# Disclosure Statement Operating Principles for Impact Management

**The Netherlands Development Finance Company (Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V., FMO) is a founding signatory to the Operating Principles for Impact Management (the Impact Principles). The Impact Principles provide a reference point against which the impact management systems of funds and institutions may be assessed. They draw on emerging best practices from a range of asset managers, asset owners, asset allocators, and development finance institutions.**

**The accompanying statement fairly presents FMO's impact management systems and processes[1]. The Disclosure Statement applies to FMO's Total Committed Portfolio[2] in alignment with the Impact Principles, which is EUR 12,503 million as of December 31st, 2021[3].**

**Michael Jongeneel**
FMO Chief Executive Officer

May 19th, 2022

1 This Disclosure Statement is a high-level description prepared for public disclosure and may not, therefore, include every aspect of the systems and processes that each reader may consider important. The sole purpose of this Disclosure Statement is to fulfil FMO's obligations pursuant to Principle 9. This document shall not constitute and should not be construed as an offer, solicitation or invitation to buy or sell any securities, financial instruments or services whether described herein or otherwise, or as any prospectus or investment- related advice in relation thereto, nor is it intended to form the basis of a decision to participate in any investment. FMO makes no guarantee or other promise as to any outcomes, including any financial or development impact results that may be obtained from the practices disclosed in this statement. While past performance may be analyzed in this Disclosure Statement, past performance should not be considered indicative of future performance. Accordingly, FMO shall not have any liability to any of the recipients of this Disclosure Statement, nor to any other party in connection with or arising in any way from, or in relation to, the information or any opinions expressed in this Disclosure Statement, and FMO does not accept any responsibility whatsoever for any action taken, or omitted to be taken by any party on the basis of any matter contained in, or omitted from, the Disclosure Statement.

2 This includes FMO's own commitments, funds under management and direct mobilized funds. It excludes liquidity management.

3 Equivalent to USD 14,128 million on December 31st, 2021.

## Description of FMO's impact management systems and processes

The following description details FMO's impact management systems and processes as per December 31st, 2021.

### Principle 1

**Define strategic impact objective(s), consistent with the investment strategy: The Manager shall define strategic impact objectives for the portfolio or fund to achieve positive and measurable social or environmental effects, which are aligned with the Sustainable Development Goals (SDGs), or other widely accepted goals. The impact intent does not need to be shared by the investee. The Manager shall seek to ensure that the impact objectives and investment strategy are consistent; that there is a credible basis for achieving the impact objectives through the investment strategy; and that the scale and/or intensity of the intended portfolio impact is proportionate to the size of the investment portfolio.**

- FMO is the Dutch entrepreneurial development bank. We support sustainable private sector growth in developing and emerging markets by providing capital, knowledge and networks to businesses, projects and financial institutions. We focus on the private sector in the following three industries, where we can have the biggest impact: Energy, Financial Institutions and Agribusiness, Food & Water.

- Impact is central to our vision of a world in which, in 2050, more than 9 billion people live well and within the means of the planet's resources. Impact is reflected in FMO's Agreement with the State of the Netherlands and in its articles of association (Article 3), namely to "make a contribution to the development of the business sector in developing countries in the interest of the economic and social advancement of these countries, in keeping with the goals of the governments of the relevant countries and the Dutch government's policy with regard to development assistance […]."

- FMO's goal is to 'Become your preferred partner to invest in local prosperity'. Our strategy is aligned with the Sustainable Development Goals (SDGs), building on increased focus and impact in our activities. We steer on our contribution to the SDGs in general, and three of the Goals in particular: decent work and economic growth (SDG8), reduced inequalities (SDG10) and climate action (SDG13). Through sector-specific initiatives we further contribute to zero hunger (SDG 2), gender equality (SDG 5), affordable and clean energy (SDG 7) and partnerships for the goals (SDG 17).

- FMO sets targets per SDG, focus sector and geography, as well as on ESG performance by our customers. Impact targets are presented both in absolute (total volume) and relative (percentage) terms, as derived from FMO's committed portfolio. These are further detailed and allocated per department in the annual business plan. Performance against the impact targets is monitored monthly.

## Principle 2

**Manage strategic impact on a portfolio basis: The Manager shall have a process to manage impact achievement on a portfolio basis: The objective of the process is to establish and monitor impact performance for the whole portfolio, while recognizing that impact may vary across individual investments in the portfolio. As part of the process, the Manager shall consider aligning staff incentive systems with the achievement of impact, as well as with financial performance.**

- Impact implementation is guided by strategic choices, such as the goal to be the preferred partner to invest in local prosperity, FMO's impact focus, as well as our country and sector focus. Our corporate strategy and goals are cascaded down to the different investment teams through the development of annual business plans. All our investments need to demonstrate additionality and must adhere to strict environmental and social standards.

- Operational impact measurement and management is embedded in various divisions across the organization. Overall, accountability for the implementation of the Impact Principles lies with the Director Impact and ESG, who reports to the Chief Investment Officer. FMO has chosen to share the responsibility for overseeing FMO's overall impact management, in line with the Operating Principles for Impact Management, with line management across different functions: Investment teams, Strategy, Impact & ESG (policy), Impact Measurement and Integrated Reporting and Evaluations. The Management Board is responsible for setting targets in line with FMO's strategy, including respective impact targets. Remedial actions fall upon the Investment Directors who steer their activities toward achieving year-end targets.

- We steer on impact by setting annual impact targets in terms of volume green and reducing inequality per investment department in our annual business plan. Departmental impact targets are included in directors' performance objectives, who are in turn responsible for cascading these down to their reporting teams.

- FMO uses its Sustainability Information System (SIS) to systematically define, collect, aggregate, and report data against the common indicators, enabling cross-portfolio comparisons. FMO uses the Joint Impact Model 2.0, which aligns with the PCAF Global Standard, to estimate our portfolio's effect on jobs (both direct and indirect) and GHG emissions.

## Principle 3

**Establish the Manager's contribution to the achievement of impact: The Manager shall seek to establish and document a credible narrative on its contribution to the achievement of impact for each investment. Contributions can be made through one or more financial and/or non-financial channels. The narrative should be stated in clear terms and supported, as much as possible, by evidence.**

- FMO has developed a consistent process to identify and define its additionality for each investment, captured in Financial Proposals (FP). Additionality is a core element and threshold condition in FMO's ex-ante assessment of investments. All FMO client activities must demonstrate additionality, which refers to the unique contribution that FMO brings to an investment project that is not typically offered by commercial market participants.

- Additionality can be either financial (e.g., financial instruments/terms unavailable in the market otherwise) and/or non-financial (e.g., E&S risk management, governance improvements) in line with the definition of additionality as laid down in the Criteria Memorandum with the Dutch State. Evidence and rationale for additionality are specified in the investment documentation and reviewed during the evaluation stage.

- In addition, FMO conducts and commissions evaluations (e.g., thematic studies, investment studies, etc.) to reflect on its strategy, its business model, and the effectiveness of its policies and processes and the impact of its investments.

## Principle 4

**Assess the expected impact of each investment, based on a systematic approach: For each investment the Manager shall assess, in advance and, where possible, quantify the concrete, positive impact potential deriving from the investment. The assessment should use a suitable results measurement framework that aims to answer these fundamental questions: (1) What is the intended impact? (2) Who experiences the intended impact? (3) How significant is the intended impact? The Manager shall also seek to assess the likelihood of achieving the investment's expected impact. In assessing the likelihood, the Manager shall identify the significant risk factors that could result in the impact varying from ex-ante expectations.**

**In assessing the impact potential, the Manager shall seek evidence to assess the relative size of the challenge addressed within the targeted geographical context. The Manager shall also consider opportunities to increase the impact of the investment. Where possible and relevant for the Manager's strategic intent, the Manager may also consider indirect and systemic impacts. Indicators shall, to the extent possible, be aligned with industry standards and follow best practice.**

- Impact considerations are a standardized element of the financial proposal process, where they are presented alongside other pertinent investment criteria as the basis of decision-making.

- FMO has a clear process for assessing the expected impact of its investments. Its ex-ante process includes the selection of common and investment-specific indicators, with both baseline impact figures and projected future expected impact for selected KPIs.

- Besides econometric impact modelling at portfolio level, FMO uses a system of labels to classify individual investments as per their intended impact, to measure alignment with its core impact focus areas. For each investment FMO documents the type and size of the expected impact, determines the target groups (beneficiaries), and lists the main risks associated with that investment.

- Investments are reviewed against environmental, social and governance (ESG) standards and opportunities for improvements are identified and detailed in action plans. FMO provides capacity development and ESG advisory services to support clients to increase the impact of the investment.

- Direct and indirect impact data of individual FMO investments are collected and monitored by investment teams through impact cards at contracting (baseline) and as part of the annual credit review (performance).

- FMO works closely with other DFIs to ensure our ESG and impact measurement approaches are harmonized. We actively participate in various platforms with the aim to converge on impact measurement and harmonization. The impact metrics leveraged by FMO are aligned with industry leading standards (e.g. IRIS+, HIPSO).

## Principle 5

**Assess, address, monitor, and manage potential negative impacts of each investment: For each investment the Manager shall seek, as part of a systematic and documented process, to identify and avoid, and if avoidance is not possible, mitigate and manage Environmental, Social and Governance (ESG) risks. Where appropriate, the Manager shall engage with the investee to seek its commitment to take action to address potential gaps in current investee systems, processes, and standards, using an approach aligned with good international industry practice. As part of portfolio management, the Manager shall monitor investees' ESG risk and performance, and where appropriate, engage with the investee to address gaps and unexpected events.**

- FMO Sustainability Policy sets out FMO's commitment and articulates FMO's approach to sustainable development. By following this Policy, FMO intends to protect people and the environment impacted by its own operations and its investments and to help clients manage their environmental and social impact and improve their corporate governance. The FMO Sustainability Policy is the foundation of FMO's Sustainability Management System (SIS) and provides guidance to FMO's internal processes.

- FMO adopted a Disclosure Policy outlining the scope and type of information that it makes available to the public. In addition to the disclosure in its annual reports, press releases and corporate- and policy-related disclosure, FMO also discloses selected relevant information about its investments and financing both prior to (explicitly inviting comments from the stakeholder community), and after contracting. Where deemed relevant, FMO works actively with its clients, partners and investees on disclosing project information and stakeholder engagement. In line with the IFC Performance Standards, this process may involve stakeholder analysis and planning, disclosure and dissemination of information, consultation and participation, grievance mechanism, and ongoing reporting to affected communities

- In the initial assessment of potential investments FMO checks that the transaction does not breach FMO's Exclusion List, which defines the type of activities in which FMO does not invest. FMO undertakes E&S due diligence on all its investments, assessing the client's ability and commitment to achieve E&S outcomes consistent with the IFC Performance Standards over a reasonable period.

- FMO screens all transactions on ESG risks. FMO categorizes its investments in different levels of Environmental and Social (E&S) risk, similar to IFC's approach to E&S risk categorization, which is also used by all European Development Finance Institutions (EDFIs). For direct investments, risk categorization is based on the client's activity, IFC Performance Standards triggered transactions and prevailing country specific ESG challenges. Risk categorization of financial institutions is made on the basis of the banks' existing or proposed portfolio, IFC Performance Standards triggered transactions and prevailing country-specific sensitive issues.

- Dedicated ESG specialists within FMO engage actively with all high-risk clients. The level and exact focus of engagement depend on the type and severity of impact and/or the extent to which the identified risks pose a threat to the environment, communities, the client and/or FMO. FMO and clients contractually agree to E&S performance improvements at the pre-investment stage, ensuring that clients comply with international frameworks and standards. E&S specialists at FMO work with clients to develop Environmental and Social Action Plans (ESAPs) to enhance clients' E&S risk management processes.

- ESG risk management is fully integrated in the approval process: this judgement call lies with FMO's commercial teams while FMO's credit team independently subjects it to critical scrutiny for (financial and nonfinancial) verification. Both deal and credit teams have dedicated ESG specialists that are involved in the assessment. Annually through Customer Credit Reviews (CCRs), FMO captures E&S-specific information from clients, including progress in implementing ESAP action items and any unanticipated E&S risks (e.g., breaches of E&S covenants). In addition to CCRs, FMO leverages the SIS tool to capture and report events related to E&S risks or underperformance that would warrant corrective actions.

- FMO classifies all its clients' corporate governance practices as either high risk (1), moderate risk (2) or low risk (3). FMO considers a transaction 'high risk' if three out of five risk areas, namely the commitment to good corporate governance, board structure and functioning, the control environment, transparency and disclosure, as well as protecting shareholder rights are considered high risk. In such an event, FMO's governance specialists are involved in due diligence and action plans as part of FMO's investment contract.

## Principle 6

**Monitor the progress of each investment in achieving impact against expectations and respond appropriately: The Manager shall use the results framework (referenced in Impact Principle 4) to monitor progress toward the achievement of positive impacts in comparison to the expected impact for each investment. Progress shall be monitored using a predefined process for sharing performance data with the investee. To the best extent possible, this shall outline how often data will be collected; the method for data collection; data sources; responsibilities for data collection; and how, and to whom, data will be reported. When monitoring indicates that the investment is no longer expected to achieve its intended impacts, the Manager shall seek to pursue appropriate action. The Manager shall also seek to use the results framework to capture investment outcomes.**

- FMO has developed a process and templates for monitoring the impact performance of investments. The process for impact measurement through indicators includes collecting baseline data and estimates of future expected impact for all investments at the start of an investment, based on client information.

- Once an investment is active, FMO uses a client data collection approach agreed in the investment contract, which stipulates the type of impact data, frequency and data source that the client is expected to provide during the active stage of an investment. Data is collected from the client during the annual credit review process. Where material differences to expected performance occur, the portfolio managers may require a client to take remedial action, or otherwise implement changes to improve impact achievement.

- A client's adherence to agreed ESG actions is monitored annually as well. Where clients are not making sufficient progress on agreed targets or actions, FMO may take action which could lead to modification of the transaction (including cancellation).

- FMO has the infrastructure in place to routinely monitor the impact performance of each investment. We strive to leverage these processes and tools consistently to more actively monitor impact performance and better capture short-and medium-term impact outcomes at the investment level.

## Principle 7

**Conduct exits considering the effect on sustained impact: When conducting an exit, the Manager shall, in good faith and consistent with its fiduciary concerns, consider the effect which the timing, structure, and process of its exit will have on the sustainability of the impact.**

- FMO has developed both a detailed 'Exit Policy' and 'Guidelines for a Responsible Exit,' covering specific exit considerations for equity investments at the time of the investment decision, during the monitoring stage, and at exit.

- For equity investments, FMO takes a variety of approaches to ensure the sustainability of impact, including evaluating and selecting aligned buyers, managing E&S risks by reviewing ESAP action items, and other considerations such as the timing of the exit. Beyond these formal considerations, FMO also seeks to enhance clients' positive E&S performance by actively engaging with them throughout the investment term.

- While we have no formal policy in place regarding flexibility of tenure and repayment, in practice we are exercising flexibility in repayment requirements or engagement renewal under special circumstance (e.g., during the COVID-19 pandemic) to sustain or deepen the impact of the investment.

- FMO currently has no exit policy in place for debt investments. We see room for improvement to build on processes established for equity investments to develop debt, fund and guarantee-specific impact sustainability considerations and policies.

## Principle 8

**Review, document, and improve decisions and processes based on the achievement of impact and lessons learned: The Manager shall review and document the impact performance of each investment, compare the expected and actual impact, and other positive and negative impacts, and use these findings to improve operational and strategic investment decisions, as well as management processes.**

- FMO produces annual mandatory monitoring reports on all its investment projects. These monitoring reports are embedded in the client credit review process. The aggregate results are reported annually to the Management Board and disclosed to the public.

- FMO undertakes strategic, thematic, sector and investment evaluations or studies. These can be categorized as evaluations that FMO conducts in-house and evaluations that we commission to third parties for external stakeholders (e.g., donors providing concessional funding). Evaluations have an accountability and a learning purpose aiming to fill knowledge gaps and provide recommendations for performance improvements. Following each evaluation, management develops and commits to an action plan. Implementation is reviewed after a period of one year for in-house evaluations.

- While FMO conducts thorough periodic reviews at the macro and strategic levels, we aim to enhance our processes for reviewing investment-specific impact performance to learn from and leverage our findings more effectively.

## Principle 9

**Publicly disclose alignment with the Impact Principles and provide regular independent verification of the alignment: The Manager shall publicly disclose, on an annual basis, the alignment of its impact management systems with the Impact Principles and, at regular intervals, arrange for independent verification of this alignment. The conclusions of this verification report shall also be publicly disclosed. These disclosures are subject to fiduciary and regulatory concerns.**

- This Disclosure Statement re-affirms the alignment of FMO's processes, procedures and systems with the Impact Principles, and will be updated annually.
- The independent assurance report on FMO's alignment with the Operating Principles for Impact Management is available at https://www.fmo.nl/operating-principles-for-impact-management. The verification will be replicated every three years.
- In 2020, the Disclosure Statement was independently verified by the Dutch offices of KPMG. KPMG operates as a global network of independent member firms offering audit, tax and advisory services. It is one of the four largest audit services organizations. KPMG member firms can be found in 153 countries. Collectively they employ more than 219,000 professionals across a range of disciplines. One of these disciplines is Sustainability. Over 50 KPMG member firms have specialized teams which focus on ESG challenges. A key service which teams offer is to assure the accuracy of ESG information in organizations' corporate reports. KPMG's assurance report can be found through the same link as the one provided above.
- The most recent disclosure was issued on 19 May 2022. The next planned review of FMO's Disclosure Statement is in April 2023; the next independent verification will take place in April 2023.