

The background image shows a vast solar farm with rows of solar panels mounted on metal structures. In the foreground, two workers wearing white hard hats and teal work uniforms are walking through a field of tall grass. The woman on the left is holding a clipboard and looking towards the camera, while the man on the right is smiling and looking slightly away from the camera.

**FMO**

Entrepreneurial  
Development  
Bank

September 2025

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# SUSTAINABILITY BOND FRAMEWORK

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Nederlandse Financierings-maatschappij  
voor Ontwikkelingslanden (NEDFIN)



**Cover image:** Khan Bank is Mongolia's leading universal bank and a long-term partner FMO has supported for years. They launched Mongolia's first Green bond in 2023 and first Social bond in 2024. In 2025, FMO arranged a USD 200 mln multi-currency syndicated A/B term facility, with 30% of the proceeds targeted for Green financing, and the remainder for supporting women, youth, Agri-SMEs and certified SMEs in the sustainable cashmere industry.

## CONTENT

P3.	INTRODUCTION
P4.	ESG IN THE INVESTMENT PROCESS
P5.	SUSTAINABILITY DISCLOSURE AND REPORTING
P6.	USE OF PROCEEDS
P6.	ELIGIBILITY CRITERIA
P12.	PROCESS FOR PROJECT EVALUATION AND SELECTION
P13.	MANAGEMENT OF PROCEEDS
P14.	REPORTING
P15.	EXTERNAL REVIEW
P16.	ANNEX 1: INVESTMENT PROCESS
P17.	ANNEX 2: GREEN OBJECTIVES AND PRINCIPLES
P18.	ANNEX 3: REDUCING INEQUITIES OBJECTIVES AND PRINCIPLES

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# Introduction

## FMO IS THE DUTCH ENTREPRENEURIAL DEVELOPMENT BANK

As a leading impact investor, FMO supports sustainable private sector growth in emerging markets and developing economies by investing in ambitious projects and entrepreneurs.

FMO believes in a world in which, by 2050, more than 9 billion people live well and within planetary boundaries. This is the future FMO is working towards in its long-term strategy towards 2030: Pioneer - Develop - Scale.

For more than 50 years FMO has been enabling entrepreneurs to make local economies more inclusive, productive, resilient and sustainable.

FMO creates development impact by being additional in financing the private sector in low and middle-income countries, focusing on three core sectors:

1. Agribusiness, Food & Forestry
2. Energy
3. Financial Institutions.

FMO has its head office in The Hague (the Netherlands) and local offices in Johannesburg (South Africa), Nairobi (Kenya), and San José (Costa Rica).

## FMO's strategy and objectives

In September 2022, FMO launched its updated 2030 strategy. FMO will continue to invest for impact in its three core sectors: (i) Agribusiness, Food & Forestry, (ii) Energy and (iii) Financial Institutions and will remain focused on Africa, Asia, Latin America and the Europe and Central Asia region. That said, FMO will push boundaries on topics such as: Market Creation, Innovation, Reduced Inequalities, Climate Action, ESG Management, and Mobilization.<sup>1</sup>

- Market creation: FMO will transform unbankable opportunities into bankable projects.
- Innovation: FMO will create viable and scalable solutions for our customers and realize 10 meaningful innovations by 2030.
- To steer the portfolio, FMO labels investments that materially contribute to Reduced Inequalities (SDG 10) and Climate Action (SDG 13):
- Reduced Inequalities: FMO will increase investments in inclusive business and gender lens, including in Least Developed Countries (LDCs)
- Climate Action: FMO is committed to the goals of the Paris Agreement and strives to reach net-zero by 2050 through activities that aim to decarbonize its investments and support a just and inclusive transition. FMO will support customer alignment with the Paris goals and strengthen customer resilience to climate change. FMO will increase investments in mitigation, adaptation, resilience, and biodiversity finance, including forestry. The Climate Action Plan can be found [here](https://www.fmo.nl/strategy).
- Through a just and inclusive transition, FMO makes the link between SDGs 10 and 13, carefully balancing both social and environmental considerations, enhancing access to sustainable, inclusive and resilient livelihoods for all.
- In addition to setting annual targets on ESG labelled investments, by 2030 FMO aims to achieve a portfolio of EUR 10 billion in SDG10 and EUR 10 billion in SDG 13.
- ESG management: FMO actively assesses and improves its ESG impact management, with an objective to minimize any potential negative impact on the local communities and the environment, and enhance its transparency and disclosure practices.
- Mobilization: FMO will scale its impact by developing and scaling (new) propositions for commercial financiers.

<sup>1</sup> <https://www.fmo.nl/strategy>

# ESG in the investment process



Through its ESG engagement, FMO intends to create opportunities for positive impact across the SDGs while mitigating potential negative impacts of its investments. FMO's ESG principles and practice have evolved to a discipline operating at the intersection of risk management, positive impact, and customer value creation. FMO identifies dilemmas or issues, establishes collaborations and partnerships, utilizes technical assistance, provides trainings, and engages with customers or sectors aiming to shift mindsets or approaches. These efforts enable FMO to influence customer practices or potentially entire industries.

FMO has built its Sustainability Policy Universe ([see link](#)) which includes its:

- **Sustainability Policy:** it is the leading document and guides all FMO's actions.
- **Responsible Investing Statements:** ensure that sustainability is at the heart of FMO's operations and aligned with the SDGs. FMO's investment criteria must be aligned with the principles of Financial additionality, ESG additionality and Mobilization role
- **Position Statements:** explains FMO's choices in relation to major global sustainability issues and further explains how FMO selects investments, work with clients and other stakeholders, and monitors performance. FMO has position statements on Animal Welfare, Fossil Fuels, Gender, Human Rights, Hydro-power plants, Land governance, Responsible Tax and on Impact and ESG for Financial Intermediaries.
- **Exclusion List:** contains the activities, products, uses, distribution, business or trade that FMO and the borrower will not finance, extending to the borrowers' shareholders, their affiliates and their subsidiaries.

# Sustainability disclosure and reporting

FMO has issued its Sustainability statement in line with the Corporate Sustainability Reporting Directive (CSRD), following the European Sustainability Reporting Standards (ESRS) in 2025, for the 2024 financial year.

FMO reports climate-related and environmental risks within the organization based on the ECB's Guide on Climate Related and Environmental Risks. While the climate risk assessment covers physical risks and transition risks, the various time horizons and high-emissions scenario were applied only to physical risks. More details can be found in the Annual Report<sup>2</sup>. FMO is currently working on further defining a methodology to assess transition risks that is suitable for the markets in which it operates.

At company level, FMO has been reporting its level of eligibility with the EU Taxonomy since 2021 following regulatory guidance. Limitations are however present in applying the EU Taxonomy to investments outside the EU - which is a common issue for DFIs investing into low and middle-income countries. Please refer to the Taxonomy section of FMO's Annual Reports for more information about the level of taxonomy and related narrative.

## AN UPDATED SUSTAINABILITY BOND FRAMEWORK

With this update, FMO aims to align with the latest internal and external developments since the last previous Framework dated March 2020. This Sustainability Bond Framework reflects FMO's latest internal processes and strategy regarding ESG as well as updated Green and Social categories. Social projects or social bonds within FMO are directly aligned with the goal of Reducing Inequalities (SDG 10), demonstrating a significant overlap in their objectives and outcomes. Therefore, these terms are used interchangeably in the document.

The climate-related definitions and concepts defined in this Framework, are largely based on the Common Principles developed by the Multilateral Development Banks (MDBs), specifically MDB Common Principles on Tracking Climate Mitigation Finance (2021) and Tracking Climate Change Adaptation Finance (2022) and MDB Common Principles for tracking nature-positive finance (2023).

The Framework will continue to allow FMO to issue i) Green; ii) Social; and iii) Sustainability Bonds.

This updated Framework will only apply to projects/assets allocated after publication of the Framework. As such, any future updates of the Framework will not affect the allocation of proceeds from any Green, Social or Sustainability Bond issued prior to the publication of this or previous frameworks.

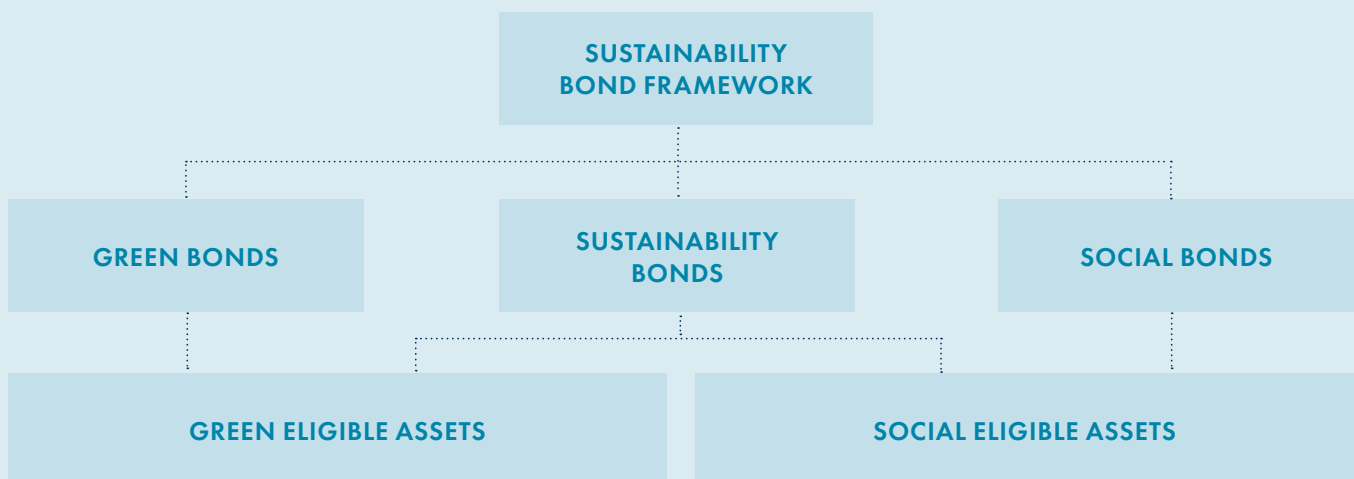
The Framework has been developed in alignment with the following ICMA standards:

- The Green Bond Principles – (GBP) last updated 2021 (with 2022 Appendix 1)
- The Social Bond Principles – (SBP) last updated in 2023
- The Sustainability Bond Guidelines (SBG) last updated in 2021

This Framework aligns with the four core components of the ICMA Principles:

1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds
4. Reporting

The Framework also follows the ICMA recommendations regarding External Review.



<sup>2</sup> See link: [FMO - Reporting Center](#)

# Use of proceeds

The proceeds of the Bonds will be used to finance and /or re-finance new or existing investments from any of the following Green or Social Project Categories.

Eligible investments to be financed by green, social or sustainability bonds may include (in)direct loans and (in)direct equity investments<sup>3</sup>. Guarantees, services and grants are not in scope.


## Eligibility criteria

### GREEN PROJECT CATEGORIES

Definitions and concepts used for Green Project Categories are largely based on the MDB Common Principles for Tracking Climate Mitigation and Adaptation Finance of October 2021 and 2022 respectively, and the MDB Common Principles for Tracking Nature Positive Finance (2023). The general principles require that the green label investments contribute to a genuine improvement in the area of a particular green category, unrelated to a local resource stress, and that it does not contribute to a long-term lock-in<sup>4</sup> of high carbon infrastructure. For more details please refer to Annex 2.




FMO's definition of Green Project Categories focuses on all green-labelled investments which have the ex-ante potential to materially contribute to one or more of the following green objectives:

1. Climate mitigation
2. Climate adaptation
3. Biodiversity and nature
4. Water security
5. Circular economy
6. Pollution prevention

ICMA Green Category	Examples of Eligible Projects	Eligibility Criteria	SDG
Renewable energy (Climate mitigation)	<ul style="list-style-type: none"> <li>• Generation of renewable energy with low lifecycle GHG emissions to supply electricity, heating, mechanical energy or cooling from solar, wind, tidal energy, hydropower, geothermal energy and bioenergy</li> <li>• Production, transport, or storage of low-carbon green hydrogen</li> <li>• New, expanded and improved climate adapted transmission systems</li> <li>• Energy storage systems (battery, thermal, mechanical, pumped storage) that facilitate integration of renewables, reduction in the curtailment of renewables, or increasing the utilization rate of renewables</li> </ul>	<ul style="list-style-type: none"> <li>• Hydropower: Small scale (&lt;20MW) hydroelectric generation). In case of reservoirs, power density needs to be &gt;4W/m<sup>2</sup>.</li> <li>• Geothermal: Eligible if net emissions per kWh are substantially lower than applicable grid-emissions per kWh.</li> <li>• Biodigesters or biomass plants: Using crop waste material (from food and fiber production) or processing by-products such as bagasse, timber waste and animal manure.</li> <li>• Production, transport, or storage of low-carbon green hydrogen.</li> <li>• Production of renewable energy from first-generation liquid biofuels shall be excluded unless they are sourced from waste.</li> <li>• Storage dedicated to fossil fuel or blended fossil fuels are not eligible.</li> <li>• For companies that design, sell and install renewable energy solutions: at least 90% of the annual turnover over the last 3 years (on average) must have been generated with renewable energy technologies or equipment and related services. Three-year period does not apply to start-ups.</li> </ul>	

<sup>3</sup> FMO only considers pure-play Green or Social Private Equity Funds where the Fund's mandate, pipeline or portfolio are (expected to be) fully aligned with FMO's Green or Social eligibility criteria. In addition, FMO's due diligence process (including ESG assessment) is applicable as well as FMO's Position Statement on Fossil Fuel and FMO's Exclusion List.

<sup>4</sup> Carbon lock-in occurs when fossil fuel infrastructure or assets (existing or new) continue to be used, despite the possibility of substituting them with low-emission alternatives, delaying or preventing the transition to near-zero or zero-emission alternatives. Source: [Mechanisms to Prevent Carbon Lock-in in Transition Finance](#) | en | OECD

ICMA Green Category	Examples of Eligible Projects	Eligibility Criteria	SDG
Energy efficiency <sup>5</sup> (Climate mitigation)	<ul style="list-style-type: none"> <li>Heat production, recovery and optimization, within the limitations of our <a href="#">Fossil Fuel Position Statement</a></li> <li>Systems, equipment and materials facilitating resource efficiency in buildings and industry</li> <li>Green building certifications, renovation of existing buildings, public installations and end-use energy efficiency</li> </ul>	<ul style="list-style-type: none"> <li>Replacement of fossil fuel powered boilers</li> <li>For residential, office and commercial: with high-efficiency condensing boilers only</li> <li>For industrial: with renewable energy boilers<sup>6</sup> or with lower-carbon fuel boilers (such as gas) with improved boiler efficiency<sup>7</sup></li> <li>Eligible appliances and heat pumps purchases that are labelled in the top 3 energy efficiency classes according to national / regional labelling system or Energy Star labelled. Demonstrating a minimum of 20% savings is necessary in the absence of applicable energy labelling schemes.</li> <li>Green Buildings certified under the eligible FMO's sustainability certifications list (IFC's EDGE Certified and above, LEED Silver and above, BREEAM Very Good and above)</li> <li>Renovation of existing buildings are eligible subject to a 20% improvement over applicable minimum standards. In absence of minimum standards, EDGE certification is preferred. LEED Silver and above or BREEAM Very Good and above are also acceptable.</li> </ul>	
Clean transportation (Climate mitigation)	<ul style="list-style-type: none"> <li>Acquisition, manufacture and operation of zero direct emission vehicles<sup>8</sup>, and supporting infrastructure</li> <li>Integration of transport and urban development planning (dense development, multiple land-use, walking communities, transit connectivity, and so on) leading to a reduction in the use of passenger cars</li> </ul>	<ul style="list-style-type: none"> <li>For manufacturing companies of zero direct emission vehicles: at least 90% of the annual turnover over the last 3 years (on average) must have been generated from manufacture of automotive and mobility components for zero direct emission vehicles. Three-year period does not apply to start-ups.</li> <li>Transportation dedicated to fossil fuel or blended fossil fuels is not eligible.</li> </ul>	
Environmentally sustainable management of living natural resources and land use (Climate Adaptation)	<p>Climate change adaptation investments include, but are not limited to</p> <ul style="list-style-type: none"> <li>Climate-smart agriculture</li> <li>Green/blue urban investments</li> <li>Installation of flood barriers and flood-proofing</li> <li>Nature-based solutions for solar farms to cool solar panels and enhance their performance</li> <li>Adaptive land use management</li> <li>Resilient agrifood systems</li> <li>Agroforestry and sustainable natural forestry management</li> <li>Regenerative agriculture</li> <li>Sustainable aquaculture</li> </ul>	<ul style="list-style-type: none"> <li>FMO has in place a list of pre-approved certifications<sup>9</sup> for agriculture, forestry, aquaculture and fisheries sectors. Investments with an approved certification standard are labeled green without further substantiation (e.g. Roundtable for Sustainable Palm Oil Next, ProTerra, Bonsucro, Aquaculture Stewardship Council).</li> <li>These investments are context- and location specific and should have the intended objective to: i) manage physical climate risk and ensure that the project's / companies' intended objectives are realized despite these risks and/or ii) directly reduce physical climate risk and build capacity of the system within which the activity takes place and/ or iii) contribute to reducing the underlying causes of vulnerability to climate change. In addition, all activities should follow the MDB three step approach to the MDB Common Principles for Tracking Climate Adaptation Finance. Examples include climate resilient crops, protections against extreme precipitation, pest and disease management, irrigation, green/blue urban investments, flood management</li> </ul>	




<sup>5</sup> The financing of improvements in energy use or CO<sub>2</sub> emissions by 20% are eligible.

<sup>6</sup> Eligible if using crop waste material (from food and fibre production) or processing by-products such as bagasse, timber waste and animal manure. Appropriate flue gas filters are required.

<sup>7</sup> In the markets FMO operates, gas-based boilers may still be the best available technique (BAT) given that alternatives (e.g. heat pumps) are still hard to access.

<sup>8</sup> Electric and/or Hydrogen.

<sup>9</sup> For further detail of the list of Pre-approved certifications refer to [FMO's Green Methodology 2024](#).

ICMA Green Category	Examples of Eligible Projects	Eligibility Criteria	SDG
Terrestrial and aquatic biodiversity (Biodiversity and nature)	<ul style="list-style-type: none"> <li>Ecosystem conversion from agriculture, unsustainable forest management, urbanization, industrial developments, and transport networks</li> <li>Reduction in over-exploitation and destructive harvesting practices,</li> <li>Increased sustainable water use for agriculture, cities, energy, and industries</li> <li>Pollution reduction</li> <li>Reduction of invasive species.</li> <li>Nature-based solutions for infrastructure-type and other services that are material to projects' operations and that can displace or complement man-made structures (such as gray infrastructure).</li> </ul>	<ul style="list-style-type: none"> <li>FMO has in place a list of pre-approved certifications<sup>9</sup> for agriculture, forestry, aquaculture and fisheries sectors. Investments with an approved certification standard are labeled green without further substantiation (e.g. Roundtable for Sustainable Palm Oil Next, ProTerra, Bonsucro, Aquaculture Stewardship Council) .</li> <li>FMO follows eligible activities for biodiversity and nature in line with the defined list of activities from the IFC Biodiversity Reference Guide<sup>10</sup></li> </ul>	
Sustainable water and wastewater management (Water security)	<ul style="list-style-type: none"> <li>Water recovery systems with treatment for 100% reuse (industrial, agricultural or commercial)</li> <li>Rainwater harvesting, storage and distribution</li> <li>On-farm water storage, water harvesting and recycling</li> <li>Greenfield water supply projects meeting high energy efficiency standard or making use of demand management</li> <li>Watershed management</li> </ul>	<ul style="list-style-type: none"> <li>For renovation of existing facilities/equipment in industry the demonstration of a minimum of 20% water savings is required.</li> <li>Greenfield wastewater treatment plants aiming to reduce Biochemical Oxygen Demand (BOD), while demonstrating a GHG emission reduction are eligible.</li> <li>Brownfield wastewater treatment plants demonstrating minimum 20% efficiency improvement through BOD reduction, along with Chemical Oxygen Demand (COD) or nitrogen reduction, while demonstrating GHG emission reduction are eligible.</li> </ul>	
Pollution prevention and control (Circular economy)	<ul style="list-style-type: none"> <li>Recycling and waste management, processing, reuse and disposal (applying or enabling one or more of the following 9R principles: Refuse, Rethink, Reduce, Re-use, Repair, Refurbish, Remanufacture, Repurpose and Recycle).</li> <li>Prevent the long-term lock-in of overcapacities, which would deter or reduce the impact of current or future waste prevention and recovery measures.</li> <li>Materials, processes, or practices to reduce, minimize, or eliminate the generation of waste or pollutants of air, soil or waterbodies.</li> <li>Reduction/prevention of emission of air pollutants (e.g. Volatile Organic Compounds, particulate matter etc.) from industrial production processes and transport.</li> <li>Reduction/prevention of contamination of soil and water bodies (e.g. leakages of heavy metal, Persistent Organic Pollutants, reduction of fertilizer/chemical use in agriculture).</li> </ul>	<ul style="list-style-type: none"> <li>These investments should apply the waste hierarchy principle<sup>11</sup> and apply the proximity principle<sup>12</sup> to the waste sourcing and transport system.</li> <li>Recycling and waste management can be eligible if they are the core business activity of the client; eligibility of waste management, processing, reuse and disposition is dependent on the local context and the company/project financed shall demonstrate a genuine improvement to the local situation.<sup>13</sup></li> </ul> <p>Excluded waste activities:</p> <ul style="list-style-type: none"> <li>All activities related to hazardous waste (except for waste motor oil and e-waste permitted above);</li> <li>All activities related to medical and biomedical (human or animal) waste;</li> <li>All activities related to radioactive material (medical or non-medical);</li> <li>Waste incineration and similar types of thermal treatment.</li> </ul>	

<sup>10</sup> Eligible activities to the extent that they fall under FMO's three strategic sectors (see chapter 1). Link: [ifc.org/content/dam/ifc/doc/mgrt/biodiversity-finance-reference-guide.pdf](https://www.ifc.org/content/dam/ifc/doc/mgrt/biodiversity-finance-reference-guide.pdf)

<sup>11</sup> The waste hierarchy applies as a priority order in waste prevention and management legislation and policy. This hierarchy applies the following order of priority: (1) prevention; (2) preparing for reuse; (3) recycling; (4) other recovery; (5) disposal.

<sup>12</sup> The proximity principle is about treating and disposing of waste in reasonable proximity to where it had been generated to reduce CO2e emissions from waste transport.

<sup>13</sup> The following eligible activities shall be permitted, provided that client and bank confirm and document: 1) the legality of the activity in all aspects, 2) not an activity specifically excluded below 3) a business plan, and 4) documented confirmation of identity and legality of final disposition mechanism (sale, waste disposal).




## SOCIAL PROJECT CATEGORIES

Two objectives underlie the Social Project Categories aiming at reduced inequalities investments:


### 1. REDUCING INEQUALITY AMONG COUNTRIES: INVESTMENT IN LEAST DEVELOPED COUNTRIES (LDCS)

LDCs are home to 13% of the global population and over 50% of the world's extreme poor, yet they attract just over 2% of global foreign direct investment. FMO invests in key sectors in LDCs with the aim to support sectors that are underfinanced but critical for the sustainable development of the countries and their populations.

ICMA Social Category	Examples of Eligible Projects	Eligibility criteria	Target population	SDG
Food security and sustainable food systems	Investments across the agribusiness value chain – enhancing food security, supporting sustainability, efficient water usage, and promoting inclusive development	<ul style="list-style-type: none"> <li>Inputs: Seeds, Animal feed, Fertilized</li> <li>Primary production: Crops, Livestock, Production, Fishing</li> <li>Processing: Crushing, Storage, Handling, Packaging</li> <li>Trade: Trading, Exporting</li> <li>Distribution: Logistics, to Retail</li> <li>Activities that do not align with Good Agricultural Practices or which contribute to deforestation are not eligible</li> </ul>	Underserved groups in least developed countries (LDCs)	
Affordable basic infrastructure - Energy	Investments in the areas of energy generation and distribution – promoting the transition to a low-carbon system and safeguarding energy security	<ul style="list-style-type: none"> <li>Wind</li> <li>Solar</li> <li>Hydro (Run-of-river)</li> <li>Off-grid solutions</li> <li>Resource efficiency &amp; refurbishment (see section 2.1.1. for the list of eligible energy efficiency categories)</li> </ul> <p>Investments in fossil fuel-based technologies are not eligible</p>		
Access to essential services - Financial Institutions	Investments in long-term financing solutions, increasing access to finance and supporting financial inclusion	<ul style="list-style-type: none"> <li>SME Banks</li> <li>Microfinance</li> <li>Leasing companies (excluding leasing for fossil fuel technologies)</li> <li>Insurance companies</li> <li>FinTech</li> </ul>		

## 2. REDUCING INEQUALITY WITHIN COUNTRIES: INVESTMENTS IN INCLUSIVE GROWTH

- Inclusive business: Employ market-based solutions to expand access to essential and affordable goods, services and livelihood opportunities to low-income populations on a scalable, by making them a material part of the value chain of companies' core business of suppliers, distributors, retailers, employees or customers.
- Economic empowerment: Expands access to economic resources and opportunities that help economically marginalized groups participate in, contribute to and benefit from the economy in ways that recognize their contributions and are dignified and fair – including jobs, financial services, property and other productive assets, skills development and market information.

ICMA Social Category	Examples of Eligible Projects	Eligibility Criteria	Target Population	SDG
Food security and sustainable food systems	Investments into companies active in production/processing of nutritious staple food products), or investments targeted at an improvement of production / processing / distribution of such nutritious staple food	Foods are ultimately consumed in LICs (Low-income populations) or LMICs (Low middle-income countries) based on World Bank country classifications. Meet affordability and accessibility guidance of FMO's Reducing Inequalities Label <sup>14</sup>	Low-income populations <sup>15</sup>	
	Investments in agribusinesses that include smallholder farmers in their value chains as suppliers or provide products and services specific to the needs of smallholder farmers	Meet FMO's criteria for inclusive business <sup>16</sup>	Smallholder farmers <sup>17</sup>	
Access to essential services	Energy solutions for low income or marginalized populations who lack adequate coverage, reliability, or affordability of these services. Examples include off-grid energy, rural energy access, household level devices and systems, mini-grids, grid extensions.	Meet FMO's criteria for inclusive business  (Partially) Meet FMO's Green Methodology 2024 <sup>9</sup>	Low-income populations <sup>14</sup>  Underserved populations with limited or unreliable access to energy  Rural populations <sup>18</sup>	
	Investments into companies providing basic goods and services to low income or underserved populations. Examples include technology enabled financial services, agritech enabled services to smallholder farmers.	Meet FMO's criteria for inclusive business	Low-income populations <sup>14</sup>  Underserved populations with limited or unreliable access to essential services	
Socioeconomic advancements & empowerment	Financial services for micro enterprises.	Meet two out of three criteria of the IFC or the relevant micro loan size proxy defined by the IFC <sup>19</sup>  Meet FMO's criteria for inclusive business	Microentrepreneurs	

<sup>14</sup> Affordability could be demonstrated by, for example, comparison of food prices with comparable products and with average household income. Accessibility refers to how easily consumers can reach and access points of sale – for example, food only available in a small number of specialty stores would not be considered accessible.

<sup>15</sup> Low-income populations are defined using the poverty line of US \$6.85 per day in PPP as a proxy. Definitions and criteria are based the Inclusive Business Investing Guide.

<sup>16</sup> Inclusive business employ market-based solutions to expand access to essential and affordable goods, services and livelihood opportunities to low-income populations on a scalable basis, by making them a material part of the value chain of companies' core business as suppliers, distributors, retailers, employees and customers

<sup>17</sup> Smallholders are small-scale farmers, pastoralists, forest keepers, fishers who manage areas varying from less than one hectare to 10 hectares (FAO). They often have low access to technology, limited resources in terms of capital, skills, and risk management, and depend on family labour for most activities.

<sup>18</sup> Defined as Rural SME: SME as defined by the IFC, located in areas with characteristics including A) sparsely populated, B) land cover dominated by agricultural lands or vegetation, C) limited access to markets and services (FAO).

<sup>19</sup> <https://www.ifc.org/en/what-we-do/sector-expertise/financial-institutions/definitions-of-targeted-sectors>

ICMA Social Category	Examples of Eligible Projects	Eligibility Criteria	Target Population	SDG
	Finance for underserved SMEs	Meet FMO's criteria for inclusive business	<p>Agriculture SME: SME as defined by the IFC, active in primary production or the agricultural value chain.</p> <p>Rural SME: SME as defined above, located in areas with characteristics including A) sparsely populated, B) land cover dominated by agricultural lands or vegetation, C) limited access to markets and services (FAO).</p> <p>Women-owned or women-led SME: SME as defined above, ≥ 51% owned by woman/women; OR (B) ≥ 30% of the Board, Investment Committee or Senior Management is composed of women.</p> <p>Youth-owned or youth-led SME: SME as defined above, ≥ 51% owned by a person &lt;35 years old; OR ≥ 30% of the Board, Investment Committee or Senior Management is composed of persons &lt;35 years old.</p> <p>Forced migrant (including refugee) owned/led SMEs: SME as defined above, ≥ 51% owned by a migrant and/or refugee OR (B) ≥ 30% of the Board, Investment Committee or Senior Management is composed of forced migrants/refugees.</p> <p>SMEs owned/led by other economically marginalized populations (such as ethnic minorities, indigenous populations, racial minorities or people with disabilities: SME as defined above, ≥ 51% owned by members of a marginalized population OR ≥ 30% of the Board, Investments Committee or Senior management is composed of members of a marginalized population.</p>	
	Gender smart agribusiness, energy companies or financial institutions	Meet FMO's gender smart criteria (aligned with 2X criteria <sup>20</sup> )	Women	

## EXCLUSION LIST

In addition to eligibility criteria, FMO specifies Exclusion List<sup>21</sup> criteria.

Position statements are an integral part of the FMO Sustainability Policy framework that steers FMO's activities. The statements explain FMO's choices in relation to major global sustainability issues and further explain how we select investments, work with customers and other stakeholders, and monitor performance<sup>22</sup>.

<sup>20</sup> <https://www.2xchallenge.org/2xcriteria>

<sup>21</sup> Exclusion list - FMO-IM

<sup>22</sup> Position Statements | Policies | Dutch Development Bank - FMO

# Process for project evaluation and selection

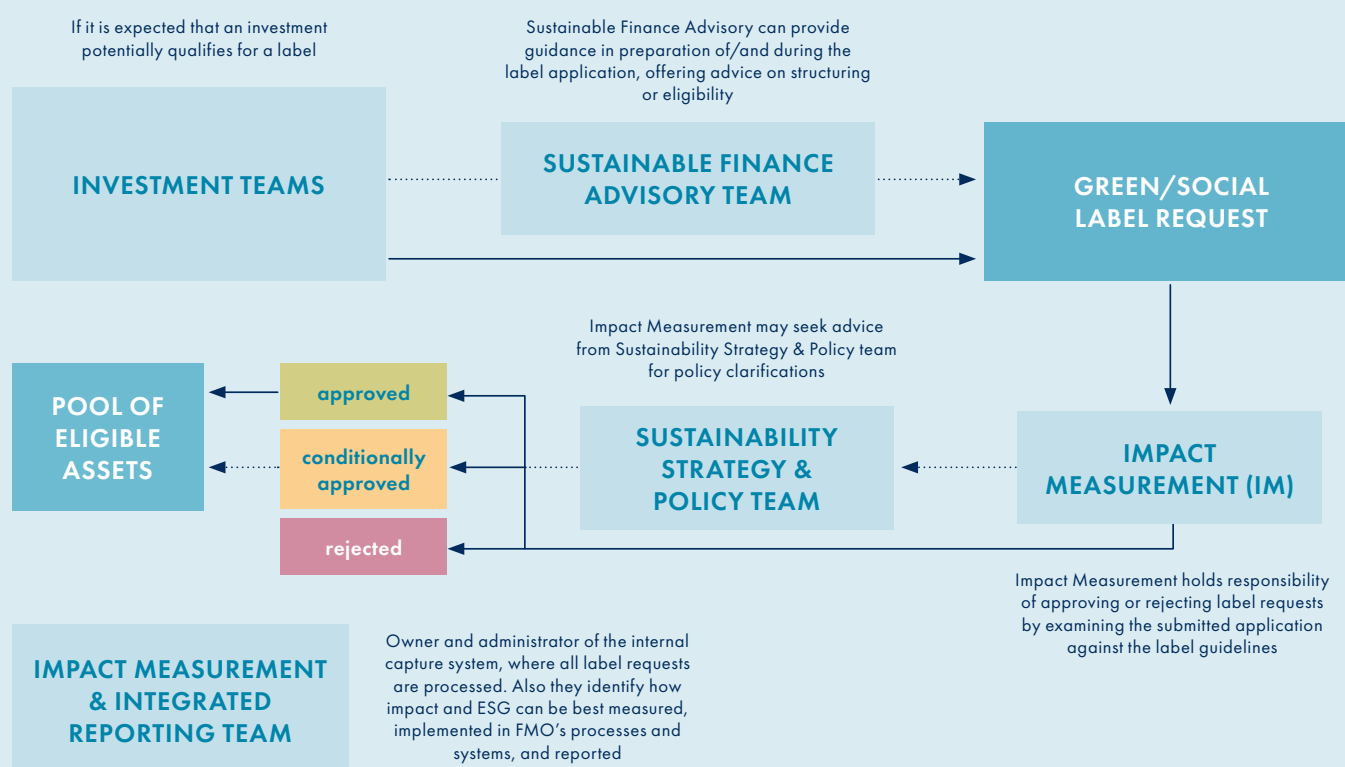
FMO proactively seeks investment opportunities that contribute to a more sustainable and inclusive economy. FMO has established a label system to identify the way in which individual investments align with certain criteria related to the key strategic goals of Climate Action and Reducing Inequality<sup>23</sup>. This section outlines the process structure and roles and responsibilities for the Green and the Reducing Inequality (social) labels.

As part of the Investment Process<sup>24</sup>, FMO screens and categorizes all customers on ESG risk according to FMO's Sustainability Policy<sup>25</sup>. Also, FMO has adopted the IFC Performance Standards as its operating standard to monitor ESG performance.

ESG risk management is a fundamental part of FMO's investment strategy. Customer selection is evaluated on potential ESG risk exposure and client capacity on and commitment to manage the E&S impacts and risks associated with its operations. Continuous monitoring and improvement of the ESG performance of FMO's customers is crucial to creating value. Please refer to Annex 1 for more details on how ESG risk management is part of each investment process.

The labels, the underlying principles, objectives<sup>26,27</sup>, definitions, and criteria enable investment teams to identify investment opportunities that have the ex-ante potential to contribute to SDG 10 (Reducing Inequality) and SDG 13 (Green) ("the Green and Social Labels process").

The process to evaluate, select, include and monitor Green and Social Projects comprises the following steps:



<sup>23</sup> FMO's social projects and social bonds are intricately linked to the goal of Reducing Inequalities (SDG 10) and therefore used interchangeably.

<sup>24</sup> See Annex 1: Investment Process for further information.

<sup>25</sup> See [link](#)

<sup>26</sup> Green objectives and principles described in the Annex 2.

<sup>27</sup> Reducing inequities objectives and principles described in the Annex 3.



# Management of proceeds

The Treasury department of FMO is responsible for the management of proceeds of each Green, Social and Sustainability Bond. An amount equivalent to the net proceeds of each Bond will be allocated to the financing and/or refinancing of eligible assets as defined in the "Use of proceeds" section of the Framework. The proceeds are managed using a portfolio approach.

FMO expects to fully allocate the proceeds of each Bond within 2 years from the issue date. FMO will aim that during the life of the Bonds, proceeds never exceed FMO's pool of eligible assets.

Pending allocations, the net proceeds of each Bond will be held in FMO's conservative treasury liquidity portfolio<sup>28</sup> and may temporarily be used for different purposes in case of liquidity stress situations. This includes cash or other liquidity instruments until the total cumulative disbursement to selected Eligible Projects can be allocated. Unallocated proceeds will not be invested in GHG intensive activities or controversial activities. FMO ensures that unallocated proceeds will not be invested in activities listed in FMO's Exclusion List.

On a yearly basis, an assessment is performed to identify any ESG controversies affecting the allocated assets of outstanding Bonds. Based on the outcome, FMO can decide to remove assets from its Green or Social asset pool. Similarly, in the unlikely event that an allocated project should no longer fulfil the eligibility criteria, the respective asset will be removed from the eligible asset pool and replaced.



**Genneia S.A.** is Argentina's largest wind and solar power producer, which FMO has provided long-term financing to support Argentina's renewable energy transition through climate mitigation. In 2024, FMO provided USD 30 mln in financing for the construction of two greenfield renewable energy projects: a 90 MW and 180MW photovoltaic solar plants.

<sup>28</sup> An internal tracking system is established to identify the net proceeds during the lifetime of each bond

# Reporting

FMO is committed to provide investors with transparent reporting about the issuance of Green, Social and Sustainability Bonds. On an annual basis, FMO will publish a Sustainability Bond newsletter, including both allocation and impact reporting. The newsletters will remain available on FMO's website until the maturity of the bonds.

The reporting will be based on the requirements of the ICMA Bond Principles and can be adjusted in the case of new requirements and developments regarding the content and type of reporting. For Eligible Green Projects, FMO will follow, to the greatest extent possible, the ICMA guidelines in the "Handbook-Harmonized Framework for Impact Reporting" (2024), considering the updates associated with the guideline. When reporting on Eligible Social Projects, FMO will make use of the ICMA's "Harmonized Framework for Impact Reporting for Social Bonds (2024)", considering the updates associated with the guideline.

## ALLOCATION REPORTING

The allocation reporting will seek to demonstrate that the proceeds have been allocated in accordance with the Framework's criteria for Eligible Green and Social Projects. To the extent feasible, the reporting will include the following information:

- The total amount of Green, Social and Sustainability Bonds issued and outstanding
- The progress on allocation of use of proceeds per financial year end (31-Dec), including:
  - the distribution of allocation between different eligible (sub) categories
  - the distribution of allocation per geographical region
  - the distribution between financing of new projects and re-financing
  - Amount of temporary unallocated proceeds held as part of the Treasury liquidity portfolio (if any)

A few case studies and/or a brief description of selected projects.

## IMPACT REPORTING

FMO will provide expected and/or actual environmental and social outputs from Eligible Projects when relevant and feasible. This reporting will be subject to data availability as well as competitiveness and/or confidentiality considerations.

FMO intends to report on the following impact metrics as per the Sustainability Bond Newsletter, but other indicators could be added or revised in the future.

- An estimation of annual GHG emission avoided of its direct<sup>29</sup> green investments on a portfolio level
- An estimation of the number of (in)direct jobs supported with our investments on per target group

## IMPACT MEASUREMENT

GHG avoidance for renewable energy projects is calculated as the annual electricity production during the latest available reporting year, multiplied by the country emission factors in accordance with the International Financial Institution (IFI). For avoided emissions in other sections, all figures are based on data reported by our clients.

FMO mainly relies on primary data for reporting on direct jobs which are provided by the customers and reviewed by FMO. However, when this data is not available, the Joint Impact Model (JIM)<sup>30</sup> will estimate the number of direct jobs based on the customer's available financials, sector and country of operations.

The accounting approach for all indicators is primarily based on the "Global GHG Accounting and Reporting Standard Part A: Financed Emissions. Second Edition" published by the Partnership for Carbon Accounting Financials (PCAF). All indicators are reported as attributed numbers. Attribution is an important concept within the PCAF standards, which determines the share of customer jobs or GHG emissions that are allocated to the loan or investment.

<sup>29</sup> For indirect green investments (such as Green on-lending), no data is reported

<sup>30</sup> See link [Home](#) | [Joint Impact Model](#)

# External review

## Second Party Opinion

FMO has mandated S&P Global Ratings to provide a Second Party Opinion (SPO) on its Framework. The Second Party Opinion ensures the Framework is in alignment with the core components and recommendations in the ICMA Principles. The SPO will be available on FMO's website alongside this Framework



**Limbomar** and **LimboPACK**, part of Grupo Almar—one of the world's top five shrimp producers—are leading in climate-smart aquaculture. FMO is supporting this transition with a USD 35 million investment to electrify shrimp farms (replacing diesel with green energy) and finance a new processing and packaging plant



# Annex 1: How we apply our investment process

Our investment process consists of the following stages. Through case studies we illustrate how ESG risk management is an integral part of this process.

## STEP 1 | INVESTMENT SELECTION

Within our markets, we identify investment opportunities that contribute to our three SDGs. We check geographic limitations, the exclusion list, customer capacity and commitment, the viability of the investment plan and the business itself. We also check if our investment is additional.

### IN PRACTICE

FMO was asked to finance a commercial forest on native grassland. The project had uncertain land tenure due to local complexities, current law and previous displacement of local communities. In addition, the project would require not just a high conservation value (HCV) assessment, but also a credible biodiversity offsetting program with evidence of biodiversity net gain. While the project was attractive on many fronts, including the commercial one, it didn't appear as if the mitigation measures could meet FMO's exclusion list and IFC PS6 Biodiversity Requirements. As such, FMO did not move forward with the investment.

## STEP 2 | CLEARANCE IN PRINCIPLE

We make an initial assessment of risks and opportunities, define the terms of our engagement, and scope any further assessment needs. We conduct an initial KYC assessment to ensure that we identify potential risks pertaining to the customer in relation to financial economic crime and that the customer complies with anti-money laundering, anticorruption, and anti-terrorist financing regulations. We screen potential effects on environmental, social, governance and human rights issues. We document this in a Clearance in Principle (CiP) proposal, which informs our decision to continue to prepare a final investment proposal.

### IN PRACTICE

FMO was considering an investment in a debt fund aimed to provide scalable financing solutions (e.g. project and asset-based finance loans and financial lease arrangements) for small and medium-sized solar and electricity storage projects for commercial and industrial companies in Africa. The fund's investment team had significant experience in Europe. In addition to identifying key E&S risks, the due diligence process sought to understand how the fund was addressing contextual risk and how the investment team's European expertise could be extrapolated to the African context.

## STEP 3 | DUE DILIGENCE

We carry out a more in-depth project assessment. We document the results in a finance proposal that informs our final decision to invest. For high-risk ESG investments, we conduct a site visit and meet with various stakeholders associated with the investment. Where needed, we engage external experts. We define and negotiate further ESG requirements and conduct further ESG risk assessments when needed. This may include additional human rights studies, a look at animal welfare and consultation with local civil society.

### IN PRACTICE

An African bank in a fragile state presented both high contextual risk as well as corporate governance risks. The assessments highlighted the bank's exposure and gaps, but also initiated a meaningful engagement. Recognizing the potential for improving the management of environmental and social risks in their portfolio and enhancing their corporate governance practices, FMO took proactive steps. These involved negotiating with the bank to implement additional ESG requirements and increase its awareness on opportunities to improve management of E&S risks in the portfolio and to enhance its corporate governance practices. The due diligence process resulted in an E&S and corporate governance action plan that were included in the loan agreement. The close involvement of the ESG specialists fostered a strong relationship with the key decision makers of the bank. The bank has since begun to implement both the corporate governance and E&S improvements.

## STEP 4 | FINANCIAL PROPOSAL: DECISION TO INVEST

Our Credit department evaluates each financial proposal and prepares a comprehensive credit advice to guide the final investment decision. Upon approval of an investment, but before finalizing any contract, we disclose the proposed investment on the World Map page on our website per our Customer Disclosure Policy. This disclosure period is vital, as it allows (local) stakeholders to offer feedback or additional information. This enhances the quality of our investments and enables FMO to make more informed and effective decisions. This process not only ensures transparency but also fosters a collaborative approach in our investment activities.



# Annex 2: Green objectives and principles

## OBJECTIVES

Climate mitigation	Climate adaptation	Biodiversity	Water	Circular economy	Pollution prevention
These investments should materially contribute towards avoiding or reducing GHG emissions or increasing the sequestration of GHG emissions from the atmosphere.	<p>The following 3 step approach should be taken in order to substantiate these investments:</p> <ol style="list-style-type: none"> <li>1. Setting out the project's / companies' context of vulnerability to climate change. A description of the context of climate vulnerability of the project / company based on a robust investigation of the vulnerabilities to climate change of the project's geographical area;</li> <li>2. Making an explicit statement of intent of the project / company to reduce climate change vulnerabilities identified. This should be supported by an analysis of the projects' / companies' planned activities to decipher a positive list of actions that can contribute to reducing vulnerability, or strengthening the resilience or communities, goods, or ecosystems to climate change;</li> <li>3. Articulating clear and direct link between the climate vulnerability context and the specific project / company activities.</li> </ol>	<p>These investments should materially contribute to the restoration, protection and /or development of biodiversity and ecosystems.</p> <p>These investments or elements of these investments must be designed to intentionally minimize or eliminate one or several of the following key drivers of biodiversity loss: land and sea-use change, over-exploitation and unsustainable use of nature, and invasive species.</p>	<p>These investments should materially:</p> <ul style="list-style-type: none"> <li>• Increase clean water supply or</li> <li>• Increase water use efficiency or</li> <li>• Cause a shift to a less stressed water resource</li> </ul> <p>and;</p> <ul style="list-style-type: none"> <li>• These investments should not use a source of water that contributes to depletion of a stressed water resource.</li> </ul>	<p>These investments should:</p> <ul style="list-style-type: none"> <li>• Be aimed at retaining the economic value of products as long as possible;</li> <li>• Contribute to increasing resource efficiency;</li> </ul> <p>and</p> <ul style="list-style-type: none"> <li>• Decrease environmental impacts throughout the value chains. Increasing resource efficiency and decreasing environmental impacts throughout the value chain can be achieved by applying or enabling one or more of the following 9R principles: R1 Refuse, R2 Rethink, R3 Reduce, R4 Re-use, R5 Repair, R6 Refurbish, R7 Remanufacture, R8 Repurpose and R9 Recycle.</li> </ul>	<p>These investments should:</p> <ul style="list-style-type: none"> <li>• Apply the waste hierarchy principle;</li> <li>• Apply the proximity principle<sup>9</sup> to the waste sourcing and transport system;</li> <li>• Prevent the long-term lock-in of overcapacities, which would deter or reduce the impact of current or future waste prevention and recovery measures.</li> </ul> <p>Or</p> <ul style="list-style-type: none"> <li>• Reduce/prevent emission of air pollutants (e.g. Volatile Organic Compounds, particulate matter etc.) from industrial production processes and transport.</li> </ul> <p>Or</p> <ul style="list-style-type: none"> <li>• Reduce/prevent contamination of soil and water bodies (e.g. leakages of heavy metal, Persistent Organic Pollutants, reduction of fertilizer/chemical use in agriculture).</li> </ul>

## PRINCIPLES

Principle 1: Green labelled investments contribute to a genuine improvement

The improvement goes beyond the local regulatory requirements ("a genuine improvement") and the improvement is unrelated to local resources stress.

Principle 2: Green-labelled investments should not contribute to a long-term lock-in of high carbon infrastructure<sup>31</sup>

<sup>31</sup> Carbon lock-in occurs when fossil fuel infrastructure or assets (existing or new) continue to be used, despite the possibility of substituting them with low-emission alternatives, delaying or preventing the transition to near-zero or zero-emission alternatives. Source: Mechanisms to Prevent Carbon Lock-in in Transition Finance | en | OECD

# Annex 3: Reducing inequities objectives and principles

## OBJECTIVES

Objective 1: Reducing inequality among countries: investment in **least developed countries (LDCs)**.

The UN determines LDC status according to the specified criteria and indicators and maintains a list of countries with LDC status. Countries can be added to or graduate from LDC status. Graduation follows a detailed process and is announced well in advance.

Objective 2: Reduce inequality within countries: investment in **inclusive growth**

FMO defines inclusive growth in two ways (based on IFC, G20, and OECD):

**Inclusive business** employ market-based solutions to expand access to essential and affordable goods, services and livelihood opportunities to low-income populations<sup>32</sup> on a scalable, by making them a material part of the value chain of companies' core business of suppliers, distributors, retailers, employees or customers.

**Economic empowerment** expands access to economic resources and opportunities that help economically marginalized groups participate in, contribute to and benefit from the economy in ways that recognize their contributions and are dignified and fair – including jobs, financial services, property and other productive assets, skills development and market information.

## Principles

Principle 1: The investment should involve financial flows to one or more LDCs.

Principle 2.1: Improves access of low-income or economically marginalized groups by (a) being verifiably of higher quality than the goods, services or opportunities which they replace or (b) provides access that is more cost effective or efficient.

Principle 2.2: Leads to improvements in the lives or incomes of the low-income or economically marginalized.

<sup>32</sup> Low-income populations, also referred to as the base of the economic pyramid (BOP), are defined by FMO using poverty line of US \$6.85 per day in PPP as a proxy.