

Disclosure Statement
Operating Principles for Impact Management
FMO – Netherlands Development Finance Company
April 14th, 2020

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 Principles). The Principles provide a reference point against which the impact management systems of funds and institutions may be assessed. They draw on emerging best practices from a range of asset managers, asset owners, asset allocators, and development finance institutions.

The accompanying statement fairly presents FMO's impact management systems and processes, and discloses how FMO's core/client business, including (a) impact management systems; (b) policies and practices; and (c) investment services (including debt, equity, and blended finance instruments) are managed in alignment with the Principles as of December 31st, 2019.¹ Total Committed Portfolio in alignment with the Principles is EUR 13.48 billion as of December 31st, 2019.^{2, 3, 4}

Peter van Mierlo
FMO Chief Executive Officer
April 14th, 2020



¹ FMO acknowledges that it 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.

² Includes FMO's own commitments, funds under management and direct mobilized funds. Specifically, it includes the following:

- Total Committed Portfolio for Debt Instruments:
 - o Case (1) For party that provides Debt and receives Unfunded Risk Participation: Total Committed Portfolio is the sum of Outstanding Principal Amount and Committed Not Disbursed Amount reduced to the extent of Unfunded Risk Participation Amount.
 - o Case (2): For party that provides Unfunded Risk Participation: Total Committed Portfolio is the Unfunded Risk Participation Amount.
- Total Committed Portfolio for Equity Instruments: Is the sum of Fair Value and Remaining Commitment of the Equity Instrument
- Total Committed Portfolio for Guarantee Instruments: Is the Limit Amount Committed by FMO in a Guarantee Instrument Explanatory

Note: Total Committed Portfolio is calculated at Instrument/Risk Party grain. Based on reporting need, Total Committed Portfolio of Instruments could be aggregated and reported for different entities such as – FMO Consolidated, PIM Funds, Other Public Participants, Private Participants, etc.

³ Excluding liquidity management.

⁴ 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.

Description of FMO's impact management systems and processes

The following description details FMO's impact management systems and processes as per December 31st, 2019.

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 investing in businesses, projects and financial institutions by providing capital, knowledge and networks to support sustainable growth. We focus on the private sector in the following three industries, where we can have the biggest impact: Energy, Financial Institutions and Agribusiness, Food & Water.
- Impact is central to our vision of a world in which, in 2050, more than 9 billion people live well and within the means of the planet's resources. Impact is reflected in FMO's objective in its articles of association and agreement with the state, 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".⁵
- FMO's goal is to 'Become your preferred partner to invest in local prosperity'. Our strategy is aligned with the Sustainable Development Goals (SDGs), building on increased focus and impact in our activities. We steer on our contribution to the SDGs in general, and three in particular: decent work and economic growth (SDG8), reduced inequalities (SDG10) and climate action (SDG13). Through sector-specific initiatives we further contribute to zero hunger (SDG 2), gender equality (SDG 5), affordable and clean energy (SDG 7) and partnerships for the goals (SDG 17).⁶
- On an annual basis FMO issues a rolling five-year strategy that sets impact targets per SDG, focus sector and geography. Impact targets are presented both in absolute (total volume) and relative terms (percentage), as derived from FMO's committed portfolio. These are further detailed out and allocated per department part of the annual business plan. Performance against the impact targets is monitored on a monthly basis.

⁵ See FMO website, <https://www.fmo.nl/about-us/articles-of-association>

⁶ See among others FMO website, <https://annualreport.fmo.nl/2018/reports/ir2019/at-a-glance/our-strategy>

Principle 2 – *Manage strategic impact on a portfolio basis:* The Manager shall have a process to manage impact achievement on a portfolio basis. The objective of the process is to establish and monitor impact performance for the whole portfolio, while recognizing that impact may vary across individual investments in the portfolio. As part of the process, the Manager shall consider aligning staff incentive systems with the achievement of impact, as well as with financial performance.

- Impact implementation is guided by strategic choices such as the goal to be the preferred partner to invest in local prosperity, FMO’s impact focus as depicted in the SDG wheel⁷, as well as our country and sector focus. This includes the ambition to optimize across the impact, risk and return spectrum, as articulated in the ambition for a higher impact portfolio, deeper relationships and higher productivity.
- We steer on impact using three layers, (i) setting portfolio targets per investment department in terms of volume green and reduced inequalities, as well as capital of third parties (catalysing), (ii) setting corporate goals that are tracked periodically and (iii) setting boundaries on where we allocate capital through additionality and the Sustainability Policy universe that guide our ESG performance and protects the impact we create.
- Departmental impact targets, as set in the annual business plan, are included in directors’ performance objectives, who are in turn responsible for cascading these down to their reporting teams.
- FMO uses an econometric approach called the “FMO Impact Model” to provide a quantified approach on its impact. This model converts readily available financial client data of its clients into an estimate of the portfolio’s effect on jobs (both direct and indirect) and GHG avoidance⁸. These estimates are also reported in the annual reports⁹.

⁷ See among others https://annualreport.fmo.nl/2017/ar2017/reporothmanagemenboar2/ourstrategy2/a1054_Our-strategy

⁸ Source documentation available at <https://www.fmo.nl/library/download/urn:uuid:d85800f8-607a-4118-bb7a-059392b8c869/fmo+impact+model+%26+methodology.pdf>

⁹ See e.g. FMO’s 2018 Annual Report, page 36.

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.

- 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 market participants that pursue only commercial objectives. Additionality may take financial and/or non-financial forms in line with the definition of additionality as laid down in the Criteria Memorandum paragraph 2, “*Policy principles*”.¹⁰
- Additionality is a threshold condition for FMO involvement in a project. Projects need to be rigorously assessed with regards to additionality, using the assessment framework included in FMO’s investment “scorecards”¹¹. FMO defines the two main sources as financial additionality and environmental, social and governance (ESG) additionality. Sources and rationale for additionality are documented in the investment documentation, and is reviewed during the evaluation stage. ESG additionality of an investment requires monitoring, which is done during the annual client credit review process.
- Besides additionality, FMO uses attribution to pro-rate its share in impact for its investments. The data on employment and GHG avoidance it presents in line with its corporate impact strategy are pro-rated based on the size of the FMO investments on the balance sheets of its clients.

¹⁰ Agreement can be found at https://www.fmo.nl/en/library/download/urn:uuid:615c9ec5-0066-4844-a301-17de1952ff60/the+agreement-98.pdf?format=save_to_disk&ext=.pdf

¹¹ The scorecard is an instrument for judging and tracking FMO’s investments in a uniform and objective manner. The scorecard is developed to objectify and weigh risks and to assess the additionality of the projects to be financed. The outcome will be monitored during the lifetime of the investment. This makes for reporting on the two main objectives of FMO - return and additionality - in a uniform manner.

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.

- FMO measures impact through various complementary approaches, aligned with FMO's strategy. Besides econometric impact modelling at a portfolio level, FMO uses a system of labels to classify individual investments as per their intended impact, so as to measure alignment with its core impact focus areas. Finally, for each investment FMO documents the type and size of the expected impact, and determines the target groups (beneficiaries), and lists out the main risks associated with that investment. This is internally documented in the Financing Proposal. These ex-ante estimates of future expected impact can subsequently be used to monitor performance against expected impact.
- Direct and indirect impact data of individual FMO investments are collected and monitored by investment teams through impact cards at contracting (baseline) and as part of the annual credit review (performance). Periodic summaries are used to track the development of individual sectoral and departmental impact strategies over time.
- For each investment, investment teams identify opportunities to optimize development impact. Specifically, investments are reviewed against environmental, social and governance (ESG) standards and opportunities for improvements are identified and detailed in action plans. Additionally, where clients may benefit from improvements in corporate governance or capacity development, FMO has additional services it may deploy to support the client in optimizing impact. In particular, FMO's Corporate Governance and Capacity Development teams are engaged when a client is considered to lack skills or experience to implement key impact activities or services.¹²
- FMO's label system measures individual investments' relevance for SDG 10

¹² For more information on FMO's Capacity Development offering, see <https://www.fmo.nl/partner-with-us/capacity-development>. For more information on FMO's Corporate Governance capabilities, see <https://www.fmo-im.nl/en/corporate-governance>.

(Reduced Inequalities) and SDG 13 (Climate). Based on internal criteria, investments are evaluated on what share of the investments contributes to these core impact strategies. This is then reported across FMO's investments in its annual reports¹³.

- FMO considers further harmonization of impact measurement, indicators and reporting an important focus area. It works with its fellow European Development Finance Institutions (EDFIs) on this, currently leading an EDFI initiative to harmonize the econometric modelling of impact on (direct and indirect) jobs. It also actively participates in various platforms that discuss impact measurement and harmonization, such as HIPSO¹⁴ and the IRIS+ metric system of GIIN.¹⁵

¹³ See e.g. FMO's 2018 Annual Report, pages 28 and 36.

¹⁴ <https://indicators.ifipartnership.org/>

¹⁵ <https://iris.thegiin.org/>

Principle 5 – *Assess, address, monitor, and manage potential negative impacts of each investment:* For each investment the Manager shall seek, as part of a systematic and documented process, to identify and avoid, and if avoidance is not possible, mitigate and manage Environmental, Social and Governance (ESG) risks. Where appropriate, the Manager shall engage with the investee to seek its commitment to take action to address potential gaps in current investee systems, processes, and standards, using an approach aligned with good international industry practice. As part of portfolio management, the Manager shall monitor investees’ ESG risk and performance, and where appropriate, engage with the investee to address gaps and unexpected events.

- FMO Sustainability Policy sets out FMO’s commitment to sustainable development and articulates FMO’s approach to environmentally and socially sustainable development. By following this Policy, FMO intends to protect people and the environment impacted by its own operations and its investments and to help clients manage their environmental and social impact and improve their corporate governance. The FMO Sustainability Policy is the foundation of FMO’s Sustainability Management System and provides guidance to FMO’s internal processes¹⁶.
- FMO believes that transparency and accountability in its financing and investments are fundamental to fulfilling its development mandate. It allows our stakeholders to assess if FMO is achieving what it intends to do:

¹⁶ As described in the [FMO Sustainability Policy](#):

- FMO selects clients who are willing to work with FMO on improving their environmental, social and human rights impacts, as well as improving their governance. FMO contractually agrees performance improvements related to most important Environmental, Social and Governance (ESG) risks with its clients. By improving its performance, the client’s potential adverse impact on environmental and social issues is significantly reduced. FMO also works in this manner with clients to improve their governance.
- FMO requires, that all clients comply with applicable environmental, social and human rights laws in their home and host countries. In addition, FMO upholds the following (inter)national standards, including in its own operations, as applicable:
 - IFC Performance Standards/ World Bank Group Environmental Health and Safety Guidelines/ Equator Principles
 - OECD Guidelines on Multinational Enterprises
 - UN Guiding Principles on Business and Human Rights
 - ILO Declaration on Fundamental Principles and Rights at Work
 - UN Principles for Responsible Investment
 - EDFI Principles for Responsible Financing
 - G20/OECD Principles of Corporate Governance/ Dutch Corporate Governance Code
 - SMART Campaign Client Protection Principles
- With respect to the management of environmental and social impact, the primary standards that guide FMO’s relationship with clients are the IFC Environmental and Social Performance Standards and the associated World Bank Group Environmental Health and Safety Guidelines. They cover the larger part of the ESG requirements in the OECD Guidelines on Multinational Enterprises, which also reference the UN Guiding Principles on Business and Human Rights. Subject to its applicability criteria, FMO also applies the Equator Principles which are based on the IFC Performance Standards.
- The IFC Performance Standards guide FMO’s human rights due diligence with respect to clients.
- FMO requires clients to assess the likelihood and severity of impact on human rights as part of their assessment of social and environmental impact, and to implement mitigation measures in line with the IFC Performance Standards.

empowering entrepreneurs in emerging markets to build a better world. To facilitate this, FMO adopted a Disclosure Policy¹⁷, outlining the scope and type of information that it makes available to the public. In addition to the disclosure of 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 Standards¹⁸ over a reasonable period.
- FMO then screens all transactions on ESG risk. 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. With regard to financial institutions the risk categorization is made on the basis of the banks existing or proposed portfolio, IFC Performance Standards triggered transactions and prevailing country-specific sensitive issues.^{19, 20}
- During due diligence FMO executes a thorough ESG assessment on its

¹⁷ This policy can be accessed through https://www.fmo.nl/l/library/download/urn:uuid:f75e4ebb-f48f-41a4-a779-c0c7f63a3a17/disclosure+policy.pdf?format=save_to_disk&ext=.pdf.

¹⁸ www.ifc.org/performancestandards

¹⁹ The risk categories as distinguished by FMO are described in the FMO Sustainability Policy Annex 1 and follow the IFC's Environmental and Social Risk Categorization Framework. The categories for FMO are (A,B+,B,C for direct investments; FI-A,FI-B and FI-C for Financial intermediaries and PE-A and PE-B for private equity funds.

²⁰ With regards to ESG in particular, FMO requires all direct investments of medium and high E&S risk (category B, B+, A, see Annex 1 for the categorization) to fully adhere to the ESG standards referred to in Section 4 of the [FMO Sustainability Policy](#). Low risk (category C) investments are required to adhere to applicable law. For investments in financial institutions (FI), FMO requires FI-A and FI-B clients to apply the IFC Performance Standards framework to IFC PS-triggered transactions. Transactions with country specific sensitive issues will be addressed through the IFC Performance Standards or an approach through which we strive to align with the international standards listed in Section of the [FMO Sustainability Policy](#). The rest of the portfolio needs to adhere to applicable law and, when relevant, the client protection principles. FMO requires Private Equity Funds to implement an ESG risk management system which is compliant with the IFC Performance Standards. The system should require its high risk investee companies to adhere to the standards mentioned in Section 4 of the [FMO Sustainability Policy](#).

potential clients. This enables FMO to identify the main ESG risks and strengths that a client is exposed to and to assess the quality of its risk management and mitigation measures. The findings during due diligence are important input for monitoring and engagement throughout the investment, or could lead to modification of the transaction (including cancellation).

- Dedicated ESG specialists within FMO engage actively with all category A and B+ clients. The level and exact focus of engagement depend on the type and severity of impact and/or the extent to which they pose a risk to the client and FMO. ESG risk management is fully integrated in the approval process: this judgement call lies with FMO's commercial teams while FMO's credit team independently subjects it to critical scrutiny for (financial and non-financial) verification. Both deal and credit teams have dedicated ESG specialists that are involved in the assessment. FMO applies heightened scrutiny to any investment causing complex resettlement or affecting Indigenous Peoples, critical habitat or critical cultural heritage.
- With regard to corporate governance, FMO classifies all its clients as either high risk (1), moderate risk (2) or low risk (3). FMO considers a transaction 'high risk' if three out of five risk areas, namely the commitment to good corporate governance, board structure and functioning, the control environment, transparency and disclosure, as well as protecting shareholder rights are considered high risk. In such an event, FMO's governance specialists are involved in due diligence and action plans are part of FMO's investment contract.

Principle 6 – Monitor the progress of each investment in achieving impact against expectations and respond appropriately: The Manager shall use the results framework (referenced in 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’s impact measurement system comprises three levels (see also FMO’s Principle 4 alignment): econometric impact modelling, labels and impact indicators. The process for impact measurement through indicators includes collecting baseline data and estimates of future expected impact for all investments at the start of an investment, based on client information²¹.
- 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.²²
- FMO has developed tools and templates to compare performance against expected impact estimates. Where material differences occur, the portfolio managers may require a client to take remedial action, or otherwise implement changes to improve impact achievement²³.
- A client’s adherence to agreed ESG actions is monitored annually as well. Where clients are not making sufficient progress on agreed targets or actions, FMO may take action which could lead to modification of the transaction (including cancellation).
- Based on funding sources and strategic needs, FMO evaluates individual investments on impact performance using the data collected during the lifecycle of the investment.

²¹ This system was implemented mid-2019, with all investments approved since then having documented estimates for future expected impact.

²² Clients are legally obliged to provide this data; failure to do so may lead to disinvestment or early exits.

²³ Note that because of the recent implementation of the ex-ante future impact estimates, this process is still being rolled out in FMO at the time of writing.

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 considers the effect of maintaining development impact when making exit decisions in its private equity operations. This may affect timing, structure and choice to whom to sell. Most debt, guarantee and blended finance investments are self-liquidating without exit decisions.
- FMO's impact consideration around private equity exits is documented in its Exit Policy, an internal document. Among others, FMO's exit policy requires explicit consideration on impact during the share purchase process, and stipulates an Exit Memo is needed to document the exit rationale, which should include impact considerations.
- When managing an irregular exit, FMO strives for a responsible exit to the extent possible, and includes impact as a factor in the decision-making process. FMO documents this process, including the consequences on intended impact, in its investment documentation.

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 has developed a monitoring framework that stipulates the role of management in reviewing and documenting the impact performance of each investment to inform operational strategy and policy.
- FMO produces annual mandatory monitoring reports on all its investment projects. These monitoring reports are embedded in the client credit review process²⁴. The aggregate results are reported annually to the Management Board and disclosed to the public.
- FMO undertakes evaluations of its operations, policies, and strategies. These evaluations fill knowledge gaps related to assessment of project performance and / or meet demands of external stakeholders for performance evaluation (e.g., donors providing concessional funding).
- These FMO evaluations may also be around broad development themes, strategies, specific sectors, or specific mandates that the FMO's departments are charged with delivering. The evaluations include recommendations, for which management develops and commits to an action plan, which is monitored on an annual basis.

²⁴ Impact indicators and targets are tracked throughout the entire investment-project life cycle, they are estimated ex-ante at project approval and tracked ex-post thereafter until the project is closed. These are requirements that are clearly documented in current investment policies, procedures, and guidelines.

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 Principles, and will be updated annually.
- The independent assurance report on FMO’s alignment with the *Operating Principles for Impact Management* is available at <https://www.fmo.nl/operating-principles-for-impact-management>. The verification will be replicated every three years.
- This Disclosure Statement has been independently verified by the Dutch offices of KPMG. KPMG operates as a global network of independent member firms offering audit, tax and advisory services. It is one of the four largest audit services organizations. KPMG member firms can be found in 153 countries. Collectively they employ more than 219,000 professionals across a range of disciplines. One of these disciplines is Sustainability. Over 50 KPMG member firms have specialized teams which focus on ESG challenges. A key service which teams offer is to assure the accuracy of ESG information in organizations' corporate reports. KPMG’s assurance report can be found through the same link as provided above.
- The most recent review and assurance report were issued on April 14th, 2020. The next planned review of FMO’s Disclosure Statement is for April 2021; the next independent verification will take place in April 2023.