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CARNEGIE CONSULT

MASSIF Evaluation, Financial inclusion in developing countries, 2006-2014

Final report

Client: Netherlands Ministry of Foreign Affairs

Rotterdam and Maarssen, 24th of November 2015

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List of abbreviations

ALM	Asset and Liability Management
CD	Capacity development
CDO	Collateralized debt obligation
CEO	Chief executive officer
CG	Corporate governance
CIP	Clearance in principle
CO2	Carbon dioxide
COO	Chief operating officer
CPP	Client protection principles
CSR	Corporate social responsibility
DFI	Development finance institution
DGGF	Dutch Good Growth Fund
DII	Development Impact Indicator
DNB	De Nederlandsche Bank
E&S	Environmental & Social
EBRD	European Bank for Reconstruction and Development
EDIS	Economic Development Impact Scores
e.g.	exempli gratia
etc.	etcetera
EUR	Amount of money in Euro
FI	Financial institution
FM	Fund manager
FMO	Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.
FMO-A	FMO’s own balance sheet
FP	Finance proposal
FSS	Financial self-sufficiency
FTE	Full time equivalent
FX	Foreign exchange
HRM	Human resource management
i.e.	id est
IC	Investment committee
IFI	International finance institution
IMR	Investment and Mission Review
IRR	Internal rate of return
IT	Information technology
LC	Local currency
LP	Limited partner
MDG	Millennium Development Goal
MF	Microfinance
MFI	Microfinance institution
MIS	Management information system
MSME	Micro-, small- and medium-sized enterprises
NBFC	Non-banking financial company
NBFI	Non-banking financial institution
NGO	Non-governmental organization

NPL	Nonperforming loan
OECD	Organisation for Economic Co-operation and Development
OECD-DAC	OECD Development Assistance Committee
OSS	Operational self-sufficiency
P&L	Profit and loss
PAR	Portfolio at risk
PE Fund	Private equity fund
PSD	Private sector development
SHIFT	Strategic horizon for impact and footprint transition
SME	Small- and medium-sized enterprises
SO	Special operations
TA	Technical assistance
TCX	The currency exchange fund
ToR	Terms of reference
USD	Amount of money is United States dollars
VC Fund	Venture capital fund
vs.	versus

Executive Summary

Background

The MASSIF fund (no acronym) was established in 2006 as a merger of three existing Dutch government funds: the SME Fund, the Seed Capital Fund and the Balkan Fund (FMO, 2012a). MASSIF is funded by the Ministry of Foreign Affairs (from the budget for development cooperation), initially with EUR 252.4 million. MASSIF is a revolving fund with the aim to build and strengthen the financial sector in developing countries and at the same time promote micro, small and medium size enterprises (MSMEs) in developing countries. It does this by providing loans, mezzanine finance and shareholders' equity. At year-end 2014, the portfolio amounted to EUR 320 million.

Purpose of the evaluation

The main purpose of the evaluation is to understand whether MASSIF in its present form has made a relevant contribution to private sector development and sustainable economic growth and poverty reduction. The evaluation seeks to provide insight into two main elements:

- The quality of management of MASSIF by FMO;
- The quality of the investments and the contribution to the development of MSME enterprises and to some extent the financial sector.

The evaluation consisted of a portfolio analysis, interviews with stakeholders, a survey among all MASSIF-clients, in-depth desk studies of ten investees and three country visits (where another eleven investees were visited). To have a good understanding of the operations of the financial intermediaries and the outreach to the ultimate clients, the team visited a large number of their clients (MSMEs) to assess the extent to which MASSIF has contributed to their growth and increase in turnover, profit and employability and to get an indication of the impact at societal level.

For the purpose of this study the OECD-DAC evaluation criteria (relevance, efficiency, effectiveness, impact and sustainability) are used together with two additional criteria related to additionality and catalytic role. For each of the 21 investees the evaluation team used a score ranging from A to D, where A stands for above expectations and D far below expectations.

In this summary the highlights and main findings are presented:

Quality of the management of MASSIF

The structure of the MASSIF fund shows great resemblance with the set up and structure of FMO itself. Both FMO and MASSIF use financial intermediaries as instruments to reach out to clients that cannot be served directly. A major advantage is that MASSIF can benefit from the extensive network of financial intermediaries of FMO and its relation with other Development Finance Institutions (DFIs). Moreover, MASSIF makes use of the infrastructure of FMO in assessing and monitoring its clients. Although the costs connected to the management of MASSIF may be at the high end of the market average, MASSIF benefits from making use of a high quality organisation and processes that are subject to supervision of the Dutch Central Bank. For the management of MASSIF a fund manager (assisted by a small team) is appointed that takes care and assures that the investments fit into the profile and criteria of MASSIF and is responsible for regular reporting to the government.

From the interviews with and survey among investees and borrowers it was found that the quality of the management of the MASSIF fund by FMO was appreciated. FMO is seen as one of the better development banks with limited bureaucracy, a professional attitude and efficient and direct (transparent) communication lines. In some cases the high rotation of investment officers was noted as a negative aspect. The approach of MASSIF to use local intermediaries resulted in high efficiency as well. Microfinance institutions (MFI) clients are served in a very efficient manner with limited (collateral) requirements enabling the MFIs to provide loans in only a few days up to two weeks maximum. Presently MASSIF is profit making with a return of 4.7% on net portfolio. As a result of the above, the MASSIF-fund is indeed revolving, as was agreed upon with the Dutch government.

The quality of the investment and the contribution to development

Relevance and effectiveness

Overall, the investments through financial intermediaries are considered relevant and effective for both strengthening the financial sector as well as reaching out to MSMEs. MASSIF selected financial intermediaries, both MFIs as well as banks and private equity funds, that are able to promote inclusiveness for small enterprises and individuals at the ‘bottom of the pyramid’.

The portfolio analysis shows that MASSIF uses debt as the most important instrument; however since several years equity and fund investments are increasing in importance, and fund investments were the largest category in 2014.

The sample and field visits showed that the MFIs were very active in rural areas and included clients ranging from poor individuals to micro, small and medium size family enterprises that were not served by commercial banks. The sample included Tier 1 up to Tier 3 MFIs. Many of the MFIs showed a large number of customers and impressive growth figures. The selection of MFIs was in compliance with the criteria of MASSIF. Investments of MASSIF covered furthermore a wide range of countries (of which over 30% in Sub-Saharan Africa).

The nature of the Private Equity (PE) and Venture Capital funds (VC) in the sample were in line with the objectives of MASSIF as well. The portfolios of these funds showed a wide variety of investees. In some cases the portfolio included start-ups with high risks and therefore being of a venture capital nature. Furthermore the size of the investments made by the funds was quite modest ranging from USD 150,000 up to USD 2 million, which is small compared to regular Private Equity Funds supported by FMO-A and other DFIs and fit into the focus of MASSIF (high end of SMEs). However in terms of financial returns these investments create a challenge. The relative small size of the investments and consequently the management costs involved together with the high risk of the portfolios and sometimes the limited track record of the fund manager are important aspects that (may) influence the future returns of the Private Equity portfolio considerable. Moreover, we noticed that it was difficult for fund managers to identify acceptable investment proposition within the given timeframe of the fund. As a consequence the investment period and exit (sale of assets) had to be extended.

Another objective of MASSIF is strengthening the financial sector. The objective should be considered in the right context, of course it cannot be expected that the investments of MASSIF will lead to major structural changes in the financial sector in individual countries. However, each investment can lead to important improvements in specific areas. MASSIF indeed strengthened the financial sector by its contribution to establishing innovative PE funds that are still quite rare in many developing countries and provided an important addition to conventional means of finance for

SMEs. It also enables the SMEs to grow and be able to attract loan facilities from commercial banks at a later stage. Moreover, MASSIF's shareholding in MFIs (and consequently board seats) together with the Capacity Development (CD) fund contributed to a large extent in strengthening the supported MFIs. In particular, MASSIF contributed to a better governance structure, IT-systems and improved transparency (client protection principles).

Sustainability

The (financial) sustainability of the investments in MFIs is assessed as being very good. Of course the sustainability of the operations of the MFIs cannot directly be attributed to the investments of MASSIF and should be considered as a contribution to the overall funding of these organisations; in particular in cases where MASSIF co-financed with other Development Finance Institutes, local NGO founding organisations and social investment funds. For Private Equity and Venture Capital funds sustainability is difficult to measure as these funds are all operating in a limited timeframe of about ten years, in which investments as well as exits are to be made. Sustainability is preferably measured at exit of the investment and since the funds in the sample are at different stages only a small number of exits have been made. Some of the fund managers were working on a follow-up fund. However the sample showed that in these cases only few commercial investors were interested to invest and therefore these funds still very much rely on funding from DFIs and IFIs and sometimes donor funds (such as Dutch Good Growth Fund).

Additionality

Additionality is an important criterion for MASSIF in providing equity or loans. Especially in the first years of the evaluation period, MASSIF was able to offer a relatively unique product in the form of local-currency loans. The demand for this product is still high, however MASSIF is no longer unique in offering this product as presently there are hedging possibilities (TCX) for a large number of currencies.

In the microfinance market, the additionality of MASSIF is no longer always obvious in particular in the more mature markets and MFIs. From interviews with market parties we learnt that MASSIF can still play an important role in high risk markets. However, it is important that MASSIF cooperates closely with market parties and NGO-funds to assure additionality. In one of the selected cases we found that the investment could have been made by FMO-A. Liquidity and competition in the microfinance market are high and create an environment where commercial investment funds are willing to consider higher risks and enter into new markets and products. Another important finding was the willingness of some commercial (social) investors to buy parts of the micro finance portfolio of MASSIF. This could be an interesting option to consider and would allow MASSIF to revolve the portfolio even in a faster manner.

The investments in financial intermediaries serving SMEs (banks / PE-funds) were in most cases considered additional. FMO is one of the few institutions (together with some other large DFIs) that have a wide network of PE-funds and banks that provide funding to SMEs. In that respect the additionality of MASSIF is much more obvious.

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Catalytic role

The catalytic role of MASSIF for MFIs is being assessed as positive in general. In some cases the evaluation revealed that DFIs and IFIs are catalysing each other and have a limited focus on mobilising commercial parties. In the case of MASSIF however, this should be considered positive as MASSIF intends to focus on high risk areas and evidently commercial parties are not the first movers in that area. However in some other cases MASSIF succeeded to sell their share to commercial investors.

From the field visits and case studies we found that investments in Private Equity (PE)-funds can have a catalysing role as well. For the investees of the PE-funds it means in many cases that the company's balance sheet has been strengthened, allowing them to (increase) their borrowings from banks. Further we noticed in a single case that at a later stage commercial investors entered the fund. However in a number of cases we noticed that it was difficult to attract commercial investors to participate even in the case of second round funds.

Impact

Although the present evaluation did not have the character of an impact evaluation, the evaluation team found (from the field visits in particular) that MASSIF contributed to a multitude of economic, social, environmental and other effects. Negative effects could hardly be observed, with the exception of one case where existing MFIs lost clientele to a MASSIF client who may have had an undeserved pricing advantage.

MFIs showed a large outreach to micro entrepreneurs and households in rural areas and slums, while the equity funds were instrumental in installing good governance principles in their investees, formulating a new business strategy and introducing social standards. Most widespread was income improvement among recipients of micro credits from the MFIs. These MFIs had also the largest outreach, to a large number of households in rural areas and slums. Employment creation was more evident among the investees of the equity funds.

Social and environmental effects occurred inter alia through the promotion of solar energy and recycling human waste. Furthermore effects were observed on education, housing, health care and others. Although it is impossible to attribute all this to MASSIF, it is safe to state that MASSIF made an important contribution.

1 Introduction

1.1 Background and objectives of the evaluation

The MASSIF fund (no acronym) was created in 2006 as a merger of three existing Dutch government funds: the SME Fund, the Seed Capital Fund and the Balkan Fund (FMO, 2012a). The initial subsidy for MASSIF provided by the Netherlands Ministry of Foreign Affairs as described in the “subsidiebeschikking” (grant decision) of 2006 had a maximum value of EUR 252,391,800.48 for the period between 1st of January 2006 until 31st of December 2010. Later, this subsidy period has been prolonged until the 31st of December 2016. At the end of 2014, the fund’s assets had grown to a value of EUR 388.5 million (FMO, 2015b).

The MASSIF fund is a revolving fund with the aim to build and strengthen the financial sector in developing countries. The revolving character means that the interest revenues from loan products, dividends and provisions related to fund activities, repayments of loans, and revenues and profits from selling equity flow back into the fund so that they can be reinvested (FMO, 2004). A revolving nature implies creating more impact with “limited” government contributions (FMO, 2014).

The objective of MASSIF is “*to contribute through a revolving fund to building and improvement of the financial infrastructure, but not necessarily exclusively, in developing countries at the bottom of the financial market (the end user).The general principle of the revolving fund structure is that returning resources are to be reinvested in MASSIF by FMO”.*

MASSIF aims furthermore to contribute to:
- poverty reduction through creation of employment and income through encouragement and involvement of the local business community;
- financial sector development by offering long-term funding resources that are additional to local and international financing;
- the implementation of good governance principles (corporate governance) at company level;
- positive sustainable economic, environmental and social development.

With respect to broadening and deepening of financial sectors (in favour of SMEs and reaching out to the bottom layers of the population) secondary objectives were formulated for MASSIF. Moreover since 2011 agribusiness is added as special focus area.

The objective of the present evaluation is to understand whether MASSIF in its present form has made a relevant contribution to private sector development and sustainable economic growth. In that respect the evaluation provides insight into:
1. The quality of the investments, loans and guarantees;
2. The contribution of these products to the development of MSMEs;
3. The quality of the management and implementation of MASSIF by FMO.

1.2 Evaluation questions

The main research questions from the Terms of Reference that are answered by this evaluation of the MASSIF fund are the following:

- Have activities and expected results been relevant to the development of the private sector in developing countries and thus to economic growth and hence for poverty reduction and achievement of MDGs?
- Do investments meet the requirements of additionality and catalytic effects?
- How does FMO shape the management of the fund?
- Does MASSIF bring additional value to the product diversity of FMO?

The different evaluation questions that are derived from the above research questions were linked to judgement criteria, performance indicators and sources of information. Combined, the evaluation questions cover all OECD-DAC evaluation criteria (relevance, efficiency, effectiveness, impact and sustainability) and the additional criteria referred to in the ToR (additionality and catalytic role).

1.3 Approach and Methodology

1.3.1 Inception phase

In the inception phase the approach and methodology for this evaluation was finalised. Next to a review of policy documents and a preliminary portfolio analysis, a detailed evaluation framework was designed to measure the effects of MASSIF financing on the level of the client, and to evaluate the fund management by FMO. Also the questionnaires and templates for the in-depth case studies were developed.

1.3.2 Methodology

We have used different methods for information gathering, namely portfolio analysis, interviews, in-depth case studies including field visits, and an online-survey.

Portfolio analysis

To get a clear view on the content of the MASSIF portfolio and the financial performance of the fund, the project team conducted a portfolio analysis. In the portfolio analysis we assessed e.g. the product type, regional spread, sectoral spread and instrument mix. Furthermore, together with FMO we have updated the Goodwell model to gain insight in the financial return of the total portfolio and the financial performance and production of the fund.

Interviews

Policy makers

The Dutch Ministry of Foreign Affairs is the main donor of the MASSIF fund. In order to obtain information on their strategy with MASSIF and the coherence of the MASSIF fund within the broader private sector development programme of the ministry, several interviews have been conducted with ministry staff responsible for the Private Sector Development (PSD) programmes and MASSIF in particular.

FMO staff

Interviews have been held with a large number of FMO employees to get a good understanding of the operations of FMO, developments within the MASSIF portfolio, capacity development activities and impact measurement. Also, the investment officers of the investments subject to in-depth case study have been interviewed based on a structured topic list.

Market parties

There are a large number of parties active in the market of microfinance and SME finance, funded by commercial sources, social investors, or government contributions. MASSIF should provide financing only where other investors are not able to step in. In order to assess the additionality of MASSIF, a number of those market parties have been interviewed, both in the Netherlands as well as in the target countries of MASSIF. Interviews have been conducted as much as possible in person, based on a fixed questionnaire.

In-depth case studies

Sample selection

Given the scope of the evaluation, it was not feasible to make an in-depth study of all MASSIF investments. Therefore, the evaluation team selected a sample of 20 investments taking into account the requirements from the ToR and a good balance between the size of investments, sectors, financing instruments and the use of local currency. Half of those investments were evaluated as a desk study, while the other half was visited during a mission.

The Terms of Reference indicated that the field visits should take place in East Africa and Asia. In order to identify the countries for field visits in these regions, a utility analysis was used, which provided scores per criteria for the eligible countries. The cases for the in-depth desk study were selected randomly.

The total sample of 20 projects mirrored the composition of the portfolio to a large extent. Geographically the sample contained seven projects in Africa, five in Asia, three in Europe & Central Asia, four in Latin America & the Caribbean and one project with global coverage. The sample contained several microfinance institutions, private equity funds, banks, and some other non-bank financial intermediaries. In terms of instruments, a mix of direct equity, funds, mezzanine and loans were sampled.

One additional case study was added to the sample of 20 case studies. This investment is of a recent date (2014) and therefore the full outcomes and impact of this investment cannot be measured. The scores of this case are not presented in the chapters. However, this project gave us more insight into the recent strategy of the Ministry and FMO to focus on the agriculture sector.

Field visits

Field visits have been made to Cambodia (pilot mission), Kenya and Uganda. Each mission lasted two weeks and was conducted by two members of the evaluation team together with a local consultant.

For each of the ten case study projects all available documentation (finance proposals, client credit reviews, documentation on capacity development, etc.) was reviewed and in addition the FMO investment officers were interviewed. During the visit, key staff members of the FMO clients and to the extent possible other stakeholders such as other market parties and donors were interviewed. Besides, interviews were held with a number of end-clients (MSMEs and consumers) of the funding in order to assess the extent to which MASSIF has contributed to their growth, and to get an indication of the indirect impact at societal level.

Clear instructions were provided by the project team to FMO clients regarding the type of end-clients the project team would like to see, i.e. different sizes, different regions, successful and less successful business, etc.

In the case of Kenya and Uganda, the field visits started with a short visit to the Netherlands Embassy and ended with a debriefing at the Embassy.

Desk study

The remaining ten MASSIF interventions were studied in-depth by desk study. Next to a review of available documentation received from FMO (finance proposals, client credit reviews, documentation on capacity development, etc.), telephone interviews have been organised with the headquarters of the FMO clients, where findings from the file review were verified and additional information conform the evaluation matrix retrieved. It should be noted that these case studies are more limited than the evaluation of the interventions that were subject to a field visit.

Scoring

The 20 projects from the sample, both from the field visits and desk study, have been scored on the evaluation criteria relevance, efficiency, effectiveness, impact, sustainability and additionality. The scores were given on a four-point scale: A = good, above expectation; B = satisfactory, according to expectation; C = unsatisfactory, below expectation; and D = poor, far below expectation. Below we provide a short definition per evaluation criteria:

> Development relevance has been defined by the OECD DAC guidelines as “the extent to which the aid activity is suited to the priorities and policies of the target group, recipient and donor”. This includes the way in which the desired/expected outputs, outcomes and impact have been translated into the strategy, policies and investment (criteria) of MASSIF.
>
> Additionality is an important goal and prerequisite for the performance of MASSIF operating as a government fund within FMO and in the global financial market. In the context of DFIs the term refers to the act of providing (financial) services to projects/ sectors/ regions/ countries that the market does not provide or does not provide on an adequate scale or on reasonable terms. In the case of MASSIF additionality means among others that these interventions cannot be provided by FMO-A (from the own balance sheet).
>
> The criterion ‘effectiveness’ relates to the extent to which the objectives of MASSIF were achieved, or are expected to be achieved. In the context of MASSIF investments this mainly refers to (increased) access to finance for the intended end clients: micro-entrepreneurs, SMEs, low- and middle-income households across countries, sectors, financial instruments and investments.
>
> The criterion impact relates to the overall effect of MASSIF on the societies it operates in, in terms of growing MSMEs, poverty reduction, sustainable economic growth and food security.
>
> Efficiency is a measure of how economically resources/inputs (funds, expertise, time, etc.) are converted to results. In the case of MASSIF this refers to the extent to which the fund is managed efficiently by FMO and the extent to which the investees efficiently serve the end-clients.
>
> Sustainability refers to the extent to which the investments are viable and result in positive long term financial and social perspectives of the investments financed by MASSIF.

Survey

As it was not feasible to include all MASSIF interventions in the evaluation, an online questionnaire was used to reach out to a larger sample of FMO clients. Invitations to participate in the online survey have been sent to 114 FMO clients who received financing from the MASSIF fund in the past. Of those 114 potential respondents, 56 (49.1%) have filled out the survey of which 54 respondents (47.4%) completed it until the last page. Measures were taken to maximize the response of the target group. Automatic reminders were sent to the respondents who did not react within 14 days. Also, special reminders were sent to the respondents who only partially filled out the questionnaire, kindly asking them to complete the survey. Of the survey respondents, 59% represented a financial institution or MFI and 34% represented a fund.

More details about the survey response can be found in Annex III.

1.3.3 *Cooperation and Challenges*

The evaluation was carried out by a team of consultants of Ecorys and Carnegie Consult. The main consultants were Hans Slegtenhorst (team leader), Anja Willemsen, Mart Nugteren, Rien Strootman, Susanne Jung and Corine Besseling.
A reference group – consisting of Josien Sluijs, Nico Mensink, Otto Genee, Jeroen Roodenburg (Chairman), Björn Kuil, Frederik Jan van den Bosch; Rosemarijn van der Meij, Bert Richly Brinkenberg and Sandra Louiszoon provided comments and advice on the inception and final report.
The evaluation study greatly benefited from support provided by the MASSIF-team of FMO for making data available and the introduction of the team with the clients of FMO. Thanks are also due to all clients of FMO that were visited and made the arrangements for the field visits.

In conducting the present evaluation, the evaluation team has been confronted with a number of challenges, some of which are outlined below.

The first challenge of the evaluation has been the short timespan for this evaluation. Hereby we express our thanks to the FMO-team assisting us in preparing the field trips and making available all information required to conduct the field trips. All three field trips were well organised by the customers of FMO/MASSIF even though the summer holiday period did cause some constraints.

Another challenge is the representativeness of the sample. It is difficult to judge on the basis of only ten in-depth case studies and ten field visits in three countries to make firm statements.

The evaluation mainly focused on outputs and outcomes to be measured at the level of the financial intermediaries. Impact measurement was not possible as the scope of the evaluation was too limited to include a representative sample of end clients or control groups. End clients were visited during the field visit to get an understanding of the effects of the financing by the financial intermediary or the SME fund, but this led at best to a contribution of these effects to FMO and not attribution. Furthermore, the measurement of the indirect effects on a wider level than the interviewed end clients was difficult. The evaluation team reviewed the evaluations that already took place in order to include the results of these evaluations in the current evaluation. Moreover, we used the social performance data gathered by FMO such as EDIS and quantitative indicators. As indicated by FMO itself, these data have limitations and therefore EDIS has been replaced by SHIFT in 2014.

A last challenge was the fact that three of the investments selected for the countries studies were MASSIF investments in funds with investees in multiple countries, including the countries visited (e.g. Uganda and Kenya). Although we have reviewed the complete files and have had interviews with fund managers and FMO investment officers, during the field visit we could only study one of the investments in-depth. For this reason we have decided to base our case study assessment for two of the investments only on the indirect FMO investments (two MFIs) visited in the country. For the third case, a micro insurance fund, we have decided to make the assessment at the level of the fund because such insurance companies inherently belong to the target group of MASSIF.

1.3.4 Analysis and reporting

All information collected has been extensively discussed, verified and analysed in-depth. The results of the analyses, including the scoring of the in-depth case studies, are summarized in the remainder of this report.

1.4 Structure of the report

The report is structured in line with the OECD/DAC criteria. Chapter 2 presents the findings from the relevance assessment. We continue with additionality in Chapter 3, followed by effectiveness in Chapter 4. In Chapter 5, efficiency is described and analysed, while in Chapter 6, the impact of MASSIF and its investments is discussed. In Chapter 7, the sustainability of MASSIF and its clients is described. In Chapter 8 finally, the main conclusions and recommendations of this synthesis report are presented.

2 Relevance

In this chapter we present the assessment of the relevance of the MASSIF investments based on the evaluation question in the ToR:

> Have activities and expected results been relevant to the development of the private sector in developing countries and thus to economic growth and hence for poverty reduction and achievement of Millennium Development Goal?

In this chapter we will first look at the overall portfolio of MASSIF and the extent to which the portfolio is in line with the criteria of MASSIF. In addition the findings from the case studies will be presented. Coherent with the goals of MASSIF relevance has been considered at two levels:

- strengthening the local financial sector;
- access to finance to MSMEs and consumers at the lower end of the market.

2.1 MASSIF portfolio

As already explained in Chapter 1, MASSIF aims to contribute to the development of the private sector and hence economic growth and poverty reduction through strengthening the local financial sector and by facilitating access to finance to MSMEs and consumers at the lower end of the market. Theoretical and empirical literature confirms that strengthening the local financial sector and reaching out the MSMEs with financial services indeed contributes to the overall goal of economic growth and poverty reduction e.g. ADB (2009)and Jahan and McDonald (2011) argue that next to poverty reduction and acceleration of economic growth, financial development also contributes to more income equality.

A lack of access to working capital and investment is one of the major obstacles to business growth, especially for SMEs in developing countries (ITC, 2015). IFC (2011) mentions that banks targeting SMEs in non-OECD countries reach only 20% of formal micro enterprises and SMEs. In sub-Saharan Africa this is only 5%. Another estimation by IFC (2013) indicates that there are about 360 to 440 million formal and informal MSMEs in developing economies, of which about half is not served or underserved by the formal financial sector.

All in all, conclusions from the literature provide a strong justification for development assistance in general and MASSIF in particular to target financial sector development and thereby reach out to MSMEs.

In the different approach papers 2006-2011[1] and 2012-2015[2] the Ministry of Foreign Affairs provided the limits within which MASSIF has to operate. Based on the analysis of the MASSIF portfolio, we can conclude that MASSIF has consistently operated within the different limits formulated. The table below presents an overview.

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[1] FMO (2004), Plan van Aanpak. MASSIF – Het Financiële Sector Fonds van FMO, d.d. 29-10-2004.

[2] FMO (2012a), Plan van aanpak 2012-2015, MASSIF – Het Financiële Sector Fonds.

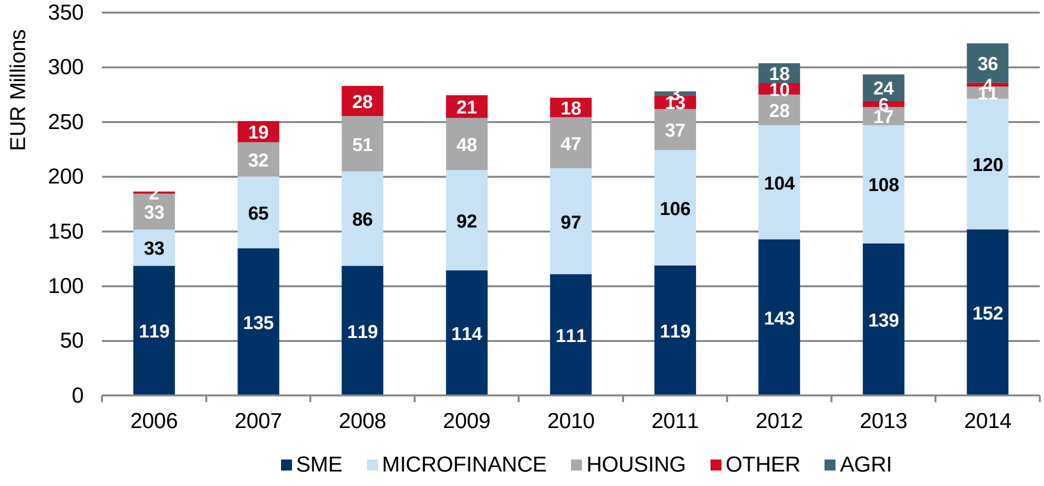
Table 2.1 MASSIF limits compared the MASSIF operations

MASSIF Limits	Approach paper (2006-2011)	Approach paper (2012-2016)	MASSIF operated within limits
Maximum of total portfolio in one debtor	10%	7.5%	√
Maximum of total portfolio in one group	n.a.	10%	√
Maximum of total portfolio in one country and/or currency	25%	20%	√
Maximum of total portfolio in one continent	50%	50%	√
Minimum of total portfolio committed to Africa	30%	30%	√
Maximum of total portfolio invested in investment funds	40%	n.a.	√

2.1.1 Target group

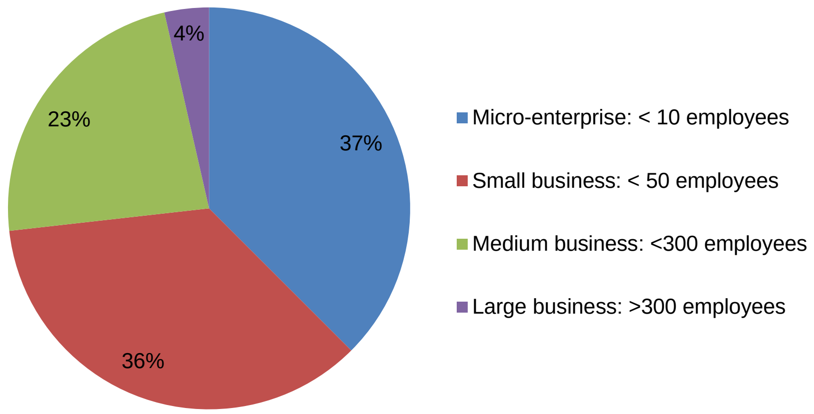
In the monitoring system of FMO five target sectors are identified with regard to the MASSIF portfolio, namely SME finance, microfinance, housing-finance, agri-financing and other These targeted finance sectors are in accordance with the goal of MASSIF, to support local financial intermediaries and institutions that can contribute to MSME development. We observed that within these target sectors housing finance has become less and less important over time. In earlier years “housing finance” was added as focus sector for the FMO-A operations and therefore was added to the focus of MASSIF as well. However after a few years of operations the policy of FMO with respect to “housing” has changed because of disappointing results and new sectors were considered. As of 2012, another important focus sector has been added, namely agribusiness. Additional funds were pledged by the Ministry of Foreign Affairs for agri-financing, however due to budget cuts they were urged to cancel a large part of this fund. Even though this was cancelled, agribusiness remains an important sector for MASSIF.

Figure 2.1 Sector spread



The available portfolio data does not provide an overview of the type of enterprises that are indirectly financed by MASSIF. The figure below shows an overview of the type of clients financed by respondents of the survey among FMO clients. Based on the overview the enterprises which are indirectly financed by FMO are for 73% micro- and small enterprises, whilst 23% are medium enterprises and 4% are large businesses. This overview shows that the FMO activities are in accordance with the MASSIF criteria to a large extent reaching the intended end clients, micro-entrepreneurs and SMEs.

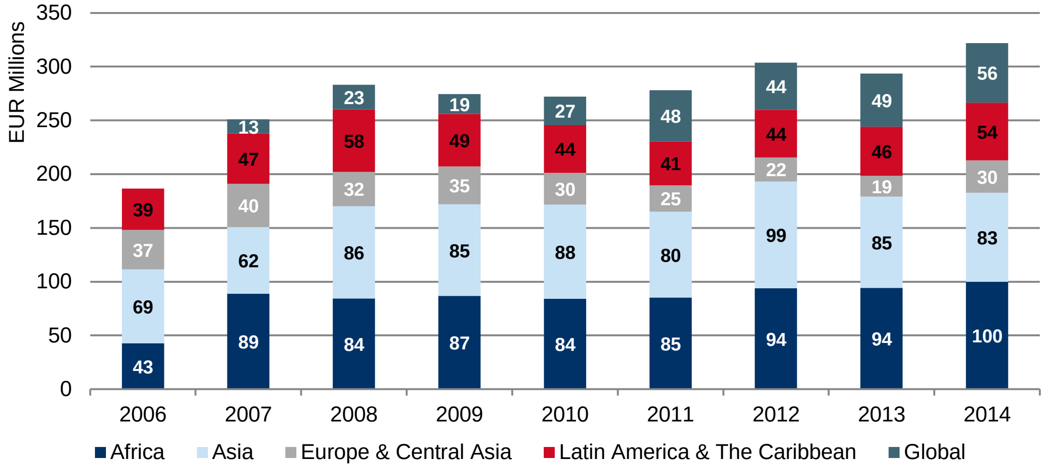
Figure 2.2 Type of client mainly financed by FMO clients (survey response)



2.1.2 Geographical spread of loans and investments

Over the years, MASSIF's portfolio shows great consistency concerning the division between the geographical regions. However, in 2014 there are some interesting movements, as the net portfolio has increased substantially in Europe and Central Asia, and for the first time in ten years the share of the global portfolio in comparison to the total net portfolio has decreased more than 10%. The category global mainly consists out of funds operating in a global context not limited to one continent.

Figure 2.4 Geographical spread



In line with the strategy of MASSIF, investments in Africa have been an important part of the portfolio (on average 30.8% in the period 2006-2014), whilst also many of the supported global clients have a large African share. Although since 2012 the new targets for Africa agreed upon with the Dutch government amount to 45-50% (only for new funds from the government), MASSIF stands out compared to other funds such as ASN NOVIB Microfinance Fund (ANMF), Oikocredit and Triodos Fair Share Fund who have made less investments in Africa with respectively 13% (2015), 14.5% (2013) and 9.3% (2015) of investments. NGO funds have a comparable focus on Africa. Triodos Hivos fund is the one fund that comes close to the MASSIF result with 32% (2013) invested in Africa and Middle East. According to interviews with stakeholders and literature, the microfinance sector in Africa is still in an early stage of development with a limited number of Tier 1 and 2 MFIs.

2.1.3 *Instruments mix*

MASSIF uses different instruments to provide finance. The portfolio consists for a large part of debt, however over the years the share of loans in the portfolio has decreased systematically and the share of direct equity and fund investments has increased significantly (see also figure 3.1 in chapter 3 for an overview of the mix of instruments provided over the years).The fund investments are predominantly equity/mezzanine investments, which are invested in funds which reinvest in MSMEs. We noticed that MASSIF has increasingly provided high risk capital, by investing a large share of the portfolio in a less senior position in the capital structure.

2.1.4 *USD/EUR vs. local currency*

The financial products of MASSIF can be provided in different currencies. In the in-depth case studies, we have seen that local currency loans can be very important for the financial intermediaries in developing and emerging countries to avoid Foreign Exchange (FX) risk. Although more and more commercial parties are willing to provide local currency loans (sometimes hedged by TCX), the availability of local currency finance is in a number of cases still a constraint. According to FMO the need for local currency loans fluctuates with the dollar rate. In a large number of countries the demand for local currency financing is growing. MFIs and local banks prefer lending in local currency as their clients' income is in coming from local currency earnings. Depending on the maturity of the financial markets in the countries and the rating (maturity) of the financial intermediaries the demand for local currency loans is of utmost importance to avoid a mismatch in the balance sheets. Since 2008 the possibility of hedging these currencies was introduced through organisations such as TCX. From that point of view the availability of local currency financing is becoming a less unique selling point for MASSIF. However, the need for local currency loans is still increasing, and in that sense the added value of MASSIF is still there, especially for markets where TCX cannot offer a hedge.

2.2 Relevance of the interventions in the sample

In this section we will look at the individual cases from the sample. The sampled cases provided more insight as to whether MASSIF has been able to select relevant investments in terms of their contribution to the MASSIF objectives. We have given a score to this criterion ranging from A to D, D meaning not at all relevant and A meaning highly relevant.

Table 2.1 Relevance scores

Score	Meaning
A (good, relevance is above expectations);	The investment is expected to strengthen the local financial sector to a large extent and improve access to finance to MSMEs and consumers at the lower end of the market significantly.
B (relevance is satisfactory, according to expectations)	The investment is expected to strengthen the local financial sector and improve access to finance to a MSMEs and consumers at the lower end of the market.
C (relevance is unsatisfactory, below expectations)	The investment is expected to strengthen he local financial sector only to a limited extent or has a limited poverty focus.
D (relevance is poor, far below expectations)	The investment is not expected to strengthen he local financial sector and improve access to finance to MSMEs and consumers at the lower end of the market.

Below we present our findings per sector.

2.2.1 Relevance in relation to the microfinance sector

Table 2.2 Relevance scores for sample investments in the MF sector

	A	B	C	D
MFIs	6	2		
Fund	1			
Other	1			

As shown in the section above MASSIF has a broad portfolio of investments in the MFI sector.

The demand for microfinance is still large, particularly in rural areas. In line with the literature, the interviews and field visits showed that although access to finance for micro - and small entrepreneurs and consumers at the low end is still limited, a large development has taken place in recent years. Availability of funding in the microfinance market has increased significantly. From our practical experience in microfinance we learnt that competition between financers in the microfinance sector increased and as a result commercial funds and social impact funds extended their outreach to less mature MFIs and rural areas. Moreover funding rates for MFIs came down and allowed MFIs to lower the interest rate for clients. For development banks and funds such as MASSIF this development forced them to reach out to less mature MFIs and even NGOs. This development in microfinance results in an environment where the need for intervention from MASSIF is less obvious and even requires a much higher risk perspective in terms of additionality.

However, compared to the criteria of MASSIF these investments are still considered relevant. The selected MASSIF investments take good account of the characteristics of the institutions. All but one of the sampled MFI (direct and indirect) investments were active in rural areas with, in a quarter of the cases, a specific focus on women.

Strengthening the financial sector

The MFIs supported by MASSIF/FMO were expected to contribute considerably to strengthening of the financial sector in the countries involved. In most of the countries, the MFIs are focused on target groups that are currently underserved such as rural micro and small (agricultural) entrepreneurs and clients between the micro- and SME stage i.e. clients that are larger than the average MFI client, however smaller than an average banking client.

In Cambodia it could be argued that the expected influence of the MASSIF investments on the local financial sector is limited at the time of the investment decisions, as the microfinance sector is since a large number of years developing well and rather mature. However, from a MASSIF point of view, the interventions are very important for strengthening certain aspects of the microfinance sector. In particular, the purpose of improving the governance of MFIs, the transparency of the operations and adhering to the requirements of the National Bank of Cambodia are important objectives to underline the relevance of the interventions of DFIs. In that respect the availability of Technical Assistance (TA) among DFIs and IFIs is an important instrument (taking care that it does not distort market conditions). In general it can be said that the investments of FMO/MASSIF have the potential to contribute to strengthening the financial sector by exerting influence through board seats and providing TA to improve the governance structure and transparency and efficiency of operations.

Outreach to MSMEs and consumers

All MFIs target micro entrepreneurs as well as consumers. Some also target SMEs, although the size of the companies are quite small compared to e.g. clients of PE funds and commercial banks. The outreach potential of the different MFIs is expected to be large with some of the larger MFIs in the sample of projects visited serving over 150,000 clients, using mobile banking and agents to cover remote areas and its rural communities.

All MFIs have developed special products to serve different groups of clients such as women group loans and agricultural loans. The group loans are normally provided to poorer people that have no other way to access finance. However, several clients could not always be considered to be the poorest, in some cases the loan was used as additional income used for schooling, transport and consumer needs.

2.2.2 Relevance in relation to the SME finance sector

Table 2.3 Relevance scores for SME finance

	A	B	C	D
PE fund		4		
Banks		2		
Other	1			

MASSIF criteria include a clear focus at SME finance. Access to finance for SMEs is crucial to support their growth and profitability. Investments by MASSIF in commercial banks are relevant in order to reach out to SMEs. Investments in PE-funds are also considered relevant provided that these funds include investments in SMEs on the lower end of the market. Following its criteria, MASSIF is supposed to target PE-funds that operate in a high(er) risk environment and provide in most cases equity or quasi equity products to the SMEs. Providing equity products to SMEs is very relevant to strengthen the companies' balance sheet and allow these companies to grow and obtain additional finance from commercial banks.

All sampled investments in the sector are considered relevant, lower scores have been given based on the more limited outreach or in one case because MASSIF capital increases in later years were considered less relevant given the mature status of the specific bank at that stage.

Strengthening the financial sector

Obviously an equity fund focusing on eight to ten investments with a restricted time horizon cannot be compared in terms of financial sector strengthening to a MFI or bank. The introduction of for example a new PE-fund concept that focuses on smaller corporates, which normally do not fit into the focus of many regular PE-funds, can be considered as a good initiative to broaden the product range of financial intermediaries and in that way strengthening the financial sector. However the overall effects for the local financial sector are considered limited.

In many countries, including Uganda, the group of enterprises that is too large to be served by MFIs, and too small to be served by commercial banks (the “missing middle”) is underserved. MASSIF investments in banks focusing on this specific segment therefore are expected to contribute to strengthening of the financial sector. In addition capacity building support of FMO focused at strengthening the internal organization of the banks including risk management further can result in a strengthened more competitive financial sector.

Outreach to SMEs and the target group

The PE funds intend to focus at small and medium sized companies with average investment between EUR 220,000 and EUR 1.5 million, which is quite small compared to other PE-funds. In that respect the target group very much falls into the investment focus of MASSIF. Attracting funding from private or institutional sources is not or only to a limited extent feasible because of the high risk involved and the absence of a track record of the funds.

Support of FMO MASSIF to the commercial banks was specifically targeted at increasing the SME portfolio, which none case coincided with the mandate of a bank to provide financing to the lower end of the financial market (businesses and consumers).

2.2.3 Relevance in relation to other finance sectors

Table 2.4 Relevance scores for other finance sectors

	A	B	C	D
Housing	2			
insurance		1		

The sample also included two investments in housing finance and one in the insurance sector. Housing was until some years ago one of the focus areas of FMO and in that respect it made sense to include housing in the MASSIF portfolio provided that MASSIF serves financial intermediaries that serve the lower and middle segment of the housing market. The selected intermediaries complied with these principles. Support to housing finance also complied with specific country contexts in the sense that housing finance provided a new product line that is not available yet or supports the introduction of a more efficient system to stimulate the housing and capital market.

The investment in micro insurance is also found to be relevant. The investment is fully in line with MASSIFs objectives and criteria as micro insurance protects low income people and micro businesses from the financial effects of illness, death, property loss and other risks. Micro insurance can alleviate poverty by stabilizing income levels, enabling low income people and vulnerable populations to take the risk of starting a business, allowing entrepreneurs to be riskier and making lenders and financiers more willing to lend to the poor. The supported fund is expected to strengthen the financial market by providing necessary finance to insurers with the capital to develop or enhance their micro insurance portfolio.

3 Additionality

3.1 Introduction

In the ToR the following questions were raised with respect to additionality:

- Does a MASSIF investment have sufficiently higher risk than a ‘normal’ FMO investment?
- To what extent are MASSIF investments additional to the commercial market parties, FMO and other DFIs?
- What other options does the market offer in terms of supply of local currency loans (incl. maturities) to financial institutions focused on the bottom of the market?

According to the evaluation team additionality is one of the most important judgement criteria in the selection process of MASSIF. Investments can be highly relevant, efficient and effective; however, when the investments could have been done by market players or FMO-A (and some other DFIs) MASSIF is not serving the right customers.

Additionality has many definitions in the literature. For the purpose of this evaluation additionality is defined as ’providing financial services that the market does not provide or does not provide on an adequate scale or on reasonable terms’. In the case of MASSIF we define the market as commercial parties including FMO-A and other DFIs. When analysing additionality, the following aspects were taken into consideration:

- profile of the country in terms of risk and development level;
- profile of the customer/project in terms of risk, development phase and type of institution;
- type of instrument and position in the capital structure and criteria (including Capacity Development);
- currency aspects;
- tenor of the instrument;
- financial and non-financial criteria concerning the delivered financing instrument.

All evaluation questions are related to these aspects. The observations on the additionality of the MASSIF operations are based on several sources of information: the survey, the ten in-depth study cases, the ten investments examined during the field trips, interviews with market parties and to some extent the portfolio. It is important to note that the evaluation team considered additionality at the time of investment by MASSIF using the criteria mentioned above. For that purpose the evaluation team reconstructed the investment environment at the time of investment as much as possible based on objective criteria. The team considered, for instance, the availability of local currency funding (local capital market, availability of TCX), the balance sheet, the P&L of the investees, performance indicators (PAR, OSS, FSS, Solvency etc.), the type and tenor of the loans compared to other lenders, the nature of the other shareholders and lenders etc.

3.2 General

When an investment or a loan is provided by MASSIF, it is important that the criteria and in particular the risk profile of the interventions are taken into account. During the evaluation (from interviews and analysis of files) we observed that FMO takes these considerations very seriously and in particular the fund manager of MASSIF plays an important role in that respect. When conducting the evaluation we noticed however that the investment proposals contained little information on why these were MASSIF-investments (instead of FMO-A). Only since 2012 all new MASSIF investments were assessed on the investment criteria in one single document/sheet. The same applies for the minutes of the committee approving the investment proposals. In the minutes of the meetings of this committee not much information was found on the considerations and discussions focusing on the specific aspects on why MASSIF was used.

Findings from interviews with market parties

Both from the field studies as well as interviews with market parties we found that the microfinance market is strongly competitive nowadays. Commercial funds, DFIs, IFIs and social impact investors are very interested to provide funding for MFIs. At the lower end of the market NGOs are still very active. Market parties acknowledged that FMO and DFIs play an important role in restructuring MFIs and prepare these institutions for transferring into commercial banks, deposit taking institutions and institutions supervised mainly by Central banks.

Several market parties indicated that there is a lot of liquidity in the market for MFIs both in equity as well as debt. The value added of MASSIF is questionable in some cases. Even with respect to the less mature MFIs and NGOs market parties indicated that there is a large amount of capital available to cover the funding needs.

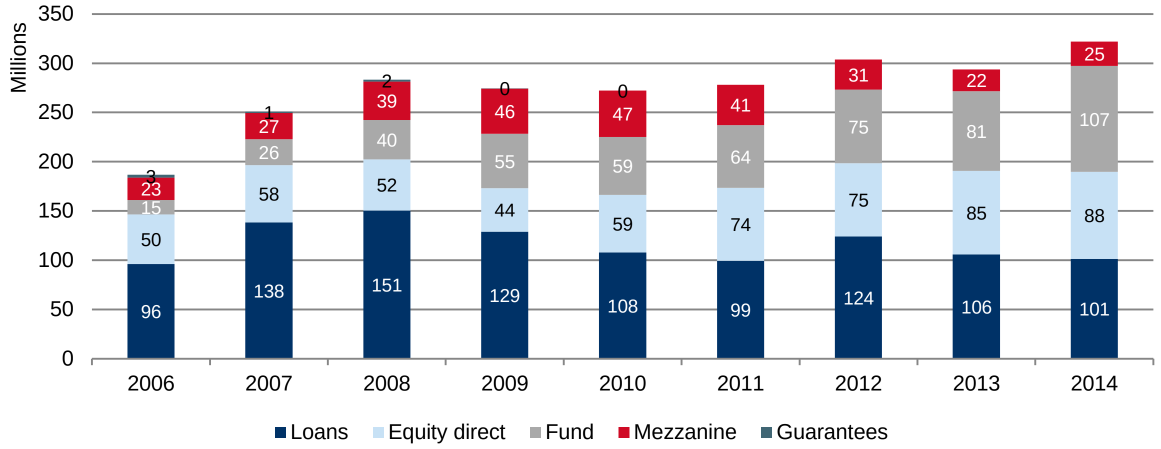
It is acknowledged by parties that DFIs can play an important role, in particular in Africa, to promote microfinance and SME-finance at the lower end of the market. The African microfinance market is less developed compared to Asia or Latin America and in that respect funds like MASSIF can play an important (catalysing) role by providing funding to NGOs and MFIs directly or through intermediary funds.

Some market parties showed interest in acquiring parts of the portfolio of MASSIF. In particular many microfinance investment funds are looking for attractive investments in this market. This interest does not affect the additionality at the time of investments by MASSIF, but demonstrates that the microfinance market is developing into a very competitive market where commercial parties are now willing to consider investments that were not eligible in earlier years. This development could be an interesting opportunity for FMO-A to takeover some investments from MASSIF but also for selling parts of the investments to commercial investors as this allows MASSIF to revolve in an even faster manner and to consider new investments in new products and markets.

3.3 Portfolio

The portfolio analysis provided limited data to determine additionality. In the chapter on “Relevance” we already mentioned that MASSIF has a relative large share of investments in Africa compared to commercial investment funds and has increased the share of equity over the years.

Figure 3.1 Instrument mix of MASSIF



Another indicator that expresses the risk appetite of MASSIF is the type of instruments it uses. Figure 3.1 shows that over the years MASSIF applied higher risk instruments (equity and mezzanine).

However these findings are an indication of additionality but do not necessarily provide hard evidence.. It merely demonstrates the development in risk-taking of the MASSIF-portfolio.

Local currency financing

In the ToR a question was raised with respect to the possibilities of local currency financing. MASSIF is very active in this field. The options for financial intermediaries to borrow in local currency differ per country and very much depend on the strength and development of the local financial market. In principle, banks and MFIs are able to attract money from the local market through saving accounts and deposits. In more developed financial markets parties are able to issue bonds that are attractive instruments for institutional investors. For a number of years there are possibilities to hedge the currency risk (TCX and some others) for lending operations in local currencies. However in the first years of the evaluation period this instrument was hardly or not at all available. Moreover hedging of currencies of emerging markets and developing countries is expensive and in cases therefore not attractive for borrowers. In some countries local currency funding is hardly an issue as the currency is not used and more or less replaced by the US dollar, as in Cambodia.

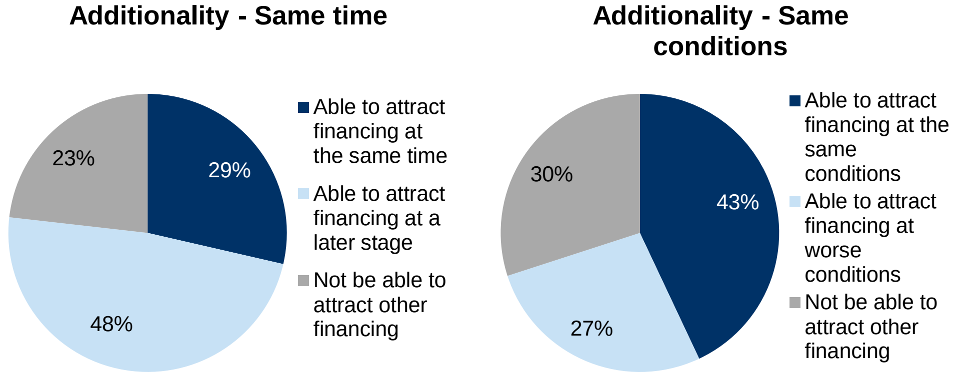
3.4 Survey

In the survey among MASSIF clients the following question was asked:

Had you not received financing from FMO, would you have access to financing against the same conditions at the time of the FMO financing[3]?

[3] The diagrams below reflect answers to two different questions and are not (directly) related to each other.

Figure 3.1



Almost 29% of the clients said they would have been able to attract financing at the same time, while 48.2% indicated to have been able to attract financing but at a later stage and only 23.2% answered to not have been able to attract financing at all. When the question was asked whether they would have been able to attract financing under the same conditions the answer was positive for 43% while 27% said that the conditions would have been worse or in 30% of the cases they said to not have been able to attract financing in the future.

The outcome of the survey differs from the observations of the field trips and the in-depth analysis of the ten desk-study cases. To some extent that can be explained by the fact that many DFIs and IFIs are very interested to invest in new innovative PE/VC funds and line up to offer debt or equity. These PE-funds are far from eligible for commercial parties and therefore they are the playground of donor funds, DFIs and IFIs. During the field visits this explanation was confirmed. In first and second rounds of funds for SME financing, we did not see any commercial investors that participated as sponsors. The same observation applies for financing MFIs. Many DFIs show great interest to provide debt or equity which could explain why the MASSIF clients indicated to be able to attract funding from other sources in the survey.

3.5 In-depth cases

Table 3.3

	A	B	C	D
In-depth cases	4	4	2	-

The scores for additionality in the ten cases that have been studied in-depth are in general positive. Four interventions scored ‘above expectations’ (A), four according to expectations (B) and only two cases scored below expectations (C).

An example of a low scoring case is an intervention in India where MASSIF provided debt and mezzanine to a leasing company that had already received financing from the predecessor of MASSIF in earlier years. The interview with the investee revealed that the company was listed on the stock exchange and was able to source financing from other parties.

A positive example was seen on the Balkans where a MFI was supported by MASSIF with both debt and equity. Another good example of an appropriate MASSIF investment was a local currency loan provided to a commercial bank which allowed the bank to start and grow a portfolio in housing finance. In those days the exposure of EBRD (other financier of the bank) had reached its limit and FMO was the single financer that was able to provide this sort of financing.

In Bolivia FMO was the first to provide equity to an NGO that provided microfinance to the agricultural sector. In principle, providing equity was not feasible as at the time of investment the NGO was not yet transformed into a NBFI. The intervention of MASSIF therefore consisted of a right to buy shares at the moment that the NBFI was established. Moreover the performance of the MFI at the time of investment was still poor. The timing of the investments and the accurate use of instruments explain why these investments were considered additional.

None of the in-depth cases was transferred to FMO-A.

3.6 Field visits

Table 3.4

	A	B	C	D
Field visits	4	5	1	-

The observations during the field visits with respect to the additionality of the investments of MASSIF show positive findings in general. In one case the score was below expectations (C), five cases according to expectations (B) and another four score above expectations (A).

During the field trips the team had the opportunity to discuss the sources and the variety of funding at length and to understand the local (political) environment at the time of investment. In our assessment we focused on objective criteria as much as possible as mentioned in paragraph 3.1.

The motive for the involvement of MASSIF in financing more mature MFIs is not always evident and in one case the investment was considered non-additional. Providing local currency loans was considered additional as at the time of support the possibility of local currency hedging (TCX) was not available. In Cambodia we considered one equity investment as less additional, because at the time of investment the MFI had already been showing an excellent performance for a number of years. Other investors including a DFI and an investment fund created by DFIs and IFIs joined as shareholders at the same time.

More in general we noticed that DFIs and IFIs are still very much involved in microfinance in Cambodia and in some cases these institutions take large shares (in one case up to more than 90%) in MFIs.

Cambodia is a special market. In principle the economy is fully dollarized and payments can be made in dollars everywhere in the country. In rural areas of Cambodia however, local currency is still leading and at the border of Thailand lending is even done in Thai baht. Banks and deposit taking MFIs can cover the funding needs (in both local as well as USD currency) to a large extent from deposits and saving accounts. However the larger, fast growing MFIs are still very dependent on funding from the international markets where IFIs, DFIs and in particular FMO-A are still very active.

The investments of MASSIF in funds and financial institutions that provide finance to SMEs are considered very additional. A number of funds and institutions were visited that received finance from MASSIF and subsequently these funds provided innovative high risk investment capital that commercial financers and FMO-A were not able to provide. Although financial markets in Kenya and Cambodia may be more developed, the availability of funds that provide private equity or venture capital in a successful manner is still limited. In the three countries that were visited, the team found that very innovative funds were established that were able to provide equity or quasi equity to smaller SMEs. Examples of interesting and innovative investments are the investment in a private schooling system for people with low and middle incomes and the establishment of a financial institution providing mortgage loans for middle income households. In Kenya, MASSIF invested in a fund that invested small ticket sizes in late start-up to early and mid-stage SMEs including companies in distress. In Uganda MASSIF supported a Dutch microfinance fund that invested in early stage MFIs in Africa. The Ugandan MFI had established a niche in the rural finance market in Western Uganda and aimed to contribute to deepening of financial sector by improving the banking penetration into poor rural areas which other MFIs have not reached. The support was provided through a local currency loan. All these examples confirmed the additionality of the investment of FMO for a number of reasons. Some because of the early stage character, others because of the innovation aspect and the focus on high risk rural areas and small SMEs.

However in one case we found that the investment was less additional. In Kenya, a fund crowded out a commercial investor of an insurance company for the purpose of the shareholder to gain more control over the company.

3.7 Local currency financing (case studies)

The options for funding in local currency in the visited countries differ per country and depend on the maturity of the local financial markets. In Kenya the financial markets are relatively well developed and financial intermediaries have access to a number of funding instruments. These can be saving accounts, deposits and bond issuances (depending on the rating of the intermediary). For commercial banks and more mature MFIs this means that they have access to local currency funding, given the nature of the products mentioned. However less mature MFIs in many cases do not have access to the bond market and are not able to attract sufficient amounts from saving accounts and deposits to cover their liquidity needs. In Uganda, one MFI was not licensed and was therefore unable to attract any deposits. The other MFI visited was licensed only recently (November 2014) and therefore still relied on DFIs and social investor capital. Moreover it is important to know that hedging of local currency (outside MASSIF) was only possible at a larger scale since 2008 when TCX was founded.

4 Effectiveness

4.1 Introduction

The Terms of Reference for this assignment raised the following questions (1.2, 1.5, 2.2) pertaining to effectiveness:

- ***What categories of (micro) financial institutions has FMO reached directly by MASSIF investments? Tier 1, 2, 3?***
- ***Have the intended end users actually been reached: micro-entrepreneurs, SMEs, low- and middle-income households?***
- ***To what extent has MASSIF had a catalytic effect for FMO and other investors?***

Effectiveness is measured as the extent to which MASSIF was successful in reaching its objectives and goals. We make a distinction between strengthening the (local) financial sector and reaching out to micro-entrepreneurs and SMEs in this regard. Next to these two indicators, the financial performance of the investee is taken into account, as we do not consider an investee effective that performs in a loss-making way. Furthermore, the catalytic role of MASSIF is included in the total score. The catalytic role is described in section 4.5 of this report, and the use of Capacity Development in section 4.6.

Table 4.1 Effectiveness scores

Score	Meaning
A (good, relevance is above expectations);	The investment is profit making and strengthening the local financial sector to a large extent and improving access to finance to MSMEs and consumers at the lower end of the market significantly. Furthermore MASSIF played a significant catalytic role towards other (commercial) investors).
B (relevance is satisfactory, according to expectations)	The investment is profit making, strengthening the local financial sector and improving access to finance to a MSMEs and consumers at the lower end of the market. Furthermore MASSIF played a catalytic role towards other (commercial) investors.
C (relevance is unsatisfactory, below expectations)	The investment is strengthening the local financial sector only to a limited extent, or has a limited poverty focus, or has not been profit-making.
D (relevance is poor, far below expectations)	The investment is not strengthening the local financial sector and improving access to finance to MSMEs and consumers at the lower end of the market, while being loss-making.

In the table below, the assigned scores are presented:

Table 4.2 Overview of effectiveness scores from evaluation sample

Sample	A	B	C	D
Microfinance	3	6	1	0
SME finance	0	3	3	0
Other	0	2	0	1

4.2 Reaching the intended end-users

4.2.1 Microfinance

In the sample the evaluation team assessed eight MFIs that were directly or indirectly financed by MASSIF. The size of the MFIs in the sample varied, whereby one young MFI only had one branch and two selling outlets, while the biggest MFI in the sample has 127 branches. Three of the MFIs in the sample can be classified as tier-1 MFIs, three as tier-2 and finally two can be classified as between tier-2 and tier-3 MFIs (non-licensed).

The MFIs in the sample serve a large group of clients. Four MFIs in the sample have a majority of rural clients, three serve both rural and urban clients and only one MFI focuses fully on urban clients. This MFI however serves a group that is currently not served by either banks or most other MFIs (the “missing middle”). The funding from MASSIF has contributed to an increased availability of finance for the target group and in some cases supported the establishment of the MFI, as a few MFIs were relatively greenfield at the time MASSIF invested.

MFIs are able to serve households and entrepreneurs with a low or average income, but reaching out to the poorest people is also a challenge for MFIs as this group does not possess the required collateral. In cases this group is reached through group lending (solidarity loans) that do not require collateral. However the size of these sort of loans is quite small (max USD 350). One MFI in the sample was able to reach out to the poorest people in a rural region of Uganda. This group was not served by other MFIs and the visited MFI was able to reach the target group by offering group loans.

Although a number of clients visited indicated that they changed from one to the other MFI, the majority of the clients stayed with the same MFI for a number of years and received a number of repeat loans. In particular the very personal and trusted relation with the credit officer was the main reason for continuing the relationship. Naturally, the credit history built with an MFI helps in reducing the interest rates, as MFIs have information on their clients that other MFIs do not have. In one case, the compulsory savings product that was introduced to the loan products concerned clients and made them willing to consider changing MFIs.

The MFI-fund in the sample provided local-currency loan facilities to 45 MFIs in 13 different countries in South- and – Central-America. The “other” investee relates to a NBFI that facilitates securitizations for other NBFIs and MFIs, whereby the total number of clients amounts to 52. A number of these clients is of such a small size that MASSIF would not have been able to reach them directly.

4.2.2 SMEs

The investments made in funds (PE or VC) have a very different outreach than the investments in banks (or MFIs as indicated in the previous section). Naturally, this is because of the client base of both types of institutions. Contrary to banks which serve a large client base with loans, PE/VC funds focus on 10-20 investments that receive equity and management support.

The two banks in the sample received a lower score for effectiveness as their target client group changed during the evaluation period. At the time MASSIF approved the investment, the focus of the banks was on providing access to finance for SMEs, however in both cases the target group shifted to larger SMEs and even corporates later on. The beneficiaries of the banks therefore did no longer fully meet the MASSIF criteria.

Four PE-funds were included in the sample, whereby only three received a score as one fund only recently commenced operations (two years after the investment approval). The other three funds are active in providing equity[4] to SMEs in Africa and Asia. Especially funds that started in the last few years appeared to have difficulty to find suitable SMEs to invest in.

The other investment relates to a leasing Non-Banking Financial Institution (NBFI) that has 56 branches. The client group served by the NFBI fully fits into the MASSIF criteria as it solely focuses on SMEs and micro-entrepreneurs.

4.2.3 Other

The first client categorized as other is a bank with a focus on housing finance. The intended users were reached during the evaluation period and currently the bank has a market share of around 50% of the housing sector in the country.

The second client is a fund that focuses on micro-insurance. The fund has invested in eight insurance companies and exited two already. As these insurance companies have shifted their focus more to micro-insurance using MASSIF-funds, the target group fits into the MASSIF criteria. The financial performance of the fund is good so far.

The final investee in this last category is a NBFI focusing on the creation of a Collateralized Debt Obligation (CDO)[5]-system in the housing market in a developing country. The performance of the NBFI has been very disappointing and it can be concluded that the model that works well in Western markets is not suitable for a developing country, while also the credit crunch played an important role. As the company has been loss-making for several years, an exit is currently sought.

4.3 Strengthening the (local) financial sector

4.3.1 Microfinance

MASSIF has contributed with many others (DFIs, IFIs as well as private and social investors) to the present strength of the microfinance sector. Investments made by MASSIF enabled MFIs to grow and reach out to consumers and businesses with their financial services (i.e. increased finance for the target group).

For a number of MFIs, the financial sector was also strengthened by introducing improved corporate governance or environmental standards, often funded through capacity development (see section 4.6 and chapter 6). Finally, new products were introduced in the financial sector in the three visited countries, such as mobile banking, micro insurance and special purpose loans such as sanitation loans.

[4] One fund also provides mezzanine.
[5] A structured financial product that pools together cash-flow generating assets and repackages this asset pool into tranches that can be sold to investors.

4.3.2 SMEs

The effects of an investment in a fund in terms of financial sector strengthening might seem relatively low as only a few SMEs are reached. However, especially in the period before 2010, the PE-sector in most developing countries was still small, and investments made by MASSIF and other DFIs helped developing the sector (both in terms of a demonstration effect as well as help shaping up the legal environment). Furthermore, funds introduced new instruments such as equity and mezzanine to SMEs, which did not have access to these products before.

Investing in banks that (at the time of investment) showed a willingness to change their strategy to the SME sector is a more obvious way of strengthening the financial sector. However, as described above, when profitability is lower than expected and banks refocus on larger SMEs and corporates again, the ultimate effect on the financial sector is modest at best.

4.3.3 Other

The sample contained two examples of the way MASSIF supported otherwise the financial sector In one case this was done by supporting a bank that shifted its focus to housing in an underdeveloped market. The second case relates to the micro-insurance fund that has created a new category of (micro-) insurance products in the markets it operates in.

4.4 Financial performance of the investees

4.4.1 Microfinance

The financial performance of the MFIs was classified as good in general, while in Cambodia the financial performance could even be classified as excellent. NPLs of all MFIs were good, however some MFIs have had some troubling years during the evaluation period. The main causes of these financial difficulties have been:

- political unrest causing economic instability and making lending operations virtually impossible;

the longer than expected process of becoming a licensed MFI

4.4.2 SMEs

Based on the sample of 20 cases, it appears that the SME sector is the most demanding in terms of profitability. For the banks that focused on SMEs, profitability lagged behind expectations, until the focus was again on larger SMEs and corporates.

For the equity-funds, a real assessment of the profitability can only be made at the closure of the fund. Once all companies in the portfolio are exited (sold) (or eventually dismantled/transferred), a definite judgement can be made whether the fund was successful in financial terms. As the funds in the sample focused on either (potentially) early stage fast-growing companies or companies in a turnaround situation, it is very difficult to assess whether the projections that were initially made will be achieved. Typically, one or two cases will be outperforming the portfolio and should compensate for the losses made elsewhere in the portfolio. However, in case these successes are not materialized, the fund might turn out to be loss-making at the end. We note that the current fair value assessments made by the fund managers show that all the funds still have the potential to be profitable. However from a commercial investor perspective these funds are not meeting the requirements with respect to minimum returns, track record and experience of fund managers.

The financial performance of the leasing NFBI was relatively good as the company posted (small) profits over the years.

4.5 Catalysing role

The catalytic role of MASSIF is defined as the additional finance or investment capital that a beneficiary of MASSIF was able to attract after (or eventually at the time time) the investment made by MASSIF. First we will describe the catalytic role of MASSIF with regard to the microfinance and SME focused beneficiaries. Secondly, the transfers to FMO-A and co-investments with FMO-A are discussed.

The vast majority (90%) of the respondents of the survey among all clients of MASSIF (excluding clients included in the sample) indicated that MASSIF played a catalytic role. 43% of these respondents indicated that they were able to attract additional funding at the same time that MASSIF made the investment. Of the respondents 48% were able to attract additional funding at a later stage, while 9% of the respondents have (so far) been unable to attract additional funding.

4.5.1 Microfinance

In six out of eight MFIs from the sample, equity was provided (sometimes in combination with debt), while in two cases (only) debt was provided.

In the cases where MASSIF acts as shareholder, the debt provided by other financiers (after the MASSIF investment) can at least partly be attributed to MASSIF as a catalyser. However, a differentiation can be made between three types of investors:

Table 4.3 Categorisation of investors that MASSIF catalysed

Type	Comment
Other DFI's / IFI's	In most cases, other DFIs and IFIs became lender or shareholder after MASSIF. Although this clearly is a catalysing role, the type of financing catalysed is not commercial.
Social investors, PE-funds and debt funds	In many cases also social investors and (equity or debt) funds stepped in after MASSIF. Here a clear distinction should be made between parties mainly funded by DFIs and IFIs and parties funded by individuals and investors.
Commercial parties	In a few cases, commercial funding was attracted after a few years of MASSIF financing. This is the perfect scenario, whereby the role of MASSIF leads to the market taking over[6].

With regard to the fund and the other investment targeting MFIs, we note that the catalysing role was limited. The fund established a second (follow-up) fund with exactly the same shareholders, and regarding the securitization NBFI we note that only investors in senior investment notes can (partly) be attributed to MASSIF.

6 One could note however, that in case commercial parties fully take over the role of MASSIF, the catalyzing role is perfect, transfer however the additionality of MASSIF becomes lower.

4.5.2 SMEs

With regard to the four PE-funds in the sample it is difficult to establish a catalytic role at the level of the fund. Usually, the life of the fund starts with a capital round, where interested investors (i.e. MASSIF) can make commitments to invest for a period of ten years. During these ten years, the first five years are usually used to identify suitable SMEs and provide equity or quasi equity capital. The next five (to seven) years are used to realise exits on the investments made. As there is usually only one moment of investing, a catalysing role at the fund level is difficult to realise after the investment period is closed. On the other hand, at one occasion the fund manager indicated that the commitment of MASSIF was crucial for attracting other funding (within the same investment period). In case a second fund (follow-up fund) becomes operational after a successful first fund involving (more) commercial investors this can be (partly) attributed to the initial investment MASSIF made. This was however not (yet) the case for any of the funds in the sample.

Another way for PE-funds to catalyse other financiers is at the level of the investees. After a fund makes an investment, other financing (from for example banks) can often be obtained after the strengthening of the balance sheet by the PE-fund. In case of a number of portfolio clients of PE-funds visited, the evaluation team identified this catalytic role.

With regard to the two banks in the portfolio, other investors (DFIs and commercial) stepped in after MASSIF invested. However, in these specific cases it could be questioned whether this catalytic role should be regarded as a positive one as the focus of these banks was shifted from SMEs to large corporates. As the risk profile of these banks became more attractive to other financiers, a catalytic role was realized, however at the expense of the original strategy of the bank.

After MASSIF invested in a leasing NBFI, other DFIs/IFIs (amongst which FMO-A) provided additional capital to the company, as well as a large commercial PE-fund.

4.5.3 Transfers to FMO-A / Co-investments FMO-A

During the evaluation period transfers have taken place between the MASSIF fund and FMO-A primarily driven by the need for liquidity of MASSIF[7]. The following types of clients qualify for transfer to FMO-A according to the procedure for transfer of projects from MASSIF to FMO-A:

- Clients who already received funding (senior loans) from FMO-A;
- Clients that have strong international financial institution as new shareholder; and
- In case of local currency loans, an FX hedge should be available.

A transfer will take place based on a client credit review or on a recent finance proposal. In case of a transfer to FMO-A the fund manager is representing the selling party. No yearly review takes place to check which investments might quality for FMO-A, and the process of an eventual transfer is now initialised by the investment officers. As can be seen in the table below the number of transfers to FMO-A has decreased significantly, no transfers took place in 2010, 2011 and 2012. The reasons according to the Goodwell report are:

1. It is not easy to make a transfer
4. There was no cash urgency;
5. The process is cumbersome and added value to the client zero or sometimes negative; and
6. There are no requests or contractual obligations to do so.

[7] MASSIF review conducted by Goodwell, 2012.

The team does not fully agree with this analysis. Transferring equity from MASSIF towards FMO-A is an internal affair. The shares are held in the name of FMO and not MASSIF and therefore the transfer is not visible for the client. Even though we understand that valuation is complex, this alone should not keep investments from transferring to FMO-A.

The following transfers have taken place in the evaluation period:

Table 4.4 Transfers to FMO-A

Transfers	2006	2007	2008	2009	2010	2011	2012	2013	2014
Direct Equity	1	1	-	2	-	-	-	-	2
Equity – funds	-	-	-	-	-	-	-	-	-
Mezzanine	-	-	-	-	-	-	-	-	-
Debt	-	1	6	1	-	-	-		
Amount (book value time of sale) x 1000 EUR	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Direct Equity	746	2,569	-	12,214	-	-	-	-	1,732
Equity – funds	-	-	-	-	-	-	-	-	-
Mezzanine	-	-	-	-	-	-	-	-	-
Debt	-	1,437	8,648	4,320	-	-	-	-	-

Next to transfers to FMO-A, MASSIF has also sold some investments to external parties. As can be seen in the table below direct equity is best fit for sale. During 2006 – 2014 27 investments are sold to commercial parties.

Table 4.5

Sales to external parties	2006	2007	2008	2009	2010	2011	2012	2013	2014
Direct Equity	-	5	2	1	4	1	3	4	6
Equity – funds	-	-	-	-	-	-	1	-	-
Mezzanine	-	-	-	-	-	-	-	-	-
Debt	-	-	-	-	-	-	-		
Amount (book value time of sale) x 1000 EUR	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Direct Equity	-	7,305	1,486	1,042	858	57	4,919	1,731	9,001
Equity – funds	-	-	-	-	-	-	2,613	-	-
Mezzanine	-	-	-	-	-	-	-	-	-
Debt	-	-	-	-	-	-	-	-	-

Moreover MASSIF often shares clients with FMO-A to use the MASSIF fund efficiently. MASSIF takes a higher product risk in comparison to FMO-A (equity vs debt) or invests in the client at an earlier stage. Please find below an overview of the co-investments in the evaluation period.

Table 4.6 Co-investment FMO-A

Portfolio Co-investments (x EUR million)	2006	2007	2008	2009	2010	2011	2012	2013	2014
MASSIF	68	99	74	71	69	49	38	43	46
FMO-A	104	155	186	169	184	158	128	163	222
% of co-investments	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
MASSIF	35%	40%	25%	24%	23%	16%	11%	13%	13%
FMO-A	n.a.	n.a.	7%	6%	4%	4%	3%	4%	4%

As can be seen in the table above the percentage of co-investments decreased significantly throughout the years, whereas in 2006 the proportion of shared clients in the MASSIF portfolio was 35%, this share has now decreased to 13%. According to FMO the reason could be that the risk profile of MASSIF investments has increased over the years and as a result does not easily match with FMO-A investments. As no policy documents were found concerning co-investments with FMO-A it is not entirely clear to the evaluation team what has caused the decrease. A reason could possibly be that the minimal size of FMO-A investments increased during the evaluation period, thereby shifting away from the MASSIF target group.

Next to co-investments there is also the possibility of FMO-A refinancing debt which was first provided by the MASSIF fund or to step into a second fund after MASSIF invested in the first fund. This was the case for one of the studied investments in which MASSIF financed a first time micro insurance fund, and FMO-A stepped into the second micro insurance fund of the same fund manager.

During the field visit in Cambodia, it was found that two investments in MFIs were sold at a later stage. In one case the shareholding was transferred to FMO-A while in the other case the investment was acquired by a foreign investor. The investment in the PE-fund in Cambodia attracted that much interest among DFIs, IFIs and donor funds that a next fund is launched where FMO-A stepped in (together with DGGF and other DFIs). In Kenya and Uganda no transfers to FMO-A were realised, however in one case FMO-A stepped in a follow-up fund.

4.6 Capacity development

Until 2011, FMO received separate funds that could be used to provide capacity development to investees. This “CD program” was terminated in 2011 and the ministry of Foreign Affairs made a new capital contribution of EUR 15 million for CD purposes to MASSIF in 2012.

In a number of cases FMO provided capacity development next to equity or debt. Often, this product was well appreciated by the beneficiary and it was offered after the investment/ finance product. A number of clients during the field visits however indicated that the CD was one of the main reasons to choose for FMO/MASSIF as investor / debt provider. In our opinion, this role of CD hampers the additionality of MASSIF, as other (commercial) market parties are not able to offer such (partly donor funded) technical assistance. Of course CD is an important asset of MASSIF to assist investees in their development; however one should avoid circumstances where this product may create a non level playing field with commercial investors that are willing to fund the same customers. This observation has a broader dimension as many IFIs and DFIs have donor funds available to provide TA to their customers.

4.6.1 MFIs

An important additional role that FMO/MASSIF together with other DFIs has played is strengthening the governance structure of the institutions by taking board seats, increasing the transparency of the operations, improving the qualifications of the organisation and personnel, and the introduction of client protection principles or a new MIS-system, often by using CD. For that purpose, FMO contributed to TA projects which were partly funded by FMO's CD programme. CD partially financed these services (ranging from 1/3 up to half op the budget). For all CD projects, MFIs paid the remaining part of the budget from own resources. The contribution of CD/MASSIF should be put in a wider context of interventions by DFIs and their contribution through technical assistance, board seats and shareholder supervision, that are not of a financial nature.

Seven out of eight MFIs in the sample financed through MASSIF received CD from FMO. The last MFI was financed indirectly through a fund and did not receive TA via FMO. In one case, the CD was regarded as negative by the beneficiary. In this case the MFI perceived the CD as being imposed. In another case the TA was of such magnitude, that other (commercial) financiers that were unable to provide such TA package were also unable to participate in the investment phase, which caused a crowding out other investors.

In general however, TA was well received by the MFIs and the achieved results with regard to corporate governance and/or CPP were appreciated. Finally, the contribution from DFIs was not always found to be vital to realise the improvements. Some MFIs would have been able to fund the TA themselves through profits, although one could question whether the investment in TA would have been made by the MFI itself.

4.6.2 SMEs

Two of the four funds received TA funds from FMO. The funds were used for strengthening the investee companies and to assist the fund manager to develop its securitization fund. TA funds were also offered to a third fund but the fund manager decided not to accept the offer as the support was not considered necessary. The fourth fund did not receive TA funds from FMO.

Both banks in the sample received TA funding. One bank used this support for management training and ALM-training[8]. The other bank used it to improve its corporate governance and to cover the expenses associated with the board seat of FMO (flight tickets etc.).

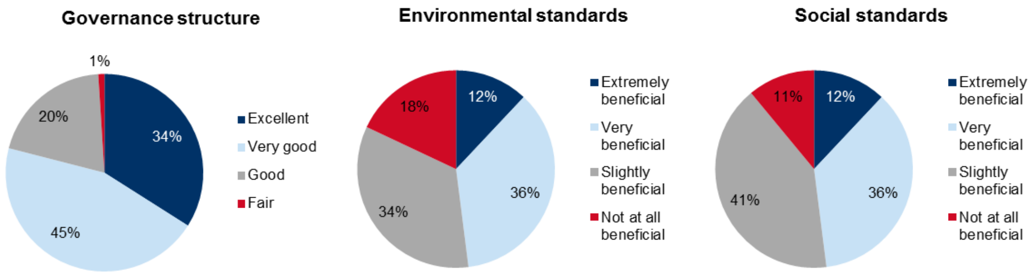
The NBFI leasing company did not receive technical assistance.

4.6.3 Survey results

The survey included three questions related to the contribution MASSIF has made with regards to the governance structure, the environmental standards and the social standards. The graphs below summarize the answers to these questions, showing that beneficiaries specifically appreciated the CD related to governance. Environmental and social CD also scored positively in general, however a number of the respondents indicated that they had not benefited at all from the CD.

[8] Asset and Liability Management.

Figure 4.1


Governance structure
1%
20%
34%
45%
Excellent
Very good
Good
Fair
Environmental standards
18%
12%
36%
34%
Extremely beneficial
Very beneficial
Slightly beneficial
Not at all beneficial
Social standards
11%
12%
36%
41%
Extremely beneficial
Very beneficial
Slightly beneficial
Not at all beneficial

5 Efficiency

In this chapter on "efficiency" the following evaluation questions are answered:

- How does FMO shape the management of the fund?
- Is this administration efficient?

In the different sections we will discuss the following subjects: management of the investments, governance, administrative and reporting aspects and overview of cost, income and efforts.

The scoring of efficiency comprises of the following elements: (1) allocated resources for complying with FMO requirements (2) FMO requirements versus requirements of other financiers and (3) a cost comparison with cost of similar organisations or other references.

Table 5.1 Efficiency scores

Score	Meaning
A (good, efficiency is above expectations);	The allocated resources for compliance with FMO requirements are limited and the investment processes and reporting process are exceeding expectations.
B (relevance is efficiency, according to expectations)	The allocated resources for compliance with FMO requirements are reasonable and the investment processes and reporting processes are good.
C (efficiency is unsatisfactory, below expectations)	The allocated resources for compliance with FMO requirements are high and investment processes and reporting are inefficient.
D (efficiency is poor, far below expectations)	The investment process is inefficient and the investment failed.

5.1 Management of the investments

Investment process

The MASSIF fund is fully embedded in the FMO organization, this means that the same processes apply to both FMO-A and MASSIF investments. Internal documents describe the MASSIF specific investment criteria. MASSIF supports financial intermediaries with equity and debt of which the risks are considered to be too high for FMO-A. These risks can arise due to, for example:

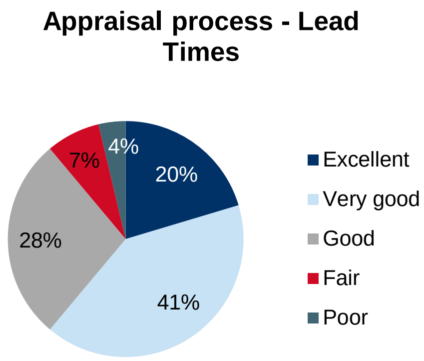
- politically and/or economically unstable environments;
- new market entries and/or new product launches;
- markets with limited exit opportunities (in case of equity);
- start-up nature of intermediaries, or intermediaries with limited track record;
- the legal transition or turn around phases that financial intermediaries are going through.[9]

Furthermore, specific fund limits apply to MASSIF financing and its products (see also section 2.1) such as country limits, local currency limits and single client exposure limits. Also a separate country list is composed for MASSIF by the Ministry of Foreign Affairs (which is the same as the DGGF country list). This list provides the eligible countries for investment of the MASSIF fund.

9 MASSIF investment criteria revision 2014.

The investment process of MASSIF is similar to the FMO-A process with the exception that the fund manager of MASSIF plays an important role by verifying that the proposed investment are in line with the MASSIF objectives. We consider this to be an efficient process.

The survey conducted among MASSIF clients also included a question on the investment process Over 89% of the respondents valued the appraisal process in terms of lead times as good to excellent. Only 11% felt that the lead times were too long. Recommendations of customers included suggestions to: “increase speed” “shorten lead times in approval process”, however it was also acknowledged that customers were well informed of the required lead times beforehand.



Monitoring process

Investment officers (IOs) have the primary responsibility for the investments of both MASSIF as well as other investments. After disbursement, FMO monitors its investments through a variety of methods. First of all, the IOs receive quarterly financial reports and there is regular contact between the IO and the client. Secondly, the investment officer will meet the client in person once or twice a year. Each year the investment officer prepares a client credit review in which the status of the investment and the potential risks are updated. Since 2010, quantitative indicators are requested from each client once a year. Depending on the risk profile of the investment, based on this review it can be decided to transfer the investment to the special operations department (in case of severe underperformance) or sell to an external third party (in case of an improved of the risk profile). Based on the cases studied the evaluation team found that the special operation department is used adequately, underperforming investments are transferred to special operations in time and receive the attention they need.

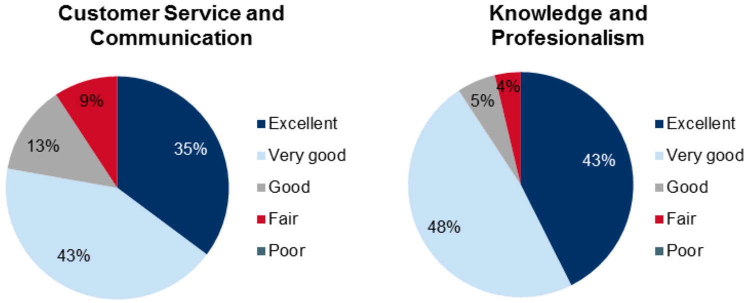
The role of FMO towards their clients depends amongst others on the: (1) type of investment (equity versus debt), (2) the presence of FMO or a FMO representative in the board and (3) cooperation with other DFI’s. In particular FMO enjoys a strong influential position as a shareholder:

1. Investing in equity provides FMO with more authority and influence leading to a more active and strategic role towards the client (shareholder and sometimes board seat);
2. When FMO has a board seat, they are directly involved in decision making and close monitoring of the investment;
3. When FMO teams up with DFIs or other investors and share a board seat, it can be decided that one DFI takes the lead in monitoring and advising the client.

Customer service

As can be seen in the graphs with the survey results below the communication and customer services are received positively with 91% of the respondents giving either a good or excellent score. Moreover the knowledge and professionalism of FMO is perceived by the vast majority (96%) good, very good or excellent. This feedback is also in line with the feedback from the 20 institutions in the sample, which valued the service of FMO as good and appreciated their knowledge and professionalism. FMO is frequently mentioned as the best DFI in professionalism, flexibility and willingness to take risks. However, a comment that was frequently heard during the field visits was that the frequent personnel changes within FMO led to leakage of knowledge on the side of FMO and made it difficult to build a relationship as understanding of the investment got lost.

Figure 5.1



Please find in the box below some comments given by the client of FMO in the survey.

"We have found FMO best in class of all the DFI's we have dealt with."

-

"Address issues with equity investment into financial institutions. The banking market will sorely miss FMO's leadership. Increase time 'in the field'."

-

"FMO has been a part of building some highly innovative and impactful businesses in India. An assessment of what worked and what didn't in its long and illustrious journey will hopefully lead it to continue supporting worthy causes and companies. We have valued our association with FMO for the values it stands for and its work and hope that it continues."

-

"The services offered by the personnel of FMO in all aspects are very much appreciated. Services provided at stages of negotiation of new facilities as well as technical support given are very much valued."

-

"Perhaps FMO could consider provision of management services to assist businesses that are scaling up operations under their Capacity Development and Training arm."

Efficiency in the sample

Next to the efficiency of FMO, the efficiency of the investments in the sample were also researched. The efficiency of the following categories will be discussed: Microfinance, SME and other. The table below shows the scoring of the 20 investments in the sample. 17 investments scored above expectations or in line with expectations. These investments had experienced a good investment process, an open communication with FMO and good reporting and governance. Only two investments scored below expectation, both investments experienced poor governance which led to poor performance. Please find an overview of the efficiency score of the sample below:

Table 5.1

	A	B	C	D
Bank / MFI	6	3	1	-
PE-fund	2	3	-	-
NBFI	1	2	-	1

A-good; above expectation; B-satisfactory- according to expectation; C-unsatisfactory- below expectation; D- poor- far below expectation.

Microfinance
The sample included ten MFIs directly or indirectly financed by MASSIF. In general the efficiency of the MFIs is assessed positively. Most of the MFIs were able to provide financing to their clients at affordable pricing. The financing process was usually quick. Despite of the financial crises the larger part of the MFI's was able to keep up their portfolio quality and maintain low PAR values. One of the MFIs however, struggled as fraud was discovered and restructuring had to take place before returning to acceptable levels of operational and financial efficiency.

SME
In the sample seven investments had a focus on SME of which three are investments in funds. All funds were first-time funds with limited fund management experience. Nevertheless in terms of deploying their capital in the investment phase they were well on track or had deployed all their capital. Only one of the funds was in the exit phase, but struggling to find exits. The other four investments were financial intermediaries, such as banks or leasing companies, for which the efficiency was reduced because of different reasons: two financial intermediaries reported a breach of covenants, another investment has not been able to do deals yet, even though they have been operational since 2013 and in the last case the institution had to reorganize and reduce the number of staff.

Other
Although these three investments cannot be mapped (according to the sector focus) towards SME or microfinance, the target group were still SME's or micro entrepreneurs. Two of these investments were highly efficient, due to good operational performance and a clear governance structure. Another was below expectations as the governance structure was not properly put in place.

5.2 Overview of cost, income and efforts

In 2012, Goodwell performed an independent review of the investment portfolio of MASSIF, in which the following issues were analysed: (1) risk and financial return of MASSIF since 2006 and the effectiveness of the current impact measurement system in order to promote catalysing private capital (2) how private funds can be most effectively catalysed by MASSIF and which part of the portfolio can potentially be sold to external private investors or FMO-A (3) how that process could be facilitated and structured going forward.

The current evaluation is based on the Goodwell report and the latest years 2013 and 2014 were added.

Table 5.2 Profit and Loss Statement MASSIF

P&L (x 1000 EUR)	2006	2007	2008	2009	2010	2011	2012	2013	2014
Income loan portfolio	9,664	14,295	21,677	23,106	17,923	14,706	16,703	12,545	12,634
Impairment / value adjustment loan portfolio	2,100		-4,015	-3,909	-4,080	-3,011	2,046	2,875	660
Income equities	3,528	15,028	7,087	6,707	4,087	2,319	12,741	1,819	29,691
Impairment / value adjustment equities	-244	-2,950	-3,131	-3,197	-3,474	-7,408	-2,391	-10,345	-6,125
Dividend, fee and commission income								4,417	3,073
FX results portfolio	-10,531	-8,831	794	-6,476	10,778	-1,644	-6,144	-10,503	18,708
Fee FMO	-7,486	-13,269	-12,678	-9,579	-9,531	-10,508	-12,729	-13,751	-13,914
Grants						-392	-4,914		
Other income / Expenses	1,129	-1,636	-3,613	-407	603	2,642	-1,602	-2	-1
Net profit	**-1,840**	**2,636**	**6,121**	**6,245**	**16,306**	**-3,295**	**3,711**	**-12,945**	**44,728**

The net profit of the MASSIF funds has varied over the last ten years. As can be seen in the table above, the years 2013 and 2014 showed different results. Whereas the fund in 2013 showed a significant loss, 2014 reported the largest net profit in the history of the fund. The 2013 loss was mainly attributable to large impairments on equities, low sales number of equities and negative FX results. In 2014 on the contrary, the fund reached a high positive result by higher equity sales, and a high positive FX result. The FX result fluctuates though the profit and loss statement of MASSIF as it is the policy of MASSIF not to hedge foreign exchange positions (agreement with the Ministry of Foreign Affairs). FMO-A is obliged to hedge foreign exchange exposures, therefore the nature of the MASSIF fund is more risky and therefore volatile. FX results in equity are not shown but incorporated in the value adjustments. The policy of MASSIF not to hedge foreign exchange positions is regarded positively by the evaluation team. As a result of the variety of countries in which MASSIF operates there is a natural hedge. MASSIF was created to accept larger risks than FMO-A and from this viewpoint it is logical that MASSIF itself is willing to operate unhedged, thereby having (large) currency fluctuations in the P&L account.

The annual return on portfolio (see table below) is calculated on the portfolio pre-expenses (calculation being net results + fair value adjustments / portfolio). As can be seen, the return fluctuates just as the profits but is overall positive.

Table 5.3 Return on Portfolio MASSIF

	2006	2007	2008	2009	2010	2011	2012	2013	2014
Return on average net portfolio		0.8%	-0.7%	1.2%	1.6%	-0.5%	0.2%	-0.9%	4.7%

In terms of the internal rate of return, the IRR (the internal rate of return on the portfolio is the "annualized effective compounded return rate") on the total portfolio increased as well as the separate product types. The only exception was the IRR on direct equity, which decreased in case of the internal valuation. The increase in IRR is for a large part caused by the high profit made by MASSIF in 2014.

The 2012 calculations are the IRR calculations numbers from the Goodwell report and represent the return on portfolio over the years 2006-2012. The historical internal rate of return is 6.5% based on external valuation principles, based on the internal valuation policies this amounts to 9.5%. This is before deduction of management fees, after deduction of management fees the IRRs are respectively 1.8% and 5.0%. The external valuation principles calculate direct equity investments based on the investment at cost price minus impairment, unless the investment is listed in an active market for which the price can be easily determined. For fund investments, investments at cost are taken unless the underlying reported value is related to recent statements. The internal valuation principles entail that direct equity and fund investments are not valued at cost, but are based on the reported information of the institution or the underlying fund manager. The internal rate of return for the period 2006-2014 has increased to 7.7% based on external valuation and 11.0% based on internal evaluation, before deduction of management fees. This increase in comparison to the Goodwell report in 2012 is due to the large increase in profit in 2014.

Table 5.4 IRR on portfolio MASSIF

IRR calculation All facilities	2012 Internal*	2014 Internal*	2012 External**	2014 External**
Debt	8.1%	8.9%	8.1%	8.7%
Direct Equity	20.1%	18.6%	9.0%	10.0%
Funds	<0%	6.0%	<0%	2.8%
Total portfolio	9.5%	11.0%	6.5%	7.7%

*Internal valuation: based on fair value. **External valuation: based on cost prince.

The table below shows the number of investments and the development of the portfolio over the years. One thing that stands out is the growth of the committed portfolio of the fund, also the average amount per investment grew significantly. The average increased from around EUR 1 million in 2006 to around EUR 2 million in 2014. This could indicate that FMO invested more with the same resources and therefore shifted focus to larger investments. Moreover, as the size of the portfolio grew so did the provisions and write-offs. The provisions as percentage of the outstanding portfolio grew significantly, this due to the number of investments and the maturation of the investments. The number of write-offs as percentage of the outstanding portfolio is low, which indicates that even though MASSIF has a high risk profile, only a small percentage of the investments failed.

The MASSIF fund is supposed to have a revolving nature. This could be calculated in two ways, including or excluding inflation. In the case of MASSIF, the fund is revolving in either way of calculating. As can be seen in the table below and in the profit and loss statement, MASSIF is revolving. Initially the government pledged EUR 323 million to the MASSIF fund which already led to three times as much commitments.

Table 5.5 Portfolio MASSIF

(x 1000 EUR)	2006	2007	2008	2009	2010	2011	2012	2013	2014
Number of investments outstanding		164	167	161	158	162	159	148	143
Total committed portfolio	268,678	362,288	379,918	394,206	400,766	442,225	435,898	436,484	489,537
Total outstanding gross portfolio	195,094	246,391	296,671	297,494	302,260	313,173	334,667	325,355	355,888
Total net portfolio	186,629	250,846	283,155	274,619	272,130	278,125	303,823	293,510	321,953
Average amount per investment (net)	1,091	1,095	1,114	1,040	1,537	1,487	1,726	1,736	2,077

Table 5.6 Impairments and Write offs MASSIF

(EUR x 1,000)	2006	2007	2008	2009	2010	2011	2012	2013	2014
Number of deals impaired	30	31	38	48	50	53	48	46	41
Value of provision	-8,465	-8,472	-15,012	-21,467	-29,096	-33,780	-29,735	-30,927	-32,009
Provision as percentage of the outstanding portfolio	4.3%	3.4%	5.1%	7.2%	9.6%	10.8%	8.9%	9.5%	9.0%
Number of write offs	8	4	5	0	0	3	8	6	2
Amount of write offs	-2,798	-1,457	-1,003	-	-	-4,900	-3,471	-4,185	-2,498
Write offs as percentage of the outstanding portfolio	1.4%	0.5%	0.3%	-	-	1.6%	1.0%	1.3%	0.7%

* Before deduction of management fee.

5.3 Governance, administrative and reporting aspects

The MASSIF fund originally matured in 2015 but has been extended with one year until 31st of December 2016. FMO has been able to deploy its means and create a revolving fund. The relationship between FMO and the Ministry of Foreign Affairs with respect to MASSIF has been stipulated in the "uitvoeringsovereenkomst", in which the governance, reporting and remuneration is stated. There are half-yearly meetings between FMO and the Ministry of Foreign Affairs where financial and impact aspects are presented to the Ministry of Foreign Affairs. Moreover every five years an external evaluation of the MASSIF fund is performed. Furthermore MASSIF clients are embedded in the internal evaluation framework of FMO.

Incentive structure and management fees

The incentive structure of MASSIF changed from a FTE based model to an investment driven model.

This means that the remuneration model is presently based on a number of portfolio indicators such as number of clients and facilities per fund or product type. These indicators reflect a lighter or heavier workload. When calculating the management fees on the basis of outstanding portfolio the percentage amounts to 3.9% for the period 2006-2014. This calculation is the outcome of an agreement with the Ministry of Foreign Affairs based on a study executed by EY. However compared to commercial micro finance funds (ANMF, Triodos Fair Share, Oikocredit, Incofin with smaller investment amounts) the management fee is considered In comparison to other parties in the market such as the Triodos Fair share fund, ASN Novib Microfinance fund, Oikocredit and Incofin the management fee is at the high end of the market. To some extent this can be explained by the high cost structure of FMO of being a bank and assessing large complicated investment proposals.

Table 5.7

Funds	Management fee
Triodos Fair Share	2.35%
ASN Novib Microcredit Fund	2.30%
Oikocredit	This remuneration amounts to one -quarter of 1.75 % of the outstanding balance at book value of the loans of the investment portfolio plus one quarter of 2.5 % of the outstanding balance at book value of the holdings of the investment portfolio on quarterly basis.
Incofin	The fund manager charges a management fee at the end of each month. This management fee is 1/12th of 0.45 % of the number of outstanding equities multiplied by EUR 200.

6 Impact

6.1 Introduction

The Terms of Reference for this assignment mention the following question (2.5) pertaining to impact:

Do the financial intermediaries financed by MASSIF have any impact on the societies they operate in? And if so to what extent? And what is its nature?

Looking furthermore at the objectives of MASSIF, it is observed that in addition to direct financial inclusion related objectives, MASSIF is expected to contribute to:

- poverty reduction through creation of employment and income through encouragement and involvement of the local business community;
- the implementation of good governance principles (corporate governance) at company level;
- positive sustainable economic, environmental and social development.

A definition of impact is 'the sum of all effects of an intervention: direct and indirect, expected and unexpected, positive and negative'. We will therefore approach the evaluation question above by dividing it into two sub-questions:
- Do the MASSIF funds, through the financial intermediaries they finance, contribute to poverty reduction, promotion of good governance and sustainable development, as is expected from the MASSIF funds?
- Do the MASSIF funds result in any other indirect, unexpected, positive or negative effects?

Two important disclaimers have to be made here:
- The underlying evaluation is not a typical impact evaluation. It lacks the means to study a representative sample of final beneficiaries and compare observed changes to a control group. A baseline was not constructed before the interventions started. It is therefore based on the observed cases, and is largely narrative;
- Normally when studying the impact of an intervention, the question of how much of the observed effects are actually and uniquely brought about by the intervention, i.e. the attribution, is important. The nature of the interventions under MASSIF make this question impossible to answer. MASSIF invests in existing autonomous organisations, and although FMO can to an extent influence the operations, any impact is brought about by the activities of the investee. Furthermore, MASSIF is never the sole financer, it works jointly with other financers. It is impossible to link any observed changes directly to the MASSIF finance. This is the case for the large majority of DFIs.

This evaluation has therefore restricted itself to answering the question whether MASSIF financing contributes to impact, or otherwise put, whether the activities which MASSIF finances jointly with other parties have an impact[10]. This approach is fully in line with the ToR and in line with the definition of the MASSIF objectives.

[10] There is a relation with the catalyst effect. If this is strong and MASSIF's funds have been very instrumental in raising other necessary funding, it is safe to say that an important share of the impact can be attributed to MASSIF.

We have based ourselves on the following sources of information:

- our own fieldwork in three countries covering eleven investments, during which we interviewed staff and management of the financial intermediaries, of investees of funds and clients of MFIs;
- our in-depth desk study of another ten investments;
- the survey among MASSIF investees;
- two secondary sources: 'Evaluation of Effectiveness of FMO MASSIF support in Sri Lanka and India'[11] and an 'effectiveness study on local currency financing of (M)SME financial institutions in Central America'.[12] It turned out however that both studies do not deal with impact as is understood in this evaluation and the use of these sources is therefore limited.

According to the above mentioned definition of impact, the direct effects are also an element of the impact. These effects, related to financial infrastructure, are the subject of the chapter on effectiveness and will here not be repeated.

It was interesting to observe that in several cases impact observed scores higher than effectiveness or relevance. This apparent contradiction is in some of the cases caused by the nature of the indirect investments done by the equity funds, which, although having no outreach to MSMEs and being not very relevant for the financial sector, are improving the livelihood of many poor [locals] through employment, improved living conditions etc'.

6.2 Poverty reduction through employment and income creation

MASSIF has undoubtedly contributed to poverty reduction through employment and income creation. In terms of outreach, here a distinction can be made between MFIs and banks (seven of the eleven cases studied in the field) and the equity funds or venture capital funds.

MFIs and banks often have a large outreach (200,000 respectively 160,000 loans outstanding in the largest MFIs in the sample, 20,000 respectively 30,000 loans in the smaller MFIs, according to audited annual reports). Three out of these seven had a clear rural character, while one bank operates branches in urban slums. While one of the banks is focusing uniquely on a smaller number of larger, corporate clients, another MFI is diversifying, combining microfinance with a portfolio of larger enterprises and individuals. This evaluation would not describe this latter as 'mission drift' – it remains committed to smaller group loans. One of the MFIs explicitly states that the group it serves is still too large for 'classical' microfinance but too small in size for a regular banking services.

The loans to small farmers or slum dwellers (group loans or individual) will rarely be used to create additional employment, but they are likely to have a positive effect on the incomes of the self-employed. In addition, the loans are rarely used for expansion but often as working capital coverage, i.e. for 'staying in business' (as reported by a number of clients interviewed by this evaluation). In one smaller MFI it was observed that small farmers used the loans for diversification, making them less dependent on a single crop.

The corporate loans may well result in a net employment effect, but unfortunately the MFIs do not collect data on this. For one of the larger MFIs in terms of outreach in the sample an earlier evaluation[13] had estimated a minimum of 60,000 jobs created (till 2012), half of them for women,

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11 Evaluation of Effectiveness of FMO MASSIF support in Sri Lanka and India, Oxford Policy Management, December 2013.

12 FMO ex-post effectiveness study: local currency financing of (M)SME financial institutions in Central America, Dalberg, April 2015.

13 BIO evaluation, Country Reports, Carnegieconsult 2013.

whereas at least 30,000 other individuals saw their income improved as a result of the bank's lending operations.

The increased outreach observed in the sample is in line with the observations of Oxford Policy Management of MASSIF investments in Sri Lanka and India,[14] which also point at a positive effect of MASSIF financing here.

The four equity funds studied in the field have a smaller outreach, however often to larger corporate clients where overall a positive employment effect could be observed. Around 6,200 FTEs, 50% for women, were created after and as a result of the investment by the equity funds in some of their investees. One equity fund was too young to show already an employment effect in its investees.

Income improvement was also prevalent among the investees of the equity funds, in total some 45,000 people saw their income improved for example through cost-savings by purchasing or borrowing solar energy or other energy saving equipment, artisans selling products to investees etc.[15]

Among the ten cases studied as desk studies, most of them were MFIs, some with a very large outreach. One case serves 700,000 SMEs having a profile larger than that typical for the classic MFI group loans and therefore likely to have a net employment effect, although hard data are missing. Two other MFIs reached out to smaller numbers, 8,000 respectively 20,000, but this outreach had a strong rural character.

This evaluation was, where possible, careful in seeing that the reported employment effects were indeed a net addition to the labour market and that they incurred for the poor, otherwise likely to be unemployed. A good example is the investee which (re) trained and directly employed several thousands of mainly female unemployed. On the other hand some investees of equity funds reported employment creation which consisted of highly skilled staff which easily could have found employment elsewhere in the economy. In one case staff was even bought away from the competition. These latter cases were not considered to have a net employment effect. Obviously, such corrections were easier to make among the cases studied in the field than in the desk studies, where we had to rely on secondary information.

All in all, of only one of the eleven investments studied in the field, no effects on income or employment for the poor could be recorded. Of the ten case studies, four of them could not report such effects, one being too young however to be able to have an impact.

6.3 Good governance principles

The equity and venture capital funds in which FMO invested in the sample of cases studied in the field without an exception insist on good governance among their investees, and in many cases were instrumental in improving governance. Among the investees visited during the field studies, the evaluation observed cases where non-transparent family-based governance structures were successfully transformed in modern transparent structures, with professional boards. Doing so, the companies may have been well saved from bankruptcy. This occurred in at least two out of the fourteen investees visited by the evaluation team, but also the other twelve have benefitted from advice, rationalising management and governance structures.

[14] Ibid.

[15] Source here is the reporting of the investee to the relevant funds.

Relations between MFIs and their clients are less intense, but instead FMO has in several cases influenced the management and governance of the banks and MFIs where MASSIF funds were deployed. The normal mechanism through which this works is through a position in the Board or Advisory Committee. Capacity Development was used here as well, be it not only to improve governance, but rather to strengthen financial and portfolio management. In one case however, an ex-CEO of a larger MFI expressed his disappointment that FMO itself did not take a seat but left this to another shareholder. The Capacity Development deployed here to strengthen HRM, especially remuneration strategies, had hardly any impact. This was, as far as could be observed, an isolated case.

6.4 Environmental and social development

Environmental and social effects are outside the direct objective of MASSIF, but side-effects were observed in this field, mainly brought about by the investees of the equity funds in which MASSIF had invested.

One of the Equity Funds studied focused on injecting Corporate Social Responsibility (CSR) principles in its investees. The evaluation team noticed that the investee which saw a 400 FTE growth of employment also significantly improved labour conditions through the introduction of fringe benefits like health insurance and a pension scheme. Of the respondents to the survey, 11% rated the support from FMO here as extremely, 41% as very beneficial. Only 12% saw no effects.

A reduction of CO2 emissions through the promotion of energy saving cook stoves or solar energy solutions in rural communities, recycling of human waste in organic fertiliser and recycling of waste like (cattle) horns and bones into jewellery were the positive effects on environment noted among the investees of one equity fund in which MASSIF funds were invested. Likewise one of the MFIs in the desk study sample focuses on housing loans and reported a modest positive environmental effect. Also here the survey respondents had an opinion, i.e. 12% saw the MASSIF influence as extremely and 36% as very beneficial. Of the respondents 18% mentioned that such support was here not required.

Improvement in the living conditions of some 30,000 slum dwellers in the capital by the provision of sanitary facilities is another social effect recorded during the field visit.

Often the social and environmental effects (cook stoves, solar energy, and sanitary facilities) come at a price and costs to be covered by poor members of the society limit the net benefits of some MASSIF investments. Normally prices were however low and affordable, only the case of the cook stoves suffered from declining demand possibly because of the prices, where even the ‘payment through instalments’ model could not avoid the decline.

6.5 Other effects observed

Other ***positive*** effects observed during the field visits include:

- provision of education services to over 100,000 primary school attendants at very affordable fees;
- provision of low-cost housing facilities for students and introduction of affordable housing loans;
- provision of medical care at affordable prices;
- use of micro lending for tuition fees and medical care;
- introduction of new IT products especially catering to SMEs;

- support to mobile payment platforms for banks which significantly improve financial inclusion for the poorer and rural population.

Not always did relevant projects succeed – one MFI in which MASSIF invested tried to introduce housing loans but was ultimately unsuccessful since the products where not compliant with local legislation. New demands by the Ministry of Education may also prevent the educational effect for the primary scholars to reach out to additional children, although here there is still good hope that the project will prevail.

Mentioned effects above are not always *net* effects: the primary school attendants would in the absence of this project probably have gone to public schools, however quality of tuition would be less and distance to be travelled larger. The SMEs could probably also have used other standardised products but less specialised on SMEs and probably more expensive.

Here also ***negative*** effects should be mentioned. In one case a MASSIF loan (which was also classified as being non-additional) resulted in positive effects for the rural recipients of the small loans, but also in the loss of clientele for a group of existing MFIs which could not offer the loans at such a low interest rate (market distortion). In general however hardly any negative side-effects were observed.

6.6 Comparison with EDIS scores

We have scored in our sample on impact in the same way as for the other criteria, i.e. from A to D. The following table shows the scoring, and provides some more insight in the scoring.

Table 6.1

Score	Legend	Number of cases in field visit	Number of cases in in-depth studies
A	**Excellent, above expectations**, e.g. larger outreach than average for the sector, specific focus on poor, significant effects per beneficiary, remarkable positive side-effects, no negative side-effects.	4	4
B	**According to expectations**, i.e. positive effects as can be expected of an investee in the sector, moderate positive side-effects, no significant negative side-effects.	5	3
C	**Slightly below expectations**, e.g. modest outreach and/or modest effects per beneficiary, negative side-effects.	1	2
D	**Disappointing**, below expectations, e.g. insignificant outreach or insignificant outreach per beneficiary, significant negative side-effects.	-	-

The following table shows our scores, next to the EDIS scores. We have limited ourselves here to the projects which we visited ourselves in the field. During the desk study we had to base ourselves relatively more on information provided by FMO, so any comparison would be biased towards FMO's opinion. Furthermore, for two projects there was no EDIS score given, so the range is limited to nine cases.

Table 6.2

Case	EDIS Score	Evaluation Score
A	75	B
B	76	B
C	79	A
D	67	A
E	65	B
F	69	A
G	65	B
H	63	A
I	73	B

If we compare scores on an above and below average basis, i.e. for EDIS below or above the average (70), assuming for the evaluation score A is above and B below the average, we see that there are only three cases where the EDIS and evaluation's scores coincide. In three cases EDIS scores below the average while the evaluation warrants an A score, and in three remaining cases vice versa.

Instead of stating that the EDIS scoring system has not worked perfectly, we are of the opinion that the scores at this stage are not comparable, for the following reasons:

- The scales of the scores are not equal, EDIS from 1 to 100, the evaluation's scoring system a discontinuous range from A – D;
- In 2007 the EDIS system was adjusted: prior to that year operational or financial risk was part of the system, whereas (like for EDIS after 2007) this evaluation looked at risk separately. This would exclude case A, G and H from the analysis as being not really comparable, two out of these three presenting non-agreeing pairs;
- EDIS scores are given ex-ante, scores of below 60 do not occur among the MASSIF investments because this would have meant rejection. Therefore, the range is very limited for the EDIS scores.

Since all EDIS scores are in a range of 63-79, and this evaluation gives all cases the highest of the four scores for impact, we can also conclude that the evaluation's scoring and the EDIS system *grosso modo* coincide.

7 Sustainability

7.1 Introduction

The Terms of Reference for this assignment mention the following question (4.2) pertaining to sustainability:

Do customers (financial institutions) develop in such a way that in time they qualify for FMO-A instruments (or if possible commercial financiers)? And if so, is this attributable to MASSIF? And if so, what is the number of customers concerned?

Looking at the objective of MASSIF, it is observed that MASSIF is expected to contribute, in addition to its direct financial inclusion related objectives, to positive sustainable economic, environmental and social development.

An important goal for MASSIF is to invest in financial institutions or funds that are reaching out to end clients ((M)SMEs and consumers) at the bottom of the financial market and which are financially viable in the long run. The analysis of sustainability will thus reflect on the long term financial and social perspectives of the investments financed by MASSIF.

The evaluation team has investigated (likely) sustainability of the investments at the level of the institution (financial sustainability) and at the level of the business model (continuation of the poverty focus) after the exit of MASSIF. At the level of PE funds, the continuation of the business model of the investee companies is taken into account.

In the sections below we will look at the individual cases sampled in the different sectors. We have given a score to the sustainability criterion ranging from A to D.

Table 7.1 Sustainability scores

Score	Meaning
A (good, sustainability is above expectations);	Investments are financially viable, evidenced by refinance by or transfers to FMO-A and/or commercial parties and the number of transactions with target group/ financial performance investees are (likely to be) better than expected.
B (sustainability is satisfactory, according to expectations)	Investments are likely to be financially viable and the number of transactions with target group (poverty focus)/ financial performance investees are (likely to be) as expected.
C (sustainability is unsatisfactory, below expectations)	Investments are (likely to be) only moderately attractive for FMO A and/or commercial parties and/ or the number of transactions with target group(poverty focus)/ financial performance investees is (likely to be) falling behind expectation Or financial performance of investees is (likely to be) falling behind expectations.
D (sustainability is poor, far below expectations)	Investments are not (likely to be) attractive for FMO-A and/or commercial parties and number of transactions with target group (poverty focus)/ financial performance investees is falling far behind expectations.

7.2 Microfinance sector

Table 7.2 Sustainability scores for the microfinance sector

	A	B	C	D
MFIs	3	4	1	
Fund		1		
Other		1		

The investments in the microfinance sector (direct or indirect through intermediaries) are all but one assessed as sustainable. A full score has been provided to institutions that already proved to be commercially viable, because either FMO-A (in one case) or commercial investors stepped in. The investments that have received a lower score still experienced (commercial) capital constraints or were not profitable yet. Only one MFI received a C score since the future prospects of the institution were found still to be uncertain due to the required internal changes and increased competition.

Based on the interviews and the projections of the MFIs, growth potential, particularly in rural areas, in most countries appears to be high. As mentioned in previous sections the field visits showed that in Uganda but also Kenya still a large part of the rural population has limited access to finance. In Cambodia competition for rural clients has increased considerably with currently over 400 informal NGOs active in this field. Most MFIs use tailored credit assessment methods combined with intensive monitoring, including group and client visits and even in one of the cases business counselling leading to a low NPL. This allows them to focus on a group of particular micro and small entrepreneurs but also agricultural loans which are considered unbankable by commercial banks.

In case of three of the investments in MFIs (already at the time of the first intervention of MASSIF) the MFIs could be considered as mature and sustainable MFIs with good portfolio results and increasing profits. Specifically the MFIs supported in Cambodia already had an operational self-sufficiency (OSS)[16] and financial self-sufficiency (FSS)[17] well over 120%. The growth of the microfinance sector and the quality of the MFIs attracted a great number of private investors to step in by providing both debt as well as equity. But without any doubt, DFIs and MASSIF have played a catalysing role and attracted many investors, including FMO-A to step in.

In the other cases such as in Uganda, MASSIF provided the required growth capital where the MFI had difficulty attracting debt (local currency loans), as the organisation was still relatively small and therefore not (yet) on the radar of DFIs or commercial investors. For these MFIs MASSIF still has an important role since (affordable) financing opportunities are limited and support of MASSIF is found to be essential for continuation of the activities.

The above shows the link between additionality and sustainability of investments. In case investments are made in more mature markets and institutions (such as in Cambodia) involvement of MASSIF is in some cases less additional because the investments are likely to be attractive to a larger group of social and private investment funds. For the same reason these investments are more likely to result in sustainable institutions, although this result can only to a limited extent be attributed to MASSIF.

[16] This benchmark is used to assess how far an MFI has come in covering its operating expenses with its operating income.

[17] Financial self-sufficiency (FSS) also measures the extent to which operating profits cover an MFI's costs. FSS, however, measures how much coverage exists on an adjusted basis. FSS calculations require adjustments to the operating expenses of an MFi to reflect market rates on loans and deposits and inflation.

Along the same line, in case investments are considered to be very additional, it is likely that the gap to qualify for FMO-A and commercial investors is large, making refinancing or transfer to FMO-A or commercial investors in these cases less likely.

The Fund and the 'other' investment as indicated in the table above have been quite successful with what appears to be viable business models. With regard to the fund, it is expected that it will qualify for FMO-A and/or commercial investors in the near future, while in case of the 'other' investment, FMO-A already provided a loan to the company.

Looking at the social perspectives of the investments, (e.g., the continuation of the poverty focus) all microfinance investments have (and intend to) maintained their focus on micro and small entrepreneurs and consumers in rural and peri-urban areas. The role of shareholders but also lenders and their focus on social impacts is found to be important in this respect.

In Cambodia and Uganda we noticed that the share of solidarity credits (group lending) in the portfolio of MFIs is diminishing. This is largely caused by the demand for larger loans but in the Ugandan case also by the preference for individual loans which do not require compulsory savings. This is not necessarily a sign of a diminishing poverty focus and may be explained by the growth of the MFI client. However in general group loans provide the opportunity to reach out to a larger group of poorer people that have no other way to access finance.

A number of the MFIs have expanded their activities to include also higher end entrepreneurs/ costumers. One of the complaints when MFIs expand their activities is that mission drift might occur. This was however not the case for the MFIs studied, as in all cases we noticed that the MFI continued to serve an increasing number of microfinance clients and stayed committed to the targeted MF portfolio. Although average loan amounts increased somewhat over time, the target group still remains individuals, groups and businesses that have no access to bank loans. The increase in average loan amounts reflects the growth of the clients/entrepreneurs. From the interviews we learned that even when clients are bankable and can negotiate more attractive terms, they prefer to continue with the MFI because of (i) the presence of local branch offices, (ii) the personal relationship and (iii) short processing procedures at the MFIs.

7.3 SME finance sector

Table 7.3 Sustainability scores for SME finance[18]

	A	B	C	D
PE fund			3	
Banks		1	1	
Other (NBFC)	1			

The investments in the SME sector by private equity funds, banks and other institutions (leasing company) are expected to have more mixed long term results. Particularly sustainability of the PE funds, which is dependent on the financial performance of the investee SMEs, is below expectations.

By definition the intermediary funds have a limited duration, limiting the extent to which sustainability can be assessed at the level of the fund itself. In general the PE funds include an investment period of five years and an exit period of five to seven years. In our assessment we will

18 Only 6 of the 7 sampled investments in this sector could be scored due to the fact that the fund, although the MASSIF investment was made in 2013, only recently started its activities.

therefore look at the expected financial return of the funds but also at the expected sustainability of the investees.

The investment in PE funds are at different stages but overall it is expected that the return of investment will be insufficient for the current investors and/ or to interest commercial investors or even DFIs in a follow up fund. Nevertheless, in one case the Fund Manager is planning to set up a follow up fund which however is expected to remain the playground of DFIs and IFIs and not to include commercial investors. In that respect sustainability is fragile. Sustainability of the funds depends on a limited number of investments. And although some of the investments may prove to be unsuccessful, specifically in case of a venture capital fund, a reasonable number of the investments should be (very) profitable to make the fund sustainable. At times, as was shown in a case in Kenya, it may however take a longer time for the companies to become profitable. The lifespan of the fund might be too limited to give the companies this chance, since the fund managers are pressured to make exits quickly. In these cases private investors seem to have more patient capital.

The number of investees that are found to be sustainable themselves differed between the PE funds studied. In one case all investees but one seem to show a positive return and are not likely to get into financial distress soon, while some of the investments already proved to be very successful and profitable. In the other two cases, the sustainability of the investees is not yet proven with only a limited number or none of the portfolio companies being healthy. Specifically in the case of Greenfields it is difficult to forecast the success of the operations at the long term.

The different fund managers are very much involved in the strategy and operations of the investees and in that respect respondents indicated that they have contributed in a very positive way to create a sustainable and commercial viable business model.

The sustainability of the two studied MASSIF investments in commercial banks with a focus on SME finance differs. Both investments developed in a way that they qualify for FMO-A and commercial investors. For one of the banks this was already the case in 2006, when FMO invested in the institution both with MASSIF and FMO-A. The extent to which the qualification for FMO-A/commercial investors is attributable to MASSIF is however not clear, as there were and are many other similar investors involved. It is also remarkable that the company has not been taken over yet by commercial financiers. Both banks were hit by the crisis but managed to recover with a focus on cost cutting and credit management showing their ability to deal with setbacks. The extent to which both banks will remain focused on the target group is however not clear. One of the institutions has, based on the negative results of the past years, changed its focus to more corporate companies and has no clear aspirations to become active on the SME market in the short run. In the other case it is likely that the focus will remain on the target group, though on a higher segment of the financial market (for instance SMEs instead of micro entrepreneurs).

The investment in an NBFI has exceeded all FMO's expectations with regards to growth and reaching the agreed upon objectives. The investment received strong credit rating of AA whilst the focus has not changed.

7.4 Other finance sectors

Table 7.4 Sustainability scores for the “other” projects

	A	B	C	D
Housing	1		1	
insurance		1		

The sampled investments further include two projects focused at housing and one at micro-insurance.

In these more innovative markets the viability of the business models differs. In one of the housing cases this has led to a changed business model, which is not considered sustainable by FMO and an exit is sought. In the other housing case and the micro insurance project the business models proved to be viable. In case of the housing project FMO (FMO-A) is discussing potential future funding opportunities and it is expected that also EBRD will provide future funding. The company strategy shows a clear focus on the target group of the MASSIF intervention.

8 Conclusions and Recommendations

8.1 Conclusions

Relevance:

- The evaluation team concluded that MASSIF has operated consistently within the different limits as formulated in the investment criteria over time...
- The need for microfinance products is still high, especially in rural areas and immature markets. The role of MASSIF in mature markets will diminish as liquidity in these markets is increasing.
- SMEs are often an underserved group in developing countries, and especially equity is a scarce product for SMEs to obtain.
- The local-currency product is considered to be very relevant, especially during the early years of MASSIF, when no alternatives were available. Presently, more market parties started to offer local-currency products. However not all markets can be served by market parties and therefore MASSIF continues to be relevant in high risk markets.

Additionality:

- Over the last couple of years, liquidity in the market increased for MFIs (both equity and debt). Moreover, market parties questioned the additionality of MASSIF in the microfinance market. The field visits confirmed that the additionality of MASSIF in the microfinance market was becoming less obvious, especially in mature markets.
- Approximately 25% of the respondents (the majority PE-funds) in the survey indicated that they would have been able to attract financing in the absence of MASSIF.
- The investment of MASSIF in SME-financial intermediaries (banks, PE/VC-funds) are with a few exceptions considered very additional.
- In a few cases however, the additionality aspect was considered absent whereby MASSIF replaced commercial funding.
- The micro finance market has evolved rapidly and currently commercial parties show interest in investment opportunities that were some years ago far beyond their scope and interest. Some commercial parties are willing to buy parts of the MASSIF portfolio.

Effectiveness:

- Approximately 85% of the MASSIF portfolio of 2014 was invested in SME-focused or microfinance-focused institutions, in line with the MASSIF criteria. The other 15% was invested in agri-focused, housing-focused or other types of institutions. In general we found that MASSIF performed well in its outreach towards MSMEs. MFIs have a large customer base of private persons, micro entrepreneurs and small businesses and perform well, while banks focused on larger entrepreneurs and SMEs. Finally, the evaluation team considered the investments through financial intermediaries to be effective in strengthening the financial sector.
- The catalysing role of MASSIF showed a mixed picture regarding MFIs. In some cases we found that DFIs and IFIs catalysed each other, while in other cases more commercial parties have been catalysed as well. In the case of MASSIF with a focus on high risk investments it is obvious and justifiable that the catalysing role is initially limited to DFIs and less to commercial parties.
- MFIs received funding from a wide range of investors including commercial parties. In one case the MFI was acquired by a foreign financial institution. For funds it was more difficult to determine the catalytic role of MASSIF. On the level of the SMEs financed, the catalysing role was clearer, as the PE-funds strengthened the balance sheet of the SMEs, allowing them to obtain loans from banks.

- Capacity Development was used in a number of cases next to equity or debt and was in most cases appreciated by the financial institution or PE-Fund. In a few cases, the presence of Capacity Development funds was the main reason for the beneficiary to choose for MASSIF.

Efficiency:

- The efficiency of the MASSIF fund is assessed as good. FMO's role as manager of the fund was highly appreciated by the clients. In a few cases some remarks were made with respect to the high rotation of investment officers at FMO. Moreover the embeddedness of MASSIF into the organisation and processes of FMO makes the operations efficient and of high professional standards.
- In particular MFIs are efficient in reaching out to their clients. Time lines are efficient and clients appreciate the very personal approach by the MFIs through their loan officers. The approach to use financial intermediaries is assessed as efficient as well.
- The management fee has been discussed with the Ministry of Foreign Affairs and agreed upon on the basis of a study by EY. Compared to commercial MF-funds the fee is positioned at the high end of the market.

Impact:

- MASSIF funds have definitely contributed through the financial intermediaries in which they have been invested, to a multitude of economic, social, environmental and other effects. Negative effects could hardly be observed. Most widespread was income improvement or at least stabilisation (for example through diversification in farmers' communities) among recipients of micro credits from the MFIs. These MFIs had also the largest outreach. Employment creation was more evident among the investees of the equity funds in which MASSIF funds were deployed.
- Especially the equity funds were instrumental, with or without capacity development funding from MASSIF, in installing good governance principles among their investees. Social effects were observed through (new) CSR practices in the investees.

Sustainability:

- All but one of the investments in the microfinance sector are assessed as sustainable. Particularly the social impact focus and specific expertise of the institutions play are important here. Several of the institutions in the sample have proved to be commercially viable with subsequently FMO-A or commercial investors stepping in, which allowed MASSIF to reinvest the funds.
- The sustainability of investments in the SME sector via PE funds and commercial banks show a more mixed picture and is often difficult to define. In particularly the sustainability of the PE funds was in some cases qualified as doubtful as the financial performance of the investees was below expectations. However it is difficult to make a final judgement when many of the investments are still at an early stage. Overall the expected return of investments is difficult to establish at an early stage.
- For some of the investments in banks in the sample we found that it is difficult for them to continue the focus on smaller SMEs. Due to negative results in the past years these banks have made the decision to focus at higher segments in the markets which influences the social sustainability of the FMO investments negatively.

8.2 Recommendations

Taking note of the conclusions above, the following recommendations can be made:

- We would strongly encourage MASSIF to continue providing loans in local currency. The demand is still high and MASSIF has the unique capability to provide these type of loans without using TCX, and take currency risks within the Fund. For future operations we recommend that competition with commercial investors that make use of TCX should be avoided.
- With regard to additionality of MASSIF we recommend to focus more on financial intermediaries that provide funding to SMEs. FMO/MASSIF is - together with some other DFIs - one of the few investors that have a wide network of intermediaries that are able to reach out to SMEs. Commercial investors are less active in this field. In the field of microfinance, we advise to focus more on high risk countries and less mature MFIs since other markets are saturated and mature MFIs can often be served by commercial parties and to some extent DFIs.
- More attention should be given to the exit strategy of investments. Close monitoring of the investments and annual decision making on exits or transfers should be introduced. This should prevent investments from being “stuck” in the MASSIF portfolio. Furthermore, the opportunity to transfer investments from MASSIF to FMO-A should be better utilized.
- We recommend FMO/MASSIF to consider selling (parts of) the MFI portfolio since commercial market parties have a good understanding of the MF-market and are willing to take more risks. Some investment funds showed interest to acquire parts of the MASSIF-portfolio and are well equipped to manage these investments. This could be an interesting option for MASSIF since it allows them to revolve in a faster manner and free up liquidity for new high risk products and markets.
- The catalysing role needs more attention and should be closely monitored. Currently there is no system which registers the catalysing role of MASSIF investments while this is an important (non-formal) objective. Furthermore, it is important to keep track of the type of parties that are catalysed (DFIs vs. commercial parties).
- The M&E measurement techniques and impact indicators have changed over the years In order to ensure consistency and be able to analyse the outcomes. We would recommend not to change the indicators and measurement techniques for at least five years.

Annex I: List of interviews

Organisation / Person		Position	Date
Ministry of Foreign Affairs			
Jeroen Roodenburg		Director Sustainable Economic Development	09-09-2015
Björn Kuil		Senior policy officer	09-09-2015
Sandra Louiszoon		Senior policy officer	13-05-2015
FMO			
Matthijs Egelie		Investment officer	13-07-2015
Arnold Minderhout		Investment officer	13-07-2015
Irina Zub		Investment officer	13-07-2015
Annette Berendsen		Investment officer	13-07-2015
Mareike Hussels		E&S expert	13-07-2015
Decio Tractenberg		Investment officer	13-07-2015
Frouke Hoekstra		Investment officer	14-07-2015
Hatem Mahbouli		Investment officer	14-07-2015
Anneloes Mullink		Investment officer	14-07-2015
Nicci Bouman		Investment officer	14-07-2015
Alejandra Carou		Investment officer SO	28-07-2015
Matthias Dittrich		Trainee	28-07-2015
Robert Bierens		Investment officer	15-07-2015
Pauline Broertjes		Investment officer	15-07-2015
Roel Vriezen		CD officer	15-07-2015
Andrew Shaw		CD officer	15-07-2015
Natalie Shriber		Investment officer	15-07-2015
Emile de Groot		Investment officer	14-07-2015
Jeroen Harteveld		Investment officer	16-07-2015
George Janssen		Investment officer	16-07-2015
Simon Hermann		Investment officer	16-07-2015
Martin Steini		CG officer	16-07-2015
Felici Ameschot		CG officer	16-07-2015
David Nieuwendijk		Investment officer	09-09-2015
Arno de Vette		Investment officer	26-08-2015
Jacco Knotnerus		IC	26-08-2015
Linda Broekhuizen		COO	26-08-2015
Nanno Kleiterp		CEO	19-08-2015
Henk Nijland		Ex fund manager MASSIF	26-08-2015
Nico Mensink		Senior evaluation officer	09-10-2015
Frederik Jan van den Bosch		Fund Manager Massif, Blending & CD	several times
Bert Richly Brinkenberg		Senior Portfolio Analyst	several times
Rosemarijn van der Meij		Senior Portfolio Analyst	several times
Market parties			
NPM	Josien Sluijs	Director	28-08-2015
Oxfam Novib	Bruno Molijn	Policy advisor MF	06-08-2015
ICCO	Ben Nijkamp	Guarantee Fund Manager	27-08-2015
Hivos / Doen	Leo Soldaat	Senior Advisor for Financial Services and Green Entrepreneurship	27-08-2015

Organisation / Person		Position	Date
Incofin	Loic de Canniere	CEO	20-08-2015
Goodwell	Els Boerhof	Partner	21-08-2015
Triple Jump	Mark v an Doesburgh	Managing Director	20-08-2015
Triodos	Marilou Goldstein Dirk Elsen	Managing Director Director emerging markets	08-09-2015
Stakeholders abroad			
IFC Cambodia	Sokim Mel	Operations officer	05-08-2015
IFC Nairobi	Samual G. Akyianu	Senior Operations Officer Global Private Equity Funds	31-08-2015
IFC Nairobi	Jamal A. Isa	Associate Investment Officer Private Equity & Investment Funds	31-08-2015
Cambodia Credit Bureau	Pascal Ly	CEO of Cambodia Credit Bureau	05-08-2015
Cambodia Credit Bureau	Oeur Sothearoath	Head of Business Development CCB	05-08-2015
Royal Netherlands Embassy in Kenya	Noeke Ruiter	First secretary	31-08-2015
Royal Netherlands Embassy in Uganda	Henny Gerner	First secretary agri & economic cooperation	01-09-2015
Royal Netherlands Embassy in Uganda	Stephen Kasule Bayite	Economic Diplomacy and Agribusiness	01-09-2015
Royal Netherlands Embassy in Uganda	Jorn Leeksma	First secretary economic cooperation	01-09-2015
Royal Netherlands Embassy in Uganda	Hans Peter van der Woude	Deputy Mission	11-09-2015
SNV Uganda			
Agriterra Uganda	Taco Hoekstra	Agribusiness advisor	04-09-2015
Abi Trust	Peter Patel Ochienghs	Chief Manager Financial Services	10-09-2015

Annex II: Literature list

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Ministerie van Buitenlandse Zaken (2006a), *Subsidiebeschikking MASSIF,* d.d. 30-08-2006.

Ministerie van Buitenlandse Zaken (2006b), *Uitvoeringsovereenkomst MASSIF,* d.d. 04-09-2006.

Ministerie van Buitenlandse Zaken (2009), *Optopping beschikking MASSIF,* d.d. 06-08-2009.

Ministerie van Buitenlandse Zaken (2012), *Addendum beschikking MASSIF,* d.d. 11-12-2012.

Ministerie van Buitenlandse Zaken (2013), *Addendum beschikking MASSIF,* d.d. 25-07-2013.

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Annex III: Survey results

A2.1 Purpose of the survey

A web-based survey was conducted among clients of FMO who received financing from the MASSIF fund in the past years. The purpose of the survey was to understand how these financial intermediaries had experienced the effect of the funding received on their company and the end-users of the funding.

A2.2 Statistics

Invitations to participate in the online survey have been sent to 114 FMO clients who received financing from the MASSIF fund in the past. Of those 114 potential respondents, 56 (49.1%) have filled out the survey and 54 (47.4%) completed it until the last page. The survey has been open for 67 days. The average time respondents needed to fill it out was 15 minutes and 42 seconds.

The survey consisted mainly of multiple choice questions complemented with a few open questions. A few measures were taken to maximize the initial response of the target group. Automatic reminders were sent to the respondents who did not react within 14 days. Also, special reminders were sent to the respondents who only partially filled out the questionnaire, kindly asking them to complete the survey.

A2.3 Results

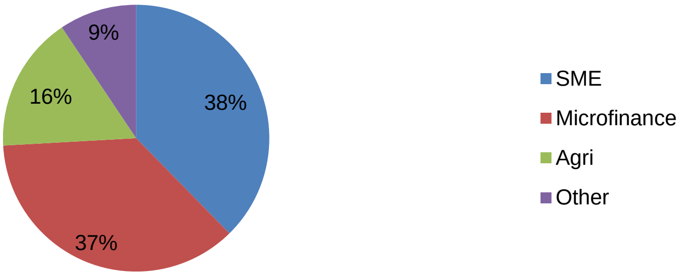
Below we present the results of the survey in terms of frequency (replies per questions) and responses to open-ended questions. Analyses of the results has been used throughout the main report. It should be noted that answers to open questions have been anonymised and some major typos have been corrected.

General information

1. Indicate the type of company:

Of the survey respondents, 59% represented a financial institutions and 34% represented a fund. The four remaining respondents who indicated to be no financial institution or a fund, mentioned: Network investor (combination of fund and operating company), Private equity fund management company, Financial services, and Industrial company.

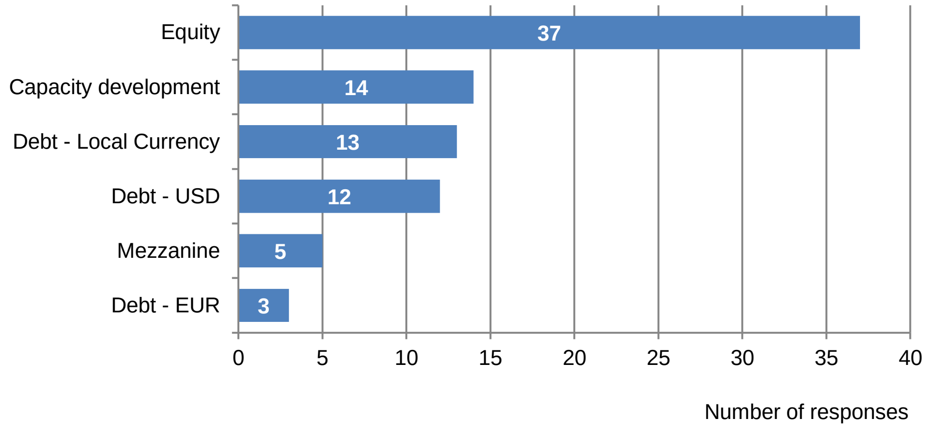
2. Indicate the sector in which your company is active:



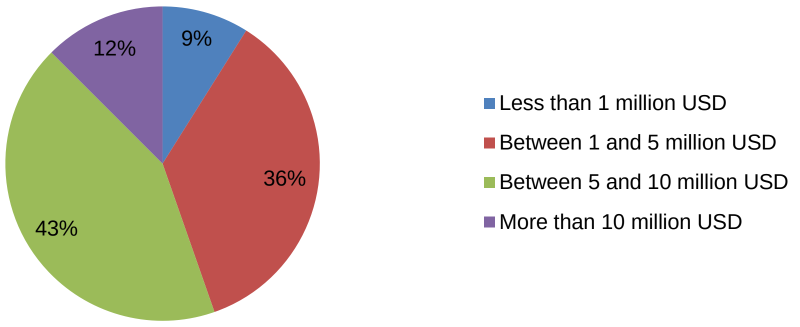
The respondents who selected to be active in another sector, mentioned: renewable energy; SMEs, agribusiness, industry, NTIC, monetics, public works, and pharmaceutical; SME finance; Insurance/financial services; Universal; Venture Capital - growing early stage companies to large scale; Banking; Large corporate entities (specialization in RMG and Textile) sector.

3. Indicate the type of financing received by the MASSIF fund of FMO:

In this question, multiple answers could be selected.

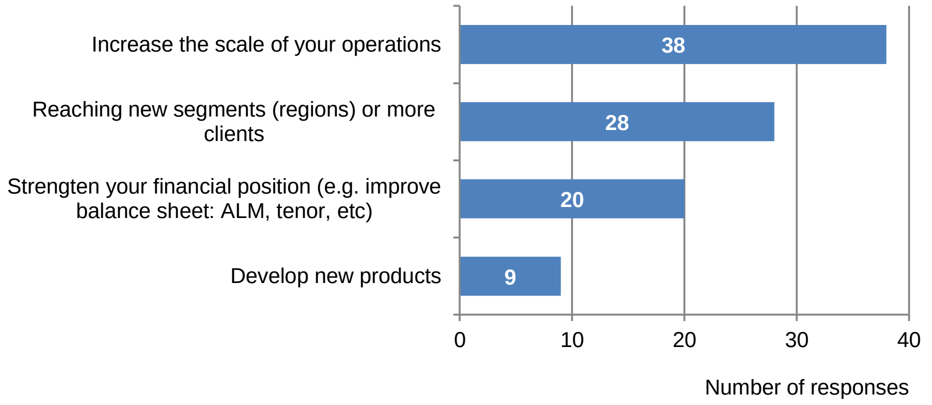


4. Indicate the total investment size of the financing received by the MASSIF fund of FMO:

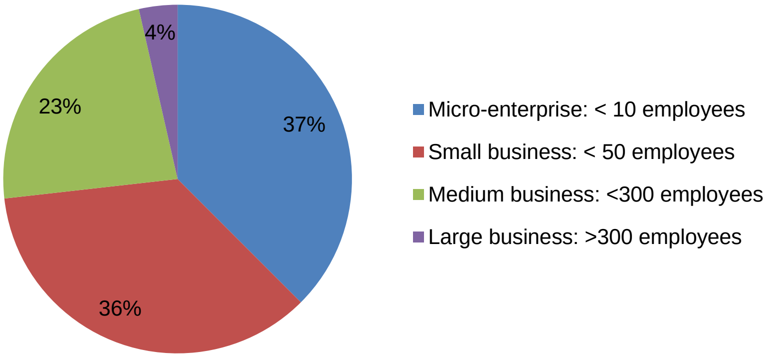


5. What was the purpose of the FMO financing?

In this question, multiple answers could be selected.



6. Indicate the type of client mainly financed by your company:



7. Please indicate the main goal of your fund (only applicable to funds):

Open answers are given to this question, which are grouped per theme and listed below.

SME growth:

- Promote economic growth and development through investing in SMEs in *[region]*;
- *[name FI]* is a venture fund dedicated to finding and growing the "new stars" of *[region]*. *[name FI]* backs early stage businesses led by entrepreneurs with the capability and ambition to transform markets at the base-of-the-pyramid (BoP). These enterprises address proven demand for basic goods and services with innovative business models that widen access, improve quality, and lower cost of basic goods and services for the mass market;
- Long term financing to SMEs;
- Provide equity financing and help SMEs grow in their operations;
- To provide growth capital for SME agribusinesses in *[region]* that provide goods and services to or source products from smallholder farmers and or low-income persons;
- To provide value-adding expertise and long term capital to portfolio companies bearing in mind the illiquid environment in *[country]*, thereby aid the economic recovery of *[country]*;
- Providing long term risk capital to SMEs in *[region]*.

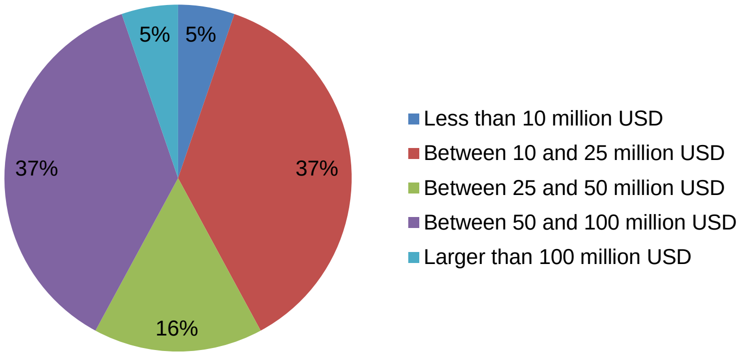
Financial inclusion / development of financial sector:

- Carry out equity investments in MFIs in *[region]* to strengthen their equity and enhance their operations;
- Investing in MFIs and Small Business banks in emerging markets to improve financial inclusion;
- Promote financial inclusion of MSMEs in rural areas;
- To enhance access to finance across geographies and help develop new financial products;
- Give more people access to a better suite of financial services at more affordable rates;
- It offers microfinance institutions, which facilitate funding to small and micro enterprises in *[region]*, local currency denominated debt instruments and targeted credit enhancement financial instruments. The fund also provides support for development activities to selected microfinance institutions and stimulates access to local securities markets for fixed income instruments issued by microfinance institutions;
- Financial inclusion;
- To provide smallholder farmers with better access to capital, by financing producer organizations, hired labour organizations, traders/processors, and agriculture-focussed MFIs.

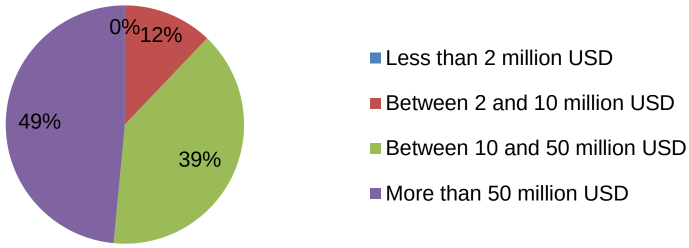
Economic development:

- Provide a competitive commercial financial return to our investors while having a positive contribution to economic development in our target markets;
- The first international private equity fund dedicated to *[country]*, designed to stimulate sustainable job and wealth creation through private sector growth.

8. Indicate the total size of the fund (only applicable to funds):

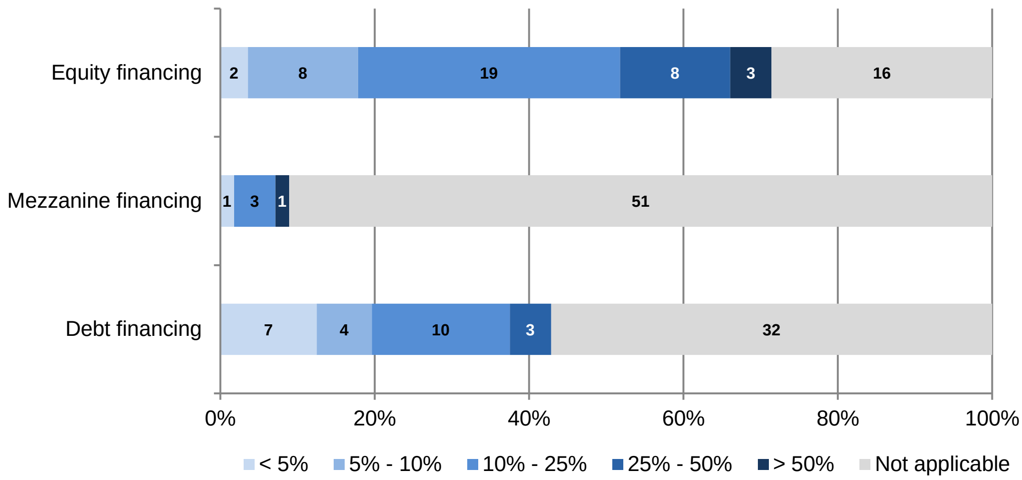


9. Indicate the balance sheet total of your financial institution (only applicable to financial institutions):



Effect of funding received from the MASSIF fund of FMO

10. What is the percentage of FMO funding compared to your total funding?



11. Had you not received financing from FMO, would you have had access to financing against the same conditions at the time of the FMO financing?

Response	Total	% of responses	%
Yes, against the same conditions	24		43
No, against worse conditions	15		27
No, we would not have been able to attract the financing	17		30

12. Had you not received financing from FMO, would you have been able to attract the financing at the same time?

Response	Total	% of responses	%
Yes, at the same time	16		29
No, later	27		48
No, we would not have been able to attract the financing	13		23

13. Had you not received financing from FMO, would you have been able to arrange the financing by other parties or yourself?

Response	Total	% of responses	%
Yes, for the same amount	23		41
Yes, for a smaller amount	26		46
No, we would not have been able to finance at all	7		12

14. Did the financing of FMO enable you to attract additional funding in the market?

Response	Total	% of responses	%
Yes, at the same time as the FMO financing	24		43
Yes, in a later stage	27		48
No	5		9

16. In what way did FMO contribute to your company with regard to governance structure?

In this question, multiple answers could be selected.

Response	Total	% of responses	%
Technical Assistance	24		43
Board seat	28		50
Conditions/ covenants	22		39
Other, please specify	7		12
Not applicable	5		9

Open answers given for the option “Other, please specify”:

- LPAC member;
- Investment Advisory Committee members;
- Reporting system, follow-up;
- Provide some grant to support our strategy, such as, special consultant for specific projects, and staff capacity building to be alight with our strategic growth;
- Advisory Board participation;
- Involved in establishment of governance structures;
- Active participant of the Board and Board Committee. Always a strong voice of reason and balance. Supported the GP when it was most needed.

17. How did you value the contribution of FMO with regard to governance structure

Response	Total	% of responses	%
Excellent	19		34
Very good	25		45
Good	11		20
Fair	1		2
Poor	0		0

18. To what extent did your company benefit from the investment by FMO with regard to social standards (e.g. salaries, gender, labour conditions, etc.)

Response	Total	% of responses	%
Not at all beneficial	7		12
Slightly beneficial	20		36
Very beneficial	23		41
Extremely beneficial	6		11

19. To what extent did your company benefit from the investment by FMO with regards to environmental standards?

Response	Total	% of responses	%
Not at all beneficial	10		18
Slightly beneficial	19		34
Very beneficial	20		36
Extremely beneficial	7		12

20. Please add any comments on the contribution of FMO with regard to your governance structure, improvement of social standards and/or environmental standards.

Open answers:

- FMO's *[name IO]* has been a very engaged and focussed AC member and now Board member and has catalysed other major financing partnerships and driven up standards throughout our history;
- FMO provided a useful E&S training seminar 4-5 years ago;
- FMO, along with our other DFI investors supported the investment manager, fund and investee companies in having international standard ESG in frontier markets - a positive contribution!
- The contribution of FMO through training for members of the board and technical assistance has gone a long way to strengthen the corporate governance structure of the institution by the introduction and implementation of good corporate governance practices. Also the institution has been able to develop products are practices that are environmentally friendly. Developing renewable and clean energy products as well as creating policies that support safe and healthy environmental standards. Also the institution has becoming client protection focused and is at the verge of becoming CPP certified;
- We have a very interactive relationship with FMO as a first time fund, especially in the areas of governance and ESG. We have developed our governance models in conjunction with FMO,

also attending ESG training in Hong Kong and having our whole team hosted at FMO. FMO has been the most involved and helpful in this area of all our investors;

- FMO provided leadership in designing the governance structure of the company. FMO also provided a very strong board member to support the company development;
- We were able to adopt many of the tools developed by FMO for these purposes;
- We have always very much appreciated the contribution of board members proposed by FMO. For the first investment of FMO, we had been asked to promote an environmental tool among our clients (financial institutions). However, that tool was not really workable in practice. And we stopped promoting it;
- FMO helps us to put in place best practices in our institution;
- FMO invested in a fund of funds structure and all percentages are based on FMO's share of the fund. FMO played a leading role in setting the fund of fund governance structure and this was influential in our dealings with the portfolio company. FMO influence was primarily indirect;
- The FMO team is quite dynamic when it comes to helping on the ESG front. Obviously, the start of a convergence between DFIs on ESG related scorings and reporting is helpful. FMO is also a realistic investor when it comes to certain ESG demands;
- We expect FMO role to monitor the transactions of conflict of interest in company by other investors, ethical treatments to staff, and clients to be fair level, which would be a sustainable guidance to management and board;
- With regards to last two questions, FMO investment was not channelized/utilized for the purposes in question;
- The board seat for FMO helped to strengthen the governance structure of the bank by bringing its best practices in policy making, management of risks and monitoring. In terms of social standards, FMO's contribution is slightly beneficial since the social standards in *[country]* are more dictated by the local and large financial institutions. In terms of the environmental standards, FMO is not beneficial at all since the bank is more concerned about helping micro-entrepreneurs;
- With FMO coming in our balance sheet one automatically gets the attraction of other institutions in field so as we. With regards to the governance, it was really very helpful to improve our standards in this area. In addition to covenants put in by FMO on governance, suggestion given by FMO team was really helpful to implement. In our business we are directly link to environment to very small extent but with one of the covenants of FMO to fund green vehicle we believe that we had indirectly pay back to society to some extent;
- *[name FI]* was already structured as a fund targeting social impact at the base of the pyramid so the contribution from FMO was not significant there. We have benefited from help on Environmental and Governance matters, however;
- Investing in an emerging market like *[country]* requires a very deep understanding of the market, being nimble on the ground with changes in strategy and changes in investment approach. FMO being a thorough partner has helped us in guide us through these changes through appropriate level of influence in the governance;
- Very important contribution, not only on equity and technical assistance, but also on the Board of Directors and on the governance structure in general. Many thanks;
- FMO appointed board members, the board members almost always showed up and their contribution was valuable;
- In addition to the above, FMO helped the Management Company to improve its internal procedures and specific technical skills (i.e. FX risk administration) in year 2007;
- Significant contribution in terms of governance and importance of environmental and social impact;
- FMO's contribution to environmental standards were 'not beneficial' simply because *[name FI]* s invests largely in financial institutions and so its impact on environmental aspects is minimal or non existent;

- We received dedicated support from FMO to extend our operation scale in *[country]*;
- FMO's continues monitoring procedures with regard to *[name FI]* 's environmental and social requirements have given tremendous support to stand ahead of the cutthroat competition within the industry. Assistance of FMO with regard to *[name FI]* 's governance has lead the company to new heights as well as to maintain mechanisms, processes and relations to control and direct *[name FI]*;
- The insistence of sound governance structures could be reason why *[name FI]* is still operational after the closure of the parent company, *[…];*
- We are part of a group very close partner of FMO, and we must respect FMO governance, social and environmental standards;
- Client assessment for social and environmental standards is performed based on the methodology and training that was received by FMO organized workshops;
- FMO funded the technical assistance that enabled *[name FI]* to develop a robust Environment, Social and Governance Management System. In addition, FMO's ESG personnel were available to assist the *[name FI]* team to address any ESG challenges in the portfolio companies. FMO were also instrumental in developing the fund structure that was finally adopted by the Takura which was in line with best practice;
- We have received support from IFC on ESG standards and thus an active role from FMO was not needed;
- FMO was instrumental in helping us develop capability and policies on social and environmental management;
- We appreciated very much the participation of corporate governance advisor from FMO who came to the company and suggested better ways to improve our board of directors and corporate governance.

21. Estimate the number of microfinance loans provided by your own organisation during the tenor of the financing by FMO.

The sum of the numbers mentioned by 34 respondents is 728,394 microfinance loans.

22. Has this number of microfinance loans increased since the financing by FMO?

Response	Total	% of responses	%
Yes	26		70
No	11		30

23. Estimate the number of SME loans provided by your own organisation during the tenor of the financing by FMO

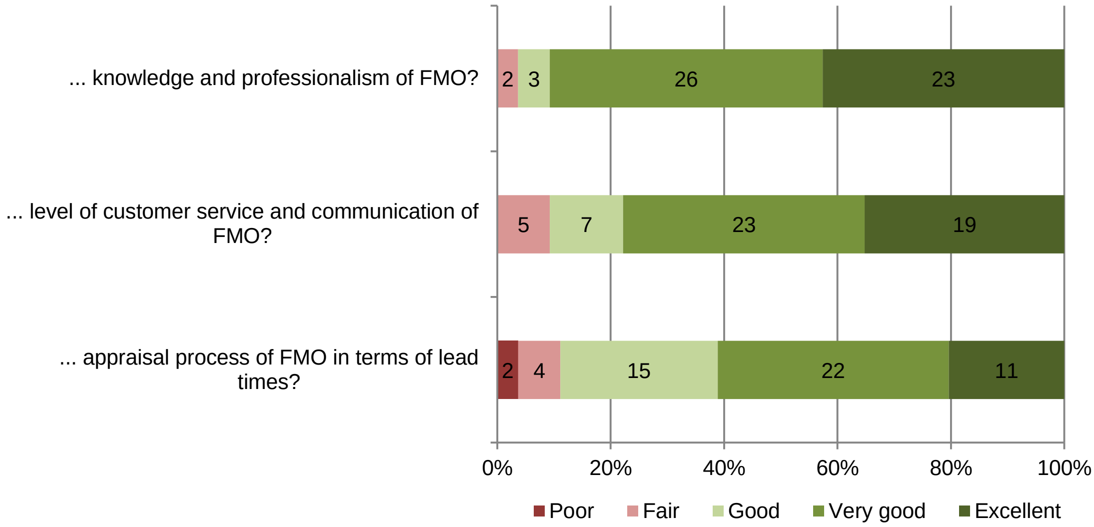
The sum of the numbers mentioned by 19 respondents is 511, 536 SME loans.

24. Has this number of SME loans increased since the financing by FMO?

Response	Total	% of responses	%
Yes	26		81
No	6		19

Efficiency fund management by FMO

25. How did you experience the...



Closing questions

26. What is your opinion with regard to the product offering and service provided by FMO?

Open answers:

- We didn't have the opportunity to experience all FMO services!
- It has been a partnership throughout and we have enjoyed working with FMO to build our business;
- Very good;
- The product offering and service by FMO is awesome. The service offered by FMO is relationship driven, their officers are always willing to assist. I like the long term nature of their products which allows businesses to embark on productive and developmental projects;
- Good in quality but limited by inadequate staffing at FMO;
- Very good over all;
- Very strong, committed to frontier markets, work to be a partner with Investment Manager. Product offering was exactly what we were looking for;
- The encouragement, professionalism, values and knowledge of the FMO team has become a model for *[name FI]*. They have been instrumental and exceptional in helping us get off the ground in a challenging market;
- Good, but there is considerable room for improvement;
- Without doubt, the strongest and most impactful DFI. Regularly takes a lead in creating innovative companies, convening funders and directing companies to increase impact. Its events support the longer-term development of the banking market well. Only DFI open to feedback;
- FMO is professional and results oriented, it also respectful on international standard. However, the communication with partners need to be improved;
- We received support in equity which was very appreciated by us, as well as the service provided by the staff that held relations with us;
- Very important to have FMO participating in the markets we serve;
- Muy bueno. es flexible y permanentemente mantiene comunicación con la institución;
- Adequate to MFI profile and the TA that is available fits our needs;
- Quality services specially regarding the governance structure;
- The product offer was limited to Equity and TA and not to a debt facility;
- Kkey early anchor investor in our fund. Very open and direct to deal with. Able to ensure that other DFI's move forward constructively;

- My opinion is good. FMO was also a shareholder at my Group level so relations were good and product offers interesting, helping to develop our portfolio;
- Reasonably in market conditions with correct governance and monitoring requirements;
- The product offering of FMO is good and diverse, but please the point below;
- It is good loan products that we received from FMO. However, we wants some more Senior loans, Credit lines, Syndicated loan esp Credit line which we can finance sometimes the shortage of liquidity as collect more and more deposit;
- FMO's services are excellent. Documentary requirements related to capital are timely provided. Officers are also prompt to respond to the concerns of the organisation especially on capital infusion. We appreciate the visit of one of their officers to support the organisation in strategic planning;
- FMO being such a large organization has wide range of product to offer, I don't think any one has any sort of issue in terms of product available with FMO. Though initially we were not much aware of what other supports FMO can put in but within last 1 plus year of experience with FMO we are really impress with other supporting facilities FMO is providing;
- We're grateful for the MASSIF fund that enabled FMO to invest in the first venture fund of its type in East Africa. We've also had good interaction with lead investment officers at FMO who have been professional and pragmatic. Our concerns relate more to the long time to get to decisions, but FMO has been no worse than the other DFIs;
- Flexible, very understanding of our needs and very supportive at all times;
- The product offering is very appropriate to new institutions in developing countries as there is a lot of flexibility but at the same time ensuring that there is good governance and adherence to best practices;
- In general good opinion on providing the products and services;
- Excellent product and service;
- It is good from the perspective of being ready to assume risk in an otherwise risky segment, that is SME;
- Product offering is good, service suffers from changes in account management. New people often have new/different targets;
- It is clear that FMO has become an important social, developmental and responsible business player in *[region]*. We strongly believe that FMO's role for the life improvement process in our region is very important;
- Teriffic. FMO has simply been our most important and reliable partner;
- Good, but in environments like ours, it is crucial to have follow on investments (2 to 3 funds minimum) before the experience can become sustainable;
- The service level is very good. The product is also good but of late (with respect to discussions on new funds) we find that FMO is more risk averse than before. The strategy seems more focused on direct, and by extension, later stage investments than those their GPs / Funds invest in;
- Good enough for us;
- FMO has been in a position to cater to the requirements of *[name FI]* by offering bilateral and syndicate facilities, which facilitated the operations and growth aspects of the company for the past few years. the services offered by FMO at the execution of transactions are beyond expectations of *[name FI]*;
- FMO understands doing business in emerging markets like *[region]*. They are playing a true transformative role;
- VERY GOOD OPINION;
- Very suitable product that matches the organizational development and contributes in overall stability and progress the service has been excellent and we appreciate the careful listening of FMO investment officers to the needs of our organization;

- The product offering is extensive. For us as a fund in *[country]*, the MASSIF facility was instrumental as we might not have been able to raise funding if MASSIF had not been available;
- Good. Difficult approval process but once committed FMO is very supportive;
- So far I have been dealt with FMO, its product offering and services rendered are seem to be very good. But, to me, FMO has the opportunity to come up with more short and long term products (i.e. project financing, credit lines) to the driving sectors of *[country]*, namely, RMG and Textiles, Agriculture, SMEs, power, infrastructure (for building sea port, metro rail services, highways etc.) in direct coalition with *[name FI]* as well as development of environment & green financing;
- The product offering was adequate for the need at the time;
- FMO is a knowledgeable investor that is able to raise appropriate concerns and questions. Their processes are timely and communication is clear and followed-up on well. They are also a pragmatic investor that is willing to raise relevant issues, but also to look more deeply into the environment in which the fund is working;
- Very good. They are approachable easily and respond to our requirements positively;
- We are positively pleased with FMO's capacity to understand our business and flexibility with our business profile.

27. What improvements would you recommend to FMO?

Open answers:

- Nominate board member as soon as possible;
- We think out permanent capital vehicle makes sense for small companies in frontier *[region]* and recommend that FMO considers more such deals;
- Legal documentation needs improvement;
- Perhaps FMO could consider provision of management services to assist businesses that are scaling up operations under their Capacity Development and Training arm;
- Hire more staff and improve evaluation/approval speed;
- Improve appraisal times. Review different types of fees charged;
- We are happy with FMO's contribution to our development and team growth;
- The ESG event in Hong Kong was particularly helpful. More of these (not only in ESG but all aspects of PE management) would be extremely welcome, esp. with some TA support to help cover international travel costs for small funds like ours;
- Reporting should be more flexible and link to a portal on the company website;
- Address issues with equity investment into financial institutions. The banking market will sorely miss FMO's leadership. Increase time 'in the field';
- Communication, sharing experiences met in other continents and countries (Both failures and successes);
- Considerar tasas de interés más bajas;
- Greater local presence with the opening of branches in *[region]* could benefit both;
- More flexibility in terms of product range;
- On the fund of fund side, key contact points appear to change with frequency. There is still a key thread but it would be great if there was greater stability;
- Conditions and convenants on local currency solutions are a little bit too heavy. Working on USD is interesting but developing portfolio on local currency is much more sustainable for SME market and funding solution for that precise needs are still too long and too expensive;
- Local currencies offer and incentives for clients benefits to stimulate some programs;
- Having the same people talking to FMO clients for while builds a relationship. As a small client, we tend to have quite some churn so have to rebuild the relationship quite often. FMO could sometimes seek to take a leadership role even though there are other DFIs backing us. The relationship sometimes tends to be focused on getting information only to be able to write a report. We would welcome more discussions/benchmarking, advice from FMO;

- Loan agreement should be more simple, shorter. So far, it is too heavy;
- The area which we believe FMO can work on is the time line in appraisal process but still I can't say this as an complain area as the timelines are very clearly communicated well in advance stage;
- FMO has tended to take the role of a supportive investor. They should try to take an anchoring role in order to enhance their agenda and our abilities;
- FMO must continue to offer appropriate support to the institutions it invests in;
- To react faster (to be more efficient);
- Keeping in mind that we are like a start-up, we would like to receive more equity - to achieve breakeven point in around two years- and then debt;
- Make available their network of experts to the Fund Managers, so that they tap into them in delivering the Capacity Development programme;
- FMO is one of the best if not the best DFI. They seem to become increasingly institutional though their own targets lead the conversation vs what the client needs and people seem less experienced. As a client you need a partner for the long-term. It takes at least 10 years to build a stable business. For that you need stable funders. Even beyond that, when you move to new markets, you want to bring your existing bankers along. FMO could serve their existing clients more pro-actively and for a longer period of time;
- Recently, we were able to detect FMO's restrictions in equity or mezzanine products offered due to its equity limited capacity or Basel III restrictions. This will slowdown the current FMO's successful trend in its objectives;
- Associate technical assistance to each fund Support Fund Managers for a least 10 years;
- The earlier strategy of supporting smaller businesses through their fund-of-funds work should continue, in case there is any rethink on it;
- Please consider to provide more long term funding support. *[country]* is a developing country need more fund for Economic Growth;
- Appreciate if FMO could be more flexible at negotiation stages of new facilities;
- Tenures and frequency of payments;
- We want to target more consistently the small business through more customized products for amount up to the equivalent 50 thousand euro but for this purpose is needed funds at a lower costs;
- We understand that the MASSIF's tenure has expired. For funds or organisations in least developed nations, which operate in places with dire need of long term capital, it would be beneficially if this facility was renewed;
- Shorten lead times in approval process;
- i. Offering more soft term products and services ii. Visit of the top officials (CEO, CRO etc.) of FMO to its clients in *[country]* at least once in a year will be a motivating and encouraging matter (to them, clients) to be more compliant to FMO's norms and standards and cementing business relationship at new heights iii. More involvements in policy infrastructure development, socio economic & environmental development, conducting frequent capacity building programs for its clients (with the target group);
- 1. Revisit the product pricing downwards 2. Cheaper local currency financing would be more desirable as most SMEs have inflows in local currency 4. Consider longer tenors up to 10 years;
- We would like to have a better understanding of other benefits or complementary knowhow our company can reach by working with FMO i.e. IDH funds, capacity development, corporate governance advisors, etc.

28. Do you have any other comments?

Open answers:

- We are grateful to *[name IO]*, an excellent investor and guide (if tough!);

- We enjoy an good relationships with FMO and although we do not benefit from its experience in terms of social knowledge or ESS management, our cooperation has been positive and enlightening;
- We remain indebted to FMO for the seal of approval to our institution which has enabled us to secure funding from other funders;
- FMO was often the slowest DFI to confirm approvals which at times held up progress;
- We have found FMO best in class of all the DFIs we have dealt with;
- Excellent partner;
- we value our partnership with FMO and *[name IO]* who has been a key contact point over many years. In our fund 2, FMO have taken the lead in providing our ESG framework at DD;
- Even though this is anonymous, we are hopeful to increase our level of cooperation with FMO;
- FMO should come regularly and discuss critical issues with *[name FI]* management before react to Board of directors, shareholders 'representatives;
- Thanks you very much for everything;
- Note: your question about the size of company that our fund targets doesn't apply in *[name FI]* case. We may invest in a company that has 1-2 employees, but if we're successful they will employ thousands (this has happened and is happening in our portfolio). We're a venture capital fund, not an SME or MFI investor;
- Thank FMO;
- There is enormous market potential for MASSIF. It would be welcome if the fund is expanded substantially. There hardly are alternatives. DGGF does not come close, other DFIs are too bureaucratic. MASSIF makes FMO unique. At the moment there is pressure on MASSIF. Your business can only use it once or twice, whereas if you develop your business into new, high risk areas, continued support is much needed;
- We appreciate the high level of professionals that interact with us and with our Funds under management. That's the reason FMO is becoming a leader in the market;
- FMO has been a part of building some highly innovative and impactful businesses in *[country]*. An assessment of what worked and what didn't in its long and illustrious journey will hopefully lead it to continue supporting worthy causes and companies. We have valued our association with FMO for the values it stands for and its work and hope that it continues;
- Thanks for the great support always;
- The services offered by the personnel of FMO in all aspects are very much appreciated. Services provided at stages of negotiation of new facilities as well as technical support given are very much valued;
- We are a truly happy client;
- We are very satisfied of the quality of our relationship with FMO;
- It was a pleasure working with FMO through the process of raising funds from them. They were very professional and provided invaluable guidance. Without their assistance and MASSIF funding, it would have been difficult to access the additional funding we did receive as it was enabled/unlocked by FMO funding;
- Considering the potentiality of expanding of economic, business activities, FMO may think of opening of a liaison office at *[city]* (as like as *[DFI]* has its *[city]* liaison office);
- Grateful to FMO for the partnership during the various transitions of the bank over the years.

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