FMO

Entrepreneurial
Development
Bank

Evaluations and Knowledge Management

FMO & SDG 8 results & potential for improvement

Corporate Evaluation

25.06.2022

Sucafina, Rwanda

8 DECENT WORK AND ECONOMIC GROWTH

Corporate Evaluation on SDG 8

FMO's evaluation team (part of SSKM) manages several studies across our portfolio and helps FMO gain more insights into the social, economic, and environmental impact of our investments. Learn more here.

*Every year, KMLD conducts a **corporate evaluation** analyzing the development impact of FMO. The evaluation is conducted in-house by Evaluation Officers with the strong collaboration from other impact-oriented teams in FMO as well as investment teams.*

*The goal of **corporate evaluations** is to help FMO and its stakeholders gain a better insight into its impact performance over a longer period of time and identify how the development impact of its activities can be further increased. As such, the evaluations serve to increase transparency to our share- and stakeholders (accountability) as well as to learn.*

Why an evaluation on SDG 8?

In 2017, FMO chose three SDGs as its key targets for its corporate impact strategy (8, 10 and 13). FMO is now developing a Strategy for 2030 and should therefore understand how Strategy 2025 has contributed to the three core SDGs. Last year, a corporate evaluation reviewed FMO's performance on SDG10. SDG 13 has also been receiving strong attention through the development of the 1.5-degree target for FMO and external commitments. Therefore, it is a good time to take stock of how FMO has performed against SDG 8 and what could be improved going forward to help the world meet the SDGs by 2030.

What is the objective?

To establish how FMO has contributed to meeting SDG 8 since the adoption of Strategy 2025 in 2017 (*accountability*) as well as to identify lessons learnt and ways to further improve its impact on SDG8 towards 2030 (*learning*).

How has the evaluation been conducted?

The evaluation has been conducted with mixed methods, including data analysis, document/literature review, calls and workshops with FMO staff. For the first time in an evaluation, the Joint Impact Model (JIM) was used to include indirect impacts on jobs supported and GDP contribution (through the proxy 'value add'). Moreover, the evaluation has attributed FMO impact per EUR million investment to establish where relative impacts are largest (absolute impacts follow outstanding portfolio relatively closely).

The JIM has exciting potential, yet its full capabilities could not be used in this evaluation. The data available at the time had several limitations. These limitations include incomplete data availability from customers across years, inconsistent methodologies preventing comparisons across sectors and insufficiently fine-grained data. Further, as the JIM has been implemented recently, and a complete 2020 data set was not received from customers at the time the evaluation started, we could only assess trends over 3 years (2017-2019).

What is SDG 8?

In this evaluation, we compare FMO's impact performance against the ambitions of SDG 8. The SDG calls for action to ensure **sustained, inclusive and sustainable economic growth** as well as **full, productive and decent work for all.** The visual below shows the elements of growth and jobs that deserve most attention according to the SDG, and that are most relevant to a DFI like FMO. The evaluation takes these elements as basis for analysis.

8 DECENT WORK AND ECONOMIC GROWTH

Sustain GDP growth generally, in particular by at least 7% in LDCs

Support economic growth fundamentals

8.2 I Increase **economic productivity** through diversification, technology and innovation

8.3 I Support **productive activities**, decent job creation, entrepreneurship and formalization **and growth of MSMEs**, including through access to finance

8.10 I Strengthen the capacity of domestic **financial institutions** to encourage and expand access to finance

8.4 I Improve progressively global **resource efficiency** in consumption and production to decouple economic growth from environmental degradation

Achieve full and productive employment and Decent Work for all women and men, incl. the young & disabled

In particular focus on

8.5 I Achieve full and productive employment and **decent work for all women and men**

8.6 I Reduce the proportion of **youth** not in employment, education or training

8.7 I Eradicate forced labor, end modern slavery and human trafficking and eliminate the worst forms of child labor

8.8 I Protect labor rights and promote safe and secure working environments for all workers, including (female) migrant workers

Peers do not target SDG 8 directly, but are more specific in places

There is no dedicated strategy at FMO on SDG 8, but impact on SDG 8 is managed in the following ways:

- **Strategy:** FMO aims to have a distinguishing impact on three SDGs across all our focus sectors: SDG 8, SDG 10 and SDG 13. For SDG 8, Strategy 2025 focuses on optimizing the number of jobs supported.
- **Steering:** No direct steering, but indirect steering by setting annual targets for volume of new production
- **Value Creation:** Via ESG on Decent Work through IFC PS2, via CD and further client engagement on e.g. product development
- **Monitoring, measurement and reporting**: Number of jobs supported measured and reported, # of MSME loans measured. Internal reporting on IFC PS 2 risk management.
- **Evaluation:** On selected topics in relation to SDG 8 for example on MSMEs, access to finance, Decent Work and jobs supported/economic effects for certain investments.

	British International Investment	IFC International Finance Corporation	KFW DEG
Economic Growth	**More detailed approach than FMO:** • Focus on productive economic growth • Focus on sustainable economic growth, including circular economy and resource efficiency • Country needs assessment informs decision making/steering • Consolidated impact score for steering, monitoring and reporting	**More detailed approach than FMO:** • Assessment of market-level outcomes, beyond project-level • More elaborate project-level environmental indicators • Country needs assessment informs decision making/steering • Consolidated impact score for steering and monitoring • Reporting on same indicators as FMO	**More detailed approach than FMO:** • Assessment of market and sector level outcomes • Consolidated impact score for steering and monitoring
Decent Work	**Similar approach as FMO:** • No explicit focus on Decent Work in the BII impact scoring tool • Management of Decent Work through IFC PS2, the UNGPs and OECD MNE guidelines	**Similar approach:** • No explicit focus on Decent Work in the IFC AIMM model • Management of Decent Work through IFC PS2 • Pilots ongoing on incorporating country-level Job Quality Measure	**Similar method, but more reporting** • Decent Work approach similar to FMO by applying IFC PS2 • Yet more reporting on Decent Work performance: "*78% of DEG's customers offer decent jobs. The remaining customers are working to improve their conditions of employment with support from DEG*"

Grey = similar to FMO
Blue = more specific than FMO

Economic growth I Major direct and indirect value add supported

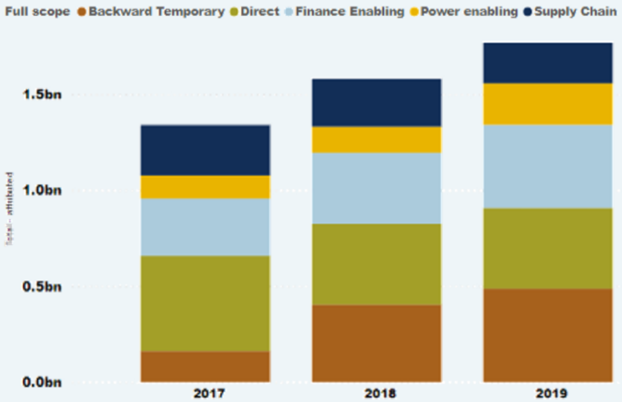
In 2019, FMO supported a total volume of value added approximately equal to a quarter of the Rwandan economy, either directly, or indirectly through financial services, power, and/or supply chain effects.

- **FMO supported economic activity equal to a quarter of the Rwandan economy** - FMO can claim to have supported EUR 1.7bln worth of value add created by 69% of its customers (attributed) in 2019. Extrapolating this to estimate the full portfolio, this implies 2.5 bln, approximately equal to 25% of the Rwandan economy. Of the total value added, 17% is supported in Least Developed Countries. This is disproportionally higher than their share in terms of GDP, as LDCs make up 5% of GDP of the countries FMOs markets. This shows the focus that FMO places in fostering growth in LDCs, in line with the SDG.

- **SDG 8 requires access to finance for MSMEs.** FMO provided access to finance to MSMEs through Financial Institutions. The volume of MSME loans provided by FMO's client FIs increased by 25% between 2017-2019, increasing our contribution on the MSME pillar of SDG 8.

- **Mobilization helps scaling SDG 8 impact**: Mobilization helps to increase the volume of financing to FMO customers, supporting additional jobs and value add. In this way, mobilized finance increases FMO's own impact by an additional 45%. A large share of this impact is in financial institutions and agri-business sectors.

FMO attributed value added supported per year, by scope



Analyses based on FMO ImpactCard and JIM modeling data

Job creation I Jobs supported grew in line with portfolio growth

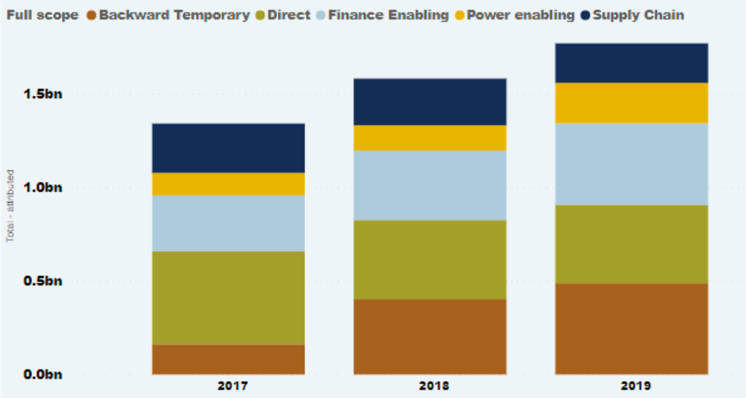
FMO's current KPI on SDG 8 (jobs supported) moves roughly in sync with committed portfolio amounts. In 2019, FMO supported about 400,000 direct and indirect jobs in its markets. FMO's jobs per million invested are broadly in line with other DFIs.

- **FMO supports almost twice as many jobs per million invested in Africa and Asia**, compared to ECA and LAC. Accounting for FMO's share in its customers and the number of jobs those customers provide, EUR 1m FMO investment supports more jobs in Africa and Asia than in ECA and LAC. On the other hand, value added per million is relatively stable across regions. Higher productivity levels in ECA and LAC may explain (a part of) this difference.

- **About half of FMO's total jobs supported are expected to be informal**. FMO's customers are assumed to provide only formal direct jobs. But because a large part of FMO's jobs supported are indirect (through backward and forward linkages), many of our jobs supported are informal.

- **FMO's support of jobs for women is comparable to national average**, **while youth is still a less developed topic for FMO (mainly in ECA).** However, There is increasing exposure to customers with a RI sub-label for FIs targeting youth.

Total jobs per year, by scope



Decent jobs I Not enough information & unclarity on fair income

FMO applies IFC PS 2 requirements to high-risk customers to manage their own labour and working conditions. However, these requirements partly but not fully overlap with the Decent Work concepts underlying SDG8. Further, FMO's risk-based approach to ESG risk management entails monitoring only our high-risk customers on PS2 performance.

- **FMO contributes to Decent Work, mainly via IFC PS2.** FMO does not have a dedicated strategy on Decent Work. But FMO commits to various international standards, such as the OECD Guidelines on Multinational Enterprises and the UN Guiding Principles on Business and Human Rights. These also cover ambitions in the area of Decent Work. FMO operationalizes all of these commitments by applying IFC PS 2 [Labor and Working Conditions].

- **To support all of the SDG 8 Decent Work ambitions, FMO would sometimes have to go beyond PS2.** SDG 8 calls for "Decent Work for all", an ILO concept. The ILO Decent Work definition includes "*delivering a fair income*". While PS2 covers many Decent Work aspects, it does not include language on "fair income". Instead, it requires minimum or market-conform wages, which may not be sufficient to cover basic needs in some countries.

- **In addition, for the most part of FMO's portfolio, there is insufficient information available to assess job decency properly.** Since FMO follows a risk-based approach to ESG performance management, only high-risk customers are actively guided and monitored on IFC PS2 (which is not fully aligned with SDG8 concepts of Decent Work). Some 72% of FMO's roughly 756 customers active in 2020 are lower ESG risk customers. There is no active monitoring of labor standards for them..

- **There is therefore room for improvement for FMO on Decent Work** – While IFC PS2 requires minimum or market-conform wages, it does not ascertain a 'fair income'. Moreover, there is no monitoring information on the application of IFC PS2 for the majority of FMO's investments and it is therefore not possible to obtain a view on the overall FMO Decent Work performance.

Decent jobs I Half of high-risk customers currently rated good on PS2

For the sample of customers where information on their IFC PS2 performance is available (the high-risk direct customers), half of them are currently scored as good on PS2 per FMO's dynamic internal ESG rating. Part of FMO's role is to help customers improve while in its portfolio, but while 25% of customers improved over time, most stayed the same and 16% deteriorated.

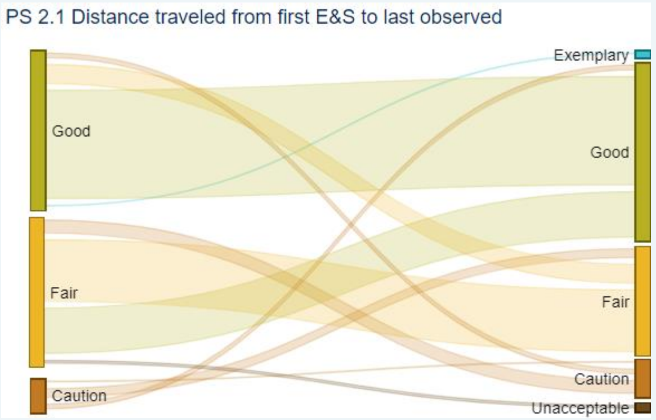
- FMO tracks the performance of high-risk direct customers on IFC PS2 through the Sustainability Information System. Based on the assessment of FMO's ESOs, about half of all high-risk customers score satisfactorily on all IFC's PS2 standards on Labor and Working Conditions (PS2.1 – 2.4) (rated as "Good" or "Excellent"). Most of the remaining customers (scoring 'fair') only partially meet minimum standards but have a plan in place to meet them in the future, with a smaller share (scoring 'caution') with little to no alignment with standards yet.

- **IFC PS 2.1 (working conditions and management of worker relationships) and IFC PS 2.3 (occupational health and safety) are the most triggered standards**: More than half of customers triggering these PS perform well, see first figure below.

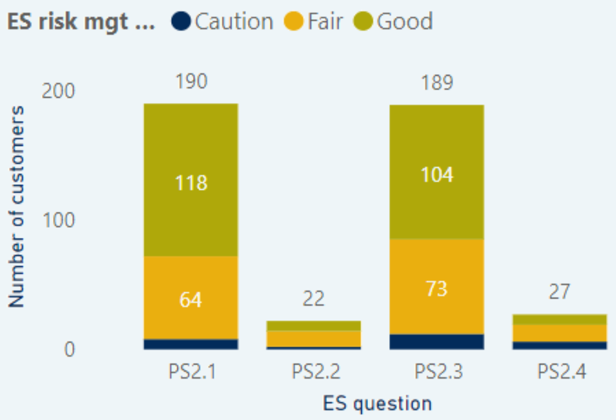
- **FMO seems to have some positive influence on E&S with more customers improving than deteriorating on items related to working conditions and health and safety standards.** FMO's impact on decent jobs need not only be through supporting jobs that are already decent but can also be seen as guiding customers to a better rating.

- For example, on working conditions and management of worker relationships (PS 2.1, see second figure below), customers both improve (23%) and deteriorate to a lesser degree (16%). Most customers however stayed at the same rating over time, which does not directly mean a change did not happen, but at least not as much to warrant a step to a next level.

Customers per IFC Performance Standard risk rating



Changes in risk rating over time



Productivity I A key but implicit impact pathway

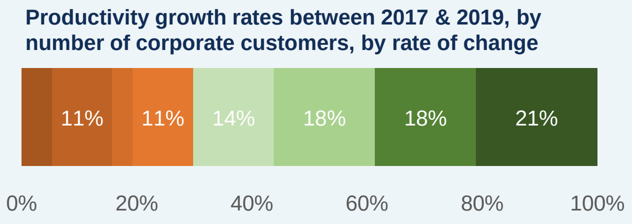
Supporting jobs and productivity represents a key trade-off that needs to be managed well

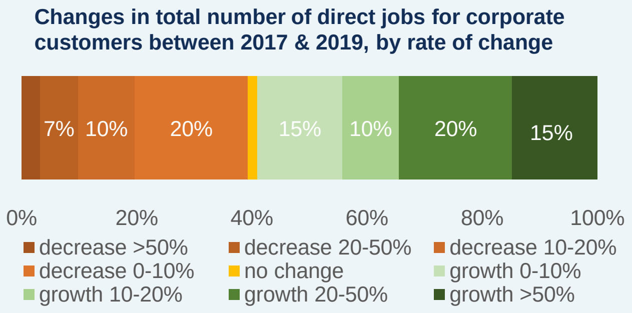
- Increasing productivity means producing the same or more with less labour input. New research by the World Bank across 96 emerging markets confirmed that a 1% increase in productivity investments leads to a 0.1% drop in employment in the short term (year 1).
- **The trade-off is particularly acute for developing countries:** whereas in developed countries overall employment levels recovered after 2-4 years and grew further after as a result of increased efficiency in the economy, this is not the case for developing markets, where it takes ~10 years for employment to recover.

Key dilemma arises I While supporting productivity is the main lever to enable sustained economic growth, affected workers do need to be assigned new roles or find new jobs. This turns out to be more challenging in a developing markets context. Thus, managing this transition well is key for positive impact on SDG 8.

- **Productivity is the key driver of long-term economic growth, but not explicitly part of the FMO framework.** Productivity is one of the three main factors driving economic growth. As there are limits to the other two factors (land/capital and labor), productivity is key for long term growth. Increasing productivity creates more economic benefits for society than just expanding production. Higher productivity leads to lower prices and higher wages, creating more economic activity and higher consumer welfare. The concept however does not explicitly feature in FMO's strategy.
- **Most of FMO direct corporate customers increased productivity.** Out of the 57 customers which are 'corporations' (as opposed to projects or FIs) and where we had data for 2017 and 2019, 40 (or 70%) became more productive between 2017 and 2019. As the graph on the right shows, the degree of change varied widely.
- **But also 40% of corporate customers faced a decline in direct jobs supported.** Increasing productivity could however imply doing more with less staff. Indeed, between 2017 and 2019, 40% of FMO corporate customers reduced their employee count (half of them by 0-10% but also half by more than 10%).

- **Technology drives 60-75% of overall productivity growth globally and FMO's focus on tech is increasing.** Technology has been responsible for 60-75% of overall productivity growth since the 2000s. FMO has been increasing its focus on tech in various sectors (in particular Ventures), but there is no overall 'tech-strategy' yet.





Sustainable growth I Focus on resource efficiency can be strengthened

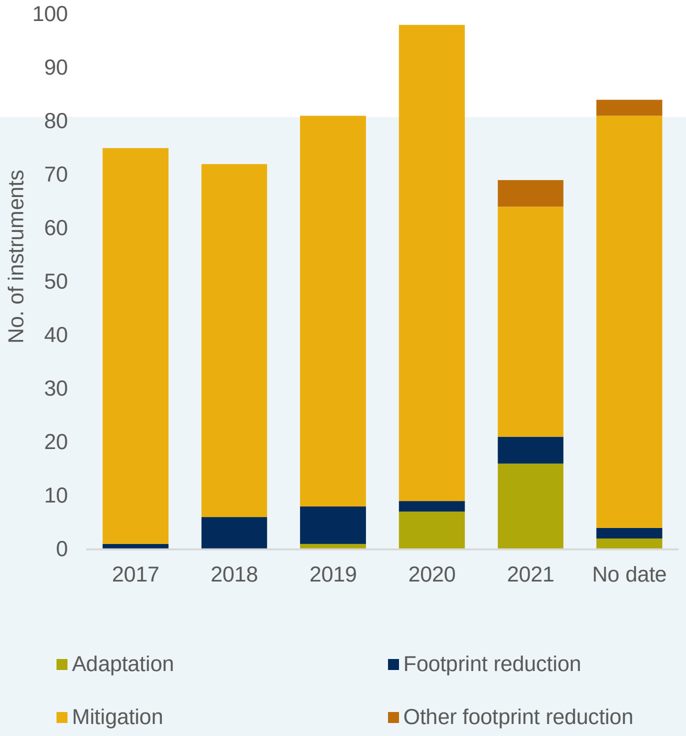
SDG 8 calls for promoting sustainable economic growth by decoupling resource use from economic growth. FMO has a useful tool in place (Green Label), but it does not cover all investment activity and largely reflects renewable energy deals.

- **Green Label deals qualify as "sustainable" investments** - FMO stimulates sustainable economic growth mainly via its Green Label***.** Next to the Label, FMO's ESG approach tackles resource efficiency and pollution risks via IFC PS3. The Green Label incentivizes investments aimed at reducing GHG emissions, increasing resource efficiency and supporting climate adaptation and thereby covers the spirit of the SDG well. However, The Green Label does not cover all FMO investment activity (32% of committed portfolio in 2021).

- **But the Label is currently predominantly used for renewable energy investments -** 88% of all green instruments labelled thus far are classified as 'mitigation' in the form of renewable energy (solar, hydro, wind and other). But decoupling is about reduced use of all types of resources (energy, water, metals, plastics etc.). This also makes economic sense for customers. FMO did label a few transactions focused on *footprint reduction* (e.g. vehicle financing, food waste reduction etc), but they constitute a small minority (6% of Green instruments). It is likely, though, that a focus on more efficient production (incl. on resource use) may already be part of regular investment engagement. Yet given the importance of the theme for climate goals and sustainable growth in general, it is important to ensure a focus on it and promote the use of the Label on this theme as well.

- **Strengthening FMO's approach to resource efficiency key improvement area** – SDG8 calls for *all* economic growth to be sustainable, but currently FMO achieves this focus only on a part of the portfolio (through the Label and PS3*). Moreover, the Green Label is currently predominantly used for renewable energy investments, while resource efficiency is broader.

Composition of current green portfolio as at Dec-21, by no. of instruments and by instrument effective date



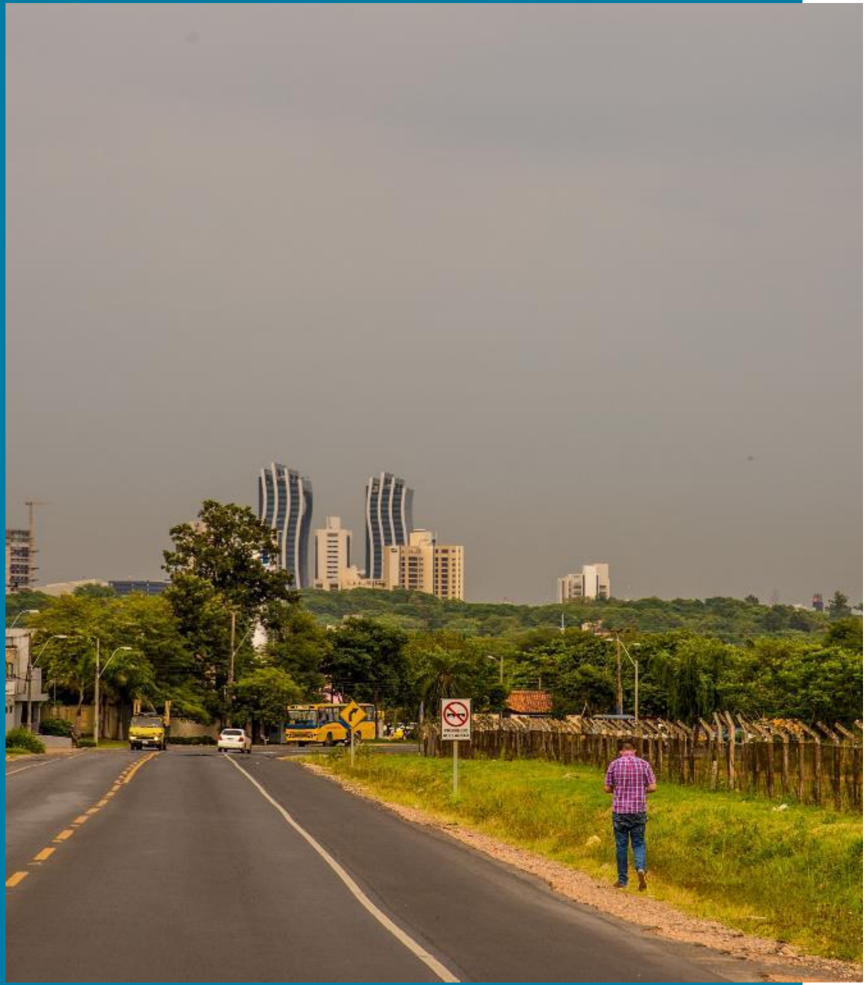
** it also manages resource efficiency risks through IFC PS3, but the effect of that has not been assessed in this evaluation*

SDG 8 progress I Two key attention areas to help foster progress

Comparing FMO's approach and its results achieved on SDG 8 leave two key attention areas: Decent Work and Resource Efficiency

SDG 8 strives for		FMO results (2017 – 2019)	Results aligned with 2030 Goal	Other FMO strategy
Sustained growth	Economic growth (particularly LDCs)	All FMO investments contribute to enabling economic growth. FMO invests relatively more in LDCs: 17% of value add supported is in LDCs while they comprise 5% of aggregate GDP of FMO's countries	Medium	SDG10
	Boosting productivity	No explicit focus on productivity, but 70% of direct corporate customers with available data increased productivity.	Medium	No
	Supporting MSMEs	Strong focus on MSMEs at FI. MSME loan volume by FMO FI customers increased by 25%	High	Partially by SDG10
Inclusive growth	Women & Youth	FMO's support of jobs for women is comparable to national average. Youth is still a minor topic for FMO, though covered as part of RI-label.	Medium	Partially by SDG10
Sustainable growth	Resource efficiency	All economic growth should be sustainable and focused on reducing resource use. No FMO portfolio approach and only 6% of Green deals based on resource efficiency.	Low	Somewhat by SDG13
and Decent Work for all	Jobs supported	In 2019, FMO supported about 400,000 direct and indirect jobs in its markets.	Medium	No
	(as per ILO definition)	There is a lack of evidence to substantiate FMO's progress in pursuit of Decent Work. This is because of imperfect overlap between the Decent Work concept of ILO and IFC PS 2 as well as the imperfect portfolio coverage of FMO's risk-based ESG risk management approach (as only high-risk customers are monitored all-in on IFC PS2).	Low	Partially by ESG and PS2

SDG 8 at FMO's heart



FMO creates a significant and diverse impact on SDG 8

- This evaluation finds that FMO contributes to many dimensions of SDG 8. With *all* that FMO does, higher economic growth in our focus countries is supported by growing the private sector. That helps support the creation of jobs at customer level (~30% are direct jobs), as well as jobs in the wider economy (~70% are indirect jobs). FMO in addition addresses key economic growth bottlenecks with certain investments, by increasing productivity, stimulating innovation and by indirectly financing capital-constrained MSMEs. FMO does this while requiring high-risk customers to uphold international standards to manage their labor and working conditions and engaging with these customers to improve their performance over time.

This matters because these impacts directly link to FMO's main statutory objective…

- FMO's Articles of Association as well as its mandate (Criteria Nota) given by the Dutch Government mention that FMO's primary objective is *to make a contribution to the development of the business sector in developing countries [in the broadest sense] in the interest of the economic and social advancement of these countries*. The "broad sense" of economic development is well captured by the social dimensions and economic fundamentals of the SDG. By adopting SDG 8 as an impact target, FMO thus directly manages the impact that sits at the heart of its mandate.

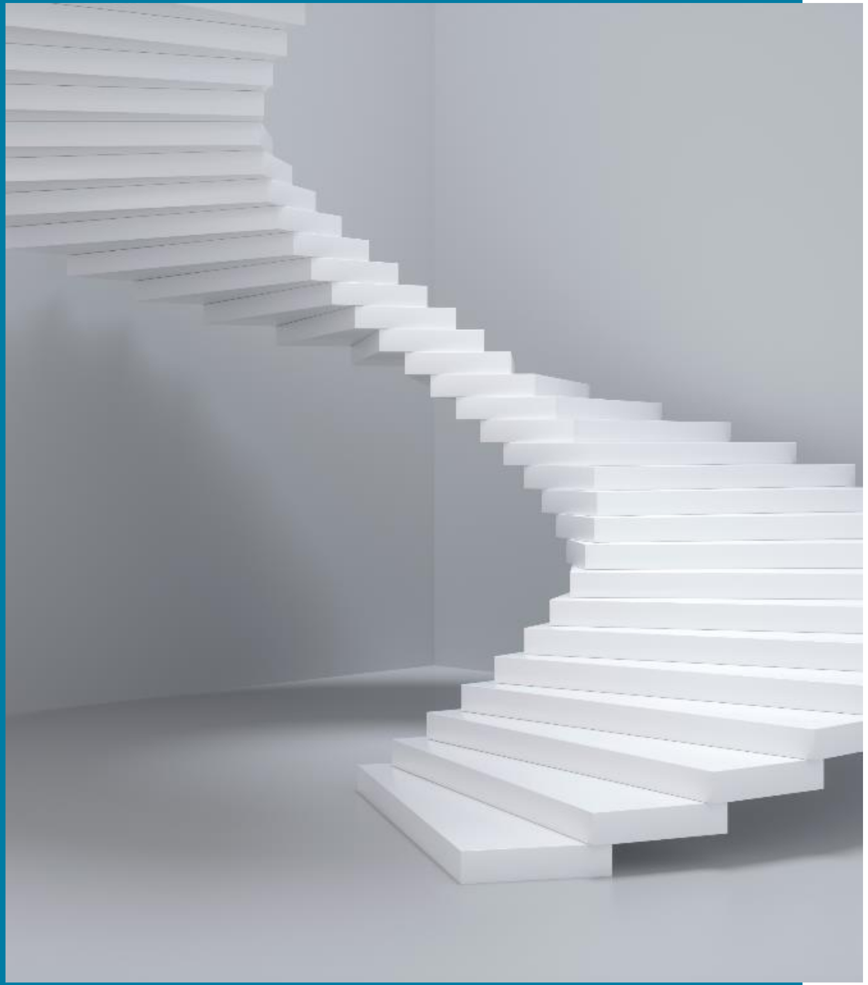
… additionally, because SDG 8 continues to play an important role general global development

- Development is about improving levels of human well-being, and the freedoms that underpin this. That goes beyond growth and jobs, yet they constitute important parts of it. Increasing (the quality of) employment for all is a clear route to higher standards of living and increased availability of (basic) goods and services at lower prices which also raises welfare of consumers. Nevertheless, a direct causal link between increased economic growth and poverty reduction cannot simply be assumed anymore based on recent evidence and needs explicit attention (CDC, 2021).

Thus a call to action: Leveraging strengths to optimize impact performance

- FMO is therefore well placed to make a key contribution to global development via SDG 8. The evaluation found that FMO can leverage some key strengths to create SDG 8 impact and the recommendations that follow identify additional options for further increasing the impact we can have on this SDG.

Recommendations



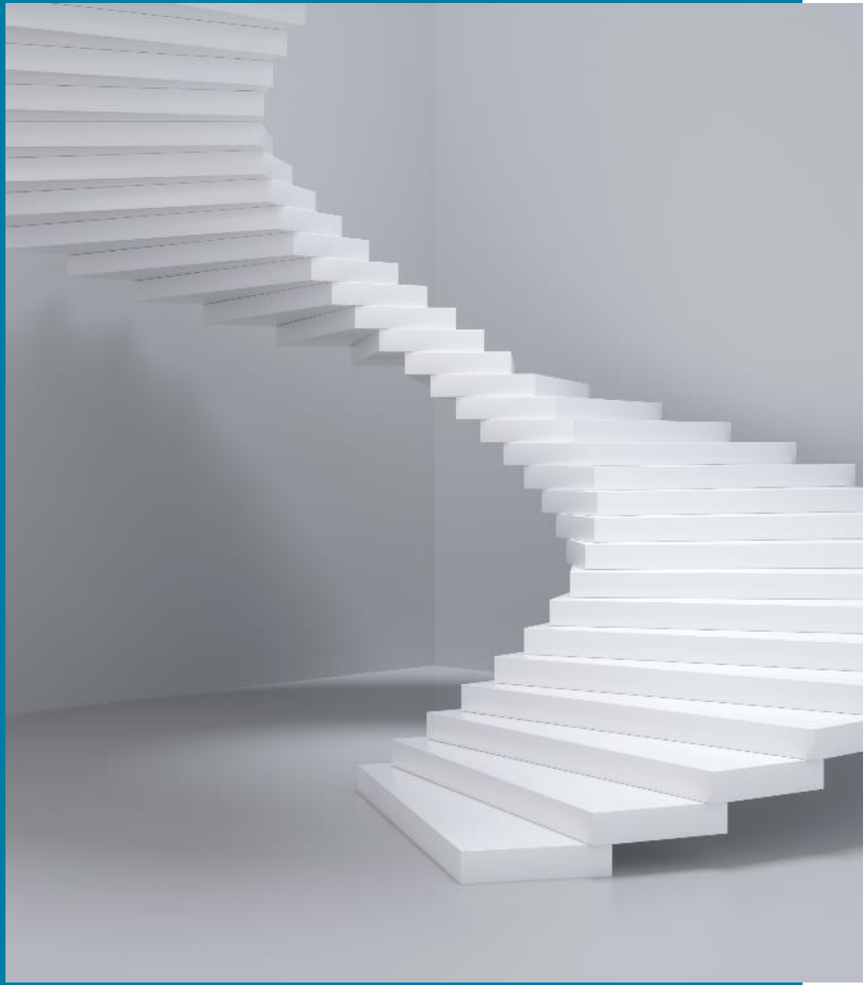
Six recommendations to consider to increase FMO’s impact on SDG 8

We developed six recommendations to help FMO further increase its impact contribution. We base these on the review of FMO’s current SDG 8 impact results, an analysis of what the world needs by 2030 and what peers are doing. The recommendations are ranked by their impact contribution to SDG 8, following the results assessment (slide 12).

1. **Develop a more comprehensive SDG 8 impact strategy**
2. **Clarify the approach and increase transparency regarding Decent Work**
3. **Strengthen the focus on resource efficiency**
4. **Embed an explicit focus on productivity in the SDG 8 impact framework**
5. **Expand coverage on youth and women targeted investments in the RI label**
6. **Report client sales growth ex-post for RI-LDC labelled customers**

Recommendation 1 is mapped outside of the above scale, as it is an overarching recommendation to help develop a more explicit and complete SDG 8 impact framework for FMO. All recommendations are elaborated in more detail in the following slides. The last slide of this summary lists several impact opportunities meant as examples of exemplary SDG 8 impact areas that could be considered by FMO’s investment teams.

Recommendations

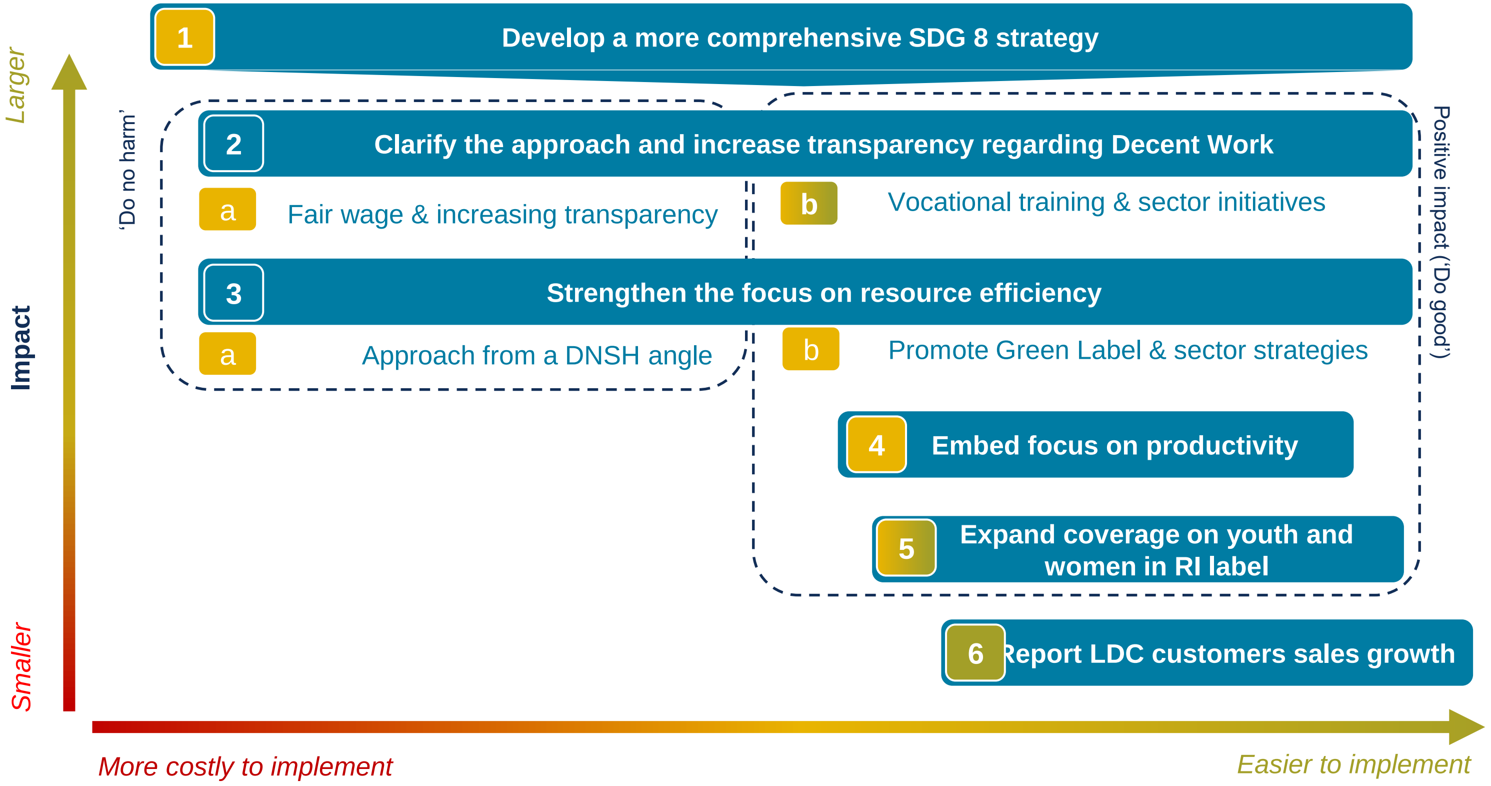


We group the recommendations along three extra dimensions to help FMO further prioritize its follow-up:

1. 'Must do' (follow-up is critical because of compliance with regulations), 'Should do' (because taking SDG 8 seriously implies addressing these gaps) and 'Can do' (relatively easy actions with positive impact on SDG 8, though not critical)

2. How easy or difficult it is to implement the recommendation (a rough indication)

3. Recommendations that create an even more positive impact contribution to SDG 8 and those that create impact from a compliance/do no harm perspective



Recommendation 1

Category I Should do

Develop a more comprehensive SDG 8 impact strategy

1. **Develop a more comprehensive SDG 8 impact strategy**

   Rationale: SDG 8 is one of FMO's three core SDGs, and will continue to be so as part of Strategy 2030. Although at the moment, there is insufficient attention for the full spirit of the impact ambition SDG 8 promotes. There are no specific impact objectives that help to understand how FMO successfully contributes to the SDG. We do measure 'jobs supported', but that is only a narrow reflection of the SDG, and we have no targets related to this. Without more guidance on what the SDG asks for, it risks being treated as an impact goal that is 'automatically reached' with every investment. Although this is not incorrect. FMO's impact contribution can only effectively be enhanced by developing a more specific impact strategy for SDG 8. Consequently, this presents an opportunity since this evaluation has found that FMO creates impact on various elements of the SDG, without those impacts being tracked or acknowledged systematically.

   Recommendation: The Strategy 2030 process and the planned Impact Framework Review should be used to develop a comprehensive impact strategy for SDG 8. This should help increase understanding on what is needed to contribute to SDG 8 impact goals within FMO and help increase the contribution FMO makes towards the goals. In this recommendation, we suggest how the outlines of the strategy could be developed. The recommendations that follow suggest how the strategy could be further detailed. Two dimensions matter for the outlines of the strategy:

- Following best practice in impact management, the strategy should ideally specify how FMO wants to manage its SDG 8 impact across the various ***impact dimensions***: from a vision, to steering, value creation, monitoring, reporting and evaluation, the learnings of which should feed back into improving steering.

- Secondly, the strategy should be based on clear ***impact objectives*** that link directly to the definition of the SDG, so that FMO's strategy towards creating SDG 8 impact is developed top-down based on the SDG definition. FMO's SDG 8 vision could be based on a statement like: ***"FMO aims to promote sustained, inclusive and sustainable economic growth, and more jobs that are Decent by…."***

  FMO should then define an impact objective per element of this definition that links FMO activities to the Goal. A suggestion of what those objectives could include are provided in the first row of the table on the next page.

Recommendation 1

Category I Should do

Develop a more comprehensive SDG 8 impact strategy

Potential outline of the SDG 8 impact strategy

FMO aims to promote					
	sustained,		inclusive,	and sustainable economic growth,	and more jobs that are Decent
…by (impact objectives)	**Boosting productivity & supporting MSMEs**	**Strengthen-ing the private sector in LDCs**	**Making growth work for the bottom 40**, particularly for youth & women	**Taking ambitious climate action and increasing resource efficiency**	**Supporting jobs that are Decent according to SDG 8**
Overlap with FMO strategies	Unique **SDG 8**	**SDG 10**		Partially **SDG 13** partially unique **SDG 8**	Unique **SDG 8**
Steering	Through sector strategies	Through FMO SDG 10 strategy (use of RI Label)		Through SDG 13 strategy, the Green Label and sector strategies.	Through dedicated strategy (across all investments)
Value creation (customers)	*Recommendation 4*	*Recommend-ation 6*	*Recommendation 5*	*Recommendation 3*	*Recommendation 2*
Measurement & Reporting	Track progress and ensure complete and consistent data over time				
Evaluation	Assess contribution towards the goal on activities not well captured quantitatively				

- Due to the comprehensive nature of the SDG, the strategy should retain its scope as covering all FMO business activity and be seen as a ‘horizontal baseline’ of impact ambition that all FMO investments aspire to. **Steering** towards more SDG 8 impact therefore is likely most effectively achieved at portfolio level (and not by a label), by cascading impact requirements through sector strategies, connecting closely to existing FMO strategies on SDG 10 and SDG 13 and potentially by arranging deals to create no significant negative impacts on sustainability and decency (due to expected regulation). More details are provided in the following recommendations that are suggestions for further detailing the framework.

- Since the topics ‘productivity’, ‘resource efficiency’ and ‘Decent jobs’ are those where the impact potential is largest, recommendations 2,3 and 4 are considered ‘should do’ and 5 and 6 are ‘can do’. Some elements of recommendation 2 may become ‘must-do’ in the future, as we would need to fulfil them to be compliant. There are no separate recommendations on ‘measurement and reporting’ and ‘evaluation’, though they are key to the strategy, because the other elements of the framework should be developed first.

Recommendation 2

Category I Should do

Clarify the approach towards Decent Work and increase transparency

2. Clarify the approach and increase transparency regarding Decent Work

Finding: This evaluation could not answer the question whether FMO's jobs are 'Decent' according to the SDG definition (based on ILO), because it is not clear whether wages paid by customers are "fair". Moreover, there is only good information on working conditions (IFC PS2) for ~28% of FMO customers (E&S high risk). Yet, attention from stakeholders around job decency has been increasing. Regulatory pressure is also expected to increase. The current approach to Decent jobs is therefore not likely to be sufficient to meet future stakeholder and regulatory demands.

Recommendation: FMO should therefore clarify its approach to support Decent Jobs in the SDG 8 impact strategy. It should develop a **vision/strategy** that makes clear how FMO aims to support (more) Decent jobs towards 2030, including a definition for Decency and what scope of investments apply (direct or also indirect). It should clarify whether to comply to meeting SDG 8 job decency definition and/or pursue opportunities to improve job quality in a broad sense.

a) From a 'compliance/Do no harm' perspective **at the minimum** is needed to align with SDG 8:

- **On steering:** Adopting a roadmap towards aligning with the "fair income" standard (at least wages which are adequate to satisfy basic needs of workers and their families, as per the OECD guidelines for multinational enterprises). The roadmap should respect sector and country differences and aim for alignment with peers.

- **On measuring, reporting & evaluation:** Progressively increase transparency, reporting and data collection on job decency to complement 'jobs supported'. There will be an increasing need to explain how "decent" FMO jobs supported are, which is currently not being measured systematically. There is no clear methodology in place.

b) Creating more 'positive impact' is possible and should be considered in the strategy as an opportunity:

- **Value creation:** Considering embedding a focus on vocational training as win-win-win for customers, employees and SDG 8 overall (improving human capital also plays a key role in boosting productivity and labour market transitions)

- **Value creation / Market creation:** Embed actions at sector-level through sector-wide initiatives to improve (regulation on) working conditions based on existing experiences gathered (e.g. shipwrecking in Bangladesh). Aim to connect to and support existing sector-led initiatives (see new Decent Jobs study for a compendium of ongoing sector initiatives).

Recommendation 3

Category I Should do

Strengthen the focus on resource efficiency

3. **Strengthen the focus on resource efficiency**

Finding: SDG8 calls for economic growth to be environmentally sustainable: to decouple growth from resource use. That directly matches FMO's vision of supporting a world that supports lives within planetary boundaries. Currently only Green Labelled investments can be argued to contribute to sustainable economic growth, but the bulk of that portfolio is renewable energy (88% of deals). Resource efficiency is broader: it stimulates reduced use of all resources. FMO´s label does cover resource efficiency also, but only 6% of deals relate to it. There may be some additional impact by avoiding resource *in*efficient practices through IFC PS3, but that effects have not been studied.

Recommendation: Supporting 'any type' of economic growth without environmental impacts in mind will not be acceptable for SDG 8 towards 2030. The SDG 8 impact vision should therefore establish how FMO intends to make economic growth sustainable by 2030. A key element of that (on climate) will be covered by FMO's SDG 13 strategy. But, pending the final version of that strategy, the focus on resource efficiency may not be sufficiently featured. The SDG 8 strategy should therefore also explicitly embed the aim to increase resource efficiency across investments towards 2030. The topic is also covered under the theme of 'circular economy' in the EU Environmental Taxonomy, which will apply to FMO. There are two ways of going about resource efficiency (can also be done both):

a) Should do: Approach from 'do no harm'/regulatory perspective: by applying some minimum to resource efficiency and checking whether all FMO investments meet these. This could be operationalized through the FMO E&S risk approach, which covers resource efficiency through PS 3. A more in-depth assessment could be made whether the PS (dated from 2012) meets all requirements from the Taxonomy. Potential additional guidance may be developed. Since this assessment will have to be operationalized to qualify for 'sustainable activities' according to the Taxonomy, it is worth to explore whether applying this DNSH perspective could be applied more broadly.

b) Should do: Approach from 'positive impact' perspective: Notwithstanding the Taxonomy, linking FMO's Green Label also to SDG 8 and increasing its use for resource efficiency activities is a positive impact opportunity. Increasing resource use is a win-win for the climate and FMO's customers, but there is currently little use of the label for this purpose. It is also a theme in the Taxonomy which classifies as ´sustainable investment´ Further, the goal of increasing resource efficiency could be added as corporate impact goal in the sector-specific strategies (like productivity), where specific action could be identified and planned by sector. They could also promote resource efficiency screenings with customers (as done for example by PE already).

Recommendation 4

Category I Should do

Embed an explicit focus on productivity in the SDG 8 impact framework

4. **Embed an explicit focus on productivity in the SDG 8 impact strategy**

Rationale: Increasing productivity of firms creates more economic benefits and development than scaling production. It is the key driver of long-term economic growth and key for a world that needs to sustain 9-10 billion people within planetary boundaries by 2050. However, productivity levels in developing countries are a fraction of what they are in advanced economies and many countries are not catching up. FMO already supports productivity growth at country, sector and client level, but it is not explicitly featured in the FMO impact narrative.

Recommendation: Acknowledge a focus on **promoting productivity** at client, sector and macroeconomic level in the SDG 8 impact strategy as key route to promote *sustained* economic growth. Further strengthening the adoption of technology in FMO sectors and markets should form a key element, but also any other ways of stimulating ‘doing more with less’ should be promoted (notice the overlap with resource efficiency, see recommendation 3). The narrative should acknowledge that increasing productivity may lead to job losses in the short term, but that ultimately net job growth should be positive. And as the adjustment process towards net job growth is not as smooth as in developed countries, FMO also supports facilitating the transition (see recommendation 2 on Decent Jobs).

Steering on increasing productivity at the three levels can be achieved by cascading the focus down into sector strategies and asking sectors how they want to increase productive growth in their sectors. Following guidance provided by sector strategies, FPs should consider introducing a short qualitative justification for the contribution a deal makes to productivity improvements (nearly all deals are likely (and/or should) contribute to productivity enhancements at either client, sector or national level), and the positive impact this has downstream, ideally through higher wages or lower consumer costs, with consideration of how contextual factors can enhance or diminish the impact from a productivity gain (for example, a country with decent levels of education may turn a productivity increase into more opportunities for high-skilled labour).

Measuring and reporting on productivity for direct customers should be done at client level when changes in productivity are expected during the investment lifecycle, in particular for corporate customers. The underlying data needed is already collected as part of BAU, so does not result in more client requests (it is not yet used for this purpose). The proxy indicator (total revenues/total employees) is a necessary complement to the ‘jobs supported’ indicator for those customers where productivity enhancement is the main objective.

Recommendations 5 & 6

Category I Can do

Link the FMO SDG 8 strategy to SDG 10 and strengthen the focus on women, youth

5. **Expand coverage on youth and women in the RI label**

   Finding: Youth and women remain the most disadvantaged groups in labour markets in developing countries. SDG 8 therefore places particular focus on these two groups. COVID has also hit both groups disproportionally hard. Especially ECA and MENA have high rates of young females not in education, employment or training (NEET). Via SDG 10 (RI label) and SDG 5, both groups already feature in FMO's impact strategy. The RI label only focuses on youth and women as entrepreneurs, though, and not as employees or students. Through our data, we know FMO's support of jobs for women is comparable to national average. Yet, youth is a small but growing topic in FMO, with increasing RI-youth labelled volumes, particularly in ECA, and a CD project focused on youth currently ongoing.

   Recommendation: The SDG 8 strategy should aim to progressively increase its impact on youth and women towards 2030 by linking to FMO's SDG 10 strategy. The RI label should also be considered to be expanded in scope beyond women and youth as entrepreneurs to include investments towards education and/or employment for women and youth in particular, both of which are key areas for long term sustained economic growth. It could for example be considered whether business with a certain share of women or youth in employment could qualify for the RI label. From a global gap assessment, it also becomes clear that the MENA region can be further promoted as focus region for investments in women and youth.

6. **Report client sales growth ex-post for RI-LDC labelled customers**

   Finding: SDG 8 has a special focus on LDCs, by acknowledging that they need economic growth the most, ideally "*at a level of at least 7% growth per year*". Most LDCs have not reached this target in the past 20 years and the absolute GDP/capita gap is widening with non-LDCs. FMO's total value added supported in LDCs from 2017-2019 is relatively stable at 17%. This may be considered a 'good' result given that their economies make up only 3% of total GDP of all FMO focus countries, but the global need to develop them has not waned.

   Recommendation: The SDG 8 strategy should acknowledge the focus on LDCs and link to FMO's strategy on SDG 10 for its operationalization (via the RI label). **Measurement and reporting** on the need to promote economic growth in LDCs could be strengthened with a small update to FMO's RI Label: Measure revenue growth for corporate customers that received the RI-LDC label year on year and report on the number of customers that managed revenue growth of at least 7% (as proxy for SDG 8). The data for this is already available and collected, so does not result in an additional reporting burden for customers.

Opportunities

…to further explore for increasing SDG 8 impact based on the potential SDG 8 impact framework.

Based on the work done, we also came across a number of themes that link strongly to the SDG 8 impact. They can be considered opportunities from an investment perspective that can strongly contribute to meeting the SDG 8 impact ambitions. They related to the FMO capabilities and the key gaps to SDG 8 world progress.

While we do believe them to be promising opportunities to review and explore further to increase FMOs SDG 8 impact, no detailed assessment on their fit for FMO was done (pending the outlook of the SDG 8 impact framework)

At FMO we aim to promote….		Example of opportunities to explore	Sector
Sustained growth	Boosting productivity, e.g. through tech	**MSMEs & tech –** MSMEs are generally unproductive. FMO could focus on further extending digitalization with FI customers towards opportunities for MSMEs	
	Supporting MSMEs	**MSMEs & public-sector banks –** FMO's mandate does not allow working with public-sector banks, but many MSMEs globally are served through them (in particular in ECA). Finding a way to reach those MSMEs without support to the public bank at large could present a large opportunity (but may be difficult to realize).	
Sustainable growth	Resource efficiency	**Resource efficiency screenings –** Already part of PE practices, which could be rolled-out further. Energy efficiency is a key theme also for SDG13 going forward. Resource efficiency for MSME portfolio can also be considered as win-win from a commercial lens	
		Circular economy models – Reducing food waste, leasing schemes, use of by-products etc can all contribute to reducing resource use (e.g. in agri). It's a key theme for the EU Taxonomy also.	
Inclusive growth		**Fintech & remittances –** The remittances sector is characterized by high transaction costs. Fintech has the great potential to disrupt and bring down transaction costs.	
and more Decent Work for all	Jobs supported	**Using the JIM to identify opportunities which support a particularly high number of jobs -** Despite the importance of productivity for SDG 8, supporting jobs remains important also as development pathway. More details here.	
	Decent Work		