

## Glossary

*This document serves to explain key terms in our strategy, in alphabetical order.*

**1.5°C pathway:** striving to hold the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels, recognizing that this would significantly reduce the risks and impacts of climate change (article 2.a of Paris Agreement).

**Additional:** FMO provides financial services to the extent that the commercial market does not, or does not sufficiently provide them, or which are only offered by the commercial market on terms that do not fit in with a solid business model. In some cases, we are able to demonstrate our additionality through our contributions to higher environmental, social and governance standards that are not required in the market, thereby achieving a transformation effect. Through its additionality, FMO contributes to sustainable (local) market development without competing with or crowding out commercial financing.

**Bankable opportunity:** a project, business or opportunity becomes bankable when one or more investors are willing to lend to, or invest in, the project/business in order for it to advance. An investor then regards the risk of an investment acceptable, incorporating dimensions such as: financial, impact and ESG, Know-Your-Customer, legal, technical, and reputational. The term is often used interchangeably with investment-ready or finance-ready.

**Blended finance:** the strategic use of development finance for the mobilization of additional finance towards sustainable development in developing countries<sup>1</sup>.

**Bottom 40%:** the population in the bottom 40% of the income distribution.

**Business development:** activities that aim to develop investment opportunities over the short-term (3- 5 years), which are closely linked to potential transactions with one or more potential or existing customers (“making concrete opportunities bankable”).

**Climate resilience:** the ability to anticipate, prepare for, and respond to hazardous events, trends, or disturbances related to climate.<sup>2</sup>

**Climate risk framework:** a methodology, process, procedures and governance to assess climate risk on FMO and our customers.

**Commercial mobilization:** mobilization through private investors, aimed at scaling our impact.

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<sup>1</sup> <https://www.oecd.org/development/financing-sustainable-development/blended-finance-principles/>

<sup>2</sup> <https://www.c2es.org/content/climate-resilience-overview/>

**Core capability:** what we do well, and will need to do well, to pioneer, develop and scale – while balancing impact, risk and return considerations.

**Decent work:** decent work sums up the aspirations of people in their working lives. It involves opportunities for work that is productive and delivers a fair income, security in the workplace and social protection for all, better prospects for personal development and social integration, freedom for people to express their concerns, organize and participate in the decisions that affect their lives and equality of opportunity and treatment for all.

**Development:** growth and progress of economies and societies.

**Development impact:** economic and social growth and progress derived from an intervention. FMO aims to contribute particularly to inclusive and sustainable economic growth in the form of SDG 8, 10 and 13 positive impacts across the portfolio.

**Disclosure:** making intended and signed transactions known, giving stakeholders the opportunity to provide input or feedback on (proposed) investments. Ex-ante disclosure by FMO aims to help FMO decide whether to invest. Ex-post disclosure by FMO aims to help FMO become better in its investment process.

**Economic development:** improvement to economic wellbeing and quality of life.

**Ecosystem development:** Development of long-term (5 – 10 years) strategic/cross sectoral topics and models with large scale potential, with the aim to address market deficiencies eventually leading to investment opportunities for FMO. (“Plant the seeds of the future”).

**Enable:** to make it possible for customers to effectuate positive change for the societies and communities in which they operate.

**Entrepreneurs:** individuals who identify a need in the marketplace and work to fulfil it. FMO uses the term more in general for private sector companies active in FMO’s target countries.

**ESG change agent:** transforms ESG practices at customer, sector and/or industry level to deliver positive impact across all the SDGs and avoid and mitigate negative social and environmental impacts, including on local communities.

**ESG management:** the ongoing practice of working to create environmental, social and governance impact with our customers, integrated throughout the investment process, with a focus on avoiding or mitigating negative effect for local communities and build stronger local partnerships to better understand and address contextual risks.

**Fragile states and conflict-affected situations:** a group of countries or territories which are categorized by the World Bank's Fragile, Conflict and Violence group according to their financial and security status.<sup>3</sup>

**Gatekeeper:** to perform Know Your Customer/Anti Money Laundering checks to ensure parties we interact with, and thereby provide access to the global financial system, do not appear to be engaged in financial economic crime.

**Gender-lens investing:** a strategy or approach to investing that takes into consideration gender-based factors across the investment process to advance gender equality and better inform investment decisions.<sup>4</sup>

**Impact:** positive and negative, primary and secondary long-term effects produced by an intervention, directly or indirectly, intended or unintended to people and planet.

**Impact management:** Impact management is the process of identifying the positive and negative impacts that an enterprise has on people and the planet, and then reducing the negative and increasing the positive. At FMO it covers considerations in the investment and business strategy and throughout all the steps of the investment process, from the deal screening to the due diligence, deal structuring, investment management and exit.

**Inclusive:** to promote the social and economic inclusion of all, irrespective of – for instance – age, race, gender, disability, ethnicity, origin, religion, economic or other status.

**Just and inclusive transition:** a transition away from a GHG emissions-intensive economy, in which climate objectives are achieved and socio-economic outcomes are enabled to accelerate progress towards the Paris Agreement and the SDGs; country priorities are taken into consideration, including their Nationally Determined Contributions (NDCs) and long-term strategies. With the mitigation of negative socio-economic impacts and the increase of opportunities associated with the transition to a net zero economy, access to sustainable, inclusive and resilient livelihoods for all is enhanced. Transparent and inclusive planning, implementation and monitoring is necessary to involve relevant stakeholders and affected groups and for further inclusion and gender equality.

**Living well** means that everyone's dignity and rights are respected, basic needs are met, and equal opportunities are available for all.

**Living within planetary boundaries** means that global warming is stabilized at no more than +1.5°C, and natural systems are protected, restored and used sustainably. It also means that societies have developed sufficient adaptive capacity to build and maintain resilience in a healthy and regenerative Earth system.

**Low- and middle-income countries:** low-income countries are countries with a Gross National Income (GNI) per capita of \$1,045 or less (in 2018), lower middle-income economies are those with a GNI per capita

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<sup>3</sup> WHO-CCU-17.06-eng.pdf

<sup>4</sup> Gender Lens Investing Initiative | The GIIN

between \$1,046 and \$4,095; upper middle-income economies are those with a GNI per capita between \$4,096 and \$12,695 (source: World Bank Group).

**Market creation:** overarching term which covers activities which aim to develop unbankable opportunities into bankable projects/companies in the future. At FMO these activities will be a mix between ecosystem and business development.

**Meaningful innovation:** We aim for adjacent and transformational innovation as opposed to incremental innovation. In practice this means we aim for substantial innovations which have a significant impact and make a real difference in our industry. Past examples of these type of innovations include the Joint Impact Model, TCX, DFCD, Nasira and Climate Fund Managers.

**Mobilizing:** amounts committed by third parties (public and private) for investments in FMO's portfolio, as well as guarantees provided by third parties on investments in FMO's portfolio.

**More than 9 billion people:** refers to the world population projected to reach 9.8 billion in 2050.<sup>5</sup>

**Net Zero Portfolio:** a portfolio of investments in which financed emissions are reduced to the extent possible given country and sector specific circumstances and remaining financed emissions are neutralized through financed carbon removals.<sup>6</sup>

**Paris Alignment:** financial flows are consistent with a pathway towards low greenhouse gas emissions and climate-resilient development in line with the Paris Agreement. For alignment with the 1.5°C pathway, see separate definition.

**Poverty:** people living below the \$5.50 per day PPP (adjusted for purchasing power parity) international poverty line (for global comparison). National poverty lines are defined according to each country's specific economic and social circumstances.

**Progression model:** FMO's model that shows how a project or business can mature, carry less risk and thus attract different kind of funding. The four stages of the model are 1) market creation 2) public funds 3) FMO-A (FMO's own money) and 4) mobilizing commercial partners. The aim is to support customers from the pioneering stage (e.g., providing a seed loan through one of the public funds) up to maturity (e.g., scaling investment through FMO-A) and the ability to attract commercial finance (e.g., to increase and further scale impact). Market creation, the first stage, is not a bankable stage. FMO used the term graduation model before.

**Prosperity:** the condition in which a society or community and all the people in it are thriving and flourishing, beyond mere economic wellbeing and within planetary boundaries.

<sup>5</sup> World population projected to reach 9.8 billion in 2050, and 11.2 billion in 2100 | UN DESA | United Nations Department of Economic and Social Affairs

<sup>6</sup> SBTi-Finance-Net-Zero-Foundations-paper.pdf (sciencebasedtargets.org)

**Public funding:** loans, guarantees and equity investments provided by FMO from governmental and public organization funds, within the conditions and objectives of these programs.

**Sustainable:** to meet our own needs as a global population without negatively impacting the ability of future generations to meet their own needs.

**Theory of change:** how and why an intervention (project) is assumed to lead to a desired end-result. It is often defined as the connection between activities, inputs, outputs and outcomes.

**Transparency:** sharing information regarding FMO's operations and investments with the intent to reinforce clarity, trust, and accountability.

**Unbankable:** a project, business or opportunity is unbankable when investors are not (yet) willing to lend/invest to the project/business. In that case, an investor regards the risk of the investment unacceptable, incorporating dimensions such as: financial, impact and ESG, Know-Your-Customer, legal, technical, and reputational.

**Within planetary boundaries:** refers to the 9 quantitative planetary boundaries within which humanity can continue to develop and thrive for generations to come. Crossing these boundaries increases the risk of generating large-scale abrupt or irreversible environmental changes. The 9 planetary boundaries are biosphere integrity, climate change, novel entities, stratospheric ozone depletion, atmospheric aerosol loading, ocean acidification, biogeochemical flows, freshwater use, land-system change.<sup>7</sup>

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<sup>7</sup> Ecology and Society: Planetary Boundaries: Exploring the Safe Operating Space for Humanity