

FMO

Entrepreneurial
Development
Bank

Access to Energy Fund

INVESTMENT STRATEGY
2019-2028

POWERING UP:
FINANCE TO
CLOSE THE
ENERGY
ACCESS GAP

About the cover

Picture is taken in Tanzania at the home of one of the clients of Zola Electric. Zola builds off-grid solutions that deliver clean, affordable, reliable 24/7 power to rural or urban settings, home or business.



Government of the Netherlands

FMO manages the following funds on behalf of the Dutch government: MASSIF, Building Prospects, the Access to Energy Fund (AEF), the Dutch Fund for Climate and Development (DFCD), FOM, FOM-OS, B-CD, Partnership Development Facility (PDF) and Development Accelerator (DA).
The total committed portfolio of these funds (excluding grants) amounts to € 1,207.5 mln as per December 31, 2019.

The term "fund" as used in this annual report refers to a program in the form of a subsidy received from the Dutch government that is managed by FMO, unless reference is made to an investment made under a program.

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The Access to Energy Fund provides risk-bearing funding to projects supporting sustainable access to energy in developing countries.

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FMO AS FUND MANAGER

Increasing number of players active in the renewable energy-investor space

FMO is the Dutch development bank. As a leading impact investor, FMO supports sustainable private sector growth in developing countries and emerging markets by investing in ambitious projects and entrepreneurs. FMO believes that a strong private sector leads to economic and social development and has a 50 years proven track-record of empowering people to employ their skills and improve their quality of life. FMO focuses on three sectors that have high development impact: Financial Institutions, Energy, and Agribusiness, Food & Water.

FMO finances projects which power economies, promote the transition to a low-carbon system and safeguard energy security. Power shortages are one of the biggest barriers to development for billions of people.

Energy is a key sector for FMO, especially in the areas of generation and distribution, with an emphasis on renewable energy. We have built up a strong track record of investing in energy projects across a range of technologies in Africa, Asia and Latin-America. We do not invest in coal or nuclear power.

We offer the full range of financing solutions - including syndicated loans, local currency solutions and equity investments - for energy generation and distribution projects, off-grid solutions, refurbishments and efficiency improvements. Our initial investments often motivate other development finance institutions and commercial banks to participate in the financing of such projects.

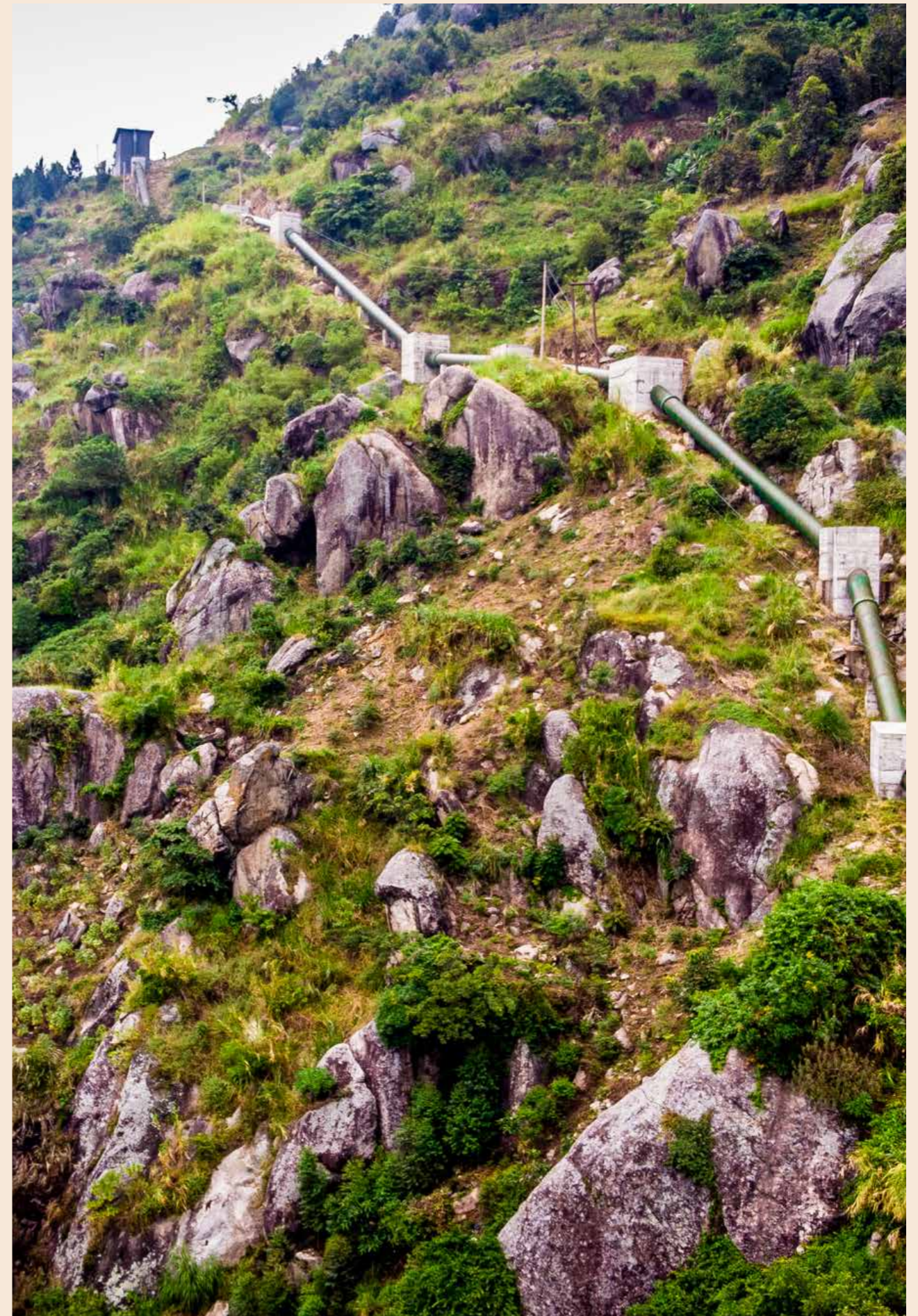
We are committed to promote the adoption of leading international standards in environmental compliance, land tenure, business integrity and social practices.

“Whether it is for cooking, charging cell phones or powering offices and factories, everyone needs affordable and reliable energy resources.”

Crucial for the (fund) activities of FMO is the close cooperation with partners like private equity funds, public funds, other development banks, commercial banks, government organizations, branch organizations and NGO's.

The Dutch government invests amongst others in small and women-owned enterprises, sustainable agriculture, and climate finance initiatives. In all these areas, FMO is an important partner, running three key funds for the Dutch government, next to the Access to Energy Fund. First, Building Prospects, where FMO strategic investments can help towards the tipping point regarding SDG 17 (Partnerships for the goals). The second joint initiative concerns MASSIF, a fund that provides (local currency) loans to financial FMO partners. By taking more risks, we enable these banks to fund small and micro enterprises, helping them create jobs especially for young people and women.

The third fund is the Dutch Fund for Climate and Development, awarded in 2019 to a consortium of FMO, WWF, SNV and Climate Fund Managers. The fund focuses on Climate Adaptation and Mitigation as key objective(s) of each investment.



AT A GLANCE

The Access to Energy Fund was jointly initiated by the Dutch Ministry of Foreign Affairs and FMO to support private sector projects aimed at providing long-term access to energy services in developing countries.

Background

The Access to Energy Fund was set up to improve the availability and quality of power by adding new renewable energy generation and distribution capacity (solar, wind, hydro) to currently underserved markets. It supports private sector projects aimed at providing long-term access to energy services. The fund directly contributes to both the Paris Agreement and the Sustainable Development Goals. The increasing number of people with access to renewable energy supports the key objective of the Access to Energy Fund: the creation of sustainable access to renewable energy in developing countries.

The fund can make direct investments in corporates and can take part in or lead project developments at an early stage when commercial investors are not yet able to accept the credit risk or tenor. When the investment has been sufficiently de-risked, the fund will transfer its assets to FMO's balance sheet or commercial investors, always adhering to its additional role and opening markets for the next investors. The products offered vary from equity, mezzanine and debt to (funded) guarantees, development contributions and grants.

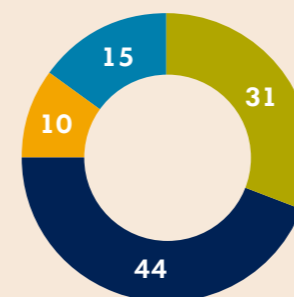
As one of the few funds in the world, the Access to Energy Fund provides risk bearing funding to unproven technologies as well, making the fund a frontrunner when it comes to renewable energy.

Achievements portfolio as per 31-12-2019

Total committed portfolio

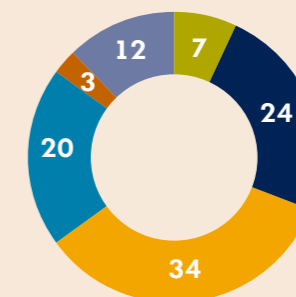
€158_{mln}

Portfolio by product
(in % as of 31 Dec 2019)



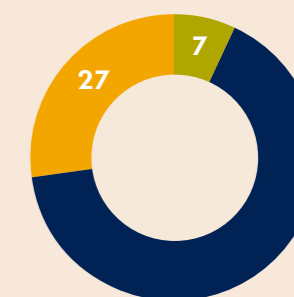
- Loans
- Direct equity
- Fund investments
- Mezzanine

Portfolio by industry type
(in % as of 31 Dec 2019)



- Hydro Energy
- Mixed Renewable
- Solar Energy
- Wind Energy
- Financial Institutions
- Non Renewable Energy

Portfolio by currency
(in % as of 31 Dec 2019)



- EUR
- Local
- USD



€1.3_{bln}
Public co-investments



€1.0_{bln}
Private co-investments



126.7%
Revolvability



37.3%
MFA focus countries

(excluding new investments 2019)

3.8_{mln}
Beneficiaries reached

3,194
Direct jobs supported

1,091
Direct jobs supported women

516_{MW}
Installed capacity

966,479
Indirect jobs supported

433,884
Indirect jobs supported women

1.8_{mln}
tCO₂eq/yr
GHG Avoidance

Total committed portfolio by region

Latin America & the Caribbean

€7_{mln}

Africa

€136_{mln}

Europe & Central Asia

€4_{mln}

Asia

€3_{mln}

Non-specific region

€8_{mln}

INVESTMENT STRATEGY

2019-2028

DUTCH GOVERNMENT POLICY

PROVIDE 50 MILLION PEOPLE WITH ACCESS TO RENEWABLE ENERGY BY 2030

In rural and remote areas

In developing countries

For women in particular

FOCUS OF THE ACCESS TO ENERGY FUND

these opportunities to increase access to energy

Maximize impact of providing inclusive access to energy

Finance innovations in access to energy

Support (mini-) grid systems and policy frameworks

Broaden the scope to reach Base of the Pyramid

Invest in productive use



Clean Cooking Solutions

Develop scalable solutions.



Innovations

Invest in impactful and scalable innovations.



Transmission & Distribution

Invest in energy infrastructure in cooperation with others.



Productive Use

Invest in productive use of energy to drive social and economic impact.



The Unreached

Target people who are most left behind, in sub-Saharan Africa and South Asia.



Fund investment themes

The Access to Energy Fund strategy centres on five key investment themes:

I. The Unreached (Inclusive Investments):

While a lack of access to modern and sustainable forms of energy impacts both men and women, inequalities in social standing, economic capability and gender-defined roles mean women often lack access to energy in a disproportionate way. Providing access to modern, affordable and reliable sources of energy can improve the well-being of women and children and provide women with new economic opportunities. Time saved through access to modern energy can be redirected towards education, social and family activities and economic opportunities.

AEF aims to:

- maximize the number of beneficiaries reached in all countries where the largest number of people live without proper access to energy, namely South Asia and Sub-Saharan Africa.
- invest in energy projects in eligible countries

II. Productive Use

If we want to create real social development and prosperity, we should not only provide access to energy to consumers but also to commercial enterprises (producers).

AEF aims to:

- include financing productive use for self-employed people and SMEs, which also contains companies in the agribusiness sector with renewable energy investments and companies that offer skills and relevant (off-grid) equipment.
- allow companies as energy off-takers to benefit from increasing financial strength of an energy providing company
- include financing captive energy systems of companies if they also provide (direct or indirect) access to energy to surrounding communities.

III. Transmission and Distribution

AEF focuses on financing power supply and thereby includes:

- projects that aim to reduce power outages, including transmission and distribution;
- projects that set-up a local (mini-)grid system, including those built by a private company, to provide access to energy to communities,

IV. Innovations

A sustainable future will require cleaner and more affordable energy. This cannot be achieved without investing in innovation. AEF therefore supports innovations in Access to Energy, including Energy Tech.

V. Clean Cooking Solutions (Efficient Cookstoves)

Entrepreneurs active in the clean cooking solution sector are building innovative ways to transform the lives of low-income customers but are yet looking for ways to reach scale: marketing and sales best practices have so far failed to spread. Good product-market fits need to be established as well as distribution networks to sell and service a remote, dispersed customer base. In addition, there is a need for capital to train customers.

AEF is well positioned to play a catalyzing role and assist the sector to explore innovative finance models to disseminate clean cooking solutions in a way that ensures true product adoption and regular usage; as well as sustainable new business models for clean fuel value chain.

Examples of projects can be found in the [project list](#) on FMO's website.

ANNEX 1 – COUNTRY LIST

The DAC List of ODA Recipients shows all countries and territories eligible to receive official development assistance (ODA).

Least Developed Countries	Other Low Income Countries (per capita GNI <= \$1 005 in 2016)	Lower Middle Income Countries and Territories (per capita GNI \$1 006-\$3 955 in 2016)	Upper Middle Income Countries and Territories (per capita GNI \$3 956-\$12 235 in 2016)
Afghanistan	Democratic People's Republic of Korea	Armenia	Albania
Angola ¹	Zimbabwe	Bolivia	Algeria
Bangladesh		Cabo Verde	Antigua and Barbuda ²
Benin		Cameroon	Argentina
Bhutan		Congo	Azerbaijan
Burkina Faso		Côte d'Ivoire	Belarus
Burundi		Egypt	Belize
Cambodia		El Salvador	Bosnia and Herzegovina
Central African Republic		Georgia	Botswana
Chad		Ghana	Brazil
Comoros		Guatemala	China (People's Republic of)
Democratic Republic of the Congo		Honduras	Colombia
Djibouti		India	Cook Islands ³
Eritrea		Indonesia	Costa Rica
Ethiopia		Jordan	Cuba
Gambia		Kenya	Dominica
Guinea		Kosovo	Dominican Republic
Guinea-Bissau		Kyrgyzstan	Ecuador
Haiti		Micronesia	Equatorial Guinea
Kiribati		Moldova	Fiji
Lao People's Democratic Republic		Mongolia	Former Yugoslav Republic of Macedonia
Lesotho		Morocco	Gabon
Liberia		Nicaragua	Grenada
Madagascar		Nigeria	Guyana
Malawi		Pakistan	Iran
Mali		Papua New Guinea	Iraq
Mauritania		Philippines	Jamaica

- General Assembly resolution A/RES/70/253 adopted on 12 February 2016, decided that Angola will graduate five years after the adoption of the resolution, i.e. on 12 February 2021.
- Antigua and Barbuda exceeded the high-income threshold in 2015 and 2016, and Palau exceeded the high-income threshold in 2016. In accordance with the DAC rules for revision of this List, if they remain high income countries until 2019, they will be proposed for graduation from the List in the 2020 review.
- The DAC agreed to defer decision on graduation of Cook Islands until more accurate GNI estimations are available. A review of Cook Islands will take place in the first quarter of 2019.

Least Developed Countries	Other Low Income Countries (per capita GNI <= \$1 005 in 2016)	Lower Middle Income Countries and Territories (per capita GNI \$1 006-\$3 955 in 2016)	Upper Middle Income Countries and Territories (per capita GNI \$3 956-\$12 235 in 2016)
Mozambique		Sri Lanka	Kazakhstan
Myanmar		Swaziland	Lebanon
Nepal		Syrian Arab Republic	Libya
Niger		Tajikistan	Malaysia
Rwanda		Tokelau	Maldives
Sao Tome and Principe		Tunisia	Marshall Islands
Senegal		Ukraine	Mauritius
Sierra Leone		Uzbekistan	Mexico
Solomon Islands		Viet Nam	Montenegro
Somalia		West Bank and Gaza Strip	Montserrat
South Sudan			Namibia
Sudan			Nauru
Tanzania			Niue
Timor-Leste			Palau ²
Togo			Panama
Tuvalu			Paraguay
Uganda			Peru
Vanuatu ⁴			Saint Helena
Yemen			Saint Lucia
Zambia			Saint Vincent and the Grenadines
			Samoa
			Serbia
			South Africa
			Suriname
			Thailand
			Tonga
			Turkey
			Turkmenistan
			Venezuela
			Wallis and Futuna

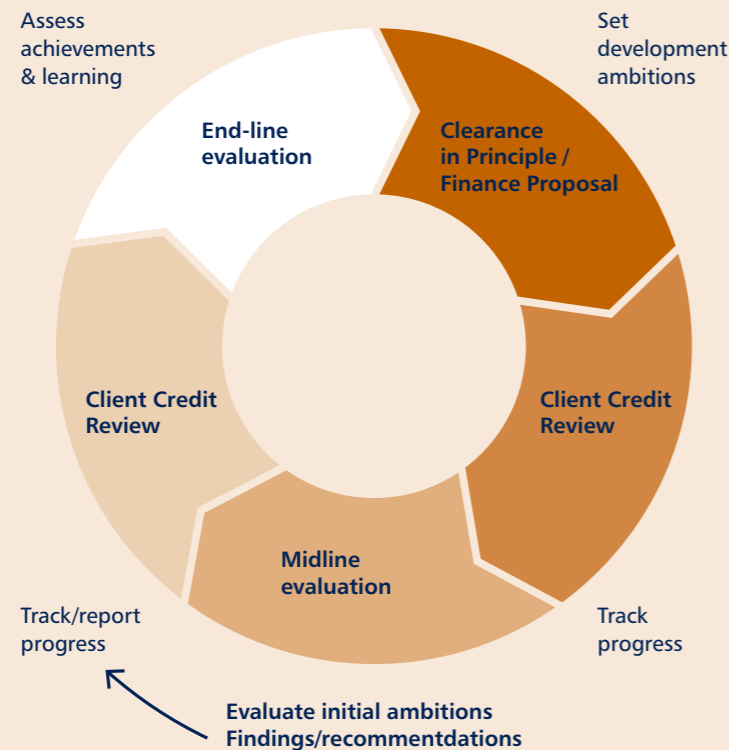
- General Assembly resolution A/RES/68/18 adopted on 4 December 2013, decided that Vanuatu will graduate four years after the adoption of the resolution on 4 December 2017. General Assembly resolution A/RES/70/78 adopted on 9 December 2015, decided to extend the preparatory period before graduation for Vanuatu by three years, until 4 December 2020, due to the unique disruption caused to the economic and social progress of Vanuatu by Cyclone Pam.

ANNEX II – THEORY OF CHANGE

The Theory of Change (ToC) reflects the fund strategy and impact targets. It visualizes how investments of AEF will lead to the desired project outputs; the differences that the investments are intended to lead to (outcomes); and long-term changes (impact). Ultimately, it shows how AEF will contribute to the Sustainable Development Goals (SDGs) in alignment with the Ministry and FMO, most notably SDG 8 (Decent Work and Economic Growth), 10 (Reduced Inequalities), 7 (Affordable and Clean Energy) and 13 (Climate Action).

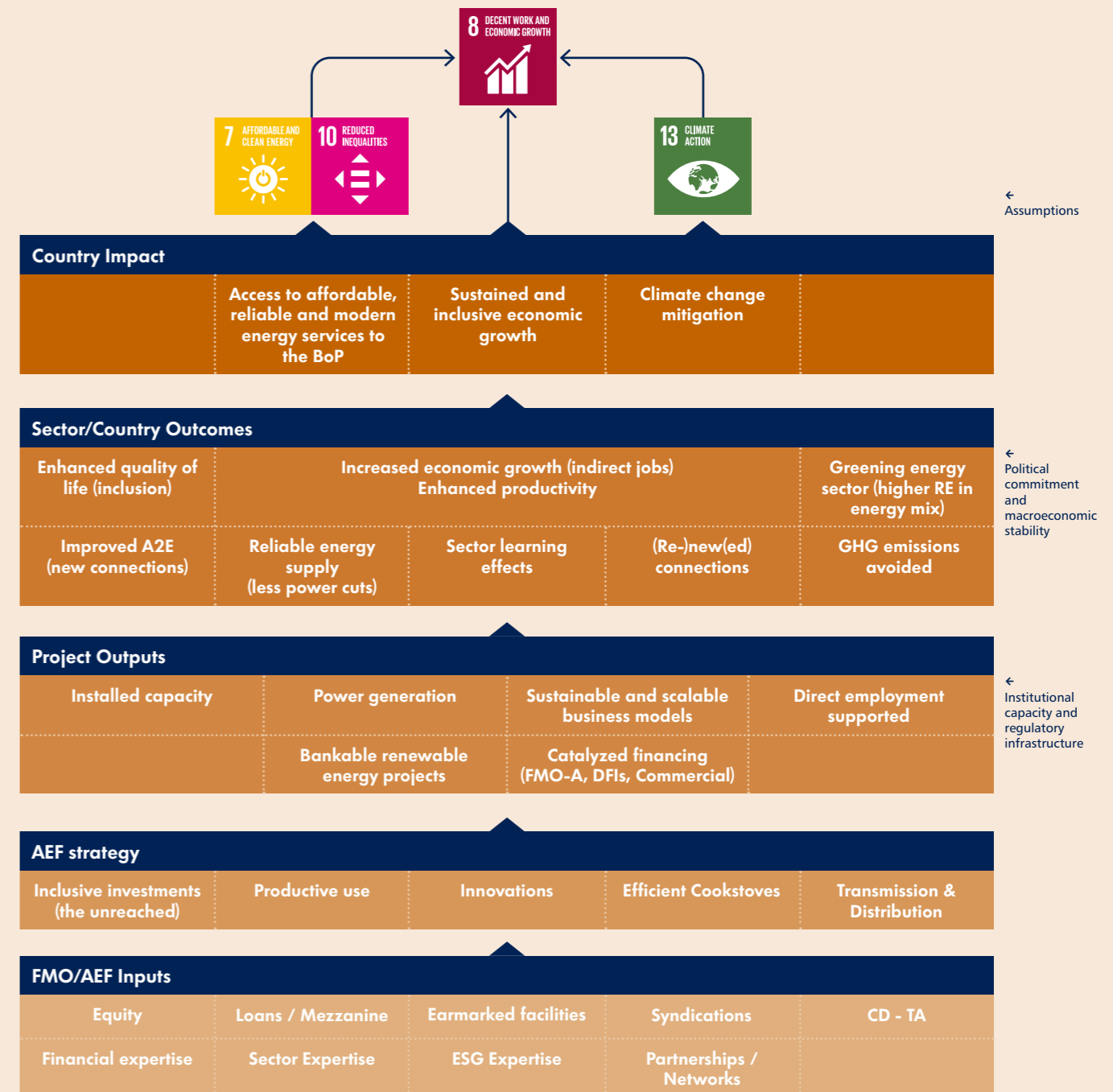
The implied relationships in the ToC are largely based on experience in financing high risk/impact projects in the fields that AEF is active in. This ToC forms the basis of the AEF development impact measurement and reporting framework going forward. The AEF impact framework is further supported by the lessons learned in previous years and by the recommendations made in external evaluations to FMO. It comprises three improved elements:

1. The ToC reflects the impact targets for AEF and its contribution to the SDGs. We use the ToC to set our impact indicators and monitor progress. AEF will report the outputs and (most) outcomes of the investments on a yearly basis through annual reporting to the government. Moving up in the ToC to outcomes and impact, the sphere of influence of AEF and the investment decreases and the impact at these levels is less easy to capture through annual impact reporting. Therefore, we propose to measure these outcome effects through evaluation studies, for example sector learning effects and more reliable energy supply. Furthermore, the ToC will be complemented by an evidence gap map. This map will clarify for which areas of the ToC there is existing scientific evidence available. In addition, it will identify the gaps in the evidence base, which FMO could help fill by gaining investment experience and bringing a better understanding of the development impact of these investments. The evidence gap map will facilitate the prioritization of future evaluation activities where there is little evidence of the impact created.



2. FMO describes development impact ambitions in each individual investment proposal (ex-ante) and will monitor success in annual client credit reviews (ex-post). We are explicit about the impact ambition of a project in credit proposals with respect to the above-mentioned SDGs and make these ambitions SMART.

3. FMO will carry out independent evaluations for a sample of AEF investments. These studies will assess if the impact objectives as outlined in the investment proposals have been achieved. We will prioritize the investments where there is little scientific evidence and where some of the impacts reflected in ToC cannot be measured solely by impact indicators. If sufficient evidence already exists to make impact plausible, the focus will be on improving impact in function of AEF's SDG objectives. For these purposes, FMO's Stakeholder, Strategy & Knowledge Management team intends to do midline evaluations (temperature check and recommendations for achieving higher impact) as well as end line evaluations (ex post assessment and generating lessons learned).



ANNEX III – CAPACITY DEVELOPMENT

The transition towards a thriving inclusive renewable energy sector needs more than finance. To reach the impact the Access to Energy Fund (AEF) strives for, there is a strong need to proactively strengthen businesses, share knowledge and set up partnerships. To enable the fund to engage and steer such activities AEF earmarks a separate envelope as grant facility.

The grant facility can support strategic technical assistance (TA) projects with the Fund's (prospective) clients and partners that operate in the Fund's ecosystem. Partners can include knowledge institutions, industry associations, NGOs or foundations.

FMO has a strong track record in highly value-adding TA programs, funded both by the Dutch government as well as by FMO. The Capacity Development Team has a mandate to proactively develop TA projects across FMO's investment sectors. Existing clients under AEF have received grant support in the past, albeit limited due to competing resources and capacity. Having a dedicated grant facility for AEF's renewed strategy would support the fund's scale, scope and impact ambition going forward. The grant facility can fund TA projects that support the fund's clients and partners across these themes, in the following topical areas:

→ **Energy tech and product development:**

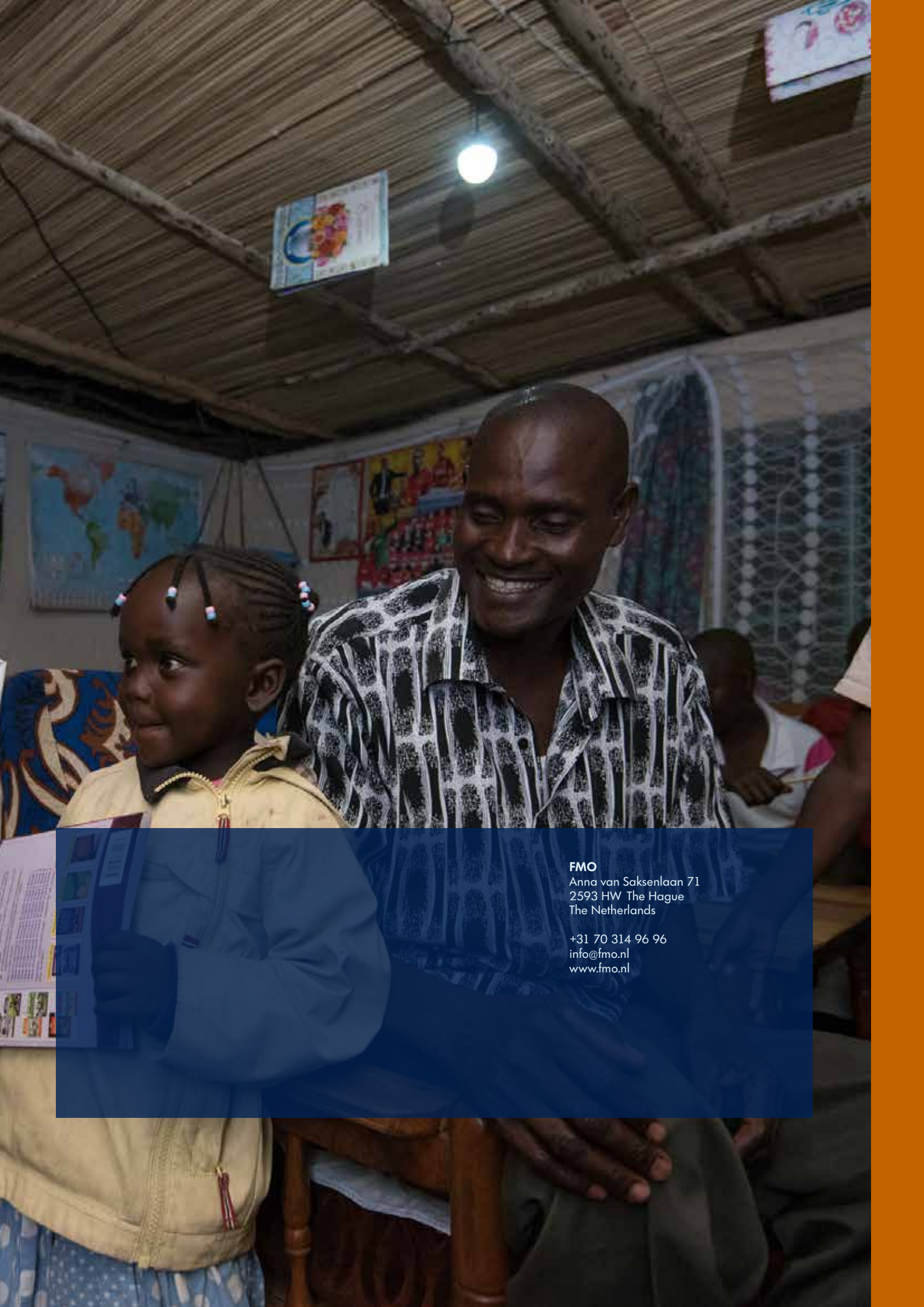
In a changing world, AEF has the objective to pioneer expertise and solutions promoting access to energy and to develop future cooperation with innovators. Technological advancement is critical. Emerging topics linked to energy tech and product development include (but are not limited to) energy communities, circular economy, storage, Internet of Things, hydrogen and productive renewable energy products. On the latter, connecting the energy sector with FMO's other investment sectors, agribusiness and financial institutions can also promote innovation in the productive use of energy (e.g. pumps, irrigation, milk machines, mechanical workshops, refrigeration, mobile charging, IT supply, processing, storage, cookstoves, etc.).

- **Gender:** Integrating a gender perspective in AEF's investments contributes to more sustainable investments as well as increased inclusive impact of these investments. Gender equality is of paramount importance for development, and an intrinsic human right. In any AEF investment, women can be considered:
- Stakeholders – Gender analysis at all investment stages is essential to approach gendered risks and opportunities.
 - Workers – Jobs and entrepreneurship can be leveraged as a key opportunity for a positive impact on gender quality, especially in the off-grid energy sector.
 - End-users – A focus on the needs of women as users of energy products contributes to women's empowerment. At the same time, it increases product acceptability, enhancing business development, especially in the off-grid energy sector.
- **Environmental and social (E&S) risk management:** Proper E&S risk management is of importance for AEF. The Fund's investments can spark controversy over land acquisition, occupational health and safety, local jobs, human rights or human displacement. In the off-grid energy sector consumer protection is of increasing importance to assure a responsible growth of this sector. AEF aims to play a leading role in promoting best practices and further developing industry standards in E&S management.
- **Governance and risk management:** Supporting companies to reduce risks by improving governance, implementing appropriate risk management frameworks and through enhancing management information systems to aid decision making.

At all stages, (future) clients are expected to contribute at least 25% to the project costs. Capacity Development (CD) supports projects between EUR 25k and 1 million. For classic grants the maximum contribution amount is EUR 50,000 and the minimum amount is EUR 12,500.

The TA is delivered through different models, which are themselves being developed according to the sector and client needs. These models have so far included:

- Advisory services (both third party as well as in-house expertise) - we contribute to the cost of hiring external consultants, trainers and experts to facilitate the knowledge transfer and provision of technical expertise
- Peer-to-peer learning: FMOxChange - connecting and supporting meetings of FMO clients who can benefit from each-others' expertise and experience
- Trainings, Masterclasses and networking events
- Various sector initiatives



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