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## Second Party Opinion

## FMO Sustainability Bond Framework

Sept. 19, 2025

**Location:** Netherlands Sector: International Public Finance

#### Alignment Summary

Aligned = 🗸 Conceptually aligned = 🐧 Not aligned = 🗶

- ✓ Social Bond Principles, ICMA, 2025
- ✓ Green Bond Principles, ICMA, 2025
- ✓ Sustainability Bond Guidelines ICMA, 2021

See Alignment Assessment for more detail.

## Strengths

We expect eligible projects to address a broad range of environmental and social challenges across developing and emerging markets. Green project categories aim to support low-carbon energy, biodiversity protection, and sustainable land use, while social project categories target access to food, energy, and finance by underserved populations, particularly in the least developed countries (LDCs).

We view positively FMO's commitment to reduce financed emissions from power generation by 50% by 2030 compared to the 2021 baseline. This target supports the issuer's broader net-zero objective and reflects a proactive approach to managing climate transition risks in one of the most emissions-intensive sectors.

#### Weaknesses

The framework allows the financing of fossilfuel-based heating systems (for example, gas boilers) in jurisdictions where low-carbon alternatives are not yet viable. While these investments are limited in scope and subject to a planned phase-out, they may still present lock-in risks or misalign with long-term decarbonization pathways if not strictly monitored. However, FMO commits to opting for best available technology.

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#### Areas to watch

The eligibility criteria in some project categories are broadly defined and, in certain cases, lack thresholds. Although the framework's intention to address a wide range of environmental and social challenges is positive, the absence of clear and specific criteria creates uncertainty in some cases regarding the environmental impact of projects that may ultimately be financed.

#### Shades of Green Projects Assessment Summary

Over the two years following issuance, FMO expects to allocate most of the proceeds to green projects, predominantly renewable energy projects, with the rest going to social projects.

FMO expects to allocate the majority of the proceeds to refinancing existing projects, and approximately one-third of the proceeds to financing new projects.

#### Renewable energy



Hydropower: Small-scale hydroelectric generation of less than 20 megawatts (MW). For reservoirs, power density needs to be more than 4 watts per square meter (W/m²).

Geothermal: Eligible if net emissions per kilowatt hour (kWh) are substantially lower than applicable grid emissions per kWh.

Biodigesters or biomass plants: Eligible if using crop waste material from food and fiber production, or processing by-products such as bagasse, timber waste, and animal manure.

Production, transport, or storage of low-carbon green hydrogen.

Production of renewable energy from first-generation liquid biofuels will be excluded, unless such biofuels are sourced from waste.

#### **Energy efficiency**



The replacement of fossil fuel-powered boilers.

Eligible appliance and heat pump purchases that are labelled as Energy Star or in the top three energy-efficiency classes according to national or regional labelling systems. Demonstrating a minimum of 20% energy savings is necessary in the absence of applicable energy-labelling schemes.

Green Buildings certified under FMO's eligible sustainability certifications list--the International Finance Corp.'s (IFC's) EDGE Certified and above; LEED Silver and above; and BREEAM Very Good and above.

The renovation of existing buildings is eligible, subject to a 20% improvement in energy efficiency over the applicable minimum standards. In the absence of minimum standards, EDGE certification is preferred. LEED Silver and above or BREEAM Very Good and above are also acceptable.

#### Clean transportation



Dark to Medium green

Companies manufacturing zero-emission vehicles must have generated at least 90% of their annual turnover over the past three years (on average) from the manufacture of automotive and mobility components for zero-emission vehicles. The three-year period does not apply to start-ups.

Environmentally sustainable management of living natural resources and land use



Medium to Light green

FMO has in place a list of pre-approved certifications for the agriculture, forestry, aquaculture, and fisheries sectors. Investments with an approved certification standard are labeled green without further substantiation (for example, the Roundtable for Sustainable Palm Oil (RSPO) Next, ProTerra, Bonsucro, and the Aquaculture Stewardship Council).

These investments are context- and location-specific and should aim to:

- i) Manage physical climate risks and ensure that the project's or company's intended objectives are realized despite these risks:
- ii) Directly reduce physical climate risks and build the 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 multilateral development banks' (MDBs') three-step approach in their Common Principles for Climate Adaptation Finance Tracking. Examples include climate-resilient crops, protection against extreme precipitation, pest and disease management, irrigation, green/blue urban investments, and flood management.

#### Terrestrial and aquatic biodiversity



#### Medium to Light green

FMO has in place a list of pre-approved certifications for the agriculture, forestry, aquaculture, and fisheries sectors. Investments with an approved certification standard are labeled green without further substantiation (for example, RSPO Next, ProTerra, Bonsucro, and the Aquaculture Stewardship Council).

FMO's eligible biodiversity- and nature-related activities are in line with the defined list of activities in the IFC's Biodiversity Finance Reference Guide.

## Sustainable water and wastewater management



#### Medium to Light green

For the renovation of existing industrial facilities or equipment, projects must demonstrate a minimum water savings of 20%.

Greenfield wastewater treatment plants are eligible if they aim to reduce biochemical oxygen demand and greenhouse gas emissions.

Brownfield wastewater treatment plants are eligible if they demonstrate a minimum efficiency improvement of 20% through reductions in biochemical and chemical oxygen demand, nitrogen, and greenhouse gas emissions.

#### Pollution prevention and control



#### Medium to Light green

These investments should apply the waste hierarchy and proximity principles to waste sourcing and the transport system.

Recycling and waste management can be eligible if they are the client's core business activities. The eligibility of waste management, processing, reuse, and disposal depends on the local context. The company or project financed needs to demonstrate a genuine improvement to the local situation.

See Analysis Of Eligible Projects for more detail.

## **Issuer Sustainability Context**

This section provides an analysis of the issuer's sustainability management and the embeddedness of the financing framework within its overall strategy.

## **Company Description**

Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO), the Dutch Entrepreneurial Development Bank, is a public-private institution established in 1970. It is majority-owned by the Dutch government (51%), with the remainder held by Dutch banks and other stakeholders. Since becoming a fully licensed bank in 2014, FMO provides long-term financing solutions--including loans, equity (direct and via private-equity funds), and guarantees--focused on key sectors such as agribusiness, energy, and financial institutions.

As of end-2024, FMO's committed portfolio stood at €15.5 billion, diversified across 75 countries, with regional exposures to Africa (33%), Latin America and the Caribbean (21%), and Asia (20%). FMO's largest country exposures are in India, Türkiye, and Uzbekistan. FMO is headquartered in The Hague, with regional offices in South Africa, Kenya, and Costa Rica. FMO remains unlisted.

## Material Sustainability Factors

#### **Climate Transition Risks**

Development banks, like commercial banks, are highly exposed to climate transition risk through their financing of economic activities that affect the environment. Their direct environmental impact is small compared to their financed emissions and stems mainly from power consumption (data centers, for example). Policies and rules to reduce emissions could raise credit, legal, and reputational risks for banks with large exposures to high-emitting sectors, such as real-estate construction and transportation. These medium- to long-term risks are significant and will be proportional to the impact of climate change on the economy.

Positively, financing the climate transition offers a growth avenue for banks through lending, debt structuring, and other capital market activities. For development banks in particular, such as FMO, this role is central to their mandate, especially in low- to upper-middle-income countries across Africa, Asia, Europe, Central Asia, and Latin America, which face significant climate transition risks.

#### **Physical Climate Risks**

Physical climate risks will affect many economic activities as climate change increases the frequency and severity of extreme weather events. Banks finance a wide array of business sectors that are exposed to physical climate risk. However, although climate change is a global issue, weather-related events are typically localized, so the magnitude of banks' exposures is linked to the geographical location of the activities and assets they finance. Banks could help mitigate the effects of physical climate risks by financing adaptation projects and climate-resilient infrastructure, as well as by investing in solutions that support business continuity in exposed geographies.

FMO's regions of operation face diverse physical climate risks including droughts, floods, extreme weather events, heatwaves, wildfires, glacier melt, and rising sea levels, which threaten agriculture, water resources, and infrastructure. While each region experiences these risks differently, they all share similar vulnerabilities that necessitate immediate adaptation efforts and resilient development strategies.

#### **Biodiversity Risks**

Development banks, like commercial banks, contribute to significant resource use and biodiversity impacts through the activities they fund or invest in. FMO's exposures across regions of Africa, Asia, Central Asia, Europe, and Latin America face significant biodiversity risks driven by habitat loss, climate change, pollution, and unsustainable land use. While Latin America and Africa are

experiencing some of the most severe declines in species and ecosystems, regions like Asia and Central Asia are under pressure from industrialization. At the same time, Europe, despite strong policies, continues to see biodiversity degradation due to land use and climate impacts.

#### **Access and Affordability**

Banks' significant impact on society stems from their role in enabling individuals' and businesses' access to financial services and in ensuring the correct functioning of payment systems, which are cornerstones of economic development and stability. In most countries, unbanked and underserved population segments are still meaningful, although the access gap is most acute in emerging economies. Market imperfections such as low competition, incomplete information, and lack of financial literacy often result in costly alternatives for small businesses and low-income individuals. Ensuring affordable access to financial services, especially by the most vulnerable populations, therefore remains a challenge for the banking industry. New technologies will, however, increasingly enable banks to close this gap through cost efficiencies and product innovation.

While structural issues such as poverty, informal employment, and a lack of financial literacy partly limit access to financial services, banks have broad opportunities to support economic development through financial inclusion. Access to finance remains uneven across FMO's regions, with Africa, Central Asia, and Latin America facing significant gaps--especially among women, rural populations, and small businesses. Asia shows mixed progress and Europe maintains high inclusion, with some vulnerable groups still underserved. According to the International Monetary Fund (IMF), over 60% of adults in Sub-Saharan Africa and nearly half in Latin America remain unbanked. Central Asia struggles with weak infrastructure and reliance on informal systems, highlighting the need for targeted financial inclusion strategies.

## **Issuer And Context Analysis**

The framework's eligible green and social categories are consistent with FMO's material sustainability factors and its approach to sustainability and responsible investment. Green categories aim to address climate transition, physical risks, biodiversity, and pollution risks, while social categories seek to widen access to financial services and contribute to economic development by improving access to food and energy in the LDCs. However, some of the financing may also introduce risks, including potential social impacts on communities and some residual reliance on fossil fuels in projects where low-carbon alternatives are not yet viable.

**FMO** has taken steps to mitigate climate transition risk by aligning its strategy with global decarbonization goals. FMO faces transition risk primarily through its exposures to energy and industrial sectors in emerging markets. In response, the bank has adopted a climate action plan and a target of net zero by 2050, with a milestone of a 50% reduction in financed powergeneration emissions by 2030. FMO reviews all new energy investments for their alignment with the Paris Agreement, taking into account countries' NDCs and long-term decarbonization pathways.

FMO reports on scope 1, 2, and 3 emissions for both its own operations and its financed investments using the Greenhouse Gas Protocol and the Partnership for Carbon Accounting Financials to monitor its progress toward its climate targets. In support of this goal, FMO has committed to phase out direct investments in gas-based power generation by 2026, except where such investments are critical for energy access and alternatives are not viable. We view this commitment positively. The bank also excludes fossil fuel-linked investments through its participation in the European Development Finance Institutions' Harmonized Fossil Fuel Exclusion List. Legacy fossil fuel assets represent approximately 2% of FMO's portfolio, of which we expect around 80% to amortize by 2030.

FMO actively assesses and monitors physical climate risks across its portfolio, particularly in vulnerable geographies. FMO is exposed to physical climate risk through its investments in climate-vulnerable geographies and sectors such as agriculture, infrastructure, and energy. To assess these risks, FMO uses a portfolio-wide tool based on the Intergovernmental Panel on Climate Change's (IPCC's) representative concentration pathway (RCP) 8.5 scenario to monitor exposure to acute and chronic hazards including floods, extreme heat, droughts, and tropical cyclones. FMO assess these risks quarterly across short-, medium-, and long-term time horizons,

and integrates them into its investment decision-making and client engagement. We view this positively. The framework draws on Task Force on Climate-related Financial Disclosures (TCFD) and European Central Bank (ECB) guidelines to assess the resilience of counterparties, particularly in LDCs and climate-vulnerable states.

FMO incorporates biodiversity safeguards through screening, exclusion, and mitigation procedures. FMO has embedded biodiversity risk management in its sustainability policy and applies the IFC's Performance Standards on Environmental and Social Sustainability (IFC Performance Standards), with a particular focus on Performance Standard 6 (PS6), "Biodiversity Conservation and Sustainable Management of Living Natural Resources". Project-level due diligence incorporates biodiversity screenings, including the identification of critical habitats and the potential conversion of natural ecosystems.

FMO excludes projects with high biodiversity risks and applies a mitigation hierarchy (avoid—minimize-restore-offset) where relevant. FMO's customers are required to implement environmental and social management systems. FMO applies biodiversity safeguards to private-equity funds and financial institutions through sectoral policies, environmental, social, and governance (ESG) requirements, and periodic monitoring.

We take a positive view of the fact that FMO assists financial intermediaries in creating customized policies suited to their specific regulatory environments. FMO also mandates private-equity funds to implement an environmental and social management system and provide annual ESG progress reports. Regular monitoring of ESG developments includes site visits by FMO to investee companies. Where it identifies gaps, FMO assists customers in developing environmental and social action plans. The bank has also introduced key performance indicators to track compliance with PS6 commitments and provides targeted guidance for sectors such as hydropower, where aquatic ecosystem risks are elevated.

FMO focuses on improving underserved populations' access to and affordability of essential goods and services. Access to essential goods and services remains a material issue in many of FMO's target markets, where vulnerable populations face barriers to accessing financial services, energy, and food. FMO's investments aim to expand access among underserved groups, including micro, small, and medium enterprises, smallholder farmers, women- and youth-led businesses, and low-income consumers. To manage risks around affordability, FMO applies its inclusive business criteria and Reducing Inequalities label guidance. This label relates to Sustainable Development Goal (SDG) 10, reduce inequality within and among countries.

In its financial inclusion projects, FMO assesses affordability and client protection using its client protection toolkit, which includes screening for over-indebtedness and consumer risks. Grievance and independent complaints procedures are required at the client level to address potential social harm. As of 2024, FMO reported that 59% of new investments were aligned with SDG 10, with a focus on expanding services in LDCs and fragile states where access and affordability challenges are most acute.

## **Alignment Assessment**

This section provides an analysis of the framework's alignment to the [Social and Green Bond/Loan principles and the Sustainability Bond Guidelines].

#### Alignment Summary

Aligned = 🗸

Conceptually aligned = O

Not aligned = X

- ✓ Social Bond Principles, ICMA, 2025
- ✓ Green Bond Principles, ICMA, 2025
- ✓ Sustainability Bond Guidelines ICMA, 2021

## ✓ Use of proceeds

We assess all the framework's green project categories as having a green shade and consider all social project categories to be aligned. FMO commits to allocate the net proceeds issued under the framework exclusively to eligible green and/or social projects. Please refer to the "Analysis of Eligible Projects" section for more information on our analysis of the environmental and social benefits of the expected use of the proceeds. In addition, the bank can both finance and refinance eligible projects, and it commits to disclosing the proportion of proceeds used for each. Since the issuer applies a portfolio approach, a specific lookback period for refinancing is not defined within the framework.

FMO may allocate proceeds to direct and indirect loans and equity funds. Here, FMO only considers pure-play green or social private-equity funds that have a mandate, pipeline, or portfolio that it believes to be completely in line with its green or social eligibility criteria. FMO's due diligence process, which includes an ESG assessment, is also applicable, along with FMO's position statement on fossil fuels and its exclusion list.

## ✓ Process for project evaluation and selection

The framework outlines the process for selecting and approving eligible projects and assets, with FMO implementing a labeling system to track investments aligned with its strategic goals of climate action and reducing inequality. The green and social labels process is designed to assess, select, include, and monitor green and social projects. A core team drawn from various departments, including sustainable finance advisory, investment, and impact measurement, will identify eligible projects, with the Impact Measurement and Integrated Reporting team providing the final approval. In its investment process, FMO assesses and classifies clients based on ESG risk in line with its sustainability policy, using the IFC Performance Standards as a benchmark for ESG performance monitoring. Customer selection is based on the customers' ESG risk exposure and commitment to manage the environmental and social impacts, with FMO doing the monitoring.

## Management of proceeds

FMO will use an internal tracking system to track and monitor the allocation of proceeds on a portfolio basis. The treasury department is responsible for managing the proceeds from the sustainable finance instruments. If a financed project ceases to fulfill the eligibility criteria, FMO will remove it from the framework's purview and replace it with another eligible asset. The bank will allocate the net proceeds within 24 months of issuance. Pending allocation, unallocated proceeds will be invested in the treasury's liquidity portfolio. Furthermore, we take a positive view of FMO's commitment not to use unallocated proceeds for greenhouse gas-intensive or controversial activities or for activities included in its exclusion list.

## ✓ Reporting

Under the framework, FMO commits to publishing an annual sustainability bond newsletter, including both allocation and impact reporting, until full allocation or instrument maturity. The newsletters will be made available on the bank's website. Allocation reporting will include a brief description of representative eligible projects, the amount of outstanding bonds, allocated and

unallocated amounts, geographical split, and the share of refinancing and refinancing. Impact reporting will cover the expected or actual environmental and social benefits, such as annual greenhouse gas emissions avoided through its direct green investments and the number of direct jobs supported. To the extent possible, FMO seeks to align with the reporting practices in the International Capital Market Association's Harmonized Framework for Impact Reporting for both green and social bonds.

## **Analysis Of Eligible Projects**

This section provides details of our analysis of eligible projects, based on their environmental benefits and risks, using the "Analytical Approach: Shades Of Green Assessments," as well as our analysis of eligible projects considered to have clear social benefits and to address or mitigate a key social issue.

#### Green project categories

#### Renewable energy

#### Assessment

#### Description



Dark green

#### Eligibility Criteria:

Hydropower: Small scale (<20MW) hydroelectric generation). In case of reservoirs, power density needs to be >4W/m².

Geothermal: Eligible if net emissions per kWh are substantially lower than applicable gridemissions per kWh.

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.

Production, transport, or storage of low-carbon green hydrogen.

Production of renewable energy from first-generation liquid biofuels shall be excluded unless they are sourced from waste.

Storage dedicated to fossil fuel or blended fossil fuels is not eligible.

For companies that design, sell, and install renewable energy solutions: at least 90% of the annual turnover over the last three years (on average) must have been generated with renewable energy technologies or equipment and related services. The three-year period does not apply to start-ups.

#### Examples of Eligible Projects:

Generation of renewable energy with low life cycle greenhouse gas emissions to supply electricity, heating, mechanical energy, or cooling from solar, wind, tidal energy, hydropower, geothermal energy, and bioenergy.

Production, transport, or storage of low-carbon green hydrogen.

New, expanded, and improved climate adapted transmission systems.

Energy storage systems (battery, thermal, mechanical, pumped storage) that facilitate the integration of renewables, reduce the curtailment of renewables, or increase the utilization rate of renewables.

#### **Analytical considerations**

• Renewable energy projects such as small-scale hydroelectric generation, geothermal power, and green hydrogen are key elements in limiting global warming to well below 2°C, provided their negative impacts on the local environment and physical risks are sufficiently mitigated. In addition, FMO is financing biodigester and biomass projects using feedstock limited to crop residues, food and fiber processing by-products (such as bagasse or timber waste), and animal manure. FMO's renewable energy eligibility criteria incorporate technical thresholds and sustainability safeguards aimed at reducing environmental

risks such as deforestation, unsustainable land use, or biodiversity loss while supporting alignment with long-term decarbonization goals. Therefore, we assign a Dark green shade to the category.

- FMO is financing biodigester and biomass projects using feedstock sourced exclusively from waste streams, such as crop residues, food and fiber processing by-products (like bagasse and timber waste), and animal manure. To ensure the sustainability of this feedstock, FMO requires the use of traceability and third-party certification schemes, including the Roundtable on Sustainable Biomaterials, Forest Stewardship Council, Programme for the Endorsement of Forest Certification (PEFC), ISCC EU, and ISCC PLUS, as listed in FMO's Green Label Guidance. These certifications help verify that the feedstock does not contribute to deforestation or do any other environmental harm. In addition to project-level due diligence, FMO applies several safeguards to further mitigate risks linked to land-use change or unsustainable practices. Transportation-related emissions are also considered, where relevant, as part of the environmental and social risk assessment. These include the application of its Exclusion List—which prohibits financing activities involving the destruction of High Conservation Value Areas—supplier audits to verify compliance with sustainability criteria, and the integration of the IFC Performance Standards, particularly PS6, into its environmental and social risk management processes. Therefore, we assign a Dark green shade to this project.
- FMO finances small-scale hydropower projects (<20 MW), eligible only when power density exceeds 4 W/m² in the case of reservoirs. These thresholds are in line with market best practices to limit significant biodiversity and land-use impacts. Projects involving new dam or reservoir construction are subject to environmental and social impact assessments, in line with FMO's Position Statement on Hydro Power Plants and the application of the IFC Performance Standards. These requirements help mitigate project-level environmental risks and ensure screening of biodiversity-related impacts. We assign a Dark green shade to this project.
- FMO is financing green hydrogen-related projects, including the production, transport, and storage of low-carbon hydrogen derived from renewable electricity sources. Hydrogen derived from fossil fuels is excluded. The issuer states that environmental risks, such as water use and leakage, are acknowledged and are to be addressed at the project level.
- Under this category, FMO may finance local financial institutions that on-lend to companies that design, sell, or install renewable energy solutions. To qualify as green-eligible, these companies must have derived at least 90% of their average annual turnover over the past three years from renewable energy technologies, equipment, or related services, which we view as in line with market practice. According to FMO, this threshold is applied specifically to indirect loans via financial institutions, and eligible sub-projects can be included in the green credit line's use of proceeds. FMO confirms that there is no risk of double counting under this approach. While the remaining share of turnover may come from other activities, FMO's fossil fuel exclusion policy ensures that no financing goes to fossil fuel-related businesses.
- FMO assesses physical climate risks at both the portfolio and transaction levels, based on the ECB's guide and TCFD recommendations. These assessments cover hazards such as floods, droughts, and heat stress, using a high-emissions scenario (RCP 8.5) across short-, medium-, and long-term horizons. The issuer states that these risks are considered in the screening of new transactions, including those in renewable energy.

#### **Energy efficiency**

#### **Assessment**



#### Description

#### Eligibility Criteria:

Replacement of fossil fuel powered boilers

- For residential, office and commercial: with high-efficiency condensing boilers only.
- For industrial: with renewable energy boilers or with lower-carbon fuel boilers (such as gas) with improved boiler efficiency.

Eligible appliances and heat pump purchases that are labelled in the top-three energy efficiency classes according to a national/regional labelling system or that are Energy Star labelled. Demonstrating a minimum of 20% savings is necessary in the absence of applicable energy labelling schemes.

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).

Renovations to existing buildings are eligible subject to a 20% improvement over applicable minimum standards. In the absence of minimum standards, EDGE certification is preferred. LEED Silver and above or BREEAM Very Good and above are also acceptable.

#### Examples of Eligible Projects:

Heat production, recovery, and optimization, within the limitations of FMO's Fossil Fuel Position Statement.

Systems, equipment, and materials facilitating resource efficiency in buildings and industry.

Green building certifications, renovations to existing buildings, public installations, and enduse energy efficiency.

#### **Analytical considerations**

- Energy efficiency measures are needed to transition to a low-carbon economy, but their climate benefits and risks vary. Exposure to climate risk arises, for example, when these activities take place in high-emitting sectors or lock in fossil fuel use. FMO's energy efficiency category focuses on improvements in the building sector, including green building upgrades, energy-efficient appliances, and heating system replacements. FMO may finance high-efficiency gas boilers in jurisdictions where lower-carbon alternatives are not currently viable. While this presents a lock-in risk, the issuer has committed to phasing out such financing after 2026. Based on these considerations, we assess this category as Light green.
- FMO finances both the renovation of existing buildings and the purchase of energy-efficient equipment. Building renovations must demonstrate at least a 20% improvement over the applicable baseline, which can be defined using local building codes, pre-renovation energy audits, or third-party technical assessments based on documented energy performance data. In jurisdictions without minimum standards, EDGE certification is preferred, while other systems such as LEED or BREEAM may also be accepted. Although these certifications cover a broad set of environmental issues, they differ considerably in their requirements for energy efficiency, embodied emissions of construction materials, and climate resilience. Their points-based structures do not necessarily guarantee low-carbon new construction nor highly efficient existing buildings, and their robustness depends on factors such as the level achieved and the type of certification—design-phase certifications generally being more robust than "in-use" ones. New buildings certified under these schemes are considered by FMO to exceed local norms. In the absence of certification, modeled or actual energy or greenhouse gas savings may be used to justify eligibility. For appliances and heat pumps, eligibility is limited to products in the top three energy efficiency classes or ENERGY STAR-labelled, or those demonstrating at least 20% energy savings where no labeling system is available.
- FMO aims to finance the replacement of fossil-fuel boilers with high-efficiency alternatives across residential, commercial, and industrial contexts. For residential and commercial buildings, the framework allows the installation of high-efficiency gas condensing boilers, while for industrial use, replacement with either renewable energy boilers or lower-carbon fuel boilers (such as gas) is permitted, provided boiler efficiency is improved. The issuer states that these systems are only intended to be financed in jurisdictions where lower-carbon alternatives, such as heat pumps, are not yet viable. To ensure this, FMO applies project-level guidelines for gas boiler financing in industrial settings, as set out in its fossil fuel position statement. FMO also commits to phasing out financing for gas-based systems after 2026. Although the fossil fuel position statement does not explicitly address the refinancing of existing gas boilers, the issuer has confirmed to us that such refinancing will not be permitted after 2026. Until then, such projects are only eligible under defined transition criteria, including demonstrating that the activity represents the lowest-emission development solution available, that neither electric nor lower-carbon alternatives are feasible, and that no long-term carbon lock-in is created (for example through a limited equipment lifetime). For direct investments, the issuer requires independent third-party evidence demonstrating at least a 20% net reduction in greenhouse gas emissions, taking into account material life cycle sources and needing confirmation that the equipment does not result in long-term lock-in, with best available technologies required. For indirect investments, eligibility is determined through a green activity list, exclusion criteria, and portfolio-level monitoring, with life cycle assessments not systematically required. Based on the restricted application of this measure, the stated time-bound phaseout, and the focus on efficiency improvements, we assess this project as Light green.
- FMO assesses physical climate risks at both the portfolio and transaction levels, based on the ECB's guide and TCFD
  recommendations. For energy efficiency investments in buildings, relevant physical risks may include heat stress, flooding, or

extreme weather events, which could affect the long-term performance and resilience of upgraded infrastructure. These risks are considered during project screening and integrated into FMO's environmental and social due diligence processes.

#### Clean transportation

#### Description

#### Assessment

#### Eligibility Criteria:



For manufacturing companies of zero direct emission vehicles: at least 90% of the annual turnover over the last three years (on average) must have been generated from the manufacture of automotive and mobility components for zero direct emission vehicles. The three-year period does not apply to start-ups.

Transportation dedicated to fossil fuel or blended fossil fuels is not eligible.

#### Examples of Eligible Projects:

Acquisition, manufacture, and operation of zero direct emission vehicles, and supporting infrastructure.

Integration of transport and urban development planning (such as dense development, multiple land-use, walking communities, and transit connectivity) leading to a reduction in the use of passenger cars.

#### **Analytical considerations**

- Mitigating greenhouse gas emissions from transportation will be crucial to meeting global decarbonization goals, as the sector accounts for around 23% of global energy-related greenhouse gas emissions, according to the IPCC. Fossil fuel-powered vehicles and vessels also create air pollutants such as nitrogen oxides and sulphur oxides. FMO's clean transportation category focuses on the electrification of transport and supporting infrastructure, including financing zero direct emissions vehicles (including manufacturing such vehicles) and charging infrastructure, as well as the integration of transport and urban development planning to encourage reduced private car use. While these projects are supportive of long-term decarbonization, some activities—such as low-emissions zones and traffic efficiency measures—deliver more limited benefits within fossil fuel-based systems. We therefore assign a Dark to Medium green interval shade to this category.
- The issuer aims to finance the acquisition, manufacture, and operation of zero direct emissions vehicles and supporting infrastructure, alongside the integration of transport and urban development planning, such as dense development, multiple land-use, walking communities, and transit connectivity. The issuer clarified that the latter follows the MDB Common Principles and refers to eligible policy or system-level initiatives that contribute to modal shift, including transit-oriented development (TOD), low- or zero-emission zones, shared mobility applications (such as bicycles and scooters), and ICT solutions that improve traffic efficiency and enable shared mobility. In addition, the issuer excludes any buildings or real estate projects as part of this category. While investments in zero-emissions vehicles, TOD, and non-motorized transport support long-term decarbonization and are assessed as Dark green, some elements—such as low-emissions zones or traffic efficiency improvements—are more transitional, delivering benefits mainly within fossil fuel-based systems, which we assess as Medium green.
- For indirect loans via FIs, FMO applies an eligibility criterion requiring that companies manufacturing zero direct emission vehicles or related components will have derived at least 90% of their average annual turnover over the past three years from such activities, which we view as in line with market practice. According to FMO, this threshold is applied specifically to indirect loans via FIs, and eligible sub-projects can be included under the green credit line's use of proceeds. FMO confirms that there is no risk of double counting under this approach. However, the remaining share of turnover may come from other activities, with fossil-fuel-related businesses excluded under the issuer's policy.
- The framework also explicitly excludes vehicles and logistics systems primarily used for transporting fossil fuels, as well as
  mixed-use logistics where a significant portion of the operation is dedicated to fossil fuel transport. FMO confirms that this
  exclusion applies to both direct investments and those made through financial intermediaries. The issuer further notes that

it is developing processes to assess potential links to fossil-fuel value chains to ensure alignment with the objectives of the Paris Agreement.

#### Environmentally sustainable management of living natural resources and land use

#### **Assessment**

#### Description



Medium to Light green

#### Eligibility Criteria:

FMO has in place a list of pre-approved certifications for the agriculture, forestry, aquaculture, and fisheries sectors. Investments with an approved certification standard are labeled green without further substantiation (for example, RSPO Next, ProTerra, Bonsucro, and the Aquaculture Stewardship Council).

These investments are context- and location-specific and should aim to:

- Manage physical climate risks and ensure that the project's or company's intended objectives are realized despite these risks;
- ii) Directly reduce physical climate risks and build the 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 MDBs' three-step approach in their Common Principles for Climate Adaptation Finance Tracking. Examples include climate resilient crops, protection against extreme precipitation, pest and disease management, irrigation, green/blue urban investments, and flood management.

#### Examples Of Eligible Projects:

Climate change adaptation investments include, but are not limited to:

- Climate-smart agriculture;
- Green/blue urban investments;
- Installation of flood barriers and flood-proofing;
- Nature-based solutions for solar farms to cool solar panels and enhance their performance;
- Adaptive land-use management;
- Resilient agrifood systems;
- Agroforestry and sustainable natural forestry management;
- Regenerative agriculture; and
- Sustainable aquaculture.

#### **Analytical considerations**

• Climate adaptation in agriculture, forestry, and land use is essential to enhance long-term resilience to physical climate risks such as droughts, floods, and extreme weather events. Projects in this category can also help preserve ecosystems and secure livelihoods, especially in regions vulnerable to climate change. However, risks may arise if activities lead to indirect changes in land use or fail to integrate biodiversity safeguards. We typically assess adaptation-focused projects that aim to address climate risks such as droughts, floods, or land degradation as Medium green. Overall, we assign a Medium to Light green shade to this category due to the reliance on certification schemes to demonstrate sustainability and the inclusion of certified aquaculture projects, which we consider Light green due to the residual risks.

- FMO finances projects that support sustainable land and natural-resource management, including climate-smart agriculture, agroforestry, nature-based solutions, and resilient food systems. Eligible projects must contribute to reducing climate vulnerability and be aligned with the MDBs' Common Principles for Climate Adaptation Finance Tracking. The issuer applies the MDB principles' three-step approach, requiring (i) evidence of climate vulnerability; (ii) an intention to address climate resilience; and (iii) a clear link between the project activities and the identified vulnerabilities.
- Certified investments in agriculture, forestry, aquaculture, and fisheries are considered eligible under the framework, provided they hold pre-approved certifications such as RSPO NEXT, Bonsucro, ProTerra, or the Aquaculture Stewardship Council. To ensure alignment with climate adaptation objectives, FMO has developed a methodology using the International Trade Center's Standards Map to assess certification schemes. In cases where certifications do not fully address biodiversity, deforestation, or climate vulnerability, FMO applies additional safeguards through internal climate risk assessments, the IFC Performance Standards, and the requirements outlined in its green label guidelines.
- FMO includes certified aquaculture projects in this category, which may involve land-based fish-production systems (for example, ponds and above-ground tanks) or open-water systems (for example, floating cages in inland or marine environments). These projects are required to hold certifications such as those from the Aquaculture Stewardship Council. FMO applies additional safeguards where the certifications do not fully cover biodiversity protection or deforestation. These safeguards include FMO's internal assessments guided by its green label guidelines and the application of the IFC Performance Standards. However, the framework does not explicitly address value-chain emissions, such as those linked to fish production, energy use, or the operation of vessels powered by fossil fuels. We therefore assess certified aquaculture projects eligible under this category as Light green.

#### Terrestrial and aquatic biodiversity

#### **Assessment**

#### Description



Medium to Light green

#### Eligibility Criteria:

FMO has a list of pre-approved certifications for the agriculture, forestry, aquaculture, and fisheries sectors. Investments with an approved certification standard are labeled green without further substantiation (for example, RSPO Next, ProTerra, Bonsucro, and the Aquaculture Stewardship Council).

FMO's eligible biodiversity- and nature-related activities are in line with the defined list of activities in the IFC's Biodiversity Finance Reference Guide.

#### Examples Of Eligible Projects:

- Ecosystem conversion from agriculture, unsustainable forest management, urbanization, industrial developments, and transport networks:
- Reduction in over-exploration and destructive harvesting practices;
- Increased sustainable water use for agriculture, cities, energy, and industries;
- Pollution reduction;
- Reduction of invasive species; and
- Nature-based solutions for infrastructure and other services that are material to projects' operations and that can displace or complement man-made structures (such as gray infrastructure).

#### **Analytical considerations**

• Healthy ecosystems and biodiversity are an important part of a low-carbon, climate-resilient future. Protecting or restoring biodiversity often creates climate co-benefits, such as carbon sequestration or adaptation solutions. Well-designed projects can reduce threats such as unsustainable resource extraction, climate-change risks, land-use change,

- pollution, and the introduction of invasive species. FMO's criteria for biodiversity- and nature-related projects follow the IFC's Biodiversity Finance Reference Guide, which encompasses a large range of potential projects that can be financed.
- We assess the overall project category as Medium to Light green, owing to the relevance of the nature-related projects and their role in the transition to a low-carbon, climate-resilient future, as well as the breadth of the project category. We assess eligible conservation projects as Medium green, reflecting the ecological and climate-related benefits that these projects provide. We assign restoration projects a Light green shade due to their benefits to the ecosystem and the risks arising from the lack of a firm commitment to conserve restored areas.
- FMO's approach follows the IFC's Biodiversity Finance Reference Guide, and deviations are only possible if it considers a more restrained set of activities or applies a more conservative approach. We view the IFC's Biodiversity Finance Reference Guide as a positive market standard that defines nature-related projects. That said, the guide is also quite broad, creating some uncertainty about the ultimate environmental risks and benefits of the financed projects. We understand that FMO will divide its related investments across three of its defined sectors, namely, agribusiness and food and forestry; energy; and financial institutions.
- FMO intends to finance biodiversity conservation and restoration projects in both permanently conserved and actively managed areas. FMO will dedicate permanently conserved areas to the long-term protection of biodiversity and the ecosystem, which we view favorably. In parallel, active management approaches such as forestry, agroforestry, and aquaculture can effectively manage natural resources when executed sustainably. FMO's active management approaches are supported by various internationally recognized certification schemes, including the Forest Stewardship Council, the Programme for the Endorsement of Forest Certification, and the Aquaculture Stewardship Council. FMO implements these certification schemes alongside safeguards such as afforestation with native species, agroforestry on at least 50% of cultivated land, and zero-deforestation policies. In our view, these sustainability certifications cover many important environmental topics. Although these criteria can contribute to improved forest management and fishery practices, certification systems vary in stringency, can contain loopholes, and, in many cases, cannot adequately address larger systemic issues.
- FMO applies the IFC Performance Standards mitigation hierarchy to manage biodiversity and ecosystem impacts. It follows a sequential process of avoidance, minimization, and restoration, and, where necessary, offsets the residual impacts. This approach guides FMO's screening and project design, particularly in sensitive areas, and is embedded within its broader ESG risk-management policies. While financial intermediaries will finance many projects indirectly, these projects need to apply the same criteria and safeguards as FMO. Furthermore, throughout the life of the project, we do not expect FMO to fund habitat restoration following high-impact activities such as oil extraction as its exclusion list will also apply to this project category.
- FMO also incorporates climate adaptation and resilience into its project-selection process, recognizing the projects' significance in achieving long-term environmental benefits, which we view positively. By prioritizing projects that enhance climate resilience, FMO aims to ensure that the financed initiatives not only support biodiversity conservation but also improve the overall health and stability of ecosystems in the face of climate change.
- The ecotourism criteria in the IFC's Biodiversity Finance Reference Guide may not be considered green under our methodology in some cases. This is due to high climate and environmental risks from increased flights and the construction of lodgings and services without sufficient sustainability features in sensitive areas, as well as from the use of vehicles and vessels powered by fossil fuels. FMO has stated that ecotourism would fall into its "Infrastructure" sector rather than its three core sectors—Agribusiness, Food and Forestry; Energy; and Financial Institutions—and therefore does not expect to have exposure to such projects. FMO has also indicated that its conservation focus is addressed through projects within these three sectors, with any external reference guides being complemented by its own ESG risk assessment covering screening, due diligence, contracting, and transaction monitoring. Therefore, FMO does not expect to finance ecotourism activities under the framework. In the unlikely event that FMO did consider any ecotourism projects, its ESG risk-assessment processes, which entail screening, due diligence, contracting, and transaction monitoring, would apply.

Sustainable water and wastewater management (water securi	nable water and wastewater management (Water secu	urit	t
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Assessment

Description

#### Medium to Light green

#### Eligibility Criteria:

For the renovation of existing facilities/equipment in industry, the demonstration of a minimum of 20% water savings is required.

Greenfield wastewater treatment plants aiming to reduce biochemical oxygen demand (BOD), while demonstrating a greenhouse gas emissions reduction are eligible.

Brownfield wastewater treatment plants are eligible if they demonstrate a minimum 20% efficiency improvement through BOD reduction, along with chemical oxygen demand (COD) or nitrogen reduction, while demonstrating greenhouse gas emissions reduction are eligible.

#### Examples Of Eligible Projects:

- Water-recovery systems with treatment allowing for 100% reuse in industrial, agricultural, or commercial settings;
- Rainwater harvesting, storage, and distribution;
- On-farm water storage, harvesting, and recycling;
- Greenfield water-supply projects that meet high energy-efficiency standards or making use of demand management; and
- Watershed management.

#### **Analytical considerations**

- Water is essential for economic development, public health, and environmental sustainability. FMO finances projects aimed at improving water infrastructure, including water savings and wastewater treatment. These initiatives aim to enhance water availability, improve water quality, and promote efficient water use. Efficient water and wastewater activities are generally positive for climate resilience and pollution prevention. The project category includes quantitative criteria for water savings and efficiency through reductions in biochemical oxygen demand for brownfield wastewater treatment plants, which we view positively. However, the framework lacks thresholds for greenfield wastewater treatment plants, and although greenhouse gas reductions are referenced in the criteria, there is no threshold for emissions reductions, which could limit the project's environmental benefits. These factors lead to our Medium to Light green assessment for the overall category.
- We consider the eligible projects as having significant environmental benefits, particularly in terms of water efficiency, reductions in wastewater pollution, and circular water reuse. The requirement for a minimum water saving of 20% in the renovation of existing industrial facilities reflects a clear improvement compared with the facilities' pre-renovation performance and aligns with good industry practices for water conservation, to which we assign a Medium green shade.
- Greenfield and brownfield wastewater treatment investments are also eligible, contingent on them showing measurable improvements in water quality (for example reductions in biochemical and chemical oxygen demand or nitrogen), alongside reductions in greenhouse gas emissions. This performance-based approach supports important outcomes for ecosystem health, public health, and climate-change mitigation, which in our view would support a Medium green assessment. However, while reductions in greenhouse gas emissions are required, the framework does not provide quantitative thresholds or energy-intensity benchmarks. This limits the transparency of the projects' climate-related performance. This is particularly relevant because wastewater treatment facilities are typically energy-intensive, especially when advanced treatment technologies or sludge processing are involved. Also, FMO does not systematically assess nutrient and sludge management or the operational emissions of treatment systems, including fossil fuel use. These limitations are more aligned with a Light green assessment. We therefore assess this aspect of the category as Medium to Light green.
- FMO provides several examples of eligible investments, such as rainwater harvesting, on-farm water storage and recycling, watershed management, and systems targeting 100% reuse of treated water. These reflect a shift toward circular and nature-based water management. These solutions are generally low-energy and offer both adaptation and mitigation cobenefits, particularly in regions facing water stress or seasonal variability. They do this by supporting water security, flood control, and ecosystem resilience. However, the environmental performance of more engineered reuse systems depends on the design of the treatment process, especially regarding energy use, chemical inputs, and waste generation. Without

- further details in the framework, there is limited visibility on how these risks are mitigated, including the potential for increased solid waste or methane emissions.
- Most projects are financed indirectly through financial intermediaries that are responsible for applying FMO's criteria. Although some minimum efficiency thresholds are in place and high-risk environmental projects are excluded from funding, the approach relies on the intermediaries' implementation of these standards. The lack of detail on life cycle emissions, including embodied carbon in construction or infrastructure, may limit a full understanding of long-term environmental performance. While eligibility criteria reference greenhouse gas reductions and water-quality improvements, there is no formal screening for life cycle emissions or fossil-fuel reliance.

#### Pollution prevention and control

#### Assessment

#### Description



Medium to Light green

#### Eligibility Criteria:

These investments should apply the waste hierarchy and proximity principles to the waste sourcing and transport system.

Recycling and waste management can be eligible if they are the client's core business activities. The eligibility of waste management, processing, reuse, and disposal depends on the local context. The company or project financed needs to demonstrate a genuine improvement to the local situation.

Excluded waste activities:

- All activities relating to hazardous waste, except for waste motor oil and electronic waste;
- All activities relating to medical and biomedical (human or animal) waste;
- All activities relating to radioactive material (medical or nonmedical); and
- Waste incineration and similar types of thermal treatment.

#### Examples Of Eligible Projects:

- Recycling and waste management, processing, reuse, and disposal that apply or enable one or more of the following 9R principles: Refuse, Rethink, Reduce, Re-use, Repair, Refurbish, Remanufacture, Repurpose, and Recycle.
- Prevention of the long-term lock-in of overcapacities, which would reduce the impact of current or future waste-prevention and recovery measures.
- Materials, processes, or practices to reduce, minimize, or eliminate the generation of waste or pollutants of the air, soil, or waterbodies.
- Reduction and prevention of air pollutants (for example, volatile organic compounds and particulate matter) from industrial production processes and transport.
- Reduction and prevention of the contamination of soil and waterbodies (for example, leakages of heavy metal, persistent organic pollutants, and fertilizers or chemicals in agriculture).

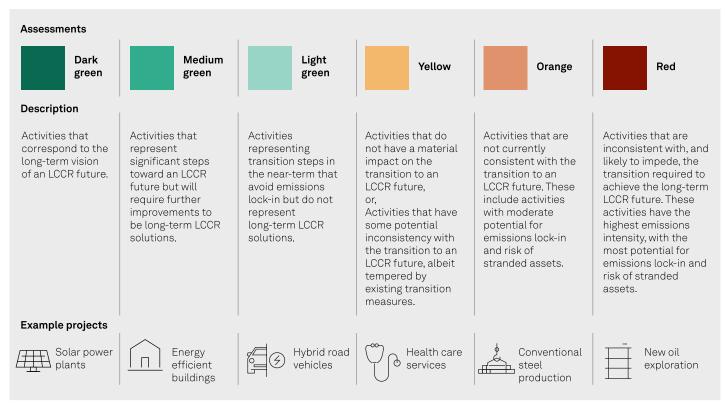
#### **Analytical considerations**

• Pollution prevention and control projects have direct benefits for local biodiversity and human health by reducing air and soil pollutants. This category focuses on waste management and recycling projects, pollution-prevention projects, water-security projects, and circular-economy projects. FMO has confirmed that eligible activities will not serve fossil fuel-related activities, although there may still be activities and equipment that use fossil fuels for recycling processes. To be eligible for investment, FMO requires projects to adhere to local laws and regulations, and to consider them green, the improvement

needs to go beyond the local laws and regulations. For these reasons, we assign this category the shade of Medium to Light green.

- Waste management and recycling are considered eligible for investment when they represent the client's core business activities and follow the waste hierarchy and proximity principles, which we view positively. This entails prioritizing waste prevention, reuse, and recycling over disposal, and minimizing the environmental impact of sourcing and transportation of waste. FMO excludes hazardous, medical, biomedical, or radioactive waste, incineration, and other forms of thermal treatment. Eligibility is context-dependent and requires that the project demonstrate a genuine and measurable improvement in local waste handling and environmental outcomes. However, the lack of clear performance thresholds for efficiency gains in recycling or reuse facilities makes the scale of the environmental benefit uncertain.
- FMO includes pollution-prevention activities in this category when they focus on reducing emissions of pollutants into the air, soil, or waterbodies. Projects must apply both the waste hierarchy and proximity principles while avoiding infrastructure that could create long-term overcapacity, as this might reduce the impact of future waste-prevention and recovery strategies. Eligible investments may include the reduction of air pollutants from industrial processes and transport, or the prevention of soil and water contamination from substances such as heavy metals and persistent organic pollutants and from excessive use of fertilizers or chemicals in agriculture. While the intent of these measures is strong, the absence of defined emission-reduction thresholds makes it difficult to assess and compare their effectiveness.
- Water-security projects are also eligible when they aim to materially increase the supply of clean water, improve water-use efficiency, or shift reliance onto less-stressed water sources. Projects drawing on water sources that contribute to the depletion of already stressed resources are excluded. While this is a clear exclusion criterion, the environmental impact of water-related projects depends heavily on local conditions and resource baselines. Without defined performance benchmarks or expected gains, assessing the environmental benefits of such projects remains difficult.

#### S&P Global Ratings' Shades of Green



Note: For us to consider use of proceeds aligned with ICMA Principles for a green project, we require project categories directly funded by the financing to be assigned one of the three green Shades.

LCCR--Low-carbon climate resilient. An LCCR future is a future aligned with the Paris Agreement; where the global average temperature increase is held below 2 degrees Celsius (2 C), with efforts to limit it to 1.5 C, above pre-industrial levels, while building resilience to the adverse impact of climate change and achieving sustainable outcomes across both climate and non-climate environmental objectives. Long term and near term—For the purpose of this analysis, we consider the long term to be beyond the middle of the 21st century and the near term to be within the next decade. Emissions lock-in--Where an activity delays or prevents the transition to low-carbon alternatives by perpetuating assets or processes (often fossil fuel use and its corresponding greenhouse gas emissions) that are not aligned with, or cannot adapt to, an LCCR future. Stranded assets--Assets that have suffered from unanticipated or premature write-downs, devaluations, or conversion to liabilities (as defined by the University of Oxford).

#### Social project categories

#### Food security and sustainable food systems (LDCs)

#### Eligibility Criteria:

- Inputs: Seeds, Animal feed, Fertilizer
- Primary production: Crops, Livestock, Production, Fishing
- Processing: Crushing, Storage, Handling, Packaging
- Trade: Trading, Exporting
- Distribution: Logistics, to Retail

Activities that do not align with good agricultural practices or which contribute to deforestation are not eligible.

#### Example of Eligible Projects:

Investments across the agribusiness value chain that enhance food security, supporting sustainability, efficient water usage, and promoting inclusive development.

#### **Analytical considerations**

- FMO supports projects across the agribusiness value chain in LDCs, including inputs (such as seeds, animal feed, and fertilizers), primary production (crops, livestock, fisheries), processing (crushing, handling, storage, packaging), trade (including export), and distribution (logistics and retail). These investments aim to strengthen food systems by promoting sustainable practices, improving resource efficiency (notably in water use), and reducing food loss. All projects must align with good agricultural practices, and those contributing to deforestation or environmental degradation are explicitly excluded.
- Target populations include underserved groups in LDCs who face challenges in accessing food, markets, or stable employment. The category aims to integrate smallholder farmers and low-income individuals into agribusiness value chains—as suppliers, employees, or consumers—supporting inclusive development and enhancing livelihood security.
- The category seeks to improve food availability and affordability, while reinforcing the sustainability and inclusivity of agricultural production and distribution systems. By increasing the resilience of food value chains and creating economic opportunities in rural areas, the projects aim to contribute to long-term food security and equitable growth.
- All projects are screened for environmental and social (E&S) risks following FMO's Sustainability Policy. High-risk investments are assessed using the IFC Performance Standards to identify and address risks related to labor, biodiversity, community impacts, and cultural heritage. Where applicable, environmental and social action plans are established to ensure alignment with international best practices.

#### Affordable basic infrastructure - Energy (LDCs)

#### Eligibility Criteria:

- Wind
- Solar
- Hydro (Run-of-river)
- Off-grid solutions
- Resource efficiency & refurbishment (see section 2.1.1. for the list of eligible energy efficiency categories)

Investments in fossil fuel-based technologies are not eligible

#### Example of Eligible Projects:

Investments in the areas of energy generation and distribution – promoting the transition to a low-carbon system and safeguarding energy security

#### **Analytical considerations**

- FMO aims to support energy generation and distribution projects in LDCs that transition toward low-carbon systems while enhancing energy security. Eligible technologies include solar, wind, run-of-river hydropower, off-grid solutions, and energy-efficiency refurbishments. These interventions play an important role in LDCs, where limited infrastructure and unreliable service hinder economic growth and access to basic needs. FMO places particular emphasis on expanding last-mile access through distributed energy solutions, helping deliver clean and affordable power to low-income and rural populations who are often excluded from national grids.
- The primary beneficiaries are underserved groups in LDCs--particularly rural and low-income communities with limited or unreliable access to energy. Projects are designed to be inclusive, ensuring that power reaches households, micro-enterprises, schools, or healthcare facilities that lack conventional grid access.
- These investments aim to increase access to affordable, reliable, and sustainable energy services. Social outcomes include
  improved quality of life, enhanced educational and healthcare delivery, and support for income-generating activities through
  electrified systems. FMO's inclusive business guidelines apply to ensure affordability and inclusivity of energy services for lowincome users.
- Energy infrastructure projects carry risks such as land acquisition, community displacement, biodiversity impacts, and
  occupational hazards. FMO screens all projects according to the sustainability policy and classifies them by risk level. High-risk
  projects undergo additional due diligence using IFC Performance Standards, and environmental and social action plans are
  implemented as needed. Key material topics (e.g., climate resilience, community impacts, and water use) are managed through
  customer-level and portfolio-level processes described in FMO's 2024 Sustainability Statement.

#### Access to essential services - Financial Institutions (LDCs)

#### Eligibility Criteria:

- SME Banks
- Microfinance
- Leasing companies (excluding leasing for fossil fuel technologies)
- Insurance companies
- FinTech

#### Example of Eligible Projects:

Investments in long-term financing solutions, increasing access to finance and supporting financial inclusion

#### **Analytical considerations**

- FMO supports financial institutions (SME banks, microfinance providers, leasing companies, FinTech, insurers) in LDCs, with the goal of expanding access to essential financial services. These institutions are critical for enabling investments in business development and agriculture, and in building household resilience, in underserved areas.
- The beneficiaries include small and micro enterprises, low-income individuals, and marginalized populations in LDCs who face barriers to accessing finance. By supporting financial intermediaries focused on inclusive lending, FMO seeks to reach populations that are typically excluded due to geography, income, or lack of collateral.
- Its social goal is to promote financial inclusion by increasing access to responsible financial services—such as credit, leasing, insurance, and digital finance. Expected outcomes include greater microenterprise activity, improved livelihoods, and enhanced economic stability among vulnerable groups.

- FMO assesses affordability in financial inclusion projects by using its Client Protection Toolkit, which includes checks for over-indebtedness and consumer risks. These measures, applied alongside its Inclusive Business Criteria and Reducing Inequalities Label guidance, help ensure access to credit remains appropriate for underserved populations.
- Financial inclusion projects carry risks including over-indebtedness, exclusion, or poor service quality. FMO applies its sustainability screening and IFC performance standards to high-risk cases. Its customer protection policies aim to prevent over-indebtedness, ensure transparency, and maintain fair lending practices. Portfolio-level indicators from FMO's CSRD-aligned sustainability reporting monitor consumer protection, workers in the value chain, and community-level impacts.

#### Food Security and Sustainable Food Systems (Inclusive Growth)

#### Eligibility Criteria:

Foods are ultimately consumed in low- or low-middle-income countries based on World Bank country classifications. Affordability and accessibility guidance under FMO's Reducing Inequalities Label needs to be met.

FMO's criteria for inclusive business need to be met.

Smallholders are small-scale farmers, pastoralists, forest keepers, and fishers who manage areas varying from less than one hectare to 10 hectares. They often have little access to technology, limited resources in terms of capital, skills, and risk management, and depend on family labor for most activities.

#### Examples of Eligible Projects:

- Investments in companies active in production/processing nutritious staple food products, or investments targeted at an improvement in the production/processing/distribution of nutritious staple food.
- 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.

#### **Analytical considerations**

- This category supports projects aiming to improve food security and strengthen food systems for low-income populations, particularly in low- and lower-middle income countries. Eligible investments include companies involved in the production, processing, and distribution of nutritious staple foods, as well as agribusinesses that integrate smallholder farmers into their value chains. These interventions are relevant in contexts where affordability, accessibility, and supply chain inclusion remain key barriers to food system resilience.
- The category targets two groups: low-income consumers and smallholder farmers. Low-income populations are defined using a proxy of US\$6.85/day in PPP terms. Smallholders are understood as individuals managing under 10 hectares of land, often with limited access to inputs, capital, or markets. These groups are relevant due to their high exposure to food insecurity and structural exclusion from formal agrifood systems.
- The objective is to promote inclusive and resilient food systems by increasing the availability of nutritious food and improving smallholder participation in value chains. Eligible projects must demonstrate affordability (price compared to average income) and accessibility (availability through common sales channels for example) and must qualify under FMO's inclusive business criteria.
- FMO applies its E&S risk assessment process to all projects. Higher-risk projects are evaluated using IFC performance standards. In the agribusiness sector, attention is given to supply chain impacts, labor rights, biodiversity, and land use. Environmental and social action plans are developed when gaps are identified to ensure alignment with responsible business practices.

#### Access to Essential Services - Inclusive Services (Inclusive Growth)

#### Eligibility Criteria:

- Meet FMO's criteria for inclusive business
- (Partially) meet FMO's Green Methodology 2024

#### Examples of Eligible Projects:

Energy solutions for low income or marginalized populations that lack adequate coverage, reliability, or affordability of these services. Examples include off-grid energy, rural energy access, household level devices and systems, mini-grids, and grid extensions.

Investments into companies providing basic goods and services to low income or underserved populations. Examples include technology-enabled financial services and agritech-enabled services to smallholder farmers.

#### **Analytical considerations**

- This category focuses on investments that improve access to essential services—especially energy and basic services delivery—for low-income and underserved populations. Examples include off-grid and household-level energy systems, rural mini-grids, and technology-enabled services such as agritech or fintech solutions. These projects address gaps in access, affordability, and infrastructure coverage.
- Eligible populations include low-income households, rural communities, and underserved groups lacking reliable access to energy or services. These populations are generally excluded from centralized networks due to geographic isolation or cost barriers. FMO targets these groups through inclusive business models that tailor delivery and pricing to their needs.
- The objective is to reduce exclusion from basic services by enabling access to energy and essential tools for economic resilience. These services can improve household stability, productivity, and long-term development outcomes. Projects must meet FMO's inclusive business criteria and demonstrate responsiveness to affordability and accessibility needs.
- All projects are screened under FMO's sustainability policy. Where risk is elevated (such as infrastructure development or digital services to vulnerable groups), FMO applies IFC performance standards and, where applicable, its client protection policy to safeguard against affordability risks, privacy concerns, or service quality issues.

#### Socioeconomic Advancement & Empowerment (Inclusive Growth)

#### Eligibility Criteria:

- Meet two out of three criteria of the IFC or the relevant micro loan size proxy defined by the IFC
- Meet FMO's criteria for inclusive business

#### Examples of Eligible Projects:

- Financial services for micro enterprises
- Finance for underserved SMEs

#### **Analytical considerations**

- This category supports projects that provide access to finance for microenterprises and SMEs serving or led by low-income or marginalized populations. These include rural and agriculture-linked SMEs, as well as businesses owned or led by women, youths, refugees, and other groups facing systemic exclusion. The category aligns with FMO's inclusive business approach and is particularly relevant in emerging markets where small-scale entrepreneurs often lack access to capital or formal support systems.
- This category targets microentrepreneurs and SMEs owned or led by individuals from structurally marginalized groups. Eligible enterprises must meet inclusion criteria, such as being ≥51% owned or having ≥30% of board or senior management composed of individuals from at least one of the following categories: women, youths (individuals under 35), refugees or forced migrants, persons with disabilities, or economically marginalized ethnic or racial minorities. It also includes rural SMEs—defined based on location characteristics such as low population density, dominant agricultural land cover, and limited market access—and agricultural SMEs active in primary production or value chains.
- The objective is to foster inclusive economic development by enabling micro and small enterprises to access credit, build resilience, and scale their activities. By targeting segments typically excluded from traditional finance, the category contributes to job creation, income generation, and stronger local economies, particularly in underserved rural or low-income communities.

- FMO assesses affordability in Socioeconomic Advancement & Empowerment projects using its Client Protection Toolkit, which includes checks for over-indebtedness and consumer risks. These measures, applied alongside the Inclusive Business Criteria and Reducing Inequalities Label guidance, help ensure access to credit remains appropriate for underserved populations.
- FMO screens all investments for environmental and social risks following its sustainability policy. Projects assessed as high-risk are reviewed under IFC performance standards. Where applicable, environmental and social action plans are implemented to address risks related to labor, community impacts, and financial consumer protection. In financial inclusion projects, FMO applies its client protection policy to mitigate the risk of over-indebtedness and ensure responsible lending.

# Mapping To The U.N.'s Sustainable Development Goals

Where the financing documentation references the Sustainable Development Goals (SDGs), we consider which SDGs it contributes to. We compare the activities funded by the financing to the International Capital Markets Association (ICMA) SDG mapping and outline the intended linkages within our SPO analysis. Our assessment of SDG mapping does not affect our alignment opinion.

This framework intends to contribute to the following SDGs:

#### Use of proceeds

#### **SDGs**

Renewable energy



#### 13. Climate action

#### Energy efficiency



#### 13. Climate action

#### Clean transportation



#### 13. Climate action

Environmentally sustainable management of living natural resources and land use



#### 13. Climate action

Terrestrial and aquatic biodiversity



#### 13. Climate action

Sustainable water and wastewater management



#### 13. Climate action

Pollution prevention and control



#### 13. Climate action

Food security and sustainable food systems



# 10. Reduced inequalities

Affordable basic infrastructure - Energy



# 10. Reduced inequalities

Access to essential services - Financial Institutions



10. Reduced inequalities\*

Food security and sustainable food systems

10. Reduced inequalities

Access to essential services



10. Reduced inequalities

Socioeconomic advancements & empowerment



10. Reduced inequalities\*

 $<sup>{}^\</sup>star\mathsf{The}$  eligible project categories link to these SDGs in the ICMA mapping.

## **Related Research**

- Analytical Approach: Second Party Opinions, Mar. 6, 2025
- FAQ: Applying Our Integrated Analytical Approach For Second Party Opinions, Mar. 6, 2025
- Analytical Approach: Shades Of Green Assessments, Jul. 27, 2023
- Analytical Approach: EU Taxonomy Assessment, Oct. 31, 2024
- Analytical Approach: European Green Bond External Reviews, Oct. 31, 2024
- FAQ: Applying Our Analytical Approach For European Green Bond External Reviews, Oct. 31, 2024

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