FMO

Entrepreneurial
Development
Bank

PARTNERSHIP DEVELOPMENT FACILITY

Annual report

2020

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 € 1,180 mln as per December 31, 2020. 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 MB OF THE FUND MANAGER

Dear reader,

Without a doubt, 2020 has been one of the most challenging years for FMO and its customers. Amid the economic and social fall-out of the pandemic, the state funds under management by FMO played an important role in ensuring that our customers could stay afloat. We look back at a turbulent year with delays in project development but also projects gaining traction as they proofed to be essential for the development of the infrastructure in the countries, we are active in.

In 2021, substantial challenges and uncertainties remain. The pandemic aggravates existing challenges related to climate change, the deepening inequality-crisis and macro-economic precariousness. The public funds and facilities under management by FMO will continue to play their countercyclical role, generate impact on the ground and contribute to the creation of markets in which private finance can flow to those areas where it is most needed.

Despite the effects of the pandemic, the Partnership Development Facility (PDF) looks back moderately positive on the project development activities in 2020. Despite the expected delays in the project development activities due to lockdowns, three projects were successfully finalized and two new contracts were signed in the enabling infrastructure sector in Ghana and Ivory Coast respectively.

Flying Swans made good progress in 2020 on the lead projects in the agricultural logistical corridors in Ethiopia and South Africa. These projects will contribute to improved agro-logistical connections for export, benefitting both commercial farms and local smallholder farmers. One of the highlights of the year was the first rail-carried shipment of avocados from Ethiopia through the port of Djibouti to Europe, serving as a trial for the future Ethiopia-Djibouti perishable export rail corridor.

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, 15 April 2021

On behalf of the Management Board

Linda Broekhuizen, Chief Executive Officer, a.i.
Fatoumata Bouaré, Chief Risk and Finance Officer
Huib-Jan de Ruijter, Chief Investment Officer, a.i.

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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 31-12-2020

Total Projected Fund Capital (2022)
14.6mln

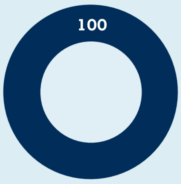
Committed Amount (2020)
Project & Partnership Development (PPD)
0.6mln

Committed Amount (2016-2020)
Project & Partnership Development (PPD)
3.2mln

Committed Amount (2018-2022)
Flying Swans
7.7mln

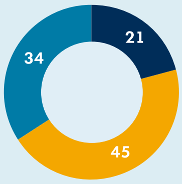
Committed Amount PPD (2018-2020)

Portfolio by project phase (in %)



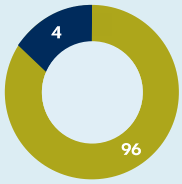
- Pre-feasibility
- Feasibility
- Structuring
- Public Support

Portfolio by sector (in %)



- Water
- Energy
- Agri-Food
- Enabling Infrastructure

Portfolio by region (in %)



- Africa
- Asia
- Latin America
- Global

Project & Partnership Development (PPD)

4 Active projects

1 Energy Project

1 Agri-food Project

2 Enabling Infrastructure Projects

1.9mln Active Portfolio

0.6mln Disbursed Amount 2020

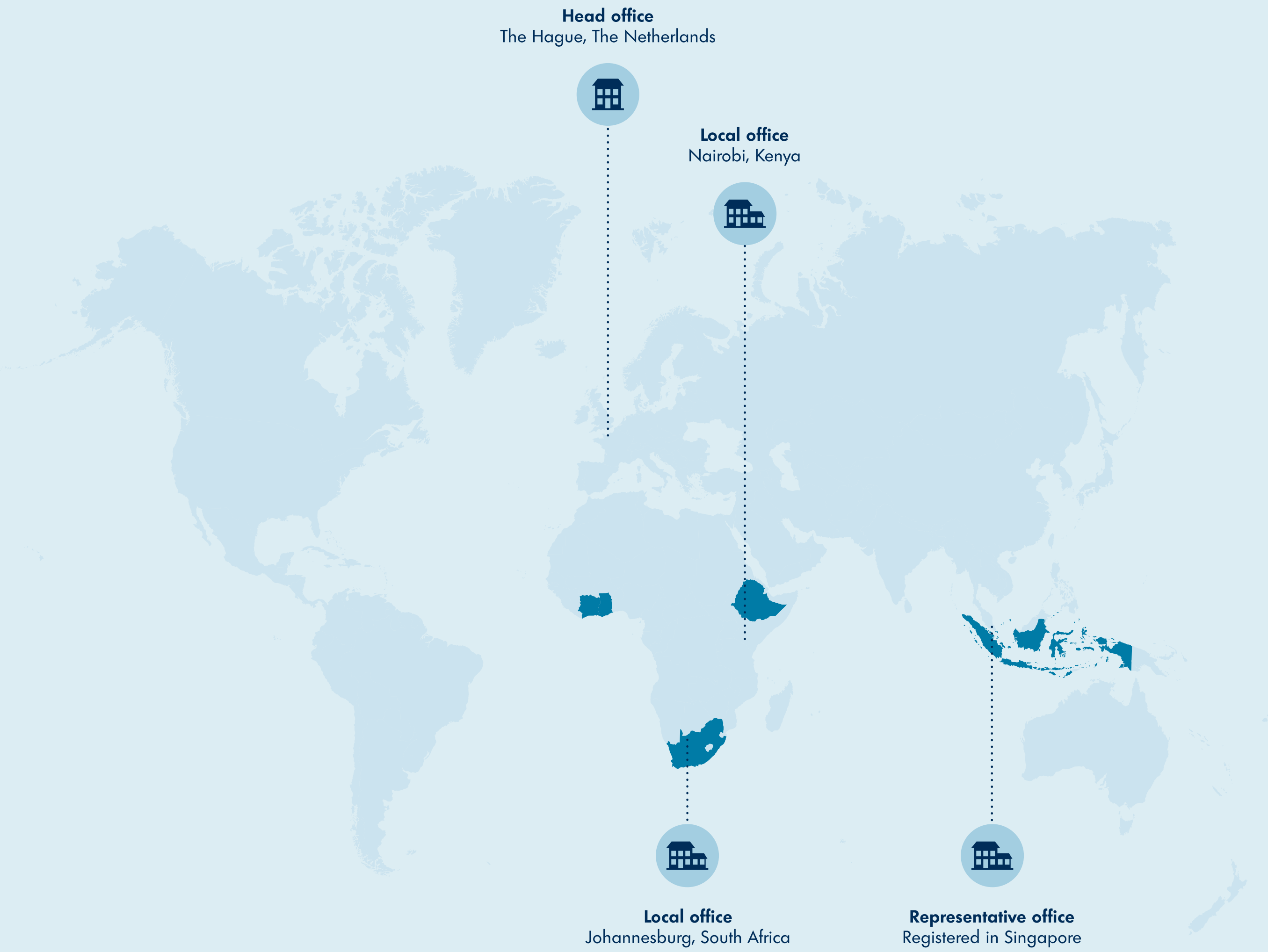
2 Newly contracted projects 2020

Flying Swans Consortium (FSC)

10 Number of projects in the pipeline

7.7mln Committed amount

2.1mln Disbursed Amount 2020



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 2020, the Partnership Development Facility contracted two new projects with a value of EUR 0.6 million in the enabling infrastructure sector. A total of EUR 2.7 million was disbursed during the year for projects in Ethiopia, India, Indonesia, Myanmar, South Africa and Zambia. At year-end PDF had 5 active projects in portfolio (amounting to EUR 9.6 million).

The Flying Swans made significant progress in the main agro logistical corridors in Ethiopia and South Africa. In both corridors, project sponsors were found for the corridor's catalyst projects (Limpopo Consolidation Centre in South Africa) and Cool Port Addis in Ethiopia). Both projects have entered the feasibility phase. In 2020, Flying Swans organised the first rail-transported export shipment of avocados from Ethiopia to Europe as a trial for the future supply chain. Flying Swans foundation received EUR 2.1 million in funding from PDF for project development activities during the year.

The total fund capital anticipated to be available for PDF for the period 2017-2022 is approximately EUR 14.6 million depending on the developments and returning cash flows from the FOM-OS portfolio, another government fund managed by FMO. EUR 6.9 million is assigned to the project development activities and reimbursement of management costs for FMO NL Business of which EUR 2.3 million is still available until the end of 2022. EUR 7.7 million is assigned to the project development activities of Flying Swans of which EUR 3.1 million is still available until the end of the period.

As a result of the pandemic, PDF saw delays in the execution of some of the projects in the portfolio.

Overview new projects 2020:

- **Adowso Bridge (Ghana) – BAM International B.V.**
  Project development funding was approved for BAM International B.V. to conduct a feasibility study for the development phase for the design and construction of the Adowso Bridge in Ghana to connect the Afram Plains with the country's main road. The bridge will improve the productivity and growth of the agricultural sector and the socio-economic living conditions in the catchment area, with better access to health services, educational centres, market opportunities and increased household income. During the year it became clear that BAM International B.V. will cease its activities abroad. The project will probably be taken over by another counterparty.
- **PAIX Data Center (Ivory Coast) – PAIX Indigo B.V.**
  Project development funding is committed for PAIX Indigo B.V., part of the Paix Group, to determine the feasibility of the establishment of a data centre to serve the local market in Ivory Coast. Paix is a Pan-African provider of cloud- and carrier-neutral colocation data centre services and is headquartered in Amsterdam. After Ghana and Kenya, this will be Paix' third data center on the continent. Data centres are an essential part of data availability to develop the African digital economy.

Flying Swans

Flying Swans is managed by a Dutch cross-industry coalition with the aim to develop agricultural logistical corridors in emerging markets to unlock the market potential for export and local markets of perishable goods, mainly fruit and vegetables. Development impact is at the core of the Flying Swans projects. While the impact comes in many shapes and forms in the different 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 2020, Flying Swans made good progress on the two catalyst projects in the portfolio. In South Africa, Project Sponsors were found for the Limpopo Consolidation Centre project with the signing of a Project Development Agreement. In Ethiopia, The Ethiopian Maritime Affairs Authority accepted a similar sponsor role through their chairing of the Cool Logistics Technical Committee, acting as the local sponsor for the Cool Port Addis project. In parallel with these sponsorships, feasibility studies and the Environmental and Social Impact Assessment studies for both projects have been started with these sponsors as local partners. The latter are based on corridor-wide strategic scoping studies done by ESG specialist Earth Active in 2020.

Projects finalised

In 2020 the Gula Gula Food Forest in Indonesia and the Wastewater Treatment projects in Myanmar and Zambia together with WWF were successfully finalized. PDF received a repayment of the development contribution for the Gula Gula Food Forest project.

GULA GULA FOOD FOREST- INDONESIA
PDF funded Co2 Operate B.V., a Dutch social enterprise that has successfully 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 PDF was used for the business plan preparation to scale-up to 5,000 hectares. The FMO Capacity Development team has provided follow on funding and will further develop and scale the food forest.

YANGON WASTEWATER TREATMENT-MYANMAR
PDF provided funding to WWF to identify bankable wastewater treatment investment opportunities to clean up the Ayeyarwady river basin in Myanmar with the aim to match the local industry with Dutch water technology providers. Local project owners (a combination of public and private businesses) in Myanmar have indicated the willingness to further develop wastewater treatment opportunities. A market sounding with Dutch companies was conducted and an in principle interest to do business for industrial wastewater treatment in Myanmar was obtained by these companies. WWF Myanmar office is now leading discussions with project owners to seek commitment for identified pipeline projects.

KAFUE FLATS WASTEWATER TREATMENT- ZAMBIA
PDF provided funding to WWF to identify bankable wastewater treatment investment opportunities to clean up the Kafue Flats in Zambia with the aim to match the local industry players with Dutch water technology providers. The project successfully identified a pipeline of projects, but also established that a lot of work still needs to be done on the regulatory and legislative side in Zambia, before these projects are expected to take off. Therefore, lobbying by the WWF and others is still needed for these projects to be able to move forward. A market sounding with Dutch companies was conducted and in principle interest to do business for industrial wastewater treatment in Zambia was obtained.

Improved data access in Ivory Coast

Who is our client?

PDF supports Pan African Internet Exchange (PAIX) with the feasibility study into the establishment and operation of a data centre in Abidjan, Ivory Coast.

Funding objective

The development contribution will be used to co-fund the feasibility study including the Environmental and Social Impact Assessment (ESIA) which is required to determine the feasibility of setting up the local data centre and confirms the assumptions made in the business plan. The data centre will serve the local market and act as a bridge head into Francophone Africa. After Ghana and Kenya, this will be PAIX's third data centre on the continent.

Why we fund this project?

Data connectivity and availability is essential for economic development. Data centres are an essential part of data availability. With Africa leapfrogging the analogue phase, digital data availability is a crucial part of the local infrastructure. The market in Ivory Coast is underserved and PAIX is providing a crucial piece of infrastructure. Through the establishment of a new carrier neutral data centre in Ivory Coast, the data availability should go up and the costs per unit should go down, aiding local economic development and providing direct and indirect employment opportunities.

PDF investment | EUR 300,000

Instrument | Development Contribution

Country | Ivory Coast

SDG | 8 and 9

Integral value chain solutions in Ethiopia-Djibouti and South Africa

Who is our client?

PDF provides multi annual funding to Flying Swans Foundation to develop integral agro-logistical corridors in emerging markets.

Funding objective

Currently, Flying Swans is actively developing projects in two corridors: Ethiopia/Djibouti and South Africa.

In Ethiopia and Djibouti, Flying Swans will coordinate the development of a National Cool Logistics Network. The road, rail and port infrastructure in Ethiopia and Djibouti is undergoing rapid developments. Flying Swans will add value to these developments with a cool logistics overlay of cold stores, value chain facilities and a reefer train solution to support Ethiopia in setting up a perishable export industry in fruits and vegetables. The first focus is on the Addis Ababa-Djibouti corridor, as this is where trains are already running. Modjo Dry Port is one of the key logistical hubs in this corridor, situated at the intersection of main roads and rail connections and being relatively close to Addis Ababa. The initial geographical focus of Flying Swans' supporting agricultural activities is on the hinterland between Addis Ababa and Arba Minch, one of the country's most fertile corridors with good infrastructural links to Modjo.

In South Africa, the project development efforts will fundamentally change the supply chain of fruit. Ultimately, the goal is to maximise the modal shift from road to rail. The current model of truck-borne transport of fruit and vegetables comes with high CO2 emissions; a shift to rail transport will reduce the supply chain's emissions by 60-75% depending on transport to and from the rail terminals. A range of infrastructures will ensure that local emerging farmers can also participate in the new supply chains, one of which being a dedicated consolidation, packing, grading, and trading facility holistically integrated into Limpopo Consolidation Centre. This will allow these farmers to access valuable export markets, increasing their incomes.

Why we fund this project?

In Ethiopia, Flying Swans will add considerable value to the economy by unlocking the potential of the country's fruit and vegetable export industry. Expected impact of the projects will be on stimulating job creation, prevention of food waste, and establishing a sustainable supply chain.

In South Africa, Flying Swans will create development impact through the increased earnings that export market access brings to smallholder farmers. Furthermore, switching inland transport from truck to rail has the potential to reduce CO2 emissions of hinterland transport with 65%.

In South Africa the main impact will be on reducing CO2 emissions in the transport of fruit and vegetables and stimulating access to international markets for smallholder farmers.

PDF investment | EUR 7,700,000 (2018-2022)

Instrument | Development Contribution

Country | Ethiopia and South Africa

SDG | 2, 5, 8, 9, 13 and 17

INTERNATIONAL PRINCIPLES

Equator Principles — Signatory

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.

IFC Performance Standards — Adopter

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.

OECD Guidelines — Adopter

We follow OECD Guidelines on responsible business conduct, notably human rights, labor rights and the environment.

UN Guiding Principles on Business and Human Rights — Adopter

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.

ILO Standards — Adopter

We follow the set of ILO legal instruments that set out basic principles and rights at work.

UNEP FI | Principles for responsible banking — Signatory

FMO is a signatory of the Principles for Responsible Banking.

Global Impact Investing Network — Member

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.

Sustainable Development Goals Charter — Signatory

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.

Impact Management Project — Member

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.

Natural Capital Finance Alliance — Signatory

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.

UNEP FI / EBF Working Group on Banking and Taxonomy — Signatory

UNEP Finance Initiative	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.	
	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
Climate Action in Financial Institutions	**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
PCAF	**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	**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
CGAP	**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	**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
EMPEA	**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
CG DF	**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
FATF	**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: - The Gold Standard	Signatory

Statement of financial position

At December 31, 2020

	Notes	2020	2019
Assets			
Banks	(1)	822	833
Total assets		**822**	**833**
Fund capital			
Contributions DGIS - FOM OS previous years		6,679	4,379
Contributions other donors previous years		364	235
Contributions DGIS - FOM OS current year		3,306	2,300
Contribution other donors current year		-	129
Total contribution DGIS and other donors		**10,349**	**7,043**
Undistributed results previous years		-6,210	-3,954
Net profit/(loss)		-3,317	-2,256
Total fund capital		**822**	**833**
Total liabilities and fund capital		**822**	**833**
Irrevocable facilities	(4)	3,144	1,454
Total subsidy received from DGIS - FOM OS		9,985	6,679
Total subsidy received from DGIS - Other donors		364	364

Irrevocable facilities (off-balance) represent commitments to extend finance to clients and consist of contracts signed but not disbursed yet which are usually not immediately and fully drawn.

Statement of comprehensive income

At December 31, 2020

	Notes	2020	2019
Income			
Results from development contributions		5	-
Repaid development contributions		20	-
Total income	(2)	**25**	**-**
Expenses			
Remuneration FMO		-599	-483
Development contribution expenses		-2,738	-1,765
Other operating expenses		-5	-8
Total expenses	(3)	**-3,342**	**-2,256**
Net profit/(loss)		**-3,317**	**-2,256**
Other comprehensive income			
Total other comprehensive income		-	-
Total comprehensive income/(loss)		**-3,317**	**-2,256**

Statement of changes in fund capital

At December 31, 2020

	Contributions	Undistributed results previous years	Net profit/(loss)	Total fund capital
Balance at January 1, 2019	4,614	-1,539	-2,415	660
Transfer profit/(loss) PY to Undistr. Results	-	-2,415	2,415	-
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**
Balance at January 1, 2020	7,043	-3,954	-2,256	833
Transfer profit/(loss) PY to Undistr. Results	-	-2,256	2,256	-
Contributions FOM-OS	3,306	-	-	3,306
Contributions other donors	-	-	-	-
Results current year	-	-	-3,317	-3,317
Net balance at December 31, 2020	**10,349**	**-6,210**	**-3,317**	**822**

Statement of cash flows

At December 31, 2020

	Notes	2020	2019
Cash from operating activities			
Inflows			
Repayments on development contributions		20	-
Results from development contributions		5	-
Outflows			
Disbursements on development contributions	(3)	-2,738	-1,765
Other paid amounts	(3)	-5	-8
Remuneration FMO	(3)	-599	-483
Net cash from operating activities		**-3,317**	**-2,256**
Cash from financing activities			
Inflows			
Contribution DGIS (FOM-OS) current year		3,306	2,300
Contribution other donors		-	129
Net cash from financing activities		**3,306**	**2,429**
Net change in cash & cash equivalent		**-11**	**173**
Position of cash at January 1		833	660
Position of cash at end of period		822	833

Summary of accounting policies

Basis of preparation

The annual accounts have been prepared in accordance with special purpose Generally Accepted Accounting Principles ("GAAP") and the remainder of this chapter describes the specific accounting policies applied. 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.

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 contribution costs

Development 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. The premium for the repaid contribution is recorded under line item 'Results from development contribution' in the statement of comprehensive income. The repaid contributions amount is recorded under line item 'Repaid development contributions' in the statement of comprehensive income.

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 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.

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

	2020	2019
Banks	822	833
Balance at December 31	**822**	**833**

The cash on bank accounts can be freely disposed of.

2. Income

	2020	2019
Results from development contributions	5	-
Repaid development contributions	20	-
Total income	**25**	**-**

3. Expenses

	2020	2019
Remuneration FMO	-599	-483
Development contribution expenses	-2,738	-1,765
Other operating expenses	-5	-8
Total expenses	**-3,342**	**-2,256**

Development Contribution (DC) expenses relate to contributions paid to beneficiaries in terms of the fund's objectives. The increase in DC expenses is mainly driven by one contract of € 2.1 million in 2020.

4. Off-Balance sheet information

Irrevocable facilities (off balance sheet commitments) relate to development contribution contracts which have potential future disbursements

	2020	2019
Contractual commitments for disbursements of:		
Development contributions	3,144	1,454

The amount has increased versus previous year because the average contracted amount per client is higher, especially due to a € 1.9 million contract for one client for which disbursement has not yet taken place.

5. Related party information

Dutch Government

The Dutch Ministry of Foreign Affairs, more specific Directoraat-Generaal Internationale Samenwerking (DGIS), sets up and administers the investment funds ("State Funds"), including the Partnership Development Facility, according to the Dutch Government's development agenda. DGIS is the main contributor to the Partnership Development Facility, providing funding upon FMO's request (2020: € 3,306k; 2019: € 2,300k).

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 and 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 an amount to the Dutch Ministry of Foreign Affairs as compensation for personnel and other expenses and it is reimbursed accordingly from the Partnership Development Facility's subsidy amount (2020: € 599k; 2019: € 483k). In accordance with the agreement Beheerskostenvergoeding FMO 2020, dated 29/12/20, these were the estimated expenses based on the agreement written in the contract and FMO reassessed this and concluded that these were the actual cost in 2020.

The compensation has increased in 2020 because in the first months of 2019 a low amount for personnel was charged as FMO was in that period understaffed.

6. 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.

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 FOM-OS. As such, the Fund is not exposed to financial risk.

Total contribution from FOM-OS is €9,985k at 31 December 2020 (31 December 2019: €6,679k). For the year 2020, the contribution from FOM-OS was €3,306k (2019: €2,300k). 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 €822k in 2020 (2019: €833k).

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 assesses whether the proposal is in accordance with the Fund's investment criteria and strategic composition of the project portfolio. 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.

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.

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) risk 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 the portfolio. Our clients operate in countries where ESG regulations are less institutionalized. Initially, when conducting a transaction with a customer, we accept the risk that the ESG performance may be below our standards. In addition, impact on the environment, employees and workers, communities and other stakeholders, ESG risks can result in non-compliance with applicable regulation, NGO and press attention, reputation damage and financial loss where such risk adversely affects operational and financial performance.

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's services and activities.

Financial Economic Crime, incl. sanctions

Fund's customers follow FMO's procedures regarding financial economic crime, which includes screening of clients on compliance with applicable anti-money laundering, counter financing of terrorism and international sanctions laws and regulations. Due diligence is performed on customers, which includes checks such as verifying the ultimate beneficial owners of the customer we finance, identifying politically exposed persons, and screening against mandatory international sanction lists. These checks are also performed regularly during the relationship with existing customers. Following a DNB onsite inspection in 2018, DNB identified several shortcomings in the way FMO conducts Customer Due Diligence/Know Your Customer. As FMO sees this as an area where the risk of non-compliance with Wwft and Sanctions Law is present, a FEC Enhancement program was set up to demonstrate full compliance by the end of 2021. In 2019 FMO started with execution of the FEC EP which consisted of a.o. conducting the Systematic Integrity Risk Assessment (SIRA), the Risk Appetite Statement on Integrity, which was updated to include Tax Integrity Risk as well, and enhancing the CDD-AML Policy, CDD-AML Manual and a wide range of guidance notes. It became clear in September 2020 that the progress of the FEC Enhancement programme was not fast enough. The updated FEC Framework has meanwhile been implemented. Part of the FEC EP consists of remediation of the customer KYC files and bringing them in line with the updated framework. The remediation of customer KYC files will continue in 2021 and progress is closely monitored by the Management Board. As agreed with DNB, the remediation is expected to be finalized on December 31, 2021.

There is always a risk that a client is involved or alleged to be involved in illicit acts (e.g. money laundering, fraud or corruption). If such an event occurs, FMO will initiate a dialogue with the client, if possible and appropriate given the circumstances, to understand the background in order to be able to assess and investigate the severity. When FMO is of the opinion that there is a breach of law that cannot be remedied or that no improvement by the client will be achieved (e.g. awareness, implementing controls) or that the risk to FMO's reputation is unacceptably high, FMO may be able to exercise certain remedies under the contract such as the right to cancel a loan or suspend upcoming disbursements and will report to regulatory authorities if deemed necessary.

General Data Protection Act (GDPR)

After the implementation of the GDPR in 2018, FMO continued its effort towards the protection of personal data related to its employees, customers and other stakeholders. The data protection officer (DPO) monitors FMOs compliant behavior periodically. The DPO is involved in a.o. change management activities to advise on data protection risks and risk mitigation.

Corruption

Corruption is a global problem, requiring a global response. FMO is guided by the OECD Convention on Combating Bribery and the UN Convention against Corruption, and is dedicated to fight corruption and bribery not only to adhere to the law, but also because such acts undermine sustainable development and the achievement of higher levels of economic and social welfare. Good governance, fair business practices and public trust in the private sector is necessary to unlock the full potential of an economy and its citizens. Corruption can be best prevented collaborative and FMO actively supports the Transparency International's Netherlands branch and the International Chamber of Commerce in order to share best practices and stimulate the dialogue between Dutch corporates on best practices in doing international business.

Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events, including legal risks, excluding strategic risks. 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, losses, misstatements in the financial reports, and reputational damage.

Overall, FMO is cautious with operational risks. Safe options, with low inherent risk are preferred, despite consequence of limited rewards (or higher costs). There is no appetite for high residual risk. Risk metrics are reported on a quarterly basis. These metrics cover operational risks in general, such as the amount of loss per quarter and timely follow-up of management actions, and specific metrics for risk-(sub)types.

Management of the first line of defense 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 functions that make up the second line of defense. Internal Audit in its role of the third line of defense provides independent assurance on the effectiveness of the first and second lines.

Departmental risk control self-assessments are conducted annually in order to identify and assess risks and corresponding controls. The strategy and business objectives are also reviewed annually by the Directors in a risk perspective. Based on among others these Risk and Control Self Assessments, the Directors sign a departmental In Control Statement at the year-end, which provides the underpinning for the management declaration in the Annual Report. Despite all preventive measures, operational risk events cannot always be eliminated. FMO, however, systematically collects risk event information and analyses such events in order to take appropriate actions. Furthermore, operational risks resulting from changes in activities are assessed in FMO's Change Risk Assessment Process and could trigger the Product Approval and Review Process. No risk events outside FMO's risk appetite have been reported.

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.

Tax risk

Tax risk includes Tax Accounting risk and Tax Integrity risk. Tax Accounting risk is defined as the risk of paying or filing an incorrect amount of tax (direct and indirect). Tax Integrity risk is defined as the risk of facilitating or involvement in unlawful tax evasion or undesirable tax avoidance by clients or investees. Through its investments, FMO is indirectly exposed to the tax matters of its investees and clients. FMO could unwittingly support or be perceived to support aggressive tax structures. FMO is averse to Tax structures that are clearly aggressive and is cautious with accepting structures that have been set up for multiple underlying purposes and where the principle purpose is not tax. FMO seeks to transpose its Responsible Tax Principles to its clients.

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Building a better working world

Ernst & Young Accountants LLP
Cross Towers, Antonio Vivaldistraat 150
1083 HP Amsterdam, Netherlands
Postbus 7883
1008 AB Amsterdam, Netherlands

Tel: +31 88 407 10 00
Fax: +31 88 407 10 05
ey.com

Independent auditor’s report

To: the management board of the Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO)

Report on the audit of the financial statements 2020 included in the annual report

Our opinion

We have audited the financial statements 2020 of Partnership Development Facility (hereinafter: PDF or the Fund), based in The Hague.

In our opinion the accompanying financial statements as of 31 December 2020 have been prepared, in all material respects, in accordance with special purpose accounting principles as disclosed in the financial statements.

The financial statements comprise:

- The Statement of Financial Position as at 31 December 2020
- The following statements for 2020:
  - The Statement of Comprehensive Income
  - The Statement of Changes in Fund Capital
  - The Statement of Cash Flows
- The notes comprising a summary of the significant accounting policies and other explanatory information

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the "Our responsibilities for the audit of the financial statements" section of our report.

We are independent of the Fund in accordance with the “Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten” (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the "Verordening gedrags- en beroepsregels accountants" (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Restriction on use and distribution

The financial statements have been prepared based on special purpose accounting principles. As a result the financial statements may not be suitable for other purposes. Therefore, our independent auditor’s report is intended solely for FMO and the Dutch State and should not be distributed to or used by other parties.

Responsibilities of management for the financial statements

Management is responsible for the preparation of the financial statements in accordance with the special purpose accounting principles. Furthermore, management is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included among others:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

We communicate with management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

Amsterdam, 15 April 2021

Ernst & Young Accountants LLP

J.G. Kolsters

Colophon

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

Corporate Communications +31 (0)70 314 96 96 info@fmo.nl www.fmo.nl

Mailing address P.O. Box 93060 2509 AB The Hague The Netherlands

Street address Anna van Saksenlaan 71 2593 HW The Hague The Netherlands

Text FMO N.V.

Photography Opmeer Reports, www.opmeerreports.nl | FMO's internal database

Design Studio Duel, The Hague www.studioduel.nl

Production F19 Digital Reporting, Eindhoven www.f19.nl

FMO
Anna van Saksenlaan 71
2593 HW The Hague
The Netherlands

+31 70 314 9696
info@fmo.nl
www.fmo.nl