DUTCH GOOD GROWTH FUND IMPACT NEWSLETTER

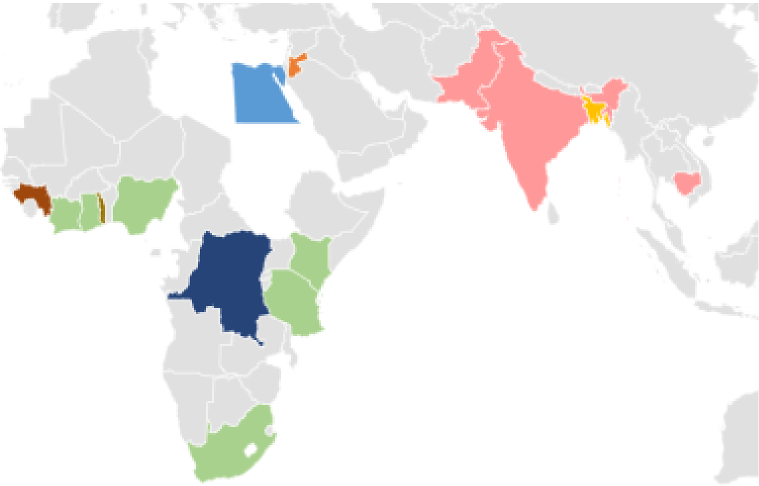
TRACK 2 - FINANCING LOCAL SMEs

Client from FATEN portfolio
Photo credits: FATEN

ACTUAL PERFORMANCE OF TOTAL PORTFOLIO IN 2020

- **8,683** SMEs FINANCED
- **6,977** JOBS CREATED
- **10%** SME REVENUE GROWTH
- **18%** CAPITAL TO FEMALE-LED SMEs
- **25%** CAPITAL TO YOUTH-LED SMEs
- **29%** CAPITAL TO FRAGILE STATES

ADVANCED PIPELINE



Closing in progress:

ATLANTICA VENTURES FUND
IBTIKAR FUND II   ENERGY GENERATION
INSITOR IMPACT ASIA FUND II

New Fund:

ALGEBRA VENTURES II   ANCHORLESS

Closed:

SC&BD KOBOHUB   TOOGUEDA

DGGF is active in all corners of the world, particularly in nascent and underserved markets. Applying a unique approach, DGGF offers support to entrepreneurs in fragile states, where there are even greater hurdles due to limited finance opportunities and instability. Fragile states are often characterized by a weak infrastructure for financial services and a weak business environment and governance, resulting in a lack of basic services for entrepreneurs.

In these challenging contexts, political situations can sometimes escalate, as seen recently in Ethiopia and Myanmar. Political instability oftentimes adversely affects economic growth, and suppresses a conducive environment for inclusive growth.

In such situations DGGF continuously monitors the macro-economic circumstances and impact on the SME market. Despite political instability, DGGF continues to explore methods to support the SME ecosystems both across its existing investees and in seeking new opportunities.

In this edition of the DGGF Impact Newsletter, we take a closer look at some fragile markets - such as the Palestinian Territories and Haiti - in the DGGF portfolio and explore how our investees have shown resilience despite their challenging environments.

DGGF IN ACTION

DGGF Participates in Sankalp Forum on Hidden Keys to ESO Success in Africa

Last March, Julia Kho, on behalf of the Seed Capital & Business Development (SC&BD) team of DGGF, was invited by Village Capital to participate in a panel discussion with mid-level managers during the Sankalp Africa Summit 2021. The discussion revolved around lessons learned about the important but often overlooked role of mid-level management in African Entrepreneur Support Organisations* (ESOs). Seeing that many of the African incubators and accelerators are startups themselves, capacity building and strategic partnerships are required in order to ensure the quality of programs, sustainability of business models, and the scale of impact. Mid-level managers have played a key role in the success of these aspects, especially in times of COVID-19.

The peer to peer interactions during the program were the most valued, as they inspired and equipped mid-level managers to communicate, delegate, and influence better - all key skills required to grow as a leader. Attendees also learned that a sense of curiosity, capacity to communicate, problem solving orientation, and knowledge sharing are critical to fostering a successful team environment.

DGGF supported Village Capital and the African Management Institute with a program that helped build the capabilities of ESOs' leadership and mid-level implementation teams to ensure the quality of their programs, sustainability of their business models, and the scale of their impact. Sankalp Forum aims to influence the global inclusive development discourse through its dialogues with entrepreneurs and impact investors in frontier markets. Since the inception in 2019, through its forums, they have connected over 100,000 people globally.

**Entrepreneur Support Organisations encompass coworking spaces, makerspaces/fablabs, incubators, accelerators and business advisory firms that support businesses to grow and scale.*

A Digital Transformation Journey in the Palestinian Territories


Photo credits: FATEN

The Palestinian entrepreneurial ecosystem is nascent but advancing, with a lot of young and promising entrepreneurs starting and growing their businesses despite the challenging environment, as seen as recently in May 2021, when one of FATEN's branches in Gaza was bombed during the conflict between Israel and Palestine.

Development of smaller SMEs is constrained by political instability, lack of access to markets, unfavorable regulations, and lack of finance from the banking sector. With their loans, FATEN is providing finance solutions for small-scale enterprises and micro entrepreneurs, mainly women, as they often do not have access to financing from banks in the Palestinian Territories. FATEN is the largest Micro Finance Institution operating in Palestinian Territories, with 37 branches covering more than 500 sites, including sites in refugee camps, rural areas, and marginalized communities.


Photo credits: FATEN

Part of FATENs strategy is to become a data driven organization with relevant digital financial products to support the integration of micro, small, and medium businesses into the broader digital economy. As part of Technical Assistance provided by DGGF's SC&BD, the consultancy firm PHB Development has been working in close collaboration with FATEN to develop a digital strategy.

Through several workshops, a conceptual framework has been created and priority areas for a digital transformation journey have been identified, which has equipped FATEN with clear and concrete points of action towards digitization of services and products.

FATEN is part of DGGF's portfolio since 2017 and has received Technical Assistance from the SC&BD facility in 2020-2021. DGGF provided a loan to FATEN to contribute to further economic development in a country that is characterized by a very tough macroeconomic and political environment, which has been heavily affected by economic blockades, wars, and other conflicts over time.

Collaboration and Knowledge Sharing on ESG within Development Finance Institutions Group

The Environmental, Social, and Governance (ESG) landscape is evolving quickly with regulations being updated on a weekly basis. Recent ESG topics such as living wage, politically exposed people, child safeguarding, data privacy, and fintech, are gaining traction. DGGF has been actively exploring ways to keep up with the developments and support the funds and financial institutions in the portfolio on ESG-related matters.

DGGF has increased efforts on the ESG front in collaboration with other DFIs such as FMO, BIO, and Swedfund and their respective ESG teams. This allows DGGF to leverage expert knowledge and share lessons learned on relevant topics. In addition to knowledge sharing, DGGF has jointly set up ESG committees for a number of funds to discuss ESG on a regular basis and collaborate with other investors on ESG monitoring activities and potential technical assistance services. As the intermediary funds deal with similar concerns or requests from their investors, this collaborative approach of streamlining monitoring efforts among DFIs is beneficial for all parties. DGGF received positive feedback from investees mentioning that they appreciate this efficient way of working. DGGF looks forward to building on this in the future.

Q & A WITH FINCA HAITI

DGGF reached out to Steeve PIERRE LOUIS, CCO of FINCA Haiti, with questions regarding the challenges of running a Financial Institution in the midst of COVID-19. DGGF was interested to learn more about their impact relevance in a fragile state like Haiti. FINCA Haiti is a non-bank institution that specializes in lending to micro-enterprises and SMEs, especially for agribusinesses.

DGGF invested in FINCA Haiti in 2018.

How does FINCA contribute to inclusive development in Haiti?
Launched in 1989, FINCA Haiti is one of the oldest subsidiaries of the FINCA Impact Finance network. FINCA Haiti serves close to 60,000 customers, 90% of whom are women. The majority of our services are in provinces and rural areas where the most financially underserved population in Haiti live.


Photo credits: FINCA Haiti

Overall, 82% of FINCA clients are economically vulnerable, earning an average of $3 per day and living slightly above the National Poverty Line (NPL, $2). While the average male client earns $2.86 per day, female clients average only $1.50 per day. A large portion of our portfolio is dedicated to areas where the lowest-income households are concentrated, including Gonaives, Jacmel, Cayes and Saint-Marc, where the average wage can be as low as $1.09 per day.


Photo credits: FINCA Haiti

In a country where 40% of the population is officially unemployed, FINCA supports small and startup micro-enterprises, enabling Haitians to create their own jobs. FINCA provides individual, SME, agricultural and school loans as well as money transfer services. Although female clients tend to access smaller loan amounts and earn up to six times less than men, they are very optimistic and positive about the future.

How did FINCA Haiti manage to stay in business despite challenges faced by the COVID-19?

We took new measures to minimize risk in response to the various political problems that Haiti faced in 2019. For example, we reduced the loan repayment period for all our products, with a 10-month maximum for SMEs.
Additionally, we created a call center to follow-up with clients to make repayment easier, increase digital disbursement and repayment, and reduce the maximum loan amount. This created benefits for both FINCA Haiti and our clients.

What would you say are the main lessons learned from providing access to finance to small entrepreneurs during the pandemic?
Political problems and COVID required us to review our service offerings and to adapt our credit products. By giving some borrowers a grace period ranging from one month to five months, reviewing the structure and repayment periods of loans for others, and diversifying disbursement and repayment channels, we were able to better meet customer demand.

Despite significant COVID-related challenges, our customers have not stopped their activities. Some have adapted by offering more products and services, while others have created new methods to serve their customers, such as receiving telephone or electronic orders and making contactless deliveries. We learned that reliable digital access to products is essential.

Do you expect that the current political instability in Haiti will have consequences for the FI business climate in the foreseeable future?
The big effects of political instability are concentrated in the Port-au-Prince area. To better control portfolio risks, we are investing more in areas outside of the capital. From December 2019 to June 2021, we reduced our exposure in Port-au-Prince from 39% to 28%. We will continue to monitor the situation and adapt our strategy. Investing in more digital services will be key.

PORTFOLIO HIGHLIGHTS

Malawi: A Budding Start-Up Ecosystem in the Making

DGGF supports and helps create opportunities for young people where they believe it is most needed. Like in parts of Africa, a continent with a fast growing youth population and high numbers of youth unemployment with youths accounting for more than 60% of all of Africa's jobless. Malawi is one of the countries facing these issues, where young people (under 35 years) make up 70% of the country's population. Although its economy is highly dependent on agriculture, young people have begun choosing different career paths: in tech and start-ups. Over the years the worldwide tech ecosystem has been evolving, but young entrepreneurs in Malawi were lacking affordable working spaces, support services, and business coaching crucial for starting and growing their business.

Photo Credits: Mzuzu E-Hub

Driven by ambition to foster a more conducive climate for youth-led startups, to create jobs, and to contribute to a more sustainable economy, Mzuzu E-Hub was launched in 2017 as an entrepreneurship and innovation hub providing shared working spaces and technical assistance to start-up and early-stage enterprises operating in Mzuzu, the capital of Malawi's Northern region. Mzuzu E-Hub's team has been able to assist 40+ young local entrepreneurs in formalizing and growing small businesses that create jobs.

As of 2021, DGGF's SCBD facility is providing mentoring support to Mzuzu E-Hub to help the team with the right tools to strengthen and refine their business offering for the nascent entrepreneurial ecosystem in Malawi.

Providing for Basic Needs During Lockdown in the DRC

Congo, DRC, has a population of 80 million people with 15 million living in the capital of Kinshasa. The city is considered one of top 10 of fastest growing cities in Africa, and demand for food products is growing. As local food production and processing in Congo is still in its infancy, local sourcing requires significant efforts to achieve a stable and sufficient quality supply.

Moni-shop, a Congolese owned family retail business, has been fulfilling this demand since 2011 and is now a well-established supermarket. Moni-shop has an active program to source as much as possible from local suppliers, acting as a stable buyer and supporting local producers to do more. As COVID-19 hit Congo in March 2020, leading to a hard lockdown in central Kinshasa, supermarkets were allowed to stay open, becoming important points of supply for the population and its basic needs. Moni-shop reacted by buying more local produce and where possible and onboarding new local food producers, while ensuring adherence of the curfew times to enable the population to buy their groceries.

Photo credits: XSMLCapital

Story continues on next page

Providing for Basic Needs During Lockdown in the DRC (continued)

With support of the African Rivers Fund (ARF), a fund managed by XSML Capital, Moni-shop was able to expand by opening a second large supermarket on the main Boulevard in Kinshasa, a prime location within a large residential and business area. As one of a few retail companies in Congo, Moni-shop grew during 2020, with revenues up by 5%. They created additional employment in their own operations, at the construction site for the new supermarket, and with local food suppliers. Most of the newly created jobs have been for younger Congolese and/or low-skilled workforces.

Through its investment funds, XSML Capital has been supporting Moni-shop since 2017. DGGF is an active investor in ARF since 2016. If you are interested to learn more about the story of Moni-shop please follow this link for a video.

Sustainable Job Creation During COVID-19 in Mozambique and Zambia

In Southern Africa the COVID-19 outbreak has resulted in significant challenges for the SME business environment and preserving jobs. As global supply chains continue to be disrupted, companies struggle to source materials, which puts pressure on production capacity and affects the security of homegrown jobs. Simultaneously, consumer demand has dropped as incomes have been reduced, forcing companies to shift gears in terms of reassessing business models and volume outputs. According to a World Bank estimate, in Mozambique alone approximately 120,000 jobs were lost due to the pandemic's first wave. In Zambia, an outlook published by the AfDB expects that poverty will increase as up to 39% of jobs will be lost in the manufacturing sector. Against this backdrop, Arkay Plastics is showing socio-economic resilience, an investee company from Spear Capital since 2020.

Photo credits: Spear Capital

With roots in Malawi, Arkay Plastics is considered a household brand for plastic manufacturing of furniture, industrial products, and houseware. The investment by Spear allowed Arkay to further their expansion efforts with factories in Mozambique and Zambia, while also receiving guidance on their journey towards the sustainable production of plastics. The company's market dominance in the manufacturing sector has enabled them to provide 221 jobs to low-skilled workers in Zambia and Mozambique (70 and 151 employees, respectively) and kept layoffs to a minimum. Moreover, the majority of the workforce in the factories consist of young populations mostly from rural areas with a growing focus on increasing gender inclusion.

When Arkay struggled as a result of the pandemic, Spear was able to provide the company with additional working capital loans to relieve financial stress. Given global supply chain disruptions, the team at Spear Capital intervened promptly to address global supply chain constraints in order for Arkay to maintain production levels. At the same time the company was able to lower its environmental footprint by switching to local suppliers and making use of recycled materials. Spear Capital supported Arkay Plastics in strengthening capacity on Carbon Emissions Reportin, which widened the scope for identifying opportunities for climate action, positioning the business as a sustainability leader in the recycling business.

Spear Capital, an impact-oriented investor focusing on Southern Africa and partner of DGGF since 2018, invested in Arkay Plastics with their second fund. Spear is providing risk capital to SMEs that address societal challenges and benefit growing populations with increasing consumer demand in fragile markets.