

**FMO**

Entrepreneurial  
Development  
Bank

# SUSTAINABILITY POLICY

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## SUSTAINABILITY POLICY

### 1. Purpose of this Policy

FMO's mission is to enable entrepreneurs to increase inclusive and sustainable prosperity. This Sustainability Policy sets out FMO's commitment to sustainable and inclusive development and starts with introducing its Purpose and Scope, followed by Section 3 which presents FMO's Sustainability Vision and Strategy. Section 4 describes FMO's Principles that determine its commitment and approach. Consistent with FMO's commitment, FMO implements thorough environmental, social and corporate governance due diligence, monitoring and engagement procedures as described in Section 5 of this Policy.

By following this Policy, FMO intends to protect people and the environment impacted by its own operations and its investments and to help customers<sup>1</sup> manage their environmental and social impact and improve their corporate governance. FMO further seeks to advance a sustainable and inclusive economy and to improve the transparency and accountability of FMO's actions and decision-making. FMO believes that adhering to this Policy makes good business sense as it protects FMO's assets and reputation, helps identify new business opportunities and improves the overall value of FMO's investments.

This Sustainability Policy is the leading part of a broader Sustainability Policy Universe (see Annex 1) that also encompasses thematic and sectoral Position Statements that complement the Sustainability Policy and give further depth and content to the choices FMO makes. Sustainability within FMO is part of an ongoing discussion where dilemmas and issues are frequently faced and resolved. The abovementioned Sustainability Policy Universe, as well as a document describing how FMO navigates dilemma's and issues<sup>2</sup>, are all published on FMO's website and should be read in conjunction.

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<sup>1</sup> FMO defines "Customer" as the organization with whom FMO maintains a relationship that 1) receives a product that is provided or acquired by FMO in its role as Financial Institution, 2) uses the proceeds as agreed in the documentation and 3) FMO runs a direct financial risk on.

<sup>2</sup> For more information, see the 'Implementing FMOs Sustainability Policy' document on the [FMO website – in the fold-out menu under "Sustainability Policy"](#).

This Policy is the foundation of our sustainability management framework and provides guidance to FMO's internal processes. FMO considers this Policy a living document. Therefore, it will be updated based on lessons learned and input from FMO's stakeholders.

## 2. Scope

The scope of this Policy extends to FMO's entire footprint. This includes FMO's activities at the organizational level, energy use, resource use, travel and new investments with respect to all products provided by FMO<sup>3</sup>. The nature of the services FMO delivers can in some situations limit FMO's level of influence<sup>4</sup>. FMO will then apply this policy to the greatest extent possible.

## 3. FMO's Sustainability Vision and Strategy

FMO's vision is to contribute to a world where, in 2050, more than nine billion people live well and within the planetary boundaries. To that end, FMO aims to maximize its impact on the SDGs<sup>5</sup> by supporting inclusive and sustainable economic growth and reducing inequalities, both of which are conducive to reducing poverty, while being consistent with a pathway towards low greenhouse gas emissions and climate-resilient development. Our contribution focuses on three SDGs that we can contribute to the most through our financing of the private sector in emerging markets: decent Jobs and Economic Growth (SDG 8), Reduced Inequalities (SDG 10) and Climate Action (SDG 13). We want to maximize our impact and work closely with our partners to achieve this. FMO sets strategic goals on its development impact with the intention to realize its vision<sup>6</sup>. By focusing on three sectors - Agribusiness, Food and Water; Energy; and Financial Institutions - our portfolio contributes to food security, access to renewable energy and a healthy financial sector. In doing so, it also contributes to Zero Hunger (SDG 2), Gender Equality (SDG 5) and Renewable and Affordable Energy (SDG 7).

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<sup>3</sup> In some cases, grants by the Capacity Development Program of FMO may be excluded.

<sup>4</sup> For more information, see the 'Implementing this Policy' document on the [FMO website](#).

<sup>5</sup> For more information see [the UN Sustainable Development Goals website](#). FMO's vision and activities are well aligned with the global sustainable development agenda as formulated in the Global Goals for Sustainable Development and the Addis Ababa Action Agenda.

<sup>6</sup> For the current targets see the [FMO website](#).

We actively seek to achieve inclusive development, reaching the economically excluded, including people in the 'bottom 40%' of income distribution, through supporting valuable and quality jobs, inclusive finance, and finance of innovative products and services.

FMO actively strives to advance gender equality. Our Position Statement on Gender<sup>7</sup> affirms our aim to contribute to the achievement of SDG 5 (Gender Equality) and empowering all women and girls. As women and girls are overrepresented in the Bottom 40% of the income distribution and underrepresented in the workforce, focusing on gender equality aims to support job creation for a more diverse workforce, thereby contributing to sustainable economic growth (SDG 8) as well.

To take climate action (SDG 13), we are committed to the goals of the Paris Agreement<sup>8</sup> which is to limit global warming to well below 2, preferably to 1.5 degrees Celsius, compared to pre-industrial levels. To achieve this long-term temperature goal, countries aim to reach global peaking of greenhouse gas emissions as soon as possible to achieve a climate neutral world by mid-century. FMO aims to contribute to financing a just and inclusive transition in the economy, to pursue efforts to limit the temperature increase to 1.5 degrees Celsius, and to reach net-zero by 2050. We aim to support our customers to strengthen their resilience to climate change and to improve their sustainable use of natural resources, such as water. FMO recognizes the value of ecosystems, that form the natural capital for the world economy. FMO aims to prevent their degradation, which directly poses a risk for FMO's customers and the societies in which they operate. Notwithstanding the direct relationship of biodiversity in the form of natural capital, FMO also aims to conserve biodiversity in the broadest sense.

### ***How do we work***

FMO selects customers who are willing to work with FMO on improving their approach to manage environmental, social, and human rights risks and impacts, as well as improving their governance. FMO contractually agrees performance improvements related to most important Environmental, Social

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<sup>7</sup> As defined in the [FMO Position Statement on Gender](#).

<sup>8</sup> United Nations Framework Convention on Climate Change 21st annual Conference of the Parties in Paris in November 2015.

and Governance (ESG) risks with its customers. By improving its performance, the customer's potential adverse impact on environmental and social issues is significantly reduced. FMO also works in this manner with customers to improve their governance.

In line with the United Nations Guiding Principles on Business and Human Rights, FMO recognizes the responsibility of businesses to respect human rights, wherever they operate. FMO respects internationally recognized human rights standards and takes measures with the aim to avoid supporting activities that may cause or contribute to human rights violations and acknowledges the responsibility of its customers to do the same. This means to avoid infringing the human rights of others and to address adverse impact these businesses may cause or contribute to<sup>9</sup>. FMO values freedom of expression, the added value of civil society, and recognizes the need to protect dissenting voices. FMO does not condone violations of human rights by its customers, including oppression of, or violence towards, those who voice their dissenting opinion in relation to FMO activities and the activities of FMO's customers. Meeting this responsibility also means creating access to an effective grievance mechanism that can facilitate early indication, and prompt remediation, of various project-related grievances.

FMO requests from its (temporary) staff, customers and counterparties to adhere to the letter and spirit of the laws and regulations they are subject to and maintain the highest ethical standards.<sup>10</sup> As stated in our Position Statement on Responsible Tax, FMO requires customers to comply with all tax regulations in their home and host countries and show responsible tax behavior<sup>11</sup>.

FMO believes that the development of its vision, strategy and policies needs to be done in close consultation with FMO's stakeholder community, consisting of, amongst others, the Dutch government, customers, partner-institutions, affected communities and Civil Society Organizations. Integrating stakeholder considerations and information, based on a meaningful consultation with stakeholders (including affected communities, in line with the IFC Performance Standards), in

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<sup>9</sup> As defined in the [FMO Position Statement on Human Rights](#).

<sup>10</sup> FMO's Code of Conduct can be found [here](#)

<sup>11</sup> As defined in the [FMO Position Statement on Responsible Tax](#).

investment and monitoring decisions will further contribute to the quality and positive impact of FMO's investments, as well as community support.

## 4. Principles

FMO requires, that all customers comply with applicable environmental, social and human rights laws in their home and host countries<sup>12</sup>. In addition, FMO upholds the following (inter)national standards<sup>13</sup>, including in its own operations, as applicable:

- [IFC Performance Standards / World Bank Group Environmental Health and Safety Guidelines](#)
- [OECD Guidelines for Multinational Enterprises](#)
- [UN Guiding Principles on Business and Human Rights](#)
- [ILO Declaration on Fundamental Principles and Rights at Work](#)
- [UN Principles for Responsible Investment](#)
- [UN Principles for Responsible Banking](#)
- [EDFI Principles for Responsible Financing of Sustainable Development](#)
- [G20/OECD Principles of Corporate Governance / Dutch Corporate Governance Code](#)
- [CFI Client Protection Principles](#)
- [Operating Principles for Impact Management](#)

With respect to the management of environmental and social impact, the primary standards that guide FMO's relationship with customers are the IFC Environmental and Social Performance Standards and the associated World Bank Group Environmental Health and Safety Guidelines. They cover the larger part of the ESG requirements in the OECD Guidelines on Multinational Enterprises, which also reference the UN Guiding Principles on Business and Human Rights.

The IFC Performance Standards guide FMO's human rights due diligence with respect to customers. FMO requires customers to assess the likelihood and severity of impact on human rights as part of

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<sup>12</sup> Applicable environmental, social and human rights laws are both national law to which the customer is subject.

<sup>13</sup> Version currently in force.

their assessment of social and environmental impact, and to implement mitigation measures in line with the IFC Performance Standards<sup>14</sup>.

In case environmental, social or human rights impacts are identified that the IFC Performance Standards do not sufficiently address, FMO will identify and agree on mitigants by referring to the other standards above as relevant.

FMO's Corporate Governance (CG) approach focuses on the rights and responsibilities of its investee companies' shareowners, (supervisory) board of directors, and management. FMO's approach towards improving the corporate governance practices within its portfolio is based on (inter)national benchmarks such as the [G20/OECD Guidelines on Corporate Governance](#) and the [Dutch Corporate Governance Code](#). The [Corporate Governance Development Framework](#), signed by FMO (2011) and 33 other Development Finance Institutions, further defines FMO's approach and the methodology and tools FMO uses.

Pursuant to Dutch law and regulations, FMO's investee companies – including their owners, directors, managers, and other key staff – need to comply with FMO's policies on business integrity and anti-money laundering. Guided by the OECD Convention on Combating Bribery and the UN Convention against Corruption, FMO maintains a zero tolerance policy regarding [bribery and corruption](#). FMO is committed to participating in international efforts to fight against money laundering and terrorist financing. [FMO's Know Your Customer \('KYC'\) Policy](#) describes these policies.

Finally, FMO's responsible finance approach defines the exclusion of certain consumer finance activities, and the adoption of the [Client Protection Principles](#) (CPPs) which are embedded in the investment process, similar to (and in addition to) our ESG approach. The CPPs aim to facilitate a risk-based assessment of financial institutions, non-banking financial institutions and corporates providing finance to natural persons. CPPs define the minimum standards that end-clients should expect to receive when doing business with a financial service provider.

To uphold the above principles, FMO has embedded ESG risk management as an integral part of its

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<sup>14</sup> As defined in the [FMO Position Statement on Human Rights](#).

organizational structure and investment process. Project approvals and contracts include both financial and ESG considerations. FMO has built up a large and experienced team of ESG specialists who work with its customers on the identification and management of ESG risks, adding value to its customers' businesses and identifying further business opportunities. FMO provides technical assistance funds to assist customers to build capacity for managing ESG performance. FMO recognizes the need for level playing fields for its customers who are introducing ESG risk management to their market. To this end, FMO promotes a sector-wide approach as a strategic tool for promoting locally owned change.

## 5. Operational implementation

### *How Does FMO Manage Sustainability in its Investment Process?*

In the initial assessment of potential investments FMO checks that the transaction does not breach FMO's [Exclusion List](#), which defines the type of activities in which FMO does not invest.

FMO then screens all transactions on ESG risk. FMO categorizes 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 customer's activity and prevailing country specific ESG challenges. With regard to financial institutions the risk categorization is made based on the bank's existing or proposed portfolio or the specific assets to be financed, IFC Performance Standards triggered transactions<sup>15</sup> and prevailing country-specific sensitive issues<sup>16</sup>. The risk- categories as distinguished by FMO are found in Annex II.

With regards to ESG in particular, FMO requires all direct investments of medium and high E&S risk (category B, B+, A) to work towards adherence to the ESG standards referred to in Section 4, as applicable typically during the tenor of the financing. Low risk (category C) investments are required

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<sup>15</sup> Project finance and corporate loans related to project finance (total project size USD ≥ 10m / ≥36 months tenor)

<sup>16</sup> E.g. Indigenous people / Land rights / Water / Deforestation

to adhere to applicable law<sup>17</sup>. For investments in Financial Intermediaries (FI), FMO shapes its customer relationships in various ways (as described the Position Statement on IESG for Financial Intermediaries<sup>18</sup>) to reach our impact ambitions and manage (potential) ESG risks related to the specific transaction.

During due diligence FMO executes a thorough ESG assessment on its potential customers. This enables FMO to identify the main ESG risks and strengths that a customer is exposed to and to assess the quality of its risk management and mitigation measures. The findings during due diligence are important input for monitoring and engagement throughout the investment or could lead to modification of the transaction (including a decision not to invest).

Dedicated ESG specialists within FMO engage actively with all category A, B+, and where warranted, support investment staff with category B customers. 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 customer and FMO. ESG risk management is fully integrated in the approval process: this judgement call lies with FMO's commercial teams while FMO's credit team independently subjects it to critical scrutiny for verification. Both deal and credit teams have dedicated ESG specialists that are involved in the assessment. FMO applies heightened scrutiny to any investment causing complex resettlement or affecting Indigenous Peoples, Critical Habitat or Critical Cultural Heritage.

With regard to corporate governance, FMO classifies all its customers as either high risk (1), moderate risk (2) or low risk (3). FMO considers a transaction 'high risk' if three out of five risk areas, namely the commitment to good corporate governance, board structure and functioning, the control environment, transparency and disclosure, as well as protecting shareholder rights are considered high risk. In such an event, FMO's governance specialists are involved in due diligence and action plans are part of FMO's investment contract.

FMO contractually agrees on ESG conditions and reporting requirements with its customers. In many cases, these ESG conditions include implementation of an Environmental and Social Action Plan

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<sup>17</sup> Applicable law means national law to which the customer is subject

<sup>18</sup> As defined in the [FMO Position Statement on IESG and Financial Intermediaries](#)

(ESAP) and/or Corporate Governance Action Plan (CGAP) and/or Client Protection Principles Action Plan (CAP) that are agreed with the customer prior to contracting. FMO may provide support to establish an effective grievance mechanism where a grievance mechanism prescribed by the IFC Performance Standards. The objective of these action plans is to ensure that within a reasonable time-period, and at a minimum within the period of the investment, investments supported by FMO comply with FMO's Sustainability policy and ESG standards.

FMO maintains frequent and intensive contact on ESG with its customers and, when applicable, requires annual ESG performance reports to assess the customer's performance and progress on the action plans. Depending on the transaction's risk and impact profile, FMO determines the required intensity of the engagement and monitoring and may also conduct monitoring visits and/or commission independent external monitoring. FMO sees monitoring as an important opportunity to support customers in achieving their sustainability goals. FMO also commissions evaluations to assess the [development impact](#) of its investments.

Finally, FMO proactively seeks investment opportunities that contribute to a more sustainable and inclusive economy. We have established a label system to identify and track the way in which individual investments align with certain criteria related to the key strategic goals of Climate Action and Reducing Inequality. To stimulate such investments, FMO has set annual targets, on which we report in our (semi) annual report.

### ***Working with Partner Institutions***

FMO is committed to work constructively with other DFIs and banks. This includes exchanging information, collaborating in developing a mutual understanding of ESG risks, impacts and mitigation strategies, co-financing and engaging with customers. FMO may partially or fully rely on trusted Partner institutions<sup>19</sup> to operationalize the intentions of FMO's Sustainability Policy during due diligence, contracting and monitoring, in line with their own processes and procedures. For instance,

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<sup>19</sup> E&S Trusted Partners are pre-identified as a financing partner that applies the same or equivalent E&S sustainability criteria as FMO and has established equivalent or more stringent procedures and capacity.



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FMO is a member of [EDFI](#), the Association of European Development Finance Institutions and has a Friendship Facility agreement with DEG (Deutsche Investitions- und Entwicklungsgesellschaft) and Proparco under which FMO relies on the Partner's investment due diligence and customer monitoring. Similarly, FMO has a Master Cooperation Agreement with IFC (International Finance Corporation).

### ***Disclosure***

FMO believes that transparency and accountability in its financing and investments are fundamental to fulfilling its development mandate. It allows us to improve our investment decisions and helps us be transparent to our stakeholders about whether FMO is achieving what it intends to do: enabling entrepreneurs in emerging markets to increase inclusive and sustainable prosperity. To facilitate this, FMO adopted a [Disclosure Policy](#), outlining the scope and type of information that it makes available to the public. In addition to the disclosure of its annual reports, press releases and corporate- and policy- related disclosure, FMO also discloses selected relevant information about its investments and financing both prior to (explicitly inviting comments from the stakeholder community), and after contracting.

### ***FMO's Complaints Procedure***

As outlined in this Policy, FMO strives to achieve positive sustainable development outcomes through its investments and has high standards when it comes to good provision of services. FMO welcomes feedback on its projects. FMO also offers a platform for conflict resolution via its [complaints procedure](#).

FMO makes a distinction between project-related complaints and general complaints. General complaints can be communicated in two ways: [either in writing or via the internet](#). For [project-related complaints](#), FMO has implemented an Independent Complaints Mechanism (Mechanism) and accompanying procedures. The Mechanism describes the structure and governance of the complaints procedure, which allows affected external parties to file a complaint concerning a project financed by FMO. FMO will not condone reprisals against individuals or organizations that raise



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issues with its Independent Complaints Mechanism. In this way FMO strives to implement a robust and independent procedure and to transparently communicate to stakeholders.

### ***Managing FMO's own operations***

FMO also integrates ESG in its own operations. FMO complies with applicable Dutch law and regulations, the Dutch Banking Code and the Dutch Corporate Governance Code. FMO believes in diversity and embraces and promotes it in recruitment, career management and management development within FMO.

FMO strives to remain climate neutral in all its operational activities, through energy efficiency, compensation and sustainable energy production. In its supply chain, FMO pays particular attention to the terms and conditions of employment of the contractors working in its facilities and to minimizing the environmental impact of the food supplied in FMO's facilities. FMO provides healthy and organic food to FMO's staff. FMO informs staff regularly on external and internal results from ESG and sustainability efforts and provides regular staff training on its Sustainability Policy and on specific ESG issues and processes.

## ANNEX 1: FMO SUSTAINABILITY POLICY UNIVERSE

List of documents that are part of the FMO Sustainability Policy Universe:

- Sustainability Policy
- Exclusion List
- Position Statement on Phasing Out Fossil Fuels from Our Investments
- Position Statement Impact and ESG and Financial Intermediaries
- Position Statement on Human Rights
- Position Statement on Gender
- Position Statement Land Governance
- Position Statement on Coal
- Position Statement on Hydro Power Plants
- Position Statement on Responsible Taxes
- Position Statement on Animal Welfare

List of FMO documents referenced in the Sustainability Policy Universe, but not formally part of the Sustainability Policy Universe:

- FMOs Commitment to Diversity and Inclusion
- Anti-Bribery and corruption statement.
- FMO's Know Your Customer ('KYC') Policy
- Disclosure Policy
- FMOs Code of Conduct
- ICM Policy

## ANNEX 2: E&S RISK CATEGORIZATION

FMO distinguishes [the following E&S risk-categories](#) (following the IFC's Environmental and Social Risk Categorization Framework).

E&S risk categorization of (potential) investments is a professional judgement by FMO of each individual investment with its own project specific and contextual characteristics and is subject to internal scrutiny to enhance consistent application of E&S categories.