

Implementing FMO's Sustainability Policy Universe – Considerations for FMO

In 2016, FMO launched its revised Sustainability Policy Universe to better position itself to contribute to a world in which, by 2050, more than 9 billion people live well and within planetary boundaries.

The Sustainability Policy is the leading policy document within FMO's Sustainability Policy Universe—a comprehensive policy framework that defines FMO's approach to financing for sustainable development impact¹ and addresses environmental, social, and governance (ESG) and human rights impacts² in its investment portfolio. FMO's Position Statements are an integral part of the Sustainability Policy Universe and are supplementary to the [Sustainability Policy](#). They provide further context on FMO's sustainability choices, as well as additional policy requirements in relation to major global sustainability issues, specific themes, and investment sectors.

Since 2016, FMO has systematically developed the Sustainability Policy Universe in consultation with relevant stakeholders. Where this framework may seem straightforward, the context in which FMO operates presents serious practical challenges and dilemmas. This

¹Development impact is the overall positive impact that FMO's investments and activities have, either primarily or secondarily, on people and environment.

²FMO has updated the language in the Sustainability Policy Universe to align with the terminology and definitions in the [ESRS 2 'double materiality assessment' \(DMA\)](#) regarding "impact" and "impact materiality." The DMA helps FMO identify which sustainability-related matters are material from an impact and/or financial perspective and therefore need to be included in its reporting under the [EU Corporate Sustainability Reporting Directive](#) (CSRD). A sustainability-related matter is considered material from an impact perspective when it relates to FMO's potential or actual—positive or negative—impacts on people or the environment over the short, medium, and long term.

shows that a clear policy does not always translate into a clear path to implementation. This document explains how FMO navigates these complexities in practice.

1. Prioritization based on a risk-based approach

Contributing to development impact and reinforcing our position as ESG change agent is first achieved by focusing on what is important and urgent. FMO has, as part of its team and through its network, access to significant ESG resources. These resources are allocated across FMO's new deals and portfolio, amongst others, to stimulate compliance with minimum standards and to deal with high-risk customers³. Naturally, FMO faces limitations in engaging extensively with all its customers. FMO thus allocates most of its ESG resources to the transactions and customers that pose the highest impact risks from an ESG and human rights impact and credit point of view. By strategically allocating its resources, FMO prioritizes addressing the most critical challenges before others. This approach also enables FMO's customers to focus on managing the most material impact risks to people and the environment.

2. Contextual Risks

Emerging markets pose relatively high contextual ESG and human rights risks not directly linked to FMO's customer but to broader national or regional dynamics. Key sources of contextual risks relate to poverty and inequality, (latent) conflict, a weak rule of law and public governance, legacy land issues and the relatively high dependence by local populations on locally available natural and environmental resources, including notably land, water and forests. FMO confronts this challenge by addressing potential negative impacts from FMO's early engagement with potential customers, including contextual risk analysis, including

³ A customer is the entity—regardless of the type of financing or fund structure—that has a direct contractual relationship with FMO, receives the investment funds, uses those funds as agreed in the contractual documentation, and to which FMO holds direct financial risk exposure under its investment portfolio.

dedicated analyses for Fragile and Conflict Affected Situations (FCS), and also by careful customer selection and monitoring. FMO further contractually agrees with and supports FMO's customers to achieve measurable improvement towards standards laid down in the Sustainability Policy Universe over time.

3. Market Imperfections

If in a direct relationship with the customer, the implementation of our standards could have adverse effects on the customers' market position due to lack of a "level playing field", FMO will look for other routes to effectuate its sustainability ambitions.

One of the best examples of ESG challenges posed by imperfect markets are FMO's investments in financial institutions. FMO's ambition is for all medium and high ESG impact risk end-customers to comply with our policies and standards, but the business imperative to enhance ESG requirements to our standards can be challenging for local financial institution customers. FMO has responded to this in selected countries by collaborating with financial institutions, the local banking associations and the central bank to promote sector-wide minimum ESG management standards. These sector-wide ESG initiatives aim to create a level playing field, while elevating ESG standards across the financial sector. This is in line with FMO's ambition to use its convening power.

4. FMO's Accountability

Confronting the challenges described above and meeting FMO's ambition as written in its Sustainability Policy Universe, FMO is committed to remaining one of the best-resourced banks on in-house ESG expertise. This extends as well to its internal accountability mechanisms. Ensuring that FMO's specialists work well with the Sustainability Policy Universe, FMO has implemented a four-eye principle that assures that the work of FMO's

investment teams is adequately challenged in FMO's Credit department, which employs its own set of specialists. Also FMO's Investment Committee considers ESG and human rights impacts in each of its investment decisions and upholds a high standard of ESG and human rights scrutiny throughout the organization.

FMO's risk-based approach enables it to select and prioritize the management of the highest ESG impact risks and monitor these closely. With its sector initiatives and capacity development program FMO aims to gradually increase ESG and human rights requirements for customers in a particular sector. Future customers then consequently need to abide by these.

Finally, FMO sets ambitious strategic targets to increasingly grow the share of investments in its portfolio that contribute to Climate Action (SDG 13) and Reducing Inequalities (SDG 10). This is another important part of FMO's strategy to achieve sustainable development impact.

Our approach to [impact management](#) is a living approach; one that involves continuously addressing the dilemmas and challenges we face to uphold our commitments. We conduct [evaluations](#) to assess and learn from our performance against our committed (impact) objectives and our role as ESG change agent, including assumptions that underpin our [Theory of Change](#). At the portfolio level, we perform corporate evaluations to assess FMO's contributions to the SDGs, while for fund evaluations, we selectively choose specific investments for review. Evaluations help us to be accountable and to learn from our financial and non-financial activities, and as a result, to continuously improve.

Accountability is further extended by the implementation of an independent complaints mechanism. This mechanism ensures the right to be heard for Complainants who feel affected by an FMO-financed operation, in order to enable resolution of disputes and assist FMO in drawing lessons learned for current and future operations. FMO strives to continuously

improve its policies and procedures. It aims to do this in close partnership with its key stakeholders. FMO conducts relevant and appropriate stakeholder consultation to enhance the quality of our policy during various stages of policy development. In this way, FMO aims to create shared value, remain transparent and accountable, and achieve sustainable impact in the societies where it operates.

FMO welcomes feedback on its Sustainability Policy Universe, which can be submitted by email to consultation@fmo.nl.

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