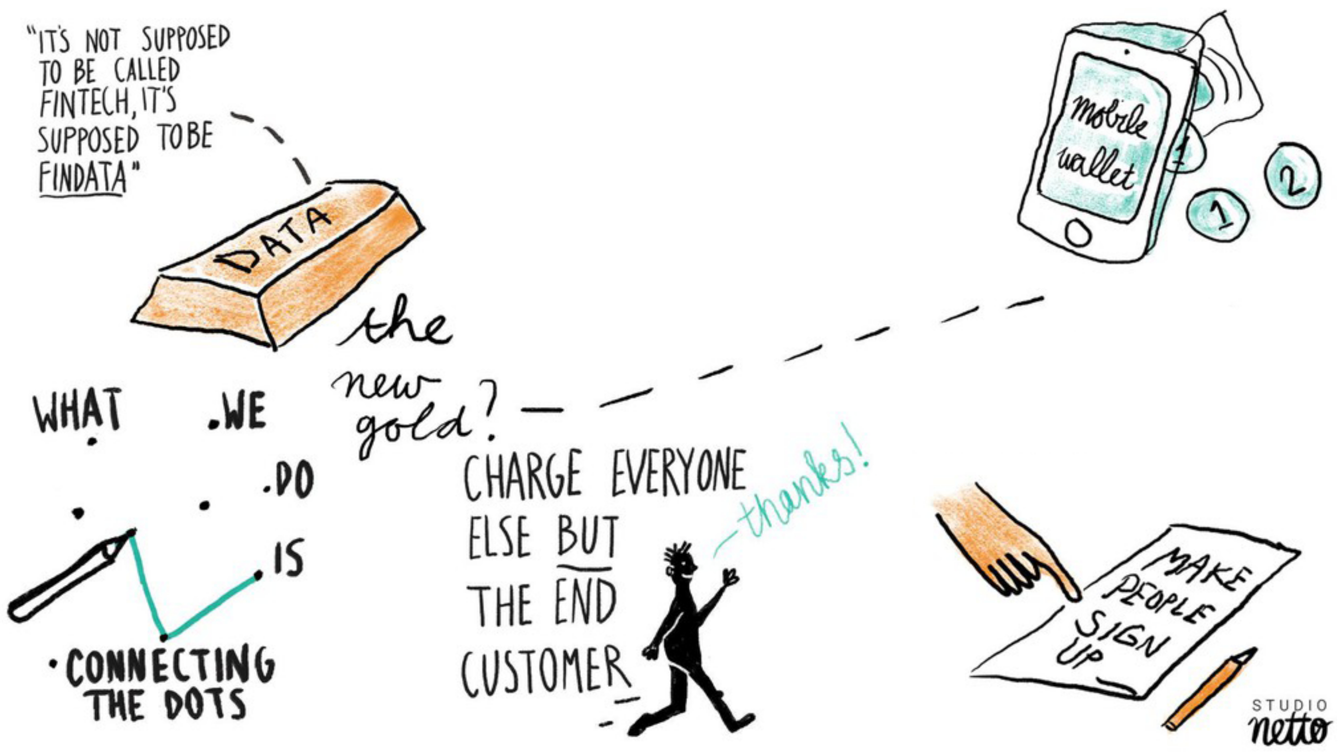
Contributing to poverty alleviation and economic development through the provision of sustainable financial services for micro-entrepreneur and small and medium enterprises. Furthermore, FMFB-A first women's only branch is a big step forward towards women's empowerment.

Sector
Financial Institutions

MASSIF investment
EUR 4.3 mln (2017) in local currency
USD 3 mln (2014) in local currency

Country
Afghanistan

Product
Loan



"Technology will drive financial inclusion. We see it happening around us and banks have to have a strategy for digital transformation."

Jorge Ruiz, Founder and CEO at Above and Beyond Tech

17 PARTNERSHIPS FOR THE GOALS | 10 REDUCED INEQUALITIES | 8 DECENT WORK AND ECONOMIC GROWTH

SDGs
Through the FinForward program, MASSIF contributes to an innovative way of increasing the access to finance.

The FinForward program helps financial institutions to give the base of the pyramid access to finance, which means that it promotes economic inclusion for all.

The collaboration with a&b to ensure financial inclusion is a great example of how the partnerships for this goal should work.

FinFoward

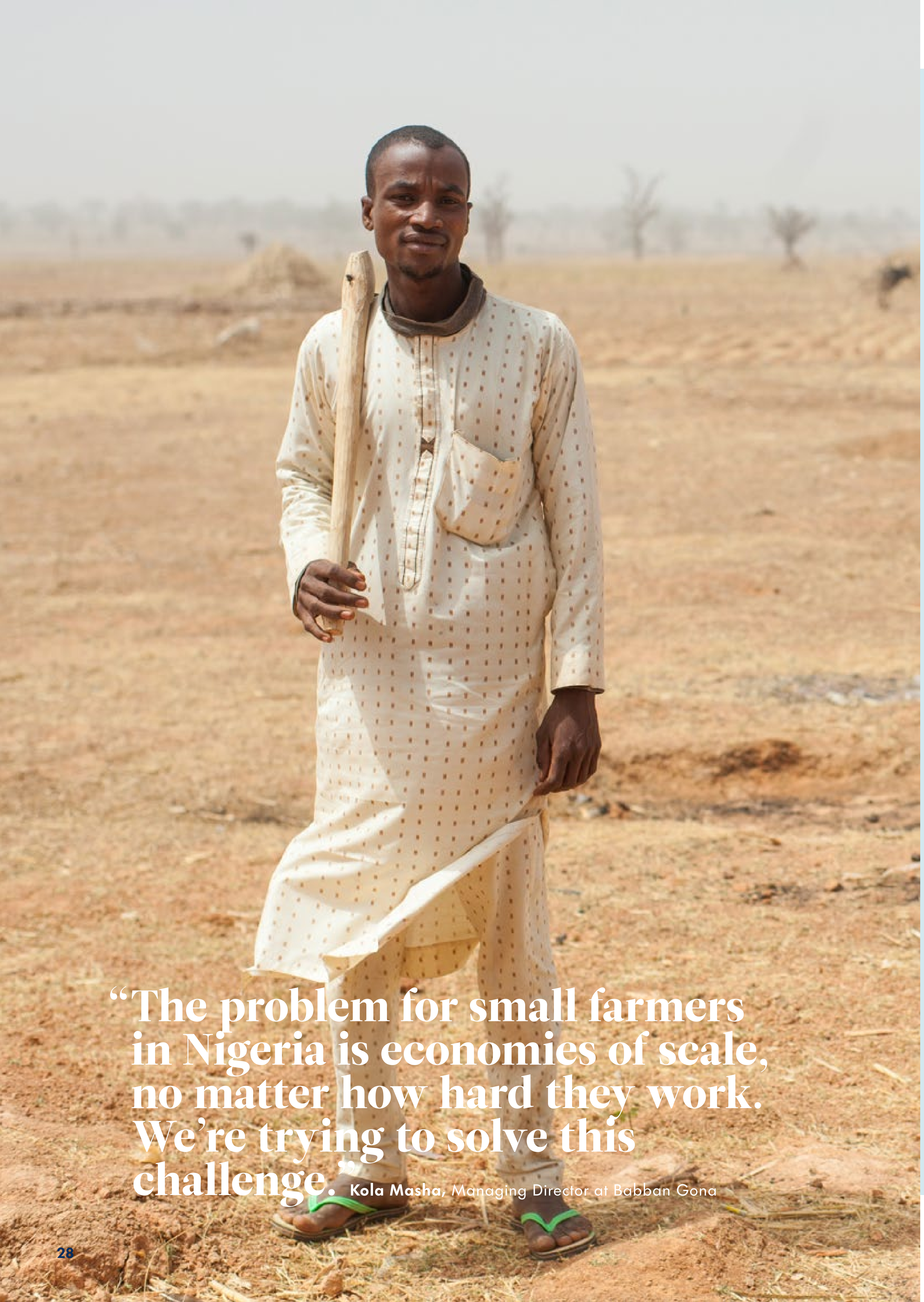
FinForward, launched by FMO together with FinTech and digital transformation strategist Above & Beyond Tech (a&b), is a marketplace where FinTech companies, financial institutions (FIs) and mobile money providers in Africa are matched with the aim to accelerate digitization of the financial industry. Matched parties enter a testing environment where the banks and FinTechs can test and integrate new financial technology solutions in a safe and secure manner.

Current situation
The financial sector is changing rapidly and is currently going through a process of reinvention and digitization. While FinTechs are sometimes perceived as a threat to FIs, the upside potential of the innovations that FinTechs provide to further develop the financial sector is huge.

Challenge
Collaboration between FinTech companies and banks is the key to accelerate the digitization of the financial sector. However, proof of concept on the FinTech-side, as well as the time and cost associated with implementing digitization and innovation strategy on the side of FIs gets in the way of their digital transformation process.

Opportunity
The platform accelerates the digitization of the financial industry in Africa by connecting FIs to FinTech initiatives. Hereby, FIs can digitize their operations with targeted solutions, which will allow them to expand their product and client base, for example to more difficult to reach segments such as the BoP and women. At the same time, the cooperation provides the FinTechs with a client base.

Sector	MASSIF investment	Region	Product
Financial Institutions	EUR 225,000 (2017)	Africa	Convertible Grant



“The problem for small farmers in Nigeria is economies of scale, no matter how hard they work. We’re trying to solve this challenge.” **Kola Masha**, Managing Director at Babban Gona

SDGs
The investment contributes to an increase in agricultural productivity through Babban Gona’s agronomic program, which includes among other things the provision of farm inputs and lead preparation and harvesting services.

Babban Gona contributes to a higher productivity in the Nigerian agricultural sector – which accounts for 22% of the country’s GDP – resulting in higher economic growth.

Babban Gona contributes to the promotion of the social and economic inclusion of small-holder farmers.

Babban Gona

Babban Gona utilizes a farmer service model that provides end-to-end services to a network of farmer groups in Nigeria. The farmers are offered a tailored agronomic program which includes I) the provision of farm inputs, II) training in Good Agricultural Practices, III) land preparation and harvesting services, IV) access to storage facilities, including a warehouse receipt program, and V) marketing services. In this way, Babban Gona inspires and enables hardworking smallholder farmers to reach their full potential by providing a private sector channel of cost effective delivery of enhanced agricultural technologies that optimize yields and labor productivity, while simultaneously improving market access.

Current situation
To unlock Nigeria's full economic potential, it has to leverage its gifts of land, water, labor and markets to become a global agricultural powerhouse. Therefore smallholder farmers hold the key to our agricultural future.

Challenge
Due to land fragmentation, broken value chains, poor access to finance, inadequate cash flow, lack of extension services and limited access to good markets, Nigerian smallholder farmers continue to remain at the base of the pyramid.

Opportunity
Through the provision of cost effective farm inputs, training, warehousing solutions, and other services, Babban Gona improves its members’ position in the value chain, thereby positively impacting their livelihoods. Through its products and services, the organization increases yields, while reducing food wastage.

Sector	MASSIF investment	Country	Product
Agribusiness	EUR 225,000 (2017)	Nigeria	Loan

PERFORMANCE ON OUR STRATEGY

Highlights

Throughout 2017, MASSIF financed approximately 92,000 micro-entrepreneurs and 1,330 SMEs. At the end of the year, MASSIF had 143 investments in its portfolio with 130 different clients. MASSIF's fund capital has decreased to EUR 460.1 mln on December 31, 2017 (EUR 501.1 mln on December 31, 2016). One of the main reasons for this decrease is the significant depreciation of the US dollar and correlated currencies against the euro. MASSIF signed 25 Capacity Development (CD) projects to provide technical assistance to its clients and end-clients. For more information on CD projects, please see section 'Capacity Development'. Following successful implementation of the new strategy and continued high levels of production, the Ministry of Foreign Affairs granted a top-up of EUR 25 mln to MASSIF to provide more room for new high-impact investments in 2018.

Production

2017 was a highly productive year for MASSIF: with 20 new transactions and 9 capital increases with existing clients, performance was above target. A total committed amount of EUR 99.0 mln was contracted, increasing the Fund's commitments to EUR 564.8 mln.

Acleda MFI Myanmar: EUR 2.8 mln – local currency loan.
The local currency loan will be used by Acleda Myanmar to further expand its lending operations to microfinance clients, who currently have limited or no access to capital. The project is envisaged to have high impact which derives from providing LT capital to a well-established microfinance institution in Myanmar, a country which has been isolated for more than 50 years and where more than 80 percent of the population has no access to financial services.

ASA Pakistan: EUR 6.7 mln – local currency loan.
ASA Pakistan is a rapidly growing MFI targeting women micro-entrepreneurs in a country where women are in an underprivileged position in order to increase their access to finance. The purpose of the facility is to fund the growth of ASA Pakistan's lending activities dedicated to women micro entrepreneurs.

Babban Gona: EUR 3.5 mln – local currency loan.
Established in 2012, Babban Gona utilizes a farmer service model which provides end-to-end services to a network of franchise farmer groups in Northern Nigeria. Smallholder farmers are offered a tailored agronomic program which includes i) the provision of farm inputs, ii) training, iii) land preparation and harvesting services, iv) access to storage facilities, including a warehouse receipt program, and v) marketing services.

BRAC: EUR 1.5 mln in Tanzania – local currency loan.
MASSIF provided a loan to BRAC Tanzania. BRAC is known for its large rural outreach, low-cost model and, comprehensive employee training program. The facility will enable the two MFIs to support on-lending to women entrepreneurs at the base of the pyramid (BoP).

BRAC: EUR 5.3 mln in Uganda – local currency loans.
MASSIF provided a loan to BRAC Uganda. BRAC is known for its large rural outreach, low-cost model and, comprehensive employee training program. The facility will enable MFI to support on-lending to women entrepreneurs at the base of the pyramid (BoP).

Energy Access Ventures Fund: EUR 2.5 mln – equity fund.
Energy Access Ventures Fund (EAV) is an off grid fund focused on Sub-Saharan Africa. EAV invests in a new wave of entrepreneurs, focusing on productive uses of solar energy. These entrepreneurs are identifying areas of the economy that can be more efficiently serviced through off grid technologies. Off grid solutions allow for inclusive development through providing access to energy for the base of the pyramid and support creating industrial and/or agricultural jobs in remote areas.

First Microfinance Bank Afghanistan: EUR 4.3 mln – local currency loan.
First Microfinance Bank Afghanistan (FMFB-A) is a leading financial services provider contributing to poverty alleviation and economic development through the provision of sustainable financial services to micro and small businesses, and households. FMFB-A targets the base of the pyramid, micro-entrepreneurs, SMEs and corporates, and the bank also is actively involved in the provision of nonfinancial services such as construction appraisal and free agricultural advisory to farmers and livestock owners through its agronomists.

Gazelle Fund: EUR 5.6 mln – equity fund.
Gazelle Fund is a private equity (PE) fund investing in SMEs with strong growth potential (called "gazelles") in four countries: Georgia, Armenia, Moldova, and Kyrgyzstan. The PE markets in countries are particularly underserved, and the investment is expected to have a positive impact on job generation and economic productivity. Gazelle Fund provides loans ranging from USD 100.000 to USD 1 mln in sectors such as agribusiness, industry and health care.

InFrontier Afghanistan: EUR 6.8 mln – equity fund.
InFrontier is the first and only equity fund in Afghanistan. The fund aims to replace aid by commercial money in Afghanistan, through a generic SME PE fund with a target size of USD 35 mln. The investment will increase growth of the investee companies, increase employment, and develop the private equity market in a highly fragile and financially underserved country.

JSC MFO Crystal: EUR 9.2 mln – local currency loan.
Microfinance Organization Crystal is Georgia's fourth largest microfinance lender with approximately 60 thousand customers. The organization has a strong outreach in the country's rural areas. The loan will be used for Crystal's further expansion of its branch network in rural areas.

KASHF Foundation: EUR 4.2 mln – local currency loan.
KASHF is a Pakistani MFI that provides microcredit, micro-savings, business development services and social advocacy interventions aimed at creating awareness about gender discrimination and social issues at the community level. The institution empowers poor women in a country where women have a structurally subordinated position and aims to bridge the financing gap for women by contributing both on the supply and the demand side of financing women-owned micro-enterprises.

Lendingkart Finance: EUR 4.0 mln – local currency loan.
Lendingkart Finance is a FinTech non-bank financial institutions that was founded in 2014 to provide finance to small businesses. The organization has no branches; instead, data is used to replace the traditional human interface in assessment of borrowers. Everything from loan application through to disbursement and collection is done using a digital platform, using algorithms based on data from bank accounts, credit bureaus and social networks to create a credit score and to take credit decisions.

Microventures Philippines: EUR 2.8 mln – local currency loan.
Microfinance Philippines Financing Company 'One Puhunan' is a microfinance institution (MFI) in the Philippines that gained sizeable market share in the country's microfinance market within its early three years of existence. One Puhunan provides financial services to low income individuals, micro and small businesses which are not served by traditional banking instructions. FMO's financing will support further growth of the company's loan portfolio in the regions Mindanao and Bicol.

M-KOPA: EUR 4.8 mln in Kenya – local currency loan.
M-KOPA, founded in 2012, is one of the first mover and largest solar home system businesses in Africa. Its core product is providing access to energy services on a rent-to-own basis (known as Pay-as-you-go or PAYGO) to households not connected to the electricity grid. In addition to the loan to M-KOPA in Kenya, MASSIF provided a loan to M-KOPA Uganda.

M-Kopa Uganda: EUR 0.9 mln – local currency loan.
M-KOPA, founded in 2012, is one of the first mover and largest solar home system businesses in Africa. Its core product is providing access to energy services on a rent-to-own basis (known as pay-as-you-go or PAYGO) to households not connected to the electricity grid. In addition to the loan to M-KOPA in Uganda, MASSIF provided a loan to M-KOPA Kenya.

Novastar Co-investment Facility: EUR 4.6 mln – equity (co-investment facility).
Novastar invests in innovative companies that aspire to be transformational in solving bottlenecks to low income and base of the pyramid (BoP) target groups. MASSIF invested in Novastar in 2013 and now set up a facility to co-invest alongside Novastar to enable follow-on investment in these high impact and high performing investees.

SANAD Fund for MSMEs: EUR 14.2 mln – local currency loan.
By targeting micro, small and medium-sized in the Middle East and North Africa (MENA) region, SANAD fosters economic development and job creation. "SANAD" means "support" in Arabic, as the fund seeks to promote stability in a challenging region by expanding financial inclusion for MSMEs that often have difficulties finding access to capital for starting or growing a business. SANAD provides loans to local financial institutions are on-lent to support MSMEs in multiple sectors, and the fund is currently examining expansions in areas such as agribusiness, housing, and youth and gender initiatives.

SANADCOM: EUR 6.0 mln – local currency loan.
SANADCOM will be the first fully dedicated SME financing provider in Jordan, and was established as an SME spin-off of Microfund for Women. With SMEs representing 97% of all companies in Jordan, the sector is one of the most underserved markets and offers a large potential for combatting the high unemployment rate in the country.

SIMA Off-grid Financial Access: EUR 2.6 mln – loan.
SIMA Off-grid Solar & Financial Access Fund is a debt fund that focusses on (1) solar energy access, such as financing inventory and working capital for off-grid companies, including portable solar lights and solar home systems, and their distributors, and (2) financial access by investing in microfinance institutions, which provide access to financing to end consumers for the purchase or lease of energy products.

Spartan Technology Rentals: EUR 3.1 mln – local currency loan.
Spartan Technology Rentals is a South African leasing company that lends to SMEs. Spartan recently fully specialized in asset backed lending to growth SMEs. Spartan is very advanced in using technology (e.g. a mobile app, an e-commerce platform, and electronic signing) in their financing processes, allowing SMEs to have easy and effective access to financial services.

In addition to the new contracts, MASSIF also continued to serve several existing private equity clients through a capital increase: Aavishkaar India II Fund (EUR 391k), Advans Pakistan (EUR 670k), Banco Popular (EUR 114k), CleanTech II Fund (EUR 24k), Financiera FAMA (EUR 2.0 mln), La Fyaette Microfinance Bank (EUR 83k), MF Banka a.d. Banja Luka (EUR 460k), and MBH (EUR 12k), and Schulze Fund Ethiopia (EUR 85k).

Sales and exits

In October, MASSIF successfully exited MAS Financial Services. Started in 1988 by the two brothers Mukesh and Kamlesh Gandhi, MAS is a non-banking financial institution based in Ahmedabad, India. MAS' mission is to be a catalyst in financial inclusion, and its loan book consists of MSME loans, two-wheeler loans, commercial vehicle and affordable housing finance. The financial institution currently operates 71 branches over 2,500 locations in India. When MASSIF invested INR 435m (USD 10 mln) in 2008, MAS had assets under management of about USD 34 mln, which expanded to USD 533m at the time of exit. MASSIF played a catalytic role and paved the way for other (foreign) investors to come aboard. The investment supported the development of the Indian financial sector and particularly access to funding for thousands of rural and suburban entrepreneurs.

Events and external network

To enhance and maintain strong partnerships in the broader financial inclusion space, FMO and the MASSIF team have been active in several networks. With the Ministry of Foreign Affairs and NpM, the Netherlands Platform for Inclusive Finance, FMO is a member of the Consultative Group to Assist the Poor (CGAP). CGAP is a global partnership of donors and investors that seek to advance financial inclusion. FMO is also involved with NpM and its Dutch member base and plays a role in some of the working groups of the platform.

The MASSIF team joined several inclusive finance events that took place throughout 2017. In May, the MASSIF team joined the 2016 Annual CGAP Conference in Luxembourg. The MASSIF Fund Manager joined the African Microfinance Week (SAM) in Ethiopia in October, and in November joined the European Microfinance Week in Luxembourg, where he was part of a panel discussion. The team was also present at the Sankalp Conference in Indonesia.

FMO also participated in multiple meetings on refugee finance – a topic that the MASSIF team is actively looking into. The aim of the meetings, which were coordinated by NpM, is to align efforts by Dutch impact investors in the refugee finance space. In Myanmar, MASSIF financed and organized a sector initiative to help microfinance institutions understand the complexity of international loan agreements.

The MASSIF team joined two due diligence trips with FMO investment teams: First Microfinance Bank Afghanistan, which was contracted in 2017, and Thitsar Ooyin MFI Myanmar, which is currently still in the pipeline and expected to be contracted in early 2018. In addition, the team went on several client monitoring visits, for example to Ethiopia, and Zimbabwe. Together with Bjorn Kuil, Senior Policy Officer at the Ministry of Foreign Affairs, the MASSIF team also made a field visit to a range of MASSIF clients in Nigeria and Ghana to see the impact of MASSIF on the ground.

"FMO acts as a catalyst for the development of new and innovative financial services, benefiting the country's vulnerable populations"

– **Frank van der Poll,** CEO at The First MicroFinance Bank, Afghanistan

Farida (39) has been a tailor for the past 10 years. She works at home, in the Qala-e Fatoh area in Afghanistan. Over the last 7 years, she took 6 loans from MASSIF client First Microfinance Bank Afghanistan. With these loans, she bought machines and fabrics to expand her business. She has now 8 women working for her.

OUR LOCAL CURRENCIES PORTFOLIO

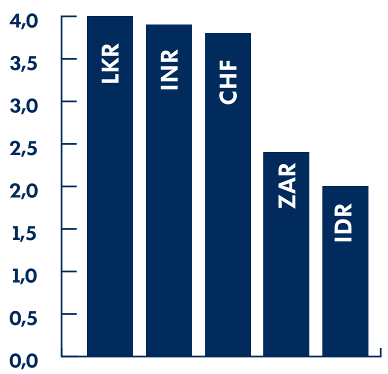
MASSIF is a pioneer in local currency financing. The Fund provides its clients with local currency financing, in turn allowing these intermediaries to offer local currency products to their MSME clients. Borrowing in local currency is essential to MASSIF's primarily local-currency earning end-clients, who may otherwise be subject to currency mismatches. Local currency financing can strengthen the risk profile of clients and help diversify their funding sources. By providing financing in local currency, MASSIF allows these intermediaries to offer local currency products to their MSME clients.

MASSIF has built up a well-diversified and sustainable portfolio of currencies, which enables the Fund to provide local currency financing for new or existing loans using various structures, depending on availability and aspects such as underlying loan obligations, local market conditions, and legal and institutional frameworks. The Fund's ability to take open currency positions and the large, diversified portfolio of currencies gives it additional flexibility in serving this market.

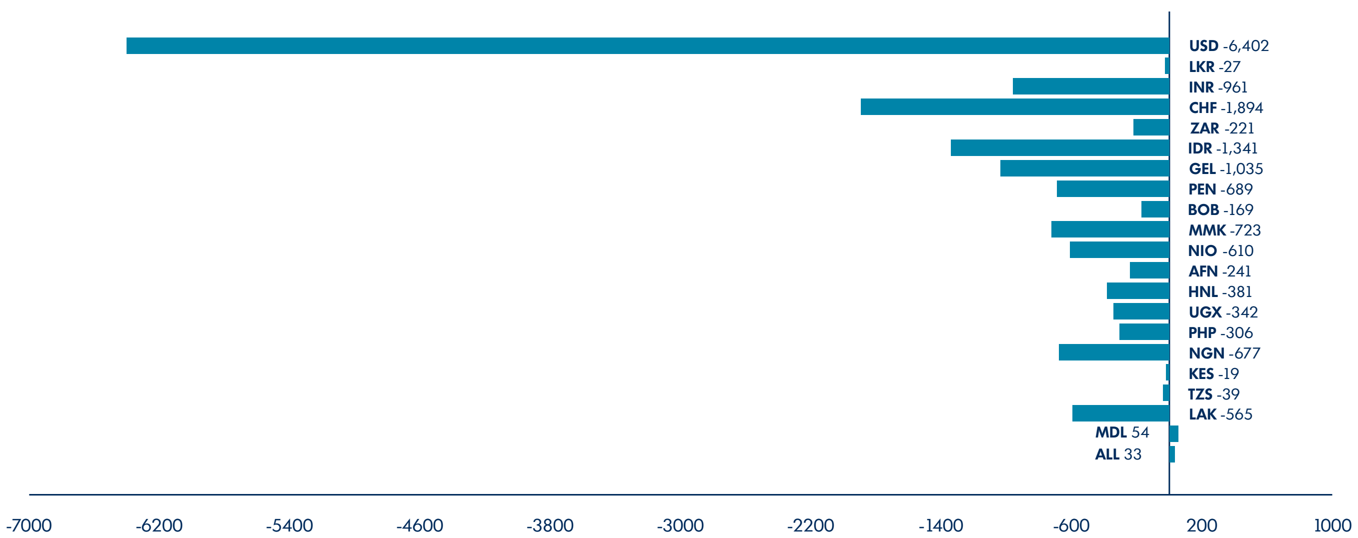
On December 31, 2017, the percentage of local currency debt out of total debt for the MASSIF portfolio was 59%. Throughout the year, the Fund signed 15 local currency loans out of the 16 debt facilities it contracted. By nature of the product, MASSIF also takes currency risks on its equity portfolio.

2017 showed a severe depreciation of the United States dollar and several correlated currencies against the euro, resulting in currencies losses for the Fund. As a result, the Fund's capital decreased as compared to 2016. While the impact was significant, MASSIF's diversified portfolio as well as its strong revolving performance over the past years, allowed the Fund to absorb the effects. The Fund's local currency portfolio has shown to be sustainable in the past as pricing of local currency has systematically covered for depreciation of portfolio currencies.

MASSIF's top 5 local currencies (in x mln)



FX results on loans per currency



MASSIF local currency portfolio

SANAD provides debt and equity financing to partner institutions in the Middle East and North Africa for supporting growth and employment creation in the region's micro, small and medium enterprise sector.

8 DECENT WORK AND ECONOMIC GROWTH
10 REDUCED INEQUALITIES
17 PARTNERSHIPS FOR THE GOALS

SDGs
Due to conflict and instability in Syria, Iraq, Libya and Yemen, economic growth has been slow in the MENA region. SANAD's will help this region to accelerate this growth and create and sustain jobs.

SANAD will contribute to reducing inequalities by expanding financial inclusion for MSMEs that often have disproportionate difficulties finding access to capital for starting or growing business.

Initiated by KfW and managed by Finance in Motion, and participations of the German Ministry, the Swiss Confederation and the European Union, SANAD is a great example of cooperation with trusted partners.

SANAD Fund for MSMEs

SANAD's mission is to promote economic development in the MENA region and provide debt and equity financing to local partner institutions for on-lending to micro, small and medium enterprises (MSMEs) and fueling their growth. In addition, SANAD has its own technical assistance facility to support its clients.

Current situation
The MENA region has undergone fundamental changes since early 2011. Public uprisings have not only changed the political landscape in many countries, yet also highlighted the need for economic development and the creation of employment, especially among the youth.

Challenge
Conflict, political instability and youth unemployment are large problems in the MENA region that are negatively affecting the business environment and entrepreneurs' access to finance. While the MSME sector is an engine of economic development, job creation and prosperity in the Middle East and North Africa (MENA), this sector is significantly un(der)banked.

Opportunity
SANAD investments contribute to promoting peace and stability through job creation and economic growth. By targeting MSMEs in a fragile region of the world, SANAD is directly supporting financial inclusion for the base of the pyramid and promoting youth employment.

Sector	MASSIF investment	Region	Product
Financial Institutions	USD 15 mln (2017)	Middle East and North Africa	Loan

CAPACITY DEVELOPMENT

The sustainable development of a thriving private sector requires more than just finance. In addition to providing financing, MASSIF supports its clients in improving their management skills and technical expertise through the MASSIF Capacity Development (CD) program.

The CD program promotes and facilitates the transfer of knowledge and skills to MASSIF's current and prospective clients to strengthen their organizations. In the context of this program, we contribute to the cost of hiring external consultants, trainers and experts to facilitate the knowledge transfer and provision of technical expertise that clients indicate a need for. The program is therefore demand-driven.

2017 was the first year of MASSIF's The Next Frontier strategy. As part of the new strategy, the convertible grant was introduced and the fee structure was changed. Deploying a convertible grant under MASSIF helps FMO to discover early stage financing ventures with high impact potential for which smaller ticket sizes are more opportune. Additionally, from 2017 onwards, 1% of MASSIF's net asset value is reserved for the CD program instead of the fixed government contribution that was designed under the previous MASSIF fund.

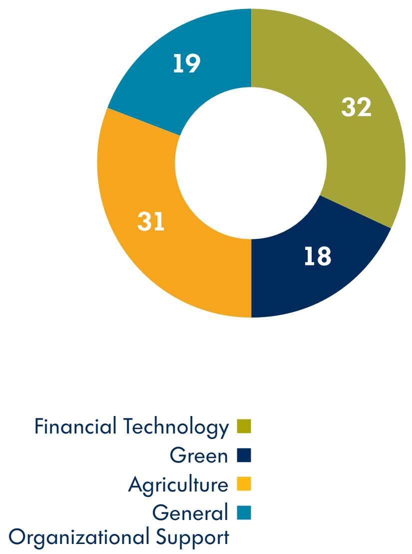
Capacity Development projects in 2017

Capacity Development	2017
Number of CD projects	24
CD funding	€ 2,825,388 mln

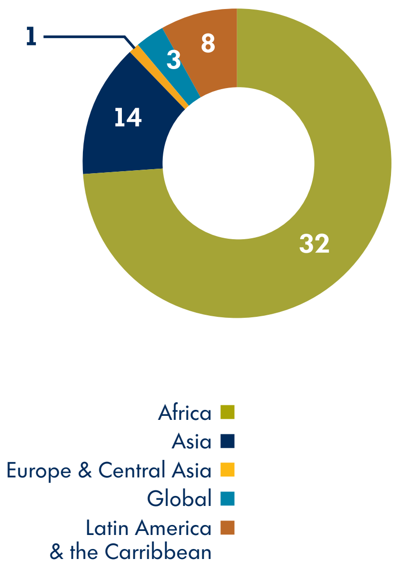
For MASSIF, the CD team focuses on developing capacity in countries on the MASSIF country list and the five Capacity Development MASSIF target themes, being Agri, Green, Fintech, Gender and General Organizational support. In 2017, 22 new CD projects were contracted, plus two top-ups of existing contracts board membership assignments, for a total amount of EUR 2,825,388. This amount also includes several small-sized top-ups of existing facilities. Almost half of total CD funding in 2017 was focused on agricultural projects. Following MASSIF's regional focus, most contracted projects in 2017 – both in numbers and amount – are situated in Africa.

With the newly introduced convertible grant product, we are closing the gap between ~ EUR 100k – classic grants – on the one hand and EUR 1 million – loans – on the other hand. In 2017, MASSIF funded two convertible grants to FinForward and Umati Capital.

€ amount per target theme in 2017
(in %)



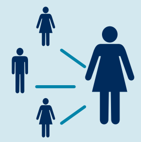
€ amount per region in 2017
(in %)



Capacity Development: How does it work?

CD takes the form of grant-based co-financing of up to 75% of the project costs, with our client financing the balance. It is intended to cover external costs and not operational costs like internal staff, hardware or software.

Our team will work together with the client to develop a project that is customized to address their specific needs. Alongside a positive impact on our client's bottom-line, we also seek a positive social and environmental impact.



FMO has formed partnerships with a number of leading consultancy firms and experts around the world, so we can support our clients in finding the right implementing partner for their project.

Contracts CD

Accion International: EUR 96,000 – CD project. Accion and FMO organized the Fintech CEO Forum in The Hague in June 2017 for Financial Technology (FinTech) clients of Accion's FinTech funds (including Accion Frontier Inclusion Fund, a MASSIF investment) to facilitate knowledge sharing and transfer between FinTech CEOs.

Ada: EUR 40,000 – CD project. ADA is a non-governmental organization dedicated to building and catalyzing financial inclusion of populations excluded from conventional banking channels in developing countries. ADA will be the contracting party responsible for the organization of the African Microfinance Week. The SAM brings together three regional microfinance networks representing 140 African MFIs, as well as 23 microfinance organizations and networks. Since microfinance is a key tool in reaching the objectives and impacts of MASSIF, this is a unique opportunity to share knowledge across the microfinance sector in Africa.

Africa Improved Foods: EUR 73,687 – CD project. Africa Improved Foods (AIF) is a supplier of complementary foods for children and pregnant/breastfeeding women in Rwanda. The project is aimed at the design and pilot of an AIF Bottom of the Pyramid commercial strategy in Rwanda, with a strong emphasis on behavior change to ensure clients purchase and use AIF products compliantly to foster health improvements.

Africa New Forests Company Ltd: EUR 440,000 – CD project. The New Forests Company (NFC) is a well-renowned player on the Africa market that has built up a strong land bank of 51,744 hectares and a total plantation size of 26,656 hectares. The aim of the project is to professionalize and scale up NFC's piloted 'payment for ecosystem services (PES)' program. This program incentivizes the rural to take more ownership of their environment. Hence the program will help NFC to mitigate its environmental risks and operational risks while a more regular income through the PES system will improve the communities' livelihoods.

Agronomika Finance Corporation: EUR 24,000 – CD project. Agronomika Finance Corporation (AFC) is a non-banking financial institution in the Philippines that was established by Kennemer Foods International in 2016. AFC will initially focus on providing loans to smallholder cacao farmers, both long term loans (for the establishment of new farms) and short term loans (to finance farm inputs). This project will support AFC to deepen and strenghten AFC's organziational strategy to make its operations more sustainable and through development of alternative products to spread risks of regions and sector.

Babban Gona: EUR 239,951 – CD project. Babban Gona (BG) provides services to cooperatives to improve the farmers' livelihoods and food security. The aim of this project is to help develop and scale Babban Gona's leadership organization through the participation of 250 senior officers in the Intensive Leadership Development Program. The scaling is necessary to expand BG's franchise model and reach at least 50,000 additional smallholder farmers by 2019, as part of increasing the food security of 1 million smallholder farmers living in Nigeria by 2025.

Cambodia Microfinance Association: EUR 30,000 – CD project. The Cambodian Microfinance Association (CMA) is an NGO that aims to ensure the sustainability of the microfinance sector in Cambodia. The risk of over-indebtedness in Cambodia is increasing. The aim of this project is focused on designing a set of responsible lending guidelines for the Cambodian microfinance sector.

Dolma Fund Management: EUR 58,000 – CD project. Dolma Fund Management is the Fund advisor of the Dolma Impact Fund I. This is a first time private equity fund that provides capital to SMEs in Nepal. The project supports Dolma Fund Management in applying environmental and social risk management policies into their operations.

Ecom Agrotrade: EUR 230,000 – CD project. Ecom Agrotrade is a commodity trading and sustainability services company specializing in cocao. The core objective of the project is to establish rural MFIs in Ivory Coast and Ghana that tailor farming credit and savings services, and agronomic advice to smallholder farmers.

Frankfurt School of Finance: EUR 43,950 – CD project. This project is part of the MASSIF-CD framework agreement with Frankfurt School of Finance. The aim of the project is to support of a hybrid expert scoring model in support of Umati Capital in Kenya.

FinForward: EUR 225,000 – convertible grant. FinForward, launched by FMO together with FinTech and digital transformation strategist Above & Beyond Tech (a&b), is a marketplace where FinTech companies, financial institutions (FIs) and mobile money providers in Africa are matched with the aim to accelerate digitization of the financial industry.

Incofin investment management: EUR 64,000 – CD project. Incofin is a Europe-based microfinance fund manager. Set up as a joint fund, this project aims to design, pilot and roll out an index-based agricultural micro-insurance product for agricultural and rural (current and potential) entrepreneurs in rural Nicaragua.

Maris Ltd.: EUR 45,000 – CD project. Maris is an industrial holding company with diversified interests spread across Africa. The aim of the project is to guide Maris on environmental and social (E&S) policies. Armed with more knowledge on the implementation of an E&S management system and better business integrity practices, Maris will be better equipped to take E&S aspects and business integrity into account in their deal structuring.

Microinvest: EUR 23,550 – CD project. OMF MicroInvest is a Moldovan microfinance institution which provides finance to small businesses in rural and urban areas in the country. The project focuses on a set of improvements that aim to optimize the internal organization and create operational excellence. FMO supports Microinvest in the overall improvement of its operational performance enabling Microinvest to better serve its clients and to reach out to new clients.

Mobisol GmbH: EUR 76,000 – CD project. Mobisol is a leading provider of off-grid solar home systems in Africa. This project supports Mobisol in their credit management and implementation of the Client Protection Principles (CPPs), allowing Mobisol to enhance its customer finance policies and procedures.

Moringa Partnership: EUR 95,000 – CD project. The Moringa Partnership is the investment advisor to the Moringa Fund. The Moringa Fund is an equity investment vehicle that invests in profitable, larger scale agroforestry projects with high environmental and social impact in Latin America and Sub-Saharan Africa. This project is focused on rehabilitating degraded small and medium-sized coffee farms around La Cumplida (Nicaragua) in order to increase environmental resilience and commercial viability of those farms.

SANAD Fund for MSME: EUR 200,000 – CD project. SANAD views the micro, small and medium enterprise sector as an engine of economic development, job creation and prosperity in the Middle East and North Africa (MENA). SANAD provides debt and equity financing to local partner institutions for on-lending to micro, small and medium enterprises (MSMEs) with the aim to fuel their growth. FMO's contribution will support two projects of SANAD's Technical Assistance facility.

Small Enterprise Foundation: EUR 60,000 – CD project. The Small Enterprise Foundation (SEF) is a not-for-profit microfinance institution working towards the eradication of poverty by creating a supportive environment where credit and savings services foster sustainable income generation, job creation and social empowerment. SEF's clients are majority (99%) females. The goal of this project is to support SEF in designing and launching a Total Quality Management system that will ensure quality and compliance, accompanied by a set of tools to measure this on an ongoing basis.

Tribetech Private Limited: EUR 183,000 – CD project. Tribe is a Fintech company incubated by Intellecap and funded through Aavishkaar Venture Management Services. It offers a technology-enabled, online SME financing platform. Tribe will use this funding as seed capital for on-lending to underserved SMEs via the Small Business Finance Catalyst Fund (SBFCF). The aim of the grant funding is twofold: i) to show that the SMEs are creditworthy based on alternative online and offline data points and ii) to catalyze financing from other Financial Institutions (FIs) on the Tribe platform.

Umati Capital: EUR 300,000 – convertible grant (local currency). Umati Capital Kenya (Umati) is a start-up Fintech providing value chain finance to SMEs and smallholder farmers, which are un(der)served and often subject to unreliable payment terms and conditions. With this convertible grant MASSIF supports the early-stage loan portfolio growth of Umati.

Village Capital: EUR 130,000 – CD project. VilCap is a non-profit organization that finds, trains, and facilitates investments in entrepreneurs solving problems in two areas: access to opportunity for underserved communities and resource sustainability of the planet. The project supports VilCap in cultivating the ecosystem to support future innovators advancing financial inclusion in India.

XSML Capital: EUR 19,875 – CD project. XSML Capital is a fund manager investing in SMEs in Central Africa, notably, DR Congo, Central African Republic, Uganda and Republic of Congo. This project supports the implementation of portfolio management software that will improve their financial and environmental and social reporting.

2 board memberships: EUR 118,000

SDGs
By investing in hydro power, Dolma contributes to lower CO_2 emissions, as well as clean energy.

Since there is a significant demand-supply gap in the agricultural sector in Nepal, Dolma promotes economic growth by providing overall market opportunities for the private sector.

Dolma Impact Fund

Dolma Impact Fund provides capital and expertise to growth companies in Nepal. The fund is designed to generate sustainable private sector employment and stimulate further investment to Nepal. Dolma invests in strategic partners, sharing risk with entrepreneurs and promoters. As an impact fund, Dolma builds positive social and environmental impact into the core of investee companies' strategies and provides them exposure and knowledge of global good practices. This Capacity Development project is a follow-up to an earlier equity investment in the Dolma fund by MASSIF.

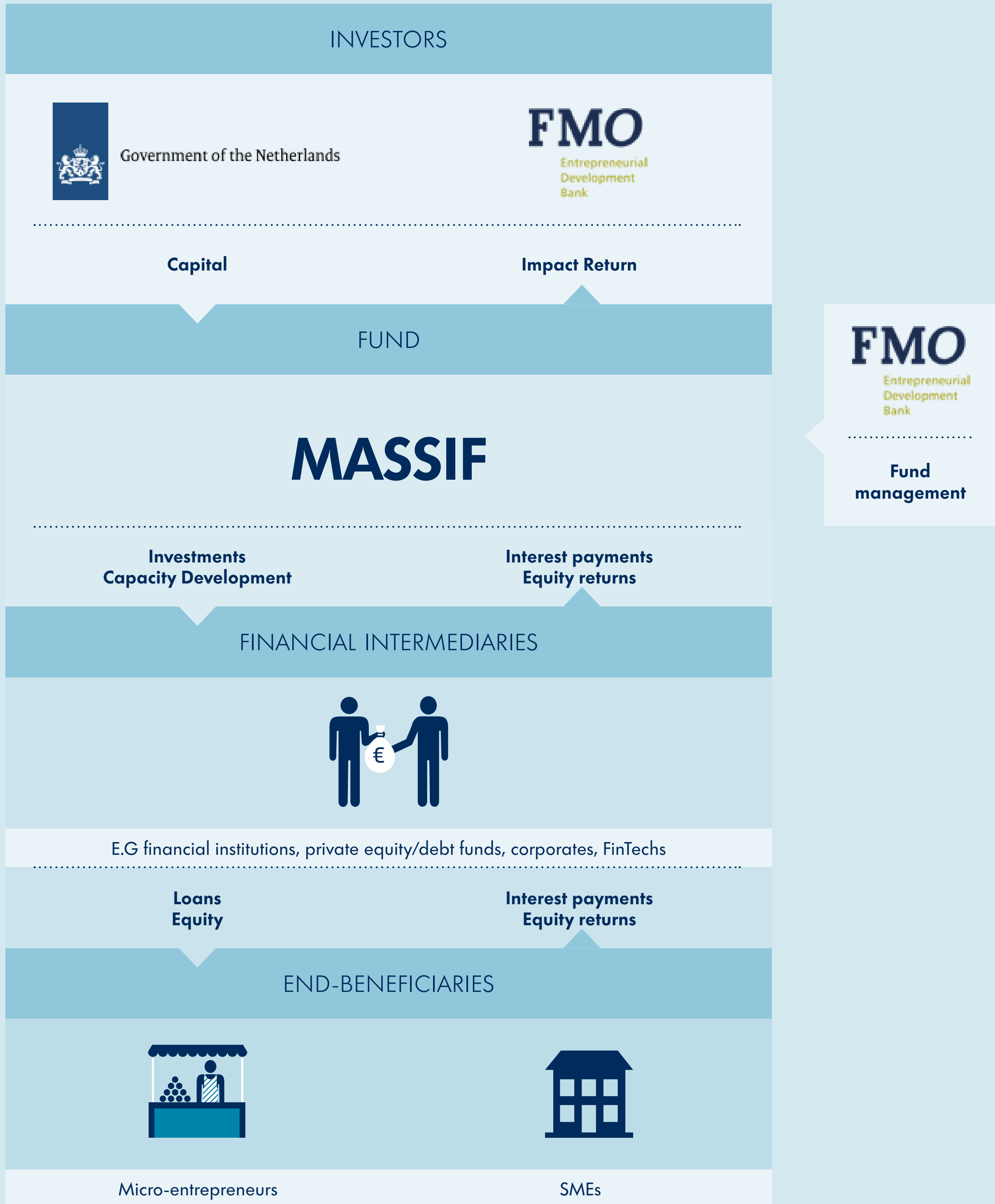
Current situation
Dolma Impact Fund was designed to scale up local companies to increase capacity and skills needed to meet the additional demand in the market. While demand is increasing, environmental and social standards are not yet similar to international standards in most of Nepal. While demand is increasing, in most of Nepal environmental and social standards.

Challenge
Being the first private equity fund in the country, Dolma is facing challenges in convincing the investee companies of the value of environmental and social standards and requires technical support to ensure that its investments meet the requirements.

Opportunity
The CD support will help Dolma to transform investee companies into enterprises that contribute to sustainable development, have a social license to operate, respect the environment and create value, by applying good environmental & social management best international practices and standards.

Sector	MASSIF investment	Country	Product
Diverse sectors	EUR 49,000 (2017) EUR 8 mln (2014)	Nepal	Grant Equity

FUND STRUCTURE



FUND MANAGEMENT

With 50 years of experience in high impact investment in emerging markets, and over EUR 1 billion in assets under management for the Dutch Ministry of Foreign Affairs, FMO has a proven track record as fund manager. MASSIF is managed by FMO's Public Investment Management (PIM) team, part of the Funds, Syndications and Value Creation (FSV) department. The PIM team utilizes FMO's strong infrastructure of dedicated sector departments, product expertise and competence centers (e.g. for local currency).

Jeroen Harteveld
Fund Manager

Jeroen Harteveld started as MASSIF Fund Manager in July 2016. He has been working at FMO for almost 13 years. Before joining the MASSIF team, Jeroen worked as an Investment Officer in FMO's Financial Institutions department. In this role, he has done several MASSIF transactions mainly in Africa. Prior, Jeroen worked at various departments, including, Infrastructure, Manufacturing & Services, Fonds Opkomende Markten (FOM) and Internal Audit. He is an advisory board member of Global Partnerships, a MASSIF client. Jeroen is a chartered Controller (RC) and has an executive master in Finance & Control from Nyenrode Business University.

Charissa Bosma
Portfolio Analyst

Charissa Bosma joined FMO in 2015 and has been part of the MASSIF team since January 2016. Before joining FMO, Charissa published a research paper in Land Use Policy about stakeholder perceptions on sustainable wetland use in Uganda. She also contributed to the Fair Finance Guide International at Profundo. Charissa Bosma holds a MSc in Environmental Sustainability from the University of Edinburgh and a MSc in Financial Economics from Erasmus University Rotterdam.

INTERNATIONAL PRINCIPLES

FMO follows a number of guidelines and principles, which helps us to improve the quality of our work and standardize our reporting.

IFC Performance Standards

OECD Guidelines

UN Guiding Principles on Business and Human Rights

International Labour Organization

Global Reporting Initiative

Principles for Responsible Investment

Equator Principles

Natural Capital Declaration

UNEP FI

UN Principles for Investors in Inclusive Finance

International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation – the FATF Recommendations

International Aid Transparency Initiative (IATI)

For our own operations, we maintain the following standards:
MVO Prestatieladder
The Gold Standard Corporate Governance Development Framework

LIST OF ABBREVIATIONS

AEF	Access to Energy Fund
BoP	Base of the pyramid
CD	Capacity Development
CPPs	Client Protection Principles
DFI	Development Finance Institution
ESG	Environmental, social and governance
FMO	Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden
GAP	Good Agricultural Practices
HCY	Hard currency (e.g. EUR and USD)
IDF	Infrastructure Development Fund
LCY	Local currency
LIC	Low income country
MSME	Micro, small and medium-sized enterprises
PE	Private Equity
PIM	Public Investment Management team within FMO
PSD	Private sector development
SDGs	Sustainable Development Goals
WMSME	Women-owned micro, small and medium-sized enterprises

Read more about

FMO	www.fmo.nl/
ODA	www.rijksbegroting.nl/system/files/10/odaenoesodac-criteria.pdf
OECD	www.oecd.org/
SDGs	sustainabledevelopment.un.org

ACCOUNTING POLICIES

Basis of preparation: The accounting policies selected and applied by the fund manager are to a large extent in line with IFRS. The main exceptions to IFRS standards are related to a limitation in disclosure of balance sheet and P&L items. The annual accounts are prepared under the historical cost convention, except: equity investments, investment in associates and all derivative instruments that are measured at fair value.

ESTIMATES AND ASSUMPTIONS

In preparing the annual accounts, management is required to make estimates and assumptions affecting reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and application of judgment is inherent to the formation of estimates. Although these estimates are based on management's best knowledge of current events and actions, actual results could differ from such estimates and the differences may be material to the annual accounts.

The most relevant estimates and assumptions relate to the determination of the fair value of financial instruments based on generally accepted modeled valuation techniques and the determination of the counterparty-specific and group-specific value adjustments.

Fair value of financial instruments

Fair value is the price that would be received when selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When available, the fair value of an instrument is measured by using the quoted price in an active market for that instrument. If there is no quoted price in an active market, valuation techniques are used that maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Foreign Currency translation

The Fund uses the euro as the unit for presenting its annual accounts. All amounts are denominated in thousands of euros unless stated otherwise. Foreign currency transactions are translated to euro at the exchange rate prevailing on the date of the transaction. On the balance sheet date, monetary assets and liabilities and non-monetary assets that are not valued at cost denominated in foreign currencies are reported using the closing exchange rate. Exchange differences arising on the settlement of transactions at rates different from those at the date of the transaction and unrealized foreign exchange differences on unsettled foreign currency monetary assets and liabilities, are recognized in the profit and loss account under 'results from financial transactions'. Unrealized exchange differences on non-monetary financial assets (investments in equity instruments) are a component of the change in their entire fair value. For non-monetary financial assets, which are classified as available for sale, unrealized exchange differences are recorded directly in shareholders' equity until the asset is sold.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Derivative instruments

The derivatives related to the asset portfolio concerns derivatives that are embedded in other financial instruments. Such combinations are known as hybrid instruments and arise predominantly from providing mezzanine loans and equity investments. These derivatives are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract. These derivatives are measured at fair value with changes in fair value recognized in profit and loss. These derivative financial instruments are initially recognized at fair value on the date FMO enters into a derivative contract and are subsequently re-measured at their fair value. Changes in the fair value of these derivative instruments are recognized immediately in the profit and loss account.

Interest income

Interest income and expense are recognized in the profit and loss account for all interest-bearing instruments on an accrual basis using the 'effective interest' method based on the initial fair value at inception. Interest income and expense also include amortized discounts. When collection of loans becomes doubtful, value adjustments are recorded for the difference between the carrying values and recoverable amounts. Interest income is thereafter recognized based on the original effective yield that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Fee and commission income

The Fund earns fees from a diverse range of services. The revenue recognition for financial service fees depends on the purpose for which the fees are charged and the basis of accounting for the associated financial instrument. Fees that are part of a financial instrument carried at fair value are recognized in the profit and loss account. Fee income that is part of a financial instrument carried at amortized cost can be divided into three categories:

1. Fees that are an integral part of the effective interest rate of a financial instrument
2. Fees earned when services are provided
3. Fees that are earned on the execution of a significant act

Dividend income

Dividends are recognized in dividend income when a dividend is declared. The dividend receivable is recorded at declaration date, taking the uncertainties of collection into account.

Cash and cash equivalents

Cash and cash equivalents consist of banks (assets and liabilities) and current account with FMO. Short-term deposits are designated at fair value. Unrealized gains or losses of these short-term placements (including foreign exchange results) are reported in the results from financial transactions.

Loans to the private sector

Loans originated by the Fund include loans to the private sector in developing countries for the account and risk of the Fund;

- Loans are recognized as assets when cash is advanced to borrowers. Loans are initially measured at cost, which is the fair value of the consideration paid, net of transaction costs incurred. Subsequently, the loans are valued at amortized cost using the effective interest rate method.
- Interest on loans is included in interest income and is recognized on an accrual basis using the effective interest rate method. Fees relating to loan origination and re-financing are deferred and amortized to interest income over the life of the loan using the effective interest rate method.

Value adjustments on loans

At each reporting date FMO assesses the necessity for value adjustments on loans. Value adjustments are recorded if there is objective evidence that FMO will be unable to collect all amounts due according to the original contractual terms or the equivalent value. The value adjustments are evaluated at a counterparty-specific level based on the following principles: Individual credit exposures are evaluated based on the borrower's characteristics, overall financial condition, resources and payment record, original contractual term, exit possibilities and, where applicable, the realizable value of the underlying collateral. The estimated recoverable amount is the present value of expected future cash flows, which may result from restructuring or liquidation. In case of a loan restructuring, the estimated recoverable amount as well as the value adjustments are measured by using the original effective interest rates before the modification of the terms. Value adjustments for credit losses are established for the difference between the carrying amount and the estimated recoverable amount.

A value adjustment is reported as a reduction of the asset's carrying value on the balance sheet. All loans are reviewed and analyzed at least annually. Any subsequent changes to the amounts and timing of the expected future cash flows compared to prior estimates will result in a change in the value adjustments and will be charged or credited to the profit and loss account. A value adjustment is reversed only when the credit quality has improved to the extent that reasonable assurance of timely collection of principal and interest is in accordance with the original or revised contractual terms.

A write-off is made when all or part of a claim is deemed uncollectible or forgiven. Write-offs are charged against previously recorded value adjustments. If no value adjustment is recorded, the write-off is included directly in the profit and loss account under the line item 'value adjustments'.

Equity investments

Equity investments in which the Fund has no significant influence are classified as available for sale assets and are measured at fair value. Unrealized gains or losses are reported in the available for sale reserve net of applicable income taxes until such investments are sold, collected or otherwise disposed of, or until such investment is determined to be impaired. Foreign exchange differences are reported as part of the fair value change in fund capital. On disposal of the available for sale investment, the accumulated unrealized gain or loss included in shareholders' equity is transferred to the profit and loss account.

Impairments
All equity investments are reviewed and analyzed semi-annually. An equity investment is considered impaired if its carrying value exceeds the recoverable amount by an amount considered significant or for a period considered prolonged. If an equity investment is determined to be impaired, the impairment is recognized in the profit and loss account as a value adjustment. The impairment loss includes any unrealized loss previously recognized in shareholders' equity. The impairment losses shall not be reversed through the profit and loss account except upon realization. Accordingly, any subsequent unrealized gains for impaired equity investments are reported through shareholders' equity in the available for sale reserve.

Investment in associates
Equity investments in companies in which the Fund has significant influence ('associates') are accounted for under the equity accounting method. Significant influence is normally evidenced when the Fund has from 20% to 50% of a company's voting rights unless:
1. The Fund is not involved in the company's operational and/or strategic management by participation in its Management, Supervisory Board or Investment Committee; and
2. There are no material transactions between The Fund and the company; and
3. The Fund makes no essential technical assistance available.

Investments in associates are initially recorded at cost and the carrying amount is increased or decreased after the date of acquisition to recognize The Fund's share of the investee's results or other results directly recorded in the equity of associates.

Available for sale reserve (AFS reserve)
The available for sale reserve includes net revaluations of financial instruments classified as available for sale that have not been reported through the profit and loss account.

Undistributed results previous years
The undistributed results consists of the part of the annual results that the Fund is accumulating to maintain the revolvability of the funds.

Adoption of new accounting standard IFRS 9
IFRS 9 "Financial Instruments" is a new accounting standard, which will become effective as of January 1, 2018. IFRS 9 is replacing IAS 39 "Financial Instruments: Recognition and Measurement". The standard introduces new requirements for the classification and measurement of financial assets and liabilities and the impairment of financial assets. The standard will be applied retrospectively, leading to an adjustment of the opening balances of the affected components of fund capital at January 1, 2018. The implementation of IFRS 9 will have an impact on Total Assets, Fund Capital, Net Profit and/or Other Comprehensive Income. Final impact of IFRS 9 is yet to be determined in the first months of 2018.

all amounts in € × 1,000

BALANCE SHEET
At December 31, 2017

	31/12/2017	31/12/2016
Assets		
Banks	15,248	16,602
Short- term deposits	29,115	52,120
Derivatives Financial Instruments	82	-
Loans	169,526	172,671
Equity investments & Investments in associates	240,826	257,720
Accrued income & Other receivables	6,143	10,042
Current account with FMO	67	62
Total assets	**461,007**	**509,217**
Liabilities		
Accrued liabilities & Other liabilities	3,242	8,129
Total liabilities	**3,242**	**8,129**
Fund capital		
Contribution DGIS previous years	324,753	323,159
Contribution DGIS current year	11,208	1,594
Total contribution DGIS	**335,961**	**324,753**
Initial contribution FMO	7,778	7,778
Total contribution FMO	**7,778**	**7,778**
Available for sale reserve	70,635	99,229
Undistributed results previous years	86,900	71,101
Result current year	-23,573	15,799
Grants	-18,420	-16,241
Evaluation costs	-1,516	-1,331
Total fund capital	**457,765**	**501,088**
Total liabilities and shareholders' equity	**461,007**	**509,217**
Irrevocable facilities	**107,947**	**116,515**
Total subsidy amount MASSIF (and HMA Skopje) according to "Beschikking"	345,096	323,965
Total subsidy amount G-20 SME Finance Challenge according to "Beschikking"	7,836	7,786
Total subsidy received from DGIS for MASSIF	-328,217	-316,963
Total subsidy received from DGIS for G-20 SME Finance Challenge	-7,744	-7,790
"Beschikkingsruimte"	**16,971**	**6,998**

all amounts in € × 1,000

STATEMENT OF COMPREHENSIVE INCOME
At December 31, 2017

	31/12/2017	31/12/2016
Income		
Interest income	13,479	12,745
Results from equity investments and associates	11,506	23,977
Results from financial transactions	78	-134
Dividend, Fee and Commission income	3,161	3,775
FX loans	-16,555	-1,126
FX other	-6,702	2,455
Other income	-	-
Total income	**4,967**	**41,692**
Expenses		
Remuneration FMO	-12,410	-13,247
Other operating results	-1	-1
Total expenses	**-12,411**	**-13,248**
Value adjustments and impairments		
Value adjustments on loans	-9,692	-943
Impairments on equity investments	-6,437	-11,702
Total value adjustments and impairments	**-16,129**	**-12,645**
Net profit	**-23,573**	**15,799**
Other comprehensive income		
Available for sale equity investments	-28,594	25,035
Other comprehensive income	**-28,594**	**25,035**
Total comprehensive income	**-52,167**	**40,834**

all amounts in € × 1,000

STATEMENT OF CASH FLOWS
At December 31, 2017

	31/12/2017	31/12/2016
Cash flow from operating activities		
Inflows		
Interest received on loans	14,318	11,630
Repayments on loans	40,696	45,030
Sales of equity instruments (book value)	11,282	20,670
Results from equity investments	11,900	22,730
Sales to FMO (book value)	-	2,833
Results from sale to FMO	-	1,320
Dividends and fees received	3,143	4,060
Other received amounts	887	3,744
Outflows		
Disbursements on loans	-63,773	-70,647
Investments in equity instruments	-28,464	-20,941
Disbursements on grants	-2,179	-2,219
Other paid amounts	-7,705	-1,463
Net cash from operating activities	**-19,895**	**16,746**
Cash flow from financing activities		
Inflows		
Contribution of DGIS current year	11,263	1,594
Outflows		
Management fees FMO	-15,722	-13,247
Net cash from financing activities	**-4,459**	**-11,653**
Net change in cash & cash equivalents	**-24,354**	**5,094**
Position of cash at January 1	68,784	63,690
Position of cash at end of period	**44,430**	**68,784**

all amounts in € × 1,000

RISK MANAGEMENT

ORGANIZATION OF RISK MANAGEMENT

For FMO acting in its role as Fund Manager (hereafter 'FMO') to be able to carry out the Fund's strategy, it is essential to have an adequate risk management system in place to identify, measure, monitor and mitigate financial risks. MASSIF (hereafter 'the Fund') has a pre-defined risk appetite translated into limits for group, client, country, region and currencies exposures. Limit usages are monitored on a monthly basis and for each proposed transaction.

The Fund Manager reviews each transaction and provides consent to eligible proposals. The Investment Committee, comprising of senior representatives of several departments, reviews financing proposals for new transactions. Each financing proposal is assessed in terms of specific counterparty, product risk as well as country risk. All financing proposals are accompanied by the advice of the Credit department. This department is responsible for credit risk assessment of both new transactions and the existing portfolio. For small exposures, the Credit department has the authority to review new transactions.

In addition, financial exposures in emerging markets are subject to a periodic review, which are in general executed annually. Exposures that require specific attention are reviewed by the Investment Review Committee. The larger and higher risk exposures are accompanied by the advice of the Credit department. If the Investment Review Committee concludes that a client has difficulty in meeting its payment obligations, the client is transferred to the Special Operations department – responsible for the management of distressed assets – where it is intensely monitored.

RISK PROFILE AND APPETITE

The Fund actively seeks to take risk stemming from debt and equity investments in private institutions in developing countries. This risk profile is supported by maintaining prudent levels of capital and liquidity and strong diversification of the portfolio across regions and sectors.

CAPITAL MANAGEMENT

The Fund's aims to optimize development impact. This can only be achieved with a sound financial framework in place, combining a healthy long-term revolvability of ≥100% and sound capital adequacy. Therefore, FMO seeks to maintain a strong capital position for the Fund. The Fund's structure is based on a contribution from the Dutch government (97.74%) and a contribution from FMO (2.26%). Total contribution from the Dutch government is € 336.0 mln on 31 December 2017 (31 December 2016: € 324.8 mln). FMO contributed € 7.8 mln to the Fund. Total fund capital – which is the sum of the contribution by the government, the contribution by FMO, the available for sale reserve, undistributed results from previous years, results from the current year, grants, and evaluations costs – decreased to € 457.8 mln in 2017 (2016: € 501.1 mln).

REPUTATIONAL RISK

The fund operations in developing and emerging markets, expose us to reputational risks such as environmental and social risks and various types of legal risks. FMO has a limited appetite for reputation risk when such risks would prompt key stakeholders to intervene in the decision making or running of our daily business. Outside of this, FMO has a moderate appetite for reputation risk, accepting that reputational impacts of activities may incidentally lead to negative press coverage, NGO attention, client feedback, or isolated cases of financial losses, as long as these activities at the outset have a clear expected contribution to FMO's goal to achieve development impact. FMO cannot fully avoid such risks due to the nature of its operations but chooses to mitigate them as much as possible through strict policies, upfront assessment and, when necessary, through agreements with FMO's clients. FMO manages issues from the perspective of learning lessons and prevention. Through transparency and a willingness to respond to challenges made, we aim to remain accountable and reduce our reputational risk.

Environmental, social and governance risk

The Fund faces environmental and social risks in its emerging market projects. These risks stem from the nature of our projects, which in some cases could carry negative environmental and/or social impacts. The Fund accepts that in the pursuit of development impact there is a risk of negative press and/or negative reactions from NGOs in the context of ESG performance and mitigates this risk through environmental and social action plans and monitoring. The risk appetite for deviations from the exclusion list and human rights violations by projects financed by FMO is zero. We furthermore expect the highest standards in professional conduct. Internally, FMO strives to limit the footprint of its own workplace and strives to the highest standards in employee satisfaction. Ensuring a high diversity in staff is a leading Human Resources principle.

CREDIT RISK

Credit risk is defined as the risk that the Fund will suffer economic loss because a counterparty cannot fulfill its financial or other contractual obligations arising from a financial contract. Credit risk is the main risk within the Fund and occurs in two areas of its operations: (i) credit risk in investments in emerging markets and off-balance instruments such as loan commitments and guarantees; and (ii) credit risk in the treasury portfolio, only consisting of bank accounts and money market instruments.

Management of credit risk is FMO's core business, both in the context of project selection and project monitoring. In this process, a set of investment criteria per sector is used that reflects benchmarks for the required financial strength of FMO's clients. This is further supported by internal scorecards that are used for risk classification and the determination of capital use per transaction. As to project monitoring, the Fund's clients are subject to periodic reviews. Credit policies and guidelines have been formulated covering treasury operations; these are reviewed regularly and approved by the ALCO.

Credit risk in the emerging markets loan portfolio

The Fund offers loans in emerging market countries. Strong diversification within the Fund's emerging market portfolio is ensured through stringent limits on individual counterparties (single client limit of 7.5% of the Fund's capital, and economic group limit of 10% of the Fund's capital), countries (20% of the Fund's capital), continents (50% of the Fund's capital, and at least 40% in Africa), and local currency (20% of the Fund's capital).

Internal credit approval process

Credit risk from loans in emerging market countries arises from a combination of counterparty risk, country risk and product specific risks. These types of risk are assessed during the credit approval and credit review process and administrated via internal scorecards. The lending process is based on formalized and strict procedures. Decisions on authorizations depend on both the amount of economic capital and the risk profile of the financing instrument. For distressed assets, the Special Operations department applies an advanced workout and restructuring approach.

In measuring the credit risk of the emerging market portfolio at counterparty level, the main parameters are the credit quality of counterparties and the expected recovery ratio in case of defaults. Counterparty credit quality is measured by scoring counterparties on various dimensions of financial strength. Based on these scores, FMO assigns ratings to each counterparty on an internal scale from F1 (lowest risk) to F21 (highest risk), equivalent from AAA to CCC ratings.

Gross exposure distributed by internal ratings [1]

Indicative counterparty credit rating	2017	%
F1 – F10 (BBB- and higher)	832	0.5
F11 – F13 (BB-, BB, BB+)	69,891	38.6
F14 – F16 (B-, B, B+)	63,266	35.0
F17 and lower (CCC+ and lower ratings)	46,903	25.9
Total	**180,892**	**100.0**

1) Please note that this does not include the entire portfolio. Some investments are not rated.

Maximum exposure to credit risk of the gross loan portfolio increased to € 180.9 mln in 2017 (2016: € 177.0 mln). The portfolio shows an overall improvement. Whereas last year the bulk of our exposure of 47% was rated in the F14 to F16 ratings, we see this year it is equally divided between the categories F11-F13 and F14-F16. Also the lower rating of F17 and below improved from 30% in 2016 to 26% in 2017. During 2018 we will analyze the improvement and see if part of the portfolio can be sold to a third party.

Loans past due and value adjustments

At the end of 2017, the counterparty-specific value adjustments as a percentage of the gross loan portfolio equaled 5.8% (2016: 1.9%).

Non-Performing Loans (NPL) are defined as loans with a counterparty-specific value adjustment and/or loans with interest and/or principal payments that are past due 90 days or more. The Fund's NPL ratio increased from 6.6% to 16.9% as a result of increased loans past due. The big increase is mainly caused by one client with an outstanding loan of € 20.8 mln.

When the terms and conditions of a loan have been modified significantly. FMO considers these loans a restructuring. Changes in terms and conditions usually include extending the maturity, changing the interest margin and changing the timing of interest and principal payments. The loans are assessed to determine if they qualify for derecognition and if that is the case, they are recognized as a new loan with valuation differences through profit and loss. Value adjustments related to restructured loans are being measured as indicated in the accounting policies under 'Value adjustments on loans'.

In 2017, the write-offs were limited to two loans (2016: 1) for an amount of € 2.3 mln.

Loans past due and value adjustments 2016

	Loans not value adjusted	Loans value adjusted	Gross exposure	Counterparty specific value adjustment	Total
Loans not past due	150,330	203	150,533	-59	150,474
Loans past due:	-	-	-	-	-
· Up to 30 days	-	-	-	-	-
· 30-60 days	-	-	-	-	-
· 60-90 days	-	-	-	-	-
· more than 90 days	-	30,276	30,276	- 10,367	19,909
Subtotal	**150,330**	**30,479**	**180,809**	**- 10,426**	**170,383**
Less: amortizable fees	-804	-53	-857	-	-857
Carrying Value	**149,526**	**30,426**	**179,952**	**-10,426**	**169,526**

Number of non-performing loans	6
Value adjustments / loans	5.8%
NPL percentage	16.9%

Country risk

Country risk arises from country-specific events that adversely impact the Fund's exposure in a specific country. Within FMO, country risk is broadly defined. It includes all relevant factors that have a common impact on the Fund's portfolio in a country such as economic, banking and currency crises, sovereign default and political risk events. The assessment of the country rating is based on a benchmark of external rating agencies and other external information.

The level of the country limits depends on the sovereign rating. FMO recognizes that the impact of country risk differs across the financial products it offers. In 2017 the rating of South Africa (2% of the portfolio) was downgraded from F10 to F12.
The country risk for Indonesia (2% of the portfolio) was upgraded from F10 to F11 during 2017.

Overview country ratings

Indicative external rating equivalent	2017 (%)	FMO-A (%)
F9 and higher (BBB and higher ratings)	6.2	6.5
F10 (BBB-)	13.9	7.9
F11 (BB+)	-	-
F12 (BB)	5.7	12.2
F13 (BB-)	13.9	15.1
F14 (B+)	13.5	21.6
F15 (B)	6.6	14.6
F16 (B-)	28.7	11.2
F17 and lower (CCC+ and lower ratings)	11.4	10.9
Total	**100.0**	**100.0**

Treasury counterparty credit risk

Credit risk in the treasury portfolio stems from bank account holdings and placements in money market instruments to manage the liquidity in the Fund. The Risk Management department approves each obligor to which the Fund is exposed through its treasury activities and sets a maximum limit to the credit exposure of that obligor. Depending on the obligor's short and long-term rating, limits are set for the total and long-term exposure. FMO pursues a conservative investment policy.

EQUITY RISK

With regard to equity risk that results from equity investments, a distinction can be made between:
· Exit risk, the risk that the Fund's equity stake cannot be sold for a reasonable price and in a sufficiently liquid market;
· Equity risk, the risk that the fair value of an equity investment decreases

The Fund has takes long-term view on its equity portfolio, usually selling its equity stake within a period of five to ten years. The Fund can accommodate an increase in the average holding period of its equity investments and so wait for markets to improve again to realize exits. We have no deadlines regarding the exit date of our equity investments. Equity investments are assessed by the Investment Committee in terms of specific obligor as well as country risk. The Investment Review Committee assesses the valuation of the majority of equity investments quarterly. The performance of the equity investments in the portfolio is periodically analyzed during the fair value process. Based on this performance and the market circumstances, exits are pursued in close cooperation with our co-investing partners. The total outstanding equity portfolio on December 31, 2017, amounted to € 277.5 mln (2016: € 303.7 mln).

CURRENCY RISK

Currency risk is defined as the risk that changes in foreign currency exchange rates have an adverse effect on the value of the Fund's financial position and future cash flows. Limits have been set on currency positions and are monitored on a regular basis.

The Fund offers loans in emerging market currencies. We aim to match the currency needs of local banks and corporates, thereby reducing their currency risk. On December 31, 2017, 56% (2016: 56%) of the net loans to the private sector was in emerging market currencies.

INTEREST RATE RISK

Interest rate risk is the risk of potential loss due to adverse movements in interest rates. Changing interest rates mainly have an effect on the fair value of fixed interest balance sheet items. Given the balance sheet and capital structure of the Fund interest rate risks are considered limited.

LIQUIDITY RISK

Liquidity risk is the risk that insufficient funds are available to meet financial commitments. The Fund has a conservative liquidity management ensuring that sufficient capital is available. In case of a liquidity shortfall the Fund can make a funding request to FMO N.V. for up to a maximum of 10% of the Fund's net portfolio.

OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed processes, people and systems or loss caused by external events. FMO aims to manage operational risk for the fund in a cost effective way. Operational risks – including those related to information security and personal data breaches – are identified, measured and controls are implemented and their effectiveness is monitored. Operational risks are managed and monitored in accordance with a three line defense governance principle. In the first line of defense business management executes and reviews processes, reports incidents and performs risk and control self-assessments. In the second line of defense monitoring is performed by specialized risk departments and committees and the third line of defense is performed by the Internal Audit function. Although controls are in place, incidents sometimes happen and damage may occur. FMO registers and analyses operational risk events and losses systematically. Analysis of these data triggers actions to improve controls.

Operational risks resulting from new products or activities are considered in FMO's Product Approval and Review Process. FMO monitors the trends of operational risks, including information security risks and where deemed necessary anticipates on the unfavorable effects.

COLOPHON

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