



Investments

IMPACT REPORT 2019



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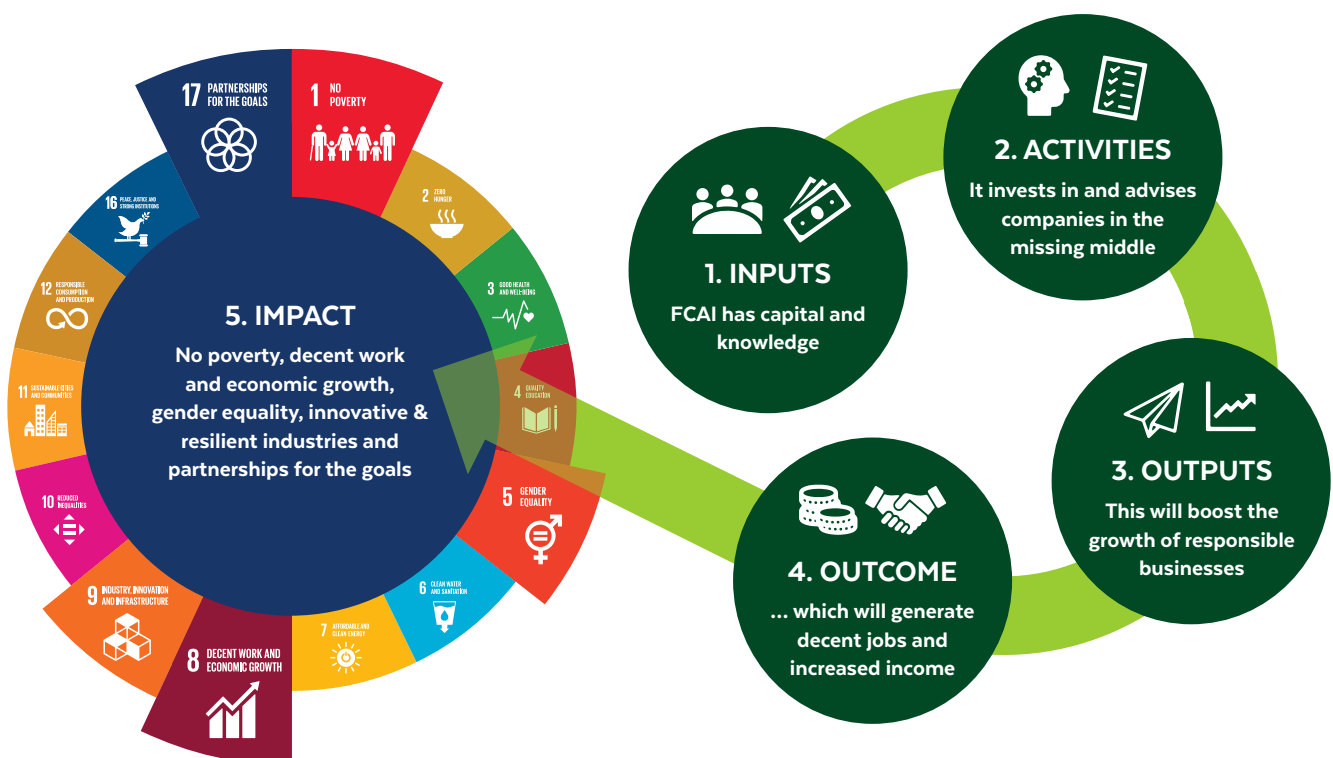
TO OUR STAKEHOLDERS

Mission & Impact Approach

FCA Investments (FCAI) is a company with a social mission. Its primary objective is to make funding and needed technical support available for economically, socially and environmentally sustainable Small and Medium-Sized Enterprises (SME's) that work to improve livelihoods in developing countries and fragile states for more resilient and productive communities. In practice, FCAI carries out that mission via two main approaches:

- Providing long-term risk capital to SMEs, also known as the 'missing middle*', to ensure that they can increase their production and productivity and grow into gazelles in their field.
- Providing pre- and post-investment technical assistance and business development support to investees and across the spectrum of their activities, which is essential to magnify the Impact of the resources deployed.

FCA Investments: Theory of Change



* The term 'Missing Middle' refers to the absence of the SME-sector in many low-income countries mainly due to the lack of access to finance which is more available for large and micro businesses.

FCAI (as per its mandate) is focusing on overlapping areas where economic growth and positive social and environmental outcomes can coexist sustainably. However, the avoidance and/or the mitigation of any potential negative impact goes a long way with maximizing the net intended impact emerging from FCAI's interventions on the ground. Therefore, to put that in practice, FCAI conducts its Impact management practices as per the following process.

- **Avoiding & Mitigating Negative Impacts:** It is a combination of both preventive and corrective mechanisms integrated and implemented throughout the investment process to avoid and mitigate negative Impacts and the possible causes.
- **Managing & Measuring Positive Impacts:** A set of different activities integrated and implemented throughout the investment process to identify the expected and the realised Impact and the progress towards FCAI's Objectives.

FCAI's Logframe & alignment with the SDGs*

Impact towards SDGs # 1, 5, 9 & 17	Contribute to the creation of sustainable, inclusive and resilient economies in selected partner countries through responsible and impactful SMEs and an increased participation of women and youth.
Outcomes towards: Improving livelihoods and creating decent jobs. SDGs# 8	Catalyzing IMPACT funding towards developing countries
	Creating decent jobs and improving livelihoods in target countries
	Enabling inclusive economic growth and better access to basic goods/ services
Outputs towards: Boosting growth & scalability of responsible businesses	Scalable and socially and environmentally responsible SMEs grow sustainably
	Low-income people engaged as producers, employees and entrepreneurs
Inputs & Activities: Capital and knowledge to invest in and advise companies within the 'missing middle'	FCAI mobilises, invests in and provides financial and technical support to SMEs, also known as the 'missing middle', in developing countries (LDCs)
Theory of Change	Logframe

*'Impact' refers to the effect an organisation has on the economy, the environment, and/or society, which in turn can indicate its contribution (positive or negative) to sustainable development. GRI Standards

The desired impact of FCA Investments: primary SDGs

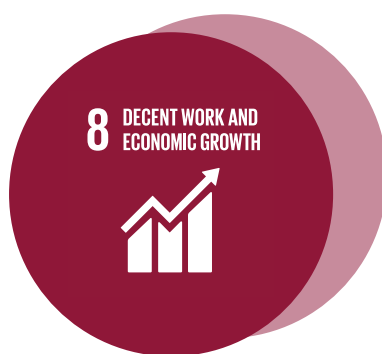
How will FCAI activities change the world for the better?



POVERTY REDUCTION

FCAI invests in the most underserved population. Investments will improve access to basic services and, ultimately, contribute to poverty reduction.

This is a long-term objective for FCAI!



DECENT WORK AND ECONOMIC GROWTH

FCAI invests in the missing middle. Investing in sustainable and responsible businesses creates decent jobs, contributes to tax collection and promotes economic growth.

This is where FCAI will make a difference!



PARTNERSHIPS FOR THE GOALS

FCAI is one of the first NGO-based impact investors globally. Its operations will be all about partnerships between public and private, companies and investors, locally and in Finland.

This is where FCAI acts as a pioneer!

Other SDGs relevant for FCA Investments: secondary SDGs

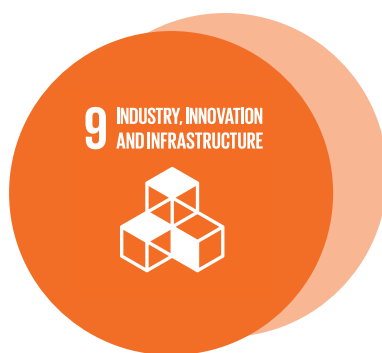
Overarching themes for FCAI's investments



GENDER EQUALITY

Gender equality is an overarching theme for both FCA and FCA Investments. FCAI will pay special attention to gender issues in both company selection, by supporting female entrepreneurs, and employment.

Gender equality is an overarching theme!



INDUSTRY, INNOVATION AND INFRASTRUCTURE

As a fund operating closely with sole entrepreneurs and small companies, FCAI is able to promote early-stage innovations, support industrial development and contribute to infrastructure development.

Innovations and industries supported via investments!

FCAI's Vision

FCA Investments views the sustainable development of the private sector as the most viable means to inclusive economic growth and poverty reduction where the combination of funding and technical support is channelled towards socially, environmentally responsible and commercially viable enterprises. That has formed FCAI's vision: 'a world where the most vulnerable contexts are empowered through a resilient and responsible private sector.'

Chief Executive Office: Jukka-Pekka Kärkkäinen

Date: Oct. 2020



EXECUTIVE SUMMARY

€5,678,449

Invested in SMEs in developing countries

30

SMEs financed (with impact as a first lense) of which **13** are in the Agri-Sector and food supply chains

€9,067,000

Invested in Microfinance institutions in emerging and frontier markets

697

Jobs created
77% for youth (18-35 y)
44% for women

'Business-Development-Support' (BDS) Interventions delivered to SMEs:

5

Smallholder Farmers Supported:

704

of which
27% are women

Investments made in Clean-Energy:

3

FCAI has been actively working with private sector development actors to identify investment opportunities that are aligned with FCAI's objectives. The emphasis is on the potential role of Small and Medium-Sized Enterprises (SMEs) to drive sustainable economic, social and environmental Impact in the world's Least Developed Countries (LDCs),

As per its mandate, FCAI aims to unlock and tap into promising investment opportunities in developing countries with responsible use of available financial, technical and human resources to generate a positive social and environmental Impact. In that context, FCAI has invested more than **€9 million** in a microfinance fund (BlueOrchard – BOMF) active

in emerging markets to improve capital-accessibility for underserved entrepreneurs and microbusinesses. Moreover, investments made in two other funds (namely, the C4D fund and the Yield Uganda Fund) allowed FCAI to be part of an impact engine that **created 697 new jobs** in which **77%** are for youth and **44%** for women across 30 investee-companies in Uganda, India, The Philippines and Indonesia. With 13 investments in Agri-Enterprises, these two funds have positively affected more than **700 smallholder farmers** and other actors in food supply chains. Nonetheless, the funds have also invested **€2.1 million** in clean energy and solar power companies as of 31 December 2019.



In 2019, FCA Investments Ltd (FCAI) made its first 4 million euro investment in Uganda.

PHOTO BY ERIK NYSTRÖM / FINN CHURCH AID

Direct Investment: After naming the Investment committee, FCAI has started preparing deals for direct investments in both Somalia and Uganda. Among many screened cases in 2019, some have been rejected while others have been either in the due-diligence or the approval phase. While FCAI keeps working with its partners to strengthen the investment pipeline, it is still considering several direct investments in different sectors including but not limited to Renewable Energy, Agriculture/Food processing, Fishery, and Livestock.

In Finland, FCAI has further developed its ESG management capacity, Impact Measurement and Management (IMM) tools and its collaboration with actors in the field of private sector development in the LDCs and potential impact investors.

In 2019, FCAI also initiated a project to conduct a feasibility and market study in Somalia by collaborating with Finnpartnership. The aim was to design and map out the investment modality and structure in the country. As a direct result, a Memorandum of Understanding (MoU) has been signed with GEEL (Growth, Enterprise, Employment & Livelihoods Project) to facilitate the collaboration between GEEL and FCAI in identifying promising investible and scalable SMEs,

Yield Fund Uganda

In April 2019, along with the International Fund for Agricultural Development (IFAD), National Social Security Fund (NSSF) and The Soros Economic Development Forum (SEDF), FCAI made its second fund-investment in a €20 million fund in Uganda, the Yield Uganda Fund. FCAI committed €4 million to this grassroots-level investment vehicle specialised in the Agri-Sector. The fund's support to agriculture includes a supply of agricultural inputs, production, and agro-processing within all sub-sectors, post-harvest storage, and distribution, as well as peripheral activities such as transportation, communications, and certification.

and providing Technical Assistance (TA) down the road.

In relation to its objectives, FCAI has also launched its 'Advisory Group' as part of its strategy to promote technical expertise (from Finland and beyond) to address the challenges of SMEs in target countries, mainly in business, ESG (Environment, Social and Governance), and financial management fields.

FUND INVESTMENTS

Capital for Development (C4D) Asia Fund

FCAI committed in late 2018 to invest \$8.5 million (approx. €7.5 million) in the \$50 million **C4D Asia Fund**. It finances growing and inclusive Small and Medium-sized Enterprises (SMEs) that showcase strong social-economic Impact for the underserved communities in Asian emerging economies, primarily in India, Indonesia, and the Philippines.

Realizing the diverse financing needs in the three target countries, the fund offers individually tailored financing structures from equity to hybrid debt that do not strangle the growth of the companies while still providing optimal returns for the fund's investors.

In a nutshell, the C4D Asia Fund invests in growth-oriented SMEs with a strong impact on the underserved communities across various sectors. The fund focuses on seven priority sectors: agriculture-related activities, food processing, renewable energy, education and skill development, financial

inclusion, healthcare, and sustainable consumer goods with a ticket size that ranges from \$200,000 to \$2,000,000.

Impact Objectives

The Fund is expected to support more than 40 SMEs to:

- Create decent and sustainable jobs
- Improve the market position of non-commercialised (Agri) suppliers
- Offer basic products and services to clients, benefitting the low-income and vulnerable population
- Achieve gender equality by including women in their supply chains and staffing and by investing at least 30% of the committed capital in Women SMEs

Key Impact Indicators

24

SMEs Supported



298

permanent Jobs created (female)



380

permanent Jobs created (male)



678

total permanent Jobs created



524

permanent Jobs created (young 18–35 y)



Yield Uganda Investment Fund

The Yield Uganda Investment Fund is a partnership between public and private investors that offers innovative and tailored financial solutions — using equity, semi-equity and debt — to Small and Medium-sized Enterprises (SMEs). It has the potential to generate both strong financial returns and significant social Impact. Deloitte Uganda and Pearl Capital Partners Uganda (PCP) established the Fund, currently managed by PCP Uganda, with the mandate to make investments in the range from €250,000 to €2 million per investment.

through a rigorous nationwide identification process where eligible business sectors for potential investment included:

- Supply of agricultural inputs (crop protection, fertiliser, plant breeding and seeds)
- Agricultural production (with smallholder out-growers)
- Agricultural post-harvest handling, processing, marketing and distribution
- Peripheral business opportunities, e.g. transportation, communication, certification, laboratory
- Services etc.

Impact Objectives

The intention is to provide support to around 14 SMAs (Small to Medium-Sized Agri-enterprises) on a rolling basis over five years. The enterprises are selected

Nonetheless, the Fund's focus on investing in agri-businesses is because the sector can ably develop high Impact through its contribution to rural economic growth, employment opportunities and an increase in food security.

Key Impact Indicators

517

farmers supplying investee company (male)



187

farmers supplying investee company (female)



19

permanent Jobs created



6

SMEs Supported



12

permanent Jobs created (female).



15

permanent Jobs created (young 18-35 y)



66,883,032

Value of all transfers to the governments made by the investee-companies (UGX)



BlueOrchard Microfinance Fund (BOMF)

Aside from its strategic investments in the C4D Asia Fund and the Yield Uganda Fund, FCAI is currently investing in three **BOMF** Series (investment products) mainly for liquidity management purposes with an efficient and more impactful use of the capital available at the time. The BlueOrchard Microfinance Fund (BOMF) was founded in 1998, by initiative of the UN, as the first private and fully commercial microfinance investment fund in the world. Since its inception, it has been managed strategically as a pure fixed-income fund, investing in microfinance institutions in emerging and frontier markets, with systematic currency hedging. This allows investors like FCAI to obtain semi-stable financial returns while fostering financial inclusion.

Note: the FCAI invested capital as of 31 December 2019 amounted to €9,067,000. Yet, that amount is changing frequently and expected to decrease significantly based on the calls received from other funds and the capital needed for the direct investment.

Impact Objectives

- The Fund fosters financial inclusion and shared prosperity.
- Help microfinance institutions provide loan capital to low-income groups, enabling them to create and grow income-generating activities and to break out of poverty.
- Support microfinance institutions in expanding their outreach, improving the quality and appropriateness of their financial services, and encourage the development of new products such as savings, insurance and payment services.

Key Impact Indicators

Given the size of the BOMF (over \$2 billion Assets Under Management), FCAI will not be reporting on the ‘key Impact Indicators’ associated with the BOMF. This is based on the size of FCAI’s investment in the fund and the avoidance of ‘Impact Washing’. The investment made does not bring significant financial additionality to the BOMF from the management perspective.

Total sum of salaries paid	N/A
Number of people employed	N/A
Number of entrepreneurs supported	N/A
Income taxes paid (estimate).....	N/A
Share of youth and female employees.....	N/A
Number of youth and female entrepreneurs	N/A

DIRECT INVESTMENTS

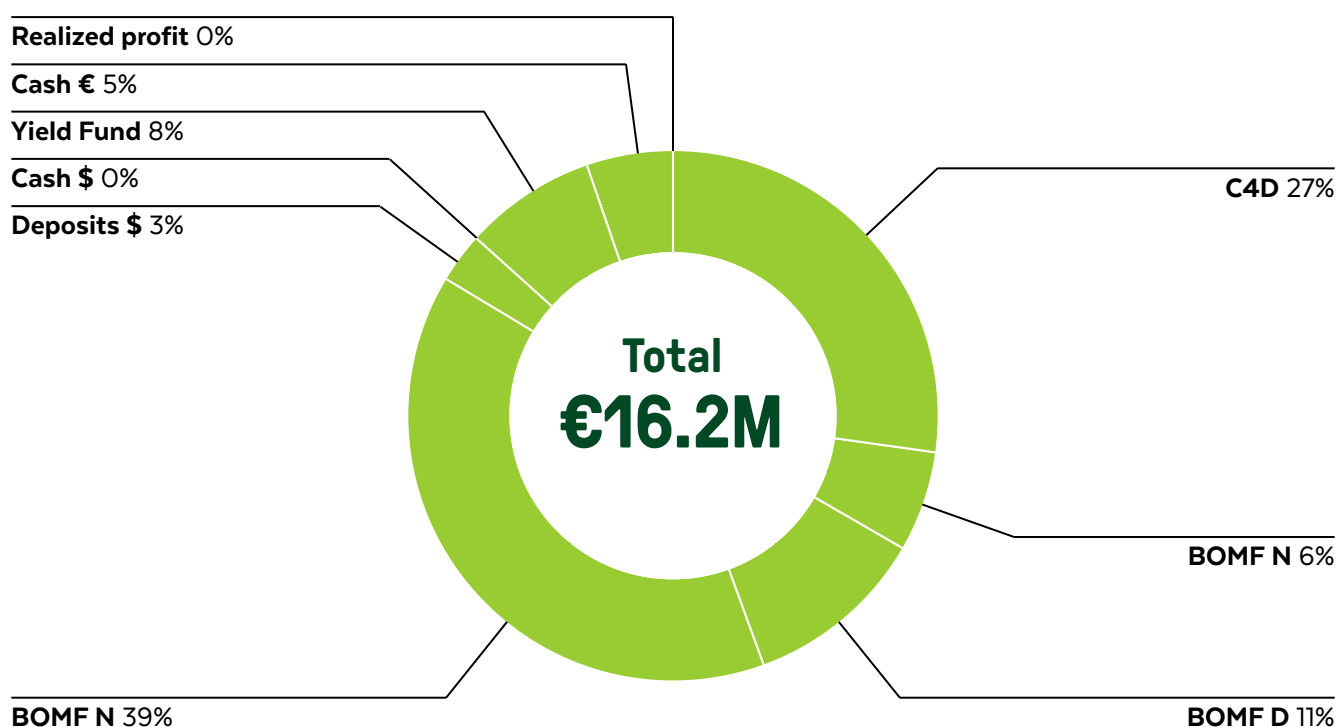
Up to 31 December 2019, FCAI had not executed any direct investment.

HIGHLIGHTS AND KEY IMPACT-RELATED NOTES

Allocations & Financial Highlights

Name	Commitment	Valuation (€) - 31.Dec.19	% Allocation - 31.Dec.19
C4D	\$8,500,000	4,427,244	27%
BOMF N		948,011	6%
BOMF D		1,858,719	11%
BOMF N		6,400,000	39%
Deposits \$		486,025	3%
Cash \$		670	0%
Yield Fund	€4,000,000	1,251,205	8%
Cash €		839,158	5%
Realised profit		-	0%
Total		16,211,033	100%

Portfolio Allocations - 31.Dec.2019





Meat Processing Facility - Somalia.

PHOTO BY A SOMALI ENTREPRENEUR

Partnerships and Collaboration

FCAI has managed (and will keep seeking) to establish strong relationships with actors in the field of private sector development who share similar objectives to build synergies that can accelerate the progress and magnify the intended Impact.

In that context, FCAI is closely working with the C4D fund and the Yield Uganda fund in knowledge sharing and learning and even co-investing, networking and pipeline-building where possible — especially in the case of the Yield fund.

In Uganda, FCAI is coordinating with FCA, IFAD, AGRA, DfID and other like-minded institutions to improve its presence, outreach and ability to identify underserved SMEs with ‘Impact’ as a first lens.

In Somalia, FCAI is strongly collaborating with **GEEL**^{*} to help allocate promising and scalable SMEs across Somalia and provide the needed pre- and post-investment technical assistance. That collaboration resulted in signing a memorandum of understanding (MOU) to support FCAI’s operation on the ground. In addition, FCAI has been working with the Islamic Development Bank (IsDB) to further develop Islamic Financial-Instruments for Somali SMEs. However, that would not have happened without the support received from Finnpartnership to conduct a ‘market mapping study’ to assess the feasibility of FCAI’s activities and the best implementation modalities to ensure effective and impactful interventions moving forward.

^{*}The GEEL program promotes inclusive economic growth throughout Somalia. Through GEEL, USAID accelerates Somalia’s growing integration into the global economy through a combination of initiatives that improve the country’s competitiveness; spur new investments; and increase market linkages and business partnerships. This program aims to boost Somali exports of quality agriculture and fish, increase dairy production, reduce reliance on imports, and increase jobs in regions recovering from years of conflict and recurrent natural disasters.

GEEL is leveraging the growing capacities of the government at the federal, regional, and local levels that build foundations that create an enabling environment for businesses to grow. Activities are focused on sectors with high potential across all regions in Somalia and Somaliland



Challenges

Operating in developing markets and fragile contexts implies many challenges that require strong capacity and hands-on approach. Both Yield fund and C4D fund have demonstrated an extraordinary performance in terms of seizing investment opportunities that are impactful yet economically sound. However, the focus on one country and a single sector (agri-sector) that orients the scope of Yield fund places additional challenges for the fund manager. Moving more upstream in the Agri-value chain evolves a high level of risk and more demand for Technical Assistance (TA)

to improve practices and efficiencies of the investee-companies. Yet, with the business development services (BDS) facility associated with Yield Fund and managed by KPMG Uganda, the fund is expecting to overcome these challenges and create more sustainable Agri-SMEs that deliver social and environmental Impact across the Agri-Value Chains in Uganda.

For C4D fund, the fund manager showed a high level of agility and an active problem-solving approach to tackle different challenges across the three countries where the fund is operating.

Opportunities

A thriving private sector with decent jobs and livelihoods has been identified as a key component for sustainable development and the target countries are no exception. The expectation is that up to 70% of future jobs are created at the sector of Small and

Medium-sized Enterprises (SMEs), which is largely absent in the Least Developed Countries (LDC). It opens the door wide for Impact Investors to do more and contribute to the achievement of the SDGs.

Advisory Group

In order to be more efficient and augment expected Impact in destination countries, FCAI launched its Advisory Group (AG) in late 2018 while the actual involvement started in 2019. The group serves as a supple vehicle to facilitate the donation of skills from Finnish experts and companies. These sets of skills

would complement FCAI's internal resources for the provision of technical assistance to prospective investee companies and later add to the portfolios of SMEs in their target markets. AG functions as a technical advisory body of FCAI by providing inputs on technical assistance matters.

A way forward

In addition to its fund-investments, FCAI continues to develop the in-house capacity and local presence to support and invest directly in SMEs (in FCA's program countries) engaged in the productive sectors. The emphasis is on Farming, Agribusiness, Fisheries, Live-

stock, Poultry, Manufacturing and Renewable Energy which are the largest overall employers and which also tend to employ a disproportionately large number of women and youth and provide better access to basic goods and services.

**MAKING FUNDING AND SKILLS AVAILABLE
FOR ECONOMICALLY VIABLE, SOCIALLY AND
ENVIRONMENTALLY SUSTAINABLE SMEs
THAT ARE KEY TO CHANGING LIVELIHOODS
IN LOW INCOME COUNTRIES.**

Contacts

Juha-Pekka Kärkkäinen

CEO

tel: +358 44 251 1100

skype: junnuKarkkainen

email: jukka-pekka.karkkainen@fcainvestments.fi

Hani Almeghari

Chief Business Development Officer

tel: +358 40 168 2004

skype: Hani-rajab

email: hani.almeghari@kua.fi

FCA Investments Ltd

P.O. Box 210 (Street name: Eteläranta 8)

FI-00131 Helsinki, Finland

www.fcainvestments.fi