Equator Principles Reporting 2007

FMO
Finance for Development

FMO follows Equator Principles – and goes beyond

In 2005, the Netherlands Development Finance Company (FMO) adopted the Equator Principles. FMO implemented its sustainability policy in 2000. It has been using the Safeguard Policies / Performance Standards since then and applied these to all financings. For FMO this means including also financings of less than US$10 million and not just project finance, but corporate finance as well. Hence FMO's goes further than the Equator Principles require.

Please see our E&S Sustainability Policy to find more specific information on FMO's approach to addressing E&S issues in its financing decisions.

Experience shows that good economic, environmental and social (E&S) management, and corporate governance, are interrelated. Paying proper attention to these issues is good for business. As a consequence FMO highly values the environmental and social criteria that financing partners apply and therefore decided to endorse the Equator Principles. The main objective is to achieve a more in-depth collaboration and a more efficient application of environmental and social criteria in all financing transactions that FMO concludes together with other Equator banks.

The graph below presents FMO's projects reviewed according to IFC performance Standards.

Projects reviewed by region (contracted in 2007)					
	Direct investments			Financial Institutions	Total
	project finance	non-project finance	total		
AFRICA	13	13	26	23	49
ASIA	1	12	13	30	43
EUROPE & CENTRAL ASIA	0	18	18	20	38
LATIN AMERICA & THE CARIBBEAN	4	14	18	25	43
GLOBAL		1	1	4	5
TOTAL	18	58	76	102	178

In 2007 the individual environmental and social specialists moved to our investment deal teams. This means that they work with the client from the start of the due diligence. FMO's Sustainability Procedures outline in detail the way how FMO lives up to her commitment of promoting investments in emerging markets that are environmentally and socially sustainable by incorporating environmental and social review in the entire investment process.

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Managing environmental and social risk

Our environmental and social risk management starts with the risk categorization of the financing based on a first assessment. In line with the IFC categorization, we classify all potential new projects according to A (highest) to C (lowest) risk categories:

- Category A: potential adverse environmental or social impacts are significant and likely to be irreversible or unprecedented (e.g. mining).
- Category B: potential adverse environmental or social impacts are real but site-specific, reversible and can be mitigated (e.g. extension of existing industrial plants, telecoms networks etc.).
- Category C: potential adverse environmental or social impacts are negligible (e.g. software company).

The graph below presents the Environmental and Social category of the projects reviewed according to IFC Performance Standards.

Projects reviewed by E&S Category (contracted in 2007)

E&S Category	Direct investments			Financial Institutions	Total
	project finance	non-project finance	total		
A	7	4	11		
B	11	53	64		
C		1*	1		
TOTAL	18	58	76	102	178

* *After being classified as category C, not further reviewed*

In 2007, 64 of the 76 direct investments fell into the B category.

Once the risk profile of a project has been determined, we assess the environmental and social risks. The assessment includes the level of risk management and compliance with our environmental and social criteria. The environmental and social risks are captured by an environmental risk factor and a social risk factor on a scale of 0-99, set out in the FMO scorecard which is updated annually.

Added value

Our environmental and social added value comprises working with our clients towards compliance with the IFC Performance Standards. If a project does not comply at the start of the cooperation, we prepare and agree on action plans with our clients. Within our Investment and Mission Review department our environmental and social analysts check the risks and give their advice with regard to the Action Plan and other Environmental and Social aspects of the financing before the final investment decision is taken. The compliance of our clients with the Performance Standards and the progress against the agreed Action Plan is monitored annually.

Please see the number of actions plans agreed in 2007 on the next page.

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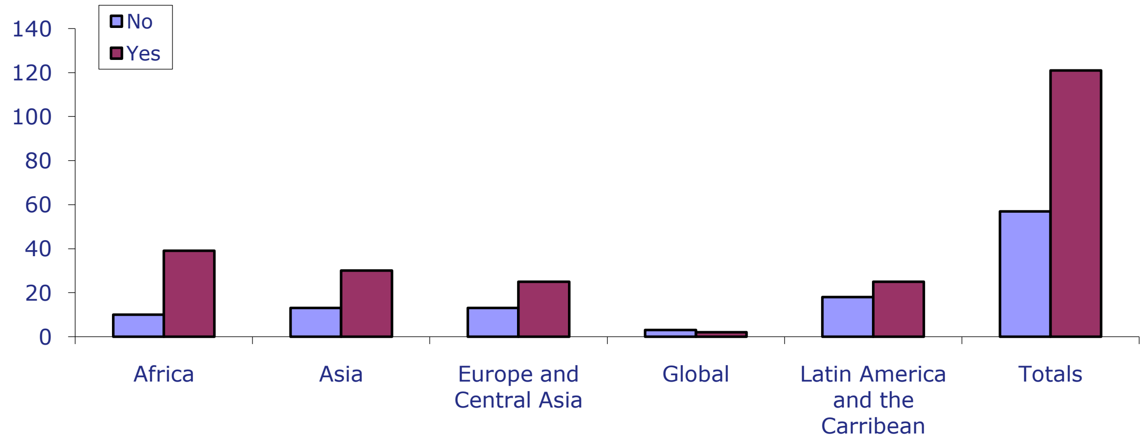
Action Plans (total number of new projects)



Case study
(p 41, Annual Report 2007)

Dual benefits from natural resources

The agricultural sector in Belize plays an important role in the country's economy. The production of sugar is one of the main industries in the sector, representing 20% of all major exports. FMO has provided a total of approx. US $15 million to Belize Co-generation Energy Limited (Belcogen), a subsidiary of Belize Sugar Industries Limited (BSI), a Caribbean sugar producer. The Belcogen project requires an estimated total investment of US $54 million, including US $19 million equity from BSI, with the additional loan funds being provided by other financiers such as the Caribbean Development Bank.

Belcogen was created to build, own and operate a commercial power generation plant using bagasse as a renewable fuel. Bagasse is a combustible fiber residue produced during the processing of sugar cane, which is used to co-generate electricity and steam needed for the sugar extraction process. The ultimate aim of the project is to use bagasse as a cost-effective means of generating renewable power from sustainable resources. Electricity generated by Belcogen's plant will be sold to the national grid distributor and will meet 20% of the nation's demand.

The project will reduce the level of imported power from Mexico, stabilize electricity tariffs, reduce foreign exchange outflows, provide additional employment in the area, support technology transfer to Belize and improve efficiency in Belize's sugar processing industry.