

**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.

In September 2022 FMO launched its Pioneer-Develop-Scale strategy towards 2030. As part of the implementation of strategy 2030, FMO will review and update its current impact management framework, with the aim to continue improving the organization's impact management practice, and to strengthen further the alignment with the Impact Principles.

The accompanying statement fairly presents FMO's impact management systems and processes¹. The Disclosure Statement applies to FMO's Total Committed Portfolio² in alignment with the Impact Principles³, which is EUR 13,238 million, as of December 31st, 2022⁴.

Michael Jongeneel
FMO Chief Executive Officer
May 11th, 2023



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 analysed 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. Excluding liquidity management.

³ The information contained in this Disclosure Statement has not been verified or endorsed by the Global Impact Investing Network ("the GIIN") or the Secretariat or Advisory Board. All statements and/or opinions expressed in these materials are solely the responsibility of the person or entity providing such materials and do not reflect the opinion of the GIIN. The GIIN shall not be responsible for any loss, claim or liability that the person or entity publishing this Disclosure Statement or its investors, Affiliates (as defined below), advisers, employees or agents, or any other third party, may suffer or incur in relation to this Disclosure Statement or the impact investing principles to which it relates. For purposes hereof, "Affiliate" shall mean any individual, entity or other enterprise or organization controlling, controlled by, or under common control with the Signatory.

⁴ Equivalent to USD 14,122 million, as of December 31st, 2022.

Description of FMO's impact management systems and processes

The following description details FMO's impact management systems and processes as of December 31st, 2022.

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, by 2050, more than 9 billion people live well and within planetary boundaries. 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 [...]."
- In the past few years, global developments and changing stakeholder expectations and regulations have affected FMO's impact agenda such that we felt the need to review our [ambitions and strategic priorities towards 2030](#). Our Strategy towards 2030: Pioneer - Develop - Scale derives its name from our progression model. It shows our long-term commitment to companies, supporting them from an initial high-risk phase to the point where commercial investors can (partially) take over from FMO.
- We aim to maximize our impact on the SDGs by supporting inclusive and sustainable economic growth and reducing inequalities — both of which are conducive to reducing poverty — while being consistent with a pathway towards low greenhouse gas emissions and climate-resilient development. Our contribution focuses on three SDGs that we can most impact through our financing of the private sector in emerging markets: Decent Work & Economic Growth (SDG 8), Reduced Inequalities (SDG 10), and Climate Action (SDG 13). We want to maximize our impact and work closely with our partners to achieve this. Our Strategy 2030 addresses the above and many other challenges. By building on what we already do; by recognizing what we are capable of; and by challenging ourselves, our customers and our partners to go where many others do not yet dare to go. The essence of our strategy is captured in just three words: Pioneer – Develop – Scale.
- FMO sets targets per SDG and focus sector, 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.

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 enable entrepreneurs to increase inclusive and sustainable 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 Director ESG+, who report to the Co-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, Sustainability Strategy and 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.
- 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 2.01](#), which aligns with the PCAF Global Standard, to model the estimated indirect jobs supported by our portfolio, and to calculate our financed absolute GHG emissions.
- We steer on impact by setting annual impact targets in terms of volume ([Green and Reducing Inequalities labels](#)) per investment team in our annual business plan. Whilst staff compensation is not directly linked to impact performance at FMO, departmental impact targets are included in directors' performance objectives, who are in turn responsible for cascading these down to their reporting teams. FMO's performance against the impact targets (amount of labelled investment and ESG performance) is monitored monthly.

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.

- 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.
- 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.
- FMO also supports investees through its value creation initiatives, including technical assistance, to expand investees' networks and knowledge transfer.
- 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.
- 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, seeks to determine the target groups (beneficiaries), and lists the main ESG risks associated with that investment.
- Direct and indirect impact data of individual FMO investments is collected and monitored by investment teams through impact cards at contracting (baseline) and as part of the annual credit review.
- FMO works closely with other Development Finance Institutions (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+](#), [HIPSQ](#)).

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's [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 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 based on the banks' existing or proposed portfolio, IFC Performance Standards triggered transactions, and prevailing country-specific sensitive issues.
- During the early stages of the investment process, FMO makes an initial assessment of the corporate governance (CG) risk for a customer. A questionnaire supports the investment staff with identifying CG risk factors and determining whether a CG Officer should be consulted. The outcome of the CG Questionnaire is either low or high CG Risk. If the outcome is high, a CG officer should be consulted.
- 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 investment 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.

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 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 of its investments. This 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.
- 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 monitor impact performance more actively, and to 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 circumstances (e.g. during the COVID-19 pandemic, the recent war in Ukraine) to sustain or deepen the impact of the investment.
- FMO currently has no exit policy in place for debt investments.

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 ([evaluations](#)), we aim to enhance our processes for reviewing investment-specific impact performance and learn from successes and failures to leverage our findings more effectively.

Principle

9

Publicly disclose alignment with the 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 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.
- In 2023 BlueMark independently verified the alignment of FMO's impact management systems with the Impact Principles. BlueMark is a leading independent provider of impact verification services in the impact investing market. BlueMark is a subsidiary of Tideline Advisors, LLC, a specialized consulting firm that works with asset managers and allocators to design and implement best-in-class impact management and measurement systems.
- The independent assurance report on FMO's alignment with the Impact Principles is available at <https://www.fmo.nl/operatingprinciples-for-impact-management>. The verification will be replicated every three years.
- The most recent disclosure was issued on 11 May 2023. The next planned review of FMO's Disclosure Statement is in May 2024; the next independent verification will take place in February 2026.