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FMO's management letter

As a development finance institution, FMO's aim has always been to advance local prosperity by seeking ways to revitalize the local economy. We help reduce inequality by providing access to financial and economic development, investing in initiatives that support climate action and a green energy transition. Every five years, our work is evaluated by the Dutch government. This matters, not only because we want to ensure we deliver on the mandate entrusted to us, but also because the evaluation provides us with critical feedback that helps us constantly improve. This is especially paramount now more than ever, with the COVID-19 pandemic affecting economic resilience both globally and in our markets.

The evaluation, commissioned by the Dutch Ministry of Foreign Affairs, assessed performance of our policy principles of development impact and mobilization of capital, as well as our management of environmental and social issues from 2013-2018. The evaluation also assessed our additionality: the degree to which we are additional to what the regular investment market can offer in line with their risk appetite. If commercial finance is possible, we will not invest.

The results confirm that our investment portfolio has developed in line with our strategic vision to contribute to job growth, promote social and economic inclusion, and invest in climate action. FMO has contributed to the Dutch development cooperation objectives, especially through increasing lending in Africa and in our key focus sectors: Energy, Financial Institutions, and Agribusiness Food and Water.

We are pleased with the recognition of FMO's additionality providing much-needed flexible and long-term financing for our customers, which is even more relevant in these times of crisis. The findings also underscore FMO's experience in blended finance, and the capacity to mobilize private capital from institutional investors towards the Sustainable Development Goals (SDGs) and frontier markets.

FMO appreciates the recognition as a leading organization in the Environmental & Social (E&S) field, which has been researched thoroughly in this evaluation. The report clearly sets out the progress we have made in building a robust policy framework and strengthening the internal processes, including the topic of human rights, and the increased E&S capacity in the organization, which bring additional value to the customers. An essential aspect of the E&S strategy is the incremental approach we take with customers whereby we aim to improve the conditions in the company over the course of the investment. For FMO, this approach is central to the long-term success of the companies in which we invest.

Key recommendations of the report relate to further improving and broadening the impact measurement framework, deepening local partnerships, and potentially having more local representation. FMO remains committed to enhancing impact measurement and we have been doing so more intensely since the Impact Measurement and Integrated Reporting (IMIR) team was created in 2018. To consolidate the topics of Impact, E&S, Corporate Governance, and Capacity Development, we set up the IESG department in 2019. At the same time, we recognize that we need to keep up with industry developments and take into consideration the expectations of our stakeholders in this area.

Another important starting point in following up on these recommendations is developing a 2030 strategy to optimize our contribution to the SDGs, most notably how we measure the results of our efforts. This process will also include a revised approach of FMO's investment management business model and how we can translate our 2030 strategy into an impact measurement framework that captures the actual impact of our activities more widely across our portfolio. The 2030 strategy process will naturally also look into local partnerships and local representation.

Another recommendation relates to how FMO assesses additionality. We recognize the value of clearly documenting the additionality of the investments. This recommendation will feed into a review of additionality to validate and substantiate it better in our processes.

On ESG, the evaluation recommends developing an open and self-reflective approach. We recognize the need to be self-reflective, and we will embed into our internal governance and processes a root cause analysis practice that aims to learn from experience. This has already commenced in past years but will be embedded further in the years to come. In 2021, we will enhance the analysis and communication on ESG issues at a portfolio level, supported by our ESG performance tracker.

Finally, the evaluation also recommends communicating the existence of the Independent Complaints Mechanism more widely and make sure initial recommendations are followed up and progress is documented. We understand that we need to increase awareness regarding the existence of the ICM. Currently, FMO assesses how to improve further the communication of its existence with local communities, also compared to other development banks and it examines the possibilities for targeted communication in local languages, depending on the nature of the project.

Also, in response to the evaluation report, FMO will improve the internal monitoring of the management response's implementation to the non-compliances identified by the ICM. Our commitment to addressing environmental and social challenges is at times a complicated one, particularly in those high-risk investments where we need to assess how to mitigate and/or manage (potential) legacy issues or irreversible impact. We remain ambitious and keen to stretch the boundaries of our sphere of influence, as we are committed to try and address these issues



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non-compliances. We will improve the transparency of complex projects for the years to come and, where possible, publish more frequent updates on our website.

We extend our deepest thanks to the evaluation team and the numerous stakeholders who contributed to this evaluation. The recommendations provided will further sharpen our focus and will progress our contribution towards the SDGs.

About FMO

FMO is the Dutch entrepreneurial development bank. As a leading impact investor, FMO supports sustainable private sector growth in developing countries and emerging markets by investing in ambitious projects and entrepreneurs. FMO believes that a strong private sector leads to economic and social development and has a close to 50-year proven track-record of empowering people to employ their skills and improve their quality of life. FMO focuses on three sectors that have high development impact: financial institutions, energy, and agribusiness, food & water. With a committed portfolio of EUR 9.3 billion spanning over 85 countries, FMO is one of the larger bilateral private sector developments banks globally. For more information: please visit www.fmo.nl