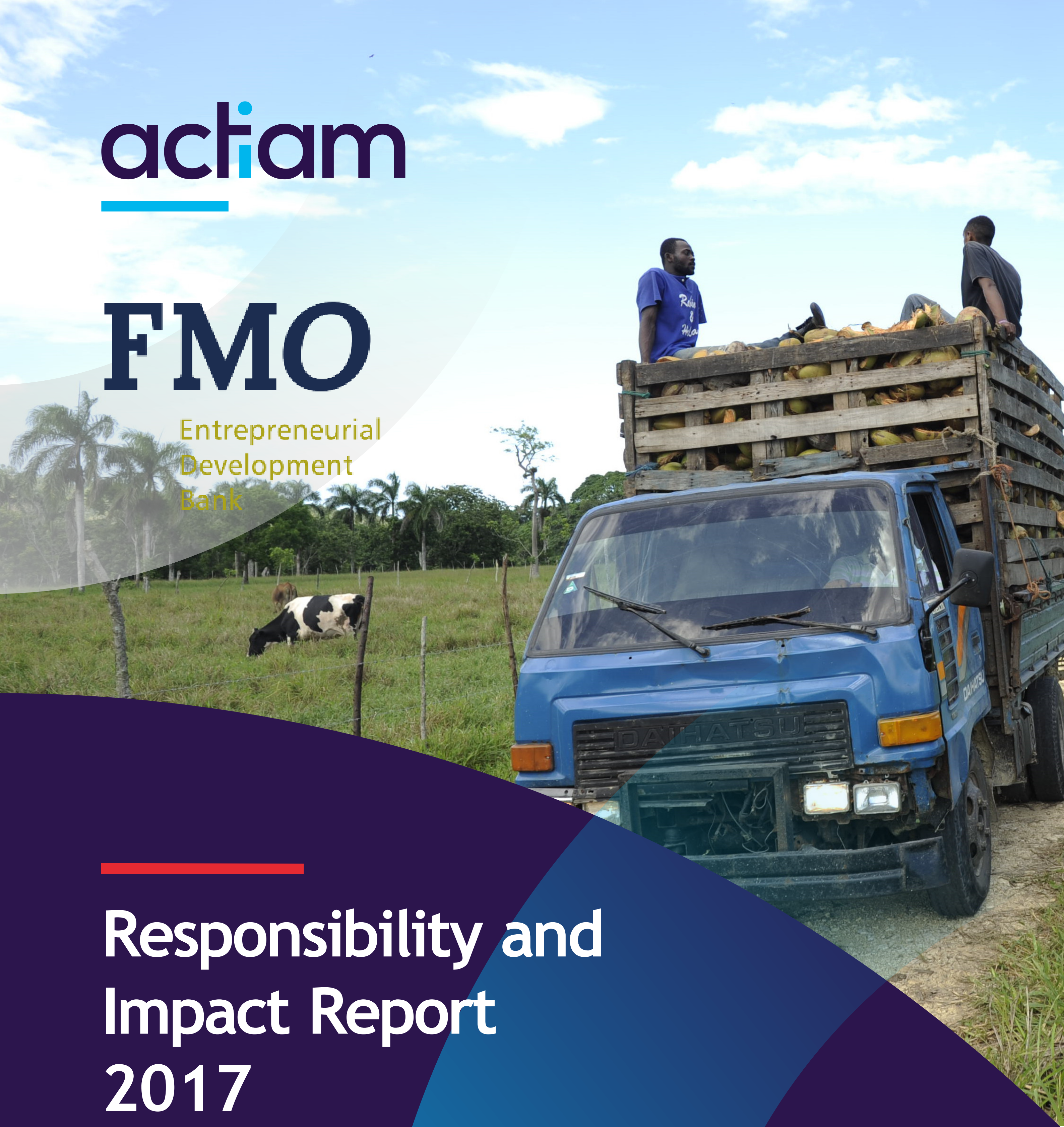
actiam

FMO

Entrepreneurial Development Bank



Responsibility and Impact Report 2017

ACTIAM-FMO SME Finance Fund I

Content

ACTIAM-FMO SME FINANCE FUND I

Closed-end fund for joint account

1. About

Fund Manager	Investment manager
ACTIAM N.V.	**FMO Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.**
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ACTIAM N.V.

ACTIAM is the Fund Manager of the Fund. ACTIAM is the responsible asset manager for over one million Dutch people. We first introduced our responsible investment policy in 1990 and have been running our engagement program since 1995. With over 100 staff we manage €54,1 billion (ultimo December 2017) for insurance companies, pension funds, banks and intermediaries. We offer a comprehensive range of investment solutions: from index strategies to impact investing. ACTIAM imposes strict criteria on its investments and follows a robust selection process without making concessions to financial returns. ACTIAM uses its responsible investment policy to contribute to a liveable world, now and in the future. In addition to our basic investment policy we focus on three themes: climate, water and land. We make our investments measurable and work towards concrete goals.

Moreover, ACTIAM has developed a unique approach to impact investing. A specialised team of 8 professionals with an average of 15 years' experience in the industry manages approximately €1 billion for both institutional and retail clients.

FMO NEDERLANDSE FINANCIERINGS-MAATSCHAPPIJ VOOR ONTWIKKELINGSLANDEN N.V.

FMO is the Investment Manager of the Fund. FMO is the Dutch development bank and provides investments in the private sector in developing countries and emerging markets for more than 47 years. FMO's mission is to empower entrepreneurs to build a better world. FMO invests in sectors where it believes its contribution can have the highest long-term impact: financial institutions, energy and agribusiness. With an investment portfolio of €9.2 billion spanning more than 85 countries, FMO is one of the larger bilateral private sector development banks globally.

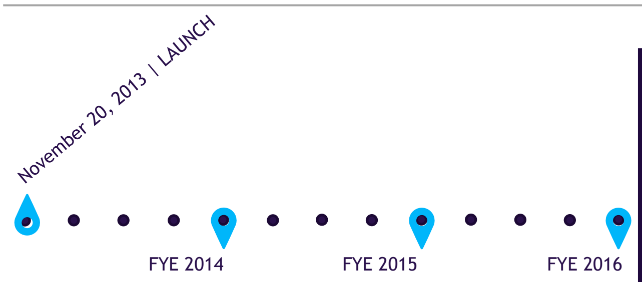
Some of FMO's investment management activities for the Fund are performed by FMO Investment Management B.V. (FMO IM). FMO IM is an investment firm that creates access for investors to invest in FMO's deal flow in sustainable emerging market investments. FMO IM matches investor appetite with FMO's expertise. The resulting fund propositions in private debt or private equity have the size and institutional quality required by professional investors. The portfolios FMO IM advises on or manages aim to generate an attractive financial return and meaningful development impact. FMO's profitable track record to date proves that these two can go hand in hand.

2. Management Note

We have the pleasure to present the fourth Responsibility and Impact Report of the ACTIAM-FMO SME Finance Fund to our investors. The year 2017 marked the year in which the Fund witnessed the final capital call in March to reach the fully drawn total committed capital of €153.5 million. 2017 can be considered the most challenging year so far for the Fund from a financial return point of view as the Fund faced several headwinds. The net return was 1.5% lower in comparison with the 2016 results. This is explained by the write down of a loan, increasing hedging costs as the interest rate differential between the US Dollar and the Euro base rate widened during 2017, and the relatively high exposure to negatively yielding temporary liquid assets. From an impact perspective 2017 marks a year with growing SME portfolios at the financial institutions invested in, in line with the impact strategy of the Fund.

By having invested €221 million over the lifetime of the Fund till year end 2017 in 24 countries, the Fund reaches out to 40 financial institutions. These institutions together finance over 339,000 SMEs. The aggregate outstanding portfolio of SME loans of the financial institutions invested in amounts to €15.2 billion (€1.3 billion more compared to 2016), representing on average 41% of their loan portfolios. In 2017, the Fund has provided access to finance to an estimated 1,034 small and medium sized enterprises, resulting in a cumulative Fund outreach of more than 5,000 SMEs. At the same time, the Fund will be able to support over 8,600 jobs with the new participations entered over the past year.

During 2017, the Fund's criteria for eligible investments were amended after approval by the participants. At the outset, any financial institution invested in by the Fund should consider providing loans and financial services to SMEs as an explicit part of its core business. The SME loan portfolio as a percentage of a financial institutions' total loan portfolio (min. 20% for individual financial institutions and min. average of 35% on the Fund portfolio) served as a proxy to monitor this. Over the lifetime of the Fund it turned out that this approach does not always do justice to the SME strategy of a financial institution and to its contribution to SME financing. For large banks, the SME portfolio might be relatively small percentage wise, while in absolute terms the SME portfolio can be larger than that of smaller banks. Besides, large banks more often have a dedicated and specialised SME finance department. After approval by the participants, the Fund investment committee can now deviate from the minimum 20% SME portfolio guideline if there is sufficient evidence that the financial institution has significant exposure to the SME sector and a strategic intention to grow in this segment. This should be warranted by adopting an SME dedication clause in the loan documentation.



2016 results *(1-1 / 31-12)*

Number of countries	23
Number of financial institutions	36
Number of SMEs supported by the institutions	304,270
Aggregate SME portfolio	€13.9 billion
SMEFF investments	€50.4 million
SME share in the SME Bank's portfolios	38%
Fund's estimated outreach	863
Jobs supported	10,464

During 2017, the aggregate SME portfolio of the financial institutions invested in, grew by 5%. Over the lifetime of the Fund, this amounts to a 38% increase. This growth enables local SME companies to attract tailor-made finance to support the development of their business. Furthermore, all investments comply with applicable internationally accepted social and environmental standards as mentioned in the terms and conditions of the Fund and adhere to the funding condition of implementing an Environmental & Social Action Plan to improve E&S management[1], if required.

[1] ESG = Environmental, Social & Governance

This year's report highlights Paraguayan Banco Continental, an early Fund investment. Due to the country characteristics, many banks in Paraguay have a substantial exposure to the agriculture and livestock sector. This concentration is a potential portfolio risk, but also creates the opportunity to trigger positive change in a structural manner in this complex sector. As such, the financial industry can serve as a catalyser for sustainable development in a country. The case study shows how Banco Continental changed its approach in order to realise higher agricultural output levels, increased farmer income and thereby contribute to a better standard of living. The Fund's total investment in Banco Continental of US $13.55 million enabled Banco Continental to serve nearly 200 small and medium entrepreneurs in developing their business.

In 2017 and 2018, ACTIAM actively participated in the UN PRI Market Map by integrating the lessons learned of this Fund. The Market Map, expected to be published in Q2 2018, is a resource for investors to identify companies that, through their products and services, generate impact in one or more of ten thematic environmental and social areas. The tool thereby offers a tool for new and existing investors to align their investments with market standards, aimed at advancing further development of the theme.

5 GENDER EQUALITY
8 DECENT WORK AND ECONOMIC GROWTH
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
10 REDUCED INEQUALITIES

We look forward to build on the results achieved so far by continuing to invest in promising financial institutions with significant exposure to the local SME sector in developing countries. As such, we direct our efforts to make a positive contribution to decent work and economic growth as represented by Sustainable Development Goal 8. Going forward, the Fund and FMO will increasingly incorporate SDG 5 (Gender equality) and 10 (Reduced inequalities) and support innovation (SDG 9 | Industry, innovation and infrastructure), for example through FMO's FinForward platform. It will do so by investing in SME-focused financial institutions that also aim to develop more inclusive finance activities, such as youth or women focused financial products with the purpose of reducing the significant inequalities of these groups and by supporting financial institutions that adopt an innovate business model. An inspiring example of such an innovate player and new Fund investment is NeoGrowth in India (please refer to page 10 for more details).

Happy readings,

ACTIAM & FMO

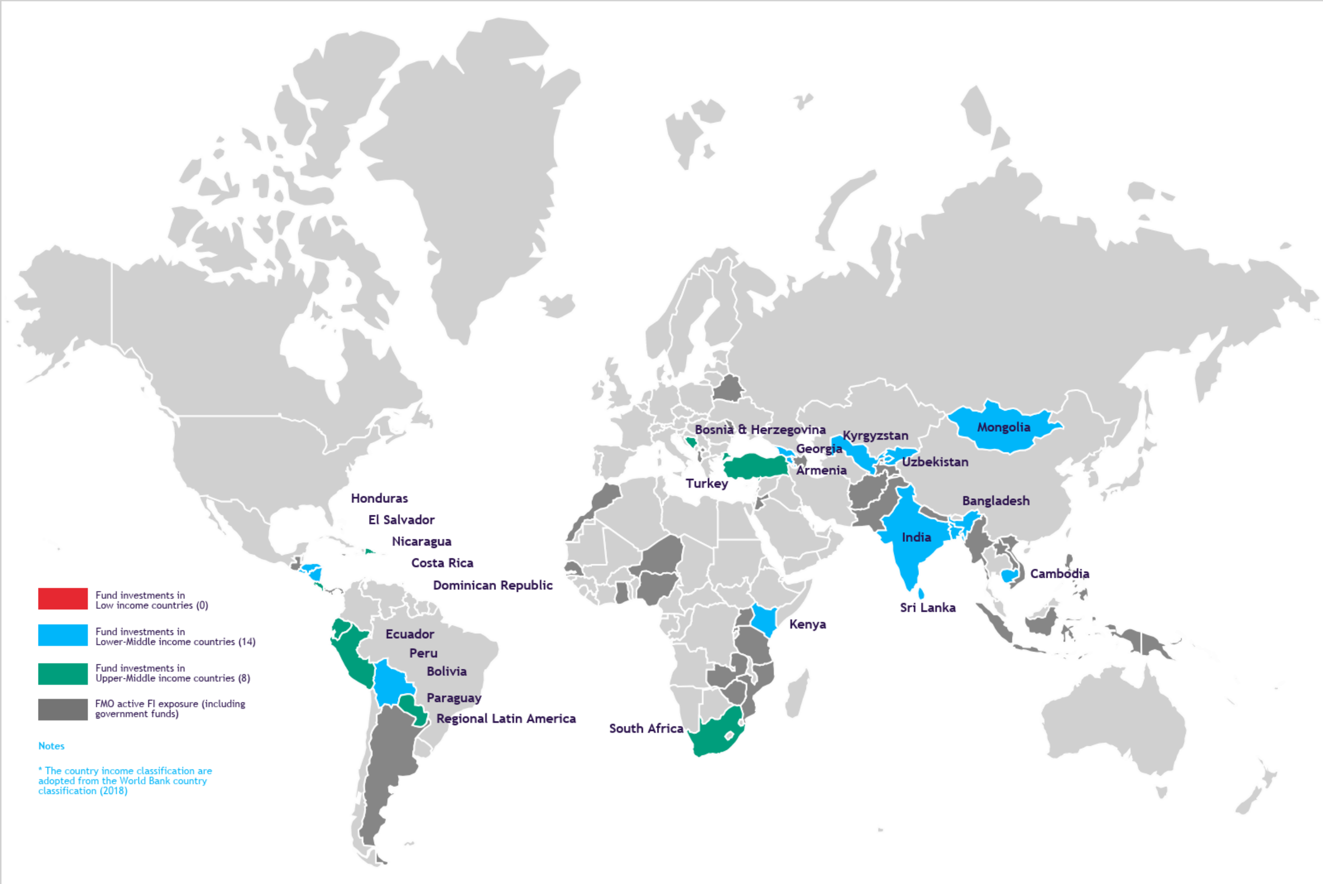
FYE 2017

2017 results ***(1-1 / 31-12)***

Number of countries	24
Number of financial institutions	40
Number of SMEs supported by the institutions	339,098
Aggregate SME portfolio	€15.2 billion
SMEFF investments	€57.0 million
SME share in the SME Bank's portfolios	41%
Fund's estimated outreach	1,034
Jobs supported	8,643

FYE 2028 | FINAL CLOSE

3. Portfolio Highlights



	% of portfolio in the region	Outstanding SME portfolio (€mn)	Number of portfolio FIs	Estimated Fund SME outreach	Jobs supported
LATIN AMERICA					
2017	47%	7,708	18	312	3,965
2016	44%	6,431	15	177	3,981
AFRICA					
2017	3%	207	3	0	0
2016	6%	584	3	248	282
EASTERN EUROPE AND CENTRAL ASIA					
2017	27%	3,513	11	266	2,190
2016	28%	3,780	11	137	2,653
ASIA					
2017	23%	1,725	8	456	2,488
2016	21%	3,100	7	301	3,548

= % of portfolio in the region = Outstanding SME portfolio of the financial institution (€mn)
= Number of portfolio financial institutions in the region = Estimated Fund SME outreach in the region of 2017 new investments
= Jobs supported

4. Impact case study | Investing with impact

ECONOMY IS THE SUM OF ITS PARTS

Paraguay, a country located in the heart of South America, has achieved an average 7% economic growth per annum since the early 1970s, one of the continent's highest. Despite this growth, over a third of the country's seven million inhabitants live below the poverty line, most of them concentrated in rural areas and largely dependent on their own crop production and cattle rearing for their livelihoods. Further economic development of this part of the population is limited by a lack of knowledge and capital.

THE FINANCIAL SECTOR'S INFLUENCE

Nearly all of Paraguay's banks have invested a substantial part of their portfolios in agriculture and cattle farming. Although this concentration entails potential portfolio risks, it also makes it possible to make structural improvements to this complex sector and address particular key issues. These include countering the illegal destruction of rainforests, promoting water management as well as modern sowing and harvesting techniques, and improving working conditions.

Established in 1980, Banco Continental is one of Paraguay's biggest banks. Its portfolio is also largely concentrated in the agricultural and cattle farming sectors. Most clients in this sector are small- and medium-sized enterprises and use the financial resources made available to them to purchase equipment and irrigation materials etc.

Improvements to production methods and infrastructure increase efficiency and production capacity. This increases both yields and income and thus raises the living standards of farmers.

But there is more: Banco Continental meets the Fund standards and has a good operational environmental and social management system, thus strongly mitigating the risks entailed in an investment with a negative environmental impact. Banco Continental cannot do all this on its own, however, and it was clear that at least the major players in Paraguay's banking sector would have to implement these high standards simultaneously. That was the only way of achieving a level playing field, thereby enabling the banks to jointly create a maximum positive impact, rather than having an individual bank price itself out of the market. In 2013, FMO established this level playing field by setting up an alliance in which all of Paraguay's major banks committed themselves to adhering to the environmental and social standards referred to above.

Mesa de Finanzas Sostenibles

The development of Banco Continental			
	2010	*2016*	
BANCO CONTINENTAL	660	1,400	**Employees**
	35	65	**Branches**
	US $1.5bn	US $3.2bn	**Total assets**
	US $800mn	US $2.4bn	**Total loans**
	US $28mn	US $82mn	**Net profit**
		US $1.4bn	**SME portfolio**
FMO Loan:			US $16.2mn
ACTIAM-FMO SME Finance Loan:			US $5.5mn

JOINT EFFORTS IN THE FINANCIAL SECTOR

If major players in the financial sector cooperate on standards for a sustainable world, the benefits for other sectors can be considerable. One good example of this is the round table for sustainable financing in Paraguay. Initiated by FMO, this alliance was set up with the country's biggest banks to ensure that the banks issue loans to agricultural businesses on identical terms. Given that agriculture (soya bean cultivation) and cattle farming (beef) together make up the country's most important sector, the banks' stricter environmental and social terms have automatically had a beneficial effect, particularly as regards limiting the illegal destruction of rainforests. These simultaneous arrangements with all the major players rather than with just one bank create a level playing field so that no bank "prices" itself out of the market. This is why the arrangements work, with many meetings and training programmes having been organised since the launch of the round table.

> *"The financial sector can put a country on the path of sustainable development."*

We can now say that the round table has established itself as a permanent platform for Paraguay's sustainable development. Sustainable Development Goal number 17 stands for cooperation and partnership in achieving that development. Paraguay's round table of banks is thus an outstanding example of such cooperation.

17 PARTNERSHIPS FOR THE GOALS

8 DECENT WORK AND ECONOMIC GROWTH

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

THE FMO & FUND LOAN

Banco Continental has been a client of FMO since 2010. The ACTIAM-FMO SME Finance Fund has been participating in three different loans to the bank since 2013. The fund accounts for USD13.55 million of these loans to Banco Continental.

5. Closing the finance gap for SMEs

In both developed and developing countries, SMEs generally represent more than 90 percent of enterprises. They play a major role in most economies, particularly in developing countries. Formal SMEs contribute up to 45 percent of total employment and up to 33 percent of national income (GDP) in emerging economies. These numbers are significantly higher when informal SMEs are included. According to estimates, 600 million jobs will be needed in the next 15 years to absorb the growing global workforce, mainly in Asia and Sub-Saharan Africa. In emerging markets, most formal jobs are with SMEs and they are also responsible for the creation of 4 out of 5 new positions.

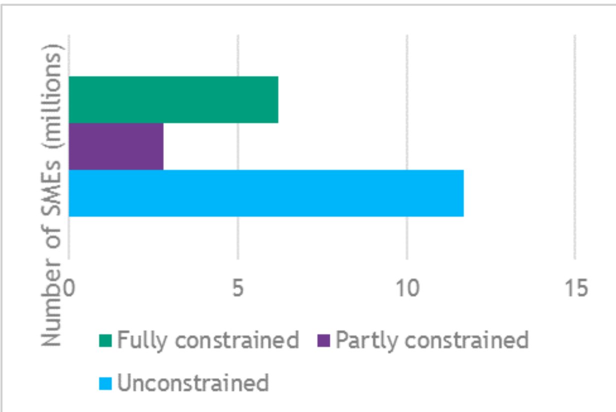
SDGS IN PRACTICE

The Sustainable Development Goals (SDGs) recognise the role of SMEs to “promote strong, inclusive and sustainable economic growth” and “decent work for all” (SDG 8 and 9). Access to finance is a one major challenge for SMEs and the SDGs contain a call for development-oriented policies that encourage their growth and formalisation (SDG 8.3). It also calls for the integration of small-scale firms, in particular from developing countries, into global value chains (GVCs) (SDG 9.3) (OECD, 2017).

In September 2017 ACTIAM hosted an impact investing study trip to Cambodia to experience the role of SMEs to reach the SDGs by first hand. The participants visited female entrepreneur, Ms. Pich Sidin, who used to cook food at home and sell it from her kitchen. Years later she manages a restaurant by the shore of the Mekong river. She was able to realise her dream due to her qualities as a chef and as an entrepreneur. Financial products and services by financial institutions that recognise the growth potential of such entrepreneurs are a crucial factor in the realization and continuous development of such a business. Mrs. Sidin now employs 10 people and contributes to the employment opportunities at her suppliers. Moreover, she is planning to expand her business even further in the foreseen future.

5.1 OVERCOMING BARRIERS TO SME GROWTH

Figure 1 - Financially constrained SMEs (millions)



Source: IFC, 2017

One of the key barriers to SME growth in lower income countries is insufficient access to finance. SMEs often face difficulties in securing bank loans as their financing needs are often too large and complex to qualify for microfinance and regular banks are reluctant to engage with SMEs due to higher transaction costs and the lack of adequate collateral. On average, 30 percent of formal SMEs in all developing countries are fully constrained, 14 percent are partially constrained and 56 percent are unconstrained to access to formal financial credit (IFC, 2017)[2]. Most recent estimates present the SME finance gap at US $4.5 trillion. The unmet demand from SMEs is 56 percent of the potential demand for this segment, valued at US $8.1 trillion. SMEs represent 13 percent of the number of formal credit-constrained MSMEs in developing countries, but account for 86 percent of the MSME finance gap in US $ terms.

[2] IFC, World Bank Group, SME Finance Forum (2017). MSME Finance Gap: Assessment of the shortfalls and opportunities in financing micro, small and medium enterprises in emerging markets.

THE PREMISE OF FINTECH SOLUTIONS

In addition to the traditional financial institutions, technology & digital financial services providers can play a significant role in providing finance and payment services to the MSME market segment. According to IFC (2017), a variety of fintech players, such as marketplace lenders, payment & supply chain finance platforms, among others, can significantly contribute to closing the finance gap either by operating on their own or by partnering with the larger, traditional institutions. An inspiring example of such an innovate player and new Fund investment is NeoGrowth in India.

PORTFOLIO HIGHLIGHT: NEOGROWTH | INDIA

During 2017 the investment committee of the Fund approved a transaction with NeoGrowth, an innovative fintech company in India.

NeoGrowth combines new payment datasets (Point of Sales data), traditional scoring, dynamic repayment and automated collections to identify and serve credit-worthy SMEs. The daily automated collection is a strong risk mitigant and is highly appreciated by the SME client. The typical customer is a first-generation entrepreneur that is unable to access credit from traditional financial institutions due to the lack of a formal financial track record or lack of collateral. The transaction is highly additional as the company is early stage and in need for local currency funding to support its growth. There have been some client protection issues in the more mature Fintech SME lending business in the USA that could be equally relevant for NeoGrowth. However, NeoGrowth presents an acceptable risk amongst others thanks to the presence of impact investors, the ability to verify appropriate loan size and repayment capacity through POS and bank account data, and the customer contact through its “tech and touch” model. As such, the Fund investment in NeoGrowth provides potential to positively contribute to a number of Sustainable Development Goals.

5.2 DEDICATION TO SME FINANCING AND A STRATEGIC INTENTION TO GROW IN THIS SEGMENT

The ACTIAM-FMO SME Finance Fund was launched in order to capitalise institutional investments with the intention to support further development of the SME sector in emerging countries. By providing financing for SMEs with a long-term character, ACTIAM and FMO aim to provide growth capital to those SMEs facing difficulties when obtaining access to capital. Therefore, three impact themes are formulated.

- Realisation of social-economic impact through facilitating and contributing to improved access to finance for SMEs (i.e. closing the financing gap).
- Realisation of economic impact through the financing of economic activities through local banks, which in turn results in private sector development and employment creation.
- Realisation of social impact in the SME sector by financial institutions through capacity building and quality improvement regarding responsible business development. This is realised as a result of support activities by FMO.

REFLECTING ON STRATEGIC INTENTIONS & PORTFOLIO CONTRIBUTION TO CLOSING THE FINANCE GAP

The Fund invests in debt instruments issued by financial institutions that provide access to finance for small and medium enterprises (SMEs) in developing and emerging economies. In doing so, the Fund aims at providing investors with a market-based financial return, while at the same time contributing to closing the finance gap for SMEs by making socially and environmentally responsible investments. This is intended to foster a dynamic SME sector which is considered to be a primary driver for job creation and economic growth.

By having invested €221 million over the lifetime of the Fund till year end 2017 in 24 countries, the Fund reaches out to 40 financial institutions. These institutions together finance over 339,000 SMEs. The aggregate outstanding portfolio of SME loans of the financial institutions invested in amounts to €15.2 billion (€1.3 billion more compared to 2016), representing on average 41% of their loan portfolios. In 2017, the Fund has provided access to finance to an estimated 1034 small and medium sized enterprises, resulting in a cumulative outreach of more than 5,000 SMEs (figure 2). At the same time, the Fund will be able to support over 8,600 jobs with the new participations entered over the past year (figure 3).

Figure 2 - Estimated SME outreach of the Fund

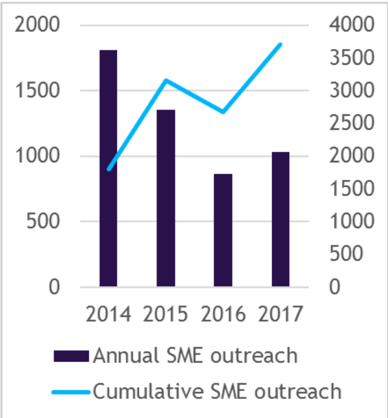


Figure 3 - Estimated jobs supported by the Fund

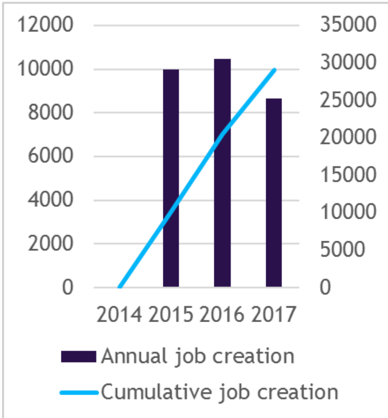


Figure 4 - Growth of the loan portfolios of the FIs invested in

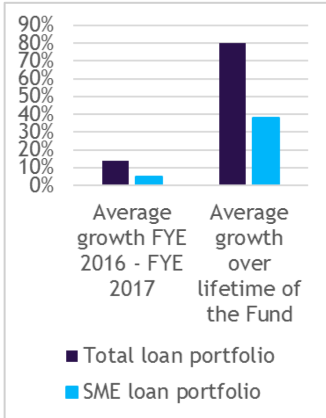


Figure 4 presents the growth of the total loan portfolios and the SME portfolios of the financial institutions between the year these institutions entered the Fund and year-end 2017. Based on these data, we can make an assessment of the strategic intention of the financial institutions in the Fund's portfolio to grow their SME portfolio. In addition, we can make an assessment of how the Fund has fulfilled its strategic intention to support SMEs in emerging markets and developing countries. Two important remarks should be made:

- Loans to financial institutions have tenors of 5-7 years. Therefore, the developments over the limited lifespan of some of the Fund investments to date may provide a short-term impression which not always reflects long-term strategic intentions.
- Developments in the SME portfolios of the financial institutions usually do not reflect a change in strategic intention: market developments, economic growth/decline and currency depreciations/appreciations can significantly influence the absolute portfolio growth or decrease.

During 2017, the SME portfolio of the financial institutions invested in, grew by 5%. Over the lifetime of the Fund, this amounts to a 38% increase.

In 2017, the SME portfolio of the financial institutions invested in, grew by 5%. Over the lifetime of the Fund, the overall increase even amounts to 38%. This indicates that, over the lifespan of the Fund, the selected financial institutions on average lived up to their strategic intention to grow their SME portfolio. This growth enables local SME companies to attract tailor-made financing to support the development of their business. For 8 out of the 15 financial institutions with a neutral or decreased relative size of the SME portfolio, the SME portfolio did grow in absolute terms and in most cases with double digits.

Besides assessing the potential of a financial institution to contribute to the development of the local SME sector, FMO and ACTIAM assess both financial risk aspects as well as environmental and social practises during due diligence. In case the financial institution doesn't meet the minimal E&S requirements of FMO and ACTIAM and is willing to improve beyond that level, FMO will provide support and in some cases financial support (capacity development) as well to develop or improve the financial institution's E&S risk management. This will be elaborated upon in the next chapter.

Figure 5 - Overview of the Fund's contribution to the SDGs

	Percentage of the number of FIs contribution to the SDG	How the FIs invested in contribute to the SDGs
8 DECENT WORK AND ECONOMIC GROWTH	100%	The Fund invests in financial institutions in Lower and Upper Middle Income countries targeting SMEs. SMEs are often considered to be the engine of economic growth as nine out of ten new jobs worldwide are created by small businesse. Over the lifetime of the Fund, 30.000 jobs are supported.
10 REDUCED INEQUALITIES	Presentable upon finalization methodology in 2018	Some of the financial institutions invested in, specifically developed products targeting demographic groups that generally have more difficulty to access financial products and services. An example is a product targeting largely unemployed youth.
13 CLIMATE ACTION	Presentable upon finalization methodology in 2018	Several financial institutions invested in, deveoped specifcproduct that help to green the economy. An example is a electric vehicle fleet of a leasing company.
17 PARTNERSHIPS FOR THE GOALS	100%	All Fund investment are leveraged by FMO. Some transactions are part of larger syndications programmes between FMO and other Development Finance Institutions in which the Fund can take a share. Such public-private partnerships help to catalyse funding targeting thematic investments areas aimed at social and/or environmental betterment.
5 GENDER EQUALITY	Presentable upon finalization methodology in 2018	Some of the financial institutions invested in, specifically developed products targeting female entrepreneurs. An example is a women SME product.

6. Socially and environmentally responsible investments

The Fund aims to support the SME sector in an environmentally and socially responsible manner. Given that the Fund reaches SMEs through local financial institutions, the environmental and social risk management and corporate governance of the institution as a whole is assessed by the investment committee. Every financial institution has to conduct its business in accordance with the defined minimum standards in relation to issues such as human rights, environmental impact or corruption. In addition, opportunities to further improve the level at which the financial institutions operate are pro-actively identified and acted upon. FMO has long-term experience and builds on a broad and in-depth internal expertise in its engagement with its clients to stimulate the application of the highest ESG standards.

6.1 ENVIRONMENTAL AND SOCIAL PROFILE OF THE PORTFOLIO

SME portfolios generally witness little exposure to environmentally or socially sensitive activities such as infrastructure, mining or large-scale textile industry. Hence the majority of the Fund's portfolio is classified in the E&S risk category B (medium - 26 institutions) or sometimes even C (low - 10 institutions). The portfolio contains 3 institutions with an elevated E&S risk profile (category A). For high risk entities, the portfolio snapshot (chapter 7) presents further detail on the risk management and if an E&S action plan is part of the loan documentation. The appendix presents details on E&S categorisation and the Responsibility & Impact policy of the Fund.

6.2 ADDING VALUE ON E&S

Dedicated ESG specialists within FMO engage actively with all category A, B+, and where warranted, category B clients. The level and exact focus of engagement depend on the type and severity of impact and/or the extent to which they pose a risk to the client and FMO. Furthermore, FMO proactively seeks investment opportunities that contribute to a greener and more resource efficient economy and to reduce inequality. To stimulate "Green investments", FMO has set internal annually increasing targets. To determine if a transaction contributes to FMO's green targets and goals, an independent internal panel screens transactions. The panel determines whether the environmental benefits made through the transaction are genuine and sufficient (as defined in FMO's Green criteria) to qualify for its green targets and goals.

6.3 CLIENT PROTECTION

Although the Fund targets SMEs as end beneficiaries of its finance, the financial institutions to which this finance is provided, have a broader client base. This indirectly exposes the Fund to other ESG related risks, of which consumer protection is considered the most substantial one. Providing financial services to natural persons adds another dimension to responsible banking, because consumers as well as micro entrepreneurs are in a more vulnerable position compared to enterprises. For Fund investments with 50% or more of their portfolio outstanding in the retail and microfinance industry, we therefore also report on Client Protection as a relevant issue. At year-end 2017, 8 out of the 40 fund investments exceeded the 50% threshold. Most of these have been elaborated on in the previous Responsibility and Impact Reports of the Fund. During 2017 the entities discussed below with a large portion of microfinance and retail activities were added to the portfolio. There are no material findings with regards to client protection over the course of the previous year.

MIKROKREDITNO DRUSTVO EKI

EKI pays a lot of attention to client protection, due to its original mandate, as EKI has been established as a result of the Micro-Credit Program of World Vision International (WVI) in 1996 after the Balkan war. With every customer they go over to the details of the loan contract and check on-line the client's outstanding debt-burden. Furthermore, they also pay attention to financial literacy via its EKI Business club magazine. EKI has been one of the first MFI's which has been SMART-certified (re-certified in 2015), showing its commitment to responsible financing. EKI is a transparent financier, with clear communication on tariffs and conditions.

BANCO MULTIPLE ADEMI

Banco Multiple Ademi's mission is to provide financial solutions to Micro and Small Medium Enterprises. The Dominican Republic has adequate regulation, broad credit bureau coverage and there is commitment of the institution to become SMART certified in the coming months. A first analysis by the Smart Campaign revealed outstanding gaps which Ademi has started to work on to become certified.

7. Enclosure - Responsibility & impact guidelines of the Fund

The Fund does not only concentrate on realizing an attractive financial return. It also aims to make socially and environmentally responsible investments, hereby providing investors with an attractive financial return while at the same time contributing to fostering a dynamic SME sector in developing and emerging economies. Accountability is a key feature with respect to all businesses and products operated by ACTIAM and FMO. Therefore, all of the Fund's investments should, as a minimum, comply with the ACTIAM Fundamental Investment Principles[3] and as a minimum, make sure that all financial institutions invested in operate in line with applicable international standards, such as the ILO Fundamental Labour Conventions and the IFC Performance Standards.

Screening of financial institutions and their SME portfolios on environmental and social performance is an integral part of the investment selection process. In order to ensure that the Fund can measure and monitor the environmental and social performance the financial institutions underlying the Fund Investments should commit themselves to the following requirements:

- Systematic management of the environmental and social performance based on a policy framework that is guided by national laws and/ or the IFC Performance Standards; and
- Systematic environmental and social risk assessment, monitoring and reporting with respect to the SME portfolios.

In addition to the environmental and social screening the Fund will also take into account the economic and social impact a Fund Investment generates. In order to ensure that the Fund creates real and measurable impact, the Fund Manager has identified a number of key themes on which it aims to distinguish itself as a committed responsible impact investor:

- Realization of social-economic impact through facilitating and contributing to improved access to finance for SMEs;
- Improvement of the financial institution's management of environmental and social risk and performance as a result of support activities by the Investment Manager;
- Realization of economic impact through the financing of economic activities through local banks, which in turn results in private sector development and employment creation; and
- Realization of social impact in the SME sector by financial institutions through capacity building and quality improvement regarding responsible business development.

The Fund Manager will report on these themes at least on an annual basis. Finally, the Fund is aligned with FMO's E&S approach for Financial Institutions[4]. Key to this policy is the categorisation of its investments in different levels of Environmental and Social (E&S) risk, similar to IFC's approach to E&S risk categorization, which is also used by all European Development Finance Institutions (DFIs). For direct investments, risk categorization is based on the client's activity, IFC Performance Standards triggered transactions and prevailing country specific ESG challenges. With regard to financial institutions the risk categorization is made on the basis of the banks existing or proposed portfolio, IFC Performance Standards triggered transactions[5] and prevailing country-specific sensitive issues[6]. The following E&S risk-categories are distinguished (following the IFC's Environmental and Social Risk Categorization Framework):

FMO's E&S categorization of financial intermediaries

Category	Description	Key words
Category FI-A **High E&S risk**	FIs with an existing or proposed portfolio that includes, or is expected to include, substantial financial exposure to business activities with potential significant adverse environmental or social risks or impacts that are diverse, irreversible, or unprecedented.	Adverse and irreversible E&S impacts
Category FI-B **Medium E&S risk**	FIs with an existing or proposed portfolio that includes, or is expected to include, business activities that have potential limited adverse environmental or social risks or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures; or includes a very limited number of business activities with potential significant adverse environmental or social risks or impacts that are diverse, irreversible, or unprecedented.	Limited E&S impacts, largely reversible
Category FI-C **Low E&S risk**	FIs with an existing or proposed portfolio that includes and is expected to include business activities that predominantly have minimal or no adverse environmental or social impacts.	Minimal E&S impacts

3 https://www.actiam.nl/nl/documenten/verantwoord/Documents/Fundamental_Investment_Principles_Companies.pdf
4 https://bit.ly/2JnkAt1
5 Project finance and corporate loans related to project finance (total project size USD ≥ 10m / ≥36 months tenor)
6 E.g. Indigenous people / Land rights / Water / Deforestation

8. Disclaimer

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