Final Report

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Mid Term Evaluation of Building Prospects and Access to Energy Fund (2019-2023)

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Acronyms

AEF	Access to Energy Fund	KPI	Key Performance Indicator
AFW	Agriculture, Food and Water	LAC	Latin America and the Caribbean
BP	Building Prospects	LDC	Least Developed Country
C&I	Commercial & Industrial	LIC	Low-Income Country
CCR	Client Credit Review	LMIC	Lower Middle-Income Country
CD	Capacity Development	LPG	Liquefied Petroleum Gas
CIP	Clearance In Principle (document required to proceed to an FMO investment)	MFA	Ministry of Foreign Affairs (of The Netherlands)
DDE	Department for Sustainable Economic Development (of the MFA)	MFF	Mobilising Finance for Forests (programme established by the UK government and FMO in 2021)
DFI	Development Finance Institution	MSME	Micro, Small and Medium Enterprise
DGIS	Directorate General for International Cooperation (of the MFA)	NGO	Non-Governmental Organisation
EQ	Evaluation Question	OECD	Organisation for Economic Cooperation and Development
ESAP	Environmental and Social Action Plan	OECD-DAC	OECD Development Assistance Committee
ESG	Environmental, Social and Governance	ODA	Official Development Assistance
FMO	Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (Dutch Entrepreneurial Development Bank)	PSD	Private Sector Development
FP	Financial Proposal (document required to proceed to an FMO investment)	RG	Reference Group
GOGLA	Global Association for the off-grid solar energy industry	RI	Reducing Inequalities
IDF	Infrastructure Development Fund (predecessor to BP)	SDG	Sustainable Development Goal
IFC	International Finance Corporation	SHF	Smallholder Farmer(s) (farmers who cultivates less than 2ha of land)
IGG	Department for Inclusive Green Growth (of the MFA)	SHS	Solar Home System(s)
IOB	Policy and Operations Evaluation Department (of the MFA)	SME	Small and Medium Enterprise
JC	Judgment Criterion	SSA	Sub-Saharan Africa
JIM	Joint Impact Model	T&D	Transmission & Distribution
KII	Key Informant Interview	UMIC	Upper Middle-Income Country

Executive Summary

Executive Summary

Background

Building Prospects (BP) and the Access to Energy Fund (AEF) were established in 2002 and 2007, respectively. Both are Dutch Government funds, managed by the Dutch Entrepreneurial Development Bank FMO. They invest in companies in developing countries whose activities have strong potential to achieve outcomes and impacts aligned with the priorities of the Directorate General for International Cooperation (DGIS) of the Dutch Ministry of Foreign Affairs (MFA). These companies, due to their risk profile, are typically not attractive or feasible investment targets for other actors (including FMO itself). A key objective of both AEF and BP is to support the companies and business segments in which they invest, helping them validate their commercial viability and enabling them to transition to funding from development finance institutions (DFIs) and commercial sources.

As of the end of 2023, BP had been allocated a total MFA contribution of EUR 462 million, while AEF had received slightly less than half of that: EUR 210.9 million. Both funds are revolving in nature, meaning that their investments are expected to generate cash flows that progressively replenish capital. This capital can either be used for the funding of new investments, or could be requested back by the MFA at the end of the funds' mandates.

The two funds have different – though overlapping – sectorial and geographical focuses: AEF supports the provision of sustainable access to renewable energy to people with insufficient energy access in South Asia and Sub-Saharan Africa. BP, on the other hand, invests in agricultural value chains and infrastructure with the objectives of stimulating private sector development and driving job creation across 70 countries in these same regions. The inclusion of the poorest populations, gender equality and climate change mitigation and adaptation are also important objectives for both funds.

In 2018 the mandates of both funds were renewed until the end of 2028. At the same time, adjustments were made to their sectoral and geographical focuses, particularly in the case of BP.

Methodology

In accordance with the funds' evaluation requirements, in early 2024 the MFA commissioned an independent mid-term evaluation of BP and AEF, covering the period from 2019 to 2023. The evaluation was conducted by ADE between January and September 2024 and resulted in 18 conclusions and 13 recommendations. These were discussed with key stakeholders from the MFA and FMO and from an external advisor during two workshops in August and September.

The evaluation was structured around 10 evaluation questions, centred around the themes of strategic coherence (of each fund internally, between the two funds, and with DGIS priorities and action), efficiency, effectiveness and additionality. For each question, a set of judgment criteria and indicators were identified, along with sources of information. The main data collection and analysis activities included: reviewing relevant policy documentation; reviewing several recent studies and evaluations on relevant topics (including five evaluations of AEF and BP projects); quantitative analysis of relevant FMO databases (namely, of data concerning financial commitments, impact, and the provision of capacity development); reviewing 17 AEF

and BP projects (document reviews and interviews with key stakeholders); conducting further interviews with FMO, the MFA, and investors working alongside AEF and BP (including DFIs); and field visits to Kenya, India and Uganda.

The evaluation relied significantly on information and contacts provided by FMO, which implies the potential for some degree of information bias. This was mitigated by critically assessing the information received and by triangulating findings from various information sources (including external ones) whenever possible, to ensure robust conclusions that could support relevant recommendations on how to improve AEF and BP for the remainder of their current mandates, as well as for any potential future mandate.

Conclusions

On AEF and BP's overall capacity to support the envisaged results

1. **BP and AEF supported projects with high potential to advance development, in a financially additional way.** All projects reviewed were clearly conducive to development in line with the objectives of the MFA/DGIS. The financing provided by AEF and BP was crucial for these projects to continue and expand their activities.

2. **BP and AEF supported some high-development-potential business models in consolidating and position for financing from development finance institutions (DFIs) and commercial investors.** There were examples of both individual companies and sectors having progressively consolidated – with critical support from AEF or BP – and become attractive for other financiers.

3. **Projects consistently benefitted underserved populations. However, they often failed to reach the very poorest segments, which may not provide the conditions for the viability of self-sustaining business models.** In fact, reaching the poorest and most remote populations is often difficult and more expensive (e.g., due to lack of infrastructure and lower population densities). Additionally, those population often have very little purchasing power. Operating in fragile countries also brings additional risks. Nonetheless, it has been observed that companies already focused on targeting the poor may more easily have the capacity to gradually (and profitably) expand to even poorer segments.

4. **The direct jobs created were of good quality**, with characteristics aligned with IFC standards**; however, FMO had less capacity to influence the quality of indirect jobs**, which were often observed to be of significant lower quality, particularly in the agriculture sector.

5. **Gender issues were not being systematically or effectively targeted** in the selection of projects, likely due to a lack of eligible projects in the market with a strong gender component**. Where they were present, progress on gender issues tended to be tied to business strategies** (e.g., there was a commercial advantage to adding women to the workforce, to more easily reach women customers). However, there was little evidence of progress resulting from more general FMO-driven initiatives.

6. **Climate change significantly impacted the viability and profitability of some projects, particularly in the hydro energy sector.** In fact, changes in river flows and extreme weather often resulted in significantly lower than estimated generation capacity as well as costly damage to infrastructure.

7. **The use of Capacity Development was not strategically driven**; rather, it responded to emerging requests from clients and investment officers. **Nonetheless, it contributed towards progress on some development objectives**: particularly helping clients improve in areas like Environmental, Social and Governance topics, including most notably Consumer Protection.

On AEF's strategy and its implementation

8. **AEF's focus as defined in the 2019-28 mandate is clear and coherent with MFA/DGIS priorities and with FMO's strategy. AEF's KPIs list was mostly well-designed to track progress towards the desired results, although there is room for improvement.** Specific suggestions for improvements are included in the recommendations.

9. **Attractive opportunities in the energy sector exceed AEF's available resources.** In fact, in addition to the AEF portfolio, about one third of BP's portfolio is also invested in the energy sector.

10. **FMO was not equipped to address bottlenecks in grid expansion (transmission & distribution). These bottlenecks constrain access to higher-quality energy, necessary for advanced uses and the development of energy-intensive economic sectors.** This is largely due to transmission and distribution networks being largely controlled by public entities, which fall outside FMO's mandate.

11. **AEF did not proactively address the need to support energy demand and usage in areas that had only recently gained access to electricity.** Such support can prove critical in ensuring the sustainability of investments aimed at providing electricity to those locations.

On BP's strategy and its implementation

12. **BP's strategic framing around agricultural value chains is clear, although it could be better articulated in sub-segments. The strategic direction is less clear, however, when it comes to infrastructure.** In fact, only broad guidance was offered regarding the types of infrastructure that BP should invest in (in practice, these investments have been largely focused on renewable energy), whether it should have a connection to the agricultural value chains theme, or else what role these investments are expected to play within the MFA's Theories of Change. **BP's KPIs are not well-focused around priority objectives and not well-tailored to the activities performed in the 2019-23 period.**

13. **Opportunities for collaboration and synergy with other Dutch entities in the agriculture sector, particularly those focussed on** small-holder farmer, **were not exploited.**

Other conclusions

14. **FMO's impact management and learning systems were not well-integrated with the project cycle and did not meaningfully contribute to learning and improvement on AEF and BP.** The evaluation team believes that impact data could be significantly better exploited – specific actions are suggested as part of the recommendations.

15. **The specific challenges faced by early stage, high-risk ventures and their implications on funding needs were not explicitly considered in AEF and BP's design** (in particular: timeline of funding needs and expected high failure rates).

16. **The objectives behind the different revolvability thresholds set for AEF and BP (75% guaranteed and 100% on a best effort basis, respectively) were not clear and no evident difference was observed in the criteria of deployment of the two funds**. There were also significantly different perceptions between FMO and MFA staff as to the intended meaning and purpose of the revolvability percentages set for the two funds.

17. **The current KPI system may discourage AEF and BP fund managers from transferring investments to FMO-A**. These transfers would necessarily result in decreases in impact indicators corresponding to the contribution of projects transferred, as well as typically in an increase of the average risk of the portfolio.

18. **The need for local currency funding was a barrier for transition to FMO-A and other investors.** AEF and BP have a unique capability to lend in local currencies, which is often impossible or expensive for other

investors. This capability is a significant source of financial additionality for the funds; however, it can also be an obstacle to the transition to DFIs and commercial investors when receiving funding in local currency is critical for the investees' business models.

Recommendations

On the design and mandates of AEF and BP

1. **Continue to support AEF and BP throughout the current mandates and in the longer term.**
   Directed at: the MFA
   This is in consideration of the capacity that both AEF and BP have demonstrated to provide a substantial and unique contribution in line with the MFA's development objectives.

2. **Centre BP's focus on agricultural value chains and agri-focused enabling infrastructure.**
   Directed at: the MFA, in collaboration with AEF & BP's management
   This would help clarify BP's contribution within the MFA's Theories of Change. It would also position BP as an instrument that can be easily integrated with FMO's strategic sectoral focus of Agriculture, Food and Water (AFW), and facilitate the definition of KPIs to monitor progress, in that they could be designed to be targeted at the agri sector. This change would require transferring BP's current commitments in the energy sector (and the corresponding portion of BP's grant) to AEF, which would continue to focus on energy.
   Note: it is recommended that this transition be carried out over a 2-3 year period (e.g., in time for the conclusion of the current mandates for AEF and BP), to avoid sudden disruptions in ongoing investment processes.

3. **Revise BP (and AEF)'s indicators and their presentation in annual reports to better align with the objectives sought by the funds, to make them more harmonious and to improve their usability.**
   Directed at: the MFA, in collaboration with AEF & BP's management
   The overall objectives of this revision should be to ensure that both AEF and BP's KPI lists are concise and reflect the funds' stated objectives and priorities; and that annual KPI summaries (typically included in Annex 6 of AEF and BP's annual reports) are presented in a way that is easily understandable and facilitates the assessment of progress (e.g., compared to previous years) as well as a comparison across funds, to the extent to which it is applicable. A concrete list of suggestions is included in this report (see the Recommendation section).

4. **Clarify and ensure common understanding of the meaning and objectives sought through the revolvability percentages set.**
   Directed at: the MFA, in collaboration with AEF & BP's management
   The MFA should clarify whether the setting of low revolvability rates is intended solely as an incentive to encourage higher-risk investments, or also to allow for higher concessionality. In either case, this should only apply when the investments show a clear alignment with the MFA and the funds' development objectives. Also, the MFA should clarify how the revolvability percentages are to be interpreted and whether the FMO has a contractual obligation to meet a minimum requirement. Ideally, all the above should be codified in a written document. The recommendation section includes a concrete proposal for the above.

5. **Explicitly consider the mid-term implications of investing in early-stage companies in budgeting: potential further needs for funding in time (possibly in excess of EUR 10 million).**
   Directed at: AEF & BP's management, in collaboration with MFA
   Explicitly consider the likely need of successive rounds of funding (in subsequent years) on the part of early-stage models supported in defining budget requirements at the fund level.

On AEF and BP's implementation by FMO

6. **Strengthen BP's strategic approach for supporting agricultural value chains.**
   Directed at: BP's management and FMO (AFW department)
   Explicitly integrate BP (particularly, if Recommendation 2 is accepted) as an instrument in the toolkit of FMO's AFW department, defining its specific role – possibly in association with a list of priority high-risk but high development impact sub-segments with which engagement should be sought.

7. **Develop policies and guidelines for the use of government funding to support responsible exits in the case of liquidations.**
   Directed at: AEF & BP's management, in collaboration with MFA
   The policy should explicitly define whether the use of AEF and BP funds to mitigate the social consequences of liquidations is foreseen, in which modalities and with which limitations. (A more concrete suggestion is offered in Recommendations.) It is also suggested that each case be revised to progressively develop guidelines and best practices.

8. **Define strategic target areas/ objectives for Capacity Development in the specific contexts of AEF and BP. (Consider particularly gender and inclusiveness.)**
   Directed at: AEF & BP's management, in collaboration with MFA
   For each fund, identify a limited subset of themes (2-3) that reflect DGIS priorities and are also relevant for the projects' growth; encourage and give priority to support requests for capacity development that relate to those themes; and progressively develop expertise. A list of possible themes is included in the Recommendation section. In addition, define and formalize a capacity development budget for AEF.

9. **Explicitly assess climate change-related risks for all projects.**
   Directed at: FMO
   Develop processes in this sense, applicable (among others) to AEF and BP's investments.

10. **Develop a strategy to incorporate a gender lens in investments.**
    Directed at: FMO
    Provide a toolkit and incentives to FMO investment managers to promote gender priorities in both the selection and management of AEF and BP investments (among others), ideally within the context of a broader strategic framework on gender.

11. **Identify alternative options to the use of government funds for providing financing in local currencies to projects otherwise eligible for FMO-A.**
    Directed at: FMO (possibly with the support of the MFA)
    Explore ways to strengthen FMO's capacity to extend loans in local currencies (possibly also leveraging on guarantees supported by public entities, including the EU and the Dutch government). Develop partnerships with actors in target developing countries (including financial intermediaries) that may be interested in contributing to finance more mature projects in local currencies.
    Note: significant difficulties in extending loans in local currencies are recurrent among DFIs. It is thus expected that this recommendation will not be easy to implement.

12. **Strengthen FMO's monitoring and learning capacity in relation to AEF and BP.**
    Directed at: FMO and AEF (possibly with the support of the MFA)
    Act to improve the collection and use of impact data and information towards learning and improving the effectiveness of investments towards development metrics. Concrete suggestions for action are included in the Recommendation section.

Further recommendations in support of the achievement of DGIS objectives

13. **Ensure that investments in on-grid energy are accompanied by adequate development of energy transmission and distribution (T&D) networks (if necessary by involving actors other than FMO).**
    Directed at: FMO and MFA
    FMO: whenever evaluating investments in on-grid energy projects, assess whether the conditions exist for sufficient T&D capacity to be in place to support the additional generation capacity that will be created. If possible, also establish in-country working relationships with actors able to influence public entities in charge of T&D networks (e.g., World Bank)
    MFA: act towards the consolidation of T&D networks in target countries, leveraging on actors other than FMO (outside the scope of action of government funds).

1 Introduction

This evaluation report presents the findings, conclusions and recommendations of the Mid-Term Evaluation of the Access to Energy Fund (AEF) and the Building Prospects (BP) fund, covering the period from 2019 to 2023. The independent evaluation was commissioned by the Ministry of Foreign Affairs (MFA) of the Netherlands to the consultancy ADE.

Both funds are managed by the Dutch Entrepreneurial Development Bank FMO on behalf of the MFA. In 2018, their mandates have been renewed for ten years, from 2019 to 2029[1], with some significant adjustments. Because of the coincidence in the time scope of the mandate and of significant overlaps in terms of the two funds' investment strategies, a joint evaluation was considered appropriate.

The evaluation exercise had both accountability and learning objectives. In view of its mid-term nature the focus was placed primarily on the latter; and most notably on drawing strategic insights that may guide the strategic steering of the two funds in the rest of the mandate. In particular, the exercise focused on:

1. Understanding how the changes in AEF and BPs strategies and mandates implemented since 2019 affected the two funds' portfolios, their effectiveness, their fit within FMO and their contribution to priorities of the Directorate General for International Cooperation (DGIS), and
2. Identifying areas of improvement to AEF and BP's mandates, investment strategies and implementation, to better align with DGIS policy priorities and FMO's broader development architecture.

The evaluation was structured around 10 Evaluation Questions (EQs), which were divided in 3 groups (strategic coherence, efficiency/ effectiveness and additionality), outlined in the table below.

[1] Eventually, in 2023 the AEF mandate was further extended until the end of 2030.

Table 1: Evaluation Questions (EQs)

STRATEGIC COHERENCE	
EQ#	**Evaluation Questions**
EQ1	ALIGNMENT WITH DGIS PRIORITIES To what extent are the Theories of Change of AEF and BP and their targets and indicators aligned with the IGG and DDE results frameworks; fitting in and enabling them to effectively contribute to their policy priorities and thus to the overall DGIS development policy priorities?
EQ2	INTERNAL ALIGNMENT To what extent are BP and AEF's renewed visions and stated investment strategies reflected in the current portfolio, and particularly in the investments that have been done since 2019?
EQ3	BP INTERNAL COHERENCE Specifically for BP: To what extent does the investment portfolio form a coherent package, contributing to the objectives of the fund?
EQ4	FUNDS OVERLAP To what extent do the mandates of BP and AEF overlap with each other and with the mandates of other funds managed by FMO? Are overlaps reinforcing and leading to improved outcomes or do they have a negative effect on the outcomes of BP and AEF?
EFFICIENCY/ EFFECTIVENESS	
EQ5	PROCESSES & SYSTEMS To what extent have development outcomes/ impact ambitions (including on the cross-cutting issues of climate, gender and reaching underserved groups) driven and been explicitly incorporated in investment selection, preparation and decision processes; and to what extent is this process backed and followed up through effective monitoring systems and practices?
EQ6	RESULTS To what extent did different types of investments contribute to the envisaged development results (including on the cross-cutting issues of climate, gender and reaching underserved groups)? Which investments contributed more (or less) and how/why?
EQ7	CAPACITY DEVELOPMENT To what extent and how did the Capacity Development efforts funded through BP and AEF contribute to the outputs and outcomes of the investments supported and those of BP and AEF overall?
EQ8	GRADUATION To what extent and how do clients 'graduate' from BP and AEF, transferring to other investors (including but not limited to FMO-A)? Does FMO have established mechanisms to facilitate this process?
ADDITIONALITY	
EQ9	FINANCIAL ADDITIONALITY To what extent and how does FMO take into consideration and adapt to changes in the market environment to ensure that BP and AEF are and continue to be financially additional?
EQ10	REVOLVABILITY To what extent and how did the resolvability targets affect the funds' risk appetite and additionality (both developmental and financial)?

2 Methodology and limitations of the analysis

2.1 Overall approach

The evaluation was structured in three phases:

1. Inception: this first phase was aimed at refining the objectives/ scope of the study and at developing a methodology, also considering the resources (i.e., information, time and budget) available. Activities included high-level interviews with key MFA and FMO personnel; recollection and initial analysis of data and documentation available; and definition of the overall methodology for the study, including the 10 EQs presented above[2] and an Evaluation Matrix which served as the framework for the rest of the study (included in Annex 1). Furthermore, three countries (Kenya, India and Uganda) were chosen for visits, as well as a selection of 17 projects earmarked for review (the list and criteria for selection are included in Annex 5).
2. Field and analysis: the data and documentation collected was analysed along the lines set by the Evaluation Matrix. This included the following:
    a. Policy documentation review, covering AEF and BP *beschikkingen* (decisions) and other strategic documentation, relevant DGIS policy documents and publications and relevant FMO internal policy and procedural documents.
    b. Meta-evaluation: several recent studies and evaluations (including DGIS studies, past evaluations of FMO, AEF and BP, AEF and BP evidence maps, and relevant FMO thematic evaluations and project evaluations) were reviewed.
    c. Portfolio data analysis: quantitative analyses were performed on data provided by FMO on a portfolio basis – namely, on commitments, impact indicators and capacity development projects.
    d. Project reviews: 17 projects were reviewed (with a focus on 18 investment operations). The exercise included a review of documentation such as Clearance in Process (CIP), Financial Proposal (FP), Client Credit Review (CCR); Capacity Development (CD) documents, exit reports when applicable and client Impact Reports (on an availability basis). Online interviews with Investment Managers were also conducted for all projects, and client interviews for most of them. Several projects located in Kenya, India and Uganda were also visited (see hereafter).
    e. Country field visits in Kenya, India and Uganda, mainly focused at visiting a selection of projects and meeting some employees and beneficiaries. Meetings with Dutch embassies, other DFIs and commercial banks were also conducted.
    f. Interviews: further interviews were conducted with relevant stakeholders on a need basis, including with the Impact and Capacity Development departments of FMO, AEF and BP's leadership and other investors and DFIs.
3. Synthesis: the findings that emerged from the above-described analyses were synthetised and used to answer the EQs, and to subsequently formulate conclusions and recommendations.

Open and continuous dialogue was maintained with FMO throughout the study to facilitate the provision of relevant data, documentation and contacts and to ensure the accuracy and relevance of findings. At the same time, steps were taken to verify their objectivity and to ensure independence of views on the part of the evaluation team – e.g., through triangulation of sources and cross-checks/ supervision by multiple independent experts.

[2] Questions were based on the set originally included in the Terms of Reference (ToR), which were re-elaborated for clarity and in accordance with best evaluation practices, although respecting the original content and intent.

2.1.1 Limitations of the study

The scope of portfolio data analysis was limited to data systematically collected and stored (and provided to the evaluation team) by FMO. Some inconsistencies (usually minor) were noted amongst the data obtained, particularly between data coming from different systems. In a few cases, the sector classification of projects varied between years – although efforts have been made to remedy this. Communication was kept open with responsible FMO officers to ensure that the data was interpreted and analysed correctly.

The analysis in support of EQs concerning results, capacity development and financial additionality (among others) relied significantly (albeit not exclusively) on the review of a sample of 18 investment operations in 17 projects.[3] These jointly represented 14.3% of the combined portfolios of AEF and BP as of end 2023[4]; also, they corresponded to 18.2% of new investments in the period[5]. Such investment operations and projects were selected by the evaluation team in consultation with the MFA and FMO, considering criteria designed for the selection to be as much as possible reflective of the overall AEF and BP portfolios and most notably of activities put in place in the 2019-23 period. Nonetheless, the selection is necessarily not fully representative of the entire portfolio, and some undue generalisations may have been made from projects reviewed. In addition, aspects and learnings that could have been picked up in other projects may have been overlooked. *The information was complemented through interviews at various levels, as well as through the review of past evaluations (most notably, six project evaluations, evidence maps of AEF and BP, and various thematic evaluations).*

The recent nature of the investment operations reviewed limited the ability to observe and assess their results, particularly since most of the projects reviewed only started receiving support from FMO in the 2019-2023 period. Results may take a significant time to materialise, particularly at the outcome and impact level[6] As such, the study focused on assessing the strength of the projects' theories of change as well as on retrieving evidence of early results or indications of progress towards outcome-level results, including the identification of emerging enabling or hindering factors. The inclusion in the sample of six projects that had already received support from AEF or BP before 2019 and the review of five project evaluation studies (projects not included in the sample, all already supported before 2019) allowed for some longer-term perspective.

Field visits were conducted by local consultants, which eventually provided insights to the core team. Measures were taken to facilitate local consultants' onboarding and facilitate the recollection and transmission of the specific information sought. Nonetheless, it is possible that some relevant information may have been "lost in translation".

Overall, **the evaluation relied significantly on information and contacts provided by FMO**; which implies the possibility of some degree of information bias.

Development results are typically difficult to attribute, and **quantifying the extent to which results observed were attributable to BP and AEF was outside the scope of this study**. Rather, the focus has been on assessing whether the funds' contribution was additional (particularly, financially) and how FMO contributed to enable them.

Available time and resources allowed for **limited depth in data recollection and analysis, particularly in country and project reviews**. This is considered acceptable as the main purpose of the exercise was to get a broad, high-level assessment of the implementation of the new AEF and BP strategies and mandates; and to identify and support the discussion of potential areas of improvement that may already be implemented in the second part of the current mandate (ending in 2029 for BP and in 2030 for AEF).

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[3] With "investment operations" we refer to individual investment decisions. The same client (or project) may be the recipient of multiple investment operations in time. Note that investment operations may combine multiple "facilities" – each of which refers to the extension of funding from a specific source, e.g., AEF, BP, FMO-A or others.

[4] Note: some of the facilities reviewed were closed before 2023; as such, they are not reflected in this percentage.

[5] Note: this percentage also includes a few facilities that were not specifically included in the facilities' sample, but that referred to the same clients.

[6] This point is further discussed within EQ 6, on results.

3 Description of AEF and BP

3.1 AEF and BP main characteristics and role within MFA

Building Prospects (formerly the Infrastructure Development Fund – IDF) and the Access to Energy Fund were established in 2002 and 2007 respectively. The funds enable the MFA to leverage on FMO's expertise in supporting companies as a tool to achieve its development policy priorities. Their purpose is to stimulate investment in private market segments and companies in developing countries whose activity has a strong potential to enable outcomes and impacts in line with the priorities of the MFA's Directorate General for International Cooperation (DGIS); and which, because of their risk profile, are not attractive or feasible investment targets for other actors (including FMO itself, other DFIs and commercial actors), or would not be without the de-risking intervention of government funds (i.e., in the form of investments in junior, first-loss tranches). A key objective of both AEF and BP is to contribute to the strengthening of high development potential companies and segments so they eventually become viable for DFI and commercial funding.[7]

AEF and BP funding may take the form of equity, mezzanine or debt funding, either directly in enterprises or in equity or debt funds operating in target segments. They are deployed by FMO following the same process as FMO's own funding. Additionally, investments also must comply with the funds' eligibility criteria. The accounting of AEF and BP is done separately and outside of FMO's balance sheet, and their ownership remains with the MFA. Their operation does not affect FMO's capital position and risk exposure.

The two funds have different – though overlapping – sectorial and geographical focuses. These were (progressively) modified as part of adjustments to their strategies, the last round of which took place in 2018 and became effective in 2019. On those occasions, the mandates of the funds were also extended by 10 years, until 2028. The funds' current focuses, along with other main characteristics, are described more in detail in the table below. Both funds are revolving in nature – meaning that their investment are expected to generate cash flows that progressively replenish capital (in all or part), thus allowing the funding of further investments in the future.

Table 2: BP and AEF's main characteristics

	Building Prospects (BP)	Access to Energy Fund (AEF)
Established in	2002 (initially as IDF – Infrastructure Development Fund)	2007
Total MFA contribution (cumulative, as of end 2023)	EUR 462 million (of which EUR 5 million and an additional 0.5% of net asset value per year excluded from revolvability)	EUR 210,9 million (of which 20.9 million excluded from revolvability)
Expected revolvability rate (nominal)	100%	75%

[7] In addition to BP and AEF, FMO also operates a third fund on behalf of the MFA: MASSIF, focussing on the financial sector (specifically on financial inclusion). These three funds also co-invest in a fourth fund, the Venture Fund, which focuses on very early-stage enterprises. (Note: the Venture Fund is also co-invested by FMO and supported by an EU guarantee.) Furthermore, FMO also manages or collaborates in the management of other government funds and guarantee programs supported by the EU, the Dutch and the UK government; as well as investing its own resources (FMO-A). *Source: FMO annual report 2023.*

Stated purpose (2019-28 mandate)	Invest to create improved economic prospects for people in developing countries, through sustainable social and economic growth.	Provide risk-bearing funding to projects supporting sustainable access to energy in developing countries.
Main objective (2019-28 mandate)	Stimulate private sector development and drive job creation.	Improve the availability and quality of power by adding new renewable energy generation and distribution capacity (solar, wind, hydro) to currently underserved markets.
Stated thematic focus (2019-28 mandate)	Agricultural value chains, enabling infrastructure, climate action.	Reaching the "unreached": people living without proper access to energy in South Asia and Sub-Saharan Africa, with a focus on use of innovation, transmission and distribution and productive use that drive social and economic impact.
Main SDGs targeted	8, 9, 10 and 13	7, 8, 10 and 13
Geographic focus	A list of 70 countries (included in Annex 3)	Eligibility: all OECD-DAC ODA[8]-eligible countries. A minimum of 25% (preferably 50%) of investments should be in DGIS focus countries (list included in Annex 3).
Key aspects of the 2019 mandate change	The core focus was changed from infrastructure to agricultural value chains.	Expansion of the geographic reach beyond Sub-Saharan Africa (SSA); possibility of investments targeting Small and Medium Enterprises (SMEs) in addition to households; increased focus on productive uses of energy.

Source: ADE based on FMO, BP strategy (2019-2028); ToR; 2018 agreements between FMO and MFA.

Note: as of end 2023, FMO managed a total committed portfolio of EUR 13.2 billion[9] - implying that BP and AEF represent roughly 5.2% of the total investments managed by FMO.

3.2 AEF and BP portfolios: overview and evolution

As of end 2023, BP and AEF had committed portfolios for EUR 486,2 million and EUR 192,5 million respectively, up from 418,9 and 110,0 in 2018.[10] This covered a total of 101 clients: 77 BP clients and 41 AEF clients, with 17 clients invested by both funds. Some key data on the portfolios of the two funds and their evolution since 2019 is presented in the table below.

Table 3: Key data on BP and AEF's portfolio and activity between 2019 and 2023

	BP	AEF	BP+AEF
Total committed portfolio at end 2023, EUR million (% increase vs end 2018)	486,2 (+16%)	192,5 (+75%)	678,6 (+28%)
Clients active at end 2023 (% increase vs end 2018)	77 (+38%)	41 (+78%)	101 (17 co-invested) (+38%)

8 Official Development Assistance

9 Source: FMO 2023 Annual Report. The amount includes investments made on FMO's own balance sheet as well as public and mobilised funds – such as AEF and BP.

10 Based on data provided by FMO. The numbers provided in the 2023 Annual Reports are slightly different (EUR 484 million for BP and EUR 195 million for AEF.)

Investment operations active as of end 2023 (% increase vs end 2018)	86 (+37%)	52 (+100%)	117 (21 co-invested) (+48%)
Average (weighted by amount) and max age of contracts in portfolio at end 2023 (years)	6.4 max: 20.4	3.5 max: 15.2	5.5 max: 20.4
Deals (new investment operations launched) in 2019-23	58	42	84 (16 co-investments)
Total amount committed in 2019-23 deals, at the time of commitment (1)	325,6	156,9	482,5
Average and range of deal value, EUR, at the time of commitment (1)	5,6m (12K-16,7m)	3,7m (0-10,4m)	n.m.
New projects (clients) acquired in 2019-23 (2)	46	30	63 (13 co-invested)
Investment operations closed (2) in 2019-23	32	16	46 (2 co-invested)
Projects (clients) closed (2) in 2019-23 (3)	25	13	35 (3 co-invested)
Revolvability as of 2023	86,3%	107,6%	n.m.

Source: ADE analysis on data provided by FMO, 2023 annual reports.
(1) Committed value as registered at the end of the year.
(2) "Closed" merely indicates no further activity within AEF or BP. This includes investment operations having reached organic conclusion (e.g., debt repayment in full), exits through graduation to FMO-A or other players, and write-offs, among others.
(3) Some overestimation is to be assumed, as changes in clients' legal names may have occurred though the association between old and new name cannot be deduced from the database; also, different subsidiaries of the same company appear as different clients.

Trends in AEF and BP investments in the 2019-2023 period are further discussed in EQ2. EQ4 discussed the overlap within the funds (with a particular focus on AEF and BP, but also touching upon MASSIF and the Venture Fund); EQ7 the use of Capacity Development funds; and EQ8 the graduation of projects. A more comprehensive overview of the analyses performed on AEF and BP databases provided by FMO is also included in Annex 4.

3.3 Typification of AEF and BP projects

Following discussions with the MFA, FMO was asked to support the reclassification of AEF and BP projects according to the following sub-sectors – on which the analysis in this evaluation was based:

1. Agriculture, excluding forestry
2. Forestry
3. Energy, on-grid
4. Energy, off-grid – excluding mini-grids and clean cooking (essentially, this includes Solar Home Systems (SHS) and other small-scale solar installation companies)
5. Energy, mini-grids
6. Clean cooking
7. Energy, other
8. Others[11]

[11] This included for the most part projects that either covered more than one sector and/or whose sector focus could not be distinguished from data available (e.g., multi sector funds, including commitments to the Venture Program – an initiative supported by the three government funds AEF, BP and MASSIF, along with FMO-A and an EU guarantee); and a few investments marked as covering other sectors, particularly: telecom (2), financial institutions (2) and social infrastructure (1). This residual group

Also, the project evaluation team typified the projects reviewed based on their development stage and the role of AEF-BP finance within them – which led to some common characteristics, further referred to in the answers to some EQs (particularly EQ 8, on Graduation; and EQ 9, on Financial Additionality).

Table 4: Typification of projects reviewed, according to the type/ stage of the business

Type of client/ stage[1]	Description	Financial products used	Graduation/ exit prospects	Additionality of AEF/ BP funding	Examples within projects reviewed
Innovative ideas with an uncertain business case	Models with high expected impact, yet to be tested/ validated (i.e., with a very short or no track record)	(Convertible) debt/ equity	Prospects mostly only envisaged in general terms. (In the case of debt, extinction at term and refinancing is the default option.)	- Projects do not meet FMO-A eligibility criteria due to early stage - Scarcity/ affordability of funding available - Credibility gained from receiving funding from FMO (particularly: for further fundraising purposes) - Advice/ competences towards professionalisation (including Environmental, Social and Governance (ESG))	Husk Power Systems*, Komaza Forestry*, Mawingu, Winch Funds: Omnivore Partners, Acumen Resilient Agriculture Fund (ARAF), BIX Capital*
Projects with a nearly commercially viable business case	High-impact ventures with a few years of track record; with demonstrated market traction and scaling potential; although not yet consolidated/ profitable	Mostly debt (often in local currency) May be combined with FMO-A tranches	Transition to FMO-A may be sought during the life of the investment (particularly if the investment is co-financed with FMO-A)	- Projects do not meet FMO-A eligibility criteria due to early stage - Scarcity of funding available tailored to the business model (particularly: amounts, tenor, impact-oriented capital, local currency) - Advice/ competences towards professionalisation (incl. ESG)	SHS: d.light*, GreenLight Planet, M-Kopa* Agri: Sahyadri, Pearl Dairy Farms, Ivory Cocoa Products
Project finance	Large infrastructure projects requiring a significant initial capex investment, which they are expected to repay with the proceeds of the operation of the asset (i.e., sale of energy)	Mostly debt (typically in strong currency, i.e., EUR or USD) Usually combined with larger (more senior) tranches of FMO-A/ other DFIs	Transition to FMO-A may be considered for well-performing projects once the construction phase is over	- De-risking (small AEF/ BP junior tranches used to enable larger FMO-A/ other DFI senior tranches) - Focus on ESG	Nyamwamba*, Madagascar Hydro, JCM Salima, Lakeside Energy

[1] The names of the two first types of investments have been chosen to also reflect the categorisation proposed in IOB, Funding commitments in transition", 2021

* FMO's first investments in the client/ project took place before 2019. In the case of d.light and Husk Power Systems, this was in the last months of 2018; while in other cases first investments were substantially older.

Source: ADE analysis, based on project reviews

In the first type of investments (innovative ideas with an uncertain business case) AEF and BP typically play a frontrunner role, providing risk-bearing funding at an early stage when commercial investors are not yet

accounted for 12% of commitments as of end 2023 for AEF, and 22% for BP. Within those commitments, the Venture Program accounts for 80,9% in the case of AEF and 34,5% in the case of BP.

willing to intervene.

In the second type of investments, the role of AEF and BP tends to be closer to that of a frontrunner, although in some cases their presence is also used to catalyse further investments from FMO-A, other DFIs or commercial investors (by providing de-risking or reassurance on the viability of the model).

In the last type of investments (project finance, AEF and BP typically act as junior co-investor of FMO-A or other DFIs, de-risking investments and catalysing the participation of other investors into high-risk transactions which they would otherwise not do (e.g., due to risk/ return balance sheet requirements).

3.4 Note on global context factors

During the 2019-2024 period, AEF and BP activities were inevitably affected by contextual factors at both the local and global levels. Relevant global trends that characterised the period include:

The COVID-19 pandemic. The COVID-19 pandemic had far-reaching impacts on global economies. Lockdown measures and travel restrictions disrupted supply chains, affected investment activities, and impacted jobs and job creation. This resulted in contractions in disposable income and demand, particularly at the 'Bottom of the Pyramid'; but at the same time, it prompted countries and businesses to reflect on and invest in the resilience of supply chains, innovation and digitalisation, among others.

Growing geopolitical tensions. This includes the 2022 Ukraine invasion, which disrupted some supply chains (most notably, in the energy and agricultural sectors) and affected investor confidence as well as donor priorities; as well as ever growing tensions between the USA and China, which also affected some investment dynamics, among others.

Global macro trends and investor appetite. Increased interest rates in developed countries led to shifts in investors' preferences towards safer assets and higher costs of capital globally, including in developing countries; and contributed to higher volatility in local currency exchange rates.[12]

Climate Change. The effects of climate change have become more visible; with AEF and BP's key target geographic areas (SSA and parts of Asia) being increasingly subject to extreme temperatures, droughts and floods, among others. This affected and continues to affect the viability and profitability of energy infrastructure projects and dramatically increases the vulnerability of the agriculture sector, among others. At the same time, it is worth noting that – particularly since the Paris Agreement (2015) – awareness of climate change is growing; and governments and international organisations are increasingly doing efforts to mitigate greenhouse gas emissions and create more favourable conditions for investments in renewable energy and clean technologies – which have in fact resulted in an increased investment interest in renewable energy, including in developing countries.[13]

[12] IMF World Investment Report 2023, UNCTAD World Investment Report 2023.

[13] UNCTAD World Investment Report 2023.

4 Answers to Evaluation Questions

4.1 EQ1 – Alignment with DGIS priorities

To what extent are the Theories of Change of AEF and BP and their targets and indicators aligned with the IGG and DDE results frameworks; fitting in and enabling them to effectively contribute to their policy priorities and thus to the overall DGIS development policy priorities?

In brief:

AEF's theory of change is well aligned with the DGIS priorities, and particularly with the theory of change on climate change. The indicators are also aligned with the results framework of the Department for Inclusive Green Growth of the MFA (IGG) and reflective of most DGIS priorities – with the notable exception of inclusiveness in access to energy, which is not reported on. The indicators also have a weakness in that the development results are only reflected for projects that are in portfolio at any given point in time. Those transferred to FMO-A or other investors cease to contribute to the indicators, meaning that these transfers, which should be incentivised, are in practice reflected negatively in the indicators. (This last also applies to BP.)

On the other hand, BP's list of indicators is lengthy and somewhat unfocused (possibly having been in large part inherited from the predecessor fund IDF) and generally less informative of progress on DGIS priorities. BP combines a first area of focus on agricultural value chains with a less-well-defined second area of focus on infrastructure. The former clearly aligns and contributes to the theory of change of the Department for Sustainable Economic Development of the MFA (DDE). The latter's envisaged role in the DDE's theory of change is less clear. In its implementation it also appears highly concentrated on the energy sector, thus overlapping with AEF – see also EQ2).

Beyond the specific focus of each fund (respectively on access to energy and agricultural value chains/ infrastructure) and direct line of responsibility to IGG and DDE, the theories of change of both funds contribute to overarching and cross-cutting DGIS objectives. These include private sector development (PSD), climate, gender and reaching underserved groups. However, the indicators do not entirely cover those common objectives, nor is the definition of common/ similar indicators fully aligned among the two funds, making them not comparable.

AEF and BP's strategic documents do not define whether and how they should interact with other instruments of the DGIS toolkit as part of the broader DGIS strategy. Their specific scope – investment operations from about EUR 1 million and up to EUR 10 million – however, leads them to play a quite unique role, albeit with potentially little opportunities for synergies, given that other cooperation instruments seem to target primarily endeavours too small to reach those ticket sizes. However, there appear to be opportunities for synergy in supporting small entrepreneurs, particularly small holder farmers (SHF), when those are coordinated through hubs or aggregators.

Sources of evidence used in support of the answer to this EQ:

Documentation: *AEF and BP contractual documents (*beschikkingen*) and related communication between FMO and the MFA; AEF and BP strategies for 2019-2029; AEF and BP annual reports (particularly: annex 6, related to impact reporting); DGIS's theory of change on Climate Change (2018); IGG results frameworks on Climate (2021 and 2023); DDE's Theory of change for Decent Work and Economic Growth (2021).*

Databases: *data extracted from FMO's impact database*

Primary sources: *interviews with FMO investment managers, FMO's impact department, FMO clients (corresponding to the projects reviewed), other DFIs and (current and former) Dutch Embassy personnel in Kenya and Uganda.*

The response to this EQ is structured in three parts. The first centres on AEF, the second on BP, while the third addresses the fit of the two funds within the DGIS toolkit.

Alignment of AEF with the IGG's results framework

Paraphrasing strategic documents, AEF's objective is to improve the availability and quality of power by

adding new renewable energy generation and distribution capacity to currently underserved markets, by supporting private sector projects in becoming "bankable"[14] - that is, demonstrating that they can be both sustainable and profitable, thus attracting interest from public and private sector investors.[15] AEF typically plays one of two roles in its investments:

1. *Frontrunner*: it provides risk-bearing funding to unproven technologies/ business models with high expected impact, intervening at an early stage when commercial investors are not yet able to accept the credit risk or tenor.
2. *Junior co-investor with FMO-A, other DFIs or impact investors*: it provides a first-loss tranche, catalysing other investors into high-risk transactions which they otherwise cannot do (e.g., due to risk/ return balance sheet requirements).

The scope and purpose of AEF's activities is well-defined in strategic documents, in a way that is well-aligned with the DGIS's theory of change on Climate Change (2018) as well as the IGG results framework on Climate (2021 and 2023). Within the IGG's Theory of change on Climate Change narrative, AEF particularly contributes to the first Policy Goal, on "Increased access to renewable energy and lower greenhouse gas emissions" (which broadly corresponds to the result area 1 in the 2023 framework). AEF's investments and activities are in line with the interventions sought under this policy area: *(1) Investing in access to renewable energy (electricity and clean cooking) for the poorest, especially for women. (2) Promoting large-scale investments in renewable energy in developing countries. (3) Collaborating with the private sector to mobilise private investment in renewable energy in developing countries and to help Dutch innovative companies and investors position themselves in this rapidly growing sector in developing countries. (4) Strengthening knowledge about the relationship between climate, energy and development.*[16]

Concerning the third priority, it is worth noting that FMO does not have a specific focus on supporting Dutch companies; also, the fourth priority is not a clear focus of FMO/AEF although some of its activities - particularly, studies - may contribute to it.

Making specific reference to the 2023 results framework, AEF directly contributes to result area 1 (Improved access to renewable energy and accelerated energy transition – SDG 7) and most notably to progress on its indicators (1.1.A: Number of people that have gained access to renewable energy as a result of Dutch support; and 1.1.B: Number of people indirectly reached); as well as to sub-result areas 0.2 (Climate change mitigation – concerned with stabilizing GHG) and 4.6 (Market development and mobilising financial means), particularly the mobilisation of third party private and public capital. Although with a lesser focus, AEF activities can also contribute to sub-result areas 4.1 (Policy development and diplomatic outreach), 4.4 (Capacity Building and Technology Transfer) and 4.5 (Empowerment of groups in vulnerable situations). It is worth noting that AEF activities do not seem to have a specific focus on climate change adaptation (sub-result area 0.1).

There is good alignment between the KPIs monitored by AEF and the results sought by the IGG. All the indicators reported on (see Table 5) are aligned with the IGG theory of change, and broadly covering the main results sought. (It is worth noting that per se, the indicators on labour generated do not specifically relate to the IGG theory of change, which focuses on climate; but they are nonetheless relevant in a wider perspective of supporting PSD as well as to the extension of AEF's 2019-2028 mandate to SMEs and productive activities, as a way to create social development and prosperity).

[14] AEF strategy for 2019-2029.

[15] AEF activity appraisal document, 2018.

[16] Foreign Trade and Development Cooperation; Theory of change on Climate Change Narrative (2018)

Table 5: Impact Indicators monitored for AEF and BP

	AEF	BP
Indicators monitored (as per 2023 annual report)	1. *Beneficiaries reached (number)* 2. Installed capacity (MW) 3. Direct and indirect labour generated (number), disaggregated by: a. Direct jobs b. Estimated direct jobs supported for women *c. Estimated indirect jobs supported* *d. Estimated indirect jobs supported for women* 4. Catalytic effect (EUR) a. Public financing in the projects in the current AEF portfolio b. Commercial financing in the projects in the current AEF portfolio *5. Calculated emission reductions (tCO2 eq/yr)*	1. Number of companies with a supported plan to invest or trade, disaggregated by local/ Dutch; 2. Co-investments (EUR)* a. Public co-investments b. Private co-investments 3. Jobs supported: (number)* a. Direct jobs supported b. Direct jobs supported for women *c. Indirect jobs supported* *d. Indirect jobs supported for women* *4. Number of people reached** 5. Number of new committed infrastructure projects 6. Number of infrastructure projects completed 7. Contracted and disbursed amounts (EUR) 8. Project costs and total assets for corporates (EUR)* 9. Corporate income tax (EUR) *10. GHG avoidance (tCO2 eg/yr)** *11. Number of people that have gained access to renewable energy** 12. Private co-investments in renewables (EUR)* 13. Ha of forested land under sustainable management* 14. Green investments (number)* 15. % of green investments 16. Waste reduction / resource efficiency investments (> 20% reduction labelled as green), number* ** Also reflected in the template of BP notes (to be filled in to support investment decision at CIP/ FP stage)*
Targets set for the 2019-24 period	None	• Jobs supported: - Direct jobs: 26,000 - Indirect jobs: 720,000 - Indirect jobs for women: 316,000 • Catalysed amounts: - Private: EUR 952 million - Public: EUR 1,284 million
Further indicators for which data is recollected	• RI label (not reported on) • Green label (not reported on) • SDG markers (not reported on) • % of investments in MFA focus countries	• RI label (not reported on) • Green label (not reported on) • SDG markers (not reported on)

Indicators market in italics are estimated using the Joint Impact Model (JIM); while for the others, values are collected on an individual client basis.

All indicators except for "Beneficiaries reached" (AEF, n.1) and "Number of people reached" (BP, n. 4) are measured on a "whole project" basis – that is, not considering the relative significance of AEF and BP funding with respect to the total funding received by the project.[17]

Source: ADE, based on AEF and BP strategic documentation, annual reports, and data provided by FMO's impact department.

However, AEF's set of indicators also foregoes two key results sought by the IGG results framework, namely the inclusion of the 'Bottom of the Pyramid' (which is often located in areas with low population density requiring larger efforts to reach a smaller number of people – therefore allowing only "inefficient" progress on the indicator of beneficiaries reached); and gender aspects (considered within the indicator on direct

[17] This is often the practice among DFIs and is justified by the fact that DFI capital often has a catalysing role, i.e., it supports and enables the attraction of further capital from other sources. All or significant part of the impact would therefore not have existed without the intervention of the enabling DFI(s).

labour, but not elsewhere). Concerning inclusion, it is worth mentioning that, beyond the indicators required by the AEF mandate, AEF also collects data on investments which are RI-labelled (Reducing Inequalities), investments which focus on DGIS-focus countries[18], as well as on SDGs targeted, including SDG 10 (on reducing inequalities), which could be considered proxies.

Last, it is worth noting that, as currently designed, **indicators refer to the sums of contributions of projects in AEF and BP portfolios at a given point in time only. This could imply a disincentive for transferring well-performing projects to FMO-A, as the results from those projects would no longer be reflected in KPIs.** (This point will be further addressed in EQ8, on graduation.)

No targets were established for AEF for the 2019-23 period.

Alignment of BP with the DDE results' framework

BP's theory of change and scope of action is less clear compared to AEF. Moreover, some inconsistencies are noted amongst strategic documents: in particular, the theory of change diagram included in the BP strategy document for 2019-2028 presents some differences with respect to that included in the Assessment memorandum prepared in support of the 2018 application for extension and top up of the fund; also, various documentation elaborated in support of that decision shows different degrees of emphasis on the infrastructure topics. **Overall, the fund is structured as focused on two main areas: agricultural value chains (including forestry) and PSD-enabling infrastructure, with gender and climate (mitigation and adaptation) as cross-cutting themes.** Infrastructure is noted to cover the sectors of energy, water, social infrastructure (health and education, finalised at ensuring access to adequate human capital) and logistics & transportation. In practice, however, the infrastructure-related projects supported were largely focused on energy (see also EQ2).

Both the agricultural value chains and infrastructure themes fit well under the DDE's theory of change for Decent Work and Economic Growth. Agricultural value chains naturally have a focus on small farmers, which are explicitly mentioned as a key category of Micro, Small and Medium Enterprises (MSMEs)/ microentrepreneurs in the DDE's theory of change; and fits well as a focus sector under all direct and systemic outcomes relative to "Strong MSMEs" and some others relative to "Favourable business climate" (namely, under direct outcomes: supported demonstration effects and under systemic outcomes: companies supported with integrating sustainability into their business models).[19]

Infrastructure is also a good fit with the DDE's theory of change – particularly under "improved economic, physical and digital infrastructure" (direct outcomes relative to favourable business outcomes). However, the specific logic of what types of infrastructure should be supported (i.e., in the light of functioning as an enabler to PSD, and particularly to MSME development) is not clearly explained. Nor there is any clear suggestion of whether infrastructure projects supported should be linked to the agricultural value chains theme. In fact, although grouped in the same fund the two themes appear to be dealt with largely independently of each other, despite significant potential synergies. It is also notable that BP's theory of change does not mention digital infrastructure, which is underscored in the DDE's theory of change and was mentioned by more than one client as a very significant enabling factor[20]

The plan for the pursuit of the gender and climate themes, emphasised in the DDE's theory of change, is well

[18] The list of DGIS-focus countries is included in Annex 3.

[19] Concerning forestry, which was explicitly included as a subsector within agribusiness, it is worth noting that BP support may gradually become less needed/ relevant given the establishment of the Mobilising Finance for Forests (MFF) program with the UK government in 2021, which is specifically dedicated to this sector.

[20] Mobile phone (ideally: smartphone) ownership and network coverage were highlighted as essential to support the diffusion of SHS (and other) models operating on a PAYGO basis, as sales, payments and post-sales support are largely run over the phone. Several agri-tech companies strongly leverage on apps to provide services and support (and/or could potentially leverage more to achieve further impact). Also, connection enables mini-grid meters to be checked and intervened on remotely

explained in BP's theory of change and strategic documents.It is worth, however, noting the absence in BP documents of the "youth" focus, also emphasised in the DDE's theory of change (although this may be less relevant considering the low average age of populations in developing countries).

The set of indicators for BP appears extensive and non-focused. In fact, many indicators may have been remnants from the previously more infrastructure-focused IDF, despite the transition to BP.

Some of the indicators are applicable to all projects: particularly, those identifiable with numbers 2, 3, 4, 10, 13, 14-15 and 16 (see Table 5). Others, however, appear either very specific to certain types of infrastructure (e.g., energy projects), very process-oriented, or not closely linked to BP's theory of change. On the other hand, some indicators from the revised Private Sector Development (PSD) Direct Results Framework[21], which could potentially be representative of progress towards the objectives of BP's (and the DDEs) theory of change, have not been included, namely:

- Annual revenue growth of supported enterprises.
- Value of export of products and services by supported enterprises.
- Number of direct beneficiaries (including wage labourers, small-scale farmers, individual entrepreneurs etc.) supported to have higher incomes.
- Number of end users with access to new or improved infrastructure *(this indicator could replace or complement indicator n. 11 above, being also applicable to non-energy-focused infrastructure)*.
- Hectares of farmland used more eco-efficiently.

It is also worth noting that the number of small holder farmers (SHF) reached is a common indicator monitored by many BP agri-sector investees and for which information may thus be easy to collect.

Finally, it is worth noting that the DDE's geographic focus on Low-Income Countries (LICs) is not reflected in indicators, although the theory of change's narrative concedes that revolving funds may naturally have to maintain a larger focus on Lower-Middle-Income Countries (LMICs).

Targets were set for three indicators, for the period 2019-23:

- Indicator 3, on jobs supported:
  - Direct jobs (total): 26,000
  - Indirect jobs (total): 720,000
  - Indirect jobs for women: 316,000
- Catalysed amounts:
  - Private: EUR 952 million
  - Public: EUR 1,284 million

No justification is provided in BP's strategic documentation for the specific amounts given. It is noted that annual targets corresponded to the targets for the whole period divided by 5[22]: the logic of this does not appear, however, entirely clear in the case of jobs – as those are reported by FMO in terms of overall existing jobs, rather than new jobs created; and are thus not incremental year-on-year.

Fit of AEF and BP within the DGIS toolkit

Beyond the specific focus of AEF and BP and their direct line of responsibility respectively to the IGG and DDE, the theories of change of both funds are conducive to overarching and cross-cutting DGIS objectives, including PSD, climate, gender and reaching underserved groups. However, indicators set do not entirely cover and underline those common objectives. Also, some indicators measuring similar things are not fully aligned in their definitions and methodologies among the funds, limiting the possibility for comparison; or in other cases, indicators using the same methodologies are named differently, giving the erroneous impression

[21] Version as of August 2021.

[22] As noted in Appendix 2 to the 2019 *beschikking*.

of not being immediately comparable. In particular:

- "Beneficiaries reached" (AEF) and "number of people reached" (BP) refer to essentially the same concept. Nonetheless, the name of the indicator is slightly different; this, coupled to the fact that definitions and methodologies used for the calculation of each indicator are not readily available, may raise doubts to the users of KPIs on whether the two numbers are comparable. Note: the indicator "Number of people that have gained access to renewable energy" (BP) was in fact noted to follow the same methodology of "beneficiaries reached" in the case of energy investments, thus being directly comparable – although, once again, the different name does not make this immediately evident.
- "Catalytic effect" (AEF) closely corresponds to "Co-investments" (BP). However, in the case of AEF the indicator refers to co-financing in all projects active in the portfolio; in the case of BP, to the current year's co-investments only.
- Calculated emission reduction (AEF) and GHG avoidance (BP) appear to be the same indicator, albeit named differently.

Evaluators also noted that, for some KPIs, the choice of specific datapoints used was not entirely straightforward. (For example, for the case of direct jobs, only direct jobs in operation and maintenance were reported on.)

Strategic documents do not outline how AEF and BP should fit and interact with other instruments of the DGIS toolkit. Both AEF and BP play a unique role, not only amongst DGIS instruments but also – largely – within the wider ODA market, given their appetite for investment operations between EUR 1 and 10 million. Some limited overlaps in scope exist with other DGIS-supported organisations, particularly with Invest International and the DGGF. Given the overall scarcity of capital in target markets these were reported to be largely seen and dealt with as opportunities for collaboration (e.g., through co-investments or transfers of investments) rather than creating competition issues. Similarly, the funds typically collaborate and co-invest with other DFIs. Evidence collected points at the existence of a productive dialogue among DFIs, albeit largely informal and opportunity-based, and coordinated centrally rather than in-country. In the case of the energy sector (focus of AEF), FMO was observed to dialogue and collaborate also with global Non-Governmental Organisations (NGOs) and investors focusing on off-grid energy segments, to which FMO is complementary – namely, the Global Association for the off-grid solar energy industry (GOGLA), and the Shell Foundation. Lesser evidence of dialogue was found for other sectors in which BP invests.

Despite open communication between FMO and cooperation personnel with staff within the Dutch embassies, concrete opportunities for synergies between projects and strategies were perceived to be limited. In this sense, the dichotomy between the "investor" and "donor" perspectives was described as an obstacle. Also, there seems to be a substantial size (and maturity) gap between the (relatively consolidated) ventures that AEF and BP can support, and the micro-entrepreneurs that are typically the focus of embassy programs.[23] Nonetheless, possibilities of collaboration and synergies may exist in cases in which FMO is investing in companies supporting or aggregating micro-entrepreneurs – notably, within the agriculture sector (which is a key focus of DDE's strategy), as in the case described in the box below.

Box 1: Combining FMO and Dutch embassy support: the case of Pearl Dairy Farms

In late 2023, FMO extended a loan to Pearl Dairy Farms, a Ugandan dairy processing and distribution company. Pearl Dairy sources milk from (mainly) small farmers, which it then processes, commercialises and distributes in an aggregated way. The loan will support Pearl Dairy in expanding its activities, also building a new processing plant for producing powdered milk.

Pearl Dairy operates several activities to support small dairy farmers in improving their productivity and quality

[23] In this respect, see also IOB," Funding commitments in transition" (2021).

standards – which also indirectly contribute to improving their income and welfare. Some of these activities and trainings have been supported by grants, including by the Dutch embassy in Uganda.

FMO's involvement with Pearl Dairy was independent from the Dutch embassy. Nonetheless, this case could inspire possibilities for synergies on other projects.

Source: ADE based on interviews.

4.2 EQ2 – Internal alignment

To what extent are AEF and BP's renewed visions and stated investment strategies reflected in the current portfolio, and particularly in the investments that have been done since 2019?

In brief:

Overall, AEF's portfolio has evolved in line with its mandate. Geographically, it remained concentrated on Africa, although it also expanded to activities in Asia. In terms of sub-sectors, it has split its focus between on-grid and off-grid electricity investments. Although on-grid is still more significant in terms of amounts invested, (smaller) investment operations in off-grid are increasing in number, including in newly emerging sectors such as clean cooking and mini grids. Compared to the formulated strategic ambitions, there was only a small focus noted on Transmission & Distribution and on Productive Use of energy.

Coherent with the new mandate, BP has strengthened its focus on agricultural value chains. However, beyond that, the thematic strategy of the investments appears unclear. A further significant part of the portfolio has been invested in energy, although not all of it in what would be considered as "infrastructure". No significant investment was seen in other types of infrastructure mentioned in the 2019-28 strategy, namely water, health, education, logistics and transport modes. The geographic distribution of investments remained substantially similar throughout the period.

Sources of evidence used in support of the answer to this EQ:

Documentation: *projects reviewed's documents (pre-investment, annual reviews, other); previous thematic evaluations.*

Databases: *data extracted from FMO's financial database and FMO's impact database.*

Primary sources: *interviews with FMO investment managers, FMO clients (corresponding to the projects reviewed) and other DFIs.*

AEF

AEF's portfolio evolved coherently with its changed mandate[24]; although two out of five key strategic investment themes (Productive Use and Transmission & Distribution) were not significantly acted upon.

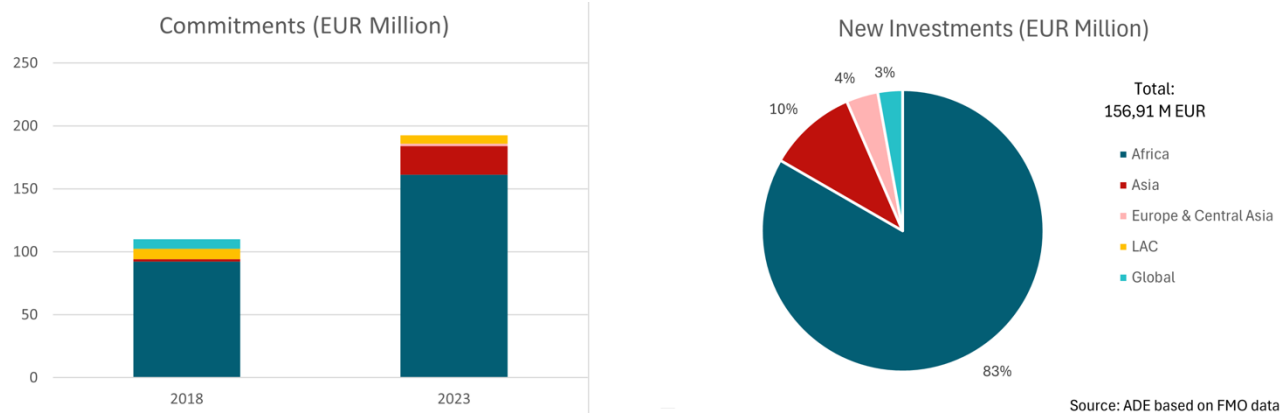
AEF's portfolio remained concentrated on Africa, but activities expanded in Asia. As of end 2018, 84% of AEF's commitments were to clients based in Africa and 7% to clients with a (potentially) global focus; although the mandate was formally limited to Sub-Saharan Africa (SSA), the remaining 9% of investments were distributed between Latin America and the Caribbean (LAC) (7%) and Asia (2%). During the 2019-23 period, AEF invested most significantly in Africa (83% of new commitments) but also stepped-up investments in Asia (10%). The remaining commitments were made to projects based in Ukraine (4%) or with a global scope (3%). By the end of 2023, Africa continued to be the recipient of 84% of AEF's committed portfolio, although the importance of Asia had increased significantly to 12%. 3% of the commitments had a global focus, and only 1% were in other regions (with no remaining commitment in LAC)[25].

Figure 1: Geographic distribution of AEF portfolio as of end 2018 and 2023, and of new investments

[24] See Table 2 for the key aspects of the 2019 mandate change.

[25] According to the AEF's leadership, this is due to the more developed status of Latin America compared to Africa and (certain regions) of Asia, which results in most projects in that region being immediately eligible for support from FMO-A.

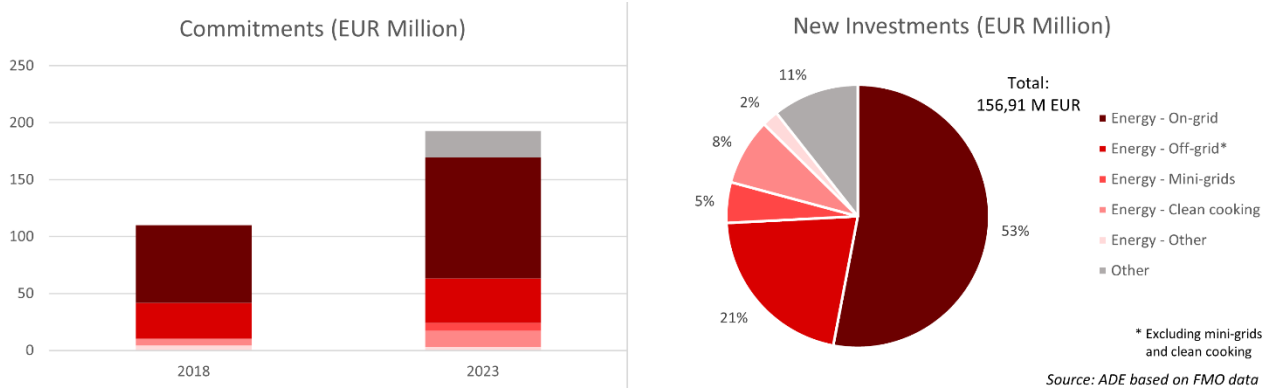
during the period



As of 2023 43% of AEF commitments were in DGIS focus countries[26], which meets the minimal 25% target set in this sense but not the "ideal" 50% one.

The portfolio included both on-grid and off-grid investments, with the first remaining predominant but decreasing in importance (in terms of both number and amounts). As of late 2018, 62% of AEF's commitments were towards on-grid projects, compared to 34% towards off-grid; by the end of 2023, the split was 53% to 33%, with the difference almost entirely compensated by multi-sector fund investments. However, the number of new investment operations in the 2019-2023 period in on-grid and off-grid projects were almost the same (19 vs 18); that is, the difference in amounts is mainly due to the lower average amounts invested in off-grid technologies. Within off-grid technologies, the overall weight of SHS in the committed portfolio decreased (from 29 to 22%, corresponding to 9 new investments), while clean cooking and mini-grid investments increased (respectively from 5 to 7% and from 0 to 3%, corresponding to 5 and 4 new investments); it is worth noting that these last two types of investments tend to be smaller in amounts (reflecting the typical early stage of their business models). Through this diversification, AEF complied with its double role as a "frontrunner" (i.e. supporter of unproven high impact potential technologies/ business models) as well as a junior co-investor with FMO.

Figure 2: Sector distribution of AEF portfolio as of the end of 2018 and 2023, and of new investments during the period



Out of AEF's five key investment themes (as noted in the 2019-28 strategy), some were tackled more strongly than others. In particular:

- The Unreached/ Inclusive Investments: all the "impact" arguments of the projects reviewed in the sample had an inclusive focus; although this varied in strength from generally increasing energy generation capacity in countries with insufficient supply, with no specific consumer target (utility-scale

[26] According to calculations based on data provided by FMO's impact department. The list of DGIS-focus countries is included in Annex 3.

projects); to commercializing devices specifically designed for population segments which have no or insufficient access to energy (SHS, clean cooking projects) and generating capacity in specific locations not reached by national electricity grids (mini-grids). 80% of the AEF investments in portfolio as of end 2023 (in terms of committed amounts) had the Reducing Inequalities (RI) label.[27]

- Productive Use: although investment officers showed to be aware of its importance, this has not evidently materialised in an approach geared towards supporting it[28]. Within mini-grids projects, investment officers have noted that sites where "anchor" productive users (i.e., users which demand a significant quantity of the energy generated) are present should be favoured; however, site selection seems to be primarily driven by government entities (who support projects through tariff subsidies, necessary to increase their viability). Activities to stimulate demand for productive use have in cases been implemented by clients, often with the support of donors[29].
- Transmission and Distribution (T&D): no T&D-focused projects were noted (in the sample or beyond), beyond mini-grid projects. This is likely largely because T&D networks are usually (non-well-functioning) government-controlled monopolies. It is worth noting that deficient T&D networks were observed to be, in many target countries, a significant bottleneck to increasing energy access – as they were either not sufficiently expanded or unreliable, thus constraining distribution; often resulting in generation capacity exceeding the demand that could be reached through the grid, despite it being low compared to the overall needs of the economy and international standards.[30]
- Innovation: FMO was consistently recognised by clients and partners interviewed for its willingness and capacity to be an early backer of innovative business models in the energy sector (a role that was enabled by the availability of government funding). This was also backed by some previous evaluations.[31]
- Clean Cooking Solutions: this segment has been supported in the period through 5 new investments, on top of the already existing ones; and is a clear example of AEF's "frontrunner" role (i.e. supporter of unproven high impact potential technologies/ business models).

As of the end of 2023, 78% of AEF investments in portfolio (in terms of committed amounts) had the green label.[32]

BP

The geographic distribution of BP's portfolio remained quite stable throughout the period.[33] Africa accounted for about half of commitments, while Asia accounted for 22-23%. LAC decreased from 11 to 9% throughout the period, while Europe and Middle East increased from 0 to 3%, and investments with a global focus declined from 17 to 15%. New investments were also in similar proportions, as highlighted in the table below. It is worth noting that data available does not allow assessing the extent to which investments were focused

[27] Source: data analysis based on data provided by FMO's impact department. The RI label is assigned based on a set of guidelines developed internally by FMO and considers two main components: investment in the Least Developed Countries (LDCs) and investment in inclusive business.

[28] At least, not as far as it could be observed in the sample of projects reviewed.

[29] For example, in the case of Winch, some existing flour mills have been electrified with donor support, resulting in significant additional energy demand, cost savings in the purchase of diesel (previously used as source of energy), environmental benefits, and health benefits to the population.

[30] Based on projects reviewed and previously evaluated, this is, for example, the case of Rwanda and Uganda.

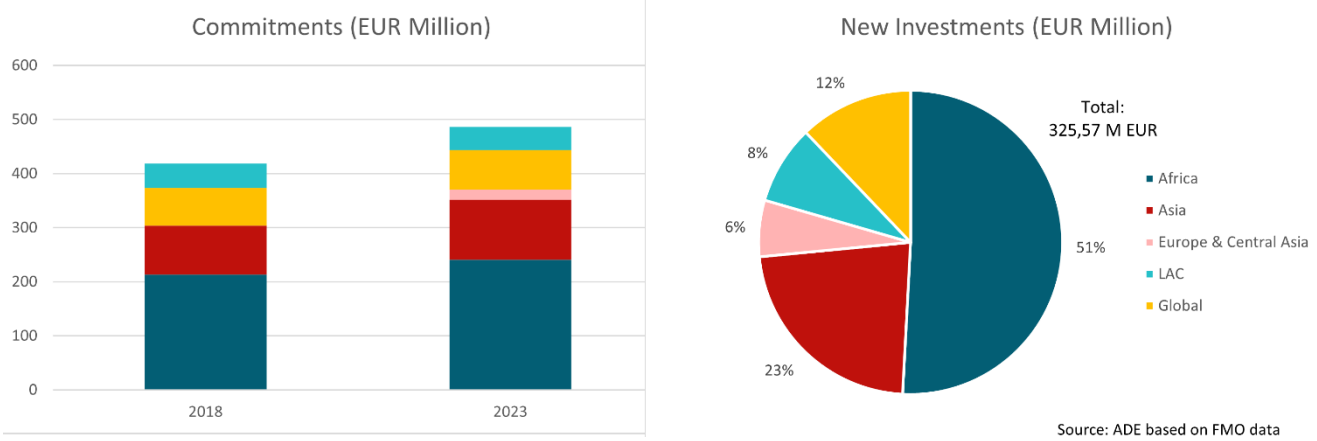
[31] Most notably Greencroft Economics, FMO's Contribution to the Off-Grid Electricity Sector (review 2014-2020), 2022.

[32] Source: data analysis based on data provided by FMO's impact department. The green label is assigned based on a set of guidelines developed internally by FMO, which consider two alternative criteria: sector of activity and compliance with national standards or verified significant improvements (more than 20%) in terms of environmental footprint.

[33] See Table 2 for the key aspects of the 2019 mandate change.

on LIC (vs. LMIC) countries or on the DGIS's country focus list[34].

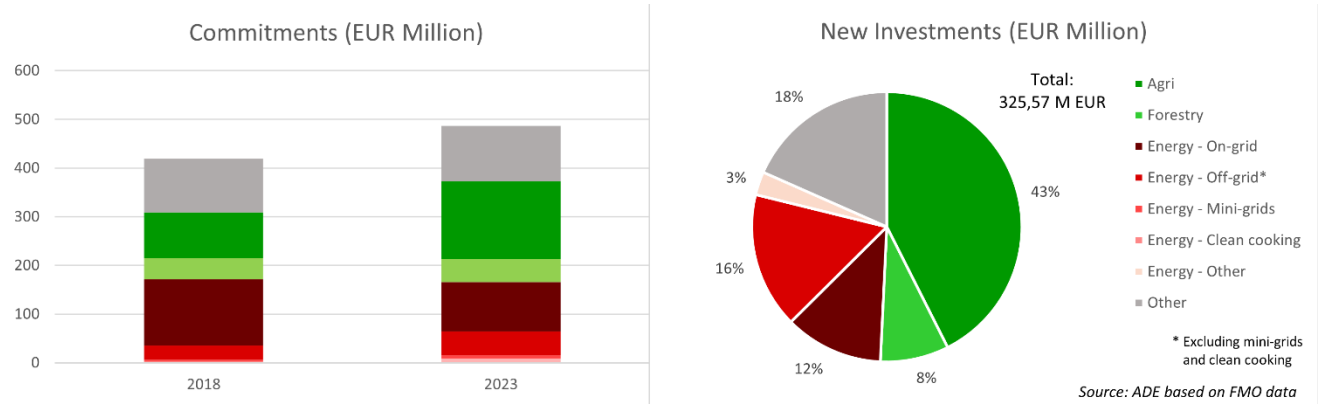
Figure 3: Geographic distribution of BP portfolio and new investments between 2019 and 2023



During the 2019-23 period agricultural value chains took over energy as the sector with most commitments within the BP portfolio. In fact, AFW commitments significantly increased from 33% as of end 2018 to 43% as of end 2023 (both percentages include 10% in forestry investments); while energy commitments decreased from 41% to 32%. Jointly, agri and energy accounted for about 75% of total BP commitments throughout the period.

Both data and investments reviewed point at an increasing focus on agricultural value chains. Notably, agri projects reviewed focused on missing or weak links of quality input provision, upgrading of farming techniques, cold storage, processing and distribution, often with a holistic perspective (e.g., providing integral solutions to farmers operating within a specific supply chain). Although not officially mentioned in BP's strategic documents, the expected projects' development results[35] seemed to be largely focused around small holder farmers (SHF); in fact, the number of SHF supported was selected as "impact" indicator to be monitored (in addition to fund level indicators) for several of the projects reviewed; and is the key indicator monitored by both the Omnivore and ARAF funds, which have their own impact reports). This indicator is also closely in line with the DDE's theory of change, which mentions farmers among the specific categories of micro-entrepreneurs to be supported. It is worth noting that several clients and DFIs mentioned that FMO was increasingly recognised for its expertise and capability to operate in support of agricultural value chains.

Figure 4: Sector distribution of BP portfolio and new investments between 2019 and 2023



On the other hand, the focus of BP on infrastructure seems unclear. None amongst the agri projects reviewed had a clear infrastructure focus (beyond the construction of processing plants, which was typically not the

[34] While country data is reported for investments specifically focused on a single country, many are noted to have a regional or global focus. The list of DGIS focus countries is included in Annex 3.

[35] Particularly, as defined in pre-investment documentation.

sole focus of projects). Also, within BP's energy investments, only about 2/3 would immediately be recognisable as infrastructure (on-grid and mini-grids), while the remaining third were in off-grid technologies – whose fit under the infrastructure area appears less clear. No examples of investments in the other infrastructure sectors mentioned in the BP 2019-2023 strategy (water, health, education, logistics, transport modes) were reviewed or noted, although project reviews and past evaluations included one examples of project in the telecom sector each[36]. It is worth noting that, out of those sectors, only water is explicitly included in FMO's current sector focus strategy. Concerning telecom, it is worth mentioning that smartphones and mobile/ internet coverage were noted to be significant enabling factors by some companies invested, including in the agri and SHS space. (The topic will be further discussed in EQ 6, on results.)

As of end 2023, 58% of BP investments in portfolio (in terms of committed amounts) had the RI label and 51% had the green label.

4.3 EQ3 – BP internal coherence

Specifically for BP: To what extent does the investment portfolio form a coherent package, contributing to the objectives of the fund?

In brief:

On paper, BP has two focuses: agricultural value chains and PSD-enabling infrastructure. Although potentially, these two could have significant areas of synergy, there is no emphasis on synergy areas neither in the documentation nor in the implementation. While the alignment of the agricultural value chain focus with the DDE's theory of change is clear – on paper as well as in implementation – the specific chain of results expected from the infrastructure focus is less so. The choices made in implementation appear to be guided rather by FMO's strategic sector preferences and funding needs (to the extent that they comply with the fund's eligibility criteria).

In fact, beyond projects focused on agricultural value chains, BP's budget is mostly used for energy investments. This overlaps in scope with AEF and results in several energy projects having received funding from both AEF and BP. Nonetheless, in a minority of cases BP is also used to support other types of infrastructure projects that may have a strong enabling effect on PSD – such as telecom.

Despite the increasing focus on agricultural value chains, limited efforts have been observed on the part of BP/ FMO for developing an in-depth understanding of the agricultural sub-sectors (e.g., different crops, dairy, poultry) and for defining priorities and targeted approaches – unlike what has happened in the distributed energy sector.

Sources of evidence used in support of the answer to this EQ:

Documentation: *BP contractual documents (*beschikkingen*) and related communication between FMO and the MFA; BP's strategy for 2019-2029; evaluation of IDF (2018); projects reviewed's documents (pre-investment, annual reviews, other).*

Databases: *data extracted from FMO's financial database.*

Primary sources: *interviews with AEF and BP's fund managers and FMO investment managers.*

BP is funded by the DDE, and it is part of its toolkit to support the creation of decent jobs and economic growth. As noted in EQ1, it is focused on two main areas: agricultural value chains (including forestry) and PSD-enabling infrastructure.

The Theory of Change within the first area – agricultural value chains – is quite clear in its definition and alignment to the DDE's theory of change; although its potential impact is not well-reflected in impact

[36] These were Mawingu, which supplies internet connection in second-tier cities and other non-urban areas in Kenya; and Irrawaddy Green Towers, and independent telecom tower company in Myanmar. BP investments in the second project pre-date 2019, while in the case of Mawingu two subsequent investments took place in the 2019-2023 period.

indicators monitored for the fund, a significant number of which are not relevant for this sector. (See also EQ 1; it may be worth noting that all of BP's investee companies reviewed in this sector monitor the number of SHF reached.) As noted in EQ2, BP's commitments to agricultural value chains have increased significantly in the 2019-23 period, both in terms of proportion out of the total portfolio and of absolute amounts.

Despite the increased focus towards agricultural value chains and unlike in the distributed energy sector, no clear efforts have been identified on the part of FMO towards developing an in-depth understanding of different sub-sectors/ value chains (e.g., different crops, dairy, poultry), assessing their development potential and identifying needs and barriers, to define priorities and tailored approaches to tackle them.

While also potentially relevant to the DDE's theory of change, the theory of change of the second area – PSD-enabling infrastructure – is less clearly elaborated; also, the definition on sectors to be targeted as per strategic documents (energy, water, health, education, logistics, transport modes) does not closely correspond to implementation, which appears to be mostly concentrated on renewable energy. In fact, the definition of this area may be a legacy of the past, in that it closely recalls the scope of BP's predecessor fund (IDF), which was broadly focused on infrastructure. (See Box 2 for more details on BP's history.)

Box 2: Brief history of BP

BP's predecessor, the Infrastructure Development Fund (IDF) was established by the Dutch Ministry for Development Cooperation in 2004. Managed by FMO, its mission was to drive and accelerate PSD through creating infrastructure in developing countries, supporting business opportunities in transitioning from concessional to commercial funding.

Initially, it had a capital of EUR 182 million, covering a 4-year period. It focused exclusively on seven Least Developed Countries (LDCs) – Bangladesh, Burkina Faso, Mali, Mozambique, Tanzania, Uganda and Zambia – and on the following six sectors: (a) energy production and distribution; (b) telecommunications; (c) water provision and distribution; (d) fixed and movable infrastructure; (e) environmental infrastructure and (f) social infrastructure.

IDF was subsequently renewed in 2006 and 2013 until 2018. Its grant amount was increased progressively up to EUR 362. Between 2002 and 2013, several changes were also made to both IDF's geographic scope (which at some point included 146 countries) and sector scope (which was progressively extended to include social infrastructure, agri-business, agrarian-infrastructure and energy – this last later limited to renewable energy).

Throughout its history, the fund had had difficulties reaching its target of full (100%) revolvability. This was only met between 2005 and 2007 and between 2010 and 2011.

In 2018, IDF's mandate was further renovated until 2029 and its grant was topped up with EUR 100 million, bringing the total to EUR 462 million. Some important changes were however implemented: namely, the fund was mandated to strengthen its focus on agricultural value chains, which were seen as a key sector for economic value creation, employment and reducing inequality, and which also coincided with one of FMO's key strategic sectors. Nonetheless, the focus on infrastructure (broadly defined) was also maintained, insofar essential for companies to grow and thrive. Emphasis was also made in the mandate and the discussions preceding it on the importance of pursuing gender equality and climate change mitigation and adaptation-related goals. The fund's name was also changed to "Building Prospects" to reflect a wider focus on PSD and job creation rather than just infrastructure.

Sources: BP's contractual and strategic documents (namely: Beschikkingen) and ADE, Evaluation of the Infrastructure Development Fund (2018).

In practice, in addition to supporting agricultural value chains, BP has largely been used to support renewable energy projects – some of which do not evidently fit within the definition of "infrastructure" (i.e., SHS); in this sense, it overlaps in scope with AEF (and was in fact used to co-fund several projects with AEF). Beyond those two focus areas, BP was also used to support a few projects in other sectors, namely telecom.

As such, it appears that – in practice if not in theory – BP's focus was articulated in three areas, relatively

independent among them (in that projects do not have an evident cross-focus on different areas[37]):

1. Agricultural value chains
2. Renewable electricity (overlapping with AEF)
3. Other PSD-enabling infrastructure

This lack of clarity in focus (and of spending targets amongst different areas) is perceived positively by FMO officers, which appreciate the flexibility of eligibility criteria to allocate funding to emerging projects which they perceived as high potential. The availability of funding beyond AEF to support renewable/ access to energy projects, some of which were noted to require significant capital to sustain growth, was also noted positively: in fact, the possibility of obtaining funds from two different sources enabled supporting projects with higher amounts (as FMO's internal guidelines cap each fund's contribution to a single project to EUR 10 million – in this regard, see also EQ4). It thus appears that a significant part of BP is used to address constraints on funding availability compared to the needs of AEF-eligible energy projects. While this formally complies with BP's eligibility criteria, it does not appear to be fully aligned with the philosophy of the mandate; furthermore, it is worth noting that "double dipping" in two funds has implications in terms of the direct exposure that the MFA holds in the energy sector and, potentially, in specific projects (which it may be worth to openly consider and possibly regulate).

Focusing efforts on two specific sectors – agricultural value chains (through BP) and energy (though AEF as well as, less formally, through BP), which moreover align with FMO's broader strategy[38], has contributed to FMO and its personnel developing sizable expertise, knowledge and network within them; in the case of distributed energy, in particular, targeted efforts have also been done at developing a working group and specific internal strategy. (Although as noted above, this last has not been the case with agricultural value chains.) Such specialisation, which among other things enables FMO to be proactive in searching for the best opportunities rather than mainly reactive to project proposals, would clearly not be possible across the board over a broadly defined sectorial scope such as "infrastructure". Nonetheless, leaving a margin of flexibility with respect to eligible sectors has also enabled FMO to also react to opportunities to support projects with a strong PSD enabling potential, even when outside its key expertise sectors - such as in the case of Mawingu (internet connectivity in rural areas).

4.4 EQ4 – Funds Overlap

To what extent do the mandates of BP and AEF overlap with each other and with the mandates of other funds managed by FMO? Are overlaps reinforcing and leading to improved outcomes or do they have a negative effect on the outcomes of BP and AEF?

In brief:

BP and AEF investments significantly overlap because the infrastructure part of BP's mandate is interpreted to include (and overwhelmingly implemented in) the energy sector, which is also the focus of AEF. In practice, as of the end of 2023, BP's and AEF's commitments in the energy sector were almost equivalent as to the amount and sub-sector split (except for BP not investing in clean cooking). From FMO's perspective, this offers flexibility in terms of investment amounts that can be used to support a sector (energy) that offers attractive opportunities and is part of its core expertise.

Neither AEF nor BP have significant thematic areas of overlap with MASSIF (which focuses on financial inclusion). Nonetheless, a few projects lay at the intersection of two thematic areas (e.g. access to finance for smallholder

[37] I.e., agricultural value chain support is not limited or focused on infrastructure-type projects; nor energy projects are specifically targeted at supporting agri-value chains (despite of existing evidence of access to energy having the potential to boost agriculture productivity and rural incomes - on this, see in particular Dalberg, IDF evidence mapping report, 2019).

[38] FMO's three strategic sectors are Agriculture, Food and Water (AFW), Energy and Financial Institutions (FI).

farmers), and thus are eligible for funding from more than one fund. Based on existing evidence, these projects tend to be associated with a high potential for significant impact.

Eligibility for more than one fund brings some advantages in terms of ease to get funding and potentially in terms of maximum amounts that FMO is willing to fund (capped at EUR 10 million per client, per fund). It also opens the possibility of capacity development funding from multiple capacity development budgets.

Sources of evidence used in support of the answer to this EQ:

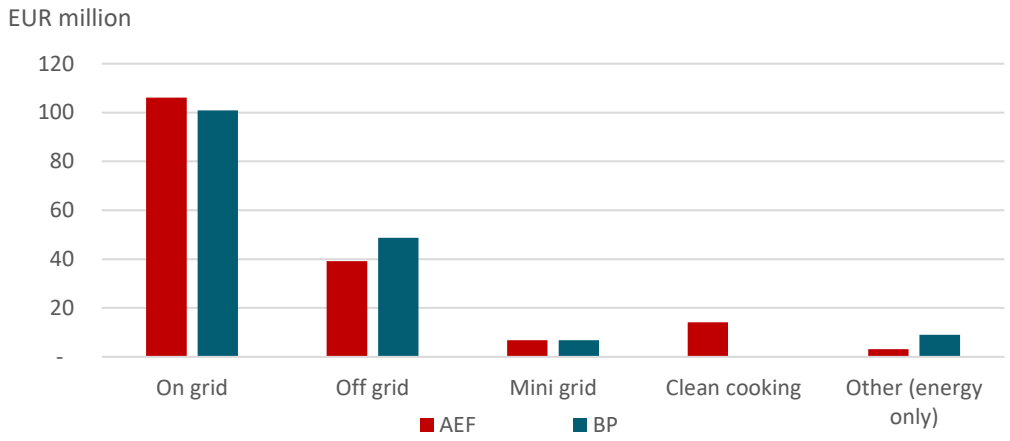
Documentation: *projects reviewed's documents (pre-investment, annual reviews, other).*

Databases: *data extracted from FMO's financial database.*

Primary sources: *interviews with AEF and BP's fund managers and FMO investment managers.*

As discussed in EQ3, AEF and BP have a significant overlap in scope with regards to the energy sector. This should be in principle limited to energy infrastructure (so, presumably, on-grid and possibly mini-grids); however, in practice this has been interpreted in a wider sense, to also include other off-grid investments (including SHS). In practice, BP commitments across the energy sector as of end 2023 were substantially equivalent to AEF's commitments across the on-grid, off-grid and mini-grid segments.

Figure 5: AEF and BP commitments in the energy sector as of end 2023



Source: ADE, based on FMO data

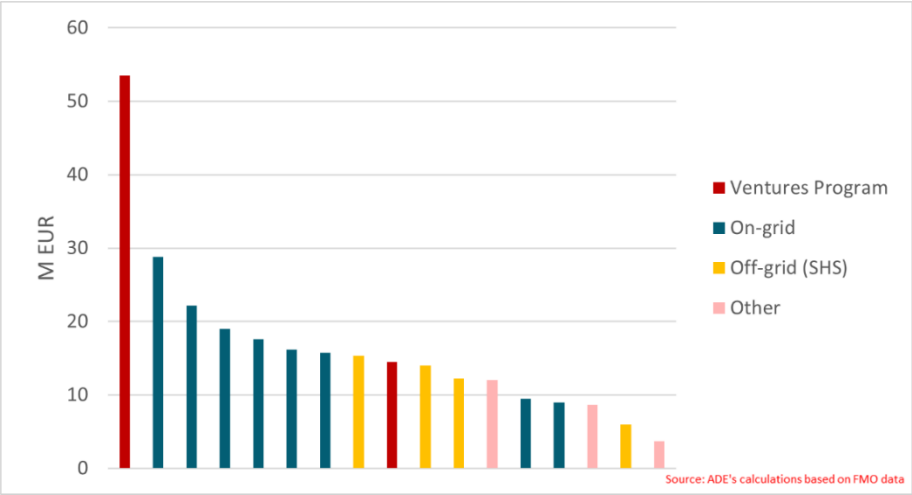
Out of 136 (overall) clients[39] that had active positions with either AEF or BP as of end 2023, 54[40] had received funding from AEF and 102 from BP, with 17 (20)[41] having received funding from both; indicating that almost 40% of projects funded by AEF also receive funding from BP. This includes two co-investments in the Venture Program; all the remaining investments were in in the energy sector - more precisely, eight on-grid, four off-grid (SHS), one mini-grid, a clean cooking project and an energy investment fund. Some of those cases (two off-grids companies and the mini-grid) were included in the sample of investments reviewed. In most of those cases, the total commitment from AEF and BP surpassed EUR 10 million, at least at some point in time – as shown in the figure below; suggesting that a significant motivation for the co-investment might have been the need for funding in amounts higher than normally allowed by FMO from a single fund. (In fact, this was reported to be normally the case by FMO's investment managers.) The issue seems to have affected primarily on-grid projects; and SHS projects to a more limited extent.

[39] This number may be overestimated, as the format of data obtained from FMO did not facilitate the identification of subsidiaries of a same group.

[40] Idem.

[41] 20 different projects were identified in the database. However, in three cases these corresponded to subsidiaries of the same group of another project.

Figure 6: AEF and BP combined commitments in co-invested projects (highest commitment recorded in the 2019-23 period)



While energy-related cases are the most frequent example of projects that qualify for funding from more than one government funds, they are not the only ones. In fact, there is significant scope for synergies between the energy, agriculture and financial institutions sectors: for example, access to debt/funding and to payment systems are key enablers in SHF development[42]; SHS have based their expansion on PAYGO models[43], which imply the need for tailored payment systems[44]; and access to energy in agriculture can boost productivity and income for SHF[45]. In addition, the availability of mobiles and telecom infrastructure (currently not the focus of any of the funds, but potentially eligible under BP) have been noted to be a significant enabler for other technologies, particularly for financial access, SHF support and agri-trading. Projects in those areas may therefore contribute to DGIS objectives in multiple ways. While AEF and BP's co-investments appear to all be within the energy sector (overlapping thematic scope), 10 projects have been identified with co-investments between AEF or BP and MASSIF[46]; which at least in three cases reviewed fell in areas which were of clear interest for both BP/AEF and the MASSIF financial inclusion mandate.[47]

From a project's standpoint, the main significant source of advantage emerging from eligibility to more than one fund is potential access to larger amounts of fundings, as the capacity limit per project is internally set by FMO to EUR 10 million per fund. Also, qualifying for more than one fund implies access to alternative sources of funding in cases in which one option has little overall remaining capacity; and the possibility for fund managers to better diversify risks and balance expected returns in the light of meeting revolvability objectives. (It is worth nonetheless noting, however, that all funds ultimately proceed from the government; therefore, the government exposure from the project ultimately corresponds to the sum all investments made through the three funds.) Last, receiving funding from more than one government funds opens the possibility from also benefitting from those funds' capacity development budgets[48]. No significant operational drawbacks were noted to emerge from projects being eligible or receiving funding from more than one

42 Based on project reviews.

43 In PAYGO models, upon acquisition of a product customers only pay an initial deposit (rather than the full price) while the rest is paid over time in installment. In cases in which customers fail to pay all installments, the vendor is entitled to the devolution of the product.

44 Ibidem.

45 Dalberg, IDF Evidence Mapping Report (2019).

46 Not including investments in the Ventures Programme.

47 The projects were M-Kopa Kenya (AEF-MASSIF), M-Kopa Uganda (AEF-MASSIF) and the Acumen Resilient Agriculture Fund (BP-MASSIF). The first two concern a SHS company - largely leveraging on PAYGO sales - which later also evolved in other segments, including mobile, e-mobility and financial/insurance services (mobile offerings); while the Acumen Resilient Agriculture Fund provides venture financing to agri-companies supporting SHF in Africa.

48 In particular, the budget for MASSIF was noted to offer more possibilities in that it is significantly larger.

government fund; also, the origin of funding entails no difference in the subsequent management of the project.

4.5 EQ5 – Processes and systems

To what extent have development outcomes/ impact ambitions (including on the cross-cutting issues of climate, gender and reaching underserved groups) driven and been explicitly incorporated in investment selection, preparation and decision processes; and to what extent is this process backed and followed up through effective monitoring systems and practices?

In brief:

AEF's and BP's strategic objectives have been incorporated in FMO's Energy and AFW (Agriculture, Food and Water) strategies. This has enabled FMO to search opportunities that align well with them in the distributive energy and agriculture sectors. In other sectors the pipeline relies rather on referrals from trusted partners.

The potential of projects to contribute to AEF and BP outcomes and impact ambitions, including the cross-cutting issues of climate change mitigation and reaching underserved groups, has been systematically assessed as part of investment preparation processes. This was less the case for climate change adaptation and gender. However, this assessment was often noted to be superficial, paying limited attention to conditionalities that may not be verified or specific characteristics of contexts that may hinder the achievement of expected outputs. The vagueness of projects' theories of change, combined (in most cases) with the lack of specific targets set in terms of development results (in most cases) complicates the assessment of the extent to which projects have lived up to their development impact ambitions, and of the factors that enabled or hindered progress in this sense.

Project progress on development targets was indeed not systematically followed up upon. While data on a set of indicators (those monitored at the fund level, outlined in EQ1) are collected annually, in practice they are only used for fund-wide reporting. This is unlike Environmental, Social and Governance (ESG) aspects, for which contractual milestones are often set and consistently followed up upon.

While learning efforts exist and are most notably supported by the evaluation department, they are not evidently ingrained in the project development and implementation process; in fact, no evident mechanisms were found that favour/ ensure that accumulated learning is systematically considered in project design, nor that facilitate the codification of learnings from each individual project.

As funding has so far been sufficient to support all emerging investment opportunities (according to FMO), there has been no need to question whether the selection practices can effectively prioritise among opportunities, based on their potential to support progress on impact priorities.

Sources of evidence used in support of the answer to this EQ:

Documentation: *projects reviewed's documents (pre-investment, annual reviews, other); FMO internal strategy documents (namely: Agribusiness, Food and Water; Energy; and FMO-EN Distributed Energy Strategy 2019-2022).*

Databases: *data extracted from FMO's impact database.*

Primary sources: *interviews with AEF and BP's fund managers, FMO impact, evaluation and ESG departments, FMO investment managers, FMO clients (corresponding to the projects reviewed).*

Project selection is not driven specifically by AEF and BP objectives and priorities; rather, investment opportunities are chosen in function of alignment with FMO's investment strategy. Those that are deemed attractive (according to a combination of impact, risk and return factors) but may not be funded directly or entirely by FMO-A may be proposed for funding by AEF and BP if they also fit their investment criteria. However, FMO's strategy and impact priorities closely reflect IGG and DDE priorities (explicitly including transition to renewable energy, energy access, resilience to climate change in agriculture, decent work, inclusion and gender). Both commercial viability and the potential to contribute to development results are considered essential (non-negotiable) criteria for FMO's investment decisions.

In terms of the search for and selection of opportunities, **FMO took an active stand** (e.g., through networking, presence in events and the development of internal strategies) and strategic positioning **in innovative sectors aligned with its own key strategic themes: energy, agricultural value chains and financial institutions** (note: the latter is not covered by AEF and BP, being rather the focus of MASSIF). This was particularly evident in the energy sector, where the funds were explicitly incorporated in the strategy, particularly for what concerns off-grid technologies[49]. **In more "traditional" segments, including utility-scale energy generation and in sectors outside FMO's strategic priorities (e.g., telecom), the sourcing of projects relied instead mainly on referrals from known partners**.

While (some) cross-cutting objectives were explicitly addressed in investment documents (inclusion and climate change mitigation in almost all projects, climate change adaptation less frequently, and gender rarely), **arguments for their coverage, while logical, often appeared superficial, with (possible) conditionalities and obstacles to the realisation of outcomes not being explicitly identified and considered.**

In particular, all project reviewed had arguments for supporting the inclusion of less-privileged groups. Depending on the case, these could be defined as people with no/ insufficient access to electricity or SHF, among others. However, it is worth noting that while documents supporting utility-scale projects often argued for their contribution to generation capacity in countries in countries lacking it, they often gave no or insufficient consideration to the state of T&D networks, or were overly optimist in assessing expected upgrades and expansion; meaning that higher generation capacity often did not result in an increase in the number of people able to benefit from it. (Nonetheless, higher generation capacity resulting from on-grid projects generally resulted in higher quality of electricity access for those already connected to the grid.) Also, projects described to have an expected significant impact on SHF were (anecdotally) noted to more easily reach and serve farmers of somewhat larger sizes. (Note: difficulties in reaching the very 'Bottom of the Pyramid' and a tension between this and profitability/ other sought outcomes were noted across sectors. The topic will be further explored in EQ6.)

Similarly, climate change mitigation arguments[50] tended to be centred on renewable sources providing a clean alternative to more contaminant ones and the promotion of more environmentally sustainable practices in agricultural value chains projects; however, no references were found in project preparation documents explicitly mentioning learnings from previous experience on best practices or frequently encountered obstacles/ conditionalities. (A notable exception in this sense was the Acumen Resilient Agriculture Fund project – which stood out for the depth of the theory of change which backed it up - see also the box below.)

Box 3: The case of ARAF: continuous learning from experience

> The documentation of the investment in the Acumen Resilient Agriculture Fund stood out among other cases reviewed for the strength of the case made for the business model, which took into significant account lessons learned by Acumen in 10 years of experience investing the African agriculture space. The fund had a well-reasoned strategy and theory of change, which also served as a basis for the development of an impact M&E which was later implemented to monitor the progress of the fund on its impact targets. The fund strategy, theory of change and M&E system are periodically adapted based on progressive learning, also emerging from M&E practices.
>
> *Source: ARAF project review.*

Climate change adaptation was consistently touched upon in the documentation of agri projects; albeit not in other projects. This showed to be an area of opportunity, as climate change significantly negatively affected the performance of investments in hydro power plants[51]. While a practice was developed in the meantime to

[49] See in particular: FMO-EN Distributed Energy Strategy 2019-2022 (internal document).

[50] Present in all projects reviewed except Mawingu (telecom).

[51] The most notable case reviewed was that of the Nyamwamba power plant (Uganda), where climate change led to a permanent significant reduction in generating capacity, and exceptionally extreme climate events (floods) caused significant damage and additional cost.

assess climate change risks more thoroughly in the case of hydro energy investments, this has not been extended to other sectors (while wind or solar projects were also noted by clients and experts to be potentially exposed to negative effects).

While gender often came up in conversations with the FMO team as a theme to be pursued, there was little evident reflection of this in project selection and design. (Although there was a general assumption – backed by evidence – that projects increasing access to energy would have had a significant impact on women welfare). The issue was noted to be related to the scarcity of available (suitable) projects with a focus on gender, and of qualified female resources in local markets; as well as, indirectly, to social and cultural characteristics of target markets. Following a 2020 study[52], a gender-impact tool was introduced to support projects in the agriculture sector in identifying potential opportunities for gender impact in their activities: however, so far, the usage of the tool has been limited and mixed feedback has been reported on its usefulness.[53] Gender inclusion was promoted to some extent through ESG support and, in some cases, through targeted capacity development projects.[54]

The lack of strength in development arguments and, in the case of most investments, the failure to set targets for development results complicated assessing the extent of the impact achieved by projects and how that compared with initial expectations. While this was clearly the case in this study, it could also be said of regular project management. No systematic practices of follow up on progress on impact results at the single investment level were observed on the part of FMO: while efforts are systematically done to collect values for a series of indicators (corresponding to the KPIs of AEF and BP, outlined in EQ1), there is no practice to review them at the investment level. (In fact, clients and investment managers alike tend to consider these data recollection efforts merely as a bureaucratic nuisance.) While the 2018 BP *beschikking*[55] (decision) requires that, in the case of BP investments, project-specific indicators and targets be defined and monitored as part of project design, this requirement was not always complied with; and even in cases in which it was, values were often not updated in annual CCP documents, largely due to lack of reliable sources. In any case, failure to meet impact targets is not foreseen, per se, to lead to consequences on the life of the investment.

On the other hand, FMO adopts a more formal approach to support ESG aspects – which may also contribute to development outcomes. ESG compliance is evaluated before each investment, and whenever deemed necessary an Environmental and Social Action Plan (ESAP) is defined, typically with contractually agreed milestones (i.e., unlike with impact targets, failure to comply is considered a contractual breach). This area was also frequently noted to be of interest for clients - among others because compliance can be critical to support scaling and further fundraising.

No use is typically made of impact data collected beyond reporting. While investment officers have access to data recollected, none of them reported making use of it (and in many cases, they noted it to not provide an adequate reflection of progress achieved on projects.) No evidence was also found of the data being used for other analyses, e.g., at the sub-sector level[56], or of data/reports being further used e.g., for steering purposes.

While the evaluation department conducts significant learning efforts (among which in terms of project evaluations and thematic studies, several of which have been provided to the evaluation team and considered in this study), there are no evident systematic mechanisms to ensure that evidence emerging from them is

[52] LadyAgry, "Gender Impact in Agri Value Chains", 2020.

[53] Within the sample of projects reviewed, the tool was observed to have been used just once (in the case of Pearl Dairy). No significant benefits emerged from its usage from interviews. In another interview, it was reported that the usage of the tool has been discontinued because of the limited perceived usefulness.

[54] See also EQ7 on Capacity Development.

[55] Appendix 2: Policy IDF 2019-2028.

[56] In fact, it was explicitly reported to the evaluation team that the database of impact indicators provided had never been analysed previously.

considered in project design, nor that project implementation systematically feeds back into learning efforts.[57]

According to FMO, so far funding (including replenishments) has been sufficient to support all emerging investment opportunities deemed to be eligible and worthy to be supported through AEF and BP; as such, there has been no need to question whether the current project selection practices can effectively allow a further selection of projects which prioritises based on their potential to support progress on impact objectives.

SDG tagging of projects is largely incomplete (i.e., less than 20% of investments active in the 2019-22 period have been tagged for both AEF and BP, as reported in impact databases), also due the fact that the possibility to add SDG tags was added in IT systems only in 2021; nonetheless, the most tagged SDG for AEF is SDG 13 (Climate Action), closely followed by SDG 7 (Affordable and Clean Energy); while in the case of BP the most tagged SDG is SDG 8 (Decent work and economic growth), closely followed by SDG 13 (Climate Action). Other SDGs tagged in both funds are SDG 10 (Reducing inequalities), and with significantly less frequency SDG 5 - (Gender Equality) and SDG 2 (Zero Hunger).

4.6 EQ6 – Results

To what extent did different types of investments contribute to the envisaged development results (including on the cross-cutting issues of climate, gender and reaching underserved groups)? Which investments contributed more (or less) and how/why?

In brief:

There is evidence that all reviewed projects have contributed to development results with DGIS objectives, including those that did not perform well financially. For the latter though, the benefits were likely to be strongly diminished or lost in time. As noted in EQ5, precisely quantifying such impact can be challenging – particularly at the project level; however, there is sufficient evidence to identify trends at the sub-sector level.

Concerning access to energy: off-grid technologies demonstrated significantly higher potential to reach underserved groups compared to on-grid. The capacity generated with off-grid technologies is, however, limited, and supports only limited productive uses (mainly MSMEs). In addition, mini-grid technology is currently expensive and its commercial viability is not clear (i.e., it relies on tariff subsidies and grants). Investing in on-grid generation capacity, on the other hand, was more efficient in terms of capacity generated and energy costs implied. However, the limited reach and low quality of T&D networks severely limited the extent to which these investments resulted in new and/or improved energy accesses. Affordability and access to electrical equipment were essential factors in enabling energy uptake.

There was significant evidence that access to energy is improving welfare. However, there is less evidence of significant effects on PSD (at least in communities of most off-grid clients: these often had no previous access to energy; and evidence suggests that access to energy is still at most at Tier-3); which is likely related to the need for higher tiers of energy access and further conditions (e.g., related to the availability of infrastructure, human capital, culture etc.) to support most PSD activities.

Concerning job creation/ PSD: investments in the agriculture sector were (by far) the ones that contributed most to job creation, both in terms of direct jobs created and indirect jobs supported, most of which were in rural areas. The off-grid/ solar home system (SHS) energy sector also created a significant number of direct jobs, particularly within its salesforce, though it had a much lesser effects on PSD/ indirect jobs. Across sectors, there was an indication of direct jobs being "quality jobs". However, that quality was much lower and variable among indirect jobs supported.

Concerning gender: some off-grid energy segments (SHS and clean cooking) employed a significant number of women, particularly within the salesforce. Interviews and some documentation reviewed suggest that this is intentionally done, as diversity in the salesforce can be advantageous for reaching more customer segments.

[57] Note: weak linkages between the Front Office and departments in charge of M&E and reporting had already been noted in the Evaluation of FMO Access to Energy Fund (Trinomics, 2017).

However, in agriculture evidence points at women holding few and generally low value-added jobs. Beyond jobs, there is significant evidence that access to electricity and clean cooking technologies had a disproportionally positive impact on women, linked to them spending a higher amount of time in the household and on household chores (which include the procurement of fuel for cooking, lighting etc.).

Concerning climate: CO2 emission reductions from clean cooking solutions were by far the most significant, followed by solar home systems (SHS). In other sectors, emission reductions were (reportedly) less. Regarding clean cooking, it is worth noting that electricity and LPG technologies are the ones which generate more emission reductions. But these technologies tend to not be viable in the poorest communities, which typically do not have easy access to electricity nor LPG. Beyond CO2 emissions, there was strong evidence of several investments in agricultural value chains contributing to a more efficient use of environmental resources by optimizing agricultural waste (i.e., through processing, refrigeration, and better handling of logistics/ operations). There was also some indication – albeit less consistent – of progress towards more sustainability in agricultural practices, mainly in line with standards needed for exports. On the negative side, energy technologies (most notably SHS) were noted to be likely to generate significant electrical waste in time, an issue that only started to gather attention in the 2019-23 period.

Further effects on welfare: investments in agricultural value chains were noted to result in more stable (and, less consistently, increased) income for small farmers, and in improved nutrition standards within small farmer families (who consume part of the produce) but also at the wider societal/ country level.

Last, it is worth mentioning that digital technologies and infrastructure (e.g., mobile/ internet networks and the possession of mobile devices on the part of energy customers and farmers) were observed to be significant enablers of development and efficiency in both energy and agriculture.

Sources of evidence used in support of the answer to this EQ:

Documentation: projects reviewed's documents (pre-investment, annual reviews, other); previous thematic and project evaluations.

Databases: data extracted from FMO's impact database.

Primary sources: interviews with FMO investment managers, FMO clients (corresponding to the projects reviewed) and other DFIs; observations from field visits (to Kenya, India and Uganda).

Overall, there are consistent indications that all projects reviewed generated development results in the expected directions (which are coherent with DGIS objectives). The evaluation team consistently obtained credible information indicating development progress in the directions stated in pre-investment documentation and logically connected to project activities for all projects reviewed; which was also consistent with evidence collected and conclusions reached in projects and thematic evaluations available. As stated in the response to EQ5, however, it was difficult to assess the precise extent of results and whether they met initial expectations, as expectations were for the most part not thoroughly defined and/or explicitly quantified in indicators; nor evidence of progress was systematically available in terms of the same indicators. Also, at times different sources (e.g., interviewees, reports) provided different estimates of the same indicators; nonetheless, these estimates were usually broadly consistent in terms of giving an indication of on which results progress was being achieved.

Development results were also observed in cases in which investments did not perform well financially: however, in those cases a significant distinction was observed between project-finance type projects, for which development results were likely to be sustainable in time despite performance, and other projects – for which difficulties were likely to result in benefits being lost or strongly diminished. (See also the box below.)

Box 4: Achieving and maintaining impact in projects financially non-performing

The sample of projects reviewed included some projects that did not perform well financially. Depending on the type of project, this had very different implications on the sustainability of the impact achieved.

Infrastructure projects such as utility-scale power plants or mini-grids typically involve an initial capex-intensive construction phase in which no income is generated, followed by an operation phase in which the project generates positive cash flows that progressively compensate the initial investment. Revenues may, however, ultimately be lower

than expected (e.g., due to environmental factors, tariff levels, or other unforeseen circumstances) and not sufficient to compensate for the initial investment, making the project unprofitable. Nonetheless, it is very rare that cash flow in the operation phase be negative or so low as to justify shutting down operations; therefore, in most cases output and outcome results (i.e., in terms of direct employment and energy generated) are and continue to be achieved. Furthermore, in all such cases reviewed FMO was observed to continue to actively foster adherence to ESG standards.

On the other hand, scale-up (venture-like) projects typically need financing throughout their activity until they reach profitability, often in multiple rounds of increasing amounts. Businesses that come to appear unviable are less likely to be able to raise necessary funding to sustain the continuation of operations and may be liquidated. These projects may have generated significant impact within their lifetimes, some of which may perdure for at least some time (e.g., usage of products sold, training provided), while other impact is likely to be suddenly lost, often with significant social consequences (e.g., arising from job losses) and potentially also causing reputational issues (including for FMO) and negative "demonstration effects" (i.e., worsened investor perspective on the viability/ potential of similar business models, which may or not be entirely justified). FMO does not have clear policies for the management of these types of financially failing investments, which are nonetheless likely to occur with reasonable frequency given the expected roles of AEF and to a lesser extent BP as frontrunners (i.e., actors providing risk-bearing funding to yet-to-be proven technologies/ business models with high expected impact).

Contribution to different development results varied significantly depending on the types of projects (segments and sectors supported[58]) and context conditions.

In terms of providing access to energy, **on-grid projects were by far the most efficient in terms of new generation capacity created per EUR spent** (i.e., capacity generated was assessed to be about 25 times as much as mini-grid technologies per EUR invested by AEF[59]), moreover allowing the achievement of higher tiers of access, particularly compared with SHS[60]; which casts doubts on the possibility of achieving access on a large scale and stimulating PSD beyond basic activities without significantly relying on on-grid power. However, the capability of on-grid technologies to improve access to energy outcomes is strictly dependent on the reach and quality of the T&D network[61]. Although T&D is a focus area for AEF, in practice neither AEF nor BP (nor, to the evaluation team's knowledge, FMO) conducted activities in this direction in the 2019-23 period; this was noted to be because the sector is largely controlled by public entities (rather than private parties), which are not served by FMO. This implies a significant limitation on FMO's capacity to achieve access to energy through on-grid projects without the collaboration of other actors.

While outputs reached by on-grid technologies in terms of capacity generated are typically close to or

[58] Due to the scarcity of evidence available specifically on forestry, this EQ does not consider forestry separately from other agribusinesses.

[59] Based on elaborations on data provided by the impact department for the 2019-23 period. Note: data on generation capacity created is not recollected for BP projects.

[60] Access to energy is quantified according to levels – or tiers – of power capacity, which start from the lowest and gradually increase the amount of energy available to the consumer. There are 5 tiers:
Tier 1. This is the lowest level. It provides energy for an average annual consumption of 22 kWh per household. In concrete terms, this is barely enough to switch on a few lightbulbs, charge a phone or turn on a radio.
Tier 2. This covers ten times the consumption of level 1, providing for an annual use of 224 kWh per household. It enables the operation of general lighting, air circulation systems and even a television.
Tier 3. This level is needed to operate domestic appliances, such as washing machines and some kitchen appliances. The amount of available energy allows a maximum consumption of 696 kWh.
Tier 4. This level is needed to have a fridge or hot water. It means having a capacity of around 1,800 kWh per year.
Tier 5. At the fifth level, families have enough electricity to enjoy general lighting and continuous use of high-power domestic appliances such as refrigeration, air conditioning and possibly an electric kitchen.
All industrialised countries are at Tier 5; while evidence reviewed suggests that SHS support Tier 2 access at most.
(The tier definitions were taken from: https://www.enelgreenpower.com/learning-hub/gigawhat/search-articles/articles/2023/01/energy-access-tiers)

[61] Although increased capacity can immediately result in quality improvements for beneficiaries already connected to the grid, new connections will necessarily also require investments in extensions of the T&D network.

comparable with initial projects estimates, in the 2019-23 period climate change effects have significantly negatively impacted generation from hydro power plants. (Note: although no evidence was found of significant effects arising from climate change on investments reviewed in other technologies, experts engaged and clients managing projects in multiple technologies commented that solar and wind projects are also exposed to risks – in terms of changing weather/ wind patterns and extreme events.)

Although less efficient in terms of capacity generated per EUR spent and less fungible, particularly in terms of Commercial and Industrial (C&I) uses, **off-grid energy investments were much more effective in terms of including people without previous access to energy** (a key objective of the DGIS). Mini-grid projects are only built in areas not connected and with little prospects of connection to national electricity grids in the medium term (as the lower cost of energy provision through the national grid would make them unviable otherwise). SHS products can also be attractive as an alternative/ complement to customers which already have access to electricity; however, there is consistent evidence that a significant portion of customers had no access to energy before acquiring their first SHS product; and that for many others, SHS significantly improved quality of access.[62] Despite this, in access to energy as well as in other sectors (including but not limited to agriculture) reaching the very 'Bottom of the Pyramid' implies clear difficulties in terms of commercial viability, as well as trade-offs with other impact variables. The point is further explained in the box below.

Box 5: The feasibility and trade-offs of reaching the very 'bottom of the pyramid'

Most projects supported by AEF and BP naturally targeted less privileged populations (e.g., people with no or low-quality access to energy, and SHF). However, projects often failed to reach the poorest segments of the populations, or the ones living in the most remote areas.

Reaching those populations is usually less-cost effective, and therefore less profitable. For example, selling SHS and clean cooking systems in densely populated urban areas implies significant scale benefits and far lesser complicated logistics than serving rural areas; also, dealing with larger farmers as providers simplifies logistics and tends to increase the benefits reaped from investments in training and technological upgrades. In the case of mini-grids, the presence of "anchor" customers (i.e., private sector activities requiring a somewhat sizable amount of energy for their operations) significantly facilitates the viability of projects – meaning that sites where some level of development/ economic activity is already taking place are preferred (although in this case site selection is usually largely determined by governments, through tender programs). The higher costs of serving hard-to-reach populations also imply that, with the same investment, a significant lower number of beneficiaries can be supported compared to easier to reach segments.

Further issues also exist. In some cases, the lack of enabling resources (e.g., mobile connections, or certain types of fuel) makes the sale and use or certain products impossible in rural locations. For example, GreenLight Planet reported that its sales model (of SHS products) requires customers to be able to access a mobile phone line: to verify compliance with credit protection requirement, effectuate payments, and for the provision of post-sales support. In the case of clean cooking, the cleanest technologies cannot in practice be used in rural locations, as fuel sources such as LPG (Liquefied Petroleum Gas) and electricity are not readily available, implying a trade-off between inclusiveness and the extent of climate and health benefits that can be obtained.

Last, companies tend to favour countries with more favourable market characteristics – such as higher political stability and the presence of more developed entrepreneurial ecosystems; meaning that more and better opportunities (including in terms of their capacity to effectively achieve development income) are available in LMICs compared to LICs.

Multiple cases have been observed of projects that launch and consolidate their business model in more favourable contexts, and later expand operations in other countries/ contexts. Capacity development was at times used by both AEF and BP to push the boundaries of the population that can be reached through sustainable commercial models, by supporting viability testing of new customer segments (e.g. geographical expansion to less developed areas – the topic will be further covered in EQ7). This said, it remains evident that, at least for the time being, some sectors/

[62] See in particular: 60_decibels, "Why Off-Grid Energy Matters 2024"; and Trinomics, "Off-grid solar in Kenya: Market potential and development impacts", 2018.

segments are not commercially viable and/ or require grant support to be tackled by private players (such as in the case of most mini-grid projects, whose viability remains conditional to grant programs subsidizing tariffs).

Sources: ADE based on project reviews, past evaluations (namely: LEAD, "Clean Cookstoves: Impact and determinants of adoption and market success", 2021; and Greencroft Economics, "FMO's Contribution to the Off-Grid Electricity Sector", 2022).

Project reviews showed that **electricity demand does not easily arise within communities that had no previous access but rather needs significant support to ramp up**. A clear obstacle is the lack of immediate uses, e.g., populations without previous access to electricity are unlikely to possess electrical appliances. To address this, both mini-grid projects reviewed have started to sell electrical appliances as an ancillary activity to stimulate demand. **Another significant barrier to adoption is affordability**, particularly as target populations tend to be poor.[63] Generation through mini-grids, which has high fixed costs associated, is largely unviable unless it is sustained by government subsidies; this contributes to low demand, which in turn results in even higher costs on a per-kWh basis for the mini-grid to break even. (Hence the importance of stimulating use, through programs like the ones just described but also and more importantly to through the identification of large-scale productive uses, ideally by captive "anchor" players[64].) On the SHS side, affordability has been addressed through design-to-cost as well as through the widespread use of PAYGO programs (which allow users to acquire and immediately start to use products, while paying for them in instalments through time); and clean cooking is also experimenting with leveraging on the obtention of carbon credits to reduce sale prices to consumers.

FMO's investments in agricultural value chains achieved the strongest quantitative results in terms of jobs created/ supported, both directly and indirectly (which attests to the capacity of the sector to meaningfully contribute to results sought by the DDE in this sense). FMO impact data, past evaluations[65], project reviews and field observations all point to significant numbers of jobs created by BP's clients (or the investees of funds in which BP invests); and to further jobs created by farmers which act as their providers. **A further sector which created a very significant number of direct jobs is SHS**[66]; **although estimates in terms of total jobs supported (direct + indirect)**[67] **were higher for on-grid investments**, likely because of the stronger impact expected on PSD.

In terms of quality, consistent evidence (from field observation as well as previous studies) indicated that **direct jobs created by AEF and BP clients are "decent jobs"**; in fact, FMO requires clients to align with International Finance Corporation (IFC) performance standards. Clients are systematically assessed in this sense, and in case that they fail to reach standards at the time of the investment they are subsequently supported in reaching standards; milestones in this sense are typically inserted in Environmental and Social Action Plans (ESAPs), which become binding contractual conditions. This finding is supported by project reviews, past evaluations and field visits[68] throughout all sectors; although past evaluations also point at conditions enjoyed by permanent employees being significantly better than those enjoyed by temporary workers and others that work on a sales contract basis, particularly in the agriculture sector.[69] On the other hand, less evidence exists on the quality of jobs supported indirectly (most notably: in the agriculture sector);

63 See among others: Dalberg, AEF Evidence Mapping Report, 2019.

64 Observed examples of this have been small productive businesses requiring a significant amount of energy, such as mills and welding workshops, that either did not exist before or were powered by dirtier and more expensive sources of energy.

65 In particular: KIT Institute, Evaluation of vertically integrated companies in agricultural value chains in Africa, HPW case study, 2024; and Dalberg, IDF Evidence Mapping Report, 2019.

66 There is significant evidence in this sense from project reviews as well as from FMO's impact data.

67 Estimates made using the Joint Impact Model (JIM).

68 AEF and BP clients' employees and members of the communities in which they operated met during field visits confirmed that jobs offered by AEF and BP clients visited are considered good quality.

69 See in particular: KIT Institute, Evaluation of vertically integrated companies in agricultural value chains in Africa, HPW case study, 2024; and Orchard Finance, KIT Royal Tropical Institute, Impact Evaluation Africa Improved Foods East Africa.

although, where available, it points at those jobs being of significantly lower and more variable quality.[70]

Sources available to the evaluation team gave only limited insight as to broad PSD effects that projects contribute to. Overall, **off-grid energy technologies seem to have only a very limited effect on PSD**: in fact, only a minority of SHS customers utilise their products to generate income[71], and this appears to be largely within micro enterprises (likely because more sophisticated PSD activities tend to require higher energy access tiers that those can be achieved through SHS). Nonetheless, most of the customers that use their products productively experience an increase in their income because of it.[72] As for mini-grids: as noted before all uses, including productive uses, were found to be slow and needing support to ramp up; however, project reviews showed some promising examples that may lead to a sustained increase of PSD activities in time. Data on high numbers of indirect jobs supported by on-grid investments and a past evaluation[73] suggest **stronger positive effects on PSD from on-grid investments**.

Box 6: The health sector as a fast uptaker of electricity?

A past evaluation (KivuWatt, 2020) and observations from project reviews (particularly, d.light and Winch) suggest that health care centres have high appetite for electricity and a predisposition to be early adopters of electricity when it becomes available. Being based on limited evidence, the finding is not conclusive. Clearly, the electrification of health centres (particularly, in rural areas) can have significant positive effects on the welfare of local populations.

On the other hand, all evidence points at **access to energy contributing to significant results in terms of welfare**. People that acquire access to energy overwhelmingly report that access to energy changed their lives for the better, indicating education/ connection with the rest of the world, comfort, security level and quality of leisure and social interaction among items of their lives that improved considerably. Evidence also consistently supports increased flexibility within the households of women and children - who save time which is otherwise spent in procuring fuel for alternative energy sources, and for whom extra hours of electric lighting enable extra time for work, study or leisure.[74]

In the agriculture sector, PSD results included increased productivity among farmers, and increased input and output market access (including export markets).[75] Effects were noted, however, to tend to be less pronounced among the poorest/ smallest subsets of farmers, which tend to be less attractive as providers to processing companies as well as to have more difficulties to incorporate new technologies and trainings in their activities.[76] From a welfare standpoint, (anecdotical) **field observations suggested that investments tend to result in a stabilisation of income among SHF** (resulting mainly from higher quality/ more resilient inputs) **and improvements in their nutrition** (as part of the outputs are typically retained by families for their own consumption). In the case of two farmers met during the course of field visits, more transformational results were observed (e.g., farmers progressively significantly expanding their activities and increasing income, which in one case enabled the construction of a new, larger household and financing children's higher education); however, in both these cases farmers had relatively large holdings to begin with. This is consistent

[70] See in particular: KIT Institute, Evaluation of vertically integrated companies in agricultural value chains in Africa, HPW case study, 2024; and Orchard Finance, KIT Royal Tropical Institute, Impact Evaluation Africa Improved Foods East Africa.

[71] 17% according to 60 decibels (2024), although other evaluations report lower percentages.

[72] Based on: 60_decibels, "Why Off-Grid Energy Matters 2024" and Dalberg, AEF Evidence Mapping Report, 2019. The finding is also consistent with observations during field visits: productive users met were all microentrepreneurs (tailors, kiosk and small shops owners), and reported that using their products in their activities increased productivity.

[73] Enea consulting, KiwuWatt Impact Evaluation Study, 2020.

[74] Findings in this sense are consistent in field visits, project reviews and past evaluations/ documentation (Dalberg, AEF Evidence Mapping Report, 2019; 60_decibels, "Why Off-Grid Energy Matters 2024"; Trinomics, "Off-grid solar in Kenya: Market potential and development impacts", 2018).

[75] Project reviews; IDF Evidence Mapping Report (2019); KIT Institute, Evaluation of vertically integrated companies in agricultural value chains in Africa, HPW case study, 2024.

[76] Project reviews; IDF Evidence Mapping Report (2019); KIT Institute, Evaluation of vertically integrated companies in agricultural value chains in Africa, HPW case study, 2024.

with findings from literature, that suggest that improvements in agricultural value chains can, but does not necessarily, have positive impact on farmers, particularly in terms of higher income; and that the poorest farmers segment tends benefit the least.[77]

Investment in agricultural value chains also appeared to be associated with improvements in food security and nutrition standards within the countries in which they operated.[78] Project reviews and field observations also suggest that intermediary/ aggregator models which leverage on fintech solutions to manage payments allowed farmers to save significant amounts of time and provided increased security in transactions and the management of cash.

With regards to gender, concerning the participation of women in the workforce and in leadership activities:

- Convincing evidence was found that women are organically included in SHS and clean cooking companies' workforce: in fact, representatives interviewed from those companies reported that gender diversity is expressly sought to attract a broader range of customers, among others. Several saleswomen were also met during field visits. (According to FMO's impact data, about 30% of supported SHS companies' employees and 33% of supported clean cooking companies' employees are women.)
- Little/ mixed evidence was found concerning the involvement of women in the workforce in on-grid and mini-grid companies: in some of the projects reviewed, employment appeared to be male-dominated (because construction workers tend to be male, and because of social norms in some specific locations); however, general statistics collected by FMO showed a gender distribution closer to other sectors (possibly reflecting a tendency towards normalisation in this sense once projects become operational).
- Within agriculture, all companies reviewed supported by BP (either directly or indirectly, through funds) showed awareness of gender issues and reported ongoing efforts to promote women empowerment/ employment on an equal basis, both within own activities and among supplier farmers. However, during (three) field visits to dairy and crop farming companies, women were only occasionally spotted at any level, which seemed hardly compatible with gender statistics provided by the companies' leadership (and could hint at a tendency to overreport in this sense, also to FMO). On the other hand, women appeared more present and active in visit to poultry and forestry companies.

As noted above, women were also noted to reap significant benefits from access to electricity and clean cooking: benefits arise most notably from significant lesser time spent procuring fuel. Access to electricity is also found to be associated with higher women employment and their involvement in productive activities.[79]

In terms of climate and environment, almost all energy interventions implemented leverage exclusively on renewable sources and are thus considered climate friendly. A partial exception is clean cooking, which also includes solutions that make use of non-renewable fuels, but nonetheless fosters their use in a more climate-efficient way. (More pollutant solutions are typically proposed in areas where clean fuels – such as electricity and LPG – are not readily available; as already mentioned in Box 5, this results in investments in reaching more rural and marginalised areas being less efficient in terms of achieving climate results compared to urban and peri-urban alternatives.) In fact, based on FMO impact data, clean cooking solutions were highly effective in avoiding CO2 emissions; albeit a to a significantly lesser extent, this was also the case of off-grid/SHS solutions, whose usage also often directly replaced the use of more pollutant fuels, e.g., kerosene for lighting. (Data suggests lower CO2 avoidance results for on-grid and mini-grid solutions: this may be because the

[77] KIT Institute, Evaluation of vertically integrated companies in agricultural value chains in Africa, HPW case study, 2024; interviews with experts.

[78] This was reported by some interviewees, though the evaluation team does not count with strong evidence to back the finding: it would need to be investigated further.

[79] Dalberg, AEF Evidence Mapping Report (2019) and interviews.

substitution effect was less immediate or less evident in these cases; although it may also reflect gaps in the data provided.)

Beyond CO2, an issue that was raised in interviews is that of the disposal of waste, and most notably of batteries – particularly in SHS businesses. There are indications that awareness of this issue, previously largely absent, increased in the 2019-23 period. Some companies reported having started to address it in several ways, including product design (by making parts that are more durable and can be used and potentially reused in several apparatuses); by promoting the recollection and refurbishment of old appliances; and through programs to support the sustainable disposal of batteries. However, this is largely based on qualitative interview findings (no strong evidence was collected on this point).

Avoidance of CO2 emissions in agriculture was reported (within FMO data) to be much lower. Nonetheless, consistent (albeit rarely quantified) evidence emerged that projects allowed a significantly more efficient use of resources by minimizing waste: particularly, by using cooling and processing technologies, as well as through faster/ more efficient distribution chains. These allowed faster and less-damaging recollection of produce of various kind; increased shelf life (i.e., through refrigeration and processing techniques such as drying or conserving); and the utilisation of a higher percentage of produce (because minimum standards necessary may vary depending on the specific use made of products). Some sources also suggested increased use of more environmentally sustainable farming techniques, although on the overall lesser arguments were presented in this sense, sustained by less convincing stories and evidence.[80]

Table 6: Summary of the extent of positive results brought by various sectors/ technologies on different variables

	Energy – on grid	Energy – off grid (SHS)	Energy – minigrid	Energy – clean cooking	Agriculture	Notes
Funds active in the sector/ technology	*AEF and BP*	*AEF and BP*	*AEF and BP*	*AEF*	*BP*	
Direct jobs created	Low	High	Low	Medium	Very high	Direct jobs created tend to be high quality; although more so for permanent workers
PSD effects, including indirect jobs supported	High	Low	*(Early evidence only)*	Very low	Very high	The quality of indirect jobs created is often significantly lower
Increased energy generation capacity	High	Low	Low	*Not applicable*	*Not applicable*	
New accesses to energy	Not unless grid is extended (and requires use support)	High (use is evident)	High (but requires use support)	High (use is evident)	*Not applicable*	
Inclusion of women in the workforce	*(Evidence not consistent)*	High – Inclusion is aligned with business interests	*(No evidence)*	High - Inclusion is aligned with business interests	Medium/low - efforts at inclusion are done but need to overcome social barriers	
Welfare	*(Little evidence available)*	High – particularly	High – particularly for	High – particularly	Medium/ variable on	

[80] Sources: project reviews, field visits and KIT Institute, Evaluation of vertically integrated companies in agricultural value chains in Africa, HPW case study, 2024.

		for women	women (but requires use support)	for women	small farmers To be further explored: on food security	
Climate mitigation	*Mostly positive (depends on whether more pollutant energy sources were in use and replaced)*	Medium (GHG avoidance from substitution of use of dirtier fuels)	*Unclear (depends on whether more pollutant energy sources were in use and replaced)*	Very high (GHG avoidance from substitution of use of dirtier fuels)	Medium (more efficient use of resources/ lesser waste)	

Source: ADE analysis.

Box 7: Digitalisation and mobile coverage as enablers of results

During interviews and field visits, the adoption of digital systems to facilitate transactions and beneficiary support, mobile and internet network coverage and the possession on the part of beneficiaries of mobile (ideally smartphone) devices proved to be significant enablers of results (or obstacles, when not present or insufficiently well-developed).

Digital systems were used, for example, to assist farmers in a variety of technical assistance needs, to support the acquisition of inputs, and to support communication and data collection on the part of aggregators. Within SHS and clean cooking systems, they were essential in supporting follow up and post-sale assistance. In the case of mini-grids, they enable efficiency in measurements and the provision of assistance in case of problems. In all sectors, they also significantly increased the ease of payments; and contributed to further financial inclusion.

4.7 EQ7 – Capacity Development

To what extent and how did the Capacity Development efforts funded through BP and AEF contribute to the outputs and outcomes of the investments supported and those of BP and AEF overall?

In brief:

During the period 2019-23, AEF and BP provided Capacity Development (CD) for EUR 1.6 million and EUR 7.6 million respectively, corresponding to 83% and 90% of the budgets assigned to FMO's CD team (including special COVID funding extended in 2020). It is worth noting that while BP had a contractually-assigned budget for CD (which is excluded from revolvability requirements), this was not the case for AEF, for which budget was discretionally assigned by the AEF fund manager.

AEF and BP-funded CD may be provided at either the level of the individual client company or the (target sectors) ecosystem level. The choice and definition of projects at the company level was aligned to client interests rather than to the government fund priorities (although it must be compatible with them), in consideration of the fact that beneficiary clients are required to co-fund CD projects. On the other hand, the choice of projects at the ecosystem level was more strategic – based on issues affecting many companies and strategically relevant for FMO and the government funds.

CD-related evidence reviewed as part of this evaluation included basic statistics on the overall use of CD and the documentation relative to a limited number of projects (associated with project reviews). This last showed that outputs and immediate outcomes sought at the project level were consistently reached. However, no processes were noted to be in place to assess whether results endured over time, nor structured systems to support the analysis and/or the sharing of information and learning from projects. No information was also readily available to support the assessment of the contribution of CD towards AEF and BP objectives at the entire portfolio level. (In general, few data are systematically collected concerning CD – which also complicated its analysis for this study.)

The limited evidence available suggest that the CD projects most valued by beneficiary companies concerned ESG-related topics (including consumer protection) and the use of delegated TA facilities (facilities managed by funds and used to offer CD to the funds' investees).

Sources of evidence used in support of the answer to this EQ:

Documentation: *AEF and BP contractual documents (*beschikkingen*) and related communication between FMO and the MFA; AEF and BP strategies for 2019-2029; AEF and BP annual reports (section on "Production capacity development"; FMO's theory of change for capacity development; FMO's development contributions criteria & guidelines for State Funds (MASSIF, BP, AEF); documents corresponding to a sample of CD projects (contractual documents, reporting, other); previous thematic and project evaluations.*

Databases: *data extracted from FMO's Capacity Development database.*

Primary sources: *interviews with AEF and BP fund managers, FMO investment managers, FMO clients (corresponding to the projects reviewed) and FMO Capacity Development department.*

83% and 90% of the budget assigned to the CD department to support AEF and BP projects respectively has been used in the period 2019-23. This corresponds to EUR 1.6 million for AEF (out of EUR 1.9 million available) and EUR 7.6 million for BP (out of EUR 8.4 million available)[81]. With this funding, 23 projects have been supported by AEF and 47 by BP. These numbers include both projects at the individual customer and at the ecosystem level.[82] (In comparison, 136 clients were active in the period, of which 34 supported by for AEF only, 82 by BP only and 20 by both.) **It is worth noting that the BP 2018 *beschikking* (decision) specifically recognises the need for CD, assigning a (non-revolving) budget to it. This is not the case for AEF, for which budget was discretionally assigned within FMO**, from AEF total funds (implying that there is no exemption from revolvability, nor contractual assurance that the budget assignment will continue to be maintained in the future).

According to the theory of change for CD within FMO, CD projects are framed around five themes, which are aligned with the DGIS priorities: 'Bottom of the Pyramid', Climate, Gender, Innovation and ESG. **No specific priorities or strategies are formally defined for CD provided in the specific context of government funds, beyond a set of eligibility criteria and the indication that projects should specifically link to customers supported by each fund or the ecosystem they operate in.**

The design of CD projects is reactive to emerging opportunities rather than proactive (i.e., purposefully aimed at accelerating progress towards specific objectives). CD opportunities at the individual customer level are typically identified from discussions involving the investment manager, CD officers and the client once investment operations are already underway (typically, when disbursements are complete)[83]. As such and given that clients are (typically) required to provide a significant contribution to CD project costs[84], their choice and design tends to be reflective of individual clients' needs and interests, rather than of a conscious allocation of funding to priorities on the part of FMO. While this is effective in ensuring client commitment, it limits FMO's capacity to steer CDs towards areas that may be of higher strategic alignment with AEF and BP's

81 Includes annual allocations and special COVID funding extended in 2020 only.

82 Due to limitations of the database provided by FMO, it is impossible to distinguish between CD projects provided at the individual client and at the ecosystem level before December 2022. In the following period (until the end of 2023), 4 out of 13 projects (about 10%) have been at the ecosystem level, though this may or not be representative of preceding periods.

83 While in some cases within the projects reviewed Capacity Development opportunities were already identified at the project preparation stage (e.g., in CIP and FP documents), specific opportunities identified were not necessarily eventually followed up upon in projects' implementation. In exceptional cases, the Capacity Development department may also extend support before the signing of contracts, although no such cases were identified in connection with AEF and BP clients.

84 In principle, FMO's contribution via the state funds to Capacity Development projects at the individual client level should be up to 50%, with the beneficiary's own contribution matching the other 50% of the total project costs. This contribution should be in cash (not in kind). Exceptions may be granted - e.g., FMO may contribute to up to 75% of project costs in cases in which there is very strong additionality; or contributions may be in kind when special expertise from project staff is needed, or special equipment is loaned. Given limitations in the Capacity Development database provided by FMO (particularly: the impossibility of sorting projects implemented at the individual and ecosystem project level), the evaluation team could not verify adherence to these limits.

objectives.[85]

The above is different in the case of ecosystem-level projects, which are normally requested by investment teams in consideration of apparent recurring issues within sectors or segments supported and may therefore be used more strategically. In the case of ecosystem-level projects, FMO can contribute up to 100% of the cost. Some of those projects – most notably, GOGLA's development and implementation of the Consumer Protection Code across the off-grid solar sector – have had quite significant and widespread impact[86]. Indicatively, up to 30% of the total Capacity Development budget available may be used for ecosystem-level projects; it is worth noting that Capacity Development officers appeared to consider this as a constraint.

Only a very limited number of CD projects were reviewed by the evaluation team[87]. Those were found to be consistently successful in achieving their stated outputs/ immediate outcomes; however, **little information was found to assess the strength of CD contribution towards AEF and BP objectives.**

Client satisfaction appears to be stronger for ESG-related topics, including Consumer Protection. The CD project documentation reviewed consistently showed a good level of achievement of outputs and immediate outcomes; however, longer term results and results sustainability are not monitored. Clients interviewed consistently showed positive opinions about the CD support received, although the level of satisfaction varied: notably, it was consistently strong for projects on ESG-related topics (including consumer protection) and in the case of Delegated TA facilities, i.e. facilities managed by FMO customers (typically equity or debt funds) and used to deploy Technical Assistance in support of multiple investees/ beneficiaries. In other cases, comments were still positive but more mildly so.[88,89]

Some mechanisms exist to facilitate accumulating knowledge from CD projects and leveraging on it on further endeavours; namely, agreements with consultants that may support multiple clients on similar topics (e.g., on consumer protection and ESGs). However, these practices appear to be ad-hoc. Efforts were also reported to be in process to create systems though which knowledge and lessons learned from past documents would be easier to acquire, analyse and share, although not yet with concrete results.

Box 8: The use of Capacity Development in support of testing 'Bottom of the Pyramid' markets and gender-sensitive approaches

Some segments of the population targeted by the DGIS may be lower priority (or considered too risky) to be immediately addressed by companies; nonetheless, they may hold a potential commercial interest. In some cases, Capacity Development funding was provided to support companies to test the commercial viability of expanding activities to marginalised geographical areas and poorer countries (for example, in the case of HPW); or to develop products and commercial approaches more suitable and attractive for female customers (in the case of DeHaat, an investee of the Omnivore fund). Customer co-participation in the investment was always required to ensure interest in continuing to pursue the opportunity if validated. While it is too early to assess the success of the projects reviewed as part of this study, the recent "Review of Development Contributions for Market Creation" (2023) showed that

[85] Similar issues are surfaced in the "Review of Development Contributions for Market Creation" study (2023) for what concerns specifically CD targeted at market development provided through MASSIF.

[86] Particularly, the code has been incorporated by all the SHS companies reviewed; implying benefits for their customers, but also in terms of the companies' financial health (as consumer protection had important side benefits in terms of limiting losses from unrecovered PAYGO receivables).

[87] Material for 6 Capacity Development projects implemented in connection with the projects reviewed was provided and revised by the evaluation team. This typically included the ToR, inception/ progress reports and, when applicable, final reports; when applicable, some of the materials that the CD contributed to produce were also made available. Additional information on different Capacity Development projects was also obtained through past evaluations and interviews.

[88] In the words of one interviewee: "The contribution was positive, but not mind-blowing."

[89] This appears consistent with the findings of the study on "FMO's Contribution to the Off-Grid Electricity Sector" (covering the 2014-2020 period), which noted that credit management, consumer protection and ESGs as the areas in which FMO Capacity Development support was more appreciated –among others, because it reduced the cost of engaging in such activities, which facilitated professionalisation and the engagement of other investors.

similar market-testing supporting initiatives can be successful (as for example in the MASSIF-supported CD designed to enable M-KOPA to test the "e-bike" product line).

Sources: Omnivore case study; KIT Institute, Evaluation of vertically integrated companies in agricultural value chains in Africa, HPW case study, 2024; interviews with the AEF and BP leadership and FMO's Capacity Development department

Box 9: The opportunity to use Capacity Development to support small farmers

In two BP-supported projects reviewed, CD was used to train small farmers in sustainable/ higher productivity/ resilient farming practices. In the cases in point the financing was not provided through BP (but rather, in one case, through MASSIF – which had co-invested in the project; and in the other, by the Dutch embassy); nonetheless, in combination with the financing provided, those trainings contributed to significantly increase the productivity of farmers; resulting in improvements in income and welfare for populations that normally live in subsistence conditions.

As of now, few data are systematically collected on CD, which limits its usefulness in supporting analysis for strategic purposes. The evaluation team faced significant limitations in analysing the CD data provided. Among the most significant ones were the lack of direct association between CD projects and direct customer beneficiaries[90]; the only recent introduction (as of mid-November 2022) of the indication of whether projects are implemented at the direct customer or ecosystem level; and the lack of flags for priority themes covered ('Bottom of the Pyramid', Climate, Gender, Innovation and ESG). The valorisation of all projects in EUR (in addition to the currency in which they have been contracted) would also be a useful addition for comparing them.

4.8 EQ8 – Graduation

To what extent and how do clients 'graduate' from BP and AEF, transferring to other investors (including but not limited to FMO-A)? Does FMO have established mechanisms to facilitate this process?

In brief:

Projects may "graduate" through several mechanisms: they may undergo a **formal transfer process**, or – in the case of debt – they may simply **extinguish and be refinanced** through a new investment operation. Also, in the case of investments in (debt or equity) funds, the most likely course is that AEF/BP maintain the existing investment until the end, while the new investor(s) invest in a successor fund. Examples for the period 2019 to 2024 have been identified for each of these modalities. A last option is the strategic sale of equity stakes to third parties. This, however, has not happened in the period observed.

To facilitate the transition whenever possible (and free up government capital for further investment operations), **AEF and BP's portfolios are monitored to identify candidates that may qualify for transfer to FMO-A**. These investments may be transferred at fair value at the discretion of AEF and BP's fund managers. It is worth noting that transfers tend to negatively affect the funds' KPIs: as investments that are performing well exit the portfolio, the positive results achieved and reflected in "impact" indicators are not reflected anymore in portfolio-level KPIs (while new investments tend to take a while to show similar results).

Transfers and refinancing by FMO-A are estimated to have accounted, each year and on average, for about 4,7% of the committed capital for AEF and for 3,4% of BP. (This does not include the financing of successive editions of debt and equity funds, nor financing extended to different subsidiaries within the same groups of previously supported AEF/BP projects.) **Most projects transferred from AEF/BP to FMO-A or refinanced by FMO-A in the 2019-2023 period, both in terms of numbers and amounts, concern on-grid project finance investments**.

[90] Data included in the database refers only to the direct recipient of the financial contribution which, depending on the case, may be either the beneficiary company or the TA provider.

Sources of evidence used in support of the answer to this EQ:

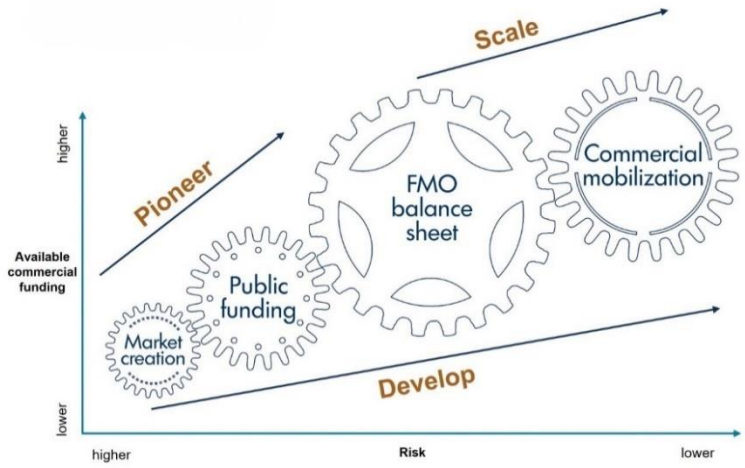
Documentation: *FMO's 2030 Strategy (Pioneer – Develop – Scale); FMO agreement covering transfers from Government Funds to FMO-A and External Parties; AEF and BP annual reports (section on "Exits and Sales"; exit memos relative to projects reviewed (when applicable), AEF and BP's KPI lists (see EQ1).*

Databases: *data extracted from FMO's financial database.*

Primary sources: *interviews with AEF and BP fund managers and FMO investment managers.*

According to FMO's progression model, **FMO aims at supporting clients and sectors for extended periods, from more high-risk initial phases to the point where risk becomes favourable to commercial investors so that they can take over financing from FMO-A (partially or in-full)**. Funding through government (public) funds, including AEF and BP, is meant to be used relatively early in this process, in between market creation interventions (aimed at developing unbankable opportunities with impact into bankable projects) and funding through FMO-A. (See also the figure below.)[91]

Figure 7: Summary of FMO progression model



Source: FMO - Updated Strategy Towards 2023: Pioneer – Develop - Scale

Note: An evaluation of FMO's Progression Model is currently undertaken at the time of writing of this report, notably focusing on the progression of customers from public funds to FMO-A and commercial sources. While there was contact between the two Evaluation Teams with the purpose of sharing and leveraging on each other's initial findings, it is recommended that findings reported here be considered in combination with the results of that evaluation.

Progression is critical to support the optimal use of government funds: as companies and sectors "graduate" to DFIs and commercial financiers, government funding is freed up to and becomes available for use in new opportunities.

Throughout the evaluation, **progress to FMO-A was observed to be a goal considered and generally sought by FMO officers**, including from the projects' design phase. From a strategic standpoint, however, rather than at the project level, progress is sought in terms of **supporting certain sectors/ business models in reaching a higher level of maturity**. In this sense, the lack of progress of specific clients is not necessarily a failure of the progression model if it provides a contribution to the evolution of the sector (e.g., raised interest from investors, insight into workable business models, installation of productive assets etc.)

[91] RoP of the Evaluation of FMO's Progression Model (2023), interviews, ADE analysis.

Box 10: The progression of the SHS model from early stage to DFI/ commercial funding

Since the early 2010s, FMO had identified the SHS sector as potentially highly impactful in terms of access to energy (including the facilitation of immediate uses) and of the provision of health, security and cost and time - saving benefits, particularly to women. Also, the model was deemed commercially viable, and thus potentially self-sustainable in the long term. Nonetheless, at the time it was considered highly risky, in that none of the companies operating in it were profitable. Over time several tried to make the transition towards a PAYGO sales model – which is more adequate to the context of developing countries but entailed significant financial risks.

Since 2010, FMO was one of the largest investors in the sector (along with other DFIs such as BII – previously CDC – and Norfund), mostly leveraging on government funds. In particular, through AEF and BP FMO provided financing to three among the projects reviewed: d.light, GreenLight Planet (GLP) and M-Kopa. The three expanded substantially; and as of end 2023, M-Kopa had fully graduated to the FMO-A portfolio, while GLP had attracted significant investments from both other DFIs and commercial investors (although it remains in AEF and BP's portfolio for reasons essentially linked to the difficulty of FMO-A of providing financing in local currency; the topic is further touched upon below and in EQ 9.) Although d-light has been less successful (and is currently undergoing a liquidity crisis), the SHS sector overall can be considered as a successful example of high-development-potential business model that FMO contributed to progress to a significantly higher maturity level.

Source: project reviews; Greencroft Economics, FMO's Contribution to the Off-Grid Electricity Sector, Review 2014-2020 (2022)

Box 11: Supporting sector-level progression through funds: the case of ARAF

The Acumen Resilient Agriculture Fund (ARAF) invests in early-stage and early-growth agribusinesses providing climate-resilience solutions to SHF in East and West Africa. Its investment tickets typically range between USD 300k and USD 3mln.

Given its early-stage focus, it is unlikely that ARAF will itself become eligible for FMO-A and "graduate"; however, companies supported may eventually advance to be individually supported by government funds, and potentially eventually FMO-A. Also, it is expected that the fund (through financing but also through technical assistance provided) will gradually contribute to a higher maturity of agricultural value chains in Africa.

Source: ARAF project review.

The clarity of plans envisaged for the "graduation" of projects from government funding to FMO-A (or other DFI or commercial funding) and the timing sought vary significantly among the investments reviewed according to their type and stage For investments in early-stage models, possible options for exits or "graduation" to FMO-A and/or commercial funding are typically framed in very general terms at the time of the deal. For more mature companies and project finance clients, graduation is often concretely envisaged over a medium-term horizon. It is worth noting that, in projects reviewed, those elements were typically not clearly reflected in investment documents but rather emerged from conversations with FMO Investment Managers.

"Graduation" was observed to take place (including among projects reviewed) **in several ways**:

A. **Transfer of investments from government funds to FMO-A or external parties**. All government funds are reviewed and assessed for potential for transition to FMO-A at least on an annual basis. Transfers may take place based on fair market value (which is determined based on internal pricing procedures, in the case of debt, or on clear external references such as comparable recent transactions or an independent third-party evaluation in the case of equity). However, in cases in which loans were extended at concessional rates, FMO-A is not entitled to premiums to compensate for the difference with market rates. Within the list of projects reviewed, only one case of transfers during the 2019-2023 period has been observed: Ivory Cocoa Products (2021). Further cases of transfers that took place in the period were Kivu Watt (2020), Rabai Power (2020), Sucafina Group (2020) and Aenergy

Turkana (2021)[92]. As transfers are time- and resource-consuming, they are only considered for sizable investments that still have several years of outstanding life. It is worth noting that while transfer decisions are initiated by and subject to the approval of AEF and BP managers, FMO-A may not oppose them if investments comply with its eligibility criteria.

B. Extinction and refinancing (by other actors) of debt investment operations: a debt investment operation may be extinguished – either at its natural end or previously, at the client's request; and refinanced through entirely new operations, with FMO or other financiers. The latter was the case, for example, of M-Kopa, whose debt with AEF was extinguished in 2022; M-Kopa later received a new loan from FMO-A.
C. Equity sales to third parties (e.g., strategic sales, or IPO). Although this is a clear aspiration – particularly for investments supported by AEF in the distributed energy space –, it has not yet happened.
D. For the case of (equity or debt) funds, "graduation" may happen through FMO-A's investment in successor funds. In the case of funds, the complexity of determining the fair value of the investment makes this the most practical option. In the sample of projects reviewed, this was the case of the Omnivore funds.

Box 12: "Graduation" cases among projects reviewed

In 2019, BP funds were used to invest 7 million USD in the second fund raised by Omnivore Partners, the first equity fund manager investing in Indian early-stage companies with a dedicated focus on the agri-tech sector. The use of BP funds was justified in view of the early-stage investment focus and of the relative lack of the experience of the team – which had not had any exposure to international investors in Fund 1. As of late 2023, Omnivore started to raise capital for its third fund, in which, given the solid performance of the team and the increasing maturity of the agri-tech sector in India, FMO-A will invest with its own funds.

In 2019, Ivory Cocoa Products (one of the largest cocoa processors in Ivory Coast) was extended a EUR 12 million loan from BP to expand production capacity and finance working capital. At the time, Ivory Cocoa Product met all but two of FMO-A investing criteria: the balance sheet was not considered strong enough, and it was a relatively young company strongly dependent on one offtaker. After two years of strong performance, including construction of new processing facilities and significant progress on some environmental and social issues identified, in 2021 the Ivory Cocoa Products investment was transferred to FMO, for a price that included the outstanding nominal value, accrued interest amounts and a premium based on updated pricing advice.

In 2022, M-Kopa, a SHS company that later diversified in mobile phones, e-mobility, and financial services that can be extended through mobile phones, extinguished a USD 7,3 million with AEF. In the same year, FMO-A extended it a USD 15 million loan (in local currency).

Source: ADE analysis based on project reviews.

Box 13: Other cases of progression among projects reviewed (which have not yet achieved graduation)

Sahyadri is a "Farmer Producer Organisation" (farmer-owned cooperative) operating in India. FMO funding, extended through a combination of BP and FMO-A at a time when the organisation mostly financed through internal sources and small-entity loans from local financial intermediaries, enabled a significant upgrade of the services offered to farmers, including most notably processing and distribution capacities. In time, Sahyadri significantly grew its farmer base and positioned as a leading exporter of agricultural produce (particularly grapes) on the EU market. Also, it restructured to successfully attract funding from both national and international investors (mainly: DFIs and local banks).

BIX is a debt fund manager that provides debt to clean cookstoves producing companies, secured through future proceeds from carbon credits. Leveraging (significant) proceeds from carbon credits, companies can significantly lower the prices of clean cookstoves, making them more accessible to 'Bottom of the Pyramid' customers. FMO

[92] This list is based on AEF and BP Annual Reports, and may not be exhaustive.

supported the project from its ideation and contributed to the first fund through AEF. While this was quite small (closing significantly below its target), it nonetheless succeeded in proving the viability of the model; and the second fund (which is, as of the first half of 2024, in the process of fundraising) looks set to secure higher amounts from a larger bases of investors (still including AEF).

Source: ADE analysis based on project reviews.

Transfers and refinancing by FMO-A are estimated to have accounted, each year and on average, to about 4,7% of committed capital for AEF and 3,4% for BP.[93] (This does not include the financing of successive editions of debt and equity funds, nor financing extended to various subsidiaries within the same groups of previously supported AEF/BP projects.) *The evaluation team was not provided with any information regarding investments transferred to parties outside FMO.*

More than half of the projects graduating from AEF/BP to FMO-A in the 2019-2023 period were project-finance, on-grid energy investments. In those cases, projects are typically considered de-risked when the construction phase is over, and operations have been stabilised. The average age of graduation observed for those projects was 7.5 years.

The need for financing in local currency can be a significant complication for graduation. In fact, providing funding in local currencies is significantly easier for government funds than for FMO-A, which must comply with tighter hedging requirements that are costly and therefore not always feasible. Among the cases reviewed, the requirement for a loan to be extended in local currency was noted to be the only reason justifying why a EUR 20 million loan to SunKing Financing (a subsidiary of GreenLight Planet) was provided by AEF and BP rather than FMO-A, as the company was otherwise noted to comply with FMO-A's criteria. While financing in local currency is critical for the stability of the company (whose sales are largely operated on PAYGO model, making it very sensible to currency risks), this tied up a significant amount of liquidity on the part of the two government funds[94].

Box 14: Are the right incentives in place for fund managers to support the graduation of projects?

Some of the KPIs set for the funds, as they are currently designed, are negatively impacted by the progression of investments from AEF and BP to FMO-A (or other investors), at least in the short term. Most notably, as successful projects exit the AEF and BP portfolios, the progress achieved through them is no longer reflected in the funds' KPIs; and although new investments should replace them and create further development results, this is likely to take time. This could constitute a disincentive for AEF and BP's fund managers to favour the transfer of investments.

A further effect of transfers is that it tends to increase the total risk held by AEF and BP's portfolios, as de-risked projects are let go to invest in riskier ones. This should be compensated by premiums to be paid by FMO-A upon the transfer in reason of the increased fair value of the investment. However, it potentially creates an incentive to decelerate the process when revolvability rates are lower than required.

4.9 EQ9 – Financial additionality

To what extent and how does FMO take into consideration and adapt to changes in the market environment to ensure that BP and AEF are and continue to be financially additional?

In brief:

All investments reviewed had convincing cases for the financial additionality of AEF and BP, with respect to the market

[93] 14 AEF and BP supported projects active at some point between 2019 and 2023 but with no active AEF/BP investment operations as of end 2023, were noted as active in the FMO-A database as of 2024, which suggests a transition from government funds (AEF/BP) to FMO-A of the types (A) or (B) described above. (See Annex 4, paragraph 4.4, for more details.)

[94] Both funds contributed EUR 10 million, i.e., the maximum exposure per client allowed per fund according to FMO guidelines.

but also specifically with respect to FMO-A. In some instances, the case for additionality versus FMO-A appeared weaker. However, those were usually associated with faster graduation times. Additionality is usually associated with the lack (or scarcity) of alternative funding sources offering conditions adequate to support projects, and with the capacity of FMO to catalyse additional funding, through de-risking or by providing visibility and lending credibility to opportunities.

Additionality was perceived to be particularly strong in the case of new and innovative business models, for which FMO provided funding and active support very early on, funding which was otherwise lacking in the market (including from other DFIs).

Additionality was pursued over time through a continuous effort to scout for trends and emerging high-potential models, particularly in sectors aligned with FMO's strategy (e.g., agriculture and energy). Also, concerning single investments, financing products were progressively adapted depending on the life-cycle stage of companies.

Some limitations/ issues also appeared with AEF and BP's capacity to be additional. In particular:

- Inadequacy to support small projects (indicatively: requiring financing from FMO for less than EUR 1 million).
- The potential risk to crowd-out commercial funders in relatively mature sectors, namely solar home systems (SHS).
- Difficulties related to transferring mature projects that receive financing in local currency (which is relatively easy to extend for AEF and BP) to other investors.

A further case meriting attention are "rescue" investment operations, meant to try to avoid or mitigate the social (and reputational) consequences arising from liquidity crises or bankruptcies of projects. Those investment operations are certainly financially additional in that no other player would be likely to step in; however, they have a high probability to be detrimental on AEF and BP's capital. Currently, there are no guidelines to support their design towards optimizing outcomes in terms of the mitigation of social and reputational consequences as well as the protection of AEF and BP's capital.

Sources of evidence used in support of the answer to this EQ:

Documentation: *Guidance note on additionality for evaluations commissioned by FMO; FMO Investment Criteria (2023); OECD, "Evaluating Financial and Development Additionality in Blended Finance Operations", 2021; projects reviewed's documents (pre-investment, annual reviews, other); previous thematic and project evaluations.*

Databases: -.

Primary sources: *interviews with AEF and BP fund managers, FMO investment managers, FMO clients (corresponding to the projects reviewed), other DFIs and investors, (current and former) Dutch Embassy personnel in Kenya and Uganda.*

Both AEF and BP's eligibility criteria require that, for each investment, the additionality of the use of government funds be justified in comparison with the market as well as with FMO-A. In particular, CIPs, FPs and AEF and BP evaluation forms must explain why the project does not comply with the FMO-A investment criteria (thus justifying the use of government funds). Although not explicitly noted in the AEF and BP criteria, it appears intended that the additionality should have a financial component (i.e., justifying additionality based on ESG contributions only should only happen exceptionally).[95] According to FMO's definition (which appears substantially in line with the OECD and with the definition used by DFIs andMDBs[96]), "financial additionality applies when FMO provides a financial product that is not (sufficiently) available from commercial banks and other investors, or only in terms and conditions that do not fit a solid business model, at the time of

[95] In this respect, see also: FMO, "Additionality, A Guidance Note for Evaluations Commissioned by FMO."

[96] According to the OECD Development Co-Operation Working Paper on "Evaluating financial and development additionality in blended finance operations": "Financial additionality refers to situations where finance is mobilised, and an investment is made that would not have materialised otherwise. […] An official transaction is financially additional if it is extended to an entity that cannot obtain finance from local or international private capital markets with similar terms or quantities without official support, or if it mobilises investment from the private sector that would not have been invested otherwise.". In the same paper, it is further noted that DFIs and MDBs define additionality as "… a contribution that is beyond what is available, or that is otherwise absent from the market, and should not crowd out the private sector".

approval"[97].

In fact, each of the projects reviewed provided a justification of the financial additionality of the investments in the pre-investment documentation (CIPs, FPs and/or AEF and BP evaluation forms). No evidence of formal tools or processes to support and document the assessment of financial additionality and the absence of alternative viable sources of financing was found; rather, this appeared to be based on the professional appreciation of the FMO officers involved in the appraisal process. However, arguments (which were assessed and expanded upon during interviews with FMO Investment Managers and client representatives) were generally found convincing. Arguments for the impossibility to use FMO-A (overall or without being complemented with a junior tranche funded by AEF or BP) were in some cases stronger than others – i.e., there were a few cases in which the "gap" towards FMO-A eligibility was noted to be relatively small. However, those cases tended to be associated with a clear plan of progression to FMO-A in relatively short times. (This was the case, for example, of Ivory Cocoa Products, which was assessed to not fully meet with FMO-A investment criteria on two items in 2019; the investment was re-assessed for progress in this sense and transferred to FMO-A in 2021.) It is worth noting that in all cases reviewed that involved joint financing from government funds and FMO-A, government funds had a more junior position but also received higher returns to compensate for additional risk.

Financial additionality arguments generally reflected the type of investment or stage of the invested company (see also Table 2, page 5) as well as the sector of investment. Arguments encountered (in projects and project evaluations reviewed) included one or more of the following:

- The capacity to provide funding in affordable terms and/or in terms adequate to support the business model, particularly in terms of tenor[98], possibility of grace periods[99], local or hard currency[100] (according to the case) and impact-focused capital, otherwise scarce or not available in the market. (In particular, FMO was consistently noted to be able to offer longer tenors compared to other alternatives including DFIs; with AEF and BP having even more flexibility than FMO-A in this sense; agriculture companies noted FMO's comparatively high flexibility with grace periods; also, concerning impact-focused capital, some companies noted that some sources of commercial capital were associated with pressure towards a more short-term and revenue-oriented focus, drawing away from social impact and ESGs; making the retention of FMO as a shareholder/ investor a strategic issue.)
- The capability of AEF and BP to take risks that would not have been acceptable for FMO-A or other investors including other DFIs (overall or without de-risking on the part of AEF or BP), including relative to:
    - Early-stage companies or lack of proof of business models.
    - Context-related risks, including unstable political situations, perceived limited reliability of off-taker counterparts, contractors with limited experience etc. (this was particularly the case in project-finance investments).
- The unlocking of sources of finance (including by FMO-A) whose availability was conditional to de-risking through junior financing tranches[101] (covered by AEF and BP).
- Credibility and further access to finance gained from receiving funding and early endorsement from

[97] Additionality: A Guidance Note for Evaluations Commissioned by FMO.

[98] Time-length of contracts.

[99] Period of time before any payment is due.

[100] Hard currencies are currencies issued by countries that are widely perceived as economically and politically stable, and that are widely accepted around the world. FMO was particularly valued for its capacity to offer financing in EUR: in fact, the availability of financing in USD was noted to be – somewhat – easier, although less adequate for companies with a strong focus on exports to the EU markets.

[101] Junior financing is exposed to higher risk compared to senior financing, i.e., typically, it does not receive payments until all obligations with senior financing have been complied with. To compensate for the additional (potential) exposure to losses, if a project performs well junior financing is normally entitled to higher returns than senior financing.

FMO. (Particularly for early-stage models.) FMO was often noted to have been proactive in activating its network to stimulate the participation of other new investors, including DFIs, as well as to have invested early in due diligence and later demonstrated willingness to share information and due diligence materials.

- Longer term access to further, previously unavailable finance sources, thanks to professionalisation support (i.e., on ESGs items) received along with AEF/BP financing.
- For subsequent rounds of financing of the same client (i.e. to support through different stages of growing companies), continued support was often noted as essential to signal continuous confidence in the client to new investors.

In the case of new and innovative business models, FMO was consistently praised by clients for its willingness to invest in and actively support early models from very early on – considered a distinctive element vs other DFIs.[102] Support took the form of business advice (including but not limited to capacity development) and proactivity in catalysing further investments, particularly from other DFIs.

Evidence showed that within the energy and agriculture sector, FMO maintained a constant effort to scout for emerging high-potential opportunities and trends. (For example, Sahyadri was "discovered" as part of a scouting trip to assess innovative opportunities in agricultural value chains in India; open dialogue was maintained with entities such as the Shell Foundation, which may incubate innovative ideas within the energy sector; and officers were reported to participate to sector events on an ongoing basis.) On the other hand, in other sectors the (limited) investments observed emerged from referrals from partners. Within individual projects, financial additionality is continuously pursued by supporting with various financing products according to the life-stage and needs, when needed (typically, for enterprise-type projects, equity and mezzanine products in early stages, and debt later; while project finance investments tend to only need a single round of financing).

Compared to other DFIs (thus not commercial investors), FMO was often noted by clients to take a practical approach, offering relative flexibility and agility in putting together financing structures adequate to the type and stages of businesses in reasonable timeframes.[103]

Some limitations to AEF and BP additionality (possibly worth investigating further) also emerged. In particular:

1. FMO does not appear to be well-equipped to finance small amounts (e.g., lower than one million), particularly on the debt side, as transaction costs and complexity of procedures tend to be disproportionately high. Particularly in the African context, this is a significant limitation as very few players achieve the critical size needed to request larger amounts of financing. Also, structural limits may apply within certain sectors, e.g., government-defined projects within the mini-grid sector tend to be small. This limit has been partly tackled by investing through funds and other models which "aggregate" projects or beneficiaries; however, a significant financing gap remains for companies with significant impact potential but that do not reach (or have not yet reached) a minimal critical size. It is nonetheless worth noting that among DFIs, FMO is recognised to be among the most supportive of small enterprises (also thanks to the availability of government funds).
2. In recent years and in view of its consolidation, the distributed energy sector (and particularly: SHS) has attracted significant interest from investors, including commercial ones. Increased attention should therefore be paid to ensure that DFIs do not crowd out commercial investors. On more than one occasion, client interviewees noted the existence of investors that they could have tapped on in alternative to FMO; although they also noted significant advantages in including DFIs in their funding structures – chiefly related to the possibility of longer tenors (often important) and their support

[102] This was also noted in past evaluations, most notably Greencroft Economics, FMO's Contribution to the Off-Grid Electricity Sector, Review 2014-2020 (2022).

[103] Idem.

towards maintaining a strategic focus on long term impact, versus focusing more heavily on commercial objectives or immediate profitability. It is worth noting that, in all the cases reviewed – including all investments in SHS – there was a convincing case for the additionality of AEF and BP.

3. **AEF and BP's capacity to lend in local currency was highly additional for some projects**, particularly those operating with PAYGO sales models. (As these tend to generate large amounts of receivables in local currencies, financing in those same currencies is of paramount importance for liquidity management.) However, **this also proved to be a limitation for the transfer to FMO-A or other investors of clients that, because of their advanced stage and large financing needs, are not sustainable to maintain in the government funds portfolio**. (While FMO-A is also able to provide financing in some local currencies, this is subject to currency risk hedging/ coverage requirements that add significant costs and may in some cases not be possible to comply with.)

Further cases that merit specific attention are **"rescue" investment operations investing in underperforming projects, already in BP and AEF's portfolios.** These investments are either justified in terms of trying to avoid bankruptcies and the negative social, environmental and economic consequences as well as the negative reputational effects for FMO that may accompany them, or to mitigate those consequences when bankruptcies indeed occur. The projects reviewed included, in one instance, consideration being given to a "rescue" equity injection to address a liquidity crisis (the decision was not yet taken as of end 2023), and the extension of a loan to a company undergoing liquidation procedures, whose exclusive purpose was allowing adequate retrenchments of employees. In both those cases the use of the funds was clearly financially additional, as no other actor would have stepped in. It is worth noting that **no clear policy currently exists to regulate the modalities and extent to which these types of support should take place**, i.e., setting guidelines on the extent to which the continuation of activities should be pursued as an objective, and balancing considerations on social and reputational consequences with the protection of AEF and BP's capital.

4.10 EQ10 – Revolvability

To what extent and how did the revolvability targets affect the funds' risk appetite and additionality (both developmental and financial)?

In brief:

It is unclear how and to what extent the specific setting of minimum revolvability expectations (and suggested higher risk appetite expected of AEF vs BP) has influenced the choice of investments. In the energy sector, there was certainly a noticeable emphasis on targeting segments considered high risk, which would have been impossible if AEF and BP had not been available. But neither funding decisions nor the allocation of investments among funds – in cases in which they were eligible for both – seem to have been conditioned by the different minimum revolvability rate set for each fund.

Although this was not specifically provided for in investment documents, lower revolvability rates were hinted to allow, beyond a higher risk appetite, the possibility of higher concessionality in case of sectors that are only marginally profitable and for which existing alternative sources of financing are scarce and essentially non-commercial (i.e., there is no risk of market distortion). It is worth noting that both uses (to increase risk appetite and to increase concessionality) can be compatible with DGIS objectives.

Sources of evidence used in support of the answer to this EQ:

Documentation: *AEF and BP contractual documents (*beschikkingen*) and related communication between FMO and the MFA; FMO Investment Criteria (2023); projects reviewed's documents (pre-investment).*

Databases: -.

Primary sources: *interviews with AEF and BP fund managers and FMO investment managers.*

AEF and BP are revolving funds. This means that projects receiving funding are expected to repay and

generate proceeds (e.g., in the form of interest payments or capital gains), generating cash flow that can be used to reinvest into new projects. While some projects will inevitably result in losses, these should be (in part or in full) offset by proceeds from well-performing investments. It is worth noting that AEF and BP only invest in projects that are deemed to be commercially viable – meaning among others that each of them is initially thought to have a reasonable capability to not only repay but also generate some return on the investment made.

The revolvability expectation set for AEF and BP are 75% (hard target) and 100% (soft target) respectively; meaning that, at the end of their respective mandates (in 2029 for BP and in 2030 for AEF), FMO shall reimburse the MFA a minimum of 75% of the funds received for AEF; while in the case of BP, in principle it is expected to reimburse the entire sum received – although there is no contractual obligation in this sense.[104]

The difference in the revolvability requirements of the two funds appears to reflect the mandate assigned to each in strategic documents: AEF has a "frontrunner" role and is openly encouraged to support unproven (albeit high-impact potential) technologies, while BP appears as somewhat more conservative (e.g., documents explicitly state that the number of "untested" projects must be limited to avoid undermining revolvability[105]; also, the country focus of BP is allowed to remain larger than the more restricted focus of the DDE in the express interest of protecting its revolving character[106].)

Nonetheless, and despite revolvability indicators being clearly regularly followed up upon by the AEF and BP fund managers, **it is unclear how and to what extent the different revolvability rates set influenced investment strategies**. In the energy sector, the presence of AEF was purposefully used to enable the strategic targeting of some high-risk segments (e.g., SHS, mini-grids), which would have been impossible otherwise. However, the explicit integration of government funds as strategic tools within FMO's broader strategy was less clear in the agriculture sector.[107] Beyond that, though, information collected suggests that initial investment screenings were not fund-specific but rather based on universally common criteria centred around commercial viability and impact potential, and that decisions on the specific source(s) of funding to be used were made later and often not finalised until just before the investment was made – with no evidence of different revolvability expectations set conditioning the decision making in a different way depending on whether the investment was funded by AEF or BP. Whenever an investment was eligible for more than one government fund, the choice was rather reported to be based on the availability of liquidity and risk-diversification considerations.

Beyond increasing risk appetite, low revolvability expectations were also hinted on several occasions to be leveraged on to allow **high concessionality in pricing**, i.e., the acceptance of return margins lower than those required by FMO-A guidelines or recommended by FMO's internal department (based on risk assessment and, when available, conditions offered by other investors active on the same markets). This was only in cases in which high impact potential was assessed and lower pricing was deemed to be not distortive of market conditions (e.g., because no other investors demonstrate interest in the project). While this use could also be additional and is coherent with the DGIS objectives, it is not mentioned in policy documents, whose language rather focuses on increasing the funds' risk appetite. Nonetheless, the use of concessional rates and the allowance for expected returns lower than normally allowed by FMO guidelines has been observed in a few

[104] A portion of the funding received (EUR 20.9 million for AEF, and an amount equivalent to 0.5% of the fund's net asset value, per year, for BP), is excluded from revolvability. The existence of a contractual obligation on the part of FMO to reimburse a minimum of 75% of the funds received for AEF (which was somehow not noted by the FMO management until recently) has implications on FMO's risk exposure coefficients; therefore, if not changed it will likely negatively affect AEF's risk appetite in the future.

[105] Assessment memorandum on supplementation and continuation of IDF 2013-2018.

[106] DDE 2020 – Theory of Change for Decent Work and Economic Growth. (2021)

[107] The FMO-EN distributed energy strategy 2019-22 (FMO internal document, 2019) specifically highlights segments to be targeted and purposes to be pursued through government funds. No similar strategic documentation, explicitly integrating and giving a role to government funds within FMO's strategy, was found for other sectors.

of the cases reviewed, including the one described in the box below.

Box 15: An example of the use of concessional rates to support high-impact, innovative models

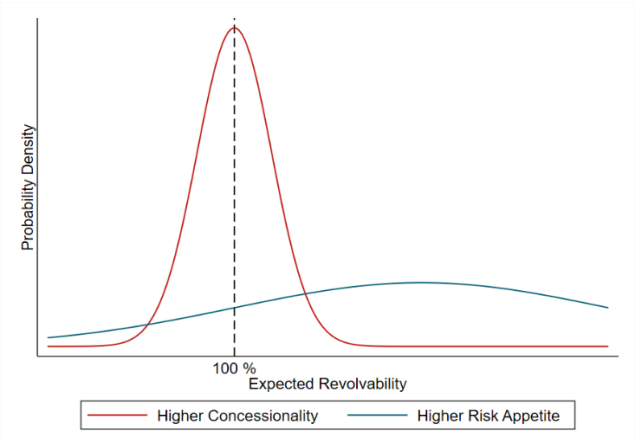
The Acumen Resilient Agriculture Fund (ARAF) invests in early-stage agri-tech ventures and is centred around improving SHF productivity in SSA, which is strongly in line with BP's strategy. The investment also rested on a strong theory of change and was backed by Acumen's 10 years of experience in the African agriculture space.

Expected returns on the 2020 BP investments in ARAF were lower than the minimum target of 15% set for funds in FMO guidelines. However, the conditions accepted by BP were in line with those of other investors (philanthropic funds and DFIs). FMO's early support to the fund contributed to it reaching its fundraising targets, also by catalysing the participation of other investors. As of 2023, ARAF has exceeded impact targets set in terms of improving SHF's welfare productivity and resilience (according to its own impact reports). And as of 2024, ARAF – having consolidated its business model and reputation – was raising a second fund, in which it reported that all previous investors had shown interest in participating.

While both increases in risk appetite and higher concessionality can be incentivised by lowering revolvability expectations, the ultimate results on revolvability rates can significantly differ, as described in the following table. (Note: the two investment strategies outlined in the table are not mutually exclusive; investments may well sit in a continuum between them.)

Table 7: Different strategies that could be incentivised with low revolvability expectations

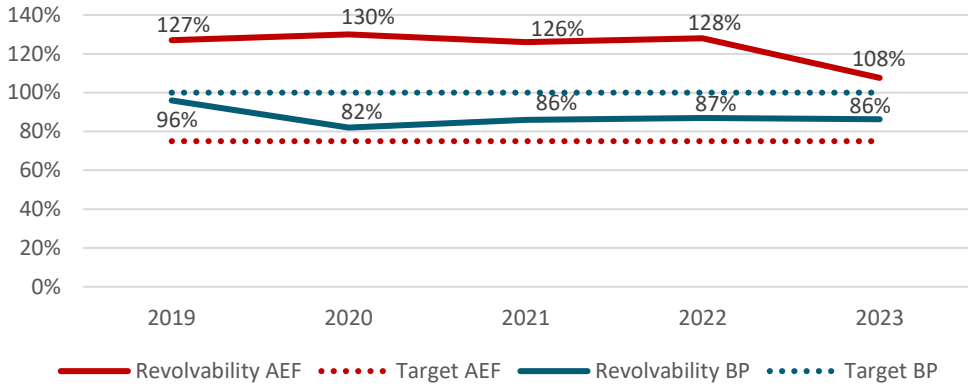
Investment strategy pursued	Expected level of risk taken	Expected level of returns (average)	Likelihood of significant losses (i.e. variability in returns expected)	Fit with DGIS strategy
Higher risk appetite (financing higher risk opportunities, at market/ standard rates)	High	High	High	Allows supporting high-development potential models whose commercial viability is unproven and/or is highly sensible to context factors (high-risk)
Higher concessionality (financing average risk opportunities, but at lower-than-market rates)	Average	Low	Average	Allows supporting high-development potential models which are only marginally profitable



Source: ADE analysis

In the 2019-23 period, AEF overperformed its revolvability targets, while BP underperformed them, as shown in the figure below. Although potentially counterintuitive, this may well be the reflection of the pursuit of a high-risk but well-managed and diversified strategy on the part of AEF (which is allowed losses for up to 25% of its capital) and/or which took place at a time in which context conditions were favourable[108]; and a more conservative one on the part of BP (which is expected to maintain the value of its capital through time).

Figure 8: Evolution of AEF and BP revolvability over time (2019-22)



Source: ADE analysis based on AEF and BP annual reports

[108] In fact, the sudden drop in AEF's revolvability from 128% to 108% between 2022 and 2023 may be a reflex of changes in macroeconomic and market conditions, which have become more difficult for riskier financing.

5 Overall assessment

Overall, AEF and BP have contributed positively to progress on DGIS objectives in the 2019-23 period.

Funding from both funds, combined with technical support from FMO, have enabled projects selected for their high-development-potential and commercial viability to contribute to outcomes and impacts in line with DGIS priorities – including access to (renewable) energy and job creation, as well as gender equality, inclusion of underserved groups and climate change mitigation and adaptation. In addition, some of the projects and sectors supported have advanced along FMO's progression model, attracting further investors and proving the validity of their commercial models.

Although the supported projects were largely targeted towards or included underprivileged segments of the population, some limits emerged in terms of the capability of commercially viable projects to serve the very 'Bottom of the Pyramid'. More can be done to push the boundaries. However, the issue is likely to remain: in general, supporting the poor proved more commercially sustainable than supporting the poorest of the poor, and more impactful under some variables, such as number of people reached and contribution to climate change mitigation.

Gender issues were only tackled to a limited extent and without a clear strategy. However, some progress towards gender equality was observed in areas in which this was coherent with the projects' business models. For example, the inclusion of more women was observed in segments in which they are well positioned to become an attractive customer segment.

Some adjustments to the mandates and strategies of the funds could enhance strategic clarity and better align them with their objectives. These are particular areas of attention:

- The sectoral focus of BP is unclear, and as currently implemented it includes several energy investments which result in a significant scope overlap with AEF. *Defining a specific sector focus for each of the three government funds (AEF, BP and MASSIF) would contribute to strategic clarity and allow for a better measurement of progress on DGIS objectives, among others.*
- The funds' Key Performance Indicators and their presentation in Annual Reports can be improved to better reflect progress on DGIS objectives and to improve usability and support strategic decision making.
- Some implications arising from AEF and BP's increasing activity on early and growth-stage companies are not thoroughly addressed from a strategic perspective (including the potential need to support companies through multiple rounds of funding; and the relatively high likelihood of bankruptcies).
- There is no clear strategy for how Capacity Development should be integrated in investments to maximise progress on DGIS priorities.
- The (different) objectives sought with the setting of minimum revolvability expectations are not entirely clear.

FMO's positioning as an entrepreneurial development bank and its specific capacities (including in the energy and agriculture sectors) make it a well-suited actor to implement AEF and BP. However, it would be worth addressing two areas of attention:

- FMO does not serve public sector clients. This can become an issue whenever development within some sectors or value chains is constrained by obstacles under the control of the public sector – as is the case, in the energy sector, of the weak status of transmission and distribution networks in many countries.
- FMO's impact management system appeared not well-integrated with the project cycle; which may lead to missed learning and improvement opportunities.

6 Conclusions

The findings from the evaluation were synthetised by the evaluation team in 18 conclusions, grouped in four clusters. These are summarised in Table 8 and explained in more detail in the following paragraphs.

Table 8: Summary of conclusions

#	Conclusion	Based on EQs
On AEF and BP's overall capacity to support the envisaged results		
1	BP and AEF supported projects with a high potential to support development, in a financially additional way.	2, 6 and 9
2	BP and AEF supported some high-development-potential business models to consolidate and position for financing from DFIs and commercial investors.	8 and 9
3	Projects consistently benefitted underserved populations. However, they often failed to reach the very poorest segments, as these populations may not provide the conditions for the viability of self-sustainable business models.	1 and 6
4	The direct jobs created were quality jobs. However, FMO had less capacity to influence the quality of indirect jobs.	6
5	Gender is not being systematically and effectively targeted. Where present, progress on gender issues tended to be linked to fit with business strategies.	6 and 7
6	Climate change significantly affected the viability and profitability of some projects, particularly in hydro energy.	6
7	The use of Capacity Development was not strategically driven. Nonetheless, it contributed to the progress made on some development objectives.	6 and 7
On AEF's strategy and its implementation		
8	AEF's focus as defined in the 2019-28 mandate is clear and coherent with DGIS priorities and with FMO's strategy. AEF's KPIs list was mostly well-designed to track progress towards the desired results, although there is room for improvement.	1
9	Attractive opportunities in the energy sector exceed AEF's availability.	2, 4 and 9
10	FMO was not equipped to address bottlenecks in grid expansion (transmission & distribution). These bottlenecks limit the access to higher energy quality, necessary for advanced uses and the development of energy intensive economic sectors.	2 and 6
11	AEF did not proactively address the need to support energy demand and uses in locations that recently acquired access to electricity.	2 and 6
On BP's strategy and its implementation		
12	BP's strategic framing around the agricultural value chains theme is clear, although it could be better articulated in sub-segments. The strategic framing is less clear, however, concerning infrastructure. BP's KPIs are not well-focused around priority objectives and not well-tailored to the activities performed in the 2019-23 period.	1, 2 and 3
13	Opportunities for collaboration and synergy with other Dutch entities in the agriculture sector were not exploited.	1

Other conclusions		
14	FMO's impact management and learning systems were not well-integrated in the project cycle and did not meaningfully contribute to learning and improvement on AEF and BP.	5
15	The specific characteristics of early stage, high-risk ventures and their implications on funding needs were not explicitly considered in AEF and BP's design. (In particular: timeline of funding needs and expected high failure rates.)	4, 9 and 10
16	The objectives sought with the different revolvability thresholds set for AEF and BP (75% guaranteed and 100% on a best effort basis, respectively) were not clear and no evident difference was observed between the criteria of deployment of the two funds.	10
17	The existing system of KPIs can create disincentives towards the transfer of investments to FMO-A on the part of AEF and BP's fund managers.	8 and 9
18	The need for local currency funding was a barrier for transition to FMO-A and other investors.	8 and 9

5.1 On AEF and BP's overall capacity to support the envisaged results

C1 BP and AEF supported projects with a high potential to support development, in a financially additional way.

Based on: EQ2, EQ6, EQ9

〉 BP and AEF have supported projects whose business models were clearly conducive to development, in line with the objectives of the DGIS. This related most notably to the access to energy or to strengthening the agricultural value chains. The efforts were also aligned with the cross-cutting issues of climate and inclusiveness (albeit less so gender equality). There is convincing evidence that all projects reviewed delivered and/or are well-positioned to contribute to development results in the directions initially sought.

〉 There were convincing arguments for all projects reviewed for the fact that they were not able to find alternative financing with terms aligned with their growth potential or strategic ambitions at the time when they received support from AEF and BP.

C2 BP and AEF supported some high-development-potential business models to consolidate and position for financing from DFIs and commercial investors.

Based on: EQ8, EQ9

〉 During the study, several examples emerged of companies that started receiving support from FMO through AEF or BP at a very early stage. Financial support combined with expertise and the reputational effects associated with FMO financing (i.e., visibility towards other investors and increased perception of solidness of the investment opportunity) were critical factors in enabling them and the sectors in which they operate to evolve and achieve significant consolidation milestones, including obtaining funding from new investors (including DFIs and commercial investors).

C3 Projects consistently benefitted underserved populations; however, they often failed to reach the very poorest segments, **as these populations may not provide the conditions for the viability of self-sustainable business models**.

Based on: EQ1, EQ6

- Most projects supported by AEF or BP naturally targeted or included poor segments of the population, often contributing to meaningful improvements to their welfare. However, most stopped short of reaching the "poorest of the poor" as the economics of doing so are less attractive and often do not lead to commercially viable projects. Investment managers also reported that it was significantly easier to find eligible projects in LMICs compared to LICs (and fragile countries). For similar reasons, i.e., the contexts of higher income and more stable countries are more likely to facilitate commercial viability.
- Reaching populations living in areas that are remote or lack infrastructure also implied inefficiencies in terms of other development and environmental metrics, including the number of people reached and the carbon emissions avoided per EUR invested. Similarly, including very small farmers in agricultural value chains was associated with lower efficiencies in terms of knowledge and technology transfer.
- On the other hand, there were signs that it may be easier for companies that already have established business models targeted at poor and underserved populations to progressively push the limit towards higher inclusion.

C4 Direct jobs created were quality jobs. However, FMO had less capacity to influence the quality of indirect jobs.

Based on: EQ6

- FMO requires its clients to align to IFC performance standards, including on labour and working conditions. Whenever those are not met at the time of investment, alignment milestones are integrated in contractual conditions; support is also usually provided by FMO in the form of TA to facilitate the client in reaching those milestones.
- Documentation and field observations showed that jobs created directly by AEF and BP clients adhered to at least minimal quality standards and were considered quality jobs, particularly so permanent jobs.
- However, working conditions for jobs supported indirectly were often of a significant lower quality. This is particularly the case at farms that acted as providers to agribusinesses supported by FMO, where most jobs were informal.

C5 Gender is not being systematically and effectively targeted. Where present, progress on gender issues tended to be linked to fit with business strategies.

Based on: EQ6, EQ7

- Gender focus was not meaningfully reflected in the design of the projects selected for financing. This appears to reflect the lack in the market of AEF and BP-eligible projects that have a strong gender component.
- Scarce evidence was found of progress resulting from FMO-supported initiatives to foster the inclusion of women in the workforce. Some companies nonetheless fostered gender inclusion: these included most notably SHS and clean cooking companies, where diversifying the workforce can be seen as a strategy to reach more customers. In contrast, social norms on traditional roles are an obstacle to the inclusion of women in some sectors of agriculture (e.g., dairy).
- Given their traditional roles in society, which imply longer time spent at home and larger responsibility in household chores compared to men, women (and children) reaped significant benefits from access to energy and clean cookstoves.

C6 Climate change significantly affected the viability and profitability of some projects, particularly in hydro energy.

Based on: EQ6

- During the 2019-23 period, some hydro-energy projects were significantly negatively affected by climate change, which resulted in changes in river flows and the occurrence of extreme events with highly damaging consequences.
- In consequence, the assessments requirements for climate change effects were stepped up for investments in the hydro-energy sector. However, assessment requirements were not stepped up for projects in other sectors[109], some of which - while not or less evidently affected in the period - are also potentially exposed to changes in weather and climate patterns and extreme events, which may significantly negatively affect both their financial profitability and potential to support development outcomes.

C7 The use of Capacity Development was not strategically driven. Nonetheless, it contributed to the progress made on some development objectives.

Based on: EQ6, EQ7

- No AEF or BP-specific strategy exists for the use of Capacity Development. In fact, AEF's institutional documents do not even set a Capacity Development budget; this is set discretionally by FMO. Support was extended based mostly on client needs and interests, except for ecosystem-based initiatives which were designed based on needs widely perceived by investment officers. An example of the latter is the

[109] For projects within the timeframe of this evaluation. Upon the conclusion of the study, it was noted that FMO has been recently acting to upgrade climate assessment practices in all projects; however, these efforts were not assessed by the evaluation team.

support to the development of Consumer Protection standards for the off-grid energy sector by GOGLA (subsequently, support was also provided to clients in conducting Consumer Protection assessments).

〉 Limited evidence is available for the results obtained through Capacity Development. However, client feedback suggests that Capacity Development support was most useful in areas in which business interests and development potential overlapped, and in which FMO had a clear expertise. This was the case, for example, for ESG-related topics, which are considered key by clients to allow further expansion and fundraising; and for Consumer Protection.

5.2 On AEF's strategy and implementation

C8 AEF's focus as defined in the 2019-28 mandate is clear and coherent with DGIS priorities and with FMO's strategy.
AEF's KPIs list was mostly well-designed to track progress towards desired results, although there is room for improvement.

Based on: EQ1

〉 AEF's strategy as defined in the 2019-28 mandate, including the associated strategic documents, is clear and well-aligned with the DGIS priorities.

〉 The list of the KPIs monitored for AEF is well designed in that it is concise and that it reflects the objectives of the fund and DGIS priorities, with three exceptions noted below.

〉 "Direct jobs created" does not look well-placed amongst AEF's KPIs. While the indicator (and its gender split) is certainly worth monitoring, it should not per-se be considered an objective to strive for in the selection and management of investments, which should be targeted at catalysing wider PSD effects through the availability of energy rather than at the expansion of a single company. (On the other hand, "Indirect jobs supported" gives a better indication of PSD effects generated.)

〉 The KPI list does not reflect results in terms of including people with no (or low-quality) access to energy, particularly the population that is most difficult to reach. In fact, efforts to pursue inclusion may reflect negatively on other indicators. For example, reaching out to low-density, rural populations is likely to have significantly less impact than other investments in terms of number of people reached.

〉 KPI values do not reflect the objective of "graduating" investments to FMO-A or other investors.

C9 Attractive opportunities in the energy sector exceed AEF's availability.

Based on: EQ2, EQ4, EQ9

〉 On top of the AEF's portfolio, roughly one third of BP's portfolio (as of 2023) was invested in energy, with a very similar distribution in terms of technologies supported.

C10 FMO was not equipped to address bottlenecks in grid expansion (transmission & distribution). **These bottlenecks limit the access to higher energy quality, necessary for advanced uses and the development of energy intensive economic sectors.**

Based on: EQ2, EQ6

- Investments in on-grid energy are most effective in terms of adding energy generation capacity and supporting the provision of energy at the quality levels necessary to boost PSD. However, their capacity to enable access to energy is tightly dependent on the quality and reach of transmission and distribution networks, which is often severely deficient in developing countries.
- Although AEF's strategy for 2019-28 included transmission and distribution as an area of focus, investments in this area were not made the 2019-24 period. Nor is it likely that significant ones will be made in the rest of AEF (or BP)'s mandate. This is because transmission and distribution networks are mostly owned by public entities, and thus beyond the scope of action of FMO and of the government funds.
- The above implies significant risks in terms of FMO's on-grid investments' capacity to result in incremental access to energy (particularly, in targeted areas). While the state and plans for development of transmission and distribution networks in target areas can be assessed before investments in on-grid energy projects are made, FMO has very little capacity to influence any subsequent change in this sense afterwards (e.g., lack of fulfilment of government plans for expansion of the transmission and distribution networks; increased capacity needs due to the construction of further generation capacity by third parties; etc.).

C11 AEF did not proactively address the need to support energy demand and uses in geographies which recently acquired access to electricity.

Based on: EQ2, EQ6

- Energy demand ramp-up in recently connected areas with no previous access to energy tended to be slow. This negatively affected the financial sustainability of projects, among others. Available evidence points at a lack of awareness of local populations on how to use electricity, a lack of ownership and availability of electrical appliances, and a lack of affordability of electricity as key reasons for slow ramp-ups.
- Productive uses can contribute to mitigate the affordability obstacle, as the use of electricity typically results in income that more than offsets electricity costs. Also, productive uses are often associated with larger consumption volumes, thus contributing more significantly than non-productive uses to offset the fixed costs of investments, allowing for lower costs per KwH.
- In spite of "productive uses" being one of its focus areas, no evidence was found of AEF including measures to support (productive) uses of electricity within its investments (e.g., in mini-grids) in the 2019-23 period.
- Some evidence indicates that health centres may have a high predisposition for being early adopters of electricity when it becomes available.
- Similar issues were also observed in the telecom sector, regarding internet adoption.

5.3 On BP's strategy and implementation

C12 BP's strategic framing around the agricultural value chains theme is clear, although it could be better articulated in sub-segments. The strategic framing is less clear, however, concerning infrastructure. BP's KPIs are not well-focused around priority objectives and not well-tailored to the activities performed in the 2019-23 period.

Based on: EQ1, EQ2, EQ3

- The mandate of BP covers two apparently independent "strands": agricultural value chains and PSD-enabling infrastructure. The former is (relatively) well defined and aligned with the DDE's theory of change. The second, however, is potentially very vast in scope and it is less clear how it is expected to contribute to DGIS objectives. In practice, the second strand is currently being implemented as focused on energy, and therefore it gives the impression of being an "extension" of AEF.
- The implementation of the agricultural value chain "strand" could benefit from further analysis and particularly from the definition of the specific value chains that are targeted or to which priority is given (e.g., specific crops, dairy, poultry…)
- The lack of a clear identification of the sectors that are targeted prevents identifying the KPIs tailored to them. BP's list of KPIs appears long and unfocused, with many indicators not clearly connected to the objectives sought, or tailored to very specific sub-sectors (mostly of infrastructure). Some indicators are similar in scope to AEF but not harmonised: they differ in their specific definitions or measurement methodologies, which make them not comparable.

C13 Opportunities for collaboration and synergy with other Dutch entities in the agricultural sector were not exploited.

Based on: EQ1

- Despite a good communication between FMO and the Dutch embassies and business communities within target countries, collaboration opportunities were perceived to be limited given the focus of other cooperation actors on significantly smaller actors compared to FMO.
- Nonetheless, agriculture (normally a priority sector for Dutch development cooperation) can offer opportunities for synergy as small-holder farmers are a natural target for both the Dutch development cooperation and BP. (Indirectly in the case of the latter, i.e., through processing or aggregator companies which act as hubs.) Pearl Dairy (Uganda) is an example of a project that received support from both BP and the Dutch development cooperation, albeit not in a coordinated way.

5.4 Other conclusions

C14 FMO's impact management and learning systems were not well-integrated in the project cycle and did not meaningfully contribute to learning and improvement on AEF and BP.

Based on: EQ5

- Data collected through FMO's impact management system was used mostly for fund-level reporting, which in turn did not seem to significantly influence strategic action. Issues were also noted with the ease of interpretation of the collected data (e.g., the names of the data points appeared at times somewhat misleading) and with the usability of reporting formats. This did not facilitate the comparison across years and funds.
- FMO's evaluation department spent a significant effort to support learning (including through numerous studies whose reports were consulted in this evaluation). Despite, no evidence was found of mechanisms or practices to systematically incorporate such learning in project design to more effectively achieve development objectives (or to avoid pitfalls); nor to systematically codify learning acquired by investment officers from projects managed.

C15 The specific characteristics of early stage, high-risk ventures and their implications on funding needs were not explicitly considered in AEF and BP's design. (In particular: timeline of funding needs and expected high failure rates.)

Based on: EQ4, EQ9, EQ10

- Investments in early stages, high-risk ventures differ significantly from more traditional "project finance" investments in terms of cash flow timeline. In particular, ventures often require subsequent rounds of funding to support the stages of their growth, with the timeline of those rounds being difficult to predict. The failure of procuring funding when needed can lead to bankruptcy even of an otherwise healthy company. This has clear consequences in terms of liquidity needs in time, as well as for the dynamics of graduation and revolvability. This, however, is not clearly acknowledged in the funds' strategic documents.
- Another significant area of difference concerns non-performing investments: innovative business models fail frequently. When they do, they typically go bankrupt and get liquidated (unlike project-finance investments, which tend to continue to operate even at loss), which may lead to significant negative social outcomes, e.g., in terms of layoffs and interruption of services provided to beneficiaries. Managing those cases well is essential to protect AEF and BP's capital, maximise their development impact potential, and minimise reputational risks for FMO. However, AEF and BP have no specific policies and guidelines for such cases.

C16 The objectives sought with the different revolvability thresholds set for AEF and BP (75% guaranteed and 100% on a best effort basis, respectively) were not clear and no evident difference was observed in the criteria of deployment of the two funds.

Based on: EQ10

- AEF's strategic documents set the minimum revolvability requirement at 75%, while BP's strategic documents set a softer target at 100%[110]. These rates were meant to stimulate high-risk appetite. Coherently with the setting of the two different rates, the tone of strategic documents suggests that BP was meant to have a more conservative nature than AEF. However, no clear differences were observed in the management and risk preferences of the two funds.
- AEF has been criticized for achieving revolvability rates significantly higher than the 75% minimum requirement throughout the period covered, suggesting that the percentage was interpreted by some stakeholders as a target rather than a minimum requirement.
- In alternative or combination with stimulating high-risk appetite, the setting of low revolvability rates could also be used to encourage higher concessionality (when this can be done without causing market distortion) in the support of high development potential but only marginally profitable business models. Although an intention in this sense is not explicitly expressed in strategic documents, some investments observed are coherent with this type of approach, which also appears aligned with DGIS objectives.
- Favouring higher risk appetite or higher concessionality have different implications in terms of expected returns and level of risk taken, as well as of the perspectives of graduation of investments.

C17 The existing system of KPIs can create disincentives towards the transfer of investments to FMO-A on the part of AEF and BP's fund managers.

Based on: EQ8, EQ9

- AEF and BP's KPI values are calculated based on investments present in the portfolio at the end of each year. Therefore, the "graduation" of consolidated, well performing investments to FMO-A or other investors is likely to reflect negatively on some of the KPIs, as the new investments that replace them will typically require some time to generate equivalent results.
- The "graduation" of investments is also likely to result in increased risk at the portfolio level – as de-risked investments are transferred and substituted for new higher-risk ones. When the overall risk of the portfolio is already perceived to be high, there might be a disincentive to support transfers.

C18 The need for local currency funding was a barrier for transition to FMO-A and other investors.

Based on: EQ8, EQ9

- AEF and BP's capacity to support investments in local currencies is often a key element in their

[110] In both cases, a small portion of the grant is excluded from revolvability.

additionality. Although FMO-A can also extend funding in local currencies, it must comply with significantly stricter (and more expensive) requirements in terms of coverage. In practice, this implies that some investment operations cannot be funded in local currency through FMO-A.

› This has resulted in consolidated projects that are highly exposed to currency risk being maintained in the AEF or BP portfolio despite complying with all FMO-A requirements. In view of their size or stage, these tend to tie up significant amounts, which cannot therefore be used for other opportunities.

7 Recommendations

The evaluation led to thirteen recommendations. They were grouped in three clusters, the first covering strategic issues on AEF and BP's design and mandates; the second focusing on the implementation of the two funds on the part of FMO; and the third addressing broader issues relevant to the achievement of DGIS objectives.
These are summarised in Table 9 and explained in more detail in the paragraphs below.

Table 9: Summary of recommendations

#	Recommendation	Directed at
On the design and mandates of AEF and BP		
1	Continue to support AEF and BP throughout the current mandates and in the longer term	MFA
2	Centre BP's focus on agricultural value chains and agri-focused enabling infrastructure.	MFA and AEF&BP
3	Revise BP's (and AEF's) indicators and their presentation in annual reports to better align with the objectives sought by the funds, to make them more harmonious, and to improve their usability.	MFA and AEF&BP
4	Clarify and ensure a common understanding of the meaning and objectives sought through the revolvability percentages set.	MFA and AEF&BP
5	Explicitly consider the mid-term implications of investing in early-stage companies in budgeting: potential further needs for funding in time (possibly in excess of EUR 10 million).	AEF&BP (and MFA)
On AEF and BP's implementation by FMO		
6	Strengthen BP's strategic approach for supporting agricultural value chains.	BP and FMO
7	Develop policies and guidelines for the use of government funding to support responsible exits in the case of liquidations	AEF&BP and MFA
8	Define strategic target areas/ objectives for Capacity Development in the specific contexts of AEF and BP. Consider particularly gender and inclusiveness.	AEF&BP and MFA
9	Explicitly assess climate change-related risks for all projects.	FMO
10	Develop a strategy to incorporate a gender lens in investments.	FMO
11	Identify alternative options to the use of government funds to provide financing in local currencies to projects otherwise eligible for FMO-A.	FMO (and MFA)
12	Strengthen FMO's monitoring and learning capacity in relation to AEF and BP.	FMO and AEF&BP
Further recommendations in support of the achievement of DGIS objectives		
13	Ensure that investments in on-grid energy are accompanied by adequate development of energy transmission and distribution (T&D) networks (if necessary by involving actors other than FMO).	FMO and MFA

7.1 On the design and mandates of AEF and BP

R1 Continue to support AEF and BP throughout the current mandates and in the longer term.

Based on: C1, C2, C3, C4

Directed at: MFA

〉 Given AEF's and BP's demonstrated capacity to provide a substantial and unique contribution towards the DGIS's development objectives – most notably: quality job creation, access to renewable energy and inclusiveness – the MFA should maintain its financial support to the two funds throughout their current mandate and consider a subsequent further extension of the mandate.

R2 Centre BP's focus on agricultural value chains and agri-focused enabling infrastructure.

Based on: C9, C12

Directed at: MFA, in collaboration with AEF & BP management

〉 Focus BP on agriculture only – namely, agricultural value chains and agri-focused enabling infrastructure. This would clarify the contribution sought from it within the DDE's theory of change. Also, it would increase the alignment of the three government funds with FMO's three key areas of focus and expertise (i.e., for BP: "agriculture, food and water"; for AEF: "energy"; and for MASSIF: "financial inclusion"). It would also facilitate the definition of sets of indicators tailored to each sector, which could give a clearer picture of progress on the priorities set by the DGIS.

〉 A significant portion of BP's commitments are currently in the energy sector (and largely replicate those of AEF). Therefore, it would be recommended to re-equilibrate grant amounts between AEF and BP: Energy investments in BP's portfolio should be transferred to AEF; and AEF's grant should be extended by an amount proportional, which would be compensated by a reduction in the BP grant.

〉 Leave open the possibility for funding through government funds of projects in other sectors when they are expected to have significant enabling effects on agriculture (BP), access to energy (AEF) and financial inclusion (MASSIF).

〉 *Timeframe: the transition suggested above should not be abrupt, to avoid disruptions in ongoing investment processes. It is suggested that a transition period of up to 2 years be allowed after the changes are fully defined, aiming to complete the process in time for the renewal of AEF and BP's mandates.*

R3 Revise BP's (and AEF's) indicators and their presentation in annual reports to better align with the objectives sought by the funds, to make them more harmonious and to improve their usability.

Based on: C8, C12, C14, C17

Directed at: MFA,in collaboration with AEF & BP management and FMO's impact department

- Drop "direct jobs supported" from AEF and BP's KPIs, as the direct creation of jobs is not, per se, a result that should be actively pursued through investments. Rather, these should support PSD and job creation at a wider economy level. "Indirect jobs supported" is therefore a more adequate indicator. (The monitoring of direct jobs created should nonetheless continue, also as a proxy of quality jobs created; as should the split between genders as a proxy of progress on gender-related priorities.)
- Redefine BP's KPI list to make it coherent with BP's sector focus: if R1 is accepted, it should be tailored to the agriculture sector. Particularly, an indicator on the "number of small farmers supported" (split by gender) should be included. This in consideration of the alignment of this indicator with the DDE's theory of change and FMO's strategy, and because this value is monitored by many agriculture clients (as a development impact but also an operations indicator), which should facilitate data collection.
- Add to AEF's KPIs an indicator reflecting inclusiveness, i.e. whether investments indeed reach people that have insufficient or no access to energy. This should also be considered for BP. A proxy in this sense could be the percentage of amounts committed to obtaining the Reducing Inequalities (RI) label.
- Consider adding, for both funds, an indicator for assessing the extent to which funds are effectively being replenished and re-invested: for example, amounts recovered during the year (in absolute value or in percentage of the committed portfolio at the end of the year).
- Consider consulting FMO's investment managers (involved in AEF and BP investments) in the process of the definition of KPIs to include their perspective on the relevance of the indicators selected and the feasibility of collecting the data needed to assess them.
- Harmonise AEF's and BP's KPIs. That is: indicators that are not sector-specific and similar in nature should be named and defined in the same way. Also, when possible, sector-specific indicators should be defined in a way that makes them comparable. To the extent possible, the indicators should also be harmonised with MASSIF and other DGIS indicators. In particular, indicators should preferably be formulated as in the DGIS Private Sector Development Direct Results Framework. It is also recommended to add a definition of each indicator and how it is measured to the impact data tables included in Annex 6 of both AEF and BP's annual reports.
- To further improve the usability of KPIs, include in Annex 6 the value for KPIs not only for the year that is reported on but also for the previous year. To reflect transitions outside the AEF and BP portfolio positively rather than negatively, a third value corresponding to the previous year but excluding investments exited during the year could also be added.
- *Timeframe: all the suggestions above should require only easy-to-achieve process changes in reporting. As such, it is recommended that they be implemented as soon as possible (i.e., before the next reporting cycle).*

R4 Clarify and ensure a common understanding of the meaning and objectives sought through the revolvability percentages set.

Based on: C16

Directed at: MFA, in collaboration with AEF & BP management

- Clarify whether AEF and BP should be used only to pursue high-risk investments or also to invest in commercially viable projects with a lower expected financial return than what is required by FMO-A. These projects have significant potential in terms of supporting development objectives.
- Clarify how the revolvability percentages should be interpreted: as a minimum revolvability expectation (with or without a contractual requirement in this sense) or as a target. This should be codified in a short document annexed to the *beschikkingen* of all government funds which operate under a "revolvability" logic.
- Either align the revolvability percentages set for each fund, or clarify how and to what extent AEF and BP's investment strategies are to be different in response to different revolvability percentages set.
- More concretely, the evaluation team suggests that it be formally established that all funds should aim, in principle, at achieving at least full revolvability, intended as 100%+inflation (i.e., conservation in time of the capacity to achieve impact). Nonetheless, the MFA should also consider defining, in addition to this target, a lower minimum revolvability expectation that may vary for each fund. This second percentage should be determined considering the levels of risks and returns observed in the market for specific segments[111] aligned with the focus of each fund which are deemed interesting for their potential in terms of contributing to development; and as such, it could be reassessed in time. Its function would be to signal that the MFA is prepared to accept reasonable losses when those are the result of (calculated) risks taken in high-development potential investments. All revolvability percentages should be soft (i.e., not framed as a contractual reimbursement obligation for FMO) to avoid impacting on FMO's capital position.
- Periodically assess (e.g., on the occasion of the funds' evaluations) whether and to what extent the revolvability percentages that are set, have contributed to investment decisions in line with the objectives, and/or whether adjustments are needed.
- *Timeframe: the strategic discussion should take place in the short term, with re-assessments planned on the occasion of each evaluation of the funds (i.e., mid-term and final evaluations in each mandate).*

[111] These could be intended as sub-sectors, but also specific geographies, population targets etc.

R5 Explicitly consider the mid-term implications of investing in early-stage companies in budgeting: potential further needs for funding in time.

Based on: C15

Directed at: AEF & BP management, in collaboration with MFA

- In defining budget requirements (on the part of FMO) and grant amounts and extension timelines (on the part of the MFA), explicitly consider the likely need of successive rounds of funding for early-stage business models supported.
- Explicitly consider exceptionally allowing exposure limits higher than EUR 10 million in the case of companies with a healthy performance that have reached significant growth milestones, although under the condition that a credible plan for exit (to FMO-A or other) within a limited timeframe (i.e., 2–3 years) be also established.
- To mitigate the uncertainty of cash flows arising from investments in early-stage businesses, continue to balance those investments with investments in more consolidated companies and project finance investment operations whose cash flows and timelines for exit or transition to FMO-A are more easily predictable.
- *Timeframe: the strategic discussion should take place in the short term. It is suggested that the decisions reached be reflected in internal guidelines rather than contractual documents.*

7.2 On AEF and BP's implementation by FMO

R6 Strengthen BP's strategic approach for supporting agricultural value chains.

Based on: C12

Directed at: BP management and FMO (AFW department)

- Assess different agricultural value chains to gain an in-depth understanding of their characteristics (including employment profile, barriers to growth, financial needs, geographical distribution etc.) and their implications on their capacity to contribute to the achievement of DGIS objectives.
- Define a specific role for government funds within FMO's AFW sector strategy (particularly as refers to agricultural value chains), possibly including a list of priority sub-segments in which to seek engagement.
- Identify and consider also other Dutch actors' interest or involvement in specific subsectors, in which synergies may be leveraged upon.
- Consider privileging the choice of sub-sectors in which women are observed to participate more actively.
- *Timeframe: to be started as soon as possible and to be continued in time, in coordination with FMO's overall strategic processes.*

R7 Develop policies and guidelines for the use of government funding to support responsible exits in the case of liquidations.

Based on: C15

Directed at: AEF & BP management (in collaboration with MFA)

〉 Elaborate policies and codify best practices for how to support projects undergoing liquidation to mitigate negative consequences. The policies should clarify the extent to which the use of AEF and BP funding in this sense is allowed.

〉 Policies should consider and balance the following priorities:

- Protect AEF's and BP's capital.
- Mitigate negative social consequences.
- Minimise FMO's and the MFA's reputational risk.

〉 Concretely, the evaluation team suggests that a (limited) budget be defined for this purpose in the AEF and BP grants, excluded from revolvability only if used. A limit on the budget's use per project should also be set. Guidelines and best practices should be defined and updated as necessary based on experience.

〉 *Timeframe: short term.*

R8 Define strategic target areas/ objectives for Capacity Development in the specific contexts of AEF and BP. Consider particularly gender and inclusiveness.

Based on: C3, C4, C5, C7, C11, C13

Directed at: AEF & BP management (in collaboration with MFA)

〉 For each fund, identify a limited subset of technical assistance themes (2-3 per fund, ideally including some shared ones) that reflect DGIS priorities and that can also have a positive impact on the economics of projects. Possible examples are:

- Development and testing of the viability of products/ service models targeted at women or less-privileged segments of the population, or expansion in new (previously not reached) geographical areas).
- Strategic inclusion (e.g., of relevance to the business) of women in the workforce of client companies and potentially other companies in the targeted value chains.
- Actions to foster uses of energy, particularly productive ones.
- Product and process design to minimise waste.
- Support to the definition of quality labour standards and practices (aligned with or exceeding the IFC ones) adapted to specific contexts, and their integration across value chains, i.e. also within indirect jobs supported (particularly: among farmers).

〉 Encourage and give priority to support requests for capacity development that relate to the themes chosen, both at the ecosystem and individual project level. At the ecosystem level, identify and engage with likely partners and allies, including Dutch actors (i.e., embassies, businesses and NGOs) whenever

there is a common interest in those themes.

〉 Progressively develop and codify expertise on the themes chosen and create mechanisms that favour the transfer of knowledge and experience to new projects.

〉 Develop and implement methodologies and tools to assess the results achieved through capacity development, and periodically assess and review the strategies as well as the choice of themes covered.

〉 Specifically for AEF: allocate a budget for capacity development, which should also be officially recognised in the mandate.

〉 *Timeframe: strategic lines should be defined in the short term and eventually periodically re-assessed (e.g., on the occasion of each evaluation of the funds).*

R9 Explicitly assess climate change-related risks for all projects.

Based on: C6

Directed at: FMO

〉 Integrate an assessment of climate change-related risks and the need and opportunity for any climate change adaptation measures in project appraisal processes. Where this is not needed, an argument should be included in documentation for why it is not relevant.

Note: upon the finalisation of the document, the evaluation team was informed that in 2023, FMO introduced a tool in this sense (initially in a pilot version, but currently being applied to all new investments.) This tool was not assessed as part of the evaluation but could constitute an adequate response to this recommendation.

R10 Develop a strategy to incorporate a gender lens in investments.

Based on: C5

Directed at: FMO

〉 Provide incentives and instruments to FMO investment managers to better promote gender priorities in both the selection and management of investments, ideally within the context of a broader strategic framework on gender that is periodically assessed for effectiveness.

Note: the evaluation team was informed that FMO is currently working (at the time of the finalisation of this report) on developing an FMO-wide strategy to incorporate a gender lens in its investment. While the process was not yet finalised and was not assessed as part of the evaluation, it could constitute an adequate response to this recommendation.

R11 Identify alternative options to the use of government funds to provide financing in local currencies to projects otherwise eligible for FMO-A.

Based on: C18

Directed at: FMO (possibly with the support of the MFA)

〉 Explore ways to strengthen FMO-A's capacity to extend loans in local currencies; including the possibility to leverage other financial instruments (e.g. guarantees) supported by the Dutch government, the EU, or other actors.

〉 Develop partnerships with local financial intermediaries or similar actors to ease the transition of investments requiring financing in local currencies.

〉 It is noted that difficulties in extending loans in local currencies are very common among DFIs, and do not seem to have easy solutions.

〉 *Timeframe: no specific timeframe set; rather, the search for alternatives should be continuous.*

R12 Strengthen FMO's monitoring and learning capacity in relation to AEF and BP.

Based on: C14

Directed at: FMO and AEF & BP management

〉 Consider upgrading FMO's IT systems to improve the interoperability of data on investments, capacity development and impact. Quick fixes could include:

- Ensuring that all databases include "keys" for clients and investment facilities. Also consider adding a key for "client groups", i.e., a single key identifying all entities related to a same project (e.g., different subsidiaries of a same industrial group, funds or other external entities through which investments have been channelled.)
- Introducing a new sector classification field in at least one database, to be completed with the sector classifications most used in analyses (e.g., in the case of energy: on-grid, SHS, mini-grids.)

Potentially more complex and costly fixes to be considered are:

- Consolidating all systems so that datapoints (e.g., committed amounts per facility) are only entered once and are subsequently automatically reflected in all databases.
- Adjusting the structure of the impact measurement system so that data can be easily entered at the "client group" level (i.e., rather than arbitrarily choosing one entity within the group). In the short term, this could also be addressed by adding a field that references to the client code where the impact data for each "client group" is reported on.

〉 Have the FMO impact department periodically conduct analyses on the impact data collected on AEF and BP projects. Additionally, share the results and insights with investment managers, the AEF and BP management team and the MFA. Key insights could also be summarised in AEF's and BP's annual reports.

〉 Require documentation for AEF and BP investment decisions to include more structured descriptions of the logical chain of development results sought. This includes ensuring that arguments consider and are coherent with the existing knowledge and experience. Also that they correctly identify likely constraining

factors and/or highlight the assumptions that were made. A template could be developed for this purpose (also with the support of FMO's evaluation and impact departments). This template should be designed as to be easy to complete but also as to be functional to support monitoring and learning.

› The involvement of the evaluation department in the process of preparation of individual AEF and BP investments could be considered, possibly on an ad-hoc basis, to ensure that insights from previously accumulated knowledge are considered whenever relevant.

› Consider institutionalising a (rapid) periodical review process for AEF and BP projects (post-mortem or every 3-5 years), coordinated by the evaluation department. This review should include evidence comparing the initial logical chain of development results sought and events that indeed took place, highlighting and drawing lessons from similarities and differences.

› *Timeframe: a plan for action should be defined in the short term (and eventually re-assessed also in function of results).*

7.3 Further recommendations in support of the achievement of DGIS objectives

R13

Ensure that investments in on-grid energy are accompanied by adequate development of energy transmission and distribution (T&D) networks (if necessary by involving actors other than FMO).

Based on: C10

Directed at: FMO and MFA

› Whenever considering engaging in the support of on-grid energy projects, AEF (and BP) should assess whether the supporting T&D networks are adequate or whether credible plans are in place to make them so. This assessment should also consider other energy generation projects in construction or foreseen and, more in general, the country's plan in terms of energy generation capacity development. Efforts should also focus on identifying and establishing collaborative relationships with organizations present in the country that can influence public entities in charge of T&D networks (e.g., World Bank).

› In consideration of the importance of T&D for the Dutch government's objective of reaching 100 million people with renewable energy by 2030, the MFA should ensure that is also acting through instruments other than those managed by FMO to stimulate governments in target countries to upgrade T&D networks whenever those are a constraint to the expansion of energy access.

› *Timeframe: ongoing.*