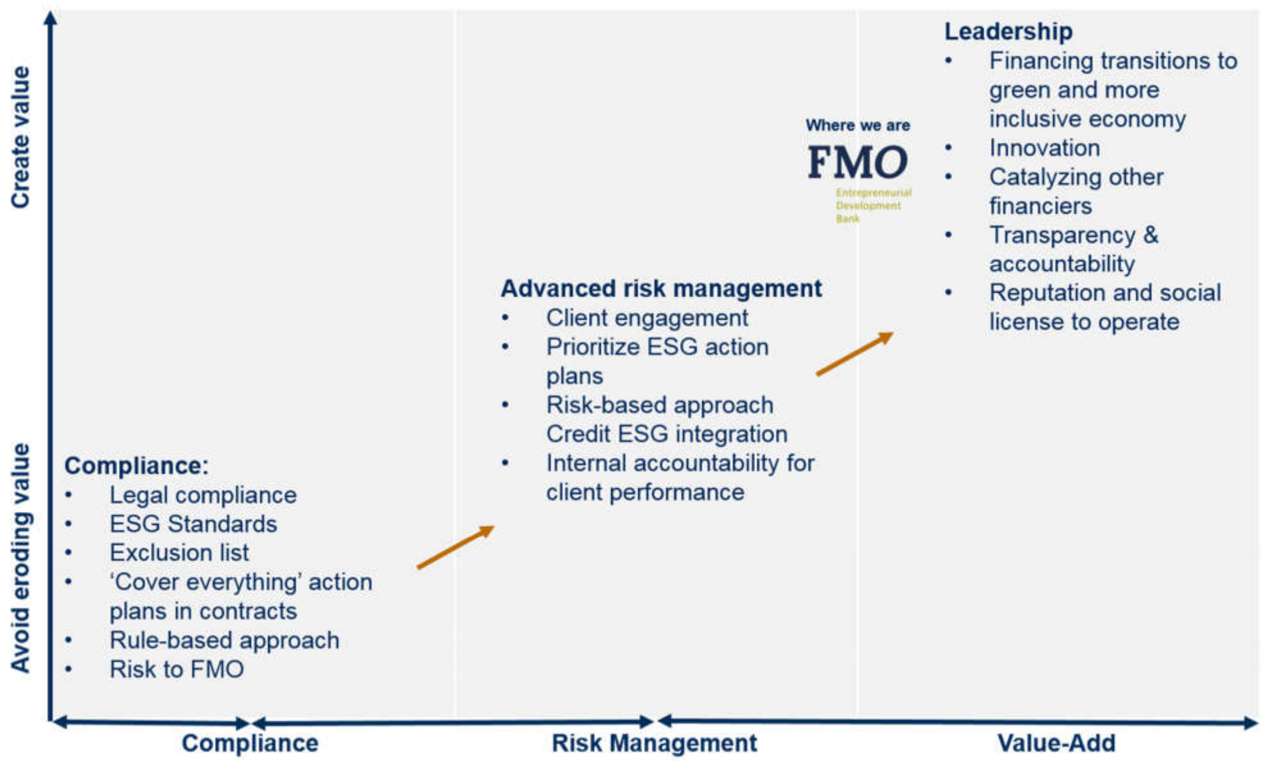
FMO

Entrepreneurial
Development
Bank

Sustainability Policy – from compliance to value add

Integrating sustainability within FMO has undergone significant development over the past years. The graph below reflects the path from compliance to value add:



The first stage reflects the approach that FMO took until approximately 2005. It was based on compliance with international ESG guidelines, as well as the application of an exclusion list of activities that FMO did not finance. This resulted in long action plans in the annexes of FMO's contracts with clients, which made it very difficult—if not impossible—for FMO's clients to focus on the biggest impacts and risks. As a result, a true commitment by clients to most effectively improve their ESG performance was often missing.

Recognizing that this was not sufficient, FMO complemented 'compliance' with ESG standards with a risk-based client engagement process, **as illustrated by stage 2.** Currently FMO combines the strategy of Stage 2 with the strategy of Stage 3. Based on this approach, FMO requires its clients to operate in line with the IFC Environmental and Social Performance Standards and engages with them on a path to best practice ESG management. FMO is committed to continuous improvement in the management of ESG matters. FMO aims to enhance positive effects in relation to the environment, workers and all stakeholders. In its engagement, FMO focuses on the most important ESG-related risks and agrees on mitigants as part of its contractual agreements with clients. Additionally, FMO is spending more time with its clients to help them achieve the ESG-related goals agreed upon.

FMO continues striving to become the ‘partner of choice’ for its clients in advising on ESG matters. FMO offers a large network of expertise to existing and future clients. FMO has the ambition to become a ‘practice leader’ in those ESG related areas that are most important to its clients. FMO is using its ‘convening power’ to engage selectively in initiatives targeted at a specific sector that result in positive impacts far beyond its own clientele. Equally important, FMO triggers ‘catalyst effects’ by sharing its ESG practices with its investment partners in other development finance institutions and investment funds. With his approach, FMO is transitioning to stage 3.

Stage 3 also reflects FMO’s ambition to become a leading bank in financing the transition to a more inclusive and greener economy. This entails the conscious build-up of a portfolio of projects that target sectors that support people that are in need of access to basic services, e.g. finance, energy and food, and achieve an optimal use of scarce resources and a reduction of harmful emissions. FMO provides support and knowledge to other financiers looking to mainstream such ambitions. FMO is, for example, among the first in issuing sustainability bonds whose proceeds are used for financing eligible sustainable development projects, such as in renewable energy, energy efficiency, microfinance, etc. and about which FMO reports on a regular basis. As we reach ‘stage 3’ our ambition on development impact and footprint reduction will be attainable.

The current proposed Sustainability Policy reflects the stage where FMO is today and provides the guidance on reaching the 3rd stage.