CARNEGIE CONSULT
Investment Advisory Services

ODI

Evaluation ‘Nederlandse Financieringsmaatschappij voor Ontwikkelingslanden’ (FMO-A)

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List of abbreviations

ACP	Africa, the Caribbean, and the Pacific
ADB	Asian Development Bank
AEF	Andersson Elffers Felix
AER	Annual Evaluation Report
ALCO	Asset and Liability Management Committee
BIS	Bank for International Settlements
BoP	Base of the Pyramid
CDC	Centers for Disease Control
CDI	Centre for Development Innovation
CEF	Common European Framework
CEO	Chief executive officer
CFA	Chartered Financial Analyst
CIC	Committee on Institutional Cooperation
CIP	Clearance in Principle
CIS	Commonwealth of Independent States
CRFO	Contingency Response Field Office
CSP	Corporate Sustainability Priorities
DB	Doing Business Ranking
DCED	Department of Community and Economic Development
DCPS	Domestic Credit to Private Sector
DDE	Directie Duurzame Economische Ontwikkeling
DEG	Digital Entertainment Group
DFI	Deep Foundations Institute
DFID	Department for International Development
DGIS	Directoraat-generaal Europese Samenwerking
DII	Development Impact Indicator
DNB	Dutch Central Bank
DOTS	Development Outcome Tracking System
E&S	Environmental & Social
EBRD	European Bank for Reconstruction and Development
EDFI	European Development Finance Institutions
EDIS	Economic Development Impact Score
ESI	Environmental and Social Risk Indicator
EHS	Environmental, Health and Safety
EIB	European Investment Bank
EPI	Environmental Performance Index
ERR	Economic Rates of Return
ESAP	Environmental and Social Action Plans
ESDIS	Environmental and Social Development Impact Score
ESG	Environmental, Social & Governance systems
ESHS	Environmental, Social, Health and Safety
ESI	Environmental Sustainability Index
FDI	Foreign Direct Investment
FI	Foreign Investment
FIM	Fund Investment Management
FMO	Financieringsmaatschappij voor Ontwikkelingslanden
FP	Financial Proposal
FSC	Forest Stewardship Council
FSF	Financial Strength

FTE	Full Time Equivalent employees
GDP	Gross Domestic Product
GHG	Greenhouse Gas
GNI	Gross National Income
GRI	Global Reporting Initiative's
GRP	Corporate Policy Project Rating
HR	Human Resourses
I/O	Input-Output
IADB	Inter-American Development Bank
IC	Investment Committee
ICOR	Incremental Capital Output Ratio
IDF	Infrastructure Development Fund
IDG	International Data Group
IEG	Independent Evaluation Group
IFC	International Finance Corporation
ILO	International Labour Organization
IMR	Investment Mission Review
IO	Investment Officers
IRR	Internal Rate of Return
ITC	International Trade Commission
KFW	Kreditanstalt für Wiederaufbau
LIC	Low Income Countries
LMIC	Lower Middle Income Countries
M&E	Monitoring & Evaluation
MASSIF	Management of Security information and events in Service Infrastructures
MDB	Multilateral Development Bank
MDG	Millennium Development Goals
MIC	Middle Income Country
MSEF	Micro & Small Enterprise Finance
MSME	Micro, Small and Medium Enterprise
NBFI	Non-Bank Financial Institution
NGO	Non-Governmental Organizations
NIM	Net Interest Margin
ODA	Official Development Assistance
ODI	Overseas Development Institute
PEF	Private Equity Funds
PE-funds	Price Earnings funds
PIDG	Private Infrastructure Development Group
PPP	Public-Private Placement
PSES	Standards on Social & Environmental Sustainability
QI	Quantitative Indicators
ROA	Return on Assets
ROE	Return on Equity
SAMS	Social Accounting Matrix
SHIFT	Strategic Horizon for Impact and Footprint Transition
SIFEM	Swiss Investment Fund for Emerging Markets
SKS	Citibank Londen
SME	Small Medium Enterprises
TCX	The Currency Exchange Fund
TEU	Twenty Foot Equivalent Units
ToR	Terms of Reference
UN	United Nations

WB	Word Bank
WBSCD	World Business Council for Sustainable Development

Executive Summary

Purpose of Evaluation

Article 11 of the agreement between FMO and the State of The Netherlands of November 16 1998 requires the agreement to be evaluated every five years. Previous evaluations focused on the financial continuity and the level of cooperation between the State and FMO (2004) or on the effectiveness of established governance mechanisms and the development impact of FMO's operations (2008/9). The present evaluation - covering the period 2008-2012 - focuses on whether the institutional set up of FMO as an institute is geared for generating development results, taking into account the fast changing environment and the balance between financial and development results. The main purpose of the evaluation is to understand to what extent FMO's procedures and set up to achieve its objectives and to gain insight into the added value of FMO as an instrument for development cooperation. In this context, important areas for evaluation include the investment and management policy, the monitoring and evaluation of financial and development results and the governance and the role of the State.

The Terms of Reference (ToR) for the evaluation poses the following broad questions:

1. How does FMO combine its own financial sustainability with the development objectives?
2. Is FMO's institutional set up, including procedures, sufficient to demonstrate its contribution to economic and social development in the countries where FMO is active?
3. What can be concluded, using FMO's information system and interviews, about the development results for the years 2008-2012?

To obtain a good understanding of the performance of FMO with respect to these questions, we carried out a benchmarking exercise among three other large European development finance institutions (DFIs): die Deutsche Investitions- und Entwicklungsgesellschaft (DEG) Germany and CDC Group UK and the International Finance Corporation (IFC). In the benchmark we paid special attention to the systems and procedures these institutions have in place for measuring, monitoring and evaluating development results and how these relate to the defined goals.

Methodology

The ToR includes three types of questions.

The first group of questions (related to the balance between financial sustainability and development objectives) were of a descriptive nature and focused on establishing the fact on policy, procedures and operations of FMO. In this context special attention was given with respect to the role the State in ensuring that FMO maintains a good balance between development and financial results.

The second group of questions (regarding FMO's institutional set up) is more of an evaluative nature and are based on an analysis of internal documents and procedures as well as interviews with FMO officers and management and government officials.

The third group of questions (related to the development results) is primarily based on an in depth study of a sample of (20) investments of FMO of which half of the sample concerned investments approved in the period before 2008 and the other half was approved during the evaluation period. In the inception period the sample has been selected with the purpose of achieving a fair representation of FMO's portfolio taking into account sectors, countries and size and financial instruments.

For this last theme the analysis was carried out on the basis of file study and interviews with investment officers and representatives of other departments involved in the investment en monitoring process.

Across the themes we have undertaken a benchmark study of FMO, DEG, CDC and IFC based on publicly available information, information made available by these institutions and interviews with representatives of these DFIs.

Findings

Question 1: How does FMO combine its own financial sustainability with the development objectives?

The agreement between FMO and the State (of 16 November 1998) states that the operational policy of FMO should be based on three main principles:

1. Catalysis
2. Additionality
3. Good governance

These main principles are specified in the agreement and the strategy documents of FMO (Moving Frontiers document for the evaluation period) in the form of longer term operational goals and through annual budgets in which annual targets are set. These targets include development returns, sustainability returns, requirements with respect to additionality and catalysing effects and financial returns. The criteria memorandum is an annex to the agreement with the State and includes specific requirements with respect to the geographical focus of FMO stating that 35% of FMO's portfolio should be in the poorest 55 countries. FMO operationalised its criteria, such as development impact, by assessing the potential development impact through a system called Economic Development Impact Score (EDIS) and the Development Impact Indicator (DII) which is based on a multiplication of the EDIS-score and the volume of new investments.

The most important observations are the following

- An important achievement is that FMO managed during a period of financial crisis and economic downturn in a large number of countries to expand its investment portfolio and to increase its profitability while maintaining its focus on the poorest 55 countries.
- FMO satisfies the criteria and demands as laid out in the Agreement and Criteria Memorandum. Most of the criteria are operationalised, such as development impact measured by EDIS and DII, catalytic role and the financial results. Additionality was more difficult to operationalize, therefore the goals set were qualitative.
- FMO-A makes strategic choices as evidenced by actual changes in the portfolio.
- FMO has gradually put sustainability more central in its operations and applied IFC standards in line with best practice of other DFI's. Throughout 2008 – 2012 FMO has focussed on the actual implementation of environmental best practice with its clients. It focussed on agreeing improvement plans with clients and on execution of actions to reach a high level of implementation including some innovative approaches such as the use of pricing incentives..
- A broad positive correlation exists between development results and financial results, as discussed in FMO's evaluation reports (and see bubble charts in this report).
- Development results and financials results are both very important for FMO, development results are secured by strategy, for example by choosing certain sectors as focus sectors. Financial results are more elaborately described in the financial proposal. IOs have the investment criteria and development objectives in consideration in the selection of a project well before writing the investment proposal (CIP).

- Most DFIs are struggling to identify the right balance between financial sustainability and development objectives. FMO is definitely not inferior to other DFIs and in some aspects is one of the frontrunners in developing systems.
- The State does not optimise the instruments available to them to make sure FMO maintains a good balance between development and financial results. The latest amendments (2009) in both the articles of association as well as the agreement between FMO and the State allow the State to be involved in formulating the strategy and focus areas. Moreover the State has to be informed on a regular basis on the risk management, the major risks and the way risks will be improved. An important observation was that the two Ministries involved do not have a joint vision with respect to the expectations of balancing financial and development returns.

Question 2: Is FMO's institutional set up, including procedures, sufficient to demonstrate its contribution to economic and social development?

Overall the development impact reporting systems in FMO appear to be as advanced as those of other DFIs. The IFC collects more information ex-ante using DOTS. The CDC seems to have a better grasp of the importance of indirect effects ex-ante, but this is limited to one indicator: employment. Our review has suggested that a range of indicators might be important, including beyond employment such as e.g. productivity. The reliability of the indicators varies.

The ex-post monitoring systems at FMO compares favourably to other DFIs in most areas including the scope of projects covered and for the methodology. FMO carries out portfolio evaluations annually and has also started undertaking annual thematic and sectoral reports. However improvements to the system, such as measuring indirect effects or using a fixed set of quantitative indicators across all projects, could be introduced as part of the new SHIFT system in 2014.

Monitoring and evaluation systems also compare favourably i.e. FMO's Environmental, Social & Governance monitoring system is comprehensive and also significantly simpler to use than ESG systems used by some other DFIs. Over the period of evaluation, FMO has focused a lot of attention on improving ESG systems and capacity (including as part of deal teams).

Whilst FMO compares reasonably well to other DFIs, there are challenges in development impact reporting that are common to all:

- information gathered is often mainly for project level info, geared mainly towards tracking at project level, and it not really geared towards reporting on development impact (e.g. direct and indirect) or on how a project links into an economy
- the EDIS scoring system was subjective; the score had little value with respect to external accountability / external reporting: it is not clear what a 63 EDIS score for the portfolio stands for - e.g. EDIS scores are not comparable across sectors and there is no one-to-one relationship with quantifiable indicators
- the EDIS was supposed to be used for steering projects (ex-ante), and whilst there were some who said the development impact did steer their investments (using group targets), others disputed this: rather, the projects were determined by FMO investment criteria (as evidenced by lack of long pipelines of projects). The use of SHIFT indicators may change this.

In practice, there is very little information or analysis available in the CIPs / FPs to demonstrate development impact or additionality comprehensively:

- There is little information on how projects link into sector/economy as a whole, both in an ex-ante and ex-post way. This could be dealt with through ex-ante use of multipliers (to improve

steering, some DFIs such as CDC are using this), and ex-post use of targeted detailed impact assessments (to improve accountability).
- Few explicit checks on additionality (e.g. there is no evidence of testing of local markets, rather there is the use of assumptions).
- Catalysing effects: few evaluations examine this aspect and they do not construct a counterfactual (e.g. by examining potential beneficiaries which did not receive FMO's support and compare their ability to attract finance to actual beneficiaries).

Hence, FMO has made significant steps over the last decade, but there is still limited information available for stakeholders who really want to know about development impact.

Question 3: What can be concluded, using FMO's information system, about the development results for the years 2008-2012?

Question 3 focuses primarily on the development outcomes. These are researched by using general evaluation reports, portfolio information and evaluation reports of individual investments. Firstly, the conclusions and outcomes found in the overall monitoring and evaluation reports were researched and held against findings in the portfolio and file analysis. In general these evaluation reports were found very useful, some imperfections have also been found, some of which have already been addressed in the SHIFT framework. Next to the general evaluation reports the findings with respect to this question are based on our findings from the sample of 20 investments and from the analysis of the portfolio. The main observations are the following:

On portfolio level

- FMO's development impact as measured by EDIS scores are above targets set in its strategy;
- FMO's portfolio changes rapidly after changes in strategy, indicating that FMO is well capable of responding to changes in the environment it operates in;
- Additionality of FMO is mainly derived from high product risk and less from client and country risk;
- FMO's financial and development reporting are not integrated as these two tasks are handled by two different departments and therefore do not provide sufficient insight in the balance between development and financial results;
- Correlation between development impact and financial results cannot be proven due to data limitations. The development results of the portfolio can not be linked on a year-by-year basis to the financial results of the portfolio.

On file level

- Whilst the role of FMO is part of the overall assessment process it does not influence the scoring in EDIS;
- An appropriate tracking system for measuring catalysing effect is not yet available.
- From the sample we concluded that 1) IOs are able to make an objective assessment of new investments, 2) the main unpredictable impact on investment and development outcomes are developments in economic variables such as the growth of the world and local economy and fluctuations of energy and commodity prices 3) at the micro level disappointing development results are in many cases caused by a lack of progress in implementing improvements in governance.

Practical suggestions

Based on our conclusions we have the following suggestions:

- Additionality and catalytic role are crucial to determine the role DFIs should play and represent two out of three pillars from the agreement on which FMO is built. In that respect we recommend to provide practical guidelines to value these indicators as such in the approval process;
- In line with this suggestion FMO should distinguish catalysing from DFI and IFI sources from commercial financiers;
- It is expected that the implementation of SHIFT will allow better measurement of the relation between investment and development results. SHIFT will be a valuable tool in evaluations in the future. However, SHIFT is predominantly focused on impact measurement and accountability. The 'learning' element of evaluations should also retain FMO's attention and better integrated in decision making.
- Whilst the SHIFT system will implement a more rigorous annual quantitative indicator measurement tailored for sectors, it would also be important to select and report on a limited number of indicators that can be compared across all FMO investments (in addition to QIs such as taxes, profits, wages, it could be discussed whether FMO can also collect direct and indirect information on employment, productivity and CO2 avoided).
- The State can strengthen and improve its role by a better coordination between the Ministries of Finance and Foreign Affairs and to create a comprehensive vision on the expectations towards FMO in balancing financial and development returns. To achieve this goal the Ministry of Finance is developing a standard return ('normrendement') for FMO which is the return FMO is expected to realise given the company's specific risk profile and its public objective,
- FMO could estimate the indirect effects of its projects through the use ex-ante multipliers providing a better account of how a project links into the economy (measured by SHIFT indicators). A database of multipliers could be built up in co-ordination with other DFIs.
- FMO should explore additional ways to measure ex-post impact. A potential way forward is the use of selective ex-post impact assessments of individual projects and sectors, preferably in conjunction with other DFIs. These could help improve understanding of indirect effects whilst reducing the burden on individual DFIs and spread results across more investee companies. For the government funds managed by FMO such an approach is already in place and FMO could benefit from this.

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1. Introduction

1.1. Context FMO

In the policy note dated April 2013 by the Dutch Minister of Foreign Trade and Development Cooperation, *"Wat de wereld verdient: Een nieuwe agenda voor hulp, handel en investeringen"*, the Minister describes a trend of a transition from aid to trade. Developing the private sector through access to finance is generally recognized as a determining factor to facilitate this transition, but in many developing countries there is a lack of affordable capital. This transition illustrates and emphasises the important role of FMO in the development agenda.

Although the State in the above policy note has placed an increased interest in private sector development, FMO has a long history in strengthening this sector. Already in 1970 the Dutch government, private sector, employers and trade unions founded the 'Nederlandse Financieringsmaatschappij voor Ontwikkelingslanden' (FMO) with the goal of empowering entrepreneurs in emerging economies through the provision of financial services. In 2012, FMO had a committed portfolio of € 6.3 billion (of which € 0.8 billion Government funds).

FMO is structured as a corporation, with the State of the Netherlands ('the State') holding 51% of the shares and private shareholders 49%. These include large Dutch banks, employers' associations, trade unions, corporates and individual investors. The State and FMO concluded an agreement ('the Agreement') to govern their relationship with respect to financial and policy matters. In addition to this Agreement, a Criteria Memorandum was established that sets the basic conditions that FMO needs to adhere to in its business. In the agreement the State is represented by two ministries: the Ministry of Finance as shareholder and the ministry of Foreign Affairs being the provider of the funding of the development fund. In 2008 FMO obtained a banking license and thereby has come under the direct supervision of the Dutch Central Bank.

1.2. FMO's Investment Mandate

The investment mandate, through the Criteria Memorandum and the Agreement, stipulates that the object of the company is to contribute to the advancement of productive enterprises in developing countries, to the benefit of economic and social advancement in those countries. It should do so by only providing financial services which the market does not provide, or does not provide on reasonable terms or on adequate scale.

The Agreement of 1998 states that FMO shall contribute to the advancement of productive enterprises in developing countries to the benefit of their economic and social development by inter alia:

- taking equity interests;
- advancing loans and furnishing guarantees;
- providing subsidies for technical assistance and training, and for investment promotion activities which may be conducive to the advancement of productive enterprises in developing countries;
- executing programmes and/or projects commissioned by third parties.

FMO invests bearing its own risk and expense (FMO-A) and also manages government funds on behalf of the Dutch State. This evaluation report concerns FMO-A only, although the government fund programs, such as MASSIF, are also independently evaluated in other evaluation programs.

1.3. Goals and Limitations of the Evaluation

The goal of this evaluation is to investigate whether or not the internal processes of FMO allow generating development results and adequate reporting thereof, while at the same time remaining financially stable. This is an especially relevant question after the developments of the last evaluation in 2008. As a result of the financial crisis of 2008 the financial sustainability of many financial institutions has come under question. In a parallel development, many of the countries in which FMO is active were also affected by the financial crisis. These developments were subsequently aggravated by the Euro crisis.

The evaluation will focus on the following themes:

1. How does FMO combine its own financial sustainability with the development objectives?
2. Is FMO's institutional set up, including procedures, sufficient to demonstrate its contribution to economic and social development in countries where FMO is active?
3. What can be concluded, using FMO's information system and interviews, about the development results for the years 2008-2012?

These themes are subsequently broken down in a number of smaller sub-questions. The study covers the 2008-2012 period.

There are, however, several limitations to this evaluation:

1. This evaluation relies on FMO's internal information. No field visits were made to investigate whether or not this internal information was accurate;
2. FMO's information system sometimes did not allow for specific analysis we had initially envisaged;
3. This report uses a file analysis to support the answer of the third question. This file analysis is done on a sample of 20 individual cases, but we would like to stress the fact that this sample is not representative of the entire portfolio of FMO and, therefore, the conclusions in that chapter cannot be conclusively extrapolated to the rest of the portfolio.

1.4. Structure of the Report

This report is structured as follows. First, we will outline the approach and the methodology Carnegie and ODI have taken to answer the questions of this evaluation. In Chapter 3 we will investigate how FMO combines its own financial sustainability with development objectives. We will do so by desk research, interviews and an analysis of the data made available by FMO. Chapter 4 will focus on the institutional set up of FMO to demonstrate its contribution to economic and social development. We would like to note that FMO has recently changed its framework to measure development returns, but that the evaluation period 2008-2012 covers a period in which the previous framework was still used. Therefore, part of this evaluation will be done using a framework that since then has changed significantly. Chapter 5 looks at the portfolio developments in the period 2008-2012, using FMO's internal information systems, and includes an analysis of a sample of 20 individual cases of which 15 were analysed. Finally, we will provide a conclusion on the questions we were asked to answer and provide some suggestions going into the future.

2. Evaluation approach and methodology

The first phase of the evaluation consisted of an inception phase. The project team discussed together with the members of the steering committee the approach and methodology of the evaluation.

This evaluation examines the following research questions:

- How does FMO combine its own financial sustainability with the development objectives?
- Is FMO's institutional set up, including procedures, sufficient to demonstrate its contribution to economic and social development in countries where FMO is active?
- What can be concluded, using FMO's information system, about the development results for the years 2008-2012?

In order to answer these questions and make a proper analysis, the following sources were used for information:

- Desk research;
- Portfolio analysis;
- Interviews;
- File analysis;
- Benchmarking.

2.1 Interviews

The project team has interview a range of people, please view annex 1 for the full list. The team members have interviewed a large number of persons of different departments of FMO. This contributed to a deeper knowledge of FMO's processes and how they are dealt with in reality. These interviews are necessary to bring nuances and good argumentation into the evaluation report.

Also, interviews have taken place with DGIS/DDE and the ministry of Finance to get more insight in the relationship of the two ministries and the FMO and to get an understanding whether the financial return, risk considerations and efficiency requirements from the ministry of Finance have possible adverse effects on the achievement of development objectives.

2.2 Portfolio analysis

The portfolio analysis of FMO is based on information received from the financing department and the investment and mission review department. A wide variety of variables are requested by the project team to get a good overview of all the financial and development details.

With regards to financial data information has been requested concerning: committed portfolio, outstanding portfolio, net portfolio, interest income, fee and commission income, sales equity investment and associated, dividend income, recovery loans, value adjustments on loans, impairments on equity investments, provision for guarantees issued and unrealised results associates.

The development variable requested were: EDIS, DII, FSF, E&S risk, role of FMO and quantitative indicators.

The development data had some limitations, EDIS is only measured ex-ante[1], therefore it cannot be used for portfolio analysis on ex-post basis. Data gathered on ex-post basis were the quantitative indicators. These indicators are different per sector and only available for the years 2010 and 2012.

[1] With the exception of the project evaluation (50% sample) that takes place after 5 years during the annual ex post evaluation cycle.

Therefore it was not possible to access the overall development impact on the portfolio level. The SHIFT methodology should solve these problems, as the SHIFT indicators will be tracked on a yearly basis and there are at least 8 indicators in common across the different sectors, the "FMO-Wide indicators".

2.3 File analysis

The third research question is focused in part on a sample of 20 files (see annex 4). The sample is drawn based on the portfolio analysis thereby taking into account the following criteria; region, sector, size and instrument. Since the sample consists of only 20 files, it will by definition not be representative for the portfolio. However, based on the selection criteria above we tried to reflect as much as possible the composition of the FMO-A portfolio. The projects have been selected on a random basis. Also, purposely 10 projects are selected with an effective date before 2008 and 10 projects are selected with an effective date after 2008. The notion of this even split was that we would analyse both;

(1) projects already evaluated by FMO's internal evaluation unit, the projects entered into before 2008

(2) projects entered into during the evaluation years (2008-2012) which had not yet been evaluated internally

During our analysis, after having established the sample of 20 projects, it became apparent that out of the 10 projects contained in group (1), only 50%, i.e. 5 projects, had undergone internal evaluation. This being a logical consequence of FMO's policy to evaluate on an ex-post basis 50% of the projects as discussed in paragraph 2.2. Hence, our in-depth analysis of the projects in group (1) will only cover 5 projects. With regards to group (2) all 10 projects have been analysed.

2.4 Desk research

We have examined a large number of documents; the full list of documents can be found in Annex 2. The analysis of document contributes to an understanding of the management and institutional set up of the organisation. Furthermore, more insight is provided in the goals and targets which are established at the foundation of FMO. Document studied are amongst others:

- Interim and Annuals reports;
- Process plans;
- Scorecards;
- Evaluation and monitoring reports;
- Budgets;
- Communication between the State and FMO
- Minutes of the meeting of shareholders
- Minutes of the meeting of the supervisory board.

2.5 Benchmark

The project team visited the association of (15) European Development Finance Institutions (EDFI) and three IFI/DFI's for the benchmark, IFC, CDC and DEG. During these visits interviews took place with IOs and managers who had good insight into development impact of the projects supported by their institution. The following subjects were discussed in the interviews.

- Measurement of development impact
- Development indicators
- Sourcing
- Cooperation between DFIs
- Cost efficiency and financial return

3. How does FMO combine its own financial sustainability with the development objectives?

This chapter will answer the following ToR questions:

1.1	Does FMO have clearly defined goals and operational assessment criteria in the following fields: • development returns • sustainability returns • additionality and catalysing • financial returns
1.2	Are these goals in line with the provisions in the Agreement and the Criteria Memorandum between the State and FMO?
1.3	Are there provisions in the Agreement or in the Criteria Memorandum that impede the realisation of these goals?
1.4	How are projects selected in practice and how is made sure that the project selection process supports both developmental and financial goals? How does FMO's investment process assist in proper assessment whether individual projects support these goals?
1.5	How does FMO weigh development results and financial sustainability in assessing proposed individual financing projects?
1.6	Is there an assumed positive or negative correlation between development results on the one hand and financial returns on the other hand? To what extent does a correlation exist between development results and FMO growth targets?
1.7	How has FMO's portfolio developed between 2008 and 2012? What are the main characteristics, taking into account a break down by type of investments (financial instruments), size, region, country type (low income, lower middle income and upper middle income), sector (financial, infrastructure, other)?
1.8	How do other DFIs combine financial sustainability with development objectives? Is that different from FMO's practice?
1.9	What has been the role of the Dutch State in ensuring that FMO maintains a good balance between developmental and financial targets, within the context of the existing Agreement?

3.1 Overview of goals and targets

In the agreement between the State and FMO of the 16th of November 1998, it is made explicit that the operational policy of FMO should be based on three principles:

(1) **Catalysis**
(2) **Additionality**
(3) **Good governance**

In the table below a more specific analysis of these three principles is made.

Table 1

Area	Goals	Source
Development returns	The object of the company is to contribute to the advancement of productive enterprises in developing countries, to the benefit of economic and social advancement in those countries.	Agreement State-FMO 16 Nov 1998

Environmental, Social and Governance Returns	Adherence to the principles of good governance in the widest sense. FMO sets the standard in several areas of its operations, including social policy and environmental policy.	Agreement State-FMO 16 Nov 1998
Additionality and Catalysing	Maximizing the flow of finance to FMO's target group. This requires FMO to maximize the growth in and utilization of its equity and the leverage provided by its financing activities	Agreement State-FMO 16 Nov 1998
	Only provide financial services which the market does not provide, or does not provide on an adequate scale or on reasonable terms	Agreement State-FMO 16 Nov 1998
Financial Returns	Partly with a view to safeguarding FMO's continuity, the finance which FMO provides … shall be provided on normal terms and conditions as applied in the financial sector.	Agreement State-FMO 16 Nov 1998

These broad goals are subsequently translated into operational policy mainly in two ways. First, longer term operational targets are set in the strategic vision documents FMO produces. For the evaluation period, the 2009-2012 'Moving Frontiers' strategy is most important. Second, year-on-year operational targets are set in the annual budgets that provide an outlook for the year ahead. In the table below, longer term operational targets are summarized.

Table 2

Area	Operationalization	Source
Development returns	DII (Development Impact Indicator) from 2580 to 3263 (2008-2012)	FMO strategy 2009-2012: Moving Frontiers
	EDIS score from 62 to 64 (2008-2012)	FMO strategy 2009-2012: Moving Frontiers
	80% of total portfolio in the three focus sectors (finance, housing, energy) by 2012. Agribusiness was introduced as focus sector in 2011.	FMO strategy 2009-2012: Moving Frontiers + Policy Consultations State-FMO on the 24th of June 2011.
Sustainability returns	Increase the financing of renewable energy from EUR 100 mn to EUR 400 mn from 2008 to 2012	FMO strategy 2009-2012: Moving Frontiers
	ESDIS score is the operationalization for sustainability return. However, no hard targets are set in the Moving Frontiers strategy as the tool was under development	FMO strategy 2009-2012: Moving Frontiers
Additionality and catalysing	Low and middle-income countries account for approximately 70% of investments, approximately half of which being accounted to low income countries. However, this changed in 2012 to: 70% LIC and MIC, half in the bottom 55 countries measured according to the WB GNI per Capita	Agreement State-FMO 16 Nov 1998 + Beleidsoverleg Staat-FMO op 3 juli 2012
	Raise risk capital portfolio (equity and mezzanine investments) to 50% of FMO capital level (Regulatory limit 60%).	FMO strategy 2009-2012: Moving Frontiers
	Syndications, capital market transactions and funds from EUR 2 bln to 3.5 bln (2008-2012)	FMO strategy 2009-2012: Moving Frontiers

	"Role FMO" score is an operationalization of three elements: (1) financial additionality, (2) catalytic / leverage effects, and (3) non-financial role. No hard targets are set as the tool was under development	FMO strategy 2009-2012: Moving Frontiers
	In 2016 EUR 500 mn assets under management	Policy Consultations on the 3rd of July 2012
Financial returns	5 year average return on equity after tax from 8.4% to 6.0% (2008-2012, FMO)	FMO strategy 2009-2012: Moving Frontiers
	Cost to income ratio from 28% to 25% (2008-2012, FMO)	FMO strategy 2009-2012: Moving Frontiers

In addition to the operationalization of the Agreement by the Moving Frontiers strategy and the biennial policy consultations, every year a budget report is drafted in which the previous year is evaluated and targets for the following year are given. The following table gives an overview of the yearly targets set in the annual budget reports during the evaluation period. Moreover, we have classified each yearly target in one of the following: development returns, sustainability returns, additionality, catalysing, and financial returns

Table 3

Year	Target	Area
2008	Achieve a 75% higher DII compared to 2005	Development returns
	25% or more of the total portfolio in Africa	Additionality
	40% of the portfolio in equity and mezzanine	Additionality
2009	EDIS of at least 63	Development returns
	32% of investment portfolio FMO-A in LIC	Additionality
	Implement ESDIS score	Sustainability returns
	Implementation of the Moving Frontiers strategy	N/A
2010	EDIS of at least 63	Development returns
	40% of the new 830 mn commitments in LIC	Additionality
	80% of ESG action items due in 2010 with clients are implemented	Sustainability returns
	Profit before value adjustments and tax: EUR 119 mn	Financial returns
2011	EDIS of 64	Development returns
	35% of FMO-A commitments in LIC	Additionality
	80% of ESG action items due in 2011 implemented	Sustainability returns
	500 mn in syndicates, parallel loans or risk sharing agreements close 4 large (> 50 mn) transactions where FMO is lead arranger	Catalysing
	Profit before value adjustments and tax: EUR 168 mn Value adjustments: EUR 45 mn	Financial returns

	Production: EUR 1,000 mn Manageable expenses (excl. pension): EUR 48.2 mn	
2012	DII of 780 EDIS of 65	Development returns
	80% of ESG action items due in 2012 implemented	Sustainability returns
	700 mn in catalysing funds	Catalysing
	Profit before value adjustments and tax: EUR 186 mn Value adjustments: EUR 47 mn Production: EUR 1,000 - 1,400 mn Manageable expenses (excl. pension): EUR 51.1 mn	Financial returns

3.2 Analysis of Operationalization

3.2.1. Development Returns

The 2012 annual budget refers to the Development Impact Indicator (DII) as the main indicator, which was last used in 2008. The DII is related to the EDIS score, but also uses the new commitments in its calculation (DII = new commitments * average EDIS / 100). EDIS is FMO's measurement tool to assess ex ante development impact and is further explained in paragraph 4.2.1. The 2012 budget explains the following:

> *To measure development impact we will use the DII in place of the previously used EDIS. The Development Impact Indicator is derived from new commitments and EDIS. The aim for 2012 is a score of 780 consisting of EUR 1.2 billion commitments and an average EDIS of 65.*

> *Both the Dutch government and NGOs increasingly expect transparent reporting on development outcomes as well as environmental, social and governance issues related to our investments. As reporting on solely the EDIS is not sufficient anymore, a new framework for measurement and disclosure of development impact will be developed during 2013 and 2014. This framework will be subjected to an external review in order to ensure the validity and robustness.*

The new framework that was developed for the measurement and disclosure of the development impact is part of the Strategic Horizon for Impact and Footprint Transition (SHIFT). This change within FMO refocused on outcomes (i.e., what FMO aims to achieve) rather than outputs (i.e., where FMO invests). The majority (83%) of total indicators are at the outcome or intermediate outcome level. This evaluation however concerns the period prior to this, where the EDIS scorecard was the measurement tool used.

3.2.2 Sustainability

In 2009, as part of the Moving Frontiers strategy, sustainability became a key focus area. In order to monitor progress in that area, the Environmental and Social Development Impact Score (ESDIS) was developed. The ESDIS consists of two components:

(1) The Environmental & Social (E&S) development impact measuring the difference between the client's actual environmental and social risk level, based on its level of compliance with performance standards, and it's "committed" future level of compliance

(2) The investment's contribution to the FMO Sustainability priorities.

Scoring all 2009 investments with an ESDIS would provide a baseline for target setting for the remained of the strategy period. However, after 2009 the ESDIS score was not mentioned in the annual budget reports and was not used for target setting any longer. Instead, targets were set based on "action items due in the year."

FMO has adopted the Equator Principles' risk management framework in 2006. FMO has been applying the Safeguard Policies / IFC Performance Standards since the year 2000. FMO has chosen to apply the IFC Performance Standards to all financing, meaning that it applies the IFC Performance Standards principles also to financing under US$10 million and not only to project finance transactions but corporate finance as well. Hence FMO goes further than the Equator Principles' requirements. The Equator Principles framework is designed for financial institutions, for determining, assessing and managing environmental and social risk in projects and is primarily intended to provide a minimum standard for due diligence to support responsible risk decision-making. This framework means that FMO uses a four step framework for direct investments: (1) risk categorization of clients, (2) establishing applicable requirements, (3) Environmental and Social Action Plans (ESAP), and (4) pricing incentives. For indirect investments, such as investments in financial institutions, the same four step framework is used, but the level of risk is determined on a portfolio level.

FMO's annual financial reports follow the Global Reporting Initiative's (GRI) guidelines for sustainability reporting. In practice, FMO provides a table of contents in which the required elements of GRI reporting can be found with a reference to sources of information. References are made to annual reports, the corporate website, but in some instances a direct answer is given in the table as well.

3.2.3 Additionality

FMO aims to be additional through the country it focusses on, the sectors it selects, the clients it selects and the products it offers. By offering non-standard products to high-risk clients in high-risk countries, FMO ensures that it has an additional role next to commercial financing providers.

Country focus is an important aspect of additionality, which is also one of the operational targets agreed upon in the Criteria Memorandum between the State and FMO. This target requires FMO to have 70% of its portfolio in Low Income Countries or Lower Middle Income Countries and 35% of the total portfolio in Low Income Countries. During the evaluation period, FMO worked with a frozen 2008 list of the World Bank Country Classification scheme. In the biennial policy consultation of July 3rd, 2012, the State and FMO agreed to update the Agreement. The new country focus criteria are that 70% of the portfolio of FMO should be in LIC and LMICs and that 35% of the portfolio should be in the poorest 55 countries, according to World Bank GNI per capita. This leads to the inclusion of several LMIC countries in the 35% where previously only LIC countries were allowed, as illustrated by the table below. The inclusion of the LMIC countries is very valuable for FMO since it includes countries in which FMO can play a large role. 9 out of the 19 LMICs defined in the 55 poorest countries are part of the Least Developed Countries.

Table 4: Poorest 55

#	Country	Region	GNI/Capita 2010 (Atlas, current $)	WB CIC 2011
1	AFRICA	AFRICA	Regional investments	L
2	Burundi	AFRICA	170	L
3	Congo, Dem. Rep.	AFRICA	180	L
4	Liberia	AFRICA	200	L
5	Somalia	AFRICA	211 (2009)	L
6	Malawi	AFRICA	330	L
7	Eritrea	AFRICA	340	L
8	Sierra Leone	AFRICA	340	L
9	Niger	AFRICA	370	L
10	Myanmar	ASIA	380 (2009)	L
11	Ethiopia	AFRICA	390	L
12	Guinea	AFRICA	400	L
13	Afganistan	ASIA	410	L
14	Madagascar	AFRICA	430	L
15	Mozambique	AFRICA	440	L
16	Nepal	ASIA	441(2009)	L
17	Gambia, The	AFRICA	450	L
18	Zimbabwe	AFRICA	460	L
19	Central African Republic	AFRICA	470	L
20	Togo	AFRICA	490	L
21	Korea, Dem. Rep.	ASIA	500 (2009)	L
22	Uganda	AFRICA	500	L
23	Rwanda	AFRICA	520	L
24	Tanzania	AFRICA	530	L
25	Burkina Faso	AFRICA	550	L
26	Guinea-Bissau	AFRICA	590	L
27	Mali	AFRICA	600	L
28	Chad	AFRICA	620	L
29	Haïti	LAC	686	L
30	Bangladesh	ASIA	700	L
31	Cambodia	ASIA	730	L
32	Comoros	AFRICA	750	L
33	Benin	AFRICA	780	L
34	Kenya	AFRICA	790	L
35	Tajikistan	ECA	800	L
36	Kyrgyz Republic	ECA	840	L
37	Mauritania	AFRICA	1030	LM
38	Solomon Islands	ASIA	1030	LM
39	Lesotho	AFRICA	1040	LM
40	Lao PDR	ASIA	1050	LM
41	Pakistan	ASIA	1050	LM
42	Yemen, Rep.	ECA	1060 (2009)	LM
43	Zambia	AFRICA	1070	LM
44	Senegal	AFRICA	1090	LM
45	Nicaragua	LAC	1110	LM
46	Cote D'Ivoire	AFRICA	1160	LM
47	Vietnam	ASIA	1160	LM
48	Cameroon	AFRICA	1180	LM
49	Nigeria	AFRICA	1180	LM
50	Sao Tome and Principe	AFRICA	1200	LM
51	Ghana	AFRICA	1230	LM
52	Sudan	AFRICA	1270	LM
53	Uzbekistan	ECA	1280	LM
54	Papua New Guinea	ASIA	1300	LM
55	India	ASIA	1330	LM

As part of the 2009-2012 Moving Frontiers strategy, FMO decided that it would stop activities in four Upper Middle Income countries that have an investment grade: Brazil, Russia, Mexico and Kazakhstan. This further illustrates the additionality FMO tries to achieve by focusing on those countries where commercial capital is most scarce.

As explained previously the selection of focus sectors is primarily a function of FMO's strategy to enhance development returns. However, additionality also plays a role in selecting focus sectors. By selecting specific focus sectors, FMO can be additional through three mechanisms:

(1) Selecting sectors that benefit sustainable and inclusive development, such as financial institutions and energy supply.
(2) Selecting sectors in which commercial finance is scarce.
(3) Building expertise within specific sectors, which can be used to advance more complex financing structures and assistance for clients with respect to, for example, best practices of corporate governance in the sector.

An example of the latter is the experience and the role FMO has played in telecom transactions in earlier years. From the portfolio review we observed that during the evaluation period a number of telecom deals were financed by FMO. Although before the financial crisis it seemed that the role of DFIs was diminishing as many transactions could be financed by commercial parties. However in a few cases FMO's role was crucial to close the deal as long term financing in one of the LICs was scarce and a client of FMO requested for such a facility. After 2008 the availability of long term financing especially from international commercial financers dried up and FMO together with DEG provided a 7,5 year senior unsecured tranche. This suggests that additionality depends on international economic trends. The evaluation period experienced an economic downturn, and hence fewer investments were made and commercial banks were less willing to take risks and provide long term financing. DFIs and FMO in effect became *the lender of last resort* in a wider range of countries and sectors. Hence, it was more likely that FMO was additional in the evaluation period.

At the start of the evaluation period, the focus sectors of FMO were financial institutions and a number of infrastructure sectors (power and water, telecom and transportation). During the 2008 policy consultation with the State, FMO advanced the Moving Frontiers strategy to the State, which shifted the focus sectors towards financial institutions, energy and housing. During the 2011 biennial policy consultation with the State, a new focus sector was introduced: agribusiness, food and water. This shift in focus was the result of a team that investigated long-term trends in the world. Nevertheless, housing finance remains a significant portion of the "Diverse Sectors" section of FMO's portfolio. The 2012 annual budget memo proposes a *"standard product for housing construction finance"* and new commitments in the housing sector are expected to be 70 mn, which is an increase of 10 mn compared to 2011. Moreover, the 2012 budget report states that there are four focus sectors (financial institutions, energy, agribusiness and housing). As of July 2012 the housing sector was abandoned as focus sector. Currently there are three focus sectors (financial institutions, energy end agribusiness) and one "diverse sectors". According to the website, diverse sectors include infrastructure, mining and manufacturing projects.

Thirdly, FMO can be additional by providing financing products that are not offered by commercial parties. In the Moving Frontiers strategy, the target for 2012 was a portfolio that consisted 50% of mezzanine and equity finance. An important development for reaching this target is the banking license that FMO obtained early 2008. As a result, FMO has to adhere to the regulation set forth by the Dutch Central Bank, which stipulates that financial institutions under supervision restrict the portfolio of equity investments of banks to 60% of their capital level. FMO uses an internal limit of 55% of capital.

Disbursed equity investments weight 100%, and committed but not disbursed equity investments weigh 50%.

Another method of FMO to increase additionality through the products it offers is by bundling finance with technical assistance to improve corporate governance or to implement environmental and social management systems.

3.2.4 Catalyzing role

Playing a catalyzing role is one of the three pillars in the Agreement that FMO operates with. FMO plays a catalyzing role by aiming to mobilize other parties to invest in companies, projects or financial institutions in which they otherwise would not have invested. In the annual budgets of 2011 and 2012, targets with respect to syndicate loans were introduced. In these syndicates, FMO can play a catalyzing role by, for example, taking a first loss position. Subsequently, the financial risks for the other parties in such a transaction are lower. Alternatively, FMO can use its expertise of investing in developing countries or specific sectors, which also lowers the overall risk profile of a financial product.

In the current measurement systems, FMO does not differentiate between money mobilized from other DFIs and IFIs or money catalyzed from commercial parties, even though this seems to be the case in figure 19 and page 68. The split that is made in these graphs is not reliable and the data is not considered as management data. We believe that truly understanding the catalyzing role of FMO requires an analysis that can separate to which extent commercial funds are catalyzed and to which extend catalysis of other DFIs and IFIs takes place.

During the evaluation period there were a number of occasions where cooperation with institutional investors was considered. A new instrument was considered, where FMO could act as fund manager for institutional investors. Large investors looking to diversify their portfolios into emerging markets provide an opportunity for FMO to catalyze funds by managing part of their portfolios. In the 2009 policy consultation, FMO proposed that pension funds would be an attractive opportunity to act as fund manager for. However, these early efforts came to a halt as pension funds became more risk averse during the financial crisis. These initiatives were started in the evaluation period, but only recently (after the evaluation period) were more successful. As part of the strategy 2013-2016, fund management has become an important target, with a targeted EUR 500 mn of assets under management by 2016. Catalyzing institutional investors is an innovative approach by FMO, without similar arrangements by the direct peers.

3.2.5 Financial Returns

In terms of financial results, the Moving Frontiers set two longer term targets for the period 2009-2012:

(1) 5 year average return on equity after tax from 8.4% to 6.0%
(2) Cost to income ratio from 28% to 25%

During the global financial crisis which erupted in 2007 and raged on for most of the evaluation period FMO has obtained continued to achieve strong financial results. A positive net profit was booked in each of the evaluation years and the profit figures show a year-by-year increase with one exception in year 2011 (net profit EUR 93 million) when net profit declined compared to the preceding very strong year 2010 (net profit EUR 126 million). In other words, in relation to the manner that other financial institutions have been affected globally FMO compares strongly which is testimony to FMO's prudent risk management. From the 2010 annual budget onwards, specific financial results are taken into account. In 2010 this was a profit before value adjustments and tax target, while in later years this was expanded with targets for value adjustments, total production and manageable expenses.

As FMO is under the supervision of the Dutch Central Bank, it has to comply with the Basel II criteria. The standardized BIS-ratio, which is reported to the Dutch Central Bank, was 29% in 2012. However, the standardized external capital requirements do not properly reflect the emerging market nature of the exposure of FMO and furthermore hardly differentiate between FMO clients, as over 95% of the portfolio is invested in unrated clients. Therefore FMO has developed an internal ratings model in cooperation with one of the leading rating agencies which provides input to an internal economic capital model which is more conservative in its risk assessment.

Economic capital is calculated for every transaction from 2012 onwards. The outcome should be interpreted as the euro amount of risk capital FMO requires to cover the risks associated to the exposure. For commercial loans, the economic capital is calculated from (1) probability of default, (2) loss given default, (3) maturity of the loan, and (4) exposure at default of the loan. For equity investments the economic capital is calculated from calculated from (1) probability of default, (2) loss given default, (3) maturity correction factor, and (4) region add-on. The weighting of the four elements, for both equity and debt transactions institutions, does not change for different risk classifications of the underlying client. The internal capital requirement for the exposures equalled 14.2% in 2012 resulting in an economic capital requirement of EUR 1,038 million. With total available capital amounting EUR 1,835 million FMO remains very well capitalized. The internal minimal limit FMO has set for its economic capital is 12%.

3.3 Goals and the Agreement

As discussed in the previous section, the operationalization of the goals follows the provisions in the Agreement and the Criteria Memorandum. However, as the catalysing role of FMO is one of the three pillars under which FMO operates, we find that there is little emphasis on the catalysing role in the internal measurement systems. We believe that making a distinction between catalysing commercial funds and catalysing DFI and IFI funds would be a useful first step. Using such a distinction would allow the monitoring and targeting of FMO as catalyser of commercial funds, rather than jointly investing with other DFIs. On the other hand, FMO's efforts to catalyse pension funds are very innovative and promising.

The Agreement and Criteria Memorandum do not have parameters with regard to the focus sectors in which FMO operates need to operate. The strategic change into and out of the housing sector and the more recent move into agribusiness also indicate that FMO can operate flexibly enough under the Agreement to change strategy as it sees fit. Of course, in the biennial policy consultation meetings between the State and FMO strategic decisions are discussed.

An area in the Agreement that is binding for the strategy is the country focus of FMO. During the evaluation period the Agreement stipulated that 35% of the total portfolio should be invested in Low Income Countries. However, as more and more countries transitioned from LIC to Lower Middle Income Country, after discussions with the State, the Agreement was amended to change that 35% of the portfolio should now be invested in the bottom 55 countries, measured by GNI per capita. This is in line with developments in poverty reduction, where currently as many people live in extreme poverty in LMICs compared to LICs. However, we believe that it would be useful if the State and FMO reach an agreement on how the transition into and out of this bottom 55 list is handled. Such an agreement would prevent the same discussion of having a minimum percentage of the portfolio in the bottom-55 countries when this list is updated again. We take as an example the case of India, the last country in the bottom 55 list FMO and the State agreed upon. Although India's economy is growing fast on the aggregate level, many poverty pockets remain. This strong, unequal, growth has facilitated the transition of India from a LIC to an LMIC World Bank status. As FMO's exposure is relatively large in

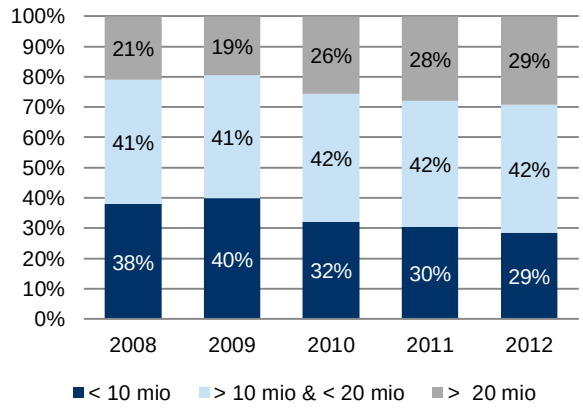
India, this transition would put pressure on the criteria that 35% of the portfolio should be invested in LIC countries. The change to the poorest 55 alleviated some of that pressure. However, as India is growing faster than most of its peers in the bottom 55 list, we foresee that India will leave the poorest 55 the next time this list is updated[2]. This would again put pressure on the limits placed in the updated Agreement. An alternative system could be one when a country moves from one category in the other, a specified amount of time is allowed in which new investments are gradually less allowed. For example, after India moves out of the bottom-55 list, in the years afterwards FMO annually lowers its internal country exposure ceiling. This would prevent FMO having to drastically rebalance its portfolio after countries move into and out of the bottom-55 list, while at the same time the Agreement and Criteria Memorandum would not have to be renegotiated time and again.

3.4 Portfolio analysis

The portfolio of FMO has grown from 501 projects in 2008 investments (committed portfolio of €3.592 mn) to 600 investment projects in 2012 (committed portfolio of €5.376 mn).

Based on the portfolio, the project team divided the average size of commitments in three categories: committed amount equal or smaller than €10mn, committed amount between €10mn and €20mn and committed amounts equal or above €20mn. As can be seen in figure 1 FMO moved away from smaller investments and is concentrating more and more on large investments. This is necessary to reach the targeted volume growth. The deal size has grown especially in the sectors Energy, Agribusiness and Diverse Sectors, while the deal size for Private Equity has remained at the 2008 level. A larger deal size has some positive and negative sides to it. Positive is that efficiency has gone up and credit risk has become less. Negative is that an increase in loan size would make FMO in absolute terms more vulnerable to economic swings whilst smaller projects with a high risk profile are more likely to be turned down by FMO. This does not mean that FMO does not reach small enterprises or enables investments by small firms as they are reached through intermediary structures such as PE-funds and financial institutions.

Figure 1: Investment size



FMO invest in 5 regions: Africa, Asia, Europe & Central Asia, Latin America & the Caribbean and globally. The total committed investments grew in every region and the invested share per region remained relatively stable. The African portfolio grew with 5%, while the Europe & Central Asia portfolio decreased with 4%.

[2] The present list is fixed for a 4 year period

Figure 3: Committed portfolio per region

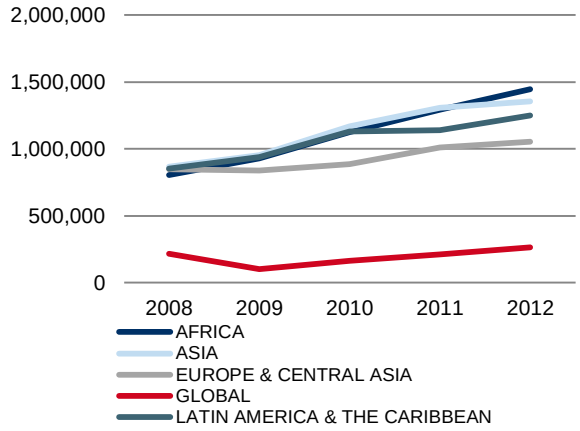
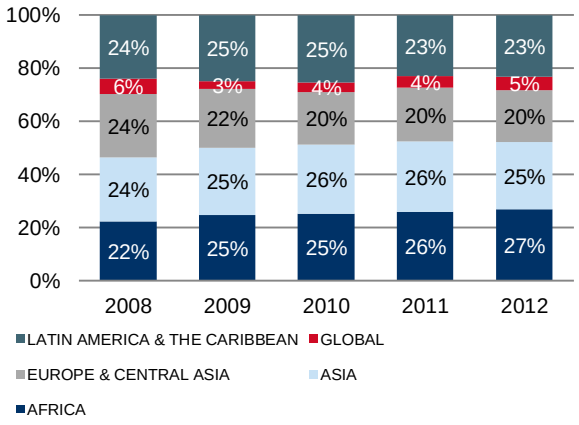
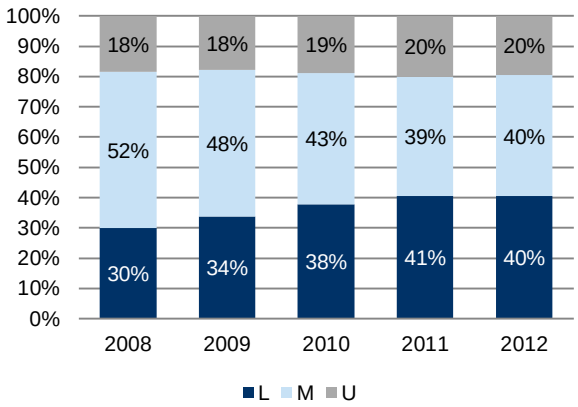


Figure 2: Committed portfolio per region %



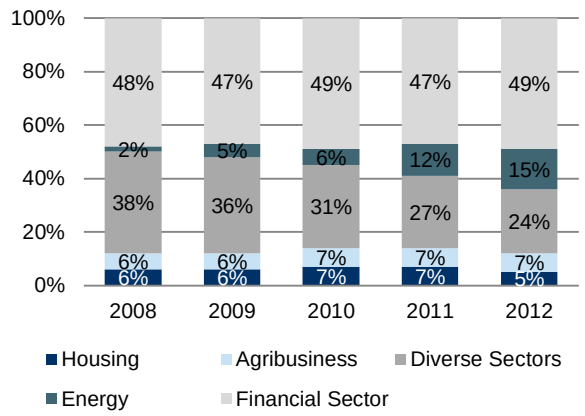
With regards to the World Bank country classification we see a movement in country classification in the years 2008-2012 towards lower income countries. The increase in lower income countries is due to FMO's strategy and the abandoning of middle income countries Mexico, Russia, Kazakhstan and Brazil allowing FMO to focus more on low income countries. The middle income countries decreased with 12%, at the same time lower income countries grew with 10%, the percentage invested in upper income countries remains the same. The country strategy has changed towards the poorest 55, which is now the base for target setting. In 2012 38% of the portfolio has been invested in the poorest 55 countries.

Figure 4:Country classification



FMO has identified the following sectors: financial sector (financial institutions & private equity fund), energy, agribusiness and diverse sectors. The diverse sector includes among others: infrastructure, mining and manufacturing. The main focus sectors are currently: financial institutions, energy and agribusiness. FMO's strategy changed over time, agribusiness has become a focus sector in 2011 which can be endorsed by the increasing percentage of the portfolio. In 2008 the energy sector has become a focus sector, the share of energy projects in the total portfolio has increased markedly during 2008-2012.

Figure 5: Sector division



The main instruments used by FMO are commercial loans and equity. The division of the portfolio in terms of instruments remains rather stable trough time.

Figure 6: Committed portfolio per instrument

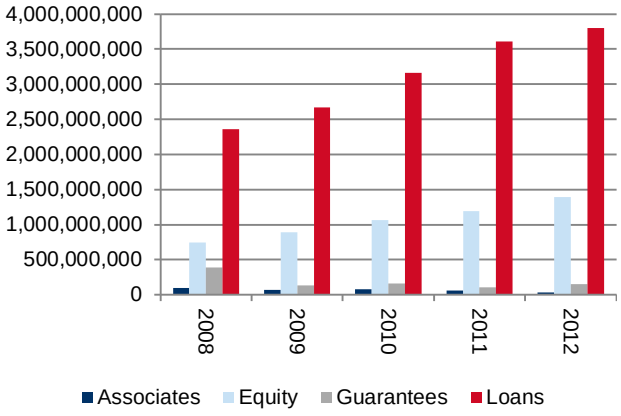
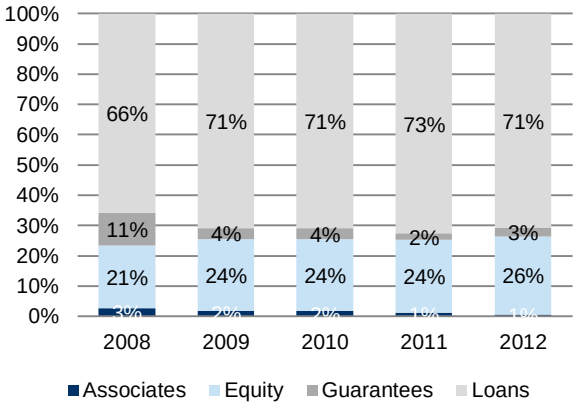
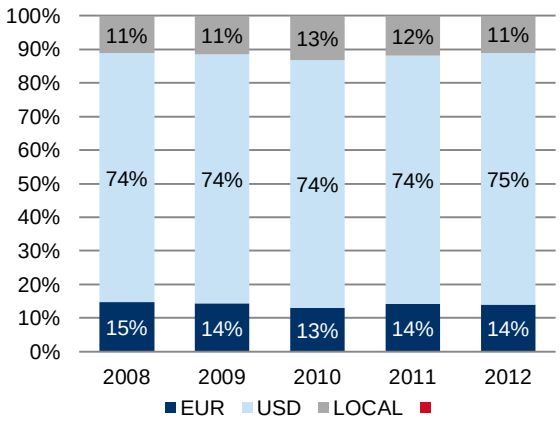


Figure 7: Committed portfolio per instrument %



The main currency in the FMO-A portfolio is USD, which holds a share of 75%. Also the EUR represents a substantial percentage and the percentage of local currency investments is stable around 14%. The most utilized local currencies are: INR and ZAR.

Figure 8: Currency division

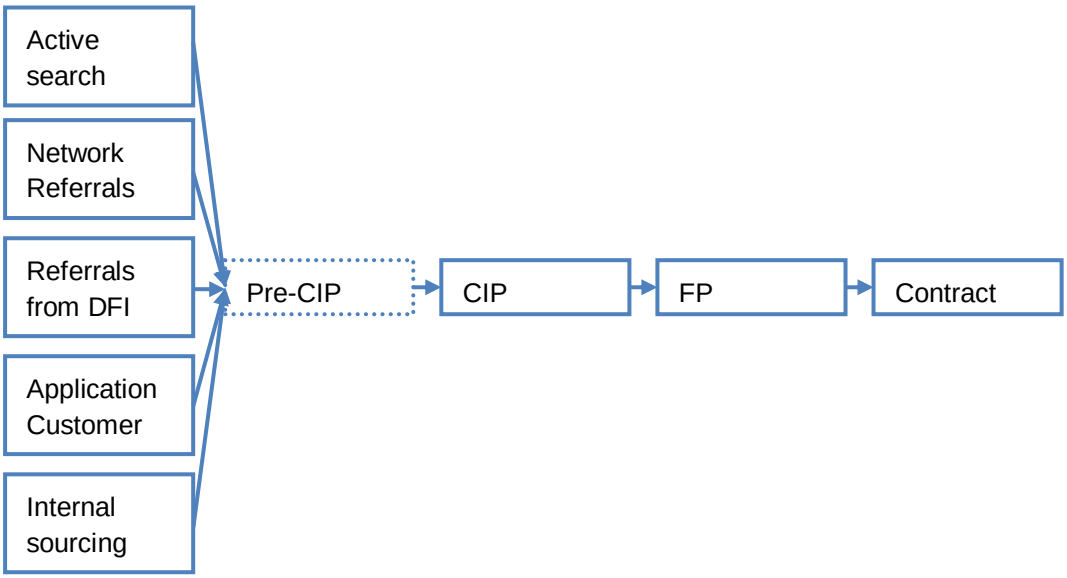


3.5 Selection process

3.5.1. Selection process

In the deal sourcing process different phases can be identified.

Figure 9: Selection process



Sourcing phase

The sourcing of new transactions is done by FMO investment officers (IOs), FMO management, other DFIs and commercial parties. In contrast to the general perception of long pipelines, it is hard to identify good investment projects that meet FMO's basic investment criteria. Mostly there are limited opportunities and not all markets are developed well enough to have lots of professional clients and feasible projects. Therefore FMO uses the sourcing channels that are identified below:

- Active Search: FMO sends its employees into the field to make market analysis in order to find potential new customers, usually a long list is made and customers with potential are visited.
- Network Referrals: A lot of employees have relationships with clients from their previous employer.
- Referrals from other DFIs: There is a good relationship between the DFIs as they participate in several initiatives with each other (for example: the friendship agreement) and for additional financing and mitigating risks in a deal they often mobilize each other.
- Application Customer: Some clients come to FMO, by applying through the FMO website or contacting FMO directly.
- Internal sourcing: Investments made by one of the government fund managed by FMO transfer to the FMO-A portfolio.
- Co-financing with PE-funds and other intermediaries: In many cases FMO and other DFIs selects professionals with in depth knowledge of the local market or a specific niche market (micro finance)

All investment officers are involved in the sourcing of projects. Internal sourcing in FMO does not take place frequently, since the financial return of these projects is usually to low. In the sourcing phase the

sector strategy of FMO is taken into account, the sectors are selected on potential development impact. This way it is ensured that investment officers automatically select projects which have per definition a high development impact.

Pre-CIP

In some cases investment officers spoke about pre-CIPs, this is a note that is written even before writing a CIP with the general characteristics of the development impact and potential financial results.

CIP

The CIP (Clearance in Principle) is an initial assessment of credit risk, development impact and ESG impact carried out by the investment officer. The CIP is discussed by the Investment committee, which determines the best way to go forward with the process.

FP

The FP (Financial proposal) is made after the CIP is approved. The FP includes a credit status investigation, risk assessment and the due diligence phase. In this phase the application must meet FMO's investment criteria. The FP is made by the credit officers, senior credit officers or advisors and the E&S analysts. The Investment Mission Review (IMR) department[3] reviews the FP, assures that the proposal is of sufficient quality and substance and advises the investment committee (IC) of FMO. Thereafter, the FP will be reviewed by the chairman IC and/or senior credit advisor and/or the CRFO.

Contract

Once the FP is approved, the contract documentation can be stated for the agreement between FMO and the client.

3.5.2 Selection process: development results and financial goals

The development results and financial goals are reviewed at an early stage of the selection process. In the CIP phase, projects with a substantially low expected development and financial result will be declined. In the evaluation period 2008-2012 the CIP already includes a scorecard which assesses the potential development impact, and more recently quantitative indicators are also included, which should give a good overview of the expected developmental return. Table 5 shows the number of CIPs, FPs and contracts that are written in the years 2008-2012. One might expect that the number of contracts is equal or less than the number of FPs and the number of CIPs would be higher than the number of FPs. Analysis shows that in the case of repeat transactions the CIP-stage is passed over and that the figures include follow ups of CIPs and FPs originating from earlier years. An other feature we noticed is that a CIP or FP can contain multiple contracts. For those reasons it is not possible to extract from the table how many CIPs are rejected. According to FMO in practice roughly 5%-10% of the CIPs are put on hold or rejected. This implicates that an important part of the actual selection already takes place before writing the CIP.

[3] IMR is a department of Risk Management & Finance supervised by the CRFO and independent from the commercial departments of FMO, which safeguards a sufficiently independent position. FMO does however not use external expertise / peer review to conduct or validate these evaluations.

Table 5: Number of CIPs, FPs and Contracts

Number of FMO-A customers	2008	2009	2010	2011	2012
CIP	126	96	81	80	67
FP	98	68	83	78	99
Contracts	103	86	80	97	90

Note: This table shows the data per client, this means that multiple FPs count for 1 if they are for a client, while the contracts are counted individually.

In the FP phase the investments are assessed more in-depth, in this phase various employees of FMO are involved to assess the development impact of FMO and forecast the financial results. We found that in the FP the potential financial results are described more in depth than the expected development impact. The FP is primarily used as a credit analysis document. The development impact is only a small part of the FP and mostly not explained in depth. The scorecard is not explained in the main text, but in the annexes while development impact is an important aspect for FMO. The development impact lacks sufficient attention in the FP. The FP secures that all the aspects of the investment satisfy the criteria and demands of FMO and contribute to FMOs goals. In this phase the potential investment must comply with FMO investment criteria, including:

- To fulfil FMO's objectives: "to contribute to the advancement of productive enterprises in developing countries, to the benefit of economic and social advancement of those countries in accordance with the aims pursued by their governments and the policy of the Netherlands government on development cooperation".
- To satisfy policy principles:
    - Catalytic role: maximizing the flow of finance to FMOs target group
    - Additionality: only providing financial services which the market does not provide, or does not provide on adequate basis.
    - Good governance: adherence to the principals of good governance in the widest sense (ESG).
- Choice of country
    - Low income, lower-middle income or upper-middle income;
    - No new financing in Mexico, Brazil, Kazakhstan and the Russian Federation (only when there are companies with a strong Dutch link);
    - no finance is to be provided to a country which is in a state of war or armed conflict with another country;
    - no finance is to be provided to a country which is engaged in serious internal conflict or civil war, unless the country in question has been approved by FMO's ALCO;
    - FMO will ensure that Low Income and Lower Middle Income Countries account for at least 70% of total investments. At least 35% of total investments will be accounted for by the 55 poorest countries.
- Choice of sector and partner, preferably in banking (widest sense), sustainable energy, agribusiness, food and water (2012). The choice of sectors has changed over time, in 2011 housing was still a focus sector.

The investment criteria are important for the selection of the investments, but are implicitly already used in the sourcing phase. The file analysis showed that most projects selected have a good ex-ante score on development impact, additionality and catalytic role. When doing repeat transactions in some cases the additionality decreases, examples of this can be found especially in the private equity sector. When FMO invests in a third or fourth fund of the same fund manager, the role of FMO tends to decrease and FMO can take some of the upside to offset the risk taken in the past with the earlier

funds. Also, FMO could invest in such a fund as comfort for commercial parties. In this way it still has an important catalytic role. Being catalytic is however not a must when selecting a new investment, when the investment contains a high risk profile FMO can be very additional but not have a catalytic role as it is unable to identify commercial parties that are willing to take such a large risk as well. When selecting investments both the development and financial results are important considerations. The development impact is partially derived from the sector in which the investment takes place. When the development impact is assessed positively, the financial results will play a more prominent role. In the interviews it did not appear that investment officers are searching for an investment with the best development impact, when the development impact is satisfactory, financial results play the largest role.

3.6 Correlation between development and financial results

In order to research the correlation between development and financial results, one needs to establish a link between the two on the basis of actual outcomes. Currently, the monitoring system of FMO is not equipped to make such a link at portfolio level. First of all, EDIS is a complex monitoring tool, and is only measured ex-ante[4] therefore it is impossible to compare financial results with the EDIS score on an ex-post year-by-year basis. The only ex-post development impact indicators that are currently tracked consistently are the quantitative indicators. The quantitative indicators are only available for the years 2010 and 2012 and do not say much on the development over time. Also, the quantitative indicators are different per sector and cannot be generalized for the whole portfolio.

Because the development data cannot be related to financial data based on the basis of current reporting of FMO, correlation between development and financial results is hard to establish. With the introduction of SHIFT in 2014 this problem is likely to be solved, since SHIFT can also be used as tracking/monitoring system.

3.7 Growth targets

In the yearly budgets FMO stated explicit growth targets with regards to EDIS and DII, which is for the evaluation period as follows:

Table 6: Growth targets

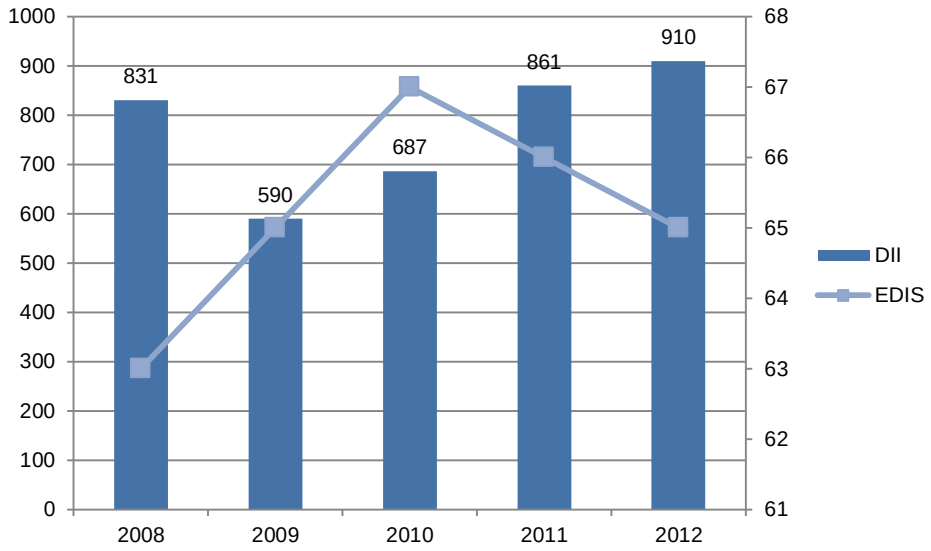
Year	DII	EDIS	Country
2008	711		
2009	660	63	
2010		63	40% in LIC*
2011		64	35% in LIC*
2012	780	65	

* *Includes MASSIF data*

The growth targets set by FMO are applicable to the new commitments. Please find below the movement of DII and EDIS over the evaluation period. The figure shows that FMO was able to attain their growth targets in terms of DII and EDIS. The staff of FMO made remarks with regards to the growth of EDIS, they thought since the EDIS target went up they had the tendency to score projects higher in order to reach their goal, however this remark cannot be validated.

[4] with the exception of the (sample) EDIS measurements done in relation to the annual evaluation reports, 5 years after the original investments.

Figure 10: DII and EDIS scores in the evaluation period



3.8 Benchmark: balance between development and financial results

We have visited IFC, CDC and DEG to benchmark how FMO combines financial sustainability with development objectives in comparison to others. DFIs differ in many aspects, for example, they have different requirements with regards to financial and development results. First of all, the minimum financial return for FMO which will be set by the State as the company's standard return ("normrendement") is expected at government bonds + a margin. DEG, IFC and CDC cope with similar requirements. CDC strives for a minimum portfolio return of 3.5%, which can be defined as aggregate realised and unrealised profits from the investment portfolio divided by the beginning value of the portfolio for the last 10 years (or, if shorter, since 2012). DEG focuses on a pre-tax return on equity of 6% on a three-year average. IFC also focus on a return of equity of 6%.

In the interviews with IFC it became clear that they do not link financial sustainability with development objectives. Both subjects are treated individually. Since the appointment of the new CEO, IFC will in future be allowed to make less financially sustainable investments (so-called transformational projects) if the development impact is very high. CDC also does not link financial sustainability with development objectives. DEG makes use of the GPR systems which assesses the development impact as well as the financial results. As in the case of FMO, DEG expects a minimum development impact, but once this threshold is reached, financial return is more important.

In general other DFIs do not perform better in combining financial sustainability with development objectives. Most DFIs use similar techniques in assessing and evaluating the two subjects. More DFIs are struggling with the monitoring of the balance between development and financial results and therefore it is an important topic for the members of EDFI. Presently there are a number of initiatives in harmonizing the use of development indicators when assessing, monitoring and evaluating investments. Recently IFC and European DFIs have agreed upon using 28 indicators depending on the sector to be financed.

3.9 State / FMO relationship

FMO was incorporated with limited liability under the laws of The Netherlands on 8 July 1970 and is governed by civil law. FMO's governance structure complies with the rules and regulations for these limited liability companies. In addition to applicable laws and regulations, FMO is governed by Articles of Association in which the tasks and responsibilities of the Management Board, the Supervisory Board and the annual meeting of shareholders are clearly defined.

The role of the Dutch State is established in the FMO Agreement dated November 16, 1998 and Criteria Memorandum, in which the obligations of FMO towards the State were incorporated. The State holds 51% of FMO's shares and is therefore the majority shareholder. The Ministry of Finance and Ministry of Foreign Affairs oversee FMO's activity and accounts. Focus areas of the Ministry of Finance are set by its "Nota Deelnemingenbeleid" (Policy Paper on State-Owned Entities), while the Ministry of Foreign Affairs primarily assesses its strategic development. The Ministry of Finance represents the State as shareholder. Both the Ministry of Foreign Affairs and the Ministry of Finance are counterparts for the semi-annual consultations with FMO. Since FMO obtained bank status, FMO is supervised by the Dutch Central Bank (DNB)

Compared to other SOEs, FMO has a special relationship with the State. While the Ministry of Foreign Affairs provided funding to establish the development fund as mentioned earlier, the State also provides a guarantee to attract funding from the capital markets by FMO. Under the Agreement's Article 8, the State is legally bound to enable FMO to meet its financial obligations on time, notably by providing liquidity. The duration of the Agreement is indefinite and termination requires 12 years notice. Article 7 of the Agreement stipulates State's obligation in most circumstances to safeguard FMO's solvency. The State's obligation is to FMO, not to third parties.
During the evaluation period the role of the State has been strengthened. In 2009 the Articles of Association were amended and an amendment to the Agreement with The State was signed on October 9, 2009. These amendments were the result of the then "Nota Deelnemingenbeleid" (published in 2007) of the Ministry of Finance, outlying the policy of the State towards Dutch SOEs.
In the Term of Reference the question is asked to what extent the State can influence the operations and policy of FMO. From the interviews and documents analysed (agreement with the State, Articles of Association and criteria memorandum and the amendments of 2009) we observe the following.

As mentioned earlier the State oversees FMO through two Ministries. The Ministry of Finance acts as shareholder while the Ministry of Foreign Affairs monitors the role that FMO fulfils as partner for development cooperation. FMO operates at arm's length of the State. The State has several ways through which she can influence FMO to steer the balance between development returns and financial returns.

- In article 3 of the Articles of Association the overall objectives of FMO's operations are described and a link is made with the development cooperation policy of the Dutch government by saying: *The Company's objective is to make a contribution to the development of the business sector in developing countries in the interest of the economical and social advancement of these countries, in keeping with the goals of the governments of the relevant countries and the Dutch government's policy with regard to development cooperation;*
- Formally, the State commits FMO to invest a part of its FMO-A portfolio in specified countries through the Criteria Memorandum. By requesting FMO to focus on lower income countries, the State seeks to optimise FMO's development impact;
- According to the Articles of Association the Ministry of Finance can influence FMO in the position of majority shareholder. The Ministry of Finance can recommend persons to be nominated for appointment of the Supervisory Board (article 11.2) The same article (11.1) states that the Supervisory Directors will be nominated by the General Meeting;
- The agreement between the State and FMO is the most important document that regulates the responsibilities of both parties. In that respect article 8.1 (State guarantee for meeting

obligations with respect to the funding), article 8.2 and 9 (reporting requirements) and 15 (force of agreement) are good examples through which the State can influence FMO's policy and strategy;

- In the amendment to the Agreement with the State dated October 19th, 2009 some additional requirements are formulated. FMO should consult the State on its long term strategy before sending these documents to the Supervisory Board. Moreover FMO is requested to submit information to the State with respect to the description of its internal risk management and control statements, the major risks connected to FMO's strategy and a description of the possible shortcomings of its systems and the way these will be approved;
- Following the 2007 "Nota Deelnemingenbeleid" the Ministry of Finance expects of all its SOEs a (minimum) financial return equal to a government bond yield plus a margin. In the 2013 Nota Deelnemingenbeleid the Ministry of Finance announced it would develop a 'normrendement' (expected RoE) for each of its SOEs. The Ministry is currently developing the appropriate financial models and expects to communicate a 'normrendement' for FMO in 2014. Every three months FMO will submit to the State a report on the risk analysis;
- Although strategic choices are subject to Supervisory Board approval, the choice of focus sectors is not formalized by the State and therefore FMO has considerable freedom in strategic choices. However, these strategic decisions are communicated and discussed with the State, and through these discussions the two ministries can exert some influence. Article 14 of the Agreement states the policy consultations and to discuss the policy pursued by FMO. Formally however, FMO does not have to follow the views of the State expressed during these consultations. As an example, when FMO advanced housing as a focus sector, it appeared from the 2008 policy meeting minutes that the choice of this focus sector was not supported by the Ministry of Foreign Affairs. They would have rather seen FMO more active in the agricultural sector. In 2011 this sector did indeed become a focus sector of FMO. However the addendum to the Agreement with the State signed in 2009 strengthens the position of the State towards FMO considerably by saying that amendments to the Articles of Association or long term strategy documents have to be forwarded to the State at an early stage allowing the State to comment on these documents. Management and its Supervisory Board still have the final say in deciding whether these comments will be taken into account.

The interviews and the documentation that was made available suggested that the required consultations with the government with respect to new strategic choices indeed took place; however in the period 2008-2012, it was not necessarily the case that both ministries were consulted in every case. We have found one example in which this was not the case. The minutes of the policy meeting of 2010 state: '*The Ministry of Finance would like to be involved in the creation of a new strategy in the early stages, …., there was a strategy change on Agribusiness, Food and Water. The Ministry of Finance was not consulted for this'*. FMO consulted the Ministry of Foreign Affairs, thinking this was sufficient. This example shows that in this instance there was incomplete communication between the Ministry of Finance and the Ministry of Foreign Affairs with respect to FMO's proposal, even though the 2007 'Nota Deelnemingenbeleid' stated that the Ministry of Finance would take initiative towards consultation with Ministries before a shareholders meeting. With regard to reporting, the Ministries received enough and high quality financial reporting. The reporting with regard to development impact remains below expectations as EDIS-scores as such have limited value without understanding where these scores come from. We understand that this differential in quality and composition of information makes it harder for the Ministry of Foreign Affairs to understand the development performance of FMO. For its policy goals – as set by the 2007 "Nota Deelnemingenbeleid" – the Ministry of Finance receives better information to base its decisions and views on.

At strategic level both Ministries tend to focus on their own domains with respect to FMO. Following the "Nota Deelnemingenbeleid" and pursuant to its formal position as shareholder on behalf of the

State the Ministry of Finance places emphasis on financial sustainability (capital position, return on equity) and risk management of FMO, as well as on the position of the State as guarantor to FMO through the Agreement. The Ministry of Foreign Affairs places emphasis on development returns and FMO's role in promoting sustainable inclusive growth. Both Ministries do acknowledge that there needs to be a balance between financial and development returns. In that respect, the Ministry of Finance is developing a 'normrendement' for FMO as mentioned in paragraph 3.8. and the Ministry of Foreign Affairs understands that FMO is a financial institution, not a charity. The Ministry of Finance seems to have a clearer and better articulated vision of what it would like to see from FMO. For example, we refer to the change in dividend pay-out ratio in 2013. In interviews with the Ministry of Foreign Affairs we noted that they would like to have a clearer vision and framework through which they view FMO, which would lead to a more effective translation of the role Foreign Affairs envisages for FMO. In the interviews it appeared that the Ministry of Foreign Affairs has some strong opinions that are not necessarily discussed during the policy meetings.

We find that FMO sometimes does not know which Ministry to approach and what is exactly expected from them. We suggest that the role of the State in ensuring a balance between financial returns and development returns could be improved if both Ministries have a joint, comprehensive, vision of FMO. This requires the Ministry of Foreign Affairs to develop a framework through which they evaluate the role of FMO and more importantly, this requires the Ministry of Finance and the Ministry of Foreign affairs to develop a joint vision with respect to the strategy and operations of FMO and how these relate to the respectively policies of the ministries. Such a joint stance towards FMO would likely lead to more effective oversight over FMO in ensuring that the financial and development returns are in balance and will be beneficial for the effectiveness of the biannual discussions from both sides. In that respect it is remarkable to observe that no specific targets with respect to development returns have been agreed upon between FMO and the State (other than the targets set by FMO itself).

4 Is FMO's institutional set up, including procedures, sufficient to demonstrate contribution to economic and social development in countries where FMO is active?

This chapter will answer the following ToR questions:

2.1	Have yearly priority areas (budget process) and FMO's performance indicators (performance measurement) been supportive in achieving the strategic goals as outlined here above?
2.2	How does FMO assess (ex ante) the potential development impact of proposed projects?
2.3	How does FMO monitor and evaluate the direct development results of completed projects and their contribution to the overall development objectives?
2.4	Are the existing monitoring and evaluation systems adequate for an independent ex post assessment of the project results and their contribution to the development objectives?
2.5	Has FMO been sufficiently innovative in order to optimize development returns, for instance by venturing into new sectors, new countries, new products or through making ESG integral part of project selection?
2.6	Is FMO responding adequately to a changing environment (evidenced by new corporate strategy 2013-2016 prepared in 2012)?
2.7	How does FMO's development impact framework compare to those of the other DFI's, more in particular compare the organizational imbedding of development considerations in the project selection process and the strength of the monitoring and evaluation cycle.

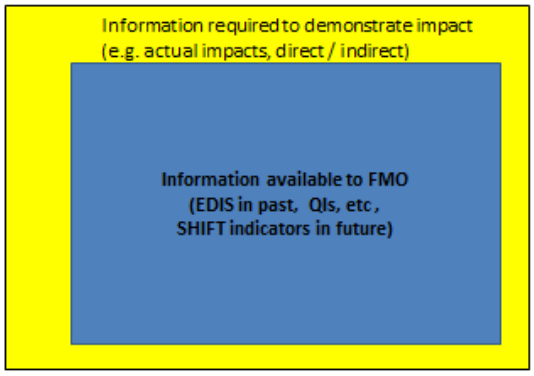
Introduction

Providing a satisfactory answer to question 2 involves a number of crucial assumptions:

- It assumes it is possible in theory to measure/demonstrate the economic and social contribution of FMO support.
- It assumes we can provide an accurate picture of the institutional set up and procedures that FMO is using to demonstrate economic and social development (in the countries in which it is active).
- It assumes we can provide a judgment on whether the picture that is provided by FMO's procedures is "sufficiently" close to actual impact.

The figure below summarises the challenge.

Figure 11 **Is FMO's available information (blue area) sufficiently close to demonstrating actual impact (yellow area)?**

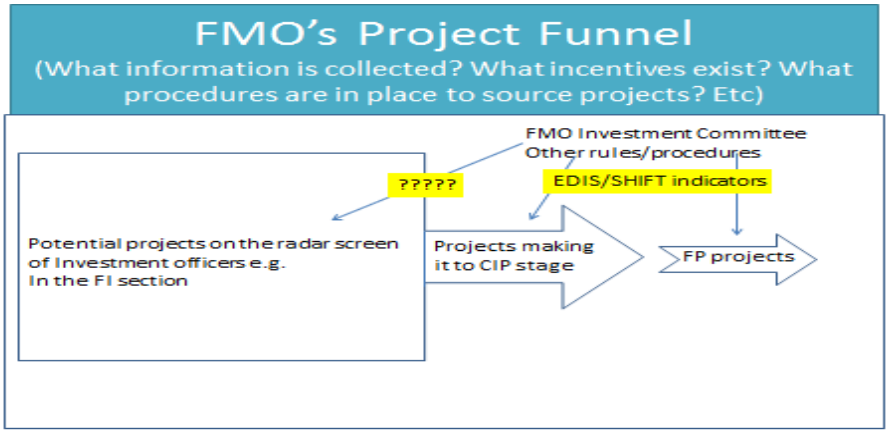


Whilst none of the above points is straightforward, there is by now quite a lot of knowledge on **how to assess the impacts of a DFI supported project (i.e. what information is needed to obtain information in the yellow area)**. This section will draw conclusions from a review, in annex 2D, of the information from a rapidly evolving literature.

With respect to **FMO's institutional set up and procedures**, we have reviewed a number of important documents. Our discussions have also suggested that the procedures are changing. For example, FMO has abandoned EDIS and is beginning to design and implement (from 2014 onwards) a new system as part of the SHIFT strategy. This section examines mainly the pros and cons of EDIS, but we are aware that this system has been superseded.

A further point is that whilst we can assess the information that is collected at various stages of the investment process, e.g. in the CIP (clearance in principle) or FP (financial proposal) and the types of discussions that take place around this, we may not be able to provide an accurate picture of what information is available, used and acted upon by Investment Officers (Relationship officers) when they source projects (see 3.5), apart from examining the FMO investment criteria. We therefore need to make an assessment of whether FMO procedures and systems affect / incentivise the earlier stages, see figure 11 in yellow below, in addition to procedures at CIP and FP stages. More specifically, how do we know whether IOs take into account development criteria, and what are the incentives for IOs, to "select" those projects that have a higher development impact for further discussion into the CIP stage (this follows the discussion in Chapter 3.5).

Figure 12: FMO's Project Funnel



The general question also involves making a **value judgement on what is "sufficient".** It may well be that in broad terms FMO's systems / procedures are practical and sufficiently close. But such a judgement is subjective. We now turn to answering the specific sub-questions.

4.1 Priority areas (budget process) and FMO's performance indicators (performance measurement)

We have examined the strategic goals and performance indicators (see also questions 1.1 - 1.3) in order to assess whether indicators such as the setting of investment targets for sectors are consistent with the strategic goals.

The strategy over the period 2009-2012 aimed to create more development impact by moving to low-income countries (LICs), developing leadership in sustainability and in the three focus sectors, and catalyzing commercial investment in difficult markets.

The 2009-2012 'Moving Frontiers' strategy operationalises a range of strategic objectives: (i) a specified improvement of the DII and EDIS over 2008-2012; (ii) increase in investment in renewable energy (iii) a certain percentage of the FMO's portfolio in low and middle income countries, in mezzanine / equity investments, in priority sectors; (iv) return on equity and cost to income ratio.

The table below summarises FMO's targets set at the start of the strategy and the actual in 2012 (for further details on targets see Chapter 3.3):

Table 7: Targets and achievements in relation to FMO's strategy

	Target	Actual
Total Portfolio including state funds (€bn)	5.8	6.3
Total portfolio in LIC's (%) excluding state funds*	35*	40
Renewable Energy (€bn)	0.4	0.736
EDIS (average)	64	65
Net 5 year average return on shareholders' equity (in %)	6.0	6.4
Cost to income (in %)	25	21

** Includes Massif*

Annual priority areas were set up to reach these goals, for example it stipulated targets for EDIS and minimum levels of portfolio in LICs. The EDIS target score was expected to be 63 in 2010 but 65 in 2012. There seems to be consistency between yearly priority areas / budgets (EDIS score targets) and the way in which the strategic goals on development impact have been operationalised (EDIS score targets).

However, one can question the extent to which indicators such as EDIS have really been supportive in realizing FMO's strategic goals. Firstly, it is questionable whether the EDIS indicator was useful to support the goal of development impact. EDIS scores do not represent a uniform measure of development impact and hence targeting EDIS may not be the same as targeting development. Secondly, few are currently still of the opinion that the EDIS indicator was successful as a communication tool (e.g. what does a score of 65 mean?). These two challenges do not arise in the case of other indicators such as the rate of return and profits which help to ensure FMO remains financially viable.

Few specific targets were developed for sustainability scoring (ESDIS) or the "role of FMO" in catalysing investment, so in these areas indicators may have been less supportive in achieving strategic goals. There appeared to have been a target on syndications, capital market transactions and funds - from €2 bn to 3.5 bn over 2008-2012 – but this was undershot due in great part to the implications of the financial crisis. Mobilizing became a target (volume) for FMO only in 2011, but target was not split into (i) catalyzing commercial funds and (ii) mobilizing other DFIs. It would have been easy to reach a mobilising target simply by leveraging in other DFIs (and together they can leverage each other, casting doubt on overall numbers, double counting, and more generally about the value of a target on DFI mobilisation).

An important indicator related to additionality at macro level evolved during the period; the target aimed at 70% in LICs, but as LICs graduated out, the target group was widened to allow for investments in countries that are still considered poor (bottom 55) but not categorised as LICs (e.g. India). The implicit assumption must have been that FMO's role is additional also in these countries,

without providing an in-depth analysis of this. So the change in indicator was useful in justifying investments in a range of countries, it is not clear whether this change helped FMO to focus more on additionality. One could argue the opposite (because the new classification includes countries that are less poor than the in the original category).

4.2 (Ex ante) assessment of the potential development impact

We will describe the systems and procedures that are in place at FMO to assess projects **ex-ante.** FMO assess its expected development impact according to the following tools:

1) **Economic Development Impact Score (EDIS)** system that assesses the potential contribution of the project to the local economy, with a set of indicators evaluating the impact on shareholders and financer and a second the impact on other stakeholders.
2) **Development Impact Indicator (DII)** which is based on a multiplication of the EDIS score and the volume of new investment.
3) **Quantitative indicators (QIs).**

In addition to EDIS, the development impact is assessed using a scorecard evaluating **Corporate Sustainability Priorities (CSP)** and one for the **Role of FMO** (Additionality, Catalytic role, non-financial role of FMO). We first discuss the EDIS scorecard approach (4.2.1), and analyse its performance as a scoring methodology and steeting tool (4.2.2.)examining to what extent EDIS was able to provide accurate and relevant information about the development impact of proposed projects. We will then focus on two other tools available to assess projects ex-ante: the QIs (4.2.3) and indicators on the “role of FMO”.

4.2.1. EDIS Scorecard approach

FMO uses scorecards to evaluate the expected Economic Development Impact of potential projects. Scorecards are performance management tools were used to keep track of the execution of activities. FMO uses scorecards to provide a judgement of the economic impact of their investments. EDIS scores refer to the impact that the activity to be financed is expected to have in the country where the activity will take place, thereby assessing and scoring the impact on the national economy.

FMO developed various sector specific scorecards. We have reviewed the following scorecards:

- New Infrastructure (2010)
- Existing Infrastructure (2010)
- New company (2010)
- Existing company (2010)
- Financial institution (2010)
- Private equity fund (2012)
- Banks (2012)

The 2010 scorecard manual argues that the scorecard used depends on three criteria:

1) Customer company type
2) Environmental and Social Risk Category
3) Strategy Sector

The customer company type is the criteria that defines the type of development impact and in particular which EDIS scorecard to be used.

Table 8: Scorecard to use according to customer company type, scorecard 2010

Financial Institution	for financial institutions
Private equity fund	for (private equity) investment funds;
New company	for specific projects and companies with no track record
Existing company	for companies with a track record
New infrastructure	infrastructure companies/projects (projects that provide access/service related projects) with no track record
Existing infrastructure	infrastructure companies/projects (projects that provide access/service related projects) with a track record.

Source: FMO

The EDIS scorecard for new infrastructure and existing infrastructure and new company and existing company are the same. Therefore we will only refer to four EDIS scorecards: Financial Institutions, Private equity fund, Company and Infrastructure (these are reported in annex 2A).

Our review suggested that the scorecards have evolved over time. In order to have a coherent set, we use the 2010 set of scorecards to conduct our analysis. Scorecard should be completed or updated at different stages of project selection and implementation: Clearance in Principle (CIP), Financial proposal (FP) and Review. The following table is available in scorecard manuals:

Table 9: When to score what

	FSF	E&S	EDIS	QIs current	QIs (future) Yr 5	CSPs	Role FMO	Product Risk
CIP	X		X			X	X	X
FP	X	X	X	X	X	X	X	X
Review	Update	Update		update				Update
Evaluations	X	X	X	X		X	X	X

Source: 2010 Existing companies scorecards

EDIS is completed by Investment Officers first for the Clearance in Principle (CIP) and for the financing proposal (FP). At this stage, IMR (Investment and Mission Review) analysts will check the appropriateness of the scores and will provide their comments and advice to Investment Committee/Investment Review Committee. After investment, EDIS scores are then updated for projects that fall under the portfolio evaluation process (see section 4.3 for more details on the process).

Annex 2A presents four scorecards (operational in 2010) in more details. The four sector specific scorecards contain different numbers of questions. In order to make scores for different types of clients (companies, financial institutions, infrastructure projects and PEFs) comparable and to have EDIS scores presenting a single denominator, each question is weighted so that they add up to 33. The value of the EDIS score ranges from 0 to 99 as all elements can be scored from 0 to 3.

Scorecards are organised into two types of questions. The first section is *a) the Impact on shareholders and financiers*, in other word the direct impact, and the second*, b) the impact on other stakeholders* apprehend the indirect impact of the project. The approach behind the scorecard questions is consistent with the intention to assess the impact on all potential stakeholders. However,

the specific formulation and the weight given are sector specific, apart from the section a) of the company and infrastructure scorecards both with a score based on the project IRR. The total amount of questions varies by scorecard. For instance, the EDIS score for private equity fund is based on seven questions and the number of questions for the company scorecard is up to twelve (see table 10).

Each question is rated from 0 to 3 with:

- 0 for a negative impact
- 1 for a neutral impact
- 2 for a positive impact
- 3 for an excellent impact

For infrastructure and company, the first EDIS question on the impact on shareholders and financiers on the expected IRR can respectively score up to 20 and 30: The maximum IRR that can be filled in the scorecard is set at 20% and the core calculation is then based on the IRR which is multiplied by 1.2 for infrastructure and 1.5 for company. According to the 2010 scorecards, table 10 presents the number of questions and maximum scores.

Table 10: Four sector specific scorecards, with a different number of questions and weights

Scorecard	Sections	Number of questions	Question(x) weight	Maximum score	Share in the total
Financial Institution	Impact on shareholders and financiers	5	10	30	30%
	Impact on other stakeholders	5	23	69	70%
	TOTAL	***10***	***33***	***99***	***100%***
Private equity fund	Impact on shareholders and financiers	1 or 5	6	18	18%
	Impact on other stakeholders	7	27	81	82%
	TOTAL	***7***	***33***	***99***	***100%***
New and Existing company	Impact on shareholders and financiers	1 or 5	8	30	30%
	Impact on other stakeholders	7	25	69	70%
	TOTAL	***7 or 12***	***33***	***99***	***100%***
New and Existing Infrastructure	Impact on shareholders and financiers	1 or 4	6	24	24%
	Impact on other stakeholders	7	27	75	76%
	TOTAL	***8 or 11***	***33***	***99***	***100%***

Source: FMO Scorecards, 2010

Weights differ across sectors with respect to “Impact on shareholders and financiers” and “Impact on other stakeholders” with more emphasis on the latter, the indirect impact, for Infrastructures and Private Equity Funds. Such weighting is relevant considering the nature of both sectors.

4.2.2 Discussion and analysis of the EDIS score methodology

The introduction of EDIS scores has been a useful addition to a situation where no impact assessment (ex-anted or ex-post) system was present. In many respects, when it was introduced, this system was more advanced in its ex-ante measurement capabilities than evaluation systems used by other DFIs. There are nonetheless a range of challenges with the EDIS scoring system.

- A bias appears in the construction of the EDIS in the way that it incorporates the potential economic losses stemming from a project. A negative impact is counted as a zero in the scorecard; therefore it has a neutral impact on the overall score whereas a proper development impact measure should have counted this as a negative contribution (economic cost are not properly measured and scored).
- A neutral impact contributes to the level of the final score by one. This means that a project that has a neutral impact on the economy would already get a score of 33.
- Differences in weights and numbers of questions across scorecards will make comparisons across sectors and at portfolio level more difficult, if not impossible. As an example, because the weight attached to impact on employees differ, the same level of employment creation contributes differently to the EDIS score in different sectors. The aggregate score is based on the use of different scorecards and hence loses meaning. Similarly, we need to question the meaning of an aggregate FMO EDIS score and hence the DII, a major tool used to demonstrate impact to the outside world. It is possible to compare all projects on the same indicators as long as they are collected in the *same* way (which would allow for aggregation), or alternatively, if one wants to go beyond one general indicator, and use a range of sector specific indicators and methodologies, one could compare projects within that sector, but aggregation beyond a sector would not be possible.
- As in any scorecard, scoring is limited by weights and scores. Projects that generate 10 or 10.000 indirect jobs they might both score a 3 with a certain maximum weight, even though the development impact differs fundamentally.

We examined EDIS scores for FMO’s portfolio for 2010 in detail in annex 2C and note the following points:

- The EDIS scores tend to be grouped around 65 (the target score).
- For the sample in 2010, the EDIS score did not fall outside the interval between 55 and 80. This suggests there is very little variation across and within sectors, casting doubt whether such a crude scoring system is capable for properly accounting for the differential development impacts of individual projects.

Interviews with investment officers, managers, evaluation officers and sector specialists provided valuable information about the practical use of EDIS. Interviews suggested that even though EDIS was an innovative tool when it was first introduced in order to introduce the development impact dimension into FMO’s decision making procedures, it has shown its limits.

In particular, EDIS scores are (by definition) a subjective assessment of the importance of the project for the economy. Some assessments will be more informed than others. In particular, EDIS gives some specific importance to the indirect impact of the project on other stakeholders in the economy but without any thorough process of identification, estimation or analysis. A lot relies on the knowledge

of IOs and IMTs (rather than detailed modelling studies) and some complete an EDIS scorecard in just a few hours and sometimes *after* the project has progressed to CIP stage, casting doubt on the use of EDIS as a steering tool.

Interviews highlighted that EDIS was not always used as a selection tool. Whilst FMO's sector teams had targets for EDIS scores, and some of these teams engaged in discussions on project selection using EDIS, the more important constraint for IOs at FMO was to identify eligible projects that satisfy financial sustainability criteria and FMO's investment criteria more generally. This is particularly the case for infrastructure and private equity fund projects. Therefore, while an EDIS score appears to provide credibility to the project in the eyes of FMO staff, it did not appear to have been used convincingly as a steering tool.

FMO is gearing up for use of a new system (SHIFT) which is perceived to be a much better system (and which had supported development of others e.g. AGRIOL for the agricultural sector) which will formally be in place from 2014 onwards (EDIS was abandoned before the new system was in place).

4.2.3 Quantitative indicators

FMO uses a range of quantitative indicators in addition to EDIS scores, as detailed in annex 2B. These have been in operation at least since 2010 and include areas such as contribution to employment impact, government revenue and balance of payments. It is useful to have measurable indicators that have more meaning than scores. However, the use of such indicators also has limitations. For example, the indicators for new/existing companies examine only the impact on the investee company, not the indirect effects. These indirect effects will be difficult to measure in detail, but the use of simple input-output models or multipliers might be able to provide a more accurate, albeit broad, picture of the total employment impacts. Annex 2D suggests that even for a selection of 5 projects, multipliers (number of indirect jobs created per direct job) varies between 4 and 24. In this example, if employment was the only (quantifiable) measure of development impact, the level of employment indicated by a QI could have an 6 times higher development impact than is currently measured by that level.

4.2.4 Role of FMO

Every project is also scored on the expected role of FMO. This is done on the basis of three categories:

- Additionality, measured as
  - availability of products offered (0, 10 or 20),
  - client risk (0, 5, 10, 15, 20)
  - country risk (0, 5, 10, 20)
- Catalytic role (amounted invested, commercial finance mobilised expressed as a leverage factor and then scored as 0, 5, 10, 15, 20)
- Non-financial role in improving
  - Corporate governance (0, 5)
  - Environmental performance (o, 5)
  - Social performance (0, 5)
  - Operational performance (0, 5)

The scores are added to get an aggregate score for the role of FMO (max=100). There was no benchmark set for this indicators, unlike in the case of EDIS.

Additionality is enhanced by offering products that are not available locally and internationally from commercial parties, by helping financially risky companies in risky countries. It is very good that IOs

are asked to score this as additionality is a crucial aspect of FMO's business – if it is not additional to the market (ie by addressing market failure), there is no point in FMO doing it (in fact, it might risk being distortive). However, there is very little context specific information presented. A maximum score on the question on availability of products requires products not to be available from commercial investors *and* that the client would find it hard to proceed without the type of funding being offered by FMO. No evidence is presented on the first point. This latter point is very difficult to assess because typically one does not observe what the company would have done if FMO had not provided support – would the company have gone ahead with the investment, but structured the financing element differently? No additional information on this has been provided, e.g. a question could have been asked, how would the company structure the investment if FMO were not involved. Similarly, the credit market in countries may have changed rapidly, so rather than categorising risks of countries, should IOs ask more questions locally, or make reference to existing literature, on availability of products. Moreover, there is no analysis of the demand side, what product (e.g. level of loan maturity) is really required?

The following scores are provided for additionality in the year 2010 (these are analysed in more detail in the next Chapter):

Table 11: Number of projects providing a specific score, by question

Area \ Score	0	5	10	15	20
Additionality derived from scarce product offered. The product offered by FMO (tenor, currency, product risk)	5		20		52
Additionality derived from (high) client risk	8	19	15	20	15
Additionality derived from (high) country risk	18	13	31		17
Improving the client's corporate governance	57	20			
Improving the client's environmental performance	45	32			
Improving the client's social performance	46	31			
Improving the client's operational / business performance	64	13			

Note: total of 77 projects (in 2010) after cleaning out 4 projects without relevant data

For 2010, the total scores in the spreadsheet provided to us ranged from 5 to 80 (as the catalysing/leverage factor was excluded the maximum points was 80 not 100), so that data show much more variation for this variable than for EDIS. Whilst the vast majority of investments are seen to be additional in one or more respects, FMO also appears to have made 5 investments (or 6.5% out of 77 analysed in 2010) when "the products offered by FMO are available to the client from commercial parties, on comparable terms" and 18 investments in a country where the "country risk is acceptable to commercial parties". A question could be asked whether these investments are considered truly additional (e.g. in cases where products by FMO are on comparable terms or when the country risk is acceptable).

The spreadsheet provided to us did not contain information about catalysed investment, or scores for the leverage factor, so we cannot analyse this.

4.3 Monitoring and evaluating the direct development results of completed projects and their contributions to the overall development objectives

The FMO ex-post evaluation process feeds into the annual evaluation report (AER) by building up a project database of all projects that were committed to five years before the AER as well as all projects where FMO had committed itself to in any later period but have already been completed by the AER process period. A sample of projects is chosen from the population and each project is then evaluated using the "FMO Project Evaluation (Extended Credit Review) Guidelines". The guidelines are a standard requirement at project completion. The evaluation manual explains that the ex-post evaluation serves two main purposes: lesson learning from projects - what does and does not work - and understanding whether the project has met the goals it was meant to achieve. Evaluations are based on three main metrics:

1) The project's development outcome
2) The investment outcome
3) FMO's role and contribution

The **development outcome** rating is based on three indicators: the project's business success, the project's contribution to economic growth and the project's environmental and social outcomes. Project Business success is measured through three impacts. The first is the project's impact on the client company's financiers (i.e. its lenders and investors), the second is the project's contribution to other business objectives (as specified at the approval phase of a project) whilst the final outcome is the client company's sustainability and growth prospects. The project's contribution to economic growth (and private sector development) is based on a mixture of quantifiable and qualitative assessments of a projects contribution which depend on the type of projects. Some common measures include effects on employee numbers, number of customers, government revenues, effects on client suppliers and local communities. More specific indicators for financial sector projects include impacts on sub-borrowers, changes in employment in FIs, changes to the financial performance and quality of sub-projects (i.e. changes to the ratio of non-performing loans for clients). The final component is the project's environmental and social outcome which checks whether E&S outcomes meet FMO criteria.

The second indicator is the **investment outcome** which examines how the loan or equity returns on the investments have performed. Loan and equity products are scored using different criteria where loans are scored against how well they perform and equity is based on the realised or unrealised net IRR (scores greater than 15% are assessed as excellent, scaling down to unsatisfactory for projects with a net IRR below 5%). Where a single product is used, the single score is used, otherwise where multiple products are used; the score is based on the combined return of the different products.

The final indicator is FMO's **role and contribution** which examines additionality based on the IMR and IC's additionality assessment made at the project assessment phase – the score rates whether FMO had 'obvious', 'questionable' or 'absent' additionality. It also examines the catalytic role and asks what the extent of FMO's catalytic role was. In terms of any non-financial roles FMO may have had, these are assessed vis-a-vis any contractual obligation FMO had in the provision of non-financial contributions (and scored on a YES/NO binary system).

The scoring system for the three individual 'development outcome subcomponents and for the investment outcome rating are scored:

- **Excellent/Obvious:** The projects have made strong positive contributions
- **Satisfactory/Plausible:** The project has made a positive contribution
- **Partly Unsatisfactory/ Questionable:** The project has had a neutral impact
- **Unsatisfactory/ Absent:** The project has had a negative effect

The *Development Outcome Rating* (the aggregate of the three development outcome subcomponents) is then based on a *six-point scale*:

- Highly successful
- Successful
- Mostly successful
- Mostly unsuccessful
- Unsuccessful
- Highly Unsuccessful

The sub-components are scored on a 4 point scale, the final Investment Outcome score is also based on the same four-point scale but the development outcome aggregate rating is based on a 6 point scale.

Examining development outcomes is less straightforward than investment outcome. For example, there is no easy way to compare different projects on their impacts due to a lack of *Quantitative Indicators* that should be measured and attribution challenges. Whether and how to use quantitative indicators (i.e. jobs created and taxes generated) is not clearly described in the evaluation manual. There is, however, a recognition of the importance of QIs in the SHIFT system which is in the process of implementations. SHIFT suggests project evaluations should use certain explicit quantitative indicators (dependent on the sector of the project).

The individual evaluations are part of the FMO's annual process of portfolio wide evaluations. For 2012, 64 projects which began in 2007 were individually evaluated (around 50% of total 2007 projects) and aggregate scores were used to determine development impacts vis-à-vis investment impacts. For both development impacts and investment impacts, projects which are scored in any of the 'successful' categories are deemed to have Good impacts, whilst those in the 'unsuccessful' categories are deemed to have Poor impacts. This creates a binary good/poor system (as reported in the above sections) which provides a simple representation (of an otherwise more complex evaluation) of development and investment outcomes. These evaluations are meant to inform and improve new deals as well as provide patterns and trends that can help improve accountability and strategic choices. As FMO's 2010/2011 evaluation states, evaluations are meant to "generate insight into what works and what is less effective in achieving FMO's goals" (FMO, 2011). These evaluations then form the backbone of FMO's Annual Evaluation Report which also focuses on the 'Role of FMO' which evaluates FMOs additionality and catalytic effects and also divides and reports results by FMO strategic sector and by country income groups.

FMO front office analysts undertake project evaluations, with validation by FMO's evaluation unit where necessary. The evaluation unit also compiles the Annual Evaluation Report. Other core deliverables of the evaluation unit include (i) undertake policy-relevant sector and thematic evaluation studies for learning; (ii) developing and maintaining FMO's processes and tools for ex-ante assessment and monitoring of project's development effectiveness; (iii) maintaining an indicator database, ensuring that it meets management and stakeholder demands as well as being compliant with agreements among European Development Finance Institutions, EDFIs on indicator harmonization; and (iv) managing a lessons learned database.

Between 2002 until 2011, FMO's approach to monitoring and evaluation of its impacts was based on an evaluation of a stratified and representative sample of all the projects which the FMO had committed itself to in the previous five years. The evaluations were meant to be in line with the Multilateral Development Bank Good Practice Standards for Private Sector Investment Operations. (see box below).

Box 1: The multilateral development bank good practice standards for private sector investment operations.

> FMO states that their evaluation system (up to 2011) adhered to the Multilateral Development Bank (MDB) Good Practice Standards for Private Sector Investment Operations. By 2011 the standards had reached their fourth revision – however such a version was not available online as only the latest version (the 2012 revision) was found. The basic idea of the standards is that MDB financing should not only benefit their clients but also have wider beneficial effects to other stakeholders and that MDBs need to value-add to the project (i.e. developmental or environmental impacts). Financial returns also need to be considered in order to contribute to sustainable development impacts.
>
> *Source:* http://blogs.iadb.org/desarrolloefectivo_en/2012/05/24/evaluation-standards-for-private-sector-projects/

Since 2011, the FMO decided to change its approach due to a number of reasons i.e. that there was limited sector focus in the evaluation system. From 2011 the evaluation was split up into two separate sections:

1) A shorter evaluation for annual programme of portfolio-wide evaluations based solely on projects carried out within the year and provides a 50% portfolio coverage.

2) In-depth sector based annual evaluations of sector portfolio's including projects committed to by FMO in the past 5 years.

Project evaluations also provide information about ex-ante EDIS scorecard and any changes in the ex-ante scorecards, five with the objective to measure the degree to which the expected development impacts have been realised.

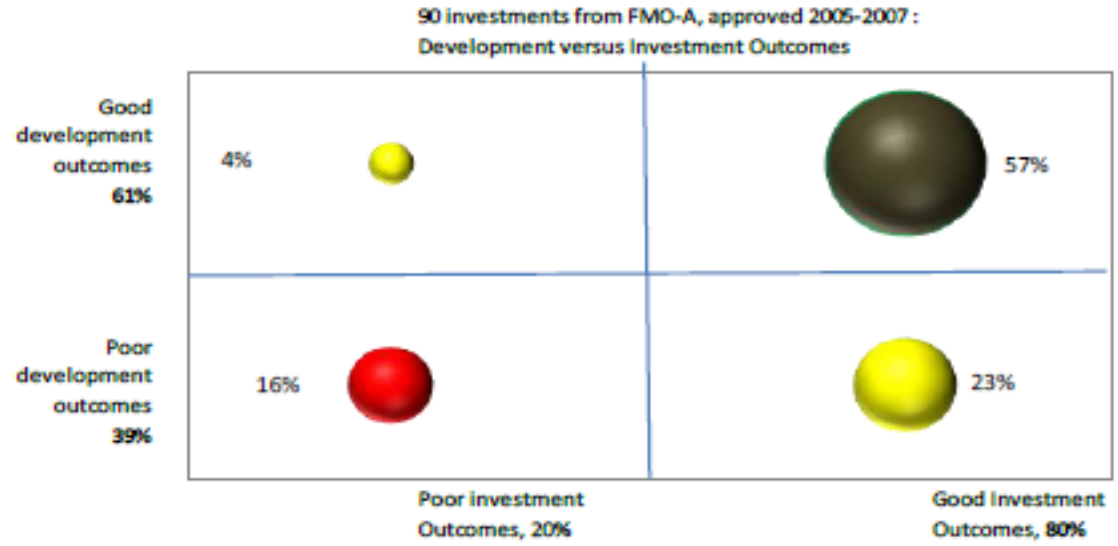
FMO also produces an Annual Report (separate from the Annual Evaluation Report) which is mainly focused on FMO's financial position but also includes information on stakeholder impacts and other quantitative impacts. The Annual Report and the Annual Evaluation Report are coupled with a series of thematic and sectoral studies which began in 2009 (of which around 2 a year have been produced), including collaborations with other DFIs for sectoral level studies (i.e. the 2011 EDFI 'The Growing Role of Development Finance Institutions in International Development Policy', the '2012 EDFI Energy Evaluation' & the 2013 'Effectiveness of EDFI Support for SME Development through Financial Institutions in Africa'). The majority of these thematic studies have not been made public (except for the 2011 and 2012 EDFI studies) but discussions with FMO have highlighted that they include:

- 2009: Towards a more effective E&S approach for FMO's Financial Institution Clients
- 2010: Building knowledge in housing development: FMO's experience to date
- 2010: Is there a role for FMO in consumer finance?
- 2011: Going public on FMO's private equity
- 2011: FMO-A private equity evaluation
- 2012: FMO Government Funds Evaluation Plan
- 2013: Effectiveness & Impacts of the MASSIF, IDF and AEF Funds

FMO has provided a number of ex-post assessments, see e.g. the chart below taken from past evaluations. The chart for 90 project evaluations over 2005-2007 for projects financed through FMO-A suggest that projects that achieve good development outcomes also achieve good investment

outcomes and vice versa. However, as mentioned such charts depend on discrete scores, so that much value could be lost - the variation in the large bubble (57%) might conceal important information for understanding development impacts, and taking into account indirect effects in a better way into the score might shift the location of projects amongst the bubbles.

Figure 13: FMO Development Outcomes & Investment Outcomes Bubble Chart



Source: FMO (2012)

In order to evaluate project outcomes on a non-binary good/poor scale, the scaling system was altered in order to represent the investment outcomes of the projects evaluated in 2012 on their original 4 point scale where:

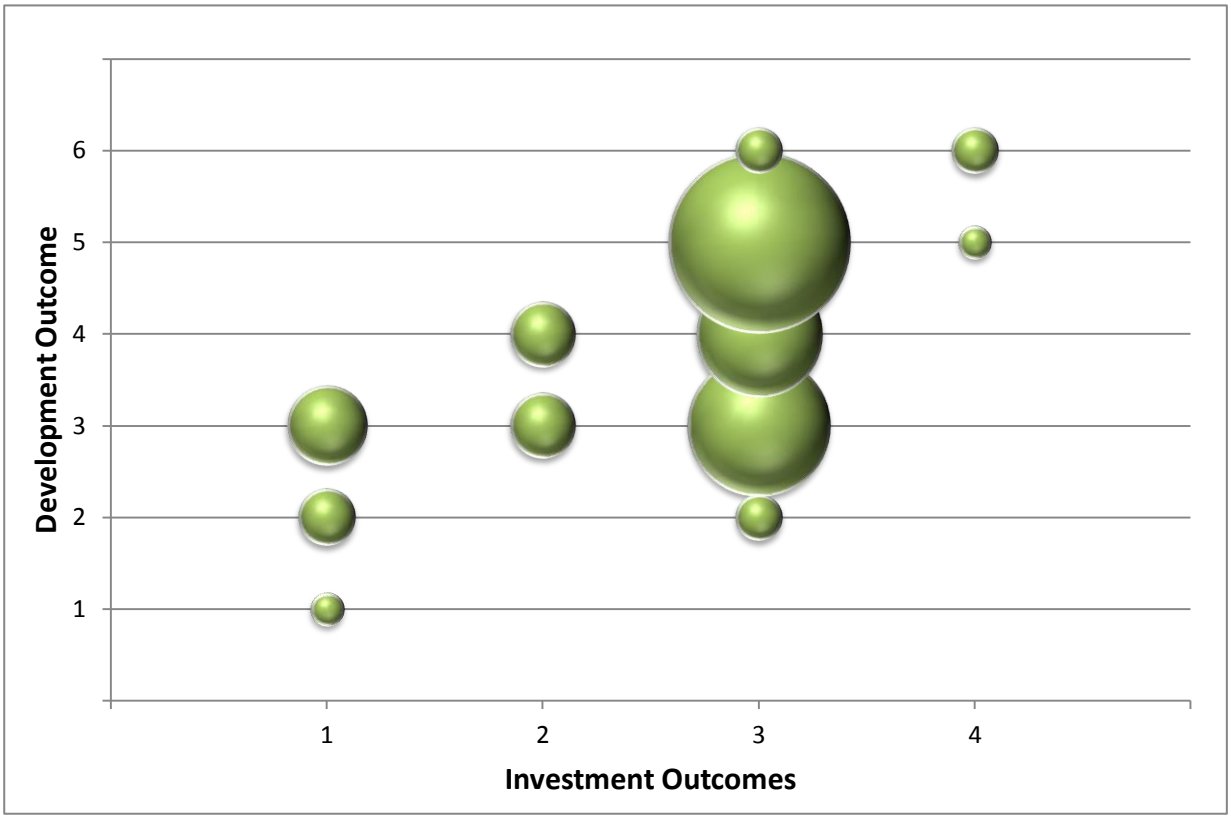
- **Excellent = 4**
- **Satisfactory = 3**
- **Partly Unsatisfactory = 2**
- **Unsatisfactory = 1**

We present Development Outcomes on its a 6 point scale where:

- **Highly successful =6**
- **Successful = 5**
- **Mostly successful = 4**
- **Mostly unsuccessful = 3**
- **Unsuccessful = 2**
- **Highly unsuccessful = 1**

Using these classifications, we can obtain a more nuanced view of the projects in the 2012 evaluation in figure 13. Figure 14 indicates that there is a positive correlation between investment and development outcomes and that most investment outcomes are rated as satisfactory, whereas development outcomes have a more scattered distribution. Thus, when the measure used to translate outcomes into “satisfactory” outcomes is changed somewhat, this could lead to changes of projects from the upper right quadrant in figure 14 to the upper left quadrant.

Figure 14: Development & Investment Outcomes using disaggregrated scales



Note: see text for definition of scores

While the analysis provides important insights, it remains vulnerable, because of three weaknesses: a) the reliability of the assessment (rather than measurement) of the development outcomes, b) the lack of variation amongst the scores, and c) the classification of the EDIS scores.

Further analysis of the data suggests that most investment and development outcome are at an average level (centred around the middle score), which make them sensitive to changes in the boundary between good and bad development outcomes. Small changes in these boundaries can lead to substantial changes in the bubble chart (e.g. there is no bubble in upper left quadrant when changing partly unsatisfactory financial outcomes into good instead of poor outcomes) and hence changes in the perceived correlation between financial and development outcomes Given that most development and financial outcomes are rated around the average (2 or 3 on investment outcome; e.g. 3,4,5 for development) we suggest that FMO could more appropriately use three rating categories (poor, average, good) rather than just two (poor, good). Please note that paragraph 5.1 in the next chapter (which addresses the outcomes of the internal evaluation reports by FMO) presents the results of the investment/development outcome analysis over the entire evaluation period. In that paragraph we continue to use the binary FMO scale.

FMO can also be assessed ex-post on the basis of its catalytic effects. An undated FMO presentation distinguishes between (i) Catalysing commercial funds and (ii) mobilising funds from DFIs. Figure 19 (pag. 68) suggests that FMO mobilised (overall) some €800 mn, but the figure on the right hand shows that more than half involves other DFIs.

In terms of commercial syndicated loan volume, only 1% of total volume comes from LICs. Moreover, of FMO's catalysed commercial funds: 0% is in LIC's, 6% in LMICs and 94% in UMICs. This suggests a trade-off between catalysing effect and focus in LICs. In addition, FMO argues when risks are high

(or greater because of a crisis), additionality becomes stronger, while, at the same time, it becomes much more difficult to mobilise commercial investors.

4.4. Adequacy of existing monitoring and evaluation systems

There are many factors to take into consideration for a review of FMO's evaluation systems. Having described the systems that FMO had in use, we will compare FMO's systems to a range of evaluations conducted by similar actors (including the private sector). Annex 2D describes the indicators used in different private sector impact evaluation methodologies, the approaches that can be used i.e. focus on a single business or the whole of the value chain, as well as some methodological issues. These aspects determine the quality of impact evaluations on which we can assess how well FMO is carrying out its evaluations.

The analysis leads to a number of conclusions and insights into whether FMO's existing monitoring and evaluation systems are adequate for an independent ex-post assessment of the project results and their contribution to the development objectives.

- FMO collects a range of data which allows it to present investment outcomes and development outcomes for individual projects using a scoring methodology for both ex-ante and ex-post project evaluations.
- FMO collected EDIS scores over time as well as quantifiable indicators, but the data and information provided in project files seem too limited and disparate to do a full analysis of all aspects, especially over time.
- Project evaluation data (ex-post), separate from the EDIS system, help to provide more thorough information on the impacts of projects and can provide useful feedback for future FMO investments.
- A more fundamental problem common to many DFIs is the limited extent to which DFIs evaluate detailed, indirect economic impacts of projects. The indirect effects seem to be reduced to a score in EDIS or qualitative assessments for ex-post project evaluations. This seems unsatisfactory given the development in impact methodologies. The IFC and some bilateral DFIs (EDFI, PIDG) have begun to make more in-depth assessments (incl. making links with poverty reduction) which suggest that for a satisfactory evaluation much more information needs to be gathered and developed than quantifiable direct impacts and subjective scores or evaluations on indirect impacts alone. Doing this could be expensive and time consuming, but necessary for an adequate ex-post assessment. A potential way forward is the use of selective ex-post impact assessments, preferably in conjunction with other DFIs. We will return to this issue in the conclusion.
- None of the DFIs do a comprehensive evaluation of the additionality and catalysing impact of DFIs, although some statistical studies have begun to analyse this. For example, on additionality, an ex-ante direct way is to consider whether the specific products offered were not available by private sector actors locally in a static way, but an ex-post analysis would approach this issue from a more comprehensive way and construct a counterfactual (or in some cases, literally constructing counterfactuals using (quasi-) experimental techniques which need to be implemented from the start of the project). A dynamic perspective can also distinguish between catalysing impact at project closure and catalysing impact overall, e.g. through demonstration effects (i.e. what other investments have been financed over time because of this first project). The practicality of using experimental methods to assess additionality can however be questioned i.e. more resources needed to measure effects plus it requires the full collaboration of clients. However, it should be possible to provide support to

some beneficiaries but not to others (which are similar in the main characteristics) and track and compare the extent to which both groups of beneficiaries have been able to obtain finance to do a project in a certain way and/or attract (additional) commercial finance.

We summarise information in the table below:

Table 12: Summary of use of indirect development impact and additionality / catalysing impact

	Use of detailed indirect development impact studies (ex-post)	Ex-post tests / counterfactual on additionality or catalysing impact
FMO	Not discussed in detail but FMO has undertaken thematic and sectoral studies since 2008 which begin to look at impacts on a wider basis.	Not discussed in depth, anecdotal
IFC jobs study	Several examples at micro and macro level showing importance of indirect jobs created and use of multipliers (IFC jobs study was mostly a literature review but it also included assessments of some individual projects).	Not discussed in detail
DFIs e.g. PIDG Bugoye study, EDFI joint evaluation	In depth study of selected individual DFI investments showing the importance of indirect effects (one project in case of PIDG; FMO also contributed to EDFI joint study)	Not discussed in detail (although there is some discussion of role of DFI)
Individual company level studies	IFC micro level studies, Unilever and Standard Chartered, use input-output models to estimate indirect effects	Not discussed in detail
Value chain studies	Several examples in appendix	Not discussed in detail
Econometric studies	Effects on growth (Massa, 2011) and labour productivity (te Velde and Jouanjean, 2013)	Additionality / leverage of investment tested in studies but major challenges exist (e.g. te Velde, 2011)

The lack of assessing indirect effects of DFIs is not a problem unique to FMO but common to a range of DFIs. That said, DFIs have now begun to address this and have commissioned and already undertaken a number of detailed impact studies. FMO itself has taken part in a number of joint DFI studies on its impacts through the EDFI i.e. on energy in 2012, which have begun to address the issue. In addition FMO has already begun to commission individual sectoral and thematic studies (beginning in 2008) that examine impact at the sector level – however these studies are not publicly available.

FMO currently collects less information than is necessary to demonstrate clear indirect development impacts, whilst its direct impacts are clearer (thanks to its ex-post project evaluation systems) but may not be strictly comparable between projects in the portfolio due to the varied nature of the data that is collected. However, it has to be recognised that additional information, for both standardised direct impacts and for indirect impact evaluations, would require greater commitments on behalf of FMO

clients and that may prove too costly or require an impractical amount of resources to undertake. The move towards annual quantitative indicator data collection using the SHIFT system will help move FMO towards better and more standardised information systems thus helping to address this issue to some degree by feeding into FMOs M&E systems as well as its ex-post evaluations.

4.5 Innovation

This is a particularly challenging issue because addressing the issue does not only assume that it is possible to assess which investments bring optimal development results (so we would know what the theory of change is) but also that optimal development results are known and can be measured.

Annex 2 discussed on the basis of the (DFI) literature and interviews the following elements:

- Which sectors (e.g. renewable energy) are regarded as innovative
- Which type of countries are innovative (the poorest countries, with high risk scores, and which lack (sufficient) market access to other capital)
- What products are regarded as new (e.g. local currency lending, long maturity, additional risk taking)
- What are seen as best-practice ESG

We find the following:

Few DFIs consider certain sectors are inherently more innovative than others. Most DFIs simply decide to move into certain sectors, but once operational may not consider innovation as being determined by sector. CDC is different (see below) in that it does compare across sectors (subject to some country variation) on the basis of potential employment generation effects (the potential to create employment directly as indicated by the employment to capital ratio, the potential to create employment indirectly through backward linkages as indicated by the local procurement to capital ratio, the potential for investment into essential infrastructure to remove business constraints and build an environment for jobs as indicated by World Bank Development Indicators and Enterprise Surveys). Sectors are divided in to three categories from high scoring to low: (i) construction, health and education, food processing; (ii) agriculture, transport and utilities; and (iii) trade, financial services and minerals. FMO's portfolio is invested in financial institutions (56% compared to EDFI average of 56%), infrastructure (29% compared to 23% EDFI average), although much of this is in power.

If the ability to generate employment is used as a yardstick for innovative action, a DFI such as FMO is not very innovative because it invests in sectors which appear to have relatively little employment effects e.g. financial services, although it does have a large share in power which is seen (by models) as highly innovative. Of course it should be considered that investments in financial services may do much more than affect employment directly or indirectly through input-output models: e.g. such investments could improve productivity and stimulate investments in other sectors as well (housing, infrastructure etc.) or support poorly-served enterprises such as SMEs which in turn can generate more employment and improved livelihoods. On that yardstick, FMO's investment in financial services could still be considered innovative.

FMO is a frontrunner in some sectors. For example, FMO has a strong commitment to renewable energy within its portfolio which it thinks will be followed by other DFIs. FMO organised the '2012 international year for sustainable energy' which aimed to promote cooperation with Dutch companies in order find sustainable energy solutions in developing countries as well as partnering with other DFIs in order to support renewable energy projects (i.e. a partnership with PROPARCO and DEG in order to support wind development in Uruguay).

FMO is sufficiently flexible to innovate and move into new sectors. For example, FMO decided to move into the housing sector prior to the crisis. As part of this move into the housing sector, FMO provided funds to a number of housing initiatives including the Rand Merchant Bank in South Africa so that the bank could provide finance for affordable housing, Delta BRAC housing in Bangladesh (housing for first-time buyer middle income people in Bangladeshi urban areas) or the provision of US$ 30 million (together with the IFC) for housing in Costa-Rica and the provision of US$ 20 million to a housing project in Tbilisi (Georgia) in 2011.

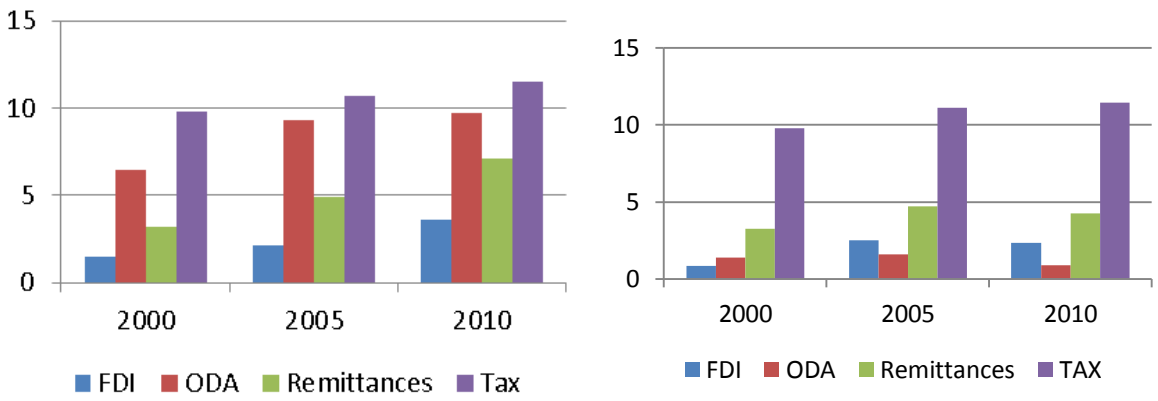
DFIs do have clear mandates and views on what is considered innovative in country choice. The data analysis in annex 2E suggests that FMO has moved relatively more into ACP and South Asia (poorer countries) than DEG or CDC, and they have moved more out of Russia, China and Central Europe (richer countries) more quickly. Hence FMO has been more innovative compared with respect to country choice, although more detailed analysis would be necessary to be conclusive. FMO has also introduced new instruments into the DFI system (e.g. catalysing finance from pension funds) and hence can be seen as an innovator in the DFI system with respect to new instruments, although we have less information at portfolio level. More recently is has started to catalyse institutional investors.

In terms of its Environmental, Social & Governance systems (ESG) we find that FMO is in line with most other DFI's in terms of its Environmental and Social Risk management procedures as it follows what are considered to be best practice standards i.e. the IFC's Performance Standards as well as the EDFI exclusion list and the EDFI Principles for Responsible Investment. The advantage that FMO has vis-à-vis the DEG is in the ease of availability of its toolkit (as it is free and publicly available – unlike DEG's toolkit) as well as in the relative simplicity of its applicability if compared to CDC's ESG toolkit which largely focuses on the theory of ESG rather than the application of the toolkit.

4.6 Reporting in a changing environment

The global development context is changing rapidly. The geography of poverty has changed markedly over the past two decades. As a result of rapid growth, we have experienced rapid poverty reduction globally with a range of developing countries graduating out of low income status. Currently there are more poor people in middle income countries (e.g. 300 mn in India), although it is expected that by 2030 most poor people are in the poorest countries. Climate change and natural resource use is taking on new dimensions with human activity using more resources that is available to stay within planetary boundaries. The nature and composition of financial flows to developing countries is also changing rapidly. FDI (and other private capital flows such as bond flows) are increasingly available in low income countries and domestic tax revenues are relatively more important in financing development goals in lower middle income countries (see figure below).

Figure 15: Financial flows to low-income (left) and lower-middle income (right) countries, % of GNI



Source: World Development Indicators, accessed 17/12/2013, FDI = Foreign direct investment, net inflows (% of GDP), ODA = Net ODA received (% of GNI), Remittances= Personal remittances, received (% of GDP), Tax= Tax revenue (% of GDP), tax data for LICs in 2000 taken from 2002.

Within this changing context, a high level panel was tasked to come up with a set of development goals that would frame the future of development. The HLP report (2013) includes five transformative shifts: (i) leave no one behind, (ii) put sustainable development at the core, (iii) transform economies for jobs and inclusive growth, (iv) build peace and effective, open and accountable institutions for all, and (v) forge a new global partnership.

Te Velde and Griffith-Jones (2013) elaborate on four challenges for financial markets in low income countries which are holding back such transformation shifts: (i) lack of depth of financial sector development, although very rapid increases in credit can also be harmful to poor countries; (ii) Inclusive finance and ability to finance 'the missing middle'; financial sector support to the real (i.e. productive) sector remains weak in many African countries, with corporate lending at the short end. (iii) high interest rate spreads - the gap between the central bank rates and the lending rate - is a major problem for many sub-Saharan countries; a lack of adequate competition has led to inefficient pricing of financial assets and (iv) lack of financial mechanisms that can mobilise and channel long term finance.

FMO has responded to a changed environment by promoting inclusive and sustainable growth. Economic growth is the engine for FMO's sustainability and poverty agenda, but sustainability is an overriding strategic theme leading to the goal of halving FMO's footprint (achieved esp. by working on the sustainable energy sector).and poverty alleviation depends, according to FMO, on primary choices of countries and sectors in which FMO is active (it wants to double the portfolio of the focus sectors such as investment in financial institutions and agriculture, and hence double the impact through growth and poverty reduction indirectly).

In 2012, FMO developed a new corporate 2013-2016 strategy, with the aim that by 2020, FMO will be the leading impact investor by doubling impact and halving the ecological footprint. It contains the following elements:

- FMO will focus on the financial institutions, energy and agribusiness, and food and water sectors, as these are regarded as integral to economic development and a more sustainable world as the global population moves towards nine billion by 2050.
- FMO aims to increase its catalysing role through fund management for third parties and syndicated loans. By 2020 it wants to catalyse one euro for every euro it invests. It will focus

on investors from the South to partially replace the crisis-induced withdrawal of investors from the North; become fund manager of leading impact investment funds and mobilise other DFIs.
- FMO will establish closer links to Dutch companies and making use of the growing network of similarly oriented organisations within the Dutch market.
- FMO will invest at least 70% in low and lower-middle income countries, and at least 35% in the 55 poorest countries.
- FMO will target a return on shareholders' equity of a minimum of 6% and a cost to income ratio between 25% and 30%.

FMO has therefore developed an appropriate strategy that takes into account changes in the external environment, making choices on how FMO could most effectively contribute to the most pressing problems. This is admirable, yet, there are also a set of challenges which could be considered in more depth when responding to global challenges.

- The aim for inclusive and sustainable growth is right, but how does FMO balance the three objectives (financial, wider economic/social and environmental)? Why is a 6% return on equity the right number (and not 3%, or 0%, given that previously the state funded FMO) and how does FMO make sure it maximises inclusiveness and sustainability given a certain floor on RoE (e.g. 6%). Will it take development impact as serious as financial viability?
- The country choice looks crude; why should the list include 55 and not 54, 56, 10 or 80 of the poorest countries? The strategy behind country choice is not sufficiently clear; why can FMO not work with a sliding scale that gives more "credit" for working in more difficult countries?
- The sector choice could also have been based more properly on the economic literature and country specific context that identifies binding constraints to growth at country level. If the lack of roads is the most binding constraint to growth and employment generation in a particular country, should it not focus on that sector rather than on other "focus" sectors as long as FMO has an efficient offer in that sector? Or is comparative advantage of FMO more important than an analysis of needs at country level – or do such choices coincide within the current sectoral focus?
- Whilst FMO appears to be flexible in starting or moving out of sectors (witness the example of housing), it would be useful to see a clearer discussion on motivation and process behind sector choices. Is FMO set up to adapt to changes on a rolling basis (e.g. via the budget cycle, or only every three years when a strategic plan is developed)?
- A sectoral focus still leaves quite some freedom. For example, the target to "double Agri portfolio" could be reached in differing ways with different effects on economic, social and environmental dimensions; and the target to "double the MSME portfolio" may have differing impacts on addressing the missing middle depending on what exactly is supported.
- It is important to focus on the catalysing effects, but there is little analysis of what blending strategies work best given the current financial climate (although it should be stated that FMO has some innovative ideas and results in this respect, e.g. by catalysing pension funds).

The conclusion is that FMO has a well-developed strategy that seems to respond well to the pressing challenges in the external environment but more thought could go into how FMO considers country and sector choices within this strategy and on how the process works for updating country and sector choices to new global or country contexts. There has also been little analysis at a strategic level on what financial products are thought to be best.

4.7 FMO development impact framework in comparison to other DFIs

Annex 2F compares DFIs on a few areas relevant for development impact, and this is summarised in table 13 below.

Table 13: Comparing ex-ante development impact framework across DFIs

	FMO	IFC	DEG	CDC
What type of information on development impact is available to the Investment Committee in DFIs (ex-ante) at the various stages	EDIS (2008-2012) Role of FMO (additionality / catalysing role) QIs SHIFT	DOTS (tracking system in 4 areas, more detailed than FMO) IDGs	GPR	GRID (direct and indirect employment impacts)
Are targets for quantitative indicators on development impacts (e.g. employment) being used to drive investment, and to what extent is the development dimension important.	Limited discussions in deal teams, EDIS abandoned, SHIFT making an impact	Limited discussions in deal teams The IDCs appear to have an impact	GPR allows comparing potential impact of different projects	Some evidence that GRID is helping to screen/select projects

Source: analysis and interviews

The IFC uses the Development Outcome Tracking System (DOTS) as an M&E system (which is not used for ex-post evaluations) to evaluate ex-ante and then track the development results of their investments throughout the project cycle. The DOTS framework looks at four key performance areas: financial performance, economic performance, environmental and social performance, and private sector development. Projects are evaluated on the basis that they are financially sound, provide benefits to stakeholders, meet the IFCs environmental and social performance standards and have broader positive impacts on private sector development. In 2011, the IFC also began to use a set of seven International Development Goals as a way to integrate IFC results measurement within the MDG strategy. Discussions with the IFC (see table 14 below) show that IFC also carries out between two and four thematic or sectoral evaluations a year. These evaluations are intended to help the IFC understand their impact as well as provide real-time feedback on projects for both the clients and for IFC's operational staff. The IFC created the development Impact Department (CDI) in 2010 in order to oversee research design in order to deepen IFC's understanding of its development results as well as test and implement additional monitoring instruments (IFC, 2013a).

CDC implemented the ex-ante GRID system in 2012. This compares 'investment difficulty' per country against the 'job creation potential' of a sector using country level Input/Output tables aggregated and averaged at the low income country level. Investment difficulty is assessed with regards to a country's market size i.e. the smaller the market, the harder it is to invest as well as a country's income level (where lower income levels increase the difficulty of investments), the ability to access investment finance as well as the country's Ease of Doing Business ranking. CDC reports that the grid has helped to screen out around 50% of incoming deals. The grid also helps to provide some structure to the investment committees since it helps them focus on understanding the difficulties of investing in a country as well as the potential impacts.

DEG began using the Corporate Policy Project Rating (GPR) in 2000. The GPR is used for ex-ante and ex-post project evaluations. Ex-ante project evaluations assess project using financial and environmental sustainability criteria. GPR monitoring scores are filled in once every two years (which seems more advanced than say FMO) when DEG carries out a portfolio wide review of its projects (which is also used to evaluate completed projects in the intervening period). The GPR is made up of four indicators: development effects & sustainability, project profitability, the role of DEG and DEG's return on equity. The GPR system is not translated into targets for investments as the DEG thinks that such an approach would result in 'strange' decisions being made in order to meet targets. In addition, there is also the fear that particular projects would be ignored in favour of other projects better suited to meet targets.

Table 14 below compares ex-post development impact assessments. Compared to DEG and CDC, FMO is more advanced in most areas assessed in the table (e.g. in making portfolio level evaluations public annually), perhaps with the exception of the greater use of external evaluators (rather than use of own evaluation units) in undertaking evaluations and the number of evaluations. One difference for ex-post evaluations is that both the CDC and DEG evaluate all their projects, whilst FMO and IFC only use a sub-selection of projects which may be understandable since both FMO & IFC carry out their evaluation annually whilst the CDC has a smaller number of projects to evaluate and DEG carry out evaluations every 2nd year (which makes it easier to evaluate their whole portfolio). Apart from this, FMO seems to be in a similar position vis-à-vis DEG and CDC in terms of the quantitative data that it uses to compile its ex-post evaluations and ahead of CDC (but in a similar position to DEG & slightly behind the IFC) in terms of its in depth sectoral and thematic studies that look at ex-post effects in greater detail.

Table 14: Comparing ex-post development impact assessments across DFIs

Questions	FMO-A (draft)	IFC	DEG	CDC
Are ex-post evaluations carried out at the portfolio level?	Yes	Yes	Yes	Yes
How often are DFI Portfolio's evaluated on aggregate?	Annually	Annually	Every 2nd year	Annually
Are portfolio evaluation results publicly published? How often?	Yes, annually, in annual evaluation report	Yes, in annual results and performance report	Yes, every 2nd year	No
How are projects selected for portfolio evaluations?	Subsample (of which the initial sample was of 50% of all projects after 5 years) are selected randomly	Each year, IEG conducts in-depth evaluations of a randomly selected representative sample of projects, approved 5 years earlier, that have reached early operating maturity. The selection represents about 45% of all relevant projects and ensures proportional distribution of evaluations among departments. IEG's annual reports are based on three year rolling average.	All projects in portfolio that have a portfolio GPR (= all projects that are in portfolio and operational).	100% of funds reaching mid-point and exit.
How many projects are used?	40% of projects that FMO invested in 2007 were evaluated in 2012; 64 project evaluations done that year	Typically, more than 200 projects over three years	390 Project Companies	Typically 20-25 evaluations per year.

What impacts and results do portfolio evaluation reports present?	Project evaluations score Investment Outcomes, Outcomes and the Role of FMO as DFI(Catalytic/Additionality/ESG). Development outcome assessment is partly based on monitoring of quantitative and qualitative indicators, relating to direct impacts and outreach Evaluation reports focus on trends and patterns in development and investment outcome success rates, and the influence of the role played by FMO.	Overall Development Outcome, Investment Outcome and work quality	Scores based on the GPR (Corporate Policy Project Rating) which shows development grade; quantitative and qualitative indicators on development effectiveness	Development Outcome (financial, economic, ESG & private sector development) & CDC Effectiveness (catalytic effect, value-added)
Are impacts and results also disaggregated by sector/geography?	Yes - FMO strategic sectors & country income groups are disaggregated (development and investment outcomes).	Yes	Yes	No – the annual sample is too small.
Who carries out evaluations?	FMO's Front Office Staff, validated by the internal Evaluation Unit.	IFC Independent Evaluation Group	DEG's internal Evaluation Unit (Within Dep't Corporate Strategy and Development Policy)	50% external evaluators; 50% investment teams
Are in-depth studies of individual projects carried out ex-post?	Joint EDFI studies described below; since 2013 effectiveness evaluations studies (to be followed by rigorous impact evaluations) for selected projects financed out of the Government Funds.	Yes	Yes: focussing selected topics, e.g. energy infrastructure	Not yet - Planned
Are these evaluations made publicly available?	Not yet, but FMO contributed to EDFI evaluation of energy sector projects in Africa (3 projects, 2012), and coordinated an EDFI evaluation of the effectiveness of support to SME development in Africa (2013; report being finalized).	No	Yes; summaries are provided online (also those of joint EDFI Evaluations to which DEG contributed to).	CDC only started making direct investments in 2013. These will be evaluated in depth.
What type of information do they have?	Context, additionality, direct and indirect impacts and outreach effects, respectively.	Overall Development Outcome, Investment Outcome and work quality	Dependent on the topic	..
How often & how many are carried out?	Two joint studies with other EDFIs so far; several studies under the government funds evaluation plan in various stages of	Annually; based on projects approved five calendar years before. Approximately 45% of portfolio coverage	Approximately 1 per year since 2008	..

	completion.			
Are other thematic and sectoral studies carried out?	Yes – both Thematic & Sectoral	Yes	Yes	..
How often are these carried out? How many are carried out?	Around two annually – 8 since 2009, including the two EDFI studies above.	Depends on IEG work programme, approximately two to four a year	1 Evaluation per year; Several studies on specific topics like SME, Market studies, PPP studies, E&S studies	..
Are they made publicly available?	These evaluative studies are for internal use; results/findings are typically summarized in the annual evaluation reviews.	Yes	Partly	..
What type of information do they have?	Varies according to the report – some are strategy & planning documents; others contain client guides whilst others are lesson learning reports.	Varies according to the report – assessment of results with respect to sector strategy, historic performance in the sector and recommendations going forward	Varies according to the report	..
Do M&E systems feed into portfolio evaluations?	Yes	Yes	Yes	Yes
If so, what information is used?	Quantitative data (quantitative indicators) from M&E processes are used to feed into project evaluations for portfolio evaluations and reported in annual report in 2010, not in 2011, then again in 2012 (in limited sense, e.g. development reach).	Financial, economic, environmental and social performance, private sector development impact. Profitability and risk profiling.	Quantitative data (quantitative indicators) and qualitative data (qualitative indicators) from M&E processes are used to feed into aggregated portfolio evaluations	Financial, employment, tax & ESG data from 6-monthly & annual monitoring process feeds in to evaluations.
Are External evaluations carried out?	Every five years	Since 2007, IFC Annual Report provides comprehensive information on the development results of IFC active portfolio. An external assurance provider reviews the quality and accuracy of the development results reported in IFC Annual Report. A comprehensive independent evaluation of IFC Development Results is also published annually by IFC IEG, which is independent from IFC Management and reports directly to IFC Board.	GPR was evaluated by the German Ministry of Development in 2004 and 2008.	Yes; DFID's oversight of CDC is reviewed by the UK's National Audit Office on 5 yearly basis.

Source: Interviews with FMO, CDC, DEG and IFC

Overall it appears that the development impact reporting systems in FMO are as advanced as those of other DFIs, in terms of both ex-ante reporting and ex-post evaluations. Only the IFC collects more information ex-ante using DOTS. The CDC seems to have a better grasp of the importance of indirect

effects ex-ante, but this is limited to one indicator: employment. Our review in appendix 2D has suggested that a range of indicators might be important beyond employment, including e.g. productivity.

Whilst FMO compares reasonably well to other DFIs, there are challenges in development impact reporting that are common to all:

- information gathered is often mainly for project level info, geared mainly towards tracking at project level, and it not really geared towards reporting on development impact (e.g. direct and indirect) or on how a project links into an economy. Sectoral studies go some way to connect projects with economy wide impacts but counterfactuals are still difficult to prove.
- the EDIS scoring system was subjective; the score had little value with respect to external accountability / external reporting: it is not clear what a 63 EDIS score for the portfolio stands for - e.g. EDIS scores are not comparable across sectors and there is no one-to-one relationship with quantifiable indicators)
- the EDIS was supposed to be used for steering projects (ex-ante), and whilst there were some who said the development impact did steer their investments (with group targets), others disputed this: rather, the projects were determined by FMO investment criteria (as evidenced by lack of long pipelines of projects). The use of SHIFT indicators may change this.

In practice, there is very little information or analysis available in the CIPs / FPs to demonstrate development impact or additionality:

- Little information on how projects link into sector/economy as a whole, both in an ex-ante and ex-post way. This could be dealt with through ex-ante use of multipliers (steering, some DFIs such as CDC are using this), and ex-post use of targeted detailed impact assessments (accountability).
- Few explicit checks on additionality (e.g. there is no evidence of testing of local markets, rather there is the use of assumptions).
- Catalysing: few evaluations examine this aspect and very little thoughts has gone into constructing counterfactuals.

Hence, FMO has made significant steps over the last decade, but there is still limited information available for stakeholders who really want to know about development impact. In annex 2 and in the above bullet points we identified a number of ways forward after considering the rapidly evolving development impact literature. The conclusions will take this forward.

5 What can be concluded, using FMO's information system, about the development results for the years 2008-2012?

This chapter will answer the following ToR questions:

3.1 What are the conclusions of FMO's internal (overall) monitoring and evaluation reports about the realisation of development objectives?
3.2 Relying on FMO's own information system, how do the consultants assess:
• the additionality of funding by FMO
• the catalysing role of FMO's funding
• the contribution of projects to overall development objectives?
3.3 Taking into account the development of the portfolio, what can be concluded about the *expected* development impact of projects selected in the period 2008 through 2012 (projects which have not yet gone through a full evaluation cycle).

5.1 Internal Monitoring and Evaluation Reports

FMO annually evaluates a significant portion of its portfolio to measure actual impact achieved of its investments, the results are presented in annual evaluation reports. These reports investigate investments five years after they have been approved, or at exit. Until 2007, FMO evaluated all projects approved five years earlier, where approvals led to subsequent disbursements; in 2008, FMO evaluated a 50% sample of five year old approvals; since 2009, for reasons of system changes, FMO takes a 50% sample from investment commitments (realized contracts), rather than from the project approvals. For example, in 2007 all investments that were approved in 2002 were evaluated, plus later years' approvals that had been terminated in 2007. In this overview we have synthesized the results of six evaluation reports starting with the evaluation report 2007/2008 (report published May 2008) up to and including the evaluation report 2012/2013 (published March 2013) until 2012-2013.

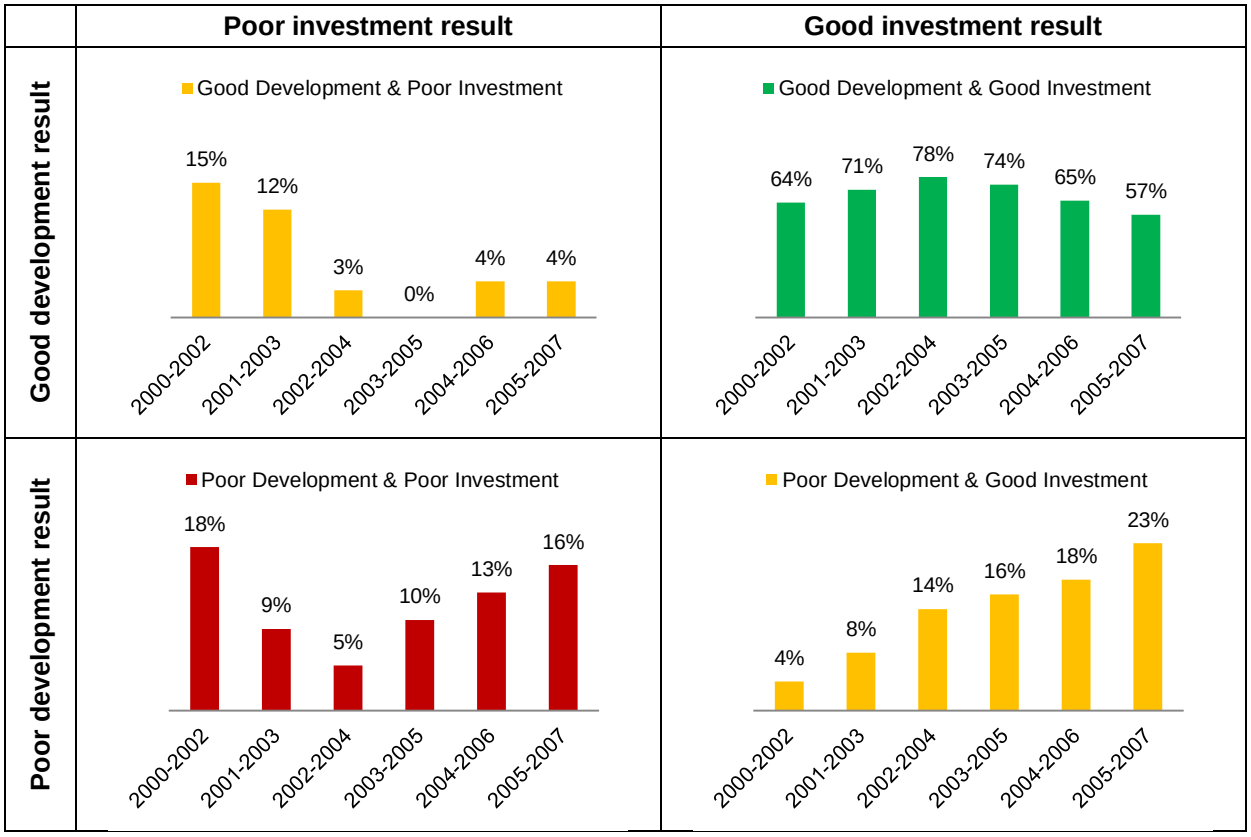
EDIS as part of the scorecard tool was developed in 2005. Projects approved prior to 2005 received an 'ex-ante' EDIS score based on the information available in the financing proposals. However, retrospectively assigning ex-ante EDIS scores to projects makes the evaluation of projects prior to 2005 more difficult.

In paragraph 4.3 we discussed some of our findings of the evaluation methodology and addressed the inherent limitations. We thereby also studied the project results of the 2012 evaluations using a more granular scaling of the outcomes. In this chapter however, in which we present a brief synthesis of the outcomes of the evaluation reports, we stick to the methodology FMO has actually applied over the evaluation years to avoid a mismatch with the underlying evaluation reports. Consequently, the graph below shows projects that are grouped according to the binary scale used in the evaluation reports; poor / good development result and poor / good investment result.

FMO uses a three year average to increase the statistical value of the results. Thus, for example in the 2012/2013 report, a sample of projects initiated between 2005 and 2007 is used. We further note that projects from the 2002-2004 sample onwards have better investment scores as prepayments did not (by definition) result in an unsatisfactory financial return score, which it did in the years before. Further details on the scoring mechanism can be found in section 4.3. In paragraph 4.3 we addressed the limitations of any 'correlation analysis' on the relation between investment and development results and hence vulnerability of any conclusions drawn from this data. In short, drawing statistically meaningful conclusions on the relation between investment and development results from the data in

the evaluation reports is simply not possible. However, if we analyse the outcomes with less statistical rigor we can make some interesting observations. The graph shows a positive relationship between investment result and development result (as defined by FMO, using EDIS scores) and as measured over the entire (5, 6 and 7 year) evaluation periods. In totality 80% of all observation pairs (development result, investment result) are in the upper-right (win-win) box and/or in the lower-left (lose-lose) box. In later years this relationship seems to weaken. Despite the new investment success classification, a downward trend in win-win situations and an upward trend in lose-lose situations is visible. Furthermore, projects with a poor development result are as likely to have a poor investment result as a good investment result. FMO argues in its evaluation reports that the increase in the poor development result & good investment result can in a large part be attributed to the financial crisis. The financial crisis meant that clients could just service their financial obligations to FMO, but did not manage to have a positive developmental impact.

Figure 16: Investment and development results over time



Source: FMO's evaluation reports 2008-2012

The explanation of the increase in poor development results in later years highlights a result of the methodology of the EDIS indicator: it is dependent on external factors and there is no feedback of previous years' successes in the current year's score. The 2012-2013 report acknowledges this and states: *"Nevertheless, in particular the current methodology of development outcomes measurement is still heavily influenced by external conditions, and hence the reported trend is difficult to link to FMO's role & contribution."*

Work quality of FMO is strongly correlated with success in development and investment results. The work quality indicator is composed of quality of front end work (e.g. due diligence, appraisal, structuring), quality of monitoring and the role of FMO in terms of additionality and catalyzing other investors. Work quality is often higher in the focus sectors of FMO, showing that experience and

knowledge play an important role in the organization. FMO stopped evaluating work quality from the 2011-2012 report onwards. In that report, a downward trend was visible in the quality of work performed by FMO. More specifically, a deterioration in front end work was noticed. It would be interesting to see if the further decline of both the development outcome and investment outcome after the 2011-2012 evaluation was also matched with a further deterioration in work quality of FMO.

The role of FMO is used as a proxy for additionality and catalyzing effect. This indicator includes the following:

1. FMO's financial additionality; is FMO's financing commercially available?
2. Did FMO catalyze other investors?
3. Did FMO play a role in the following: improving the client's corporate governance / environmental performance / social performance / operational or business performance?

The best financial and development results, as measured by FMO's evaluation unit, are made with the loans that FMO provides, and not with equity or mezzanine products. The investment result of loans is generally better because loans offer downside protection through, for example, seniority, collateral and positive or negative covenants. On the other hand, equity and mezzanine products have more financial additionality compared to loan products.

In the 2012-2013 report for the first time specific focus was put on catalyzing funds. TCX, a spin-off from FMO in which it still holds 15% of the equity, provides local currency hedges. FMO argues that TCX is a catalyzing role of FMO because it originated at FMO. However, In the 2012-2013 evaluation report no evaluation was done on the amount of syndicate loans or an otherwise catalyzing function of FMO next to TCX.

FMO's annual evaluation framework: changes during evaluation period 2008-2012:

In April 2012 FMO delivered its 10th annual evaluation report covering the evaluation work done in 2011. In this report FMO concludes that a *"review of the current methodology, and a comparison with best practice within DFI's is on the agenda"*. That decision was largely based on the observation that the measurement of the development results did not allow for a proper measurement of FMO's role and contribution. The effect of external conditions has a strong influence which cannot easily be filtered out. The run-up to a change in evaluation methodology was announced many years ago as earlier evaluation reports also mention the aim to develop the evaluation methodology further.

The 2009 report announced changes to the evaluation framework to adapt to FMO's new sector-based organization model, in order to achieve *"increased depth and relevance".* In the 2010 report it is confirmed that as of 2011 "*FMO will change to a sector-based annual evaluation program*". At the same time the FMO states that a sector-based evaluation programme is less suitable for accountability purposes and that therefore the sector-based approach will be supplemented by an evaluation tool to serve portfolio-wide accountability. The accountability element will be further supported by the use of objective measures in scorecards. The 2011 report, the 10th annual evaluation report, is the first report according to the changed methodology. However, the differences with earlier reports appear limited. The majority of the content is focused on the annual programme of portfolio-wide evaluations whereas the sector and thematic studies are summarized in one-pagers. The 2012 report takes this theme one step further again and contains an overall assessment of FMO's contribution which includes additionality, catalytic effects and FMO's non-financial contributions.

The 2012 report concludes in chapter 8 by describing that while the evaluations of the past years have been *"helping us to learn a lot about what works and what doesn't, these ex-post evaluations [..] do not constitute hard and conclusive evidence of projects' effects on those who are intended de developmentally benefit from the project activities"* and goes on to state that it is part of FMO's strategic agenda to increasingly show 'hard evidences' going forward. This strategic agenda is of course linked to the ambition to be 'doubling impact and halving footprint'. A key element of the 2013-2016 strategy is the implementation of the SHIFT project which entails implementing a new framework for impact measurement.

The description above illustrates the continuing quest of FMO during the evaluation period of 2008 – 2012 to improve on the existing evaluation methodology and put together an evaluation framework combining two main objectives; accountability of FMO towards its stakeholders but also organizational learning. While we agree with FMO that the annual evaluation reports had diminishing 'news value' and could certainly be further improved upon, we observe that the balance is shifting away from 'learning' towards 'hard impact' measurement. This focus on hard impact analysis (supported by objective quantitative data) represents a trend in leading DFI parties. We agree that the alignment of impact measurement between these DFI parties and the trend towards using objective parameters increases accountability and transparency.

In the evaluation framework 2008-2012 there are some imperfections which have been addressed above.

- Effect of the economic cycle:
  Ability to isolate the impact of external factors in order to properly assess cause-and-effect relationship between FMO's role and contribution (additionality, catalytic effects, E&S) and the observed development and investment outcomes. SHIFT will not 'solve' this imperfection as it is inherent to the operation of FMO and other DFI's, and will continue to be a challenge in evaluating performance.
- Ex post versus ex ante:
  Measurement of ex post development outcomes takes place and as long as the development outcome is 'satisfactory' or 'excellent' it is categorized as a success.
    - The definition of success does not compare the expectations ex ante with the ex post result. (As long as the ex post result is satisfactory, EDIS > 60, the project is a success in the charts, regardless of the expectations at the outset)
    - A systematic 'gap analysis' does not take place. There is room for such commentary in the evaluation forms but systematic analysis of deviations does not take place
    - The individual evaluation reports contain valuable lessons learned, these lessons are specific to projects and generally do not translate into the summary reports. We think there is clear gain to be had in attempting to better embed these lessons into the collective memory of FMO. Translating the lessons into better decision making in the future could, for example take place by summarizing them into a checklist used in evaluating proposals (see also 5.2.2).

5.2 Additionality, Catalysing Role and Development Impact

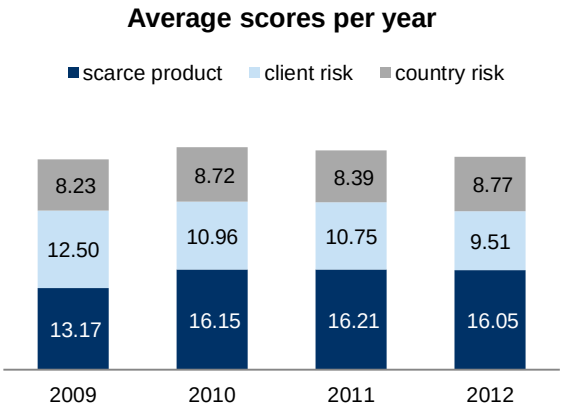
5.2.1 Portfolio level analysis

To assess the additionality of FMO's funding, on the basis of FMO's information system, we have summarized the scores from the FMO scorecards for the period with the exception of 2008, for which we were not able to collect data. FMO scores the three additionality elements, 'scarce product', client

risk and country risk, on a scale of 0-20. The main conclusion we can draw from the data is that the additionality scores overall are relatively stable with an 'average' score for additionality stemming from high client risk and high country risk, and a high score for scarce product additionality.

In the chart below we have summarized the scores for the three elements of additionality. For every year this chart shows the average, unweighted, score on additionality derived from scarce product, client risk, and country risk. The maximum is 20, the minimum is 0. We can see that FMO's additionality from taking country risk is the most stable factor whereas additionality sources client risk and scarce product have varied more over time. Especially the year 2009 is shows a different pattern with markedly higher client risk and a lower scarce product element. Nevertheless, FMO scores well on product additionality throughout the evaluation period.

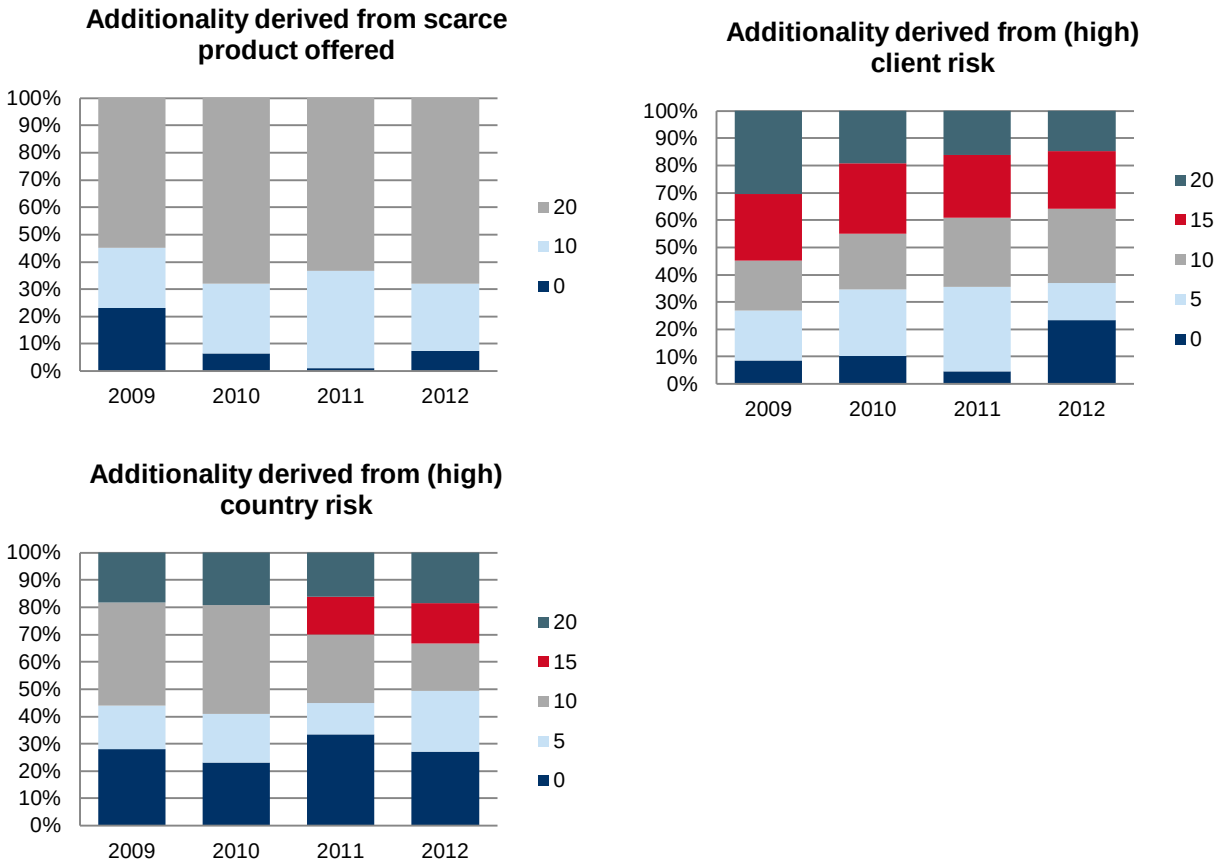
Figure 17



Zooming in on scarce product additionality, 2009 is the year that stands out. We believe that this is mostly due to the effect of the economic crisis on FMO's client base. The rationale being that the relatively low scarce product score is mirrored by a relatively high client risk score. The crisis will have affected the credit quality of FMO's new clients negatively which leads to higher client risk scores deterring other investors or lenders. The element product scarcity will correspondingly have been less important for the same clients.

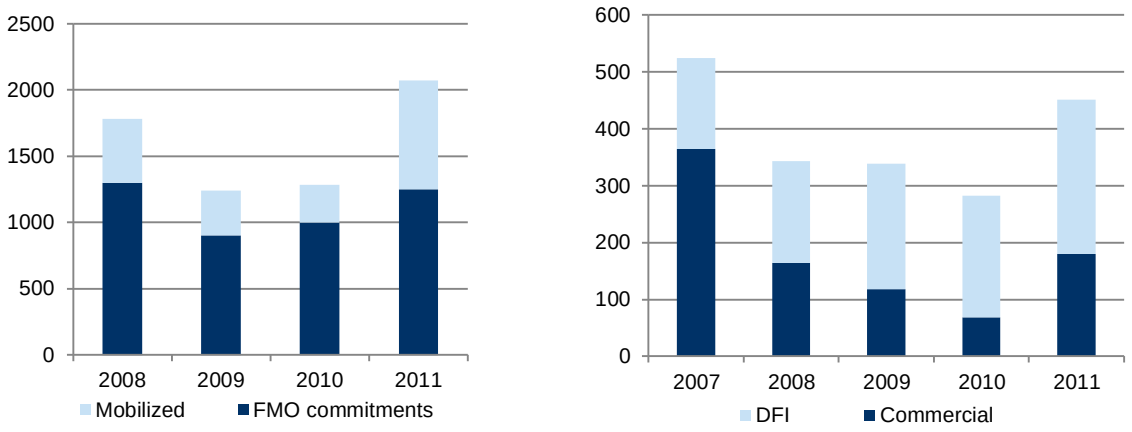
In Chapter 4.2.5 we provided a discussion on the scores of 0 for client risk, product risk or country risk. A score of 0 in client risk increased significantly in 2012, after a decrease in the previous year. Additionality derived from country risk is more stable, although it seems that a score of 15 was only introduced from 2011 onwards.

Figure 18



Focusing on the catalysing role of FMO, the data in figure 19 show that in 2011 a much larger share of funds was catalysed compared to previous years. This summary data have been provided by FMO. We have not been able to recreate these graphs based on our portfolio analysis. The data on mobilised funds have not been monitored consistently during the evaluation period and the definition has also changed (in 2011). We can however draw some preliminary conclusions from the summary data. The first annual target with respect to catalysing funds was introduced in 2011, so it seems that this target has incentivized the organization to be more active in this area. However, it is unclear how much of the funds that are invested in total in a syndicate are attributed to FMO's catalysing role. Moreover, within the funds mobilised there is an important distinction between funds catalysed from commercial investors and funds catalysed from other DFI's. FMO should focus on the funds catalysed from commercial investors. After a period of decline from 2007 to 2010, the amounts catalysed from commercial funds increased markedly in 2011. This re-emergence of catalysed funds is in line with expectations given the fact that commercial investors were less present in FMO's markets during the financial crisis in the years 2007 to 2010. It would be interesting to see whether the recent upward trend has continued. Nevertheless, these graphs show that in recent years the majority of funds catalysed by FMO still comes from other DFI's.

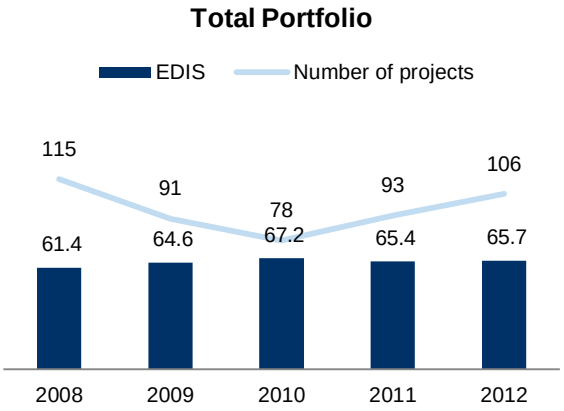
Figure 19: FMO's own commitments and amounts mobilized (left), break-down of amounts mobilized (right)

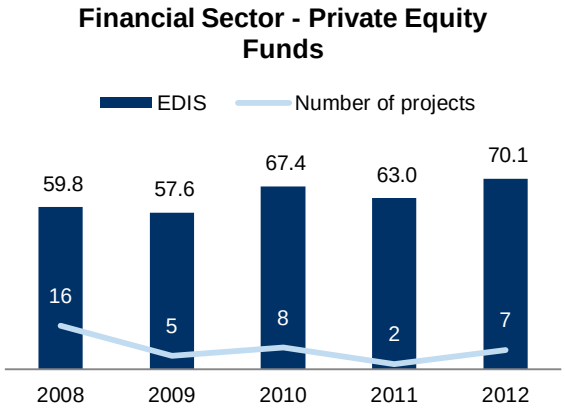


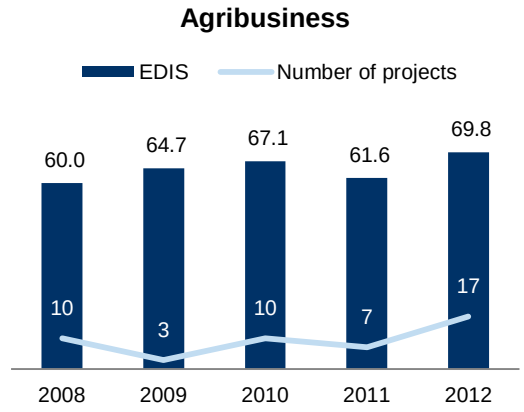
Note that the 2011 figures are not consistent in both graphs.

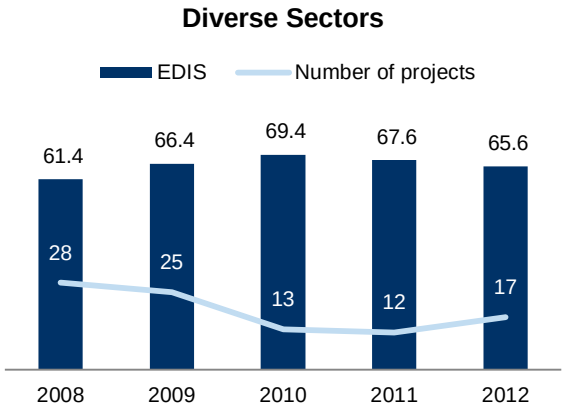
With respect to development impact of the portfolio over the sample period, in this (version of the) report we have not included an analysis of quantitative indicators. We find that including an analysis of these indicators would require improved data collection. QI data are available for 2010 and 2012 only, but there is a lot of missing data. For example, for financial institutions (192 in 2010, 253 in 2012) there are respectively 26% and 42% files with either 0 employees working for the FI or blanks in the data.

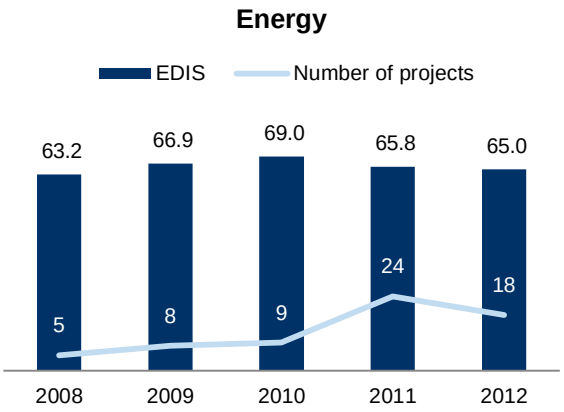
We did conduct an EDIS analysis on the portfolio level, making distinctions between sectors. We do note that the data had some missing EDIS values or values equal to 0, which we removed from the calculations. Moreover, the EDIS scores are not comparable over time as scorecards have changed during the evaluation period, as discussed in chapter 4.2.1. This leads to different average EDIS scores and number of projects contacted than reported in the annual reports of FMO. However, this analysis is the best we could provide given the information available. Given the limited number of observations in each of the sectors and the changed methodology of the scorecards it is not possible to draw ‘statistically’ meaningful conclusions from the data, we can however distinguish some trends in the data.

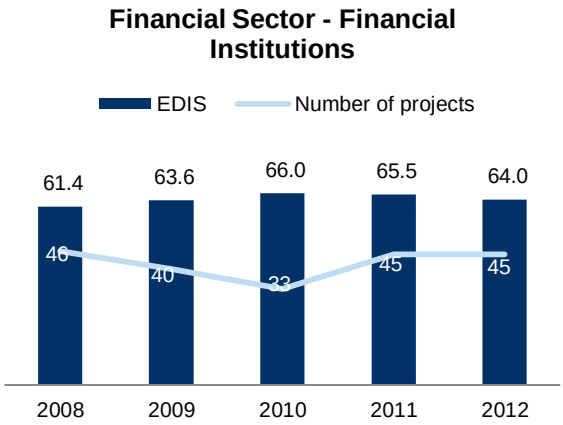












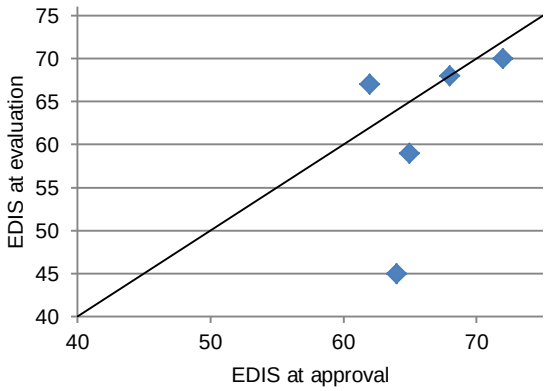
What can be seen from the above graphs is that the average EDIS on portfolio level from 2009 onwards is consistently above the target of 64 and in general increased over time. Moreover, since agribusiness became a focus sector the number of projects increased substantially, as did the EDIS. Interestingly, the financial institutions sector - the sector which has the largest amount of deals contracted per year - tends to show lower than average EDIS results. The private equity portfolio of FMO shows the highest variability with respect to EDIS over time.

What must be noted is that the above graphs do not show developments over time of the portfolio. Rather, they show how the ex-ante EDIS assessment of the new commitments change over time. Changes in strategy with respect to, for example, focus countries or sectors could lead to a structurally different composition of new investments, which also would affect the development impact.

5.3. Sample level analysis

Focusing on the ten sample projects that were selected prior to 2008, a total of five projects went through the entire evaluation cycle as explained previously in paragraph 2.3. The following aspects are studied in depth, EDIS and the role of FMO which consists of additionality, catalysing role and ESG role. The scatterplot below shows the EDIS on approval on the horizontal axis and the EDIS at evaluation at the vertical axis. Points that fall below the 45-degree line received a lower EDIS score compared to the score at approval, while those above the line received a higher score ex-post.

Figure 20



Source: FMO's internal project evaluations

This table shows that one project that received a lower EDIS score at evaluation did so because the financial performance of the client deteriorated slightly. On the other hand, the project that received a higher score did so mostly because of improved financial performance.

The second project that received a lower score did so because the financial crisis in Ukraine caused severe underutilization of the production facility that FMO financed. The third project that received a lower score did so because the development impact on SME's disappointed due to a too optimistic assessment of the market for housing loans for the LMIC groups in Bangladesh.

Looking at additionality, catalysing role and ESG role, we find that EDIS is not necessarily related to these issues. In the project which received a higher ex-post EDIS score compared to the ex-ante score FMO played no significant catalysing or ESG role, while the additionality is very limited. It seems that this particular (fund) investment was predominantly financed for the financial returns, and not for the development impact or catalysing of commercial funds.

The five evaluation reports we studied each contain a description of the rationale for entering into the investment, a description of the risks involved, and, in most cases, a very detailed description of the developments that have taken place since that time. The focus of the input of IO's seems to be largely directed on the financial results for the investee and FMO, whereas IMR/EVAL is probing clearly for more concrete evidence of development results. In some cases IMR/EVAL notes that the developments targets could have been defined more clearly which would have enabled better measurement ex-post. The reports also contain lessons learned which are in some case can be quite technical (for example concerning the covenant structure or other elements of the term sheet) but in other cases they are more broadly oriented and can be very insightful and critical towards the organisation itself.

In discussing the findings of our study of the FMO annual evaluation reports in paragraph 5.1 we discussed the permanent balancing act between on the one hand accountability (impact

measurement) and on the other hand organisational learning and improvement.

In the five project evaluations we recognise the efforts of IMR/EVAL to achieve better accountability. In general we expect the implementation of the SHIFT system to lead to a big step forward by enabling annual progress on clearly pre-defined indicators for each project. We note however that a critical assessment of the 'role of FMO' remains essential. Otherwise FMO could find itself encouraged to select projects with high impact scores (according to FMO's measurement systems), while the role of FMO as DFI is limited. We recognize that the Investment Committee has a very important role to play to make sure that this essential pre-condition is met.

In relation to organisational learning we noted the valuable lessons learned contained in the project evaluation reports. We would argue to keep in place – and even upgrade (see 5.1) – the 'ex ante' versus 'ex post' gap analysis to ensure continuous organisational learning also after the implementation of the SHIFT framework which is primarily focussed on accountability. Finally, implementing the lessons learned into the decision making framework has to take place. Learning lessons is the first step, applying those lessons to future decision making the more important second step.

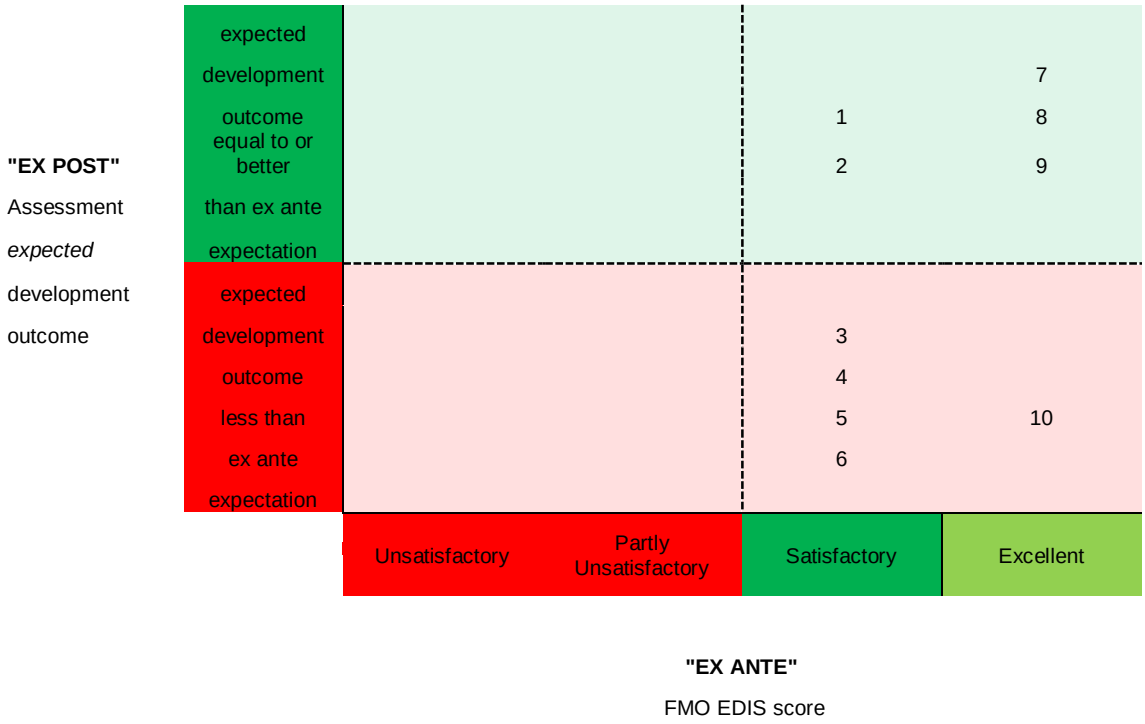
5.4 Expected development impact of projects selected in the period 2008 through 2012.

For the ten sample projects that FMO entered into during the evaluation period (2008-2012) the available internal FMO documentation (finance proposals) was studied and 1 hour interviews with IOs have been held. However, no site visits have been undertaken and no further independent verification of the FMO data has been sought. As a result thereof it has not been possible to calculate an updated EDIS score and compare that score with the original EDIS score achieved at the outset of the relevant projects. We have therefore resorted to a qualitative approach whereby we have established whether the expected development outcome deviated significantly from the ex ante expectation. Please note that in our analysis we have looked at both the expected development outcome (as measured by EDIS and E&S targets) but also at the role of FMO. An overview of this analysis by project is included in Annex 3. In this paragraph however we only discuss the expected development outcome and not the role of FMO as the latter was strictly speaking was not the subject of this ToR question.

We have classified these 10 projects on their ex ante expected development outcome by using the EDIS score as a proxy for the total development outcome. EDIS is a proxy because it will 'only' cover the business success of a project and the contribution to economic growth but not the E&S outcome. Therefore 4 projects with an EDIS > 70 have been classified as excellent whereas the other 6 projects fall in the satisfactory class.

Thereafter we have again classified these 10 projects based on whether we consider the expected development outcome to be higher than / equal to / less than, the originally envisaged development outcome. Please note that projects encountering considerable delays have also been included in the 'expected development outcome less than ex ante expectation' category regardless of whether the final outcome has changed or not. The rationale being that a long delays will negatively influence the development impact that FMO expects to achieve in a certain period .

Figure 21: Sample investments, ex ante EDIS score FMO vs. expected development outcome



As of December 2013 5 of the 10 projects in our sample have an ex post expected development result which will be lower than the ex ante expectation. From our interviews with FMO officers we have learned that in their experience roughly 60-70% of projects entered into develop largely according to plan whereas in 30-40% of projects there are distinct setbacks and/or delays. In our analysis 5 projects have encountered such setbacks and/or delays. A fraction more than the proportion that was to be expected on the basis of FMO's previous experience. Against the background of the economic crisis and a very small sample size this result is in line with historical experience.

While taking into account the well-known limitations of our sample we can draw some tentative conclusions from the projects studied. The tables with the specific commentary per individual project can be found in annex 3.

- In general we find that FMO Investment Officers succeed at making a broad and objective assessment of new projects. Most sources of financial and non-financial risk are flagged in advance and we have not seen many cases where 'new' risks have materially affected project development outcomes.
- The one exception (in our sample) is the observation that investments through funds more frequently encounter setbacks. In our sample we have 4 funds (2 with a diverse sectors focus, 1 with an energy focus and 1 with an FI focus). Only in the case of the energy fund does the development result turn out exactly as planned. The other 3 funds in our sample are marred by a variety of factors that negatively affect their development impact such as; capability of the management to attract other investors, governance/shareholder issues, different focus from what was communicated at the outset (geography, buying out first round investors vs. 'new' money)

- At the macro level the main unpredictable impact on investment and development outcomes are developments in economic variables such as the growth of the world and local economy and energy other commodity prices.
- At the micro level we conclude that probably the most frequently cited reason for disappointing development results is a lack of progress with regards to implementing improvements in governance and FMO recommendations on the business side. Bad governance and bad business practices turn out to be ‘sticky’, probably mostly so in the FI sector.
- FMO’s clients are situated in countries with less developed and especially less balanced economies. Heavy dependence on one industry or one export destination increases the sensitivity to market developments.
- Political developments play a less important role. Even in countries which are seen as politically unstable, FMO manages to achieve good development and investment results. This is achieved through close cooperation with DFIs and institutions such as EBRD and effective communication with local authorities

6. Conclusions and suggestions

6.1 General conclusions

Question 1: How does FMO combine its own financial sustainability with the development objectives?

- FMO satisfies the criteria and demands as laid out in the Agreement and Criteria Memorandum. Most of the criteria are operationalised, such as development impact measured by EDIS and DII, catalytic role and the financial results. Additionality was more difficult to operationalize, therefore the goals set were qualitative.
- The country focus which has been agreed with the State forms a relatively crude approach and does not take sufficiently into account the focus on pockets of poverty in LMICs.
- The portfolio analysis pointed out that FMO is focusing more and more on larger projects in order to reach more efficiencies. Also FMO invested more in low income countries, this due to the abandoning of Brazil, Russia, Kazakhstan and Mexico as investment countries.
- Roughly 5-10% of the CIPs are being rejected by IMR; the selection happens effectively before the CIP phase. The investment officers implicitly use the investment criteria and FMO strategy before selecting a potential project.
- When selecting a new deal, the documentation available to the Investment Committee at FMO pays more attention to the financial aspects than development impacts.
- There is limited explanation and justification for the role of FMO according to the scorecard in the financial proposal. The role of FMO is one of the most important parts of the scorecard but receives little attention in the financial proposal.
- In general the role of the Dutch State is at arms length. Although the State has several mechanisms in place to ensure a good balance between development and financial returns, FMO has considerable freedom in strategic choices. However the amendments to both the agreement with the State as well as the articles of association have strengthened the position of the State as the majority shareholder.

Question 2: Is FMO's institutional set up, including procedures, sufficient to demonstrate its contribution to economic and social development in countries where FMO is active?

- It is very challenging to measure the development impact of organisations such as FMO. Some challenges are common to all DFIs:
    - information gathered is often mainly at project level, but not for reporting on development impact (e.g. direct and indirect) or on how a project links into an economy. With respect to FMO, there is little information or analysis available in the CIPs / FPs to demonstrate development impact or additionality;
    - development impact scoring systems (such as EDIS used by FMO) are subjective; the score had little value with respect to external accountability / external reporting;
    - EDIS lacked a comprehensive steering role and there are few DFIs that incorporate indirect effects into project selection tools (eg CDC's GRID).
- That said, FMO compares reasonably well, both ex-ante and ex-post, to other DFIs. FMO also compares favorably with regards to its ESG systems which are simpler to use than most other DFIs and relevant to FMO's needs.

- Improvements to data collection systems are being made through the SHIFT system and the annual data collection for quantitative indicators will help both impact assessments and M&E systems.
- The ex-post monitoring could improve its indirect impact assessments through a concerted effort with other DFIs. i.e. conducting a range of detailed impact assessments (e.g. as per the EDFI study or the PIDG and IFC jobs studies) that could help to analyse indirect effects but reduce the data collection burden for each individual DFI. Better indirect effect measurement could also benefit ex-ante decision making processes.
- FMO could introduce more explicit checks on additionality (e.g. testing of local markets) into the CIP / FP process.
- FMO could put more emphasis on catalysing effects: few evaluations examine this aspect and they do not construct the counterfactual.
- FMO could estimate the indirect effects of proposed projects through the use ex-ante multipliers providing a better account of how a projects links into the economy (measured by SHIFT indicators). A database of multipliers could be built up in co-ordination with other DFIs.

Question 3: What can be concluded, using FMO's information system and interviews, about the development results for the years 2008-2012?

- We investigated the evaluation reports from 2007-2008 until 2012-2013. These reports evaluated investments made between 2000 and 2007. The main conclusions from these reports are:
    - While showing stability in the first two years, development impact results declined over the last three years of the evaluation period (evaluations of projects started in 2003-2007), influenced by the global financial crisis.
    - The Investment results increased in the first two years and also decreased in the last two years as a result of the crisis but clearly less so than the development results (still achieved good investment results in at least 80% of projects started in 2004-2007)
    - There is a correlation between the quality of work of FMO and both the financial and the development results.
    - FMO has the highest additionality in mezzanine and equity investments, but these are also most risky. The loan portfolio of FMO-A obtains, on average, better investment and development returns.
- The main conclusions from the evaluation reports have not changed significantly over the years. An alternative set-up of the yearly evaluation could be one where a specific focus sector is analysed in-depth. Such a set-up could provide more additional value from a learning perspective.
- Additionality and catalysing role are not very well incorporated in the assessment process and EDIS-scoring model of FMO. In one case the investment proposal scored negative on both additionality as well as catalysing role, however that was no reason for the IC to reject the proposal.

Conclusions on portfolio level

- Correlation between development impact and financial results cannot be proven, due to data limitations. The development results of the portfolio could not be linked on a year to year basis to the financial results of the portfolio.
- Additionality of FMO is mainly derived from high product risk and less from client and country risk. Thus, FMO plays an important role by providing capital which commercial parties are not willing to provide.

- FMO's development impact as measured by EDIS scores above the targets set in its strategy. Interestingly, investments in financial institutions, which form the largest share of new investments per year, score lower than the average portfolio on EDIS although the statistical significance of the difference seems limited. We assume this could be partly due to the limitations of EDIS in capturing development impact for these indirect investments.

- FMO's portfolio changes rapidly after changes in strategy, indicating that FMO is well capable of responding to changes in the environment it operates in.
- FMO's financial and development reporting are not integrated as these two tasks are handled by two different departments. Therefore it does not provide sufficient insight in the balance between development and financial results.

Conclusions on file level

- Catalysing effect is important for FMO, and is discussed in the policy meetings between the State and FMO; however an appropriate measurement system is not yet available for tracking this indicator.
- Most investment are made when there is some form of additionality. However, there are also some investments where the role of FMO as DFI is questionable and where the financial prospects seem to have driven the investment.
- We conducted a file analysis at FMO. The sample of 20 files however is not representative for the entire portfolio of FMO. However, we can make the following conclusions on the sample we investigated:
    - We find that in general IOs succeed at making an objective assessment of new projects
    - At the macro level the main unpredictable impact on investment and development outcomes are developments in economic variables such as the growth of the world and local economy and energy and other commodity prices.
    - At the micro level we conclude that probably the most frequently cited reason for disappointing development results is a lack of progress with regards to implementing improvements in governance

6.2 Suggestions

Taking note of the conclusions above, we make the following suggestions:

- More communication between FMO's finance department and IMR in order to monitor the balance between financial results and development impact. With the start of SHIFT, the reporting systems need to be integrated with each other.
- With the implementation of SHIFT, more focus should be placed on the tracking of ex-ante envisaged development results. However, we want to stress that any impact measurement tool has the potential to become overly guiding in investment decisions. This could lead to a situation where investments are made that best feed into the impact measurement system, as opposed to the investments where FMO's additionality is greatest. FMO could work with others to provide a more accurate account of the development impact of projects ex-ante by investing in building up a database of multiplier (and productivity) effects.
- We recommend FMO seeks to develop a methodology to try and embed the valuable 'lessons learned' from project evaluations into the decision making process for new investments. In doing so FMO will benefit more from the work of the evaluations.

- The additionality of FMO's financing should be made more explicit. In the economic environment of 2008-2012, additionality was almost a given, whereas in the coming years this is not necessarily the case when the world economy strengthens. We suggest more checks are made in-country.
- FMO should explore other ways to measure ex-post impact. A potential way forward is the use of selective ex-post impact assessments of specific sectors by region, preferably in conjunction with other DFIs. For example, this could be a value chain study for agri-investments, a study that allows for consumer/productivity effects in infrastructure and financial services. Both could be helped by before/after comparisons of investment rates at limited geography / sector level in those areas where FMO has made a significant contribution.
- "additionality and catalytic role" are two crucial areas to determine the role that DFIs play and represent two out of the three pillars from the Agreement on which FMO is built. Therefore we recommend that FMO will value these indicators as such and provide guidelines in weighing these indicators in the approval process.
- FMO's measurement systems do not differentiate between money catalysed from other DFIs and IFIs and money from commercial parties. We believe that truly understanding the catalyzing role of FMO requires an analysis that can separate to which extent commercial funds are catalyzed and to which extend catalysis of other DFIs and IFIs takes place. Targets with respect to catalysing investments should be set focusing on commercial funds catalysed.
- The State can strengthen and improve its role by a better coordination between the Ministries of Finance and Foreign Affairs and to create a comprehensive vision on the expectations towards FMO in balancing financial and development returns. To achieve this goal the Ministry of Finance is developing a standard return ('normrendement') for FMO which is the return FMO is expected to realise given the company's specific risk profile and its public objective,
- FMO and the State should consider a slight modification in the implementation of the country focus, allowing for a gradual withdrawal from countries which have transformed from a LIC to a LMIC status.

6.3 Limitations

The evaluation of FMO-A had some limitations. It was not possible to link the development data to the financial data. Some data was only available for new commitments and not on total portfolio level. Also the scorecards changed over time, and therefore not all EDIS scores are comparable.

With regards to the third research question a file analysis was required, the sample drawn for this is not representative and cannot be extrapolated to the rest of the portfolio.

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Annex 1: Interview List

Full Name	Company	Position	Sector (if known)
Cornelis van Aerssen	FMO	Investment Officer	
Marcel Beukeboom	Ministerie van Buitenlandse Zaken	Head Food Security and Financial Sector	
Robert Bierens	FMO	Manager Financial institutions at Latin America Department	Financial Institutions
Idsert Boersma	FMO	Manager Private Equity	Private Equity
Janos Bonta	FMO	Senior Investment Officer	Structured Finance Energy
Frederik van den Bosch	FMO	Manager Micro & Small Enterprise Finance (MSEF)	Financial Institutions/ MASSIF
Jan Thijs Both	FMO	Director Human Resources	HR
Tarun Brahma	FMO	Senior Investment Officer Private Equity	Private Equity
Pauline Broertjes	FMO	Senior Portfolio Analyst	
Paul Buijze	FMO	Director Risk Management	Risk Management
Fedja Canters	FMO	Senior Investment Officer	Financial Institutions
Deepa Chakrapani	IFC	Head, Development Impact, Investment Services	
Edgard Creemers	FMO	Senior Investment Officer	Agri
Namina Datta	IFC		
Jorrit Dingemans	FMO	Senior Investment Officer - Africa	Diverse Sectors
Matthijs Egelie	FMO	Investment Officer Financial Institutions Asia	Financial Institutions
Numen Ferro	IFC	Strategy officer - Global financial markets	
Hiroyuki Hatashima	IFC	Evaluation Officer	
Constantijn Heemskerk	Ministerie van Financien	Coordinator at Ministry of Finance, public-private investments	
Roger Hennekes	FMO	Senior Investment Officer	Financial Institutions
Erik Hilbrink	Ministerie van Buitenlandse Zaken	Deputy Director Sustainable Economic Development	
Jeroen Horsten	FMO	Evaluation Officer	IMR/Evaluation Unit
Varoll Huzeir	Ministerie van Financiën	Policy advisor Financing Directorate	
Lars Johannes	IFC	Private sector development specialist	
Antonie de Kemp	Ministerie van Buitenlandse Zaken	Senior Evaluator	
Jacco Knotnerus	FMO	Director Strategy	
Renske van der Kooi	Ministerie van Buitenlandse Zaken	Senior Financial Sector Development Specialist	
Keesjan de Kruijf	FMO	Senior Investment Officer Private Equity	Private Equity
Bjorn Kuil	Ministerie van	Sr. Policy Advisor Financial Sector Development	

	Buitenlandse Zaken		
Frederik Kummersteiner	FMO	Manager Infrastructure, Telecom, Manufacturing, Mining, Basic Materials	Diverse Sectors
Sandra Louiszoon	Ministerie van Buitenlandse zaken	Social Development Department	
Alex MacGillivray	CDC	Director Development Impact	
Martin Mainz	DEG	CFA - Vice President - Strategic Projects (Private Equity)	
Elleke Maliepaard	DEG	Manager Development Policy	
George Meltzer	FMO	Senior Environmental and Social Specialist Agribusiness, Food & Water	Agri
Nico Mensink	FMO	Manager Evaluation Unit	IMR/Evaluation Unit
Roel Messie	FMO	Director Legal Affairs & Special Operations	
Pieter Moorrees	Ministerie van Financiën	Coordinator Financing Directorate	
Anneloes Mullink	FMO	Investment Officer	
Jean Carlo Murgia	FMO	Portfolio Analyst	Private Equity
Ton Nijensteen	FMO	Senior Investment Officer	
Angelica Ortiz de Haas	FMO	Manager Sustainability Development Team	
Nico Pijl	FMO	CRFO	
Steven Priem	FMO	Director Audit, Compliance & Control	
Christiaan Rebergen	Ministerie van Buitenlandse Zaken	Deputy Director General for International Cooperation	
Jaap Reinking	FMO	Director	A&DS
Bas Rekvelt	FMO	Senior Syndications Officer	Financial Markets
Michelle Rocker	FMO	Manager Compliance	
Marieke Roestenberg	FMO	Fund Manager	FIM
Christiane Rudolph	DEG	Head of Corporate Strategy & Development Policy	
Huib-Jan de Ruijter	FMO	Director Financial Markets	Financial Markets
Jorim Schraven	FMO	Manager Credit Analysis	IMR
Monika Smolenska-Green	FMO	Senior Investment Officer	
Ana Maria Torres	IFC	Acting Head of Investment Services Unit	
Petra Visser	FMO	Fund Manager	FIM

Annex 2: Material to support chapter 4

Annex 2A: Scorecards

Table 15 to 18 present the four 2010 scorecard in more details.

Table 15: Scorecard - Company (new and existing)

a) Impact on shareholders and financiers		maximum score	Weight	Contribution to total score
		1) Impact on shareholders and financiers **based on the IRR**		
Expected IRR	If possible, and if realistic base case projections are available, you should make a direct calculation of the financial rate of return of the activity (this is not the same as the IRR for FMO's financing!) to be financed with/without project (and present this calculation in your investment proposal). Enter the Expected IRR directly into the scorecard. The maximum IRR you can fill in is 20%. The IRR score is then multiplied with 1.5 which means the max EDIS sub score is 30.	30	1	30
	OR	2) Impact on shareholders and financiers **based on the following questions:**		
Expected Solvency	Assess how the activity to be financed will affect the company's solvency. Assess the projected / expected capital base of a company, i.e. equity that can be used as a buffer. Subordinated loans can be taken into account.	3	2	6
Market development	Assess the growth potential of the market. Is the market growing and is this growth predicted by external research agencies? Are the predictions realistic? Scores automatically identical to same item in FSF-section.	3	2	6
Expected Liquidity	Assess to what extent the activity to be financed will affect the company's liquidity position. Assess the expected liquidity of the company. It is also important to assess whether the company can easily obtain additional loans or supplier credit.	3	2	6

Market position	Assess the market position. Is the company leader or follower? Is the company price setter or does the market set prices (with pressure on prices as a consequence)? Is the company innovative, compared to its competitors? Does the market position ameliorate because of innovations and/or excellent management? Is it difficult for potential competitors to enter the market? Take into account the actual market position.	3	2	6
Quality of management	Assess the quality of the management team. Important factors are: experience (proven track-record), knowledge, innovation, right people at the right time in charge, level of organisation, structure, strategy set out by management, realisation of earlier budgets.	3	2	6
Total score for the Impact on shareholders and financiers				**30**
b) Impact on other stakeholders		maximum score	Weight	Contribution to total score
Impact on employees	Assess to what extent the activity to be financed will generate additional productive employment, or will lead to an increase in employees' income through higher productivity (e.g. through training to be provided).	3	6	18
Impact on customers and final consumers	Assess to what extent the activity to be financed will have positive effects on the company's clients and the ultimate consumers of its products, in the country concerned or in other emerging market economies. Does the investment activity lead to lower consumer prices, increased availability of previously scarce essential consumer goods, increased product quality, etc.?	3	4	12
Impact on suppliers of inputs and services	Assess to what extent the activity to be financed will generate additional income and indirect employment for suppliers of investment goods (in the implementation phase) and of raw materials and services (in the operational phase), in the country concerned, or in other emerging market economies.	3	4	12

Impact on suppliers of complementary products	Assess to what extent the activity to be financed will stimulate economic activity in the country concerned, or in other emerging market economies by suppliers of complementary products. In most projects this will not be applicable (score: neutral), but in some cases significant economic benefits may derive from a project because it generates demand for complementary products. Think, for example, of telecom operators generating business for phone shops and prepaid card sellers.	3	1	3
Impact on market development/competition	Assess to what extent the activity to be financed will have positive economic impacts on economic actors, active in the same type of economic activity.	3	2	6
Impact on society through taxes, subsidies and tariffs	Assess to what extent the activity to be financed will have positive impacts on the economy through government revenues (that will enable government expenditures with a positive development impact).	3	3	9
Impact on the balance of payments	Assess to what extent the activity to be financed will have positive impacts on the balance of payments, thereby strengthening the economy of the country where the activity takes place.	3	3	9
Total score for the Impact on shareholders and financiers				**69**
			TOTAL	**99**

Table 16: Scorecard - Financial Institutions

a) Impact on shareholders and financiers		maximum score	Weight	Question contribution to total score over 100
Expected effect on solvency	Assess how the activity to be financed will help the financial institution to reach or maintain capital adequacy requirements. Look at the effect on BIS ratio (or Equity/assets if not available); quality of capital (Tier 1/ Tier 2); internal capital generation. The ratio-levels mentioned apply for Commercial Banks. For investment and development banks and for NBFIs higher ratios must be met.	3	2	6
Expected Effect on Efficiency	Assess how the activity to be financed will affect the FI's efficiency, as measured by its cost to income (CtI) ratio, RoAA and NIM.	3	2	6
Expected Effect on liquidity/ mismatches	Assess how the activity to be financed will affect the FI's liquidity and mismatch positions in duration, interest and forex.	3	2	6
Market development / market position	Assess the market development and how the financed activity will affect the FI's market position (where applicable: in the market segment aimed at by our financing). Assess the market position of the financial institution. Is the financial sector growing? Is this growth sustainable? Is there pressure on returns because of increasing competition? Does the financial institution have a leading market position or not?	3	2	6
Quality of management / governance	Assess the expected quality of the management/governance at the end of the project/ year 5. Important: In this instance, don't score the impact of the activity financed but score the expected quality of management/ governance, regardless of the current score and regardless of the activity (don't score the difference as is- expected and don't score impact FMO).	3	2	6
Total score for the Impact on shareholders and financiers				**30**
b) Impact on other stakeholders		maximum score	Weight	Contribution to total score over 100
Impact on employees	To what extent will the activity being financed have a positive impact on the financial institution's employees through stimulating direct additional employment or increasing the quality of employment leading to a higher productivity (e.g. through training to be provided and/or the implementation of a social action plan)?	3	3	9

Impact on customers / consumers	To what extent will the activity being financed lead to economic benefits for the financial institution's clients, for example through the increased availability of (new) credit products, reduced costs of borrowing and/or more appropriate tenors being made available?	3	6	18
Impact on financial sector development	To what extent will the financed activity have a positive impact on other financial institutions in the country's financial sector or on financial sector development?	3	4	12
Impact on society through taxes or subsidies	To what extent does the financed activity have positive impacts on the economy through government revenues (which will enable government expenditures with a positive development impact)?	3	4	12
Impact on Micro, Small and Medium enterprise development	To what extent will the financed activity contribute to Micro, Small and Medium Enterprise (MSMEs) development? MSMEs: less than/ or equal to 300 employees, total assets/turnover of balance sheet less than/ or equal to EUR 15 mn. MSMEs are generally thought to be constrained by the limited availability of credit/investment, and financing may thus be expected to generate significant economic benefits (including indirect employment creation). Housing finance can score on MSMEs if provided in connection with housing development, which typically has strong effects on the construction sector.	3	6	18
Total score for the Impact on shareholders and financiers				**69**
			TOTAL	**99**

Table 17: Scorecard - Private Equity Fund

a) Impact on shareholders and financiers		maximum score	Weight	Question contribution to total score over 100
Financiers of the fund	This score is automatically assigned, based on the Financial Sustainability Factor. The higher the direct economic impact on the project's shareholders and financiers.	3	6	18
Total score for the Impact on shareholders and financiers				**18**
b) Impact on other stakeholders		maximum score	Weight	Contribution to total score over 100
Impact on investees	To what extent will the Fund lead to economic benefits for the fund's investees, for example through active management support and assistance by the fund manager?	3	6	18
Impact on private equity market development	To what extent will the Fund have a positive impact on other funds in the country?	3	4	12
Impact of the Investment Strategy	What is the expected development impact of the Fund's investment strategy relating to target investors and type of financing. Is the fund expected to invest in companies with a high development impact (like SMEs)? Will the fund in general be involved in refinancing, buy-outs or expansion? In case of buy-out, will they generally be part of a post buy-out growth strategy?	3	6	18
Impact on employees of the investee companies	To what extent will the activities of the investee companies financed by the Fund, generate additional productive employment, or lead to an increase in employees' income through higher productivity (e.g. through training to be provided)?	3	4	12
Investees' Impact on society through taxes or subsidies	To what extent will the investee companies financed by the Fund, have positive impacts on the economy through government revenues?	3	4	12
Investees' Impact on the balance of payments	To what extent will the activity of the investee companies financed by the Fund have a positive impact on the balance of payments, thereby strengthening the economy of the country where the activity takes place?	3	3	9
Total score for the Impact on shareholders and financiers				**81**
			TOTAL	**99**

Table 18: Scorecard - Infrastructure

a) Impact on shareholders and financiers		maximum score	Weight	Question contribution to total score over 100
		1) Impact on shareholders and financiers **based on the IRR**		
Expected IRR	If possible, and if realistic base case projections are available, you should make a direct calculation of the financial rate of return of the activity (this is not the same as the IRR for FMO's financing!) to be financed with/without project (and present this calculation in your investment proposal). Enter the Expected IRR directly into the scorecard. The maximum IRR you can fill in is 20%. The IRR score is then multiplied with 1.2 which means the max EDIS sub score is 30.	24	1	24
	OR	2) Impact on shareholders and financiers **based on the following questions:**		
Expected Solvency	Assess how the activity to be financed will affect the company's solvency. Assess the projected / expected capital base of a company, i.e. equity that can be used as a buffer. Subordinated loans can be taken into account.	3	2	6
Market development/ expected market position	Assess the growth potential of the market. Is the market growing, and is this predicted by external research agencies? Assess how the activity to be financed will affect the company's market position. Assess the expected market position.	3	2	6
Expected Liquidity	Assess to what extent the activity to be financed will affect the company's liquidity position. Assess the expected liquidity of the company. It is also important to assess whether the company can easily obtain additional loans or supplier credit.	3	2	6
Quality of Management/governance	Assess the quality of the management team/governance. Score consistent with the corresponding items in the FSF-section.	3	2	6
Total score for the Impact on shareholders and financiers				**24**
b) Impact on other stakeholders		maximum score	Weight	Contribution to total score over 100
Impact on employees	Assess to what extent the activity to be financed will generate additional productive employment, or will lead to an increase in employees' income through higher productivity (e.g. through training to be provided).	3	3	9

	Impact on availability of the services	To what extent does the activity to be financed have positive effects on the availability of the services? Does the investment activity lead to increased or new availability of previously scarce/unavailable essential goods and services to groups of users/consumers?	3	5	15
Impact on consumers/customers	Impact on reliability of the services	To what extent does the activity to be financed increase the reliability of the supply/services delivered? Reliability indicators include quality of connection, frequency of service, availability in terms of hours per day or year.	3	5	15
	Impact on cost to end-user of the services	To what extent does the activity to be financed have positive economic impacts on the cost to the customer / end-user? Only score positive impact for end user in the country concerned or in other emerging market economies.	3	5	15
Impact on suppliers of complementary products		Assess to what extent the activity to be financed will stimulate economic activity in the country concerned, or in other emerging market economies by suppliers of complementary products. In most projects this will not be applicable (score: neutral), but in some cases significant economic benefits may derive from a project because it generates demand for complementary products. Think, for example, of telecom operators generating business for phone shops and prepaid card sellers.	3	2	6
Impact on society through taxes, subsidies and tariffs		Assess to what extent the activity to be financed will have positive impacts on the economy through government revenues (that will enable government expenditures with a positive development impact).	3	3	9
Impact on the balance of payments		Assess to what extent the activity to be financed will have positive impacts on the balance of payments, thereby strengthening the economy of the country where the activity takes place.	3	2	6
Total score for the Impact on shareholders and financiers					**75**
				TOTAL	**99**

Annex 2B: Quantitative indicators

Table 19

New Company and Existing Company			
Assessing the impact on:	Items/Indicators	Help text-current	Help text-future
1) Employment,	Number of employees in the company	Give the number of employees currently working in the company	Give the estimated number of employees employed by the company in year 5 of FMO's investment
2) Government revenues	Contribution to Government Revenue in EUR of thousands	Give the contribution (in EUR thousands) that the company has made to government revenues in the past year, taking into account taxes + tariffs + royalties - subsidies. Base yourself on the latest available book year	Give the expected average annual contribution that the company is expected to make to government revenues over the next 5 year, taking into account taxes + tariffs + royalties - subsidies. Base yourself on the latest available book year
3) Balance of payments	Impact on balance of payments (in thousands of EUR equivalent)	Give the total value of current year's import replacement and exports by the company in thousands of EUR and distract the values of imported goods for production. Base yourself on the latest available book year	Give the expected average annual value over the next 5 years of import replacement and exports by the company in thousands of EUR and distract the values of imported goods for production. Base yourself on the latest available book year
Private Equity Fund			
Assessing the impact on:	Items/Indicators	Help text-current	
Size of invested fund	Size of invested funds portfolio (in EUR thousands equivalent)	Give the size of the fund portfolio as it is in the latest available book year. Give the number in EUR thousands.	
Investee companies	Number of Investee companies	Give the current number of Investee companies. If exits have been made do not include these in this number any longer.	
	Number of employees at Investee company	Give the total number of employees that are working at the current investee companies.	
	Turnover at Investee companies (in EUR thousands equivalent)	Give the total turnover of Investee companies in EUR thousands equivalents. Base yourself on the latest available book year	
	Turnover at Investee companies (in EUR thousands equivalent)	Give the Net profit of the fund as it is in the latest available book year. Give the number in EUR thousand equivalents	
Financial Institutions			

Assessing the impact on:	Items/Indicators	Help text-current
1) Employment Fis	Give the number of employees currently working for the FI	Give the number of employees currently working in the FI
2) FIs: Finance (Microfinance / Small enterprise / Medium enterprise)	Volume of Microfinance loan portfolio (in EUR thousands equivalent)	Give the current volume (outstanding loan amount) of the FI's microfinance loan portfolio in EUR thousands equivalent, whereby microfinance loans are loans below EUR 10,000
	Number of Microfinance loan in FI's portfolio	Give the current number of microfinance loans (outstanding), whereby microfinance loans are loans below EUR 10,000
	Volume of Small enterprise loan portfolio (in EUR thousand equivalent)	Give the current volume (outstanding loan amount) of the FI's small enterprise loan portfolio in EUR thousands equivalent, whereby small enterprise loans are loans between EUR 10,000 and EUR 100,000
	Number of Small enterprise loans in FI's portfolio	Give the current number of Small enterprise loans (outstanding), whereby small enterprise loans are loans between EUR 10,000 and EUR 100,000
	Volume of Medium enterprise loan portfolio (in EUR thousand equivalent)	Give the current volume (outstanding loan amount) of the FI's Medium enterprise loan portfolio in EUR thousands equivalent, whereby Medium enterprise loans are loans between EUR 100,000 and EUR 1,000,000
	Number of Medium enterprise loans in FI's portfolio	Give the current number of Medium enterprise loans (outstanding), whereby medium enterprise loans are loans between EUR 100,000 and EUR 1,000,000
3) FIs: Housing finance	Volume of Housing loan portfolio of FI (in EUR thousands equivalent)	Give the current volume of the FI's housing loan portfolio, including home improvement loans and mortgage loan portfolio
	Number of Housing loans in FI's portfolio	Give the current number of housing loans, including both home improvement loans and mortgage loans
4) FIs: Construction finance	Number of houses delivered by developers/contractors financed by the FI	Give the number of houses delivered by contractors/developers financed by the FI during the last year
5) FIs: MASSIF	Total assets of FI	Give the FI's total assets according to the latest available balance sheet, in EUR thousand equivalent
	Net profit of FI	Give the FI's net profits according to the latest available annual P&L, in EUR thousand equivalent
	Total loan/lease portfolio of FI	Give the FI's total loan portfolio according to the latest available balance sheet, in EUR thousand equivalent
	Number of borrowers/lessees of FI	Give the current number of borrowers/lessees

	Total volume of customer deposits of FI in EUR thousand equivalent	Give the FI's total customer deposits/savings according to the last available balance sheet, in EUR thousand equivalent	
	Current number of depositors	Give the current number of depositors in FI	
	Number of Branches/Points of Sale	Give the current number of branches / Points of Sale	
New Infra - Existing Infra			
Assessing the impact on:	Items/Indicators	Help text-current	
Employment (Note: The first two indicators (employment and government revenues) applies to all types of infrastructure projects.)	Number of employees in the company	Give the number of employees currently employed by the client/project, either directly or indirectly in construction	Give the estimated number of employees employed by the project in year 5 of FMO's investment
Government revenues (Note: The first two indicators (employment and government revenues) applies to all types of infrastructure projects.)	Contribution to Government Revenue in EUR of thousands	Give the contribution (in EUR thousands) that the company has made to government revenues in the past year, taking into account taxes + tariffs + royalties - subsidies. Base yourself on the latest available book year	Give the expected average annual contribution that the company is expected to make to government revenues over the next 5 year, taking into account taxes + tariffs + royalties - subsidies. Base yourself on the latest available book year Note: The first two indicators (employment and government revenues) applies to all types of infrastructure
Power generation	Client’s installed generation capacity	Give the client's current generation capacity in MW	Give the client's projected installed generation capacity in MW in year 5 of FMO's investment.
	Total installed capacity in the country	Give total current installed capacity in the country in MW	Give total projected installed capacity in the country in MW in year 5 of FMO's investment
	Number of electricity connections in country	Give total current number of electricity connections in the country	Give total projected number of electricity connections in the country in year 5 of FMO's investment

	Equivalent of connections served by the project (number of clients served by the Company)- this indicator is automatically determined	(Client's installed generation/Total installed capacity in the country)*Number of electricity connections in the country	(Client's installed generation/Total installed capacity in the country)*Number of electricity connections in the country projected in year 5 of FMO's investment
Housing development	Number of housing units built by client	Give the number of housing units that have been delivered by FMO's client during the last year (based on the latest available report)	Give the number of housing units expected to be delivered by FMO's customer in year 5 of FMO's investment, base yourself on the latest available (last year's) report
Telecoms	Number of subscribers	Give the current number of subscribers	Give the estimated number of subscribers in year 5 of FMO's investment

Annex 2C: Analysis of EDIS scores

We analyse the EDIS score projects for which FMO had commitments in 2010, the years for which we were able to link project specific EDIS score to overall scorecards. The EDIS average score in 2010 over 79 projects was 66.64.

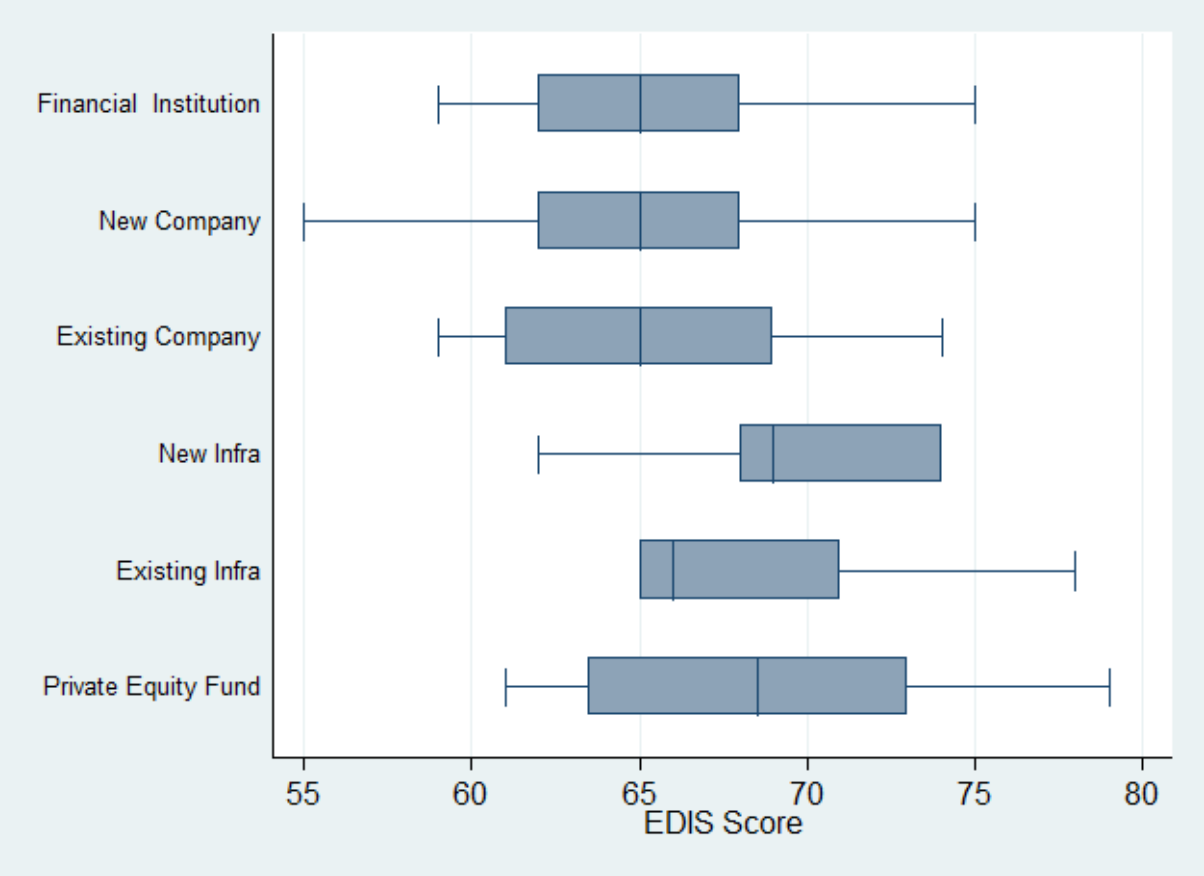
Table 20: Projects and average EDIS score by type of scorecard used in 2010

Scorecard type	***Number of projects in 2010***	***Average EDIS***
Financial institution	38	65.5
New company	6	65
Existing company	11	65.9
New infra	7	69.7
Existing infra	5	69
Private equity fund	12	68.9
Total	***79***	66.64

Note: there were 6 scorecards in use in 2010. The table calculates the average EDIS score for each of the sector/type of scorecard

Table 20 and figure 22 suggest that the sectors Infrastructure and Private equity funds have the highest average EDIS scores. Figure 22 further suggests that EDIS scores are lumped together mostly around the score 65.

Figure 22 EDIS scores for 2010 disbursements (box chart)



Source: Data from FMO

Annex 2D: Development impact measurement: a quick review of the literature

DFIs are trying to identify the appropriate way to measure development impact. This annex highlights different private sector impact evaluation methodologies the indicators they have used, and the approaches that can be used i.e. focus on a single business or the whole of the value chain, as well as some methodological issues that need to be considered. We will compare these three aspects of impact evaluations with the needs and requirements of FMO in order to assess how well FMO is carrying out its evaluations – in terms of the developmental outcomes of the project and enterprises that it is financing.

Development Impact Indicators

Reviewing a number of selected impact measurement frameworks, there are a number of different types of indicators that stand out as necessary in order to assess investment impacts on development. Impact indicators could look at the target market for a project, in other words they should provide information on the target beneficiaries of the project. Such indicators could include the target beneficiary demographic and socioeconomic indicators, their current income and employment levels and their location (both the IRIS systems and the DFID M4P approach include these). Looking at project finances can also highlight how well a project is performing as compared to the monetary investment which it is receiving; hence it helps to understand how efficient the project is. Project finance indicators (which DFIs include in their measurement systems) look at the total monetary amount committed to the project, the total amount that has been committed to date and how long the monetary commitment is scheduled to last. These indicators can then be analysed in tandem with the results achieved in order to see how much a project is spending in order to achieve its outcomes and can be used to assess the efficacy of project expenditure.

Indicators for specific private sector development impacts can also be found across a number of different impact measurement frameworks. Private Sector Development indicators aim to look at the broad impacts of the project on local private sector development such as changes to the regulatory environment or changes to the sectors or markets in which the project is being undertaken. Indicators which study the economic context within which the project is operating are especially useful to understand the market in which the project is operating in as well as what policies are shaping the market or operational context in the long run. The CDC is active in this regard and its impact measurement system includes indicators such as the Number of Private Sector Firms Operating in the Market or Sector or the Percentage Share of Private Enterprise Investments as a Share of National GDP as well as indicators such as Operational Enhancements which looks the any enhancements to the operating and business environment (for example any changes in regulation) in which the project is operating. Operational enhancements can be reported at both the national and local level (depending on how national laws are implemented and set). Sectoral enhancements can also be assessed and are particularly useful for projects which operate in specific sectors and where impact assessments want to see what outside sources of change could have affected or account for measured project impacts. Sectoral enhancements can also be assessed at the national and local level to see if the project has different impacts at each level. Finally, indirect economic impacts measure impacts that occur due to infrastructure investments and service investments provided primarily for public use as well as measuring significant indirect economic impacts on the project.

Private sector development indicators should also highlight what economic benefits the project is having on its operating context, in terms of the people it employs, benefits to the host nation's government as well as on its beneficiaries. DFIs include the quantifiable indicators such as the amount of Taxes Paid by companies, which would show how beneficial the project has been to the host

government in terms of the amount of funds that it has created for it by paying taxes. DFIs also report on the amount of jobs created (both directly & indirectly – see below for more information) whilst the IRIS and GRI systems includes more socio-economic measures such as the Number of Employees living in Low Income areas which can be used to assess how many people from low income areas have benefited from the project through any jobs created by project activities or the more qualitative Labour Practices indicator which highlights what labour practices are being implemented in the project, for example whether employees or beneficiaries receive benefits (such as healthcare coverage), whether they are allowed to join collective wage bargaining associations and if there are any equal opportunities schemes operating within the project. The indicator can be disaggregated into a number of different sub-indicators depending on the amount of detail required by the impact assessment. There is a variety of other economic benefit indicators such as comparing wages within businesses (measured by the GRI) or the Market or Sector Presence of the Project which looks at the reliance that the project has on local resources. DFIs have recently signed a document agreeing to harmonise a range of indicators they have agree to report on, see a discussion of this elsewhere.

Four meta-approaches to measuring development impacts

Whilst there are a large number of indicators that can be used to assess impacts, the way these are applied differ and each type has its own advantage and disadvantage. There is currently a large selection of differing methodologies that can be used to assess the development impact of businesses. These include methods such as the CDCs Monitoring and Evaluation Framework, Oxfam's Poverty Footprint, the WBSCD Measuring Impact Framework, IFCs DOTS or the DCED's Standard for Measuring Achievements in Private Sector Development (amongst others). What this essentially means is that there is no single, standardised system that can be used to measure development impacts (either of businesses or of DFIs that support businesses). Ashley, Schramm and Ellis (2009) highlight four different meta-approaches that broadly aggregate how businesses measure their development impact. These approaches are:

The **local assessment approach** looks at the livelihood impacts and stakeholder assessments of business initiatives. Such an approach can be applied at three different levels i.e. either for specific business initiatives, all the business operations or to particular products and market systems. The approach uses local level information gathered from assessed companies, workers and local residents and can be useful in order to help prove impacts, grounding impacts to tangible local change. The approach is limited in that it cannot provide comparable quantitative data, requires 'on-the-field' research and does not assess impacts at a large scale.

Value chain mapping and poverty footprints measures the enterprise and poverty impact on the whole value chain within an affected economy. The approach can be applied to individual (large) companies or at the sectoral level (within which there are multiple firms). The system can be helpful in assessing impacts across whole value chains, it can also help to combine developmental and commercial impacts (hence allow future decisions to be affected by both results) as well as combining data on job creation, wages, links between enterprises and revenue flows with non-commercial data such as social impacts. The approach is however limited due to the large amount of fieldwork required in order to collate the necessary data and the fact that the assessment is static in nature and does not capture the dynamic impacts on local development.

Trying to **calculate the multiplier effects** of businesses in national economies as well as their contribution to GDP requires the use of company information in order to assess the amount of jobs created across different components of the (assessed) value chain, the flow of income as well as local level information such as impacts on the poor. The approach also uses input-output tables to calculate additional economic impacts from firm activities. The approach can be useful in order to quantify (or prove) the overall economic contribution of either a sector or a large business, frame impacts as

tangible numbers rather than relying on anecdotal evidence or help compare between different business/sectors or countries. The approach is limited by the fact that there will be less disaggregated data that can be used for decision making at specific (business) levels as well as the fact that it less likely to include non-financial impact data that may be of interest to non-commercial stakeholders.

Comparing the **performance** of companies against a 'scorecard' of selected indicators helps capture comparable indicators both across time and between different actors (assuming they use the same system) and can combine both quantitative indicators (i.e. assessing impacts on jobs, wages taxes etc.) as well as more qualitative indicators that can help capture wider development impacts through a standardised system. The approach is limited by the fact that it may be difficult to establish fixed indicators for development impacts that can be applied in a wide array of situations and the fact that measurements are often static in nature.

Methodological issues that need to be considered

There are some methodological issues that should be considered when measuring impacts; one of these is the fact that a simple measurement of direct outcomes may miss a large number of indirect effects that business operations may create. The IFC (2013) has conducted a study on how to measure the employment effects of private sector operations. The study notes how there are five tiers of effects that should be measured i.e. the direct effects, the indirect effects and the induced effects.

1. *Direct Effect:* Defined as an increase in demand for the goods produced by any sector leading to an increase in the output of goods from that sector.
2. *Indirect Effect:* As producers increase their outputs in any sector; their suppliers will also see an increase in demand for their goods, and so on. The shock of the increase in final demand for that good then ripples through the supply chain.
3. *Induced Effect:* As a result of these supply chain effects, the level of income in the economy will increase, and a portion of this income will be spent on other goods and services, leading to further increases in demand.
4. *Second-order growth effects.* Jobs created through productivity effects.
5. *Displaced jobs* . Jobs displaced by DFI supported jobs.

Essentially direct effects measure the amount of jobs that are made by the business activity in question, whilst the indirect effect measures jobs that occur as a result of the activities (i.e. within related suppliers) but are not part of the activity themselves. Induced effects on the other hand measures those jobs that result as economic activity increases because of the project i.e. additional jobs in a separate sector resulting from increased expenditure of jobs created through direct and indirect effects. Such effects are not limited to job creation only, but can also be applied to income generation, changes in expenditure, savings etc. The table below shows the importance of measuring indirect jobs through five IFC case studies (an EDFI study is discussed further below):

Table 21: IFC 2013 Micro-Case Studies – Indirect Job Effects

Company	Sector	Direct Jobs	Indirect Jobs	Multiplier (indirect / direct jobs)	Indirect Job Transmission Mechanisms
Ecogreen (Indonesia)	Food	177	3,646	21	Indirect jobs mainly created in the supply chain of Ecogreen, of which 73% are attributed to low skilled/unskilled workers.
Mriya	Agriculture	1,800	7,390	4	Indirect jobs mainly created

(Ukraine)					through the distribution network as Mriya increased its production due to investments.
Orissa Cement Ltd. (India)	Cement	300	7,200	24	Indirect jobs mainly created in the distribution network.
PRAN Dairy (Bangladesh)	Food	300	2,200	7	Indirect jobs created throughout the supply and distribution network. Of these 80% are estimated to be in rural areas.
Safal Kenya & Tanzania)	Manufacturing	2,450	24,000	9	The majority of indirect jobs were created through distribution networks of which 65% attributed to low skilled or unskilled workers.

Source: IFC (2013b)

The IFC (2013b), through the case studies above, shows that there are some important lessons that can be drawn. The first is the fact that there are **significant indirect effects** if compared to direct effects – and whilst its studies were only focussing on key supply chain members – wider effects may have been higher. The IFC notes, however, that **losses in competitor employment** numbers were not estimated so may also need to be taken into account – how to do so is however unspecified. The second point to note is that there were **significant poverty reduction effects** due to indirect jobs since indirect jobs were created mainly in poorer rural areas and for low-skilled workers. The third point is that **distribution networks** were a significant source of indirect employment creation (though this could be mainly due to the nature of the projects being assessed). The final point to note is that there needs to be caution in the **replication of multipliers** since these multipliers are highly dependent on the industry, country and regional context and can also vary based on the 'maturity' of the company in question.

The ex-ante estimation of indirect and induced effects can be carried out through the use multipliers derived from Input-Output (I/O) tables (see this annex and annex 2C for some example). The basic I/O model measures how much additional output is needed from each sector in response to a unit increase in final demand. In other words, if consumers buy an additional unit of a good, what are the consequences for the different industry sectors? By answering this question, I/O models can help provide the link between production and use. They show how a change in consumption (including households and governments) may affect production in different sectors and the relationships between consumers of goods and services. In terms of impacts, the I/O modelling approach can be used to estimate the effects on inputs (labour, capital etc.) resulting from an increase in final demand for the products or services within an industry. One of the advantages of using I/O analysis is the fact that they are able to estimate economy wide results, including indirect and induced impacts and their effects on the environment. They can show the economic links between various industrial sectors, government and households. They can provide a good snapshot of the economy and potential for jobs. However, they assume "constant coefficients for production" (the ratio of outputs to inputs is constant regardless of the scale of production or the time period) eliminating the possibility that inputs may be substituted for each other (due to technological progress or changes in factor prices). There is also the risk of double counting as a number of jobs reflect shifts of workers from one industry to another or up-skilling, rather than new economic activities (*ILO, 2008 & IFC, 2013).*

Table 22: Multipliers for employment effects estimation

Effect	**Definition**	**Multiplier** (no. of jobs created in the economy for each direct jobs)
Indirect Employment Effect	Change in employment in client's supply and distribution chain	**Type 1 =** $\frac{\text{\# Direct Jobs + \# Indirect Jobs}}{\text{\# Direct Jobs}}$
Induced Employment Effect	Change in employment resulting from increased demand associated with extra labour income generated by new jobs	**Type 2 =** $\frac{\text{\# Direct Jobs + \# Indirect Jobs + } \Delta \text{ Induced Jobs}}{\text{\# Direct Jobs}}$

Source: IFC (2013b)

A number of studies have examined the indirect job impacts and confirm that the indirect effects differ markedly by sector (see the table below for a characterisation).

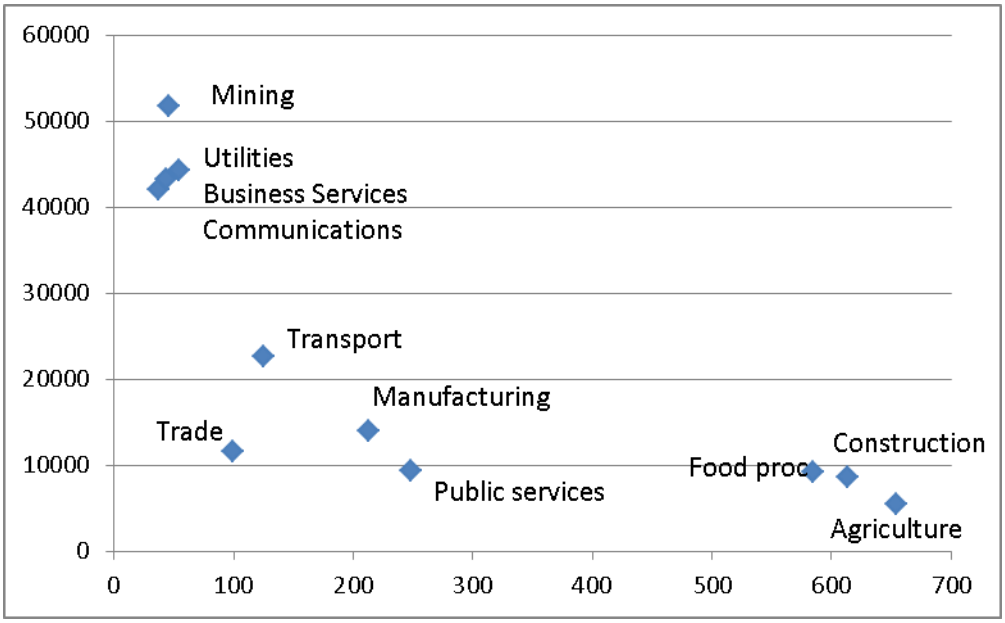
Table 23: Relevance of DFI impacts on employment creation by sector

Sector of DFI investment	Direct job effects	Indirect job effects (static and dynamic)	Induced and second order growth effects
Manufacturing such as garments	Very important (but depends on type of manufacturing)	Potentially important	Less important
Tourism	Medium important	Very important	Less important
Infrastructure	Less important	Mostly temporary	Very important
Agriculture	Very important	Less important	Less important

Source: Massa (2013), Jouanjean and te Velde (2013) and Oikawa and Casadevall (2013).

One study for Tunisia conducted for the IFC (2013) shows **the trade-off between jobs created and value added of those jobs** (see figure below). If such data are representative for all developing countries it would suggest that DFIs such as DEG, EIB, Swedfund and Finfund that are relatively more exposed to industry and agribusiness have the largest employment generation effects, whilst other DFIs (e.g. CDC, EBRD, IFC, Proparco) might have a larger potential for increasing value-addition or growth (Jouanjean et al, 2013).

Figure 23: Trade-off between value addition per job and number of jobs per investment



Source: data from Kapstein et al (2012) for Tunisia. Jobs include direct and indirect effects based on input-output models. Value addition (US$) per job (vertical axis) and number of jobs per US$ mn investment (horizontal axis)

Jouanjean and Te Velde (2013) provide new production based estimates of the direct *and* indirect employment effects of DFIs at national level. Following a production function approach (see e.g. Löwenstein, 2011, and Kim *et al*, 2011), and assuming that DFIs increase gross fixed capital formation, investment increases GDP which increases employment. Taking the investments of a selected set of DFIs for 2007 (EIB, CDC, IFC, PROPARCO, DEG and EBRD) we find that they created 2.6 million jobs in over 70 developing countries. The numbers of jobs created varied amongst DFIs from 1.3 million by EIB, to 1.2 million by IFC, and 0.1 million by CDC, reflecting the amounts invested in each country in 2007.

The IFC (2013) does warn that the use of multipliers, in order to estimate indirect and induced effects, tend to overstate employment effects as well as the fact that there may be repetition within multipliers which could exaggerate the overall effect. In addition, it found that multipliers were highly context specific. The issue arises first on the attribution front i.e. how certain can you be that the observed or estimated changes are attributable to the project in question? One method is the use of experimental and quasi-experimental systems (see box below) – which can be expensive to undertake and needs to be implemented at the inception phase of a project – it also requires perfectly eligible investments to be purposefully declined in order to use them as control groups – and also presupposes their participation in the experiment. This may essentially prove to be a challenge in practice since non-participating companies may not wish to divulge confidential information and that DFIs such as FMO would have to make a qualitative judgement on which projects should not receive investments, which may not be possible as there may not be equivalent investment opportunities to use as control groups. In addition, discussions with various DFIs (including FMO, CDC and DEG) have highlighted the fact that DFIs are already constrained by a lack of viable investment opportunities, further constraining them might be unfeasible from a financial sustainability perspective.

Apart from the question of attribution there is also the fact that multiplier tables can overstate employment effects (or any other effects being measured) due to the fact that they do not allow for scale effects, changes in productivity or substitution towards cheaper inputs. But they may also understate the impact for similar reasons.

Box 2: Experimental & quasi experimental methodologies

***Experimental & Quasi Experimental Methodologies**:* More rigorous evidence on investment effects (i.e. on jobs etc.) can be gathered by using either an Experimental or a Quasi Experimental methodology. Non-participating companies with the same characteristics as participating companies need to be chosen as the treatment and control groups.

Experimental

- Uses rigorous sampling techniques
- Participants & non participants for the project are drawn at random from the population
- Groups selected to be in the treatment group join the project whilst the control group does not

Quasi Experimental

- Used when random groupings cannot be assigned
- Compares preselected (non-random) groups
- Control and treatment groups selected from a list of known participants and non-participants

Source: http://www.microlinks.org/good-practice-center/value-chain-wiki/impact-assessment-primer-2

The table below assesses the pros and cons of assessing the direct and indirect jobs created by DFIs.

Table 24: Pros and cons of assessment methods for job creation effects of DFIs

Approach	Positive aspects	Negative aspects	Possible data sources
Direct employment in DFI supported projects	Directly measurable	Does not measure displacement effects, indirect, induced or second-order growth effects Might overstate effects directly attributable only to DFIs	Company reports
Macro production function approaches multiplier analysis	Can be used at macro level to see how (DFI) investment leads to output changes (could use ICOR, C-D / CES / Leontief / TFP approaches) which could then lead to employment effects. Useful for quick assessments at aggregated level, for manufacturing, but less useful when the quantity of "output" is not main or only factor of interest.	Involves use of assumptions, estimations of production functions and employment intensities and are based on predicted rather than empirical effects. Does not measure second order growth / productivity effects	Requires (sectoral-level) national accounts
Input-output models	Useful to examine backward linkages across industries in traditional industries and hence indirect employment , could be linked to different types of skills, tax etc. to get a SAM Useful to obtain multipliers by sectors relatively easily.	Not useful in case of transformative changes in production structures (e.g. large scale infrastructure investments) or when inputs are price dependent and substitutable, or when behavioural links change (in which case input-output coefficients would change). Measures expected impacts..	Labour force surveys National accounts
Firm level / national level econometrics	Useful to examine the empirical effects of the level and quality of services supply on firm performance amongst a range of factors (and hence the induced effects, including on employment)	Data intensive (needs panel data), needs good identification strategies.	Existing firm level surveys (e.g. WB enterprise survey) National databases
Household level econometrics	Useful to examine the importance of DFI supported services in the household budget	Data intensive (panel data)	Household level surveys
Case studies	Useful to get detailed impact to verify multiplier effects or aggregated econometric effects.	Data intensive, difficult to obtain macro effect and counterfactual	Field work

Source: Jouanjean and Te Velde (2013)

Whilst simple quantitative indicators can be useful (albeit flawed) measure of basic economic impacts, Ashley (2012) discusses the fact that in terms of measuring business impacts – these should go beyond just measuring the number of jobs or changes in income that are created as a result of business activities as limiting impact measurement to such indicators would not capture the complete picture in terms of development impacts. The issue of the number of jobs created by businesses would not completely measure the impacts on people at the Base of the Pyramid (BoP) since projects do not just affect them as 'producers' but mainly they affect them as 'consumers' hence such an impact should also (in theory) be taken into account – however measuring consumer impacts requires data-gathering on a much grander scale and the effects are less well determined (quantitatively) especially if you need to take into account non-quantitative indicators such as consumer satisfaction or attributable value to goods and services – which will differ from one consumer to another. Similarly measuring changes to incomes may not give a representation of the total effects of a project in that outcomes may not affect incomes but rather they may affect issues such as the capacity to access goods or services or improvements to the robustness of a supply chain.

Assessing the dynamic effects are also important – the summary of the four approaches above stresses the fact that most (though not all) will only capture a static picture of impacts. Dynamic impact such as technology transfer or improvements in the business environment effects are harder to capture but can be included in measurement systems. Scoring dynamic contributions to economic and market development can be carried out by looking at how investments contribute to private sector development i.e. the development of markets, changes to the investment climate, changes to the number of small enterprises in the sector or the amount (or quality) of technology transfer.

Whilst Standard Chartered uses an I/O methodology (Kapstein & Kim, 2012) in order to assess its employment effects through its lending operations. Its latest evaluation (carried out in Bangladesh in 2013[5]) uses I/O tables to estimate that it created 1,200 direct jobs and through multipliers it has created 655,000 indirect jobs. Whilst this is a good step forward, the SC methodology also suffers from the same problems as any other system that uses I/O analysis (including the CDC's employment creation estimations – detailed elsewhere) but it also uses qualitative analyses to assess whether the SC's efforts have had some changes to the business regulatory environment or to the business environment in general in Bangladesh. Such assessments may not be perfectly attributable but it does provide a picture of not just the static effects of SC's investments but also the dynamic effects – which is an approach that FMO could potentially use in order to bolster its impact assessment and whilst it already has sector enhancement projects in Bangladesh and Nigeria, FMO could undertake such qualitative analysis within its more typical FMO-A projects highlighting whether its interventions have had positive effects on i.e. business regulatory systems through its lending operations.

Unilever also carried out two assessments of its operations, in terms of development impacts, from which some lessons could be learned. The main lesson from its Indonesia case study was that their impacts were spread across the whole of its value chain. The Indonesia study (Unilever & Oxfam, 2005) shows that Unilever employs around 5,000 people and 2,000 under sub-contract but it also estimates that its indirect employment effects create nearly 300,000 (full-time equivalent) jobs. In its South Africa assessment (Kapstein, 2008), Unilever estimates that for every direct job it has created, 22 indirect jobs are also created. The South Africa report is reliant on I/O tables but also make use of Social Accounting Matrices as well as the Economic Rates of Return whilst the Indonesia report is less clear on whether it uses such systems. Both reports also look at qualitative aspects of Unilever's impacts. The Indonesia report is in fact mainly based on qualitative analysis since the majority of the

[5] http://www.standardchartered.com/en/resources/global-en/pdf/Research/Bangladesh_social_and_economic_impact_study.pdf

information contained in it was gathered through extensive consultations with Unilever stakeholders (such as most players in its supply chain, distribution chain as well as retailers etc.); the South Africa Report is more data intensive and relies on data from the South African government in order to calculate impacts.

Box 3: SAMs & ERRs

Social Accounting Matrix: SAMS are a matrix representation of national accounts and can form the basis on which Computable General Equilibrium models run. They help identify all monetary flows from sources to recipients within disaggregated national accounts. They can be extended to include other flows such as capital and labour and disaggregated into a number of sectors (Mitra-Kahn, 2008).

Economic Rates of Return: The ERR is a comparison of the costs and benefits of investments. The costs represent financial expenses whilst benefits include increased incomes or value added created (MCC, 2008).

Bilateral DFIs have also begun to examine the indirect effects of operations. One example is the PIDG commissioned study on the effects of the Bogoye hydropower plant. The study (Scott et al, 2013) suggest that the direct, indirect and induced jobs (IFC methodology) created amount to some 1200 (1079,109, 90 respectively) but that the secondary effects as a result of household and firm level productivity amount to between 8,434 – 10.256, and hence a multiple of the direct impacts.

A recent study (2012) examined three EDFI energy infrastructure investments in Zambia and Kenya in detail. The project was assessed using the GPR scoring card as well as a more detailed cost-benefit analysis. The study focused on (i) relieving constraints to growth, (ii) role of IPPs, (iii) employment effects and (iv) role of DFIs. The study also examines indirect job effects, and finds e.g. that Olkaria III and Rabai energy projects support 190,000 and 256,000 respectively.

Further highlighting the importance of indirect impacts, EDFI carried out a study in 2010 (Dalberg, 2010) which highlighted the additional role of DFI investments in a number of case study projects (see table 25 below). The study also shows that European DFI (EDFI) member investments have created around 422,000 direct jobs (up to 2010) which translated to 1.3 million indirect jobs. However, the positive effects were not just limited to employment (as the case studies above show) but also to the generation of €1.7 billion in government revenues and €41 billion in annual net currency effects. The report states that for every €1000 invested by the DFI's an expected 0.08 direct jobs, 0.27 indirect jobs, €338 in yearly tax incomes and €815 in yearly net currency effects are also created.

Therefore the economic growth effects of DFI investments, beyond employment creation, are significant and highlight the importance of measures beyond employment effects. The study states that EDFI investments bring broader benefits to local communities by strengthening value chains, enhancing infrastructure as well as improving living conditions (i.e. FMO's slum rehabilitation project). The case studies within the report also show that there are additional effects that are created through investments i.e. improvements in productivity, improvements to operational systems, benefits for project beneficiary families (i.e. through training) or the strengthening of developing country SMEs. The Dalberg (2010) study also highlights some of the pathways that DFI investments can contribute to the MDGs i.e. employment creation leads to reduced poverty and hunger, the application of ESG standards and policies can help improve environmental sustainability and gender equality, sector specific investments can create economic and social value which cuts across a number of MDGs whilst improvements in the investment climate and technology transfer can promote MDG 8 (i.e. Global Partnerships).

Table 25: EDFI Member Investments Additional Outcomes

DFI	Sector	Project	Additional Outcomes
BIO	ITC	Loan to Global Broadband Solutions, DRC	Technical training to GBS employees, provision of long-term loan to GBS which local lenders were not able to provide. GBS's revenues grew by 10% a year.
SIFEM/FMO	Private Equity	Support to Firm	SIDEM & FMO used their regional networks to encourage investments in the company as well as help the company improve its operational systems.
DEG	Agribusiness	Investment in "Cotton made in Africa"	Establishment of M&E systems to monitor environmental effects of cotton production in Benin, Burkina Faso & Zambia. Strengthening of business value chains. Training over 100,000 farmers with an estimated benefit to around 1.2 million people. In Zambia cotton productivity is being improved.
DEG/KFW	Energy	Olkaria Power Plant (Kenya)	Help expand the capacity of one of Africa's few geothermal power plants. Olkaria could not access commercial financing, which DEG/KFW provided together with other co-investors. The plant now provides around €5 million in government revenues through tax revenues and royalties.
CDC/Norfund	SMEs	Investment with Aureos Capital Partners in Africa, Asia and Latin America	The Auroes Fund managed to raise US$ 984 million in capital (additional to the CDC investment) from its partners in order to invest in SMEs. This has led to a significant growth in SME jobs, and tax revenues from SMEs.
FMO	Urban Development	Slum Rehabilitation in India	FMO invested US$ 30 million for slum rehabilitation in India working together with the Indian government. The project should provide housing for over 30,000 households as well as 50 direct jobs and 1,000 indirect jobs.
PROPARCO	Horticulture	Investment in cut flowers in Kenya	Expected improvement (by about 20%) in flower productivity leading to increased financial returns. Securing 'fair trade' links helps shift 10% of revenues towards employees for increased local consumption and provide employment security (as well as improved food security through greater employee incomes)
IFC/ADB/DEG	Healthcare	Investments in Health in Africa Fund	The fund invests in socially responsible and financially sustainable private health companies. The aim is to increase access to, the affordability and the quality of healthcare in Africa in order to reach more people at the Bottom of the Pyramid.

Source: Dalberg (2010)

This overview of the literature can be assessed in the context for what FMO is doing. FMO is currently not evaluating the in-depth indirect impacts, but indirect impacts of private sector projects are increasingly being considered in both private sector studies and studies by DFIs. This suggests that FMO, apart from through an EDFI supported study mentioned above, currently collects less information than is necessary to demonstrate development impact.

Annex 2E Innovation and DFIs

Innovation in financing is not precisely defined– the lack of a definition for what could be considered innovative forms of financing means that anything out of the ordinary (i.e. bonds issued in local currency, weather insurance mechanisms etc.) automatically receives the 'innovative' label (UN, 2012). The 'innovative finance' literature discussed a limited range of fund-raising schemes which are widely considered to be 'innovative' which tend to discuss two global public financing systems i.e. climate financing and advance market commitment systems. This debate is of little relevance to the DFI innovation debate.

Lacking a widely accepted definition of what is actually innovative – the default is to compare what kind of mechanisms and financing systems DFIs are using with the intention of seeing whether certain DFIs limit themselves to traditional systems or whether they expand operations into areas that other DFIs have yet to work with (frontier markets, i.e. whether they have entered new sectors or whether they have entered new countries, or new instruments. This means that a comparison amongst DFIs with respect to geographic regions, sectors and instruments needs to be carried out. We will compare between FMO's portfolio and the portfolio of other DFIs.

Table 26: FMO's Portfolio by Sector, Region and Product in 2012

Region	*Eastern Europe & Central Asia*	*Asia*	*Latin America & the Caribbean*	*Africa*	*Non-Region Specific*	*Total*	*% of Total*
Per Sector							
Financial Institutions (Investment Funds)	269	298	156	362	126	1211	19.1
Financial Institutions (other)	521	541	584	547	75	2268	35.8
Energy	44	303	336	491	43	1217	19.2
Agribusiness, Food & Water	80	62	172	33	44	391	6.2
Diverse Sectors	168	447	167	398	71	1251	19.7
Per Product							
Commercial Loan	512	807	1,059	902	46	3326	52.5
Equity	213	374	207	635	162	1591	25.1
Guarantee	51	55	15	66	69	256	4.0
Mezzanine	306	415	134	228	82	1165	18.4
Committed Portfolio	1,082	1,651	1,415	1,831	359	6338	100
% total	17.1	26.0	22.3	28.9	5.7	100	

Source: FMO (2013)

Geographically, the majority of funding is channelled towards Africa, whilst in sectoral terms financial institutions are the biggest focus. Comparing sectors to geographical region the main difference is that investments in Eastern Europe & Central Asia are more concentrated in the financial institution departments vis-à-vis the other regions i.e. 75% against around 50%. In fact, the scale of investments in energy (as a percentage of the regional portfolio) are much higher outside of the European and Central Asia region – possibly a reflection of the greater need to develop energy infrastructure in these regions.

What sectors are regarded as innovative?

FMO does not assess sector risk or innovation in its investment scorecards. The institution currently focusses on the following major sectors: Agriculture & Agribusiness, Energy and Financial Institutions but does not exclude other sectors since these are catered by the Diverse Sectors portfolio (which includes sectors such as infrastructure, telecommunications, manufacturing, and mining). Do other DFIs (CDC, IFC and DEG) invest in 'innovative' sectors? The question could be answered by understanding what other DFIs consider to be innovative sectors or whether they even consider 'innovation' in their sectoral choices.

Discussions with the DEG highlighted the fact that there is no particular sectoral strategy in place. Instead, DEG has some overall sector investment 'volumes' to meet. Sector choice is not limited, there are 5 strategic priorities (Future Markets, Environment & Sustainability, German businesses, SMEs and Risk Capital) within the organisation and they will accept projects in any sector that fits in these priorities.

Similarly CDC has no particular sectoral focus. The CDC investment process is instead based on a sector's capacity to create jobs. This 'sector job creation potential' is based on country-level Input/Output tables aggregated and averaged at the low income country level. This means that the sectoral selection process is neither precise nor tailored to individual countries. The CDC also acknowledges that compound projects (i.e. those that straddle multiple sectors or countries) can cause some difficulty in scoring. Nonetheless, it prepares tables that suggest that some sectors are regarded as more innovative, or at least score higher with respect to employment impact. The CDC scoring system is based (according to discussions with the CDC itself) on the use of aggregated input/output tables for all developing countries – the average sector employment potential score across all developing countries is used, hence it is an imprecise measurement at the country level – the CDC acknowledges this issue but there is limited data availability at the country level as a major constraint to more detailed analysis.

Table 27: CDC Sector Employment Potential

Low	Medium	High
Business Services	Agricultural crops	Construction
Communication	Forestry/Fisheries	Food Processing
Financial Services	Meat/Livestock	Manufacturing
Mineral Extraction	Transport	Public Services
Trade (subject to adjustments)	Utilities	Textiles
	Trade (subject to adjustments)	Trade (subject to adjustments)

Source CDC (2012)

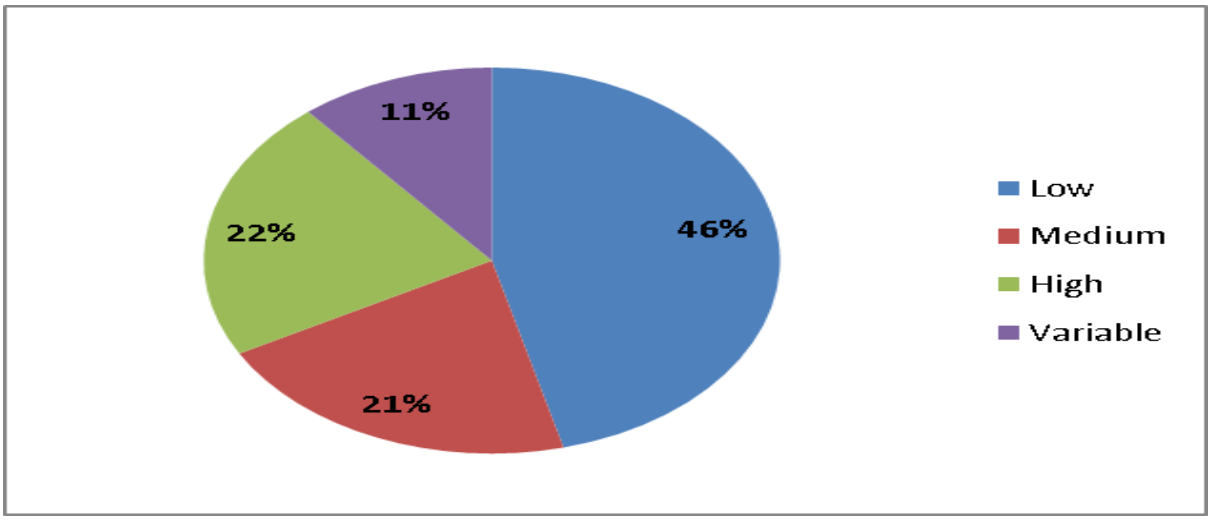
If we divide CDC's investment portfolio according to its own metric of sectoral employment impacts we can actually see that the majority (close to half) of its portfolio (by 2012) was invested in low impact sectors, about a fifth in medium impact sectors and a fifth in high impact sectors.

Table 28 CDC Portfolio divided by sector with CDC calculated sector impact

Sector	% of Portfolio	Total Employment Impact (direct and indirect)
Financial Services	18%	Low
Business Services	19%	Low
Manufacturing	13%	High
Trade	11%	Subject to Conditions
Public Services	6%	High
Agricultural Crops	2%	Medium
Utilities	17%	Medium
Communication	4%	Low
Transport	1%	Medium
Mineral Extraction	5%	Low
Food Processing	3%	High
Forestry & Fisheries	1%	Medium

Source: CDC (2012)

Figure 24: CDC's Portfolio divided by Impact Potential (2012)



DEG's sectoral breakdown (for committed obligations) by the end of 2012 was concentrated in investments in financial institutions. Other major sectors were manufacturing, energy and transport & telecommunications. The DEG is less invested in the energy sector when compared to FMO.

Table 29: DEG Committed Obligations by 2013

Sector	Committed Obligations
Financial Institutions	44%
Manufacturing	22.8%
Energy & Water Supply	11.3%

Transport, Infrastructure, Telecommunications	8.3%
Other Services, Tourism	8.9%
Agriculture, Forestry, Fisheries	4.1%
Mining	0.7%

Source: DEG (2013)

If we expand the discussion to include all the members of the EDFI (the table below looks at how the sectoral distribution of investments differs between FMO and other EDFI members[6]) we can see that FMO is actually in line with the EDFI average across sectors (for 2012) in terms of the breakdown of the portfolio.

Table 30: EDFI Member Portfolios by Sector (2012)

DFI	Financial Sector (inc. Investment Funds)	Infrastructure	Agribusiness	Industry & Manufacturing	Other	No. of Projects
FMO	56%	29%	7%	6%	3%	851
DEG	44%	22%	4%	23%	7%	705
BIO	71%	16%	6%	7%	0%	129
COFIDES	2%	39%	12%	43%	5%	163
FINNFUND	39%	25%	10%	25%	0%	143
IFU	22%	19%	16%	39%	4%	253
Norfund	42%	52%	6%	0%	0%	110
OeEB	75%	19%	0%	6%	1%	42
PROPARCO	52%	33%	7%	4%	3%	451
SBI	0%	4%	32%	39%	25%	25
Sifem	100%	0%	0%	0%	0%	69
SIMEST	0%	11%	7%	74%	8%	414
SOFID	0%	0%	19%	21%	60%	9
SWEDFUND	35%	22%	1%	38%	4%	91
EDFI Average	*56%*	*23%*	*5%*	*13%*	*3%*	*246*

Source EDFI (2012)

A further break down in investments in infrastructure is as follows (FMO is exposed relatively a lot to the power sector, which tends to have high indirect impacts)

Table 31: EDFI Member Infrastructure Investments Breakdown

DFI	Power	Water	Mining	Transport	ITC	Hotels	Other
FMO	1,315,960	0	0	183,507	329,108		0
DEG	647,729	16,311	40,947	201,004	203,368	108,484	82,765
BIO	61,901	0	0	7,732	0	0	3,454

[6] The table excludes the CDC since data reported by the EDFI collated all CDC investments into funds and did not disaggregate such funds by sector.

COFIDES	103,994	7,283	27,601	107,480	702	25,811	420
FINNFUND	54,879	0	0	3,149	7,437	12,299	36,590
IFU	13,374	121	0	35,643	219	37,014	5,541

Table 32

Norfund	554,725	341	0	0	3,583	26,330	5,460
OeEB	56,377	10,000	0	7,579	0	0	20,000
PROPARCO	889,335	86,636	18,069	244,708	176,444	45,941	0
SBI	0	0	0	949	0	0	0
Sifem	0	0	0	0	0	0	0
SIMEST	71,846	0	0	0	0	20,592	2,350
SOFID	0	0	0	0	0	0	0
SWEDFUND	28,006	0	0	0	290	19,919	21,695

Source EDFI (2012)

Which countries are innovative?

FMO assesses risk based on a country risk scorecard. The scorecard documents do not provide extensive information on this. CDC's country choice is based on a grid system. It uses this to screen investments, ranking countries according to how difficult it is to invest in them. Increased investment difficulties translate into a higher score. CDC uses the following criteria

- Market size as indicated by GDP ($ million)
- Income level as indicated by GDP per capita (US$)
- Ability to finance as indicated by Domestic Credit to Private Sector (DCPS) as % of GDP
- The ease of doing business as indicated by IFC's Doing Business Ranking (DB)

The table below examine to what extent FMO has been innovative with respect to moving into low income countries, based on data supplied by EDFI. Bearing in mind the reporting difficulties, the data show that FMO has moved relatively more into ACP and South Asia (poorer countries) than DEG or CDC, and they have move more out of Russia, China and Central Europe (richer countries), suggesting that FMO has been more innovative compared with respect to country choice.

Table 33

	2012			2008			Change as percentage point (2008-2012)		
	CDC	DEG	FMO	CDC	DEG	FMO	CDC	DEG	FMO
ACP	32	15	27	41	12	25	-9	3	2
South Africa	8	3	4	4	2	3	4	1	1
MENA	3	7	5	3	6	3	0	1	2
South America	4	15	12	5	11	13	-1	4	-1
Central America	4	11	8	2	7	8	2	4	0

South East Asia	5	11	10	8	7	8	-3	4	2
South Asia	23	12	13	25	12	11	-2	0	2
China	12	6	2	10	8	5	2	-2	-3
Central and Eastern Europe	0	6	1	0	7	3	0	-1	-2
CIS	1	5	8	1	11	10	0	-6	-2
Russia	0	6	2	0	6	5	0	0	-3
Other	8	1	8	0	10	5	8	-9	3

Source: EDFI annual comparisons

Government backed projects are seen to have a greater development relevance than FMO-A projects i.e. the MASSIF fund which provides finance to small businesses and micro –enterprises by providing support to financial intermediaries that serve such markets[7]. Other government backed projects include the 'Access to Energy Fund'[8] which supports private sector projects that provide long-term access to energy (aiming to connect 2.1 million people to the energy grid by 2015) and the 'Infrastructure Development Fund' which provides finance to infrastructure projects that can have a significant impact on socio-economic development[9]. These funds are all seen to have greater developmental effects than FMO-A project but their inherent riskiness requires government backing, otherwise FMO's portfolio would become more prone to risk and attract less partner investors

What products are seen to be innovative?

FMO's scorecard system looks at product innovation through FMO's "additionality" i.e. what does FMO bring to the market that is not already available? To this end the scorecard asks whether the product that FMO intends to being to market already exists, whether other commercial operators are already offering it and whether it is affordable if it already exists. The basic idea is that FMO should be offering products that the market is not offering or it offers the products on more viable (the definition of viable would depend on the product being offered) terms which are not being offered by commercial institutions.. .. The majority of instruments that FMO offers are the same as CDC and DEG i.e. long-term loans, senior finance, mezzanine loans etc. hence, in terms of product availability there is no great distinction. However, this does not preclude FMO from trying to innovate in these products in certain circumstances.

One example of such product innovation is the fact that FMO has moved sooner than some other DFIs into the market of local currency loans through its TCX project (although this is a project that was financed by the Ministry of Finance before the period of evaluation). The TCX project (which is now spun off) is the brainchild of the FMO together with another twenty DFI partners and multilaterals such as the ADB, the IADB and the EBRD as well as a number of other commercial banks in Europe and in Africa. Partner institutions have created a fund that can help investors cover local currency risks. The fund is officially called the Currency Exchange Fund N.V. (but abbreviated to TCX) and the majority of the initial risk was taken by the FMO. The fund provides long term local currency and interest rate derivatives in emerging markets with a special focus on currency maturities that are not well served by

[7] http://www.fmo.nl/massif
[8] http://www.fmo.nl/accesstoenergy
[9] http://www.fmo.nl/infrastructurefund

commercial institutions. TCX helps as a catalyst for long-term lending in local currencies and helps hedge against local currency risks (i.e. fluctuations in exchange rates). The portfolio helps address market failures as well as 'drastically reduce' default probabilities, improve business sustainability and contributes to the development of local capital markets (Dalberg, 2010). Even in the face of the financial crisis the TCX fund showed good resilience, as the fund continued to make profits in spite of predicted of losses within the crisis period (Dalberg, 2010).

Another example of innovation is FMO's Investment Fund Investment Management programme and the Green Bonds that it offers. FIM (FMO Investment Management) was established in 2012 with a focus on bringing other investors on-board with FMO managed investments i.e. it's a fund manager for 3rd party investments with the aim of investing for development impacts. FIM offers 3 products to clients:

1) SME finance fund for financial institutions.
2) A Private equity fund in Africa
3) Green Bonds

The deals are sourced through the usual FMO procedures and conditions. In terms of any investment in SMEs or Africa, both funds have the first say (i.e. first refusal) – this is assured by the fact that the investment board of the funds are either made up entirely of 3rd party investor representatives or are majority run by 3rd party investors. All votes on acceptance or refusal need to be unanimous. This ensures that FMO cannot cherry pick the investments it wants to keep for itself and not offer them to the FIM funds (where relevant). As part of the innovation package, FIM (and hence FMO) offers green bonds – which is quite innovative when compared to other DFIs such as DEG and CDC which do not offer these (although the IFC does offer green bonds). Green bonds help raise capital for climate change solutions. In November 2013 FMO issued its first green bonds through a €500 million 'sustainability bond' which was sold out within an hour of issue[10] (hence showing great potential),

Has FMO innovated by introducing ESG (Environmental & Social Governance)?

FMO's Environmental and Social (E&S) Risk Management Tool is used for its private equity fund and its lending operations to MFI's and SME finance banks. The philosophy behind its use is that good environmental and social management systems can help investment funds improve their business performance. FMO states that there is a large divide between environmental and social requirements and their implementation in private equity funds, with the greatest hurdle being the actual implementation of ESG systems in their operations. In order to overcome this barrier it has designed and E&S toolkit which is implemented by a contracted consultancy specialised in sustainability impact monitoring.

The FMO toolkit is based on the use of an excel spreadsheet (hence it does not require any specialised software – reducing the overhead costs of its implementation and using a programme which many implementing partners should already have access to and be familiar with). The tool produces three pieces of information i.e. the most relevant E&S risks, the effectiveness of E&S risk management and the main E&S opportunities (i.e. potential for FSC certification etc.).

The tool helps provide an overview of the most relevant environmental and social risks. Risks are distinguished into sector risks and country risks. FMO recognises that some risks associated in investments may not be represented through the tool, but it also states that 'on balance' sector risks

[10] http://www.climatebonds.net/2013/11/dutch-dvlpt-bank-fmo-issues-eur500m-aaa-sustainability-bond/

provide a good starting point for the assessment of investment risks[11]. Country risks are seen to be more general than sector risks and data on country risks is compiled using the Yale EPI standard (see box below). The tool is used at two levels. For individual investments it is used to structure ESG due diligence and management reviews. At the portfolio level the tool provides an overview of ESG risks for FMO as a whole. The tool is based on the IFC's Performance Standards (detailed below) which provide the guiding standards that FMO clients need to adopt for their operations.

> The Environmental Performance Index (EPI) is the successor to the Environmental Sustainability Index (ESI) which responded to the growing need for rigorous, data driven environmental performance measurement. The 2012 EPI is the seventh iteration of the project and ranks countries on 22 performance indicators across ten policy categories that reflect facets of both environmental public health and ecosystem vitality. The methodology aims to facilitate comparisons between countries and provide a way to assess the global community's performance over time with respect to established environmental policy goals.

Comparing ESG in FMO with CDC, DEG and IFC

Similarly to FMO, the DEG also uses an excel based ESG toolkit which it calls the "Environmental and Social Risk Indicator" (EeSI). There is no actual information on the EeSI on the DEG's website – hence the information presented here stems from the CDC's 2010 review (CDC, 2010). The EeSI is (supposedly) based on a series of drop-down questions within the excel toolkit. The toolkit helps to assess an investee company's environmental and social performance and its ability to manage its impacts in these areas. The EeSI is supposed to help understand the scale and importance of such impacts and is used for individual investment decisions but also (supposedly) allows for comparisons between investments in different sectors.

DEG's website cites that its ESG is guided by six major principles, which in essence state that economic success is based on social and environmental sustainability, that business financial sustainability is also dependent on good social and environmental management, compliance with international ESG standards helps investee companies better integrate into the global economy and that DEG needs to support ESG implementation as well as acting as a benchmark for DEG itself[12]. DEG mainly complies to the IFC's performance standards and the EDFI environmental and social guidelines (highlighted in box below). In regards to reporting its guiding principles, DEG is more explicit than FMO since FMO does not explicitly state its guiding principles (which refer to the IFC's Performance Standards as an inspiration), however DEG is less transparent in the availability of its tool – since users need to purchase it – whilst FMO makes it publicly available (hence also open to public scrutiny).

[11] http://www.fmo.nl/esg-tools

[12] https://www.deginvest.de/International-financing/DEG/Die-DEG/Auftrag/Umwelt-und-Ressourcenschutz/Richtlinie/

Box – Responsible business principles

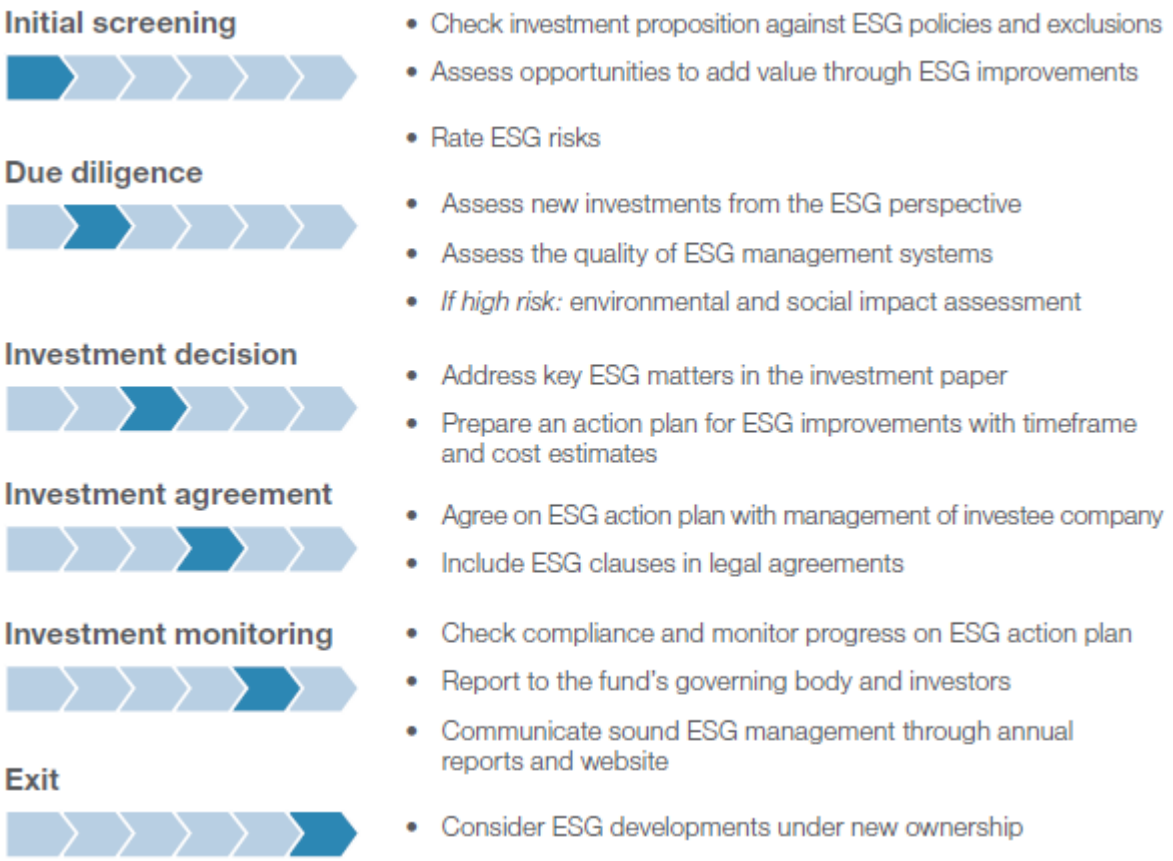
In 2009, the EDFI group (including DEG, CDC & FMO) signed the 'EDFI Principles for Responsible Financing'. These principles ultimately aim to have a positive impact on the local communities where EDFI members invest. Collaboration between EDFI members includes the harmonisation of ESG standards for investment activities. This essentially means that EDFI members must:

- Comply with all legal and regulatory requirements in the jurisdictions that they operate in
- Require high standards of business integrity & corporate governance in their investee companies.
- Recognise that investment decisions may have environmental and social impacts and hence that investee companies need to move (over time) towards international best practice standards.
- Use a precautionary & preventative approach in regards to environmental and social impacts and pay high attention to the interests of impacted people.
- Encourage dialogue between investee companies and their stakeholders on their environmental and social impacts.
- Commit to continuous improvements in ESG matters.
- Provide transparent and accountable information on investment activities, whilst also maintaining normal commercial confidentiality.

Source: http://www.swedfund.se/wp-content/uploads/2010/06/09-05-07-edfi-principles-responsible-financing-signed-copy.pdf

The CDC published its ESG toolkit (the 'Toolkit on ESG for Fund Managers") in 2010. This extensive toolkit guides the ESG process from project screening up to exit (see figure 25 below). The toolkit is actually made up of 14 different sub-toolkits. The toolkit is meant to be used by fund managers (especially private equity fund managers) who invest in emerging markets and is meant to help explore the business case for assessing and managing ESG risks, provide tools to integrate ESG analysis into investment decisions, help report ESG to boards and investors and provide guidance on how to apply international ESG standards. The ESG standards are inspired by the IFCs "Performance Standards on Social & Environmental Sustainability" as well as the World Bank & IFC "Environmental, Health and Safety (EHS) Guidelines" (CDC, 2010). Vis-à-vis FMO's excel based tool, the CDC voluminous guidelines could appear to be more impractical in terms of applicability – hence the FMO toolkit, although focusing less on the theory behind ESG principles, seems simpler in its applicability.

Figure 25: CDC's ESG Process



Source: CDC (2010)

The IFCs "Performance Standards on Social & Environmental Sustainability" (PSES) are seen as a major inspiration and benchmark against which most other DFIs set their ESG Standards, including the CDC, the FMO and DEG. The PSES (of which the latest iteration was published in January 2012) is seen as the IFC's strategic commitment to sustainable development. The PSES is not a purely applicable toolkits as the other DFI toolkits are – but rather it is a collection of principles that IFC clients and IFC projects need to adhere to in order to minimise environmental and social risks.

The PSESs are directed towards IFC's clients and are meant to guide companies on how to identify risks and impacts as well as on how to mitigate, manage and avoid such risks. There are eight performance standards that cover the following issues (IFC, 2012):

1. **Assessment & management of Environmental and Social Risks and Impacts:** Applies to business activities with environmental and/or social risks and/or impacts. The standard requires the identification of risks and impacts, the implementation of management programmes to avoid or mitigate risks and improvements in client organisational capacity and competencies in order to effectively assess and manage risks. The standard helps set out emergency response procedures as well as monitoring & evaluation systems. The standard also requires transparent stakeholder engagement and communication systems.
2. **Labour & Working Conditions:** The standard ensures sound workforce management and helps establish clear employer-employee relationships, adhering to fair and non-discriminatory labour principles set out by the ILO and the UN. The standard covers both clients and their supply chains (where applicable).
3. **Resource Efficiency & Pollution Prevention:** The standard aims to help companies improve resource efficiency and reduce pollution and is applicable at the project-level – encouraging

partner companies to adopt resource efficiency technologies and practices as far as is feasibly possible. The aim is to minimise adverse impacts on human health and on the environment by avoiding or minimising pollution and promote more sustainable use of resources, reducing GHG emissions in the process.

4. **Community Health, Safety & Security:** The fourth standard recognises that projects may have negative impacts on communities and helps to avoid or minimise these adverse impacts on the health and safety of affected communities.
5. **Land Acquisition & Involuntary Resettlement:** The standards helps avoid or minimise displacement of project-affected communities by exploring alternative project designs. The standard also helps to avoid forced evictions and minimise social impacts from land acquisition deals through the provision of compensation for affected communities. It also makes provisions for open and transparent dialogue and improvements in the livelihoods of affected communities.
6. **Biodiversity Conservation & Sustainable Management of Living Natural Resources:** The standards is aimed at protecting and conserving biodiversity, maintaining the benefits of ecosystem services (i.e. where sustainably managed ecosystems provide a source of livelihood/incomes for relevant communities i.e. the sustainable use of forests in order to harvest commercially relevant herbs etc.) and promote the sustainable management of living natural resources.
7. **Indigenous Peoples:** The standard recognises that indigenous groups are often marginalised and require greater levels of protection, hence impacts on them should be minimised or avoided. The standard also promotes the establishment of clear and open communication with indigenous groups and the enhancement of their livelihoods through culturally appropriate sustainable development.
8. **Cultural Heritage:** The final standards looks to protect cultural heritage from the negative impacts of project activities and support the preservation of cultural heritage.

In terms of project exclusion lists (which is a part of all the DFI's ESG activities), the FMO, CDC and DEG have all signed up to a harmonised EDFI exclusion list[13] which makes provisions to stop member DFIs from investing in a number of sectors or activities widely considered to be unethical. The IFC also has an exclusion list which is broadly similar to the EDFI list and likewise excludes investments into sectors which are considered to be unethical[14].

[13] https://www.deginvest.de/DEG-Englische-Dokumente/About-DEG/Our-Mandate/EDFI_DEG_Exclusion-List_en.pdf
[14] http://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/IFC+Sustainability/Sustainability+Framework/IFC+Exclusion+List/

Annex 2F Comparing DFIs

We compare / benchmark the systems of DFIs in the following areas:

- What type of information on development impact is available to the Investment Committee in DFIs (ex-ante) at the various stages
- Are targets for quantitative indicators on development impacts (e.g. employment) being used to drive investment, and to what extent is the development dimension important.
- How often are projects assessed and what information is being used to evaluation projects

Below, we will compare FMO's ex-ante assessment of development impacts with three other major DFIs i.e. the CDC, the IFC and DEG.

The IFC

Development Outcome Tracking System (DOTS) helps the IFC track the development results of their investments throughout the project cycle[15]. The IFC provides a "development outcome" rating to each of its projects that are deemed to have progressed far enough into their life cycle to show any development impacts. The IFC DOTS rating is based on four key performance areas, meant to capture the multi-faceted contributions of the project to a host nation's economy: 1) financial performance, 2) economic performance, 3) environmental and social performance, and 4) private sector development. Development outcomes are rated on a six point scale ranging from highly successful to highly unsuccessful, with successful projects achieving one of the top three ratings

Successful projects are those that 1) financially sound, 2) provide benefits to stakeholders (beyond the benefits provided to the project financiers) as well as not relying on any subsidy or market distortion, 3) meet the IFCs environmental and social performance standards and 4) have broader positive impacts on private sector development. These four components are evaluated on a four point scale: excellent, satisfactory, partially unsatisfactory and unsatisfactory. Projects with excellent and satisfactory scores are seen as successful. The IFC framework aims to also assess project impacts through a stakeholder perspective by considering he costs and benefits to each stakeholder group, through the measurement of quantifiable impacts (where available) or through qualitative means.

The first key performance area that the IFC framework examines is the financial performance of a project in order to assess the costs and benefits to project financiers. It is important for projects to be profitable as profitable projects give positive signs to other investors and does increase investments into the project and that developmentally sound projects can also mean good profits for investors. The second key performance area for the framework is economic performance, which measures the impact of the project on all of society. Impacts are measured on a number of different stakeholders beyond project financiers. In terms of private sector development, the framework tries to measure whether the project has tried (or succeeded) in creating the right conditions to increase private capital in the investment. Conditions such as changes in the regulatory framework, corporate governance, increased competition and improvement in services are also measured. The framework looks to measure to what extent the project fulfilled the private sector objectives which were defined at its inception or approval.

The effects of a project on its neighbouring communities and environment is also assessed, in addition the benefits a project creates for host communities is also measured. In addition the framework seeks

to understand whether the project complies with the IFC's environmental, social, health and safety (ESHS) policies and how the project altered ESHS performance or compliance.

In addition to the DOTS system (which is mainly intended as an M&E system, the IFC also has a set of international development goals[16] (IDGs) which it began testing in 2011. These were inspired by the MDGs as a way to integrate IFC results measurement within the MDG strategy and are high-level targets used to influence strategy and operational decision making processes. So far the IFC has been testing seven IDGs (IFC, 2013):

1. Agribusiness: Increase or improve sustainable farming opportunities.
2. Health & Education: Improve health and education services.
3.a Access to Financial Services: Increase access to financial services for micro/individual clients.
3.b Access to Financial services: Increase access to financial services for SME clients.
4. Infrastructure: Increase or improve infrastructure services.
5. Economic Growth: Contribute to economic growth (value added); piloted without targets.
6. Climate Change: Reduce Greenhouse Gas emissions.
7. Trade & Regulatory Services: Increase the number of firms that benefit from improved investment, trade and regulatory services.

These IDGs are not meant to cover all IFC projects but can be used as a strategic management tool. IDGs 2 and 3 are fully implemented, with the remainder still in their testing phase (although IDG 1 should also be fully implemented by 2014).

Finally the IFC also carries out in-depth evaluations at the project level – so far it has carried out 80 evaluations – which it began in 2006[17]. These evaluations are intended to help the IFC understand their impact as well as provide real-time feedback on projects for both the clients and for IFC's operational staff. The IFC created the development Impact Department (CDI) in 2010 in order to oversee research design in order to deepen IFC's understanding of its development results as well as test and implement additional monitoring instruments (IFC, 2013a).

CDC

CDC has recently implemented the GRID system (since 2012). The system compares 'investment difficulty' per country against the 'job creation potential' of a sector using country level Input/Output tables aggregated and averaged at the low income country level in order to determine them. The grid is divided into 12 sectors with the 'low' investment difficulty and 'low' propensity to create employment sectors scoring the lowest point (1), whilst increased difficulty and/or propensity to create more jobs increases the score up to a maximum of 4.

Investment difficulty is assessed with regards to a country's market size (the smaller the market, the harder it is to invest), income level (lower income levels increase the difficulty), ability to access finance and the country's Ease of Doing Business score. The score on a sector's propensity to create jobs is based on data across all developing countries and is based on three criteria:

1) The sector's potential to create direct employment by measuring the employment (including both skilled and unskilled) to capital ratio.
2) The sector's potential to create employment through backwards linkages in its supply chain which is measured by looking at the local procurement to capital ratio.

[16] http://www.ifc.org/wps/wcm/connect/bf77718041500b428590a79e78015671/new+IDG+Fact+Sheet.pdf?MOD=AJPERES
[17] http://www.ifc.org/wps/wcm/connect/cbe0198041562db693bdb39e78015671/Development+Impact+FACTSHEET+FINAL.pdf?MOD=AJPERES

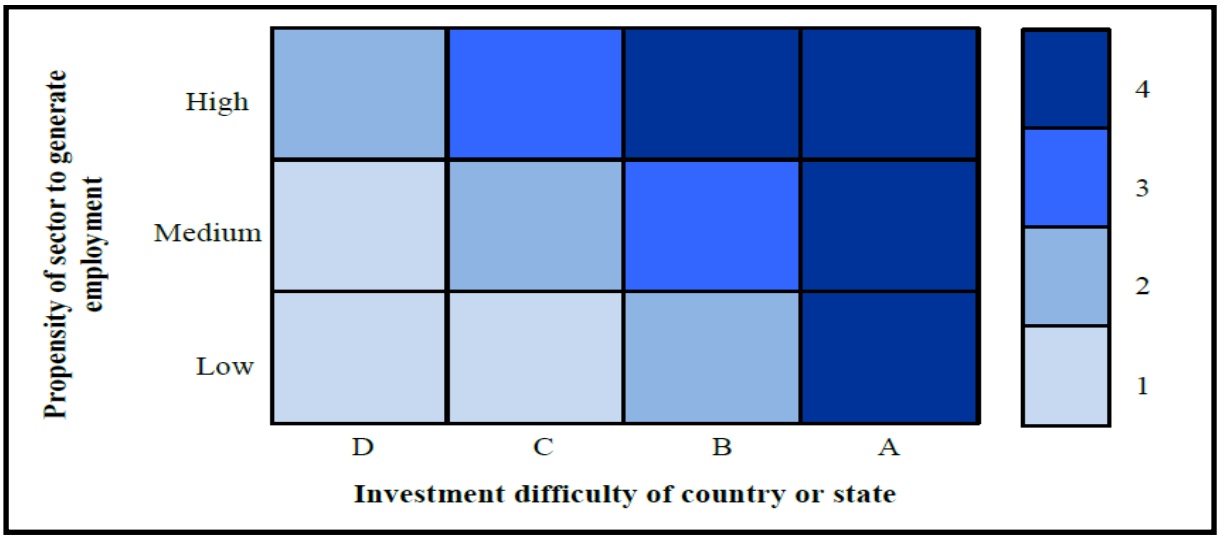
3) The potential for investments into 'essential infrastructure' to remove business constrains and build a conducive environment for job creation – however how this is measured is not specified.

The scoring methodology also contains certain modifiers that the CDC use to alter the impact score of certain sectors dependant on the country or the involvement of local enterprises and resources. The CDC can make investments across all points of the grid, but over the course of 5 years, the average score should be greater than (or equal to) 2.4.

The grid has helped promote pre-screening and there is (unwritten) evidence that it saves time. Through the grid, around 50% of incoming deals are screened out using the grid as well as pre-screening from promoters (which means that the real number of deals that are actually rejected using the grid is unknown).The grid also helps the CDC deal teams to quickly evaluate interest in a deal as well as what the next wave of information on the deal should be. The grid also helps to provide some structure to the investment committees since it helps them focus on understanding the difficulties of investing in a country as well as the potential impacts (i.e. displacement effects and risks in the market).

There is an agreement with DFID that the tool will run until 2016 but afterwards they want an upgraded tool. One of the difficulties of the systems has been the fact that compound projects (i.e. those that have – or can fit in - multiple sectors/countries) can cause some difficulty in scoring i.e. where does broadband fit? There is also risk that high-impact scores are not always regarded as criteria for investment since the CDC has a commitment towards financial returns on projects and not just development impacts. Portfolio security[18] is an important issue and may skew some projects towards safer investments – which is not a negative issue *per se* (according to the CDC) as the portfolio needs some stability and security in its activities. To this end, the CDC would like there to be two systems: One for the more 'typical' deals and one for the more 'transformational' deals –i.e. they would like to balance between returns on the portfolio and more transformational (i.e. with good development outcomes) deals (relating to IFC's proposed distinction).

Figure 26 CDC GRID System



Source: CDC (2012)

[18] It is unclear what the CDC define as portfolio security

DEG

Since September 2000, the DEG uses the Corporate Policy Project Rating (abbreviated to the GPR) as a source of information on projects both in the ex-ante and in the ex-post phases of project evaluation. The GPR is an index system based on four benchmarks:

Figure 27 DEG GPR Benchmarks

1. Long-term profitability	2. Development effects / Sustainability	3. Special role of DEG	4. DEG's Return on Equity
Indicators: • Corporate Rating (based on market data, financial ratios and country risk) *150 points*	Indicators (inter alia): • Payment to Gov. • Employment • E&S-standards • Techn. / Know-How • Market development *150 points*	Indicators: • Strategic alignment • Consultation • Mobilization of funds • Umbrella function • Additionality *100 points*	Indicators: • risk-adjusted return on capital (%) *100 points*

Source: DEG (2013)

Project scores range from 1 to 6, with 1 being the best score (very good) to 6 being the worst score (obviously insufficient). Scoring is initially done on a 500 point basis, where the following scores are across the four benchmarks (see figure above). The first, second and third benchmarks are used across all projects whilst the second benchmark changes according to the sector[19].

The GPR indicator set is shared by 15 other DFIs (including BIO & Proparco), each with their own (small) variations – DEG asks those who use the GPR to share any variations with them. The GPR system has sector specific elements for its development indicator components. Moreover, GPR is calculated at the client level, not at the individual facility level. In cases where mezzanine and senior secured overlap, the GPR additionality score is calculated from a combination of the facilities.

Ex-ante choice of projects begins by looking at the exclusion list, followed by a study of the financial sustainability of the project and a subsequent environmental and social risk analysis. This is followed by, an ex-ante GPR, which is a 5-year forward looking measure. This forward looking aspect makes it possible to compare potential impact; an investment which will improve the client significantly can therefore score better than a client which is already performing well. At this stage the GPR (filled in by analysts and cross checked by investment managers) uses any available relevant information in order to estimate the expected effects of the project as well as understand its strengths and weaknesses.

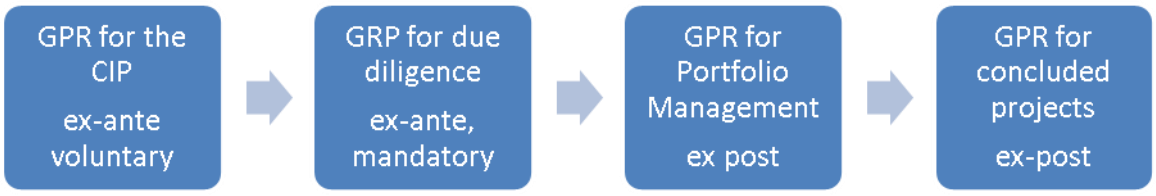
Once the GPR is cleared, the CIP is signed (followed by the legal agreements etc.). At this stage the GPR is repeated again as part of the company's due diligence procedure. Investment managers use available documents and information from client discussions, results are cross-checked by other investment managers whilst the Corporate Strategy and Development Policy unit assesses random sample GPRs as a form of quality control. Ex-post GPR's are filled in once every two years on a portfolio wide review of its projects. DEG's next GRP portfolio evaluation will be carried out in 2014.

The previous report (for 2012) is mainly focussed on DEG's financial position and commitments – development and sustainability impacts are discussed but not at any great length. The report states that for commitments signed in 2012 there was an improvement in estimated development impacts due to greater projected employment effects, increased government revenues. The report states that

[19] Information on sectoral benchmarks was not provided by DEG as it was seen as confidential information.

DEG projects should contribute about €827 million in government revenues and earn about €4.1 billion in net foreign exchange income. In addition, DEG investments should generate around 435,000 jobs of which 164,000 would be direct and 271,000 indirect (i.e. through client supply chains or ultimate borrowers). The report also states that around 73% of projects would directly contribute to the MDGs by ensuring environmental sustainability, helping eradicate poverty and improving gender equality.

Figure 28 : DEG GPR Cycle



Source: DEG (2013)

DEG tries to have an average score of 2.2 across its portfolio. For other indicators (the GPR is made up of four indicators) there is no such average target. The DEG does not set targets for the GPR component relating to development. However, projects which score low on development impact will not be accepted by the credit committee. IOs cannot override low GPR scores, even when a specific sector is not well captured by the GPR measure (such as infrastructure PE funds). The GPR system is not translated into targets for investments (i.e. create X no. of jobs) as the DEG thinks that such an approach would result in 'strange' decisions being made in order to meet targets. In addition, there is also the fear that particular projects would be ignored in favour of other projects better suited to meet targets.

IRIS

Even though the IRIS system was not an explicit part of the assignment, its inclusion here is due to the fact that it has been cited as an inspiration for the harmonised set of indicators that multiple DFIs agreed to implement in October 2013 (of which an abbreviated version is presented below).

The IRIS system was created after 2008 by the Rockefeller Foundation, the Acumen Fund and B Lab (becoming part of the Global Impact Investing Network in 2009) in order to create a common framework for reporting and defining capital impact. The IRIS methodology for reporting investment impacts is based on the premise that impact investors are not able to look at the social and environmental impacts of their investments solely using the financial data gathered from their projects. In addition, there are a number of organisations that have created different impact measurement frameworks, which the IRIS approach deems as both inefficient and expensive as well as not allowing projects carried out by different organisations to be compared to one another.

The IRIS standard was created in order to create a common tool for any organisation that wants to carry out impact assessments. By standardising how companies report their social and environmental impacts the IRIS framework helps to increase the value of non-financial data gathered by the organisation as the data then becomes a source of comparison between different organisations. In addition the IRIS methodology can help organisation improve the efficiency of their impact reporting by providing a simple framework for them to use. The IRIS methodology can be valuable for a number of different investor types:

- **Fund Investors:** As the proportion of a portfolio going towards mission driven funds increases, so does the demand by investors for information on the social and environmental outcomes of the fund investments. Using the IRIS methodology, investors can efficiently

evaluate such information, for different types of funds across different economic sectors or geographic locations. The IRIS methodology helps fund investors understand the fund's performance for different social aspects, such as employment generation and wage levels.

- **Direct Investors:** Direct investors can use the IRIS system to track the environmental and social outcomes of the portfolio companies that they are investing in. The IRIS tool can be used to compare a company that has been invested in against other companies that have adopted the IRIS methodology. The use of IRIS has the dual benefit of improving credibility of reporting (by using a "trusted" set of performance measures) as well as improving comparability.

The IRIS methodology can help improve industry wide reporting consistency (if adopted by a wide range of companies within the same industry), reduce the workload for portfolio managers by providing a ready-made reporting tool, allow sector wide analysis through the aggregation of data gathered by companies using the system and increase the number of tools available to (and help develop) rating agencies and quality assurance service providers. The IRIS framework was designed in order to be applicable across a wide range of sectors and is divided into 5 major indicator categories:

- **Organisation Description:** These are the indicators that look at a company/organisation's mission, its operational model and its location.
- **Product Description:** The second set of indicators looks at the product and services which are offered by the company or organisation as well as its target markets.
- **Financial Performance:** Financial performance indicators look at the company or organisation's financial standing.
- **Operational Impact:** Operational impact indicators look at the company or organisation's policies, its employees and its environmental performance.
- **Product impact:** The final sets of indicators are the product impact indicators which look at the performance and reach of a company or organisation's products and services.

IFI Harmonised Development Results Indicators for Private Sector Investment Operations

The IFI harmonised indicators were agreed in October 2013. The reason behind such a set is that IFI's have historically used a varied number of monitoring systems in order to measure development impacts. Even though these systems reflect the diversity of their implementing agencies, the diversity of systems (including different definitions for the same indicators) place a large data collection burden on their clients, particularly those who receive funding from multiple DFIs. Hence the harmonised framework is meant to ease reporting in the long term for companies that receive DFI funding. Currently 25 DFI's have signed on to the memorandum (including the FMO, the CDC, DEG and the IFC). In regards to FMO, what is interesting is that in the current set of indicators includes (as reported below) there are indicators that look at financing available for investments in housing as well as the number of houses built or improved by DFIs. As FMO previously attempted to enter the housing market (in 2007) but no longer operates in the market, it could be seen as an indication that other DFIs are now also interested in operating within the same sector.

IFI Harmonised Indicators (October 2013)

Sector	Indicator	Definition (abbreviated)	Unit
Cross-Sector	*Direct Employment – Operations & Maintenance*	No. of Full Time Equivalent employees (FTE) as per local definition working for the client company or project at the end of the	# FTE

		reporting period.	
	Direct Employment – Construction Phase	Number of FTE construction workers employed for the construction of the company or project's hard assets during the reporting period.	# FTE
	Payment to Government	All transfers to the government made by client company over the reporting period.	# currency
Agribusiness	*Farmers Reached*	No. of farmers that are linked to the client company as suppliers, buyers, contractors or farming employees during the reporting period.	#
	Total Sales	Unit count (as applicable) and gross value of sales over the reporting period.	# & # currency
	Export Sales	Value of export sales of the product or service over the reporting period.	# currency
Education	Students Enrolled	No. of students enrolled at the end of the reporting period, both full-time and part-time, where each discrete student is counted regardless of number of courses.	#
Energy	Power Production	Energy delivered to offtake(s) during the reporting period.	# GWh
Financial Intermediation	No. & Amount of Outstanding Microfinance Loans	No. & amount of outstanding microfinance loans (as defined by each DFI) in client company portfolio at the end of the reporting period.	# & # currency
	No. & Amount of Outstanding SME Loans	No. & amount of outstanding loans to SMEs (as defined by each DFI) in client company portfolio at the end of the reporting period.	# & # currency
	No. & Amount of Outstanding Housing Loans	No. & amount of outstanding housing loans (including all mortgage instruments issued for the purchase or re-financing of housing construction loans and home improvement loans where housing servings as the collateral to which the financing relates.	# & # currency
P&E Investment Funds	Investments	No. of investments and volume of invested capital on a cost at investment basis at the end of the reporting period.	# & # currency
	Investee Direct Employment – Operations & Maintenance	No. of FTE employees as per local definition working for the investor's client company or project at the end of the reporting period.	#

	Investee Direct Employment – Construction Phase	No. of FTE construction workers employed for the construction of the investor's client company or project's hard assets during the reporting period.	#
Health	Patients Served	No. of patient consultations provided by the client company during the reporting period.	#
Housing	New Dwellings	No. of new residential constructed by the client company at the end of the reporting period.	#
	Improved Dwellings	No. of residential dwellings refurbished by the client company at the end of the reporting period.	#
ICT	No. of Mobile Subscriptions	No. of mobile subscriptions including voice and/or data at the end of the reporting period.	#
	No. of fixed data subscriptions	No. of fixed data subscriptions at the end of the reporting period.	#
	No. of fixed voice subscriptions	No. of fixes voice (telephone) subscriptions at the end of the reporting period.	#
Industries & Services	Domestic Purchases	Value of company's purchases of goods and services from domestic suppliers during the reporting period.	# currency
	Total Sales	Unit count and gross value of sales over the reporting period.	# & # currency
	Export Sales	Value of export sales of the product or service over the reporting period.	# currency
Transportation	Containers Handled	Twenty Foot Equivalent Units (TEU) of cargo containers transported through the road/railway/port/airport over the reporting period.	# TEUs
	Bulk Cargo Handled	Tonnes of bulk cargo transported through the road/railway/port/airport over the reporting period.	# tonnes
	Passenger Use	Passengers using transportation services over the reporting period.	#
Waste & Sanitation	Waste Disposed	Amount of waste disposed over the reporting period.	# t
	Wastewater Treated	Volume of wastewater treated over the reporting period.	# m3
Water	Portable Water Produced	Volume of potable water produced during the reporting period.	# m3

Source: IFIs (2013)

DOTS Indicators

Economic Performance	
Key Indicators	**Explanation**
Economic Rate of Return	This is the Internal Rate of Return on an investment after accounting for the costs and benefits a project entails for all stakeholders across Society
Economic Return on Equity	This is the cash flow used to calculate ROE[20] plus or minus costs or benefits to other stakeholders, such as taxes, subsidies, or estimates of consumer surplus.
Investee Level Jobs	Number of jobs created in the investee companies.
Indirect Jobs	No. of jobs created in companies related to the investee company.
Employment growth in fund investee company	The percentage growth of employees in an investee company.
Companies with SME classification at time of acquisition	The number of companies classified as SMEs
Companies with Frontier classification at time of acquisition	This indicator looks at the number of companies in an investment fund which are classified as SMEs
Investee-level salaries	Average salary level of investee company employees.
Investee-level EBITDA	The average EBIDTA (see above) in investee companies.
Investee companies with positive growth in EBITDA	The % of investee companies with positive EBITDA growth rates
Investee companies with positive growth in labour productivity	The percentage of investee companies with positive growth rates in their labour productivity.
Investee companies with positive growth in sales	The percentage of investee companies with a positive growth rates in their sales figures.
Taxes and other payments	The total amount of taxes (or equivalent) paid by investee companies.

Private sector Development Impact	
Key Indicators	**Explanation**
Follow-on fund	This looks at whether a follow-on fund (a fund which would replace the IFC sponsored fund) has been raised.
Non-DFI funding in follow-on fund	If a follow-on fund has been raised, what percentage of it has been raised from non development finance institutions?
Local Fund Manager	This indicator looks at whether the fund manager is native to the location of the investee companies.
Emerging Fund Managers	This indicator looks at whether the fund manager is an Emerging fund manager.
Greater Commitment to Corporate Governance	Have the investee companies improved their commitment to better corporate governance?

[20] Return on Equity: Measures a firm's efficiency at generating profits from every unit of shareholder equity.

Improvements in the Structure and Functioning of the Board of Directors	This indicator looks at any improvements in the way in which the board of Directors operate.
Enhancement of the Control Environment	Have there been any improvements in the Control Environment
Improved Transparency and Disclosure	Measurement in any improvements in investee company transparency and disclosure procedures.
Better Treatment of Shareholders	This indicator looks at whether investee companies improved their relationship with their shareholders.
Companies with improved governance & transparency	This indicator looks at the number of companies that have improved their transparency and governance procedures.

Environmental & Social Performance	
Key Indicators	**Explanation**
Improvements in Environmental and Social management?	Looks at whether there have been any improvements in an investee company's environmental and social management procedures.
Energy Efficiency/Renewable Energy components?	This indicator assesses whether the project includes any energy efficiency or renewable energy components.
Improvement in pollution management	Have there been any improvements in the way in which investee companies manage their pollution outputs?
Project design addresses gender issues	Does the project include any components designed to improve gender imbalances?
Financing to underserved markets	This indicator looks at the monetary value of any investments into underserved markets.
Involuntary resettlement?	Has the project caused any involuntary resettlement of people?
Community development outlay	This indicator looks at the monetary value of any community outlay components of the project.
Financing to underserved markets	This indicator looks at the number of investments into underserved markets.

IRIS Indicators

Organisation Description	
Report Information	
IRIS ID	IRIS ID of the company or organisation undertaking the impact assessment
Report Start Date	Start date for the impact assessment
Report End Date	End date for the impact assessment
Reporting Currency	National currency used by the reporting organisation/company

Organisational Information	
Name of Organization	Company name
Organization Web Address	Company web address

Year Founded	Founding year of the Company
Legal Structure	Legal structure of the Company
Type of Financial Institution (if applicable)	Type of financial institution
Location of Organization's Headquarters	Company HQ address
Location of Organization's Operating Facilities	Company operational facilities address
Operational Model	Operational model of the organization.
Customer Model	Customer model of the organisation i.e. Business to Business, Business to Consumer or Business to Government
Sector Activities	Main economic sectors affected by company operations

Impact Objectives	
Mission Statement	The mission statement of the company
Social Impact Objectives	The social impact objectives of the company i.e.: Access to clean water, energy, financial services, education, improved productivity, food security etc.
Environmental Impact Objectives	Any environmental impact objectives which the company may have.

Product Description	
Product and Service Information	
Product/Service Type	The type of product or service provided by the company
Product/Service Detailed Type	Further details on the type of product or service offered
Product/Service Description	Description of the product or service offered by the company
Product Lifetime	Duration of the product sold
Unit of Measure	The unit used to measure the amount of units sold, produced, exported, or installed by company organization

Target Market	
Client Type	Who are the buyers/clients of the company's products and services i.e.: SMEs, households, NGOs or the Government
Client Type: Individual/Household	The level at which the company keeps information on its clients (at the individual or household level)
Target Beneficiary Demographic	Demographics of the target markets
Target Beneficiary Socioeconomics	Socioeconomic groups of the target markets
Target Beneficiary Setting	Location of the target markets (rural or urban)
Client Locations	Target market country's
Client Locations: State/Province/Region	State or province of the target markets
Supplier Locations	Location (in terms of country/state) of the company's suppliers.

Financial Performance	
Income Statement	
Earned Revenue	Revenues earned from all company business activities during the reporting period

Cost of Goods Sold	Cost of producing and selling company goods or services
Gross Profit	Company profits = Earned revenue – Costs of Goods Sold
Personnel Expense	Personnel expenses such as wages, payroll taxes and benefits
Selling, General, and Administration Expense	Total of direct and indirect selling expenses incurred by the company.
Operating Expense	Costs incurred by te company to undertake its normal business operations
EBITDA	Company earnings before interest, taxes, depreciation and amortization are taken into account
Interest Expense	Interest paid on all company liabilities
Depreciation and Amortization Expense	Expenses paid by the company due to depreciation and amortization
Taxes	Income taxes paid by the company
Net Income Before Donations	Net income from business operations minus donations
Contributed Revenue	Contributed revenue during the reporting period
Net Income	Net income from all the company's operations

Balance Sheet	
Current Assets	Value of all company assets
Total Value of Loans and Investments	Value of company issued loans and investments
Financial Assets	Value of company financial assets
Fixed Assets	Value of company fixed assets
Total Assets	Total value of company assets
Accounts Payable	Outstanding company debt value
Current Liabilities	Value of company liabilities expected to be paid by the end of the reporting period
Financial Liabilities	Value of company's financial liabilities
Loans Payable	Value of company's outstanding debt obligations
Total Liabilities	Total value of company liabilities
Equity or Net Assets	Residual interest of the company's assets minus it liabilities at the end of the reporting period

Cash Flow	
Cash and Cash Equivalents- Period Start	Company's cash equivalent at the start of the reporting period
Cash Flow from Operating Activities	Value of cash flow from operational activities
Cash Flow from Investing Activities	Value of cash flow from investment activities
Cash Flow from Financing Activities	Value of cash flow from financing activities
New Investment Capital	Value of cash flows from financing activities including investments and loans
Net Cash Flow	Company net cash flow
Cash and Cash Equivalents- Period End	Company's cash equivalent at the end of the reporting period

Ratio's, Concepts and Calculations	
Revenue Growth	Company revenue growth in reporting period.

Income Growth	Company's net income value growth in reporting period
Gross Margin	The percentage of revenues that a company earns after paying production costs
Operating Profit Margin	Company effectiveness in managing its costs
Working Capital	Company operating liquidity
Return on Assets (ROA)	Ability of company to use assets in order to create returns
Return on Equity (ROE)	Commercial profitability of the company
Fixed Costs	Fixed costs that the company faces
Entrepreneur Investment	Value of any investments into the company by entrepreneurs
Community Service Donations	Total value of all donation made by the company

Operational Impact	
Governance & Ownership	
Governance Policies	Whether the company has written governance policies and if it has communicated these to its stakeholders
Board of Directors	No. of members of the company's Board of Directors
Board of Directors: Meeting Frequency	How often the Board of Directors meets
Board of Directors: Minority/Previously Excluded	Number of board members belonging to a minority group
Board of Directors: Female	Number of female board directors
Board of Directors: Independence	No. of independent (not part of the company) board members
Female Ownership	Percentage of the company that is female owned (based on share ownership)
Minority/Previously Excluded Ownership	Percentage of the company owned by minority groups (based on share ownership)

Social Policies	
Code of Ethics	Whether the company has a written code of ethics and has reported it to its employees
Conflict of Interest Policy	Whether the company has a written conflict of Interest Policy and has communicated it to relevant stakeholders
Local Compliance	Whether the company is non compliant to any local compliance laws
Financial Statement Review	Whether the company produces financial statements that are independently verified
Community Service	Whether the company has a written Community Service policy
Client Protection Policy	Whether the company has a written Client Protection Policy
Child Labour Policy	Whether the company has a written Child Labour Policy, following ILO standards
Fair Hiring / Recruiting Practices	Indicator looking at the company's hiring practices and if they are fair and non-discriminatory
Fair Career Advancement Practices	Indicator looking at the company's internal advancement practices and if they are fair and non-discriminatory

Fair Compensation Practices	Indicator looking at the company's compensation practices and if they are fair and non-discriminatory
Sexual Harassment Policy	Whether the company has a written sexual harassment policy following recognised international standards
Worker Safety	Worker safety condition standards applied by the company
Market Research on Clients	Whether the company uses market research to identify the needs of clients
Market Research on Clients: Research Process	The research process used by the company for market research
Market Research on Clients: Research Frequency	How often market research is carried out
Client Exit Surveys	How often client exit surveys are carried out
Employment Benefits	Benefits provided by the company to its full time employees
Healthcare Benefits Premium Covered	Percentage of employee healthcare premiums (for healthcare insurance) provided by the company
Supplier Evaluation	Whether the company evaluates its supplier's social and environmental activities/outcomes

Environmental Policies	
Environmental Management System	Type of environmental management system used by the company
Green Building Practices	Green building practices used by the company
Biodiversity Assessment	Whether the company carries out any biodiversity assessments and if it does, what types
Waste Water Treatment Compliance	Does the company's discharge of wastewater comply with local regulations?

Employees	
Total Employees	Number of full time, temporary and part time people employed by the company
Total Employees: Female	Number of females employees in the company
Total Employees: Minority/Previously Excluded	Number of employees from a minority groups
Full-time Employees	Number of full-time employees within the company
Full-time Employees: Female	Number of full-time female employees in the company
Full-time Employees: Minorities/Previously Excluded	Number of full-time employees from minority groups
Full-time Employees: Managers	Number of full-time manager level employees in the company
Full-time Employees: Female Managers	Number of full-time female manager level employees in the company
Full-time Employees: Minorities/Previously Excluded Managers	Number of full-time manager level employees from minority groups
Part-time Employees	Number of part-time employees in the company
Part-time Employees: Female	Number of female part-time employees in the company
Part-time Employees: Minorities/Previously Excluded	Number of part-time employees from minority groups

Temporary Employees	Number of temporary employees in the company
Temporary Employees: Hours Worked	Total number of paid work hours to temporary employees
Volunteer Hours Worked	Total number of work hours attributed to volunteers
Departing Employees	Number of full-time employees departing the organization (for any reason) during the reporting period.
Employees Residing in Low-Income Areas	Number of full and part time employees living in low income areas
Healthcare Benefits Participants	Number of full time employees receiving healthcare benefits from the company
Community Service Hours Contributed	Number of volunteered hours worked by full and part time employees

Wages	
Total Wages	Total wages paid to all employees
Total Wages: Female	Total wages paid to female employees
Total Wages: Minorities/Previously Excluded	Total wages paid excluding wages paid to employees from minority groups
Full-time Wages	Total wages paid to full time employees
Full-time Wages: Female	Total wages paid to full time female employees
Full-time Wages: Minority/Previously Excluded	Total wages paid to full time employees from minority groups
Full-time Wages: Management	Total wages paid to full time manager level employees
Full-time Wages: Female Management	Total wages paid to manager level full time female employees
Full-time Wages: Minority/Previously Excluded Management	Total wages paid to full time manager level employees from minority groups
Part-time Wages	Total wages paid to part time employees
Part-time Wages: Female	Total wages paid to female part time employees
Part-time Wages: Minority/Previously Excluded	Total wages paid to part time employees from minority groups
Temporary Employee Wages	Total wages paid to temporary workers
Wage Equity	Highest paid employee wage / lowest paid employee wage

Training & Assessment	
Employees Trained	Number of employees trained (full time, part time or temporary)
Total Employee Training Hours	Number of training hours provided to all employees
Total Employee Training Costs	Cost of training employees

Product Impact	
Quantity & Reach	
Units/Volume Produced	Total amount produced of company goods or services
Units/Volume Sold	Total amount of goods and services sold

Sales	Total revenue from the sale of goods and services
Units/Volume Exported	Total amount of goods/services exported
Sales from Exports	Total revenue from goods/services exported
Units Installed (if applicable)	Total number of units installed

Quality & Performance	
Group-based Training	Number of individuals that received group based training
Technical Assistance	Number of individuals that receives technical assistance
Organizations Receiving Training	Whether any other company or organisation received training from the reporting company

Client information	
Clients	Total number of company clients
Clients: New	Total number of first time clients (during reporting period)
Clients: Very Poor	Total number of very poor clients
Clients: Poor	Total number of poor clients
Clients: Low Income	Total number of low income clients
Clients: Female	Total number of female clients
Clients: Children/Adolescents	Total number of children/adolescent clients
Clients: Minorities/Previously Excluded	Total number of clients from minority groups
Clients: Disabled	Total number of disabled clients
Clients: Rural	Total number of clients living in rural areas
Clients: Urban	Total number of clients living in urban areas
Individual Client Visits	Average number of client visit to company facilities in reporting period
Client Receiving Free Services	Number of clients receiving free services from the company
Clients Provided New Access-Consumers	Number of clients (consumers) that were provided access to goods and services they could previously not access
Clients Provided New Access-Businesses	Number of clients (businesses) that were provided access to goods and services they could previously not access
Communities Served	Number of communities where the companies goods or services were available

Supplier Information	
Supplier Organizations	Number of supplier companies used
Supplier Organizations: Local	Number of local supplier companies
Supplier Organizations: Small-to-Medium Enterprises	Number of SME supplier companies
Purchases from Supplier Organizations	Payment value to supplier companies
Purchases from Supplier Organizations: Local	Payment value to local supplier companies
Purchases from Supplier Organizations: SME	Payment value to SME supplier companies
Supplier Individuals	Number of individuals selling supplies to the company
Supplier Individuals: Female	Number of female individuals selling supplies to the company

Supplier Individuals: Minorities/Previously Excluded	Number of individuals from minority groups selling supplies to the company
Supplier Individuals: Urban	Number of individuals in urban areas selling supplies to the company
Supplier Individuals: Rural	Number of individuals in rural areas selling supplies to the company
Purchases from Supplier Individuals	Total payments to individual suppliers

Distributor Information	
Microentrepreneur Distributors	Number of microentrepreneurs that distribute company goods or services
Microentrepreneur Distributors: Female	Number of female microentrepreneurs that distribute company goods or services
Microentrepreneur Distributors: Minority/Previously Excluded	Number of microentrepreneurs from minority groups that distribute company goods or services
Microentrepreneur Distributors: Rural	Number of microentrepreneurs that distribute company goods or services in rural areas
Microentrepreneur Distributors: Urban	Number of microentrepreneurs that distribute company goods or services in urban areas
Microentrepreneur Distributors Earnings	Total earnings of microentrepreneurs from selling company goods or services

Annex 3: Sample level analysis

Investment type	Country	Instrument type	EDIS at approval	EDIS at evaluation	Comments on EDIS	Catalyzing role	Additionality	ESG role
Financial Institution	Romania	Commercial loans	68	68		No	The finance offered by FMO is not available from other parties at equally appropriate conditions	Compliant with all E&S aspects, but not an active role for FMO in improving systems
Fund	Latin America Region	Equity	62	67	Higher returns to investors. Moreover, impact on investees and subsequent employment generation higher than initially forecasted	No, FMO participated in final closing and did not catalyze any other commercial funds	Limited additionality. FMO participated in final closing; JP Morgan also invested in this round. Other DFIs invested in earlier rounds	Compliant with all E&S aspects, but not an active role for FMO in improving systems
Financial Institution	Bangladesh	Commercial loans	65	59	Lower score on impact on SMEs	No	Commerical financiers were not willing to provide such long tenors to the client	Compliant with all E&S aspects, but not an active role for FMO in improving systems
Corporate / Agri	Argentina	Commercial loans	72	70	EDIS slightly lower due to deteriorating solvency	Yes, FMO catalyzed several commercial parties	In years before crisis additionality of FMO decreased due to increased liquidity. Role of FMO minimal in 2007, where commercial parties were interested in closing the deal. After the crisis additionality of FMO has renewed	Satisfactory at review, but in subsequent years social failure came to light (not spotted at evaluation, even though malpractices were occuring at time of evaluation)
Corporate	Ukraine	Commercial loans	64	45	FMO financed a production facility which is not being utilized (due to the crisis)	No	The finance offered by FMO is not available from other parties at equally appropriate conditions	FMO tried to improve, but failed due to internal resistance of the company

Sample Investments 2008-2012			FMO ex ante assessment on development impact	Commentary on *expected* development impact (feedback internal reviews & interviews Carnegie)
Russian Federation U Equity Fund/Diverse Sectors	Role FMO	Additionality	'substantial' as shortage of equity for SME in Russia and FMO equity investments will create debt leverage at investees	Plausible
		Catalytic	Not at FMO/Fund level but could be substantial at investee level	Limited to indirect effects
	Development	EDIS	2008: 64 (satisfactory) Address shortage PE capital for SME large and big companies	2012/'13: EDIS 57 en 51 (partly unsatisfactory} Mostly unsatisfactory, lower investments than expected, due to economic downturn and management change at outset
		E&S	Managers professional attitude towards E&S. Open to FMO input	Unknown. ESAPs for riskier investments, but supply of overview information from managers lagging
	Summary Development Impact		Satisfactory	Less than ex ante expectation
	Other			

Sample Investments 2008-2012			FMO assessment on development impact	Commentary on *expected* development impact (feedback internal reviews & interviews Carnegie)
Global: Africa/Asia M Equity Fund/FI	Role FMO	Additionality	File: (2009) LT growth capital is scarce for MFI/SBB's, commercial banks not interested	Interview Hans/Tim: (2013) Low additionality compared to Triodos Fairshare and Orchard
		Catalytic	No commercial, no other DFI's expected	No
	Development	EDIS	2009: 69 (satisfactory) Fund provides equity capital for MFI/SBB's, expect 900 jobs	2012: 63 (satisfactory) Score feels inflated, slow start due to problems at shareholder level. Investment pace slower than expected, expensive investment entry, write-offs 30%. FMO feels could turn-around as some promising investments
		E&S	ESMS in place at manager, roll out FMO E&S toolkit to investees	Good, in compliance
	Summary Development Impact		Satisfactory	Less than ex ante expectation
	Other			Additionality questionable

Sample Investments 2008-2012			FMO assessment on development impact	Commentary on *expected* development impact (feedback internal reviews & interviews Carnegie)
Ivory Coast L Commercial Loans Energy	Role FMO	Additionality	High. LT Commercial Finance not available in high risk country	Clear additionality
		Catalytic	No	No
	Development	EDIS	2012: 74 High impact, investment will raise power output of existing plant by 50% without increasing fuel usage	Construction in process, on target despite political unrest. Energy sector well regulated
		E&S	E&S Action plan agreed, IFC and Proparco in the lead	High standards, annual follow-up of ESAP
	Summary Development Impact		Excellent	Equal or better than ex ante expectation
	Other			

Sample Investments 2008-2012			FMO assessment on development impact	Commentary on *expected* development impact (feedback internal reviews & interviews Carnegie)
Nigeria L Commercial Loans FI	Role FMO	Additionality	High, commercial financing to support (emerging middle class) housing loans scarce	Extensive knowledge transfer with the FI, governance E&S etc
		Catalytic	None	None
	Development	EDIS	2008: 66 satisfactory	nil housing loans, according to 2013 QI's
		E&S	Limited risk but also limited impact on clients, reporting partly overdue	Little E&S impact on investees, implementation of E&S at client level overdue, willing but hard to reruit specialists
	Summary Development Impact		Satisfactory	Less than ex ante expectation
	Other		Strong relation, FMO adding value in coaching role, client employees get training at FMO	

Sample Investments 2008-2012			FMO assessment on development impact	Commentary on *expected* development impact (feedback internal reviews & interviews Carnegie)
Peru M Guarantee FI	Role FMO	Additionality	High as especially subdebt not commercially available for MFI, less so for senior	Indirectly increased as this FI had a difficult time in the last few years
		Catalytic	Expectation that KFW would be joining	None, KFW did not come in
	Development	EDIS	2009: 72 High impact, rural development, jobs	Disappointing, governance bad, impact measurement flawed, strategy focused on shareholder return
		E&S	Some impact with bank, none with investees	FMO plays owner coaching role but uphill battle
	Summary Development Impact		Excellent	Less than ex ante expectation
	Other		Strong relation, FMO adding value in coaching role, client employees get training at FMO	Despite 'only' being a debt holder, FMO taking responsibility serious, maintaining pro-active relation, working to steer the FI back on course

Sample Investments 2008-2012			FMO assessment on development impact	Commentary on *expected* development impact (feedback internal reviews & interviews Carnegie)
India L Guarantee FI	Role FMO	Additionality	High, local currency guarantee supports longer tenor funding for MFI loans	Indirectly increased as bad press will have negatively impacted availability
		Catalytic	Yes, new Citi financing due to guarantee	Usage of guarantee rather than direct lending driven by technical implementation form, no true catalytic effect shown as no new risk-sharing commercial finance attracted (according to our data)
	Development	EDIS	2009: 72 High, SKS will provide small MFI loans to poorest people	Covenant breach in 2012 and 2013. IPO leading to less focus on social mission. However, improvement in performance and still high impact hundreds of thousands microloans.
		E&S		None aspired to, due to product being a guarantee
	Summary Development Impact		Excellent	Equal or better than ex ante expectation
	Other			

Sample Investments 2008-2012			FMO assessment on development impact	Commentary on *expected* development impact (feedback internal reviews & interviews Carnegie)
China M Equity Fund/Energy	Role FMO	Additionality	Some but less than II, III, due to maturity of market	Yes but commercial and other reasons (cutting edge clean technology) also playing important role
		Catalytic	High, FMO managed to pull in large dutch institutional investors	Clear catalytic success
	Development	EDIS	2010: 63 China is not focus but clean tech sector is, jobs created, also link with roll-out of new technology in Africa etc	Somewhat below target due to crisis but no major problems
		E&S	Limited role, Manager has top notch ESMS after CEF II and III	Limited added value FMO
	Summary Development Impact		Satisfactory	Equal or better than ex ante expectation
	Other			

Sample Investments 2008-2012			FMO assessment on development impact	Commentary on *expected* development impact (feedback internal reviews & interviews Carnegie)
Africa L Equity Fund/Diverse Sectors	Role FMO	Additionality	Not financially but DFI's take the lead in E&S and knowledge (DEG in the lead)	Limited additionality, impression that Fund is not channeling additional (new) finance but mostly buying out first round PE investors. FMO decided not to partake in ADP II
		Catalytic	None, but indirect some, FMO provided comfort when Dubai pulled out	Indirect and marginal effect
	Development	EDIS	2008: 64 Not huge, Investments in LIC but not LIC, but commercially driven, and for co-inv opps	2013: 54 Results good but LIC focus disappointing and Fund also seems to be focused on large deals
		E&S	FMO influence limited due to small stake <5%	FMO contribution limited, other DFIs in the lead but E&S results achieved
	Summary Development Impact		Satisfactory	Less than ex ante expectation
	Other			FMO Role very limited, financial reasons and co-investment opportunities played a role in investment decision

Sample Investments 2008-2012			FMO assessment on development impact	Commentary on *expected* development impact (feedback internal reviews & interviews Carnegie)
Mongolia L Commercial Loans Energy	Role FMO	Additionality	Substantial, no commercial LT financing would be available for this project.	Clearly substantial
		Catalytic	None, DFIs only	None, FMO was catalyzed by EBRD
	Development	EDIS	2010: 82 Very high coalwashing plant increase value of coal and buildup infrastructure	Crisis has impact but project expected to come through. EDIS rationale very strong
		E&S	EBRD, DEG and FMO jointly supporting ESG	Good result, EBRD deriving comfort from DEG and FMO. Community projects for employees, schools, nursery and training.
	Summary Development Impact		Excellent	Equal or better than ex ante expectation
	Other			

Sample Investments 2008-2012			FMO assessment on development impact	Commentary on *expected* development impact (feedback internal reviews & interviews Carnegie)
Latin American Region M Commercial Loans FI	Role FMO	Additionality	Strong, subdebt not commercially available	Strong, 10 year commercial financing is additional
		Catalytic	Direct by pulling in other DFI's, indirect by allowing investee banks to attract financing	Marginal. Allowing leverage at investee level is not counted as catalytic
	Development	EDIS	2008: 65 Typical FI investment with multiplier effect on member banks SME and consumer finance	Satisfactory through crisis
		E&S	Strong impact on governance and implementation of ESMS in member banks	Governance hard work but results made. FMO Leadership and coaching role (E&S but also ALM expertise) valuable
	Summary Development Impact		Satisfactory	Equal or better than ex ante expectation
	Other			

Annex 4: Sample

Sample with effective date after 2008

Number	Region	Country	Country classification	Instrument type	Sector	Signing date	Amount (committed)
1	EUROPE & CENTRAL ASIA	RUSSIAN FEDERATION	U	EQUITY	Financial Sector - Private Equity Funds	8/27/2008	16,142,294
2	GLOBAL	GLOBAL	M	EQUITY	Financial Sector - Private Equity Funds	12/21/2009	5,349,966
3	AFRICA	IVORY COAST	L	COMMERCIAL LOANS	Energy	10/18/2012	28,061,128
4	AFRICA	NIGERIA	L	COMMERCIAL LOANS	Financial Sector - Financial Institutions	12/10/2008	17,379,214
5	LATIN AMERICA & THE CARIBBEAN	PERU	M	COMMERCIAL LOANS	Financial Sector - Financial Institutions	12/18/2009	3,059,811
6	ASIA	INDIA	L	GUARANTEE	Financial Sector - Financial Institutions	8/2/2010	9,786,180
7	ASIA	CHINA	M	EQUITY	Energy	7/26/2011	11,443,599
8	AFRICA	AFRICA	L	EQUITY	Financial Sector - Private Equity Funds	11/20/2009	10,314,236
9	ASIA	MONGOLIA	L	COMMERCIAL LOANS	Diverse Sectors	8/11/2010	25,230,137
10	LATIN AMERICA & THE CARIBBEAN	LATIN AMERICAN REGION	M	COMMERCIAL LOANS	Financial Sector - Financial Institutions	12/9/2008	22,430,745

Sample with effective date before 2008

Number	Region	Country	Country classification	Instrument type	Sector	Signing date	Amount (committed)
1	EUROPE & CENTRAL ASIA	ROMANIA	L	COMMERCIAL LOANS	Financial Sector - Financial Institutions	11/15/2006	12,000,000
2	ASIA	PHILIPPINES	M	EQUITY	Diverse Sectors	11/7/1988	445,498
3	LATIN AMERICA & THE CARIBBEAN	GUATEMALA	M	COMMERCIAL LOANS	Diverse Sectors	3/28/2007	21,505,376
4	LATIN AMERICA & THE CARIBBEAN	LATIN AMERICAN REGION	M	EQUITY	Financial Sector - Private Equity Funds	12/17/2007	12,285,181
5	AFRICA	AFRICAN REGION	L	COMMERCIAL LOANS	Financial Sector - Financial Institutions	5/22/2006	13,903,372
6	ASIA	BANGLADESH	L	COMMERCIAL LOANS	Financial Sector - Financial Institutions	1/2/2007	5,206,501
7	LATIN AMERICA & THE CARIBBEAN	ARGENTINA	U	COMMERCIAL LOANS	Agribusiness	8/25/2004	22,430,745
8	EUROPE & CENTRAL ASIA	GEORGIA	L	TRADE FACILITY GUARANTEE	Financial Sector - Financial Institutions	8/23/2004	5,000,000
9	AFRICA	UGANDA	L	COMMERCIAL LOANS	Diverse Sectors	12/21/2007	41,030,928
10	EUROPE & CENTRAL ASIA	UKRAINE	M	COMMERCIAL LOANS	Diverse Sectors	11/26/2007	17,500,000