

## FMO's Green Methodology 2019





# CONTENT

1. Introduction. ....	3
1.1 Our strategy .....	3
1.2 Green principles .....	3
1.3 Scope.....	4
2. Green criteria. ....	5
2.1 Green categories .....	5
2.1.1 Climate change mitigation .....	5
2.1.2 Climate change adaptation.....	5
2.1.3 Other footprint.....	6
2.2 Eligibility and criteria .....	6
3. Green investments. ....	7
3.1 Direct investments .....	7
3.2 Indirect investments .....	7
3.3 Partner institutions.....	7
3.4 Pre-approved certifications .....	8
4. Green label process .....	9
4.1 Internal process .....	9
4.2 Documentation .....	9
4.3 Assurance.....	10
Annex 1: Green Label eligible categories.....	11
Annex 2: Green Taxonomies. ....	15

# 1. Introduction

Since 1970 we have been a driving force behind investments empowering local entrepreneurs in emerging markets. We believe in a world in which, in 2050, more than 9 billion people live well and within the means of the planet's resources. We invest with the aim of enhancing local prosperity in emerging markets. And take risks that the commercial banking sector is not willing to take. We focus on the private sector in the following three sectors: Energy, Financial Institutions and Agribusiness, Food & Water. Through our investments in these industries we empower entrepreneurs to build a better world.

## 1.1 Our strategy

In 2017, we launched our renewed strategy as part of our endeavours to contribute to a world in which, in 2050, more than 9 billion people live well and within the means of the planet's resources. Our strategy calls on us to create a higher impact portfolio, deepen our relationships and increase productivity. Through our financing and investments, we enhance our and others' impact and can contribute to a sustainable society on a live-able planet. We support the 17 United Nations Sustainable Development Goals (SDGs) and aim to contribute to their achievement through our mission and activities. In doing so, we focus on three key SDGs: creating decent work and economic growth (SDG 8), reducing inequalities (SDG 10) and taking climate action (SDG 13). For climate action, FMO's ambition is to have an investment portfolio which is aligned with a 1.5° pathway. One way to support this ambition is to grow our "Green" portfolio, which is aimed at reducing greenhouse gas emissions, increasing resource efficiency, preserving and growing natural capital, and supporting climate

adaptation. The current "Green methodology" document describes our Green criteria (Chapter 2), eligible investments (Chapter 3) and our internal green label process (Chapter 4). The annex provides a long list of eligible activities and a comparison of our methodology with other Green Taxonomies.

This document describes FMO's Green Methodology that has been applied throughout 2019 and should be read in conjunction with the Annual Report 2019.

## 1.2 Green principles

FMO's Green Definition is based on the existing common Principles of Climate Mitigation as defined in the Multilateral Development Banks (IDFC-MDB) report for Climate Finance Tracking<sup>1</sup>. All green investments should meet FMO's Green Principles, detailed below.

***Principle 1: Green investments contribute to a genuine improvement.***

Principle 1 is respected if:

- The improvement goes beyond the local regulatory requirements ("a genuine improvement").
- The improvement is unrelated to local resources stress.
- The improvement is sustainable throughout the value chain of an industry or a business.

***Principle 2: Green investments should not contribute to a long-term lock-in of high carbon infrastructure.***

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<sup>1</sup> Download the report [here](#).

### 1.3 Scope

The **ex-ante** green labelled investments are one of FMO's key performance indicators and disclosed in the (semi-) Annual Report. The volume of Green investments includes a decrease or increase in an existing commitment for an existing client, a new commitment for an existing client, or a new commitment for a new client. The volume of Green investments includes investments from FMO's own books, funds managed on behalf of the Dutch government and mobilized funds.

Mobilized funds are amounts committed by third parties that are demonstrably mobilized by FMO. This includes participations that were on FMO's own books in earlier years and sold on to other investors in the running year, as well as guarantees provided by third parties on investments on FMO's existing portfolio.

All green labelled investments need to comply with two underlying Green Principles as described above.

FMO is committed to move towards **ex-post measurement** of the impact it expects to generate during the upfront commitments. This commitment is enforced by the sixth IFC Operating Principle for Impact Measurement which requires its signatories to monitor the progress of each investment in achieving impact against expectations and respond appropriately.





## 2. Green criteria

### 2.1 Green Categories

FMO defines three sub-categories under the Green Definition:

- **Climate change mitigation.**
- **Climate change adaptation.**
- **Other footprint.**

#### 2.1.1 Climate change mitigation

An activity is climate change mitigating if it contributes to either, avoiding or reducing greenhouse gas (GHG) emissions, or sequestering GHG emissions from the atmosphere. If the project or activity relates to Energy efficiency, it should achieve at least 20% reduction in energy consumptions or GHG emissions.

FMO's definition for climate change mitigation is based and largely in line with the IDFC-MDB joint methodology for climate change mitigation<sup>2</sup>. A full list of potentially eligible climate mitigation activities is provided in Annex 1.

#### 2.1.2 Climate change adaptation

An activity is considered as climate change adaptation if the intention of the activity or project design is to reduce the vulnerability of human or natural systems to the impacts of climate change, by increasing adaptive capacity and resilience.

FMO's definition for climate change adaptation is based and largely in line with the IDFC-MDB joint methodology for climate change adaptation<sup>3</sup>. In order for an activity to become eligible for the Green label, an adaptation-related activity needs to demonstrate that it meets the main Principles and potentially contributes to reducing the vulnerability to the impacts of climate change identified in the project area, and that the following should be provided as substantiation:

- A description of the context of climate vulnerability of the project and its geographical area.
- An explicit statement of intent to address climate vulnerability as part of the project. This should be supported by an analysis of the project's planned activities to decipher a positive list of actions that can contribute to reducing vulnerability, or strengthening the resilience of communities, goods, or ecosystems to climate change.

The categories of eligible climate adaptation mitigation activities are described in Annex 1.

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<sup>2</sup> Annex C: "Joint Methodology for tracking climate change mitigation finance" of the 2018 Joint report on MDBs climate finance.

<sup>3</sup> Annex B: "Joint Methodology for tracking climate change adaptation finance" of the 2018 Joint report on MDBs climate finance.

### 2.1.3 Other footprint

This category includes those activities that do not directly target climate change mitigation or adaptation yet have a positive impact on the environment including water treatment, waste management and biodiversity conservation.

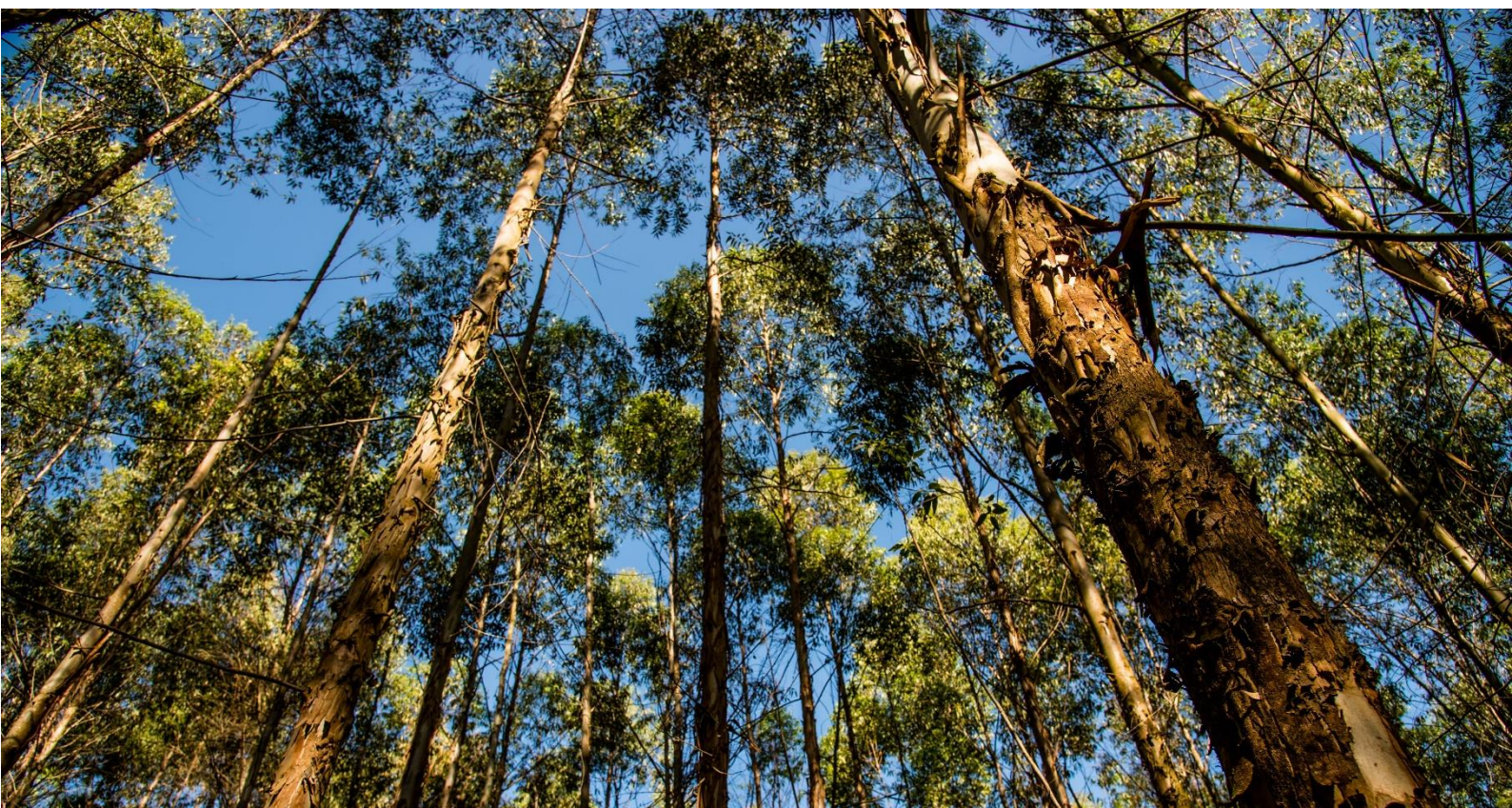
## 2.2 Eligibility and criteria

Based on these Principles, FMO has defined a non-exhaustive list of pre-approved eligible activities (Annex 1). Improvements that are not included on this list, may still be found eligible as they meet the Green Principles. Demonstrating improvements as required per Principle 1 (section 1.2) can include:

- **Upgrade:** If the investment going towards an activity/equipment that is 20% more efficient than what it is replacing, FMO's investment will be labelled 'Green' based on the amount of FMO's investment going towards that specific upgrade.

amount of FMO's investment going towards that specific expansion.

- **Greenfield:** If the investment going towards an activity that is 20% more resource efficient than the current business as usual practice, FMO's investment will be labelled as 'Green' based on the amount of FMO's investment going towards that specific greenfield.
- **Best available technology (BAT):** In the case where collecting information or proving above-mentioned criteria is not possible, green label can also be obtained based on the substantiation that the investment is going towards the best available technique (BAT) - the most resource efficient technology or approach that is widely available and applicable today. This is only possible if the investment complies with FMO's two Green Principles.





# 3. Green investments

## 3.1 Direct investments

All green labelled investments need to comply with the two underlying Green Principles (section 1.2). As a development finance institution our investments can either be directed towards a certain activity or towards a client.

1. **Green Client:** Investments that are going towards companies that make, distribute, install and/or finance renewable energy projects/products as their core business, companies that have wastewater treatment or recycling as their core business or companies that have FMO's pre-approved certifications.
2. **Green Activity:** Investments going towards activities of a company that are considered as 'green' by FMO.

FMO disaggregates green activities from non-green financed activities through a reasonable level of data granularity. For example, a project with a total cost of EUR 100 million may have a EUR 10 million component for energy efficiency improvements – only the EUR 10 million should be allocated.

If the use of funds cannot be specified, as FMO is financing working capital, the green volume may be calculated pro-rata based on the percentage of green activities as a share of the assets or revenues of the client e.g. if an agricultural holding has 30% of its revenues generated from operations certified under a pre-approved FMO certification while the rest are not certified or don't have other underlying green elements then the green percentage for that investment will be limited to 30%.

## 3.2 Indirect investments

FMO provides **Green credit lines** to foster Green lending opportunities for financial institutions. A contractual "use of funds" clause obliges our clients to use the funds to finance eligible investments in all regions. These activities are specified in a "Master Green List" which is derived from our Green Definition. The list is periodically updated as new developments emerge (e.g. new certifications, technologies etc). This list should be included in

term facility agreements (TFA) to ensure that lending operations of FMO's clients meet the criteria for green lending. In case only a share of the funds will be used for eligible Green activities, the Green label will be applied pro-rata.

For **investments in equity funds**, the Green Label is assigned in case more than 50% of the fund's expected pipeline or portfolio volume is in activities that FMO considers eligible for Green. Hence the Green Label for PE funds is either Green (100%) of the Fund or is not Green (0%). If the investment is going towards a succeeding fund with the same strategy, substantiation can also be provided based on the previous fund's portfolio. Furthermore, the overall mandate and strategy of the fund under assessment for the green label is also taken into account.

## 3.3 Partner institutions

FMO has identified certain Development Finance Institutions (DFIs) as Expert Partners as it considers their Green approach to be sufficiently robust. In case of a co-investment, FMO will consider the transaction per definition eligible for a Green label in case the deal is also labelled as Green (or equivalent) by the Expert Partners. FMO requires the provision of evidence in the form of correspondence from the above-mentioned DFIs articulating the categorization of a specific investment as 'Green' (or equivalent).

### 3.4 Pre-approved certifications

FMO conducted an assessment of certain certifications in compliance with the practices/measures that result in an improvement of positive environmental impacts and/or reduction of negative environmental impacts. The assessment was based, amongst other factors, on strict measures/principles in place for zero deforestation and biodiversity loss. Some certifications like USDA Organic Standard are excluded from this list because they do not have strict measures/principles in place to prevent deforestation. These certifications can still be eligible for 'Green Label' if the certification can be complemented with internal policies that prevent deforestation.

There are three different 'Green Label' outcomes applicable to investments that involve one of the certifications mentioned below:

1. If the investment is going towards a client that is certified by one of the certification authorities mentioned below and complies with all the Green Principles, it will be labelled as 100% green.
2. If the investment is going towards a part of the company's operation that has one of the certifications mentioned below, the 'Green Label' % will be allocated based on FMO's investment going towards that specific certified activity.
3. In the case where the company doesn't have any certification as yet, but plans on obtaining one of the certifications mentioned below as a part of Environmental and Social Action Plan (ESAP), the deal will be labelled as 'Green' based on

FMO's investment going towards that to-be-certified activity or the certification itself.

#### List of Pre-approved Certifications:

- UTZ Certified
- Roundtable for Sustainable Palm Oil Next - (RSPO Next)\*
- Roundtable on Sustainable Biomaterials (RSB)
- Roundtable on Responsible Soy (RTRS)
- Better Cotton Initiative
- The Intercultural Federation of Organic Agriculture Movements (IFOAM)
- ProTerra
- Soil Association
- Bonsucro
- ISCC PLUS (Food, Feed, Bio-based products, Energy, Biofuels outside EU)
- Aquaculture Stewardship Council (ASC)
- Aquaculture Stewardship Council Tilapia (ASC Tilapia)
- Marine Stewardship Council (MSC)
- Forest Stewardship Council (FSC)
- Programme for the Endorsement of Forest Certification (PEFC)
- Rainforest Alliance Certification
- LEED Gold or Platinum Certification (Green Buildings)
- ISCC EU (only for biofuels)

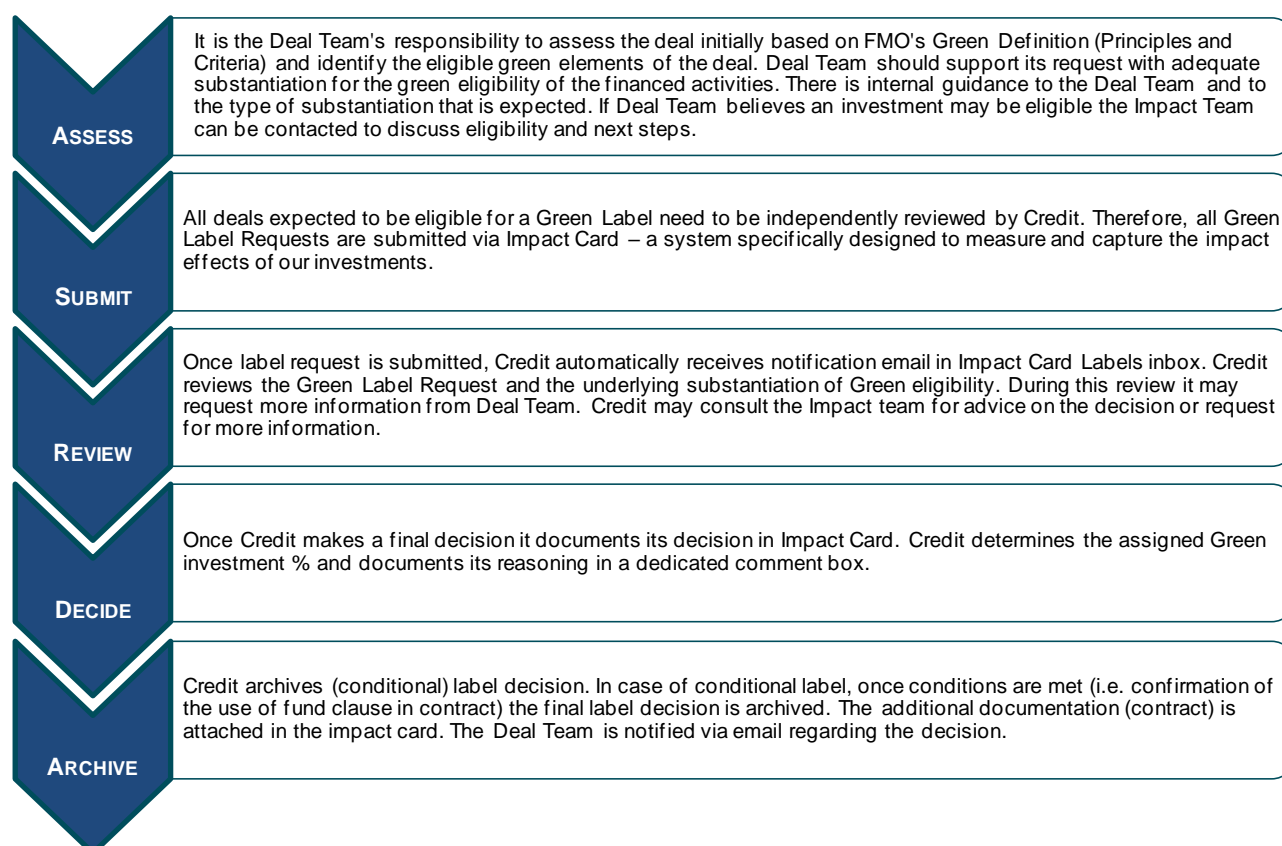
\*RSPO stand alone, without the voluntary effort (Next), can also be considered as an eligible certification for a 'Green Label' as long as policies and/or efforts towards deforestation can be illustrated.



## 4. Green label process

### 4.1 Internal process

All labels are assigned on a facility level.



### 4.2 Documentation

The type of evidence that is required to demonstrate that FMO's investments are used for green activities differs per investments. In general, the following requirements apply:

- Investments in **renewable energy projects** receive a green label after a check with the Financing Proposal (FP). Credit checks and documents with underlying contracts that the proceeds will go to projects that meet the definition in the green list.
- Investments in **green lines** are labelled as green as long as the proceeds are allocated towards activities that captured on the "Master Green List".
- For investments in **agricultural projects** green eligibility is more difficult to assess. Labels can be granted in case the client or the targeted operation has, or intends to have, a pre-approved certification. Alternatively, a label can be granted, provided that the implementation of more sustainable agricultural practices has been verified/ validated.
- Investments in **private equity funds** are granted a label based on the pipeline of a fund, its mandate and predecessors' funds where applicable. The Green Label is assigned fully (100%) in case more than 50% of the fund's expected pipeline or portfolio volume supports activities that FMO considers eligible for Green.

### 4.3 Assurance

EY, FMO's external auditor, has performed an assurance engagement with a limited level of assurance on the sustainability information in specific chapters of FMO's 2019 Annual Report and **reasonable assurance** on the Green investments and Materiality Matrix.

The reasonable assurance on Green Investments is an integrated part of the overall assurance engagement on the sustainability information and therefore no specific assurance is provided on the Green Investments standalone. Please refer to the combined independent auditor's and assurance report as included in FMO's 2019 annual report.

Under FMO's Sustainability Bond Framework, FMO engages with Sustainalytics each year to review projects funded by the Green \ Social \ Sustainability Bond in order to assess the compliance of projects with the use of proceeds criteria of the bond. Sustainalytics reviews a broad sample of projects from the total allocated projects in order to determine whether or not they meet the use of proceeds criteria defined in the framework and provides a report of the evaluation. In an unlikely event that a project did not meet the use of proceed criteria, FMO would reallocate the bond funds to a different project that is aligned with the criteria.





# Annex 1: Green Label eligible categories

The tables below present the full list of eligible activities for the Green Label.

A) ELIGIBLE GREEN ACTIVITIES UNDER CLIMATE CHANGE MITIGATION	
1. RENEWABLE ENERGY	
<b>1.1 Electricity Generation</b>	Wind power
	Realization of geothermal power generation - no net positive impact established yet
	Realization of geothermal power generation - net positive impact needs to be established
	Solar power (concentrated solar power, photovoltaic power)
	Biomass or biogas power that does not decrease biomass and soil carbon pools (only if net emission reductions can be demonstrated)
	Realization of 2nd generation waste biomass or biogas power generation (i.e. From agri waste or landfills) because it does not decrease biomass and soil carbon pools (preferably with demonstrated expected annual GHG avoidance)
	Ocean power (wave, tidal, ocean currents, salt gradient, etc.)
	Realization hydropower generation with Power Density (installed capacity / inundated area) > 4 W/m <sup>2</sup>
	Realization of hydropower generation with (installed capacity)/ (inundated area) < 4 W/m <sup>2</sup> ; only if net emission reductions can be demonstrated
<b>1.2 Heat Production or other renewable energy application</b>	Solar water heating and other thermal applications of solar power in all sectors
	Thermal applications of geothermal power in all sectors
	Wind-driven pumping systems or similar
	Thermal applications of sustainably produced bioenergy in all sectors, incl. efficient, improved biomass stoves
<b>1.3 Transmission &amp; Distribution systems</b>	<b>Greenfield Transmission:</b> New transmission systems (lines, substations) or new systems (e.g., new information and communication technology, storage facility, etc.) and mini grid to facilitate the integration of renewable energy sources into the grid
	Renewable energy power plant retrofits
	<b>Greenfield Distribution Expansion:</b> Connecting new users to the grid that under a business as usual (BAU) scenario use GHG intensive power sources e.g. use diesel generators for power production
	<b>Brownfield Network Upgrade:</b> Improving the dispatch of electricity from low carbon generation and reduce curtailment of renewable energy through an interconnection, or reducing losses and improving energy efficiency through ultra-high voltage transmission lines, retrofit of substations, distribution systems and/or technical losses, excluding capacity expansion
	<b>Indirect Improvement:</b> Other investments in the grid structure that are a prerequisite to prepare the grid for a planned national increase in Renewable Energy generation (as evidence by the Intended Nationally Determined Contributions); or (at a minimum) maintain the current share of Renewable Energy produced electricity in the grid
2. HEAT PRODUCTION OR OTHER RENEWABLE ENERGY PRODUCTION	
<b>2.1 Power Plants</b>	Thermal power plant retrofit to fuel switch from a more GHG-intensive fuel to a different, less GHG-intensive fuel type
	Conversion of existing fossil-fuel based power plant to co-generation technologies that generate electricity in addition to providing heating/cooling
	Waste heat recovery improvements
	Energy-efficiency improvement in existing thermal power plant
3. ENERGY EFFICIENCY	
<b>3.1 Brownfield energy efficiency in industry</b>	Industrial energy-efficiency improvements through the installation of more efficient equipment, changes in processes, reduction of heat losses and/or increased waste heat recovery
	Installation of co-generation plants that generate electricity in addition to providing heating/cooling
	More efficient facility replacement of an older facility (old facility retired)
<b>3.2 Brownfield energy efficiency in commercial, public, residential sectors (buildings)</b>	Energy-efficiency improvement in lighting, appliances and equipment
	Substitution of existing heating/cooling systems for buildings by co-generation plants that generate electricity in addition to providing heating/cooling
	Retrofit of existing buildings: Architectural or building changes that enable reduction of energy consumption

<b>3.3 Brownfield energy efficiency in public services</b>	Energy-efficiency improvement in utilities and public services through the installation of more efficient lighting or equipment, and loss reduction
	Rehabilitation of district heating systems
	Utility heat loss reduction and/or increased waste heat recovery
<b>3.4 Vehicle energy efficiency fleet retrofit</b>	Existing vehicles, rail or boat fleet retrofit or replacement (including the use of lower-carbon fuels, electric or hydrogen technologies, etc.)
<b>3.5 Greenfield energy efficiency in commercial and residential sectors (buildings)</b>	Use of highly efficient architectural designs, energy efficiency appliances and equipment, and building techniques that reduce building energy consumption, exceeding available standards and complying with high energy efficiency certification or rating schemes
<b>3.6 Green Buildings</b>	Green Buildings certified by LEED (only LEED Gold or Platinum certification qualifies) or IFCs EDGE Tool
	Green Buildings, not yet certified or certified under another scheme
<b>4. AGRICULTURE, FORESTRY AND LAND USE</b>	
<b>4.1 Agriculture</b>	Reduction in energy use in traction (e.g. efficient tillage), irrigation, and other agriculture processes
	Agriculture projects that do not deplete and/or improve existing carbon pools (reduction in fertilizer use, rangeland management, collection and use of bagasse, rice husks, or other agricultural waste, low tillage techniques that increase carbon contents of soil, rehabilitation of degraded lands, etc.)
	Projects or companies that lead to expanded sustainable/green output in line with one of the following certification schemes (company itself or the specific project needs to be or become certified): UTZ Certified, Better Cotton Initiative, Roundtable for Sustainable Palm Oil (RSPO), Roundtable on Sustainable Biomaterials (RSB), Roundtable on Responsible Soy (RTRS), The Intercultural Federation of Organic Agriculture Movements (IFOAM), Proterra, Soil Association or Bonsucro
<b>4.2 Aquaculture</b>	Projects or companies certified under one of the certification schemes: Aquaculture Stewardship Council (ASC), Aquaculture Stewardship Council Tilapia (ASC Tilapia). In case of a company with certified and uncertified production/processing, the financing has to be targeted specifically at the certified element or applied to the process towards certifications/activities
<b>4.3 Fisheries</b>	Projects or companies certified under one of the certification schemes: Marine Stewardship Council (MSC). In case of a company with certified and uncertified production/processing, the financing has to be targeted specifically at the certified or applied to the process towards certification
<b>4.4 Afforestation and reforestation, and biosphere conservation</b>	Afforestation (plantations) on non-forested land
	Reforestation on previously forested land
	Sustainable forest management activities that increase carbon stocks or reduce the impact of forestry activities
	Biosphere conservation projects (including payments for ecosystem services) targeting reducing emissions from the deforestation or degradation of ecosystems
	FSC and/or PEFC Certification
	Rainforest Alliance Certification
<b>4.5 Livestock</b>	Livestock projects that reduce methane or other GHG emissions (manure management with biogas, etc.)
<b>4.6 Biofuels</b>	Production of biofuels (including biodiesel and bioethanol)
<b>5. NON-ENERGY GHG REDUCTIONS</b>	
<b>5.1 Fugitive emissions</b>	Reduction of gas flaring or methane fugitive emissions in the oil and gas industry
	Coal mine methane capture
<b>5.2 Carbon capture and storage</b>	Projects for carbon capture and storage technology that intend to prevent release of large quantities of CO <sub>2</sub> into the atmosphere from fossil fuel use in power generation, and process emissions in other industries
<b>5.3 Air conditioning and refrigeration</b>	Retrofit of existing industrial, commercial and residential infrastructure to switch to cooling agent with lower global warming potential
<b>5.4 Industrial processes</b>	Reduction in GHG emissions resulting from industrial process improvements and cleaner production (e.g. cement, chemical), excluding carbon capture and storage
	Reduction in GHG emissions resulting from industrial process improvements and cleaner production (e.g. cement, chemical) demonstrated by >20% GHG efficiency or resource efficiency improvement
<b>6. WASTE AND WASTEWATER</b>	
<b>6.1 Wastewater</b>	Treatment of wastewater if not a compliance requirement as part of an industrial process (only if net emission reductions can be demonstrated).



<b>6.2 Waste</b>	Waste management and waste-to-energy projects that reduce methane emissions and generate energy (e.g. incineration of waste, landfill gas capture, and landfill gas combustion)
	Waste-recycling projects that recover or reuse materials and waste as inputs into new products or as a resource (only if net emission reductions can be demonstrated).
	Sanitation projects with proper waste treatment if it replaces open defecation.
<b>7. TRANSPORT</b>	
<b>7.1 Urban transport modal change</b>	Urban mass transit
	Non-motorized transport (bicycles and pedestrian mobility)
<b>7.2 Transport oriented urban development</b>	Integration of transport and urban development planning (dense development, multiple land-use, walking communities, transit connectivity, etc.), leading to a reduction in the use of passenger cars
	Transport demand management measures to reduce GHG emissions (e.g., speed limits, high-occupancy vehicle lanes, congestion charging/road pricing, parking management, restriction or auctioning of license plates, car-free city areas, low-emission zones)
<b>7.3 Inter-urban transport</b>	Railway transport ensuring a modal shift of freight and/or passenger transport from road to rail (improvement of existing lines or construction of new lines) - no GHG avoidance estimate available
	Waterways transport ensuring a modal shift of freight and/or passenger transport from road to waterways (improvement of existing infrastructure or construction of new infrastructure) - no GHG avoidance estimate available
	Railway or Waterways transport ensuring a modal shift of freight and/or passenger transport from road to rail or water (improvement of existing lines or construction of new lines) if 3rd party verified GHG avoidance estimated aligning with the IFI harmonized GHG accounting approach for Transport Modal Shift
<b>7.4 Engine upgrades</b>	Engine upgrades resulting in particulate matter, NOx and/or SOx reductions of >20% if the upgrade does not increase levels of other pollutants
<b>8. LOW-CARBON TECHNOLOGIES</b>	
<b>8.1 Products or equipment</b>	Projects producing and/or distributing components, equipment or infrastructure dedicated for the renewable and energy efficiency sectors
<b>8.2 Financing instruments</b>	Carbon Markets and finance (purchase, sale, trading, financing and other technical assistance. Includes all activities related to compliance-grade carbon assets and mechanisms, such as CDM, JI, AAUs, as well as well-established voluntary carbon standards like the VCS or the Gold Standard.
	Greenline financing for purely renewable energy and/or water/material/pollution/energy efficiency >20% improvement (re)-financed through a financial intermediary (earmarked with use-of-funds clause)
	Greenline financing for <b>non-renewable</b> energy and <b>non-energy</b> efficiency financing through new financial intermediaries or similar (e.g. earmarked lines of credit; lines for microfinance institutions, cooperatives, etc.) (earmarked with use-of-funds clause) including activities/projects under 'white list' (provide link) mentioned in the 'FI Green Master List'
	Greenline (co)-financing for renewable energy and energy efficiency (re-)financing through financial intermediaries that are existing Green Partners (Green for Growth Fund (GfGF) and Climate Global Partnership Fund (CGPF)) (earmarked with use-of-funds clause)
	Greenline (re)-financing the conversion of vehicles to CNG through financial intermediaries (earmarked with use-of-funds clause)

**B) ELIGIBLE GREEN ACTIVITIES UNDER CLIMATE CHANGE ADAPTATION**

<b>10 Activities Addressing Climate Vulnerability</b>	Activity or technology that addresses the local climate vulnerability by strengthening the resilience or communities, goods, or ecosystems to climate change (see the 'Adaptation Examples' tab or the MDB Climate Finance Report for examples)
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**C) ELIGIBLE GREEN ACTIVITIES UNDER OTHER FOOTPRINT**

<b>11.1 Biodiversity</b>	Financed activity is either contributing to conserving/increasing biodiversity, or the core business/aim of the project is to conserve or increase biodiversity
	The transition to, or maintenance of, silvo-pastoral systems, if no conversion of natural land is involved.
	Financed activity is either contributing to pollution mitigation (beyond regulatory compliance) or the core business/aim of the project is to mitigate pollution (beyond regulatory compliance)
<b>11.2 Pollution mitigation</b>	Wastewater treatment as the core business of the project (not part of specific industrial process)
	Company's core business is cleaning up hazardous waste sites (i.e. soil remediation and mine rehabilitation)
	Financed activity is contributing to or the core aim of the project is to conserve natural resources (i.e. land, water, forests, materials)
<b>11.3 Conservation of natural resources</b>	Recycling /solid waste collection and treatment as the core business of the project
	Company's core business is the remanufacture of products (or extend their lifecycle in other ways), servitisation or complete circular economy business models



# Annex 2: Green Taxonomies

## A.1 IDFC-MDB joint methodology

All green investments should meet FMO's two Green Principles, namely that Green investments contribute to a genuine improvement, and should not contribute to a long-term lock-in of high carbon infrastructure. For the activities for climate adaptation and mitigation, the criteria are based and largely in line with the IDFC-MDB joint methodology.

FMO's definition of Green is broader than that of the IDFC-MDB joint methodology, by tailoring the methodology for FMO specific activities and Other Footprint activities. This includes the following examples:

FMO's green definition has a dedicated category for Investments in **green buildings** certified by LEED (only LEED Gold or Platinum certification qualifies) or IFC's EDGE Tool, or that are in the process of obtaining such a certification, or that are certified under other scheme.

FMO's green definition includes pre-approved green **Agri certifications** - these certifications have been assessed on certain criteria before being included in the green definitions. The IDFC-MDB definition on agriculture does not explicitly mentions certifications, but the principles underlying these certifications.

FMO's green definition has a dedicated category for investments in **Transmission and Distribution systems** without a direct linkage to an investment in Renewable Energy (RE) production. The reasoning behind this focus lies in the fact that specific grid-structures have to be built in order to accommodate the high (-er) level of intermittency required by RE-based power generation plants in order to facilitate and/or accommodate (more) investments in RE.

## A.2 FMO's Sustainability Bond Framework

Under FMO's Sustainability Bond Framework (SBF), FMO issues Green Bonds which are senior unsecured bonds, ranking pari passu with bonds issued under FMO's Debt Issuance Program aimed at financing green projects. Over and above the process for the internal Green label, FMO has a separate process to earmark those assets that are eligible and described under the SBF.

Under the SBF per December 2018 the eligibility criteria for the bonds have been determined by FMO in consultation with a sustainability rating agency and second party opinion provider Sustainalytics. These eligibility criteria are more restrictive than FMO's internal Green label by excluding any investments in fossil fuels, biofuel from sources that deplete carbon pools and compete with food sources, large hydro (>20 MW), and transport dedicated to fossil fuel.

## A.3 EU Taxonomy

In December 2019, following the political agreement between the European Parliament and the Council, the Regulation on "the establishment of a framework to facilitate sustainable investment", the so-called Taxonomy Regulation, has been approved after long negotiations. The EU Taxonomy is at the heart of the EU sustainable finance package and provides a summary of the latest scientific thinking on what kinds of activities can make a substantial contribution to climate change adaption and mitigation while not doing harm to other key environmental objectives and respecting social safeguards.

The three categories of activities – already low-carbon, enabling and transitional - are maintained as well as the "do no significantly harm" criteria compared to earlier proposals. The technical screening criteria are meant to be consistent with a pathway to limit the temperature increase to 1.5°C. Each economic activity will have to be assessed against a "do no significant harm" principle meant to prevent low-carbon investments that create other environmental problems.

In general, FMO's categorisation of Green activities are similar to those defined under the EU Taxonomy. The actual technical screening criteria (activity by activity metrics and thresholds) are not included in the Regulation but will be created as part of Delegated Acts. A point of concern, which is generally acknowledged, is that the EU taxonomy lacks certainty in terms of applicability to activities outside the EU. For example, in some cases, exemptions are only proposed for exposures within the European Union. In other cases, the "do no significant harm" criteria apply the highest industry standards which may be hard to enforce in

developing countries or in case FMO is not a leading investor.

The first round of climate change mitigation and adaptation criteria are to be adopted by end of 2020 and start applying by the end of 2021. Other environmental objectives (e.g. water and marine

resources, circular economy, biodiversity) are to be adopted by the end of 2021 and start applying by the end of 2022. Member States, the European Union, and the relevant market actors will have to start complying with the Taxonomy Regulation requirements from December 2021.