FMO

Entrepreneurial
Development
Bank

PARTNERSHIP DEVELOPMENT FACILITY

Annual report

2019

The Partnership Development Facility builds partnerships with Dutch companies to develop high-impact projects in the agri-food, water and climate sectors in emerging markets.

Government of the Netherlands

FMO manages the following funds on behalf of the Dutch government: MASSIF, Building Prospects, the Access to Energy Fund (AEF), the Dutch Fund for Climate and Development (DFCD), FOM, FOM-OS, B-CD, Partnership Development Facility (PDF) and Development Accelerator (DA). The total committed portfolio of these funds (excluding grants) amounts to € 1,207.5 mln as per December 31, 2019. The term "fund" as used in this annual report refers to a program in the form of a subsidy received from the Dutch government that is managed by FMO, unless reference is made to an investment made under a program.

We create partnerships leading to shared value for both Dutch businesses and for the development in emerging markets

LETTER FROM THE EXCO OF THE FUND MANAGER

Dear reader,

2019 was a rough year for global development cooperation and climate action. The Madrid climate conference ended in an agreement to disagree and postpone a future consensus. Despite scientific reports that the window of opportunity for meaningful climate action is closing, nations have not been able to muster the strength to act as one community in charge of saving the global commons.

Against this backdrop of multilateral strain and rising systemic risks, the global community continued its efforts to attain the Sustainable Development Goals of the 2030-Agenda. Despite signs of progress, investments needed to overcome the USD 2.5 trillion financing gap are still lagging, particularly in fragile states, in climate adaptation and in the human development sectors such as health and education. At the time of publication of this report, these concerns are compounded by the COVID-19 pandemic in the first months of 2020. The expectation is that the world will face the worst recession since the Great Depression, due to the abrupt halt in economic activity in the last months. More than ever, there is a need for channels such as the FMO-managed state funds to play a counter-cyclical role and help address the global challenges of inequality and climate change.

The Partnership Development Facility (PDF) addresses part of this financing gap by building partnerships with Dutch companies to develop high-impact projects in emerging markets. As it remains difficult to find early- stage development capital for project development, PDF aims to catalyze the development of impact projects with the Dutch business community in the agri-food, water and climate sectors.

In 2019, PDF signed contracts for five new projects in Indonesia, Ethiopia, Zambia and Myanmar. The investments include projects in renewable energy, two wastewater treatment projects, and a project in food security. Once these projects will reach the financing stage, impact on the SDGs will become effective.

The Flying Swans Consortium, financed by the PDF, made good progress in 2019 by formalizing the partnership for the development of a national cool logistics network in Ethiopia and South Africa. This will improve logistical links for export, benefitting both commercial farms and smallholder farmers.

We thank all our stakeholders for their continuous support, including our clients and investors, the Dutch Ministries of Finance and Foreign Affairs, the NGOs that help us to improve and our colleagues for giving their best every day.

The Hague, 8 May 2020

On behalf of the Executive Committee

Fatoumata Bouaré, Chief Risk & Finance Officer
Linda Broekhuizen, Chief Investment Officer
Peter van Mierlo, Chief Executive Officer

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AT A GLANCE

The Partnership Development Facility (PDF) was approved in November 2016 by the Ministry of Foreign Affairs. The facility is funded by the Directorate General International Cooperation (DGIS) through the returning cashflows of FOM-OS and is managed by FMO’s NL Business. The core activity of the facility is to build partnerships with Dutch companies to develop high-impact projects in the agri-food, water and climate sectors in emerging markets.

The activities of the Partnership Development Facility comprise two main components. The first component is related to the general project development activities of FMO's Project and Partnerships Development team. Here FMO acts as the financial co- developer as well as the fund manager. The second component is related to the activities of the Flying Swans Consortium, consisting of Port of Rotterdam, Boskalis and Mercator Novus. FMO- NL Business acts as the fund manager.

Achievements portfolio as per 31-12-2019

Total Projected Fund Capital
(2022)

€14.6mln

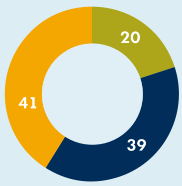
Committed Amount (2019)
Project & Partnership Development (PPD)
€1.6mln

Committed Amount (2018-2019)
Project & Partnership Development (PPD)
€2.0mln

Committed Amount (2018-2022)
Flying Swans Consortium (FSC)
€7.7 mln

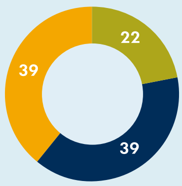
Committed Amount (2018-2019) PPD

Portfolio by project phase
(in %)



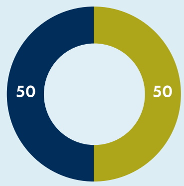
- Pre-feasibility
- Feasibility
- Structuring

Portfolio by sector
(in %)



- Water
- Climate
- Agri-Food

Portfolio by region
(in %)



- Africa
- Asia

Project & Partnership Development (PPD)

7
Active projects

5
Newly contracted projects 2019

3
Water Projects

3
Climate Projects

1
Agri-Food Project

Active Portfolio
€2.0mln

Disbursed Amount 2019
€0.6mln

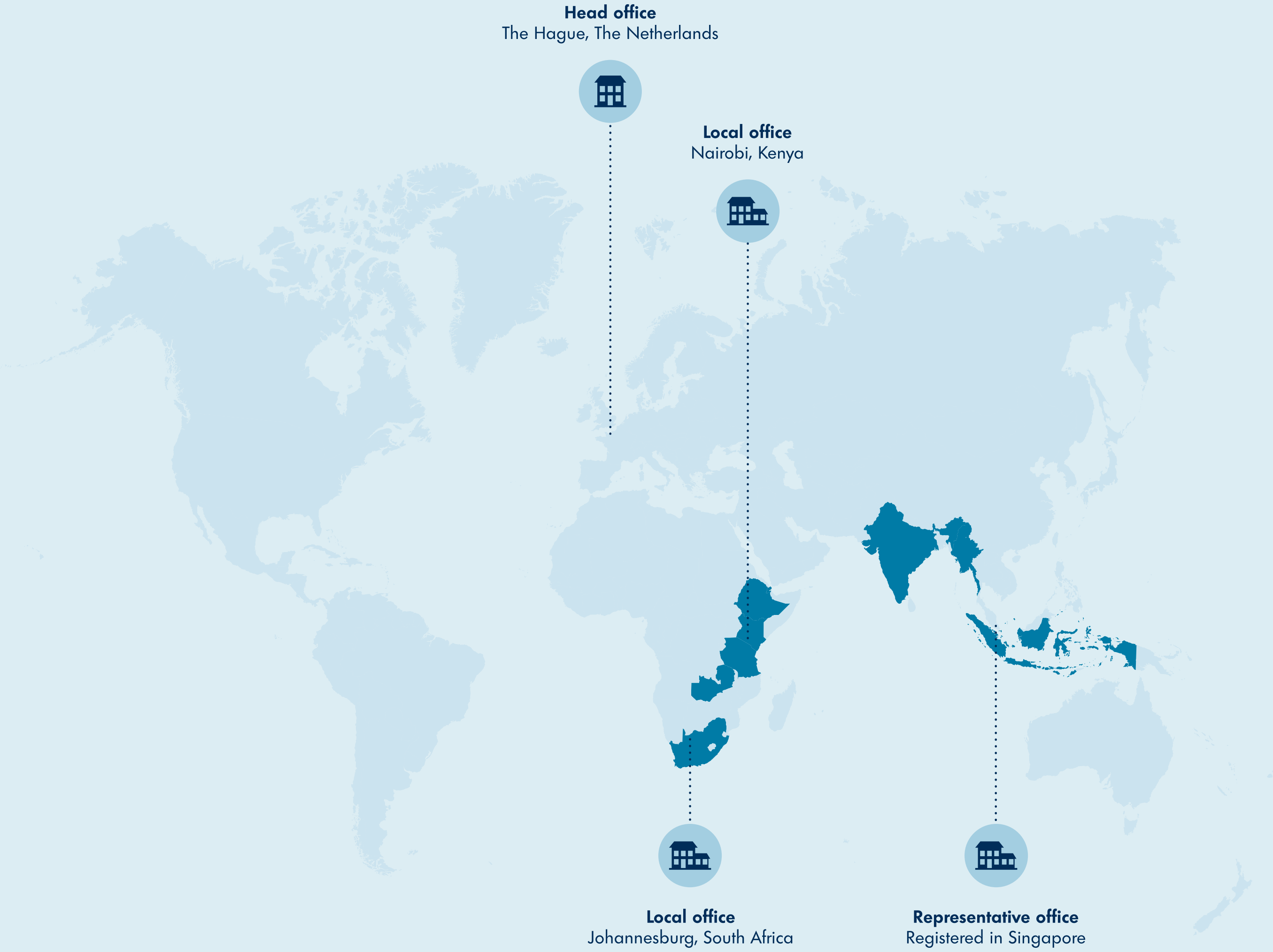
Average Project Value
€0.3mln

Flying Swans Consortium (FSC)

Number of projects in the pipeline
10

Committed amount
€7.7 mln

Disbursed Amount 2019
€1.2mln


Head office
The Hague, The Netherlands
Local office
Nairobi, Kenya
Local office
Johannesburg, South Africa
Representative office
Registered in Singapore

PERFORMANCE ON OUR STRATEGY

Highlights

In 2019, the FMO Project and Partnership Development team contracted five new projects with a value of EUR 1.6 million in the agri-food, water and renewable energy sectors. A total of EUR 0.6 million was disbursed during the year for projects in Ethiopia, Indonesia, Myanmar and Zambia. At year-end PDF had seven active projects in portfolio amounting to EUR 2.0 million.

The Flying Swans consortium identified four projects in Ethiopia and six in South Africa that will move to the feasibility phase. The project portfolio in Tanzania is still in the pre-feasibility phase. The consortium received EUR 1.2 million in funding from PDF for project development during the year.

The total fund capital anticipated to be available for PDF for the period 2017-2022, is approximately EUR 14.6 million and will depend on the cash flows coming from FOM-OS. EUR 6.9 million is available for the project development activities and reimbursement of management costs for FMO-NL Business. EUR 7.7 million is available for the project development activities of the Flying Swans Consortium.

In 2019, a major milestone was the successful finalization of the feasibility phase for a water supply project in Myanmar. The project will now move to the financing phase where a consortium of Dutch companies will both construct and finance the project.

Overview new projects 2019:

- **Gula Gula Food Forest (Indonesia)**
  Development capital was provided to Co2 Operate B.V., a Dutch social enterprise that has succesfully restored 200 hectares of degraded forest in Sumatra financed by carbon off setting revenues. The project brings back tree cover to restore ecosystem functions on the degraded slopes, including increased water catchment and reduction of sedimentation. The funding provided by the DA is used for the business plan preparation to scale-up to 5,000 hectares.
- **Kafue Wastewater Treatment Plant (Zambia)**
  In partnership with WWF, bankable projects will be identified that promote green industrial wastewater solutions in Zambia. The aim is to match the projects with interested Dutch technology providers.
- **Industrial Wastewater Treatment Plant (Myanmar)**
  In partnership with WWF, bankable projects will be identified that promote green industrial wastewater solutions in Myanmar. The aim is to match the projects with interested Dutch technology providers.
- **Tidal Energy for Development (Indonesia)**
  Development capital was provided to Tidal Bridge B.V. to conduct a feasibility study for a tidal energy bridge between the islands of Flores and Adonara in Indonesia. The bridge will improve the standard of living and the self-sufficiency of the region, by providing easier access to markets, healthcare and education. Besides the social impact, the floating bridge will produce renewable tidal energy for the local communities.
- **Groundwork Ethiopia (Ethiopia)**
  Development capital was provided to DSM International B.V. to establish a partnership with a reputable local company in Ethiopia for the production of fortified nutritious food for children and mothers to combat malnutrition. The funds are used to hire on-the ground external staff to work on project operational, technical and commercial viability of the partnership, stakeholder management and preparation of any partnership agreements.

Flying Swans Consortium

The Flying Swans consortium is a Dutch cross-industry coalition that develops logistical corridors in emerging markets with the aim to unlock the market potential for export of mainly fruit and vegetables. Development impact is the main goal of the Flying Swans prgram. While the impact comes in many shapes and forms in the stages of the supply chain, addressing SDG 2 (Zero Hunger), SDG 8 (Decent work) and SDG 12 (Climate action) are at the core of the Flying Swans projects.

In 2019, the Flying Swans made significant progress on two major projects in the portfolio. In Ethiopia a memorandum of understanding was signed to formalize the multi-annual partnership to develop a National Cool Logistics Network in the country. A steering committee was established to oversee the cool logistic project development chaired by the Minister of Transport and includes all relevant stakeholders at the highest level.

In South Africa, the Flying Swans are looking to change the supply chain of fruits and promote the modal shift from transport via road to rail. This shift will reduce the supply chain's CO2 emissions by 60-90%. In 2019 the Flying Swans formalized a multi-annual partnership with Transnet and Fruit SA. One of the identified projects will be to promote smallholders to participate in the newly developed supply chain infrastructure.

The signing of the memorandum of understanding in Ethiopia and South-Africa signifies the start of the project structuring phase. Within the framework of this new phase the consortium members in close collabaration with FMO- NL Business, in its capacity as Fund Manager, reviewed the governance structure of the Flying Swans program. The review resulted in an upgrade of the organisation by establishing a dedicated legal entity responsible for the project development activities, Stichting Flying Swans. The operational capacity of the program has also been strengthened with the hiring of a manager Financial Control, a Project Developer and a Senior Agro Project Manager. GroentenFruit Huis transferred its responsibilties as contracting agency to the new entity and will have a new role as associated partner, enabling them to better fulfill their role as knowledge network partner to the program.

FMO-NL Business is chairing the Project Assessement Committee (PAC), consisting of 4 members, of which two independent members. The PAC approves the program's annual budget and activity plan, the annual accounts and provides approval before the start of any main phase or sub-phase for the projects in the portfolio. In 2019 the PAC met three times.

Projects finalized

In 2019 the project in Nakuru - providing clean drinking was finalized and will be monitored for progress to the feasibility phase:

NAKURU - PROVIDING CLEAN DRINKING WATER
FMO and the Dutch Water Utility Vitens Evides International jointly funded a pre-feasibility study for the expansion and rehabilitation of the water distribution network of the Nakuru catchment area in Kenya. The pre-feasibility study proposed measures to reduce water losses, to decrease the Non-Revenue Water percentage and to enhance sales through new house connections and water tariff increments. The study has been finalized in 2019 enabling the project to progress to the feasibility phase, with the Rift Valley Water Services Board as a counterparty.

Develop Bankable Projects for Clean Water

Who is our client?

PDF supports Stichting Het Wereld Natuur Fonds-Nederland (WWF) to identify innovative investment opportunities to promote green industrial wastewater treatment solutions in the Irrawaddy and Kafue river basins in Myanmar and Zambia, respectively.

Funding objective

Like most countries, Myanmar and Zambia are facing deteriorating water risks with their rivers and freshwater resources under ever-increasing stress. They urgently need to increase private sector investment in sustainable water projects to improve water security, support economic growth and enhance the health of their river basins.

Both countries face a major stumbling block – not a lack of private sector funds but a lack of viable, sustainable and bankable water projects for companies and financial institutions to invest in. This is partly due to a lack of environmental law enforcement, leading to unwillingness to invest on the side of the private sector. Which is why WWF, the world's largest independent nature conservation organization, has spent considerable time with the private sector in these countries to promote water-stewardship and push for reforms from the private sector. The ongoing pre-feasibility studies aim to identify bankable industrial waste-water treatment solutions, and to provide matchmaking services with the Dutch water technology providers. The pre-feasibility studies aim to select several projects that can be brought to the feasibility phase.

Why we fund this project?

Through this innovative partnership, a pipeline of bankable projects will be created for Dutch companies to potentially take forward – projects that will benefit the people and nature in Myanmar and Zambia and generate a solid financial return.

PDF investment | EUR 350,000

Instrument | development contribution

Country | Zambia & Myanmar

SDG | 6 and 12

Tidal Energy for development in Indonesia

Who is our client?

PDF supports the Dutch company Tidal Bridge BV with the development of a tidal bridge with turbines for renewable energy generation, between the islands of Flores and Adonara in the East Flores region in Indonesia.

Funding objective

With co-financing provided by PDF, the environmental and social impact assessment for the tidal bridge will be conducted to ensure that the bridge will adhere to both the Indonesian environmental impact standards (AMDAL) and the IFC Performance standards for environmental & social impact.

Why we fund this project?

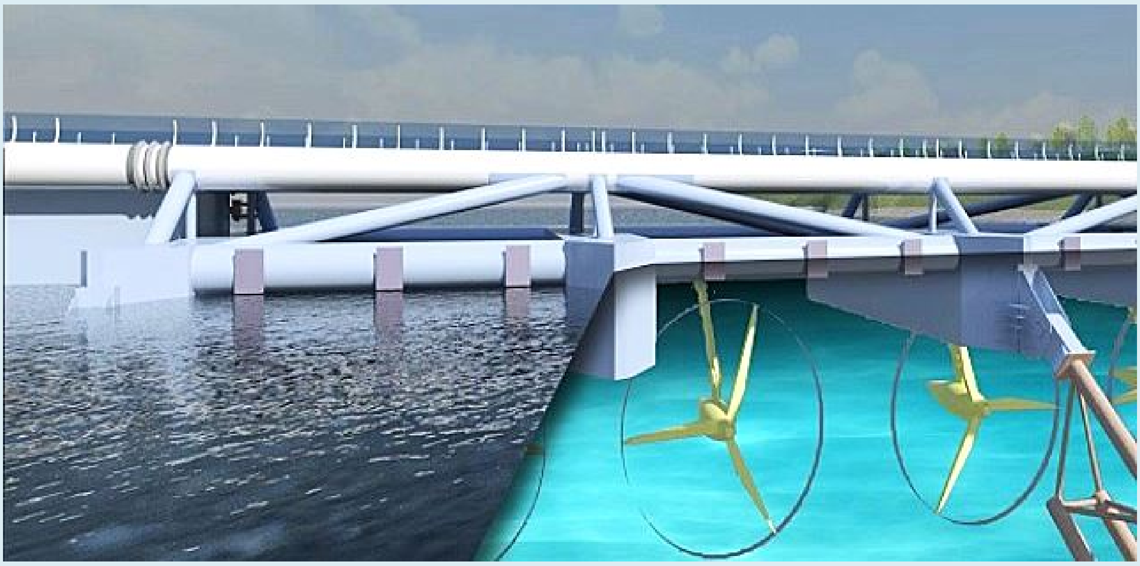
The realisation of the bridge aims to not only improve the standard of living and the self-sufficiency of the region, by providing easier access to markets, healthcare, education, but also to provide access to renewable energy in a very remote area of the country.

PDF investment | EUR 400,000

Instrument | development contribution

Country | Indonesia

SDG | 9 and 13



Groundwork for expansion into Ethiopia

Who is our client?

PDF supports DSM International B.V with a contribution for the groundwork preparation of DSM's entry into the Ethiopian market.

Funding objective

With the co-financing of PDF, DSM aims to establish a partnership with a reputable local company in Ethiopia for the production of fortified nutritious food for children and mothers to combat malnutrition. The funds are used to hire on-the-ground external staff to work on the operational, technical and commercial viability of the partnership, stakeholder management and preparation of a partnership agreement.

Why we fund this project

The investment will have substantial developmental impact, addressing Sustainable Development Goal 2 – Zero Hunger. DSM plans to invest in the local production of fortified nutrition for children and pregnant and lactating women to fight chronic malnutrition (vitamin deficiency) among young children. The intention with the expansion into Ethiopia, is to add the Government of Ethiopia to its client base and to open a new market for production. Furthermore, the local company will sell directly to a retail customer base in Ethiopia, through the partnership with a local company.

PDF investment | EUR 832,280

Instrument | development contribution

Country | Ethiopia

SDG | 2

INTERNATIONAL PRINCIPLES

EQUATOR PRINCIPLES	**Equator Principles** We have been implementing the Equator Principles (EP) since 2006. This risk management framework provides financial institutions with a minimum standard for due diligence and monitoring to determine, assess and manage environmental and social risks in projects. Our annual EP report is available online.	Signatory
IFC International Finance Corporation WORLD BANK GROUP	**IFC Performance Standards** Our E&S approach is guided by the IFC Performance Standards of Environmental & Social Sustainability. This framework helps us understand, avoid and mitigate E&S risks and impacts, for example through stakeholder engagement and disclosure obligations of the client in relation to project-level activities.	Adopter
OECD Guidelines for Multinational Enterprises RECOMMENDATIONS FOR RESPONSIBLE BUSINESS CONDUCT IN A GLOBAL CONTEXT	**OECD Guidelines** We follow OECD Guidelines on responsible business conduct, notably human rights, labor rights and the environment.	Adopter
UNITED NATIONS HUMAN RIGHTS OFFICE OF THE HIGH COMMISSIONER	**UN Guiding Principles on Business and Human Rights** We integrate the set of guidelines defined by the UN for states and companies to prevent, address and remedy human rights abuses in business operations.	Adopter
International Labour Organization	**ILO Standards** We follow the set of ILO legal instruments that set out basic principles and rights at work.	Adopter
	Dutch Banking Agreement (IMVO Covenant) We signed the Dutch Banking Sector Agreement on International Responsible Business Conduct Regarding Human Rights to analyze value chains of specific sectors and share practices on human rights.	Signatory
GIIN GLOBAL IMPACT INVESTING NETWORK	**Global Impact Investing Network** We support the GIIN because it is dedicated to increasing the scale and effectiveness of impact investing through knowledge sharing, best practice exchanges, and tools / resources production.	Member
SUSTAINABLE DEVELOPMENT GOALS Charter	**Sustainable Development Goals Charter** We joined the SDG Charter Network to foster cooperation between business, civil society and local governments in the Netherlands, in order to achieve the SDGs at home and abroad.	Signatory
IMPACT MANAGEMENT PROJECT	**Impact Management Project** We joined and support the IMP, a forum for building global consensus on how to measure, manage and report impact and for sharing best practices.	Member
Natural Capital Declaration Financial sector leadership on natural capital	**Natural Capital Finance Alliance** We closely follow the developments of the NCFA initiative to integrate natural capital considerations into loans, public and private equity, and fixed income and insurance products.	Signatory
UNEP Finance Initiative Changing finance, financing change	**UNEP FI / EBF Working Group on Banking and Taxonomy** We are part of the UNEP Finance Initiative / European Banking Federation Working Group that assesses how the EU Taxonomy on Sustainable Activities can be implemented by banks and applied to selected banking products.	Member

Dutch Climate Accord We signed the financial sector commitment to fight climate change and support the Dutch Climate Accord to achieve a 49% CO_2 reduction by 2030 in the Netherlands.	Signatory
Mainstreaming climate action in financial institutions We are following the five principles of the Climate Action in Financial Institutions Initiative. This coalition of public and private financial institutions aims to enhance integration of climate change considerations across their strategies, programs and operations.	Signatory
Platform for Carbon Accounting Financials We are one of the early adopters of PCAF, an industry-led global partnership to develop and implement a harmonized approach to assess and disclose GHG emissions of loans/ investments. This facilitates transparency and accountability of the financial sector to the Paris Agreement.	Signatory
NpM Platform for Inclusive Finance As a member of the NpM platform for Dutch inclusive finance investors, we are expanding access to affordable financial services worldwide and increasing the effectiveness of our investments and activities.	Member
Consultative Group to Assist the Poor We are part of the CGAP global partnership to test, learn and share knowledge intended to help build inclusive and responsible financial systems.	Member
European Microfinance Platform We are part of the e-MFP network to foster activities that increase global access to affordable, quality, sustainable and inclusive financial services for the un(der)banked through knowledge-sharing, partnership development and innovation.	Member
Emerging Market Private Equity Association We are a member of the global EMPEA association. This aims to catalyze the development of private equity and venture capital industries in emerging markets through research, conferences, networking, and advocacy.	Member
Corporate Governance Development Framework We adopted the Corporate Governance Development Framework as a common approach to corporate governance risks and opportunities in DFI investment operations.	Adopter
Financial Action Task Force We use the FATF framework to combat money laundering and terrorism financing, as well as the proliferation of weapons of mass destruction.	Adopter
For our own operations, we maintain the following standards: - MVO Prestatieladder - The Gold Standard	Signatory

Statement of financial position

	Notes	2019	2018
Assets			
Banks	(1)	833	660
Total assets		**833**	**660**
Fund capital			
Contributions DGIS - FOM OS previous years		4,379	1,804
Contributions other donors previous years		235	235
Contributions DGIS - FOM OS current year		2,300	2,575
Contribution other donors current year		129	-
Total contribution DGIS and other donors		**7,043**	**4,614**
Other reserves			
Undistributed results previous years		-3,954	-1,539
Net profit/(loss)		-2,256	-2,415
Total fund capital		**833**	**660**
Total liabilities and Fund Capital		**833**	**660**
Irrevocable facilities		**1,454**	**711**
Total subsidy received from DGIS - FOM OS		**6,679**	**4,379**
Total subsidy received from DGIS - Other donors		364	235

Statement of comprehensive income (loss)

	Notes	2019	2018
Expenses			
Remuneration FMO		-483	-1,033
Development capital expenses		-1,765	-1,382
Other operating expenses		-8	-
Total operating expenses	**(2)**	**-2,256**	**-2,415**
Net profit/(loss)		**-2,256**	**-2,415**
Other comprehensive income			
Total other comprehensive income		-	-
Total comprehensive income/(loss)		**-2,256**	**-2,415**

Statement of changes in fund capital

At December 31, 2019

	Contributions	Undistributed results previous years	Net profit/ (loss)	Total fund capital
Balance at January 1, 2018	2,039	-1,539	-	500
Contributions FOM-OS	2,575	-	-	2,575
Contributions other donors	-	-	-	-
Results current year	-	-	-2,415	-2,415
Net balance at December 31,2018	**4,614**	**-1,539**	**-2,415**	**660**
Balance at January 1, 2019	**4,614**	**-3,954**	**-**	**660**
Contributions FOM-OS	2,300	-	-	2,300
Contributions other donors	129	-	-	129
Results current year	-		-2,256	-2,256
Net balance at December 31,2019	**7,043**	**-3,954**	**-2,256**	**833**

Statement of cash flows

	Notes	2019	2018
Cash from operating activities			
Outflows			
Disbursements on development capital costs	(2)	-1,765	-1,382
Other paid amounts	(2)	-8	-
Net cash from operating activities		**-1,773**	**-1,382**
Cash flow financing activities			
Inflows			
Contribution DGIS (FOM-OS) current year		2,300	2,575
Contribution other donors		129	-
Outflows			
Remuneration FMO	(2)	-483	-1,033
Net cash from financing activities		**1,946**	**1,542**
Net change in cash & cash equivalent		**173**	**160**
Position of cash at January 1		660	500
Position of cash at end of period		833	660

Summary of accounting policies

Basis of preparation

The annual accounts have been prepared in accordance with special purpose generally accepted accounting principles ("GAAP"). The accounts have been prepared under the historical cost convention.

Significant estimates and assumptions and judgements

In preparing the annual accounts management is required to make estimates and assumptions affecting reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and application of judgment is inherent to the formation of estimates. Although these estimates are based on management's best knowledge of current events and actions, actual results could differ from such estimates and the differences may be material to the annual accounts. In the preparation of the annual financial statements no significant estimates or judgements were required.

Foreign currency translation

The Fund uses the euro as the unit for presenting its annual accounts. All amounts are denominated in thousands of euros unless stated otherwise. Foreign currency transactions are translated to euro at the exchange rate prevailing on the date of the transaction. At the balance sheet date, monetary assets and liabilities are reported using the closing exchange rate. Non-monetary assets that are not measured at cost denominated in foreign currencies are reported using the exchange rate that existed when fair values were determined. Exchange differences arising on the settlement of transactions at rates different from those at the date of the transaction and unrealized foreign exchange differences on unsettled foreign currency monetary assets and liabilities, are recognized in the profit and loss account under 'results from financial transactions' when necessary.

Offsetting financial instruments

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

Fair value of financial instruments

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

Amortized cost and gross carrying amount

The amortized cost ("AC") of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance. The *gross carrying amount* of a financial asset is the AC of a financial asset before adjusting for any expected credit loss allowance.

Development capital costs

Development capital contributions that do not contain performance obligations or stipulations are recognized as an expense in the period incurred.

Contributions under enforceable agreements with performance obligations and multi-year contracts with conditions attached are recognized on an accrual basis as the performance obligations are satisfied.

In certain instances, conditions are attached to these contributions whereby the amount distributed becomes repayable with a premium upon meeting the attached conditions. A contribution receivable meets the definition of an asset if the Fund has the ability to control the resource and future economic benefits are expected to arise from the resource. As a result, the accounting treatment of the financial asset with regards to recognition and measurement is based on accounting policies for financial assets set out below.

Classification of Financial Assets

On initial recognition, a financial asset is classified as measured at AC, FVOCI or FVPL.

A financial asset is measured at AC if it meets both of the following conditions and is not designated as at FVPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVPL:

- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

For equity investments that are not held for trading an irrevocable election exists (on an instrument-by-instrument basis) to present subsequent changes in fair value in OCI.

All financial assets not classified as measured at AC or FVOCI as described above are measured at FVPL. In addition, on initial recognition The Fund may irrevocably designate a financial asset that otherwise meets the requirements to be measured at AC or at FVOCI as at FVPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset is initially measured at fair value plus, for an item not at FVPL, transaction costs that are directly attributable to its acquisition.

Business model assessment

The Fund has made an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information that is considered includes:

- How the performance of the portfolio is evaluated and reported to management of the Fund;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Fund stated objective for managing the financial assets is achieved and how cash flows are realized.

Financial assets whose performance is based on a fair value basis are measured at FVPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Financial assets can be only reclassified after initial recognition in very infrequent instances. This happens if the business model for managing financial assets has changed and this change is significant to the Funds operations.

Cash and cash equivalents

Cash and cash equivalents consist of bank balances and the current account maintained with FMO. There is no restriction on these financial instruments and the Fund has on demand full access to the carrying amounts.

Fund Capital

This special purpose reserve contains the capital provided by the State to finance the investments and contributions.

Undistributed results previous years

The undistributed results consist of the part of the annual results that the Fund is accumulating to maintain the revolvability of the Fund.

Interest income and expense

Interest income and expense are recognized in the profit and loss account for all interest-bearing instruments on an accrual basis using the 'effective interest' method based on the fair value at inception. Interest income and expense also include amortized discounts and premiums.

Statement of cash flows

The statement of cash flows from operations are presented using the direct method.

Taxation

The PDF programme contributes to the overall income of the Ministry of Foreign Affairs and this income is considered business income subject to corporate income tax. No separate tax calculation is performed for PDF in the preparation of the annual financial statements. The results of the Fund are included in the Ministry's overall calculation of tax payable. The Ministry's overall calculation of tax payable is not allocated back to the Fund as an expense.

Notes to the annual accounts

1. Banks

	2019	2018
Banks	833	660
Balance at December 31	**833**	**660**

The cash on bank accounts can be freely disposed of.

2. Operating expenses

	2019	2018
Remuneration FMO	-483	-1,033
Development capital expenses	-1,765	-1,382
Other operating expenses	-8	-
Total operating expenses	**-2,256**	**-2,415**

Development capital expenses relate contributions paid to beneficiaries in terms of the fund's objectives.

3. Off-Balance sheet information

	2019	2018
Contractual commitments for disbursements of:		
Grants	1,454	711

Off balance sheet commitments relate to development capital contracts which have potential future disbursements.

4. Related party information

Dutch Government

The Dutch Ministry of Foreign Affairs, Directoraat-generaal internationale Samenwerking sets up and administers the investments funds (“State Funds”), including Project Development Facility, according to the Dutch Government’s development agenda. Directoraat-generaal internationale Samenwerking is the main contributor to Project Development Facility, providing funding upon FMO’s request (2019: € 2,300; 2018; € 2,575).

Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (“FMO”)

The Dutch development bank FMO supports sustainable private sector growth in developing and emerging markets by leveraging its expertise in agribusiness, food & water, energy, financial institutions, Dutch business focus areas to invest in impactful businesses. FMO is a public-private partnership, with 51% of FMO’s shares held by the Dutch State and 49% held by commercial banks, trade unions and other members of the private sector. FMO has a triple A rating from both Fitch and Standard & Poor’s.

FMO has been entrusted by the Dutch Government to execute the mandates of the State Funds: Currently MASSIF, Building Prospects, Access to Energy – I, FOM, FOM-OS, Development Accelerator, Partnership Development Facility, Dutch Fund for Climate and Development Land Use Facility are under FMO’s direct management; the execution of Access to Energy – II and the other facilities of the Dutch Fund for Climate and Development are performed by third parties under FMO’s supervision.

FMO charges a management fee to the Dutch Ministry of Foreign Affairs and it is reimbursed accordingly from Project Development Facility’s subsidy amount (2019: € 483; 2018: € 1,033).

5. Subsequent events

There has been no significant subsequent event between the balance sheet date and the date of approval of these accounts which should be reported by the Fund.

The current COVID-19 outbreak most likely impacts the global economy and the Fund's performance. Given the uncertainties, ongoing developments and measures taken by governments around the globe, the Fund cannot estimate the quantitative impact in an accurate and reliable way at this point in time.

Risk management

The Partnership Development Facility-PDF (the Fund) aims to optimize development impact by providing early stage capital for projects in the Agri- food, water and climate sectors in DGCF countries. FMO, acting as the Fund Manager, has a risk management system in place to identify, measure, monitor and mitigate financial and non- financial risks. The Fund provides financing in form of development contribution and its capital structure is based on cashflows from FMO-OS. As such, the Fund is not exposed to financial risk. In this respect, FMO's processes for risk management are used as a starting point and adjusted where necessary.

Total contribution from FOM-OS is € 4,875 at 31 December 2019 (31 December 2018: € 2,575). For the year 2019, the contribution from FOM-OS was € 2,300 (2018: € 2,575). Total fund capital – which is the sum of the contribution by the government, less cumulative distributions, as well as net profits and losses from previous years and from the current year, – was € 833 in 2019 (2018: € 660).

The key aspect for successful operation of the Fund is selection of projects with the potential to be turned into financeable long-term solutions. When investigating investment opportunities, the Fund follows a structured approach consistent with its Investment Criteria. The Fund Manager, together with the Manager of the Project and Partnership Development team, reviews each transaction and provides an initial approval for an eligible project to be taken up on the pipeline and reviews whether the financial proposal is in line with the Fund's Investment Criteria. The Engagement Committee, comprising of senior representatives of FMO NL Business, reviews and approves the financial proposals for every new transaction and asseses wether the proposal is in accordance with the Fund's investment criteria and startegic composition of the project portfoio. Each financial proposal is furthermore assessed in terms of specific counterparty risk, performance risk, reputational risk, environmental and social risk as well as country risk. All financial proposals are accompanied by the advice of the Fund Manager and the Environmental and Social Officer.

The Fund can co-finance up to 50% of the project costs needed to advance early stage projects. Funding can be used either for analyzing and identifying the needs and potential of a project, assessing the feasibility of a project, pilot testing or supporting the procurement process. Beneficiaries of the Fund can either be Dutch businesses or project sponsors (public or private) in emerging markets. Together with the project developer, FMO NL Business experts engage in different stages of a project, with a focus on the impact and financeability of the project in order to increase the probability of materialization of the project.

Counterparty credit risk

Counterparty credit risk in the treasury portfolio is the risk that the Fund will suffer economic losses because a counterparty fails to fulfill its financial or other contractual obligations from open positions in the portfolio. The Treasury department of FMO is responsible for day-to-day counterparty risk management. Risk is the 'second line of defense' and responsible for assessing, quantifying, and monitoring counterparty risk daily. Limit excesses and material findings are reported to the ALCO on a monthly basis, together with recommended mitigations and/or actions. The Risk Department is also responsible for updating related policies and processes and for setting up limits, including minimum credit rating requirements, exposure limits, as well as transaction limits. The policies, processes, relevant parameters, and limits are reviewed and approved by the ALCO annually.

FMO mitigates its counterparty credit risk through various means. Minimum requirements of credit quality are set for counterparties of treasury activities. The choice of banks as FMO counterparties is based on the Treasury Counterparty Risk Policy, which requires banks to have a minimum rating of A- and money market funds rating AAA.

Liquidity management

Main objective is to manage liquidity and expenditures of the Fund in a way that results in informed decision making about funding requests from the Ministry of Foreign Affairs or FOM-OS to the Fund, and accountability and transparency regarding the cost declared on the Fund.

The Fund is financed by the Returning cash flows of FOM-OS. The FOM-OS portfolio is currently managed and monitored by the FMO-OS Fund Management team. To avoid any conflict of interest, FOM-OS and PDF have separate fund management staff. The Manager Risk Portfolio & Fund Management within FMO NL Business is responsible for the operational process for fund management. The processing of liquidity transfers (applying for funds, repayments) by Accounting and Treasury follows existing FMO procedures, Actual staff costs up to a certain amount are eligible under the Fund. The Manager Risk Portfolio & Fund Mgt within NL Business is responsible for the allocation and justification of staff cost to the Fund. There is a monitoring system in place to warrant the correct staff cost allocation.

Country limits

To ensure diversification within FMO's emerging market portfolio across regions, a country limit framework is in place to minimize concentration risk from a total portfolio perspective. The Fund is only eligible to invest in DGGF (Het Dutch Good Growth Fund) countries determined by the Ministry of Foreign Affairs.

Reputational risk

Reputation risk is inevitable given the nature of the Fund's operations in developing and emerging markets. FMO has a moderate appetite for reputation risk, accepting that reputational impact of activities may incidentally lead to negative press coverage, NGO attention or undesirable client feedback, as long as these activities clearly contribute to FMO's mission. FMO actively mitigates the risk as much as possible through strict and clear policies, thorough upfront assessments, consultations with stakeholders, and when necessary, through legal agreements with clients. FMO has in place a Sustainability Policy, as well as statements on human rights, land rights, and gender positions.

Environmental, social and governance risk

Environmental & Social (E&S) risk refers to potential adverse impacts of the Fund's investments on the environment, employees, communities, or other stakeholders. Corporate Governance (G) risks refers primarily to risk to client business. ESG risks can lead to non-compliance with applicable regulation, NGO and press attention or reputation damage. These risks stem from the nature of the Fund's projects in difficult markets, where regulations on ESG are less institutionalized.

The Fund has an appetite for managed risk in portfolio, accepting ESG performance below standards when starting to work with a client, with the goal that performance is brought in line with our ESG risk mitigation requirements within a credible and reasonable period. ESG risks are mitigated through environmental and social action plans and monitoring. The risk appetite for deviations from the exclusion list and human rights violations is zero.

Compliance risk

Compliance Risk is the risk of failure to comply with laws, regulations, rules, related self-regulatory organization, standards and codes of conduct applicable to FMO. Being a regulated bank, the most important applicable laws in relation to products and customers, are the Dutch Financial Supervision Law (WFT); AML (WWFT); Sanctions Law and General Data Protection Regulation.

Fund's customers follow FMO's procedures e.g. customer onboarding; assessment of compliance risks, periodic Know Your Customer (KYC) reviews as well Event Driven KYC Reviews. FMO's standards and policies and good business practices foster acting with integrity. FMO is committed to its employees, clients and counterparties, adhering to high ethical standards. FMO has a Compliance framework which entails identifying risks, designing policies, monitoring, training and providing advices. FMO has policies on topics such as know your customer (KYC) & sanctions, anti-bribery and corruption, receiving and giving gifts-entertainment & hospitality, conflicts of interest, internal fraud, private investments, outside positions, privacy and speak-up. FMO also regularly trains its employees in order to raise awareness by means of e.g. face-to-face trainings and mandatory compliance related e-learnings. Employees are also encouraged to speak up in case of suspected integrity violations conducted by an FMO employee. Management is periodically informed via the Compliance Committee or when required on an ad-hoc basis, on integrity related matters at client or employee level. In 2019 no significant integrity incidents related to FMO employees have been reported and there were no incidents at existing clients' outside FMO's risk appetite.

KYC & Sanctions

FMO's KYC procedure includes screening of clients on compliance with applicable anti-money laundering, terrorist financing and international sanctions laws and regulations. Due diligence is performed on clients, which includes checks such as verifying the ultimate beneficial owners of the client we finance, identifying politically exposed persons, and screening against mandatory international sanction lists. These checks are also performed regularly during the relationship with existing clients. Following the DNB onsite inspection in 2018, FMO set up a FEC Enhancement Plan (FEC EP) . In 2019 FMO started with execution of the FEC EP which consisted of a.o. conducting the Systematic Integrity Risk Assessment (SIRA) and enhancing the know your customer (KYC) policy and procedures. The updated KYC policy and procedures have been implemented. Part of the FEC EP consists of remediation of the customer KYC files and bringing them in line with the updated policy. FMO has not been able to achieve the interim target on number of remediated customer KYC files. However additional actions, based on lessons learnt, are undertaken to further improve the FEC EP. The progress of the FEC EP is closely monitored by the Management Board and reported to DNB.
It cannot always be prevented that a client is involved or alleged to be involved in illicit acts (e.g. corruption). If such an event occurs, FMO will initiate a dialogue with the client to understand the background in order to be able to assess the severity. When FMO is of the opinion that no improvement by the client will be achieved (e.g. awareness, implementing controls) or the risk to FMO's reputation is unacceptably high, FMO can invoke legal clauses in the contract to terminate the client relationship.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed processes, people and systems or loss caused by external events. Operational risks are not actively sought and have no direct material upside in terms of return/income generation, yet operational risk events are inherent in operating a business. Operational risk events can result in non-compliance with applicable (internal and external) standards, financial losses or misstatements in the financial reports, and reputational damage.

FMO has in place an operational risk framework that governs the process of identifying, measuring, monitoring, reporting and mitigating operational risks, based on the ‘three lines of defense’ governance principle. Management of the first line is primarily responsible for managing (embedded) risks in the day-to-day business processes. The first line acts within the risk management framework and supporting guidelines defined by specialized risk departments and committees, the second line of defense. Internal Audit, as the third line, provides independent assurance on the effectiveness of the first and second lines.

In 2019 a Risk Control Self Assessement was initiated by the risk department for FMO NL Business. During this process management and co-workers at all levels assessed and evaluated operational risks areas and their main controls resulting in a risk treatment action plan for the coming year.

FMO is in the process of further strengthening its internal control framework for front-to-end processes. The Business Process Management function and an increase of the level of maturity of internal controls has been established in 2019. The implementation of the Control Testing process is on the agenda for 2020.

Legal risk

Legal risk is defined as the risk of a counterparty (client, supplier, stakeholder or otherwise) not being liable to meet its obligations under law or FMO being liable at law for obligations not intended or expected, caused by lack of awareness or misunderstanding of, ambiguity in, or indifference to the way law and regulation apply to business, relationships, processes, products and services, leading to financial or reputational loss.

Given the specific nature of legal risks that can occur, no risk appetite metrics are assigned to this risk type. Instead, the most relevant developments are included in the risk appetite report on a quarterly basis. FMO’s Legal team is responsible for the review of the legal aspects of Fund’s contracts with its clients and for mitigating legal risks arising from Fund’s businesses and operations. Where applicable, the team seeks external expertise.

Colophon

Contact details Should you have any feedback or questions, please feel free to contact us.

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