



FMO

Entrepreneurial  
Development  
Bank

HUMAN RIGHTS

# An integral part of our investment approach

Human rights progress report

October 2017 – September 2018

## ABOUT THIS REPORT

We are pleased to publish our first human rights report. It describes our progress towards the further embedding of human rights in our way of working in accordance with the United Nations Guiding Principles on Business and Human Rights Reporting Framework. We explain how far we have come during 2018; the main changes we have made to further strengthen our due diligence approach; the outcomes we believe will be achieved and the main challenges involved; and our direction of travel and key next steps for the coming year.

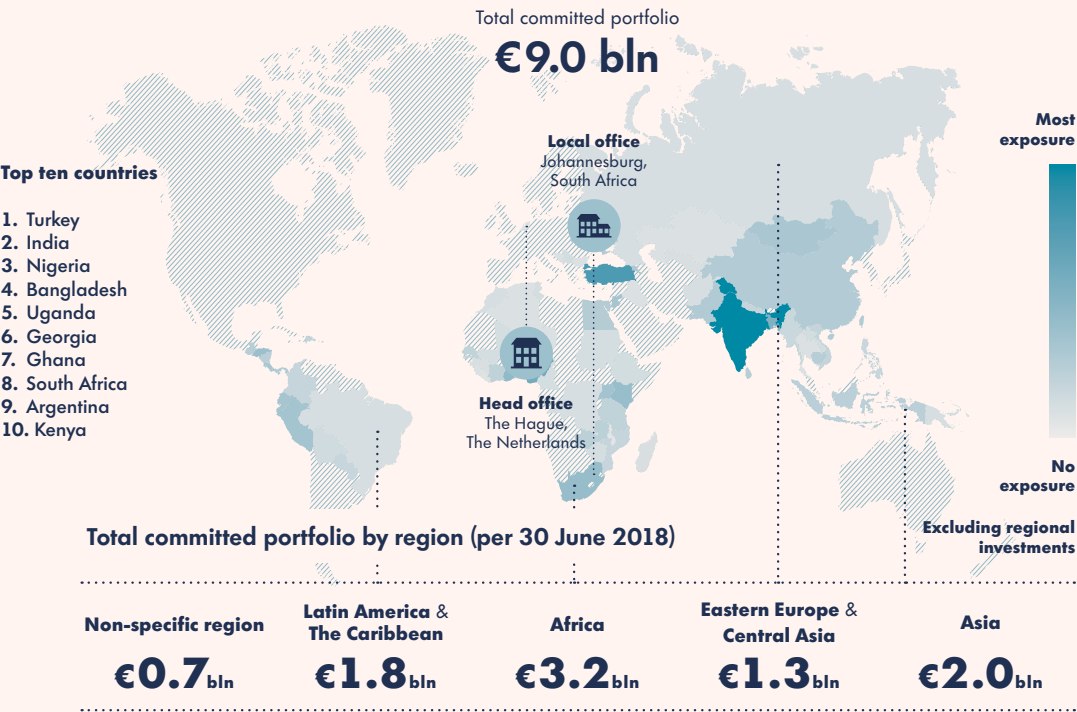
In September 2017, about the same time that we launched our human rights position statement, we invited several stakeholders to share and discuss our thinking on business and human rights and our plan for further strengthening human rights due diligence in 2018. In this report you will read what we have been doing during the October 2017 - September 2018 reporting period.

## ABOUT FMO

FMO is the Dutch development bank, and our mission is to empower entrepreneurs to build a better world. To this end, we invest with the aim of enhancing local prosperity in places where it is needed most. We invest in growth and frontier markets and encounter settings that can pose significant human rights challenges.

We deal with these challenges by encouraging the businesses we work with to do more than create jobs and tax income and contribute to a healthy private sector. We challenge them to also meet the high international standards regarding the welfare of people, corporate governance and the environment. This combination of activities in turn improves people's prospects for a better life.

## OUR COMMITTED PORTFOLIO



## OUR MARKETS



**Agribusiness, Food & Water**  
We invest across the agribusiness value chain - enhancing food security, supporting sustainability, efficient water use, and promoting inclusive development.



**Financial Institutions**  
We offer long-term finance solutions - increasing access to finance and supporting financial inclusion.



**Energy**  
We invest in long-term projects in the areas of generation and distribution - promoting the transition to a low-carbon system and safeguarding energy security.



**Dutch business**  
We offer Dutch businesses project development funding and long-term financing solutions for projects in emerging markets and developing countries.



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"Our vision is that in 2050, more than 9 billion people live well and within the planet's resources. This means putting people – and their rights – front and center. In my day to day job, it is my role to help ensure that we are continuously learning, so our engagements with clients, NGOs, employees and partners feed back into our human rights approach to investments. I am proud that in collaboration with our stakeholders, we have embedded the human rights lens even deeper into our investment process this year."

**Jorim Schraven**, Director Strategy & Corporate Affairs



"The exploration and more explicit use of business and human rights standards is yielding new and deeper information. This helps us in promoting more inclusive and better-informed investment decisions that do not just benefit our clients and the countries in which they operate, but also the people in the vicinity of the activities that we finance."

**Karin Verstralen**, Environmental & Social Manager



"Personally, I see respecting human rights as an integral part of our environmental and social standards which help to maintain a sustainable and replicable portfolio of impact investments. Climate change is disproportionally affecting vulnerable groups in the countries where we operate, adding additional challenges in the provision of basic human rights such as water, food and health. FMO's focus on securing a country's energy requirements through renewable energies is critical to ensuring our targeted long-term sustainable development impact."

**Robert Voskuilen**, Senior Investment Officer Energy



"I have worked at FMO for over 20 years, and I still see many cases of human rights violations in the markets where we operate. FMO advances human rights and decent living by monitoring working hours while ensuring safe environments, decent lodging and reasonable wages. We stay involved in countries to improve living standards as we empower people to create better prospects for society."

**Steven Duyverman**, Manager Agribusiness, Food & Water

# 1. Our commitment to respecting human rights

## FOREWORD

Dear reader,

Human rights are a precondition for sustainable development. And they are fundamental to creating a world by 2050 in which more than 9 billion people live well and within the means of our planet's resources. Operating from a human rights perspective actively strives to provide everyone with the opportunity to live a life of dignity and opportunity. It also helps to ensure that humanity's use of natural resources does not stress critical ecosystems.

This report describes the status of the commitments we expressed in our 2017 position statements, including our effort to strengthen our human rights due diligence processes. Respecting human rights is core to FMO's mission and we will continue to keep this focus – in our case, through the investments that we make in our clients and partners.

In fact, human rights are an integral part of our overall environmental and social approach and are systematically addressed throughout our investment process. For instance, we have embedded 35 Environmental & Social Officers within our investment teams to identify and manage human rights in conjunction with our clients throughout our projects. This approach helps us address human rights in a more formal and systematic way.

But we are not there yet. We have learned a lot in the past year – both from our own activities and those of our clients and stakeholders. This has served to strengthen our resolve even further, as we continue to face the challenges ahead. Do we disengage from a client or partner when their human rights performance is not up to the appropriate standards? Or do we stay, and try to improve their human rights processes?

Dilemmas like these also emphasize the importance of grievance mechanisms – both our own and those of our clients and partners. Our Independent Complaints Mechanism is a good example of this, as it assesses and manages specific investment issues independently, with a direct impact on management board decisions and, more importantly, the lives of local stakeholders.

We continue to move ahead with a strong human rights focus, and we look forward to providing you with updates on our progress each year.

**Peter van Mierlo**  
Chief Executive Officer

## HUMAN RIGHTS ARE INTEGRAL TO FMO'S DEVELOPMENT MISSION

FMO's vision is a world in which, in 2050, more than 9 billion people live well and within the means of the planet's resources. Each year, we invest around €1.6 billion and catalyze around €0.9 billion investments from third parties in developing countries to empower entrepreneurs to build a better world. Respect for human rights is a fundamental and non-negotiable part of this mission and is integral to the way we select and support our clients and partners.

We work exclusively with private sector companies. We focus on the financial, energy and agriculture, food and water sectors where we can have the biggest impact. We assess our investment decisions against their contribution to the Sustainable Development Goals (SDGs), particularly Decent Work and Economic Growth (SDG8), Reduced Inequalities (SDG10) and Climate Action (SDG13).

The effective management of environmental and social risks and impacts – including human rights – based on clear and authoritative standards is therefore critical.

## UN GUIDING PRINCIPLES ARE AN IMPORTANT COMPASS

FMO has used the IFC Performance Standards, ILO Core Labour Standards and other relevant international standards for many years, as set out in the FMO Sustainability Policy. We will continue to use these standards as key reference points for defining requirements and responsibilities, and for promoting and verifying good practice.

We believe the UN Guiding Principles underpin this framework by adding an essential focus on human rights and rights holders, enabling us to analyse our strategy, clients and results through a valuable, complementary lens. And in the process, to maintain our focus on the continuous improvement of our due diligence practices and management systems.

## OUR OVERALL POLICY FRAMEWORK

FMO's commitments to human rights and other environmental and social issues are anchored in the FMO Sustainability Policy. Updated following extensive consultation with a wide range of NGOs and other stakeholders, the current version of our Sustainability Policy was adopted by FMO's Management Board in December 2016. Over the following months, we also published a series of more detailed position statements on specific issues, including our Human Rights Position Statement.

The focus of our Human Rights Position Statement is on the people directly or indirectly affected by the activities that we finance. These position statements, together with the IFC Performance Standards and World Bank Environment, Health & Safety Guidelines are central to the way we build environmental and social requirements (including human rights issues) into our investment criteria and processes.

## PARTNERSHIPS AND STAKEHOLDER ENGAGEMENT ARE KEY

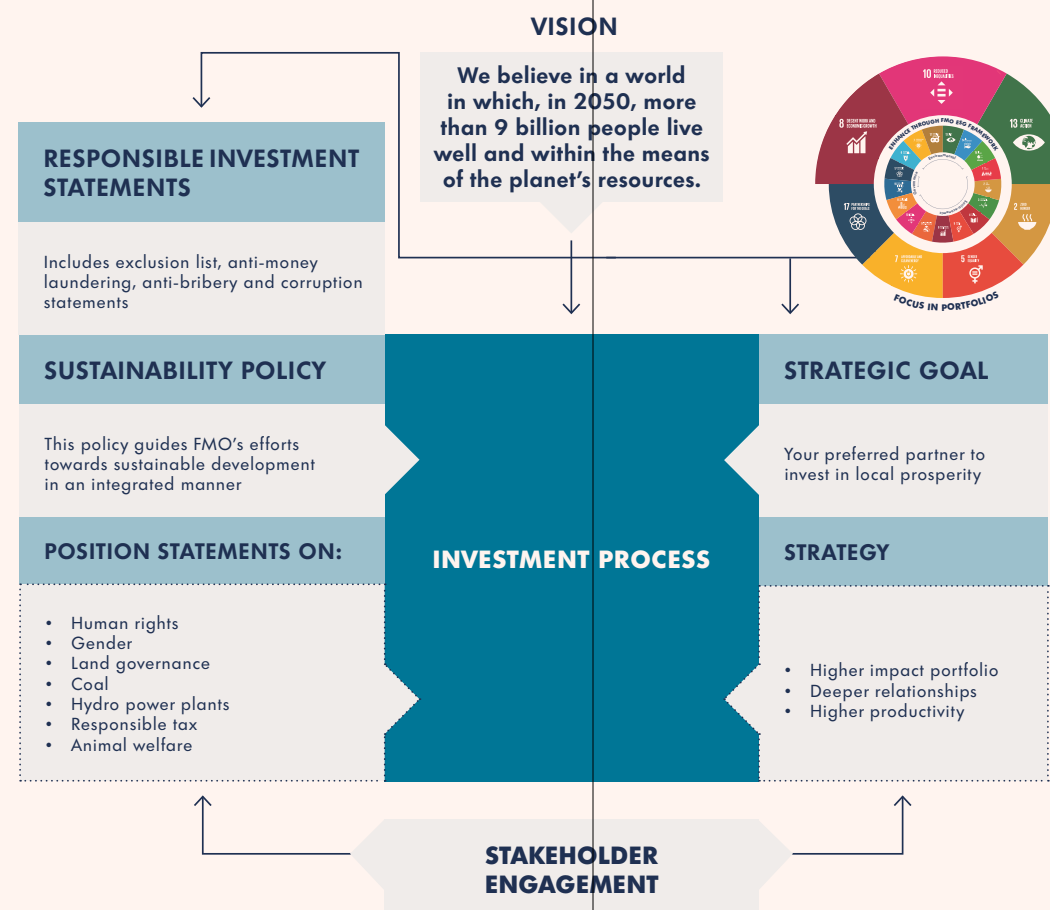
This is a journey FMO cannot, and is not, taking alone.

NGOs and other external stakeholders played a key role in helping us to formulate our Human Rights Position Statement, which we published in September 2017 after extensive consultation. This important milestone document amplified our Sustainability Policy by explaining FMO's commitment to human rights in more detail. It also defined the key next steps to ensure that we would deliver on this commitment.

The Dutch Banking Sector Agreement on international responsible business conduct regarding human rights, which we signed in December 2016, is a forum in which Dutch banks are working together with external stakeholders and other thought leaders to pursue collective action. This approach reflects FMO's vision to raise the bar for sustainable finance and to create a level playing field. We choose the same approach when it comes to supporting local sector initiatives for our clients.

FMO also engages with other development finance institutions, sharing best practices in environmental and social management.

FMO remains committed to dialogue and engagement with all of our key stakeholders. We would like the publication of this report to initiate the next phase of our conversations on human rights, both internally and externally. We welcome feedback and constructive challenge as we continue to focus on further progress over 2019.



## GOVERNANCE AND ORGANIZATION

To help implement its Sustainability Policy, FMO has an experienced team of over 35 Environmental & Social (E&S) specialists embedded in our commercial deal teams and ultimately accountable to FMO's Management Board via the Chief Investment Officer. These experts have day-to-day responsibility for screening, assessment, structuring and monitoring FMO's investments with respect to human rights and other environmental and social issues. The directors of FMO's four front office departments have overall responsibility for ensuring that proposals submitted to FMO's Investment Committee have undergone appropriate due diligence and include sufficient information on human rights risks, impacts and any required mitigation measures.

FMO's credit department, which includes E&S specialists, is independent of the deal teams and accountable to the Management Board via FMO's Chief Risk & Finance Officer. The credit department provides advice to the Investment Committee based on scrutiny and challenge of potential investments.

Senior managers and the Management Board discuss any major human rights incidents and engage with key stakeholders on sustainability issues, including human rights.

## HUMAN RIGHTS WORKING GROUP

After wrapping up our stakeholder meeting in 2017, we put together a cross-departmental human rights working group to operationalize the commitments we had made. Supported by external human rights experts, this team has developed and implemented our human rights due diligence guidance, organized human rights training and awareness-raising activities, and set up Human Rights Risk Assessment (HRRR) pilots. Chapter 3 (Human rights due diligence) explains in more detail the work that this dedicated team performs.

## AGUA ZARCA PROJECT

The Agua Zarca project was a proposed run-of-river hydroelectric plan in the North West of Honduras, initiated in 2012 and designed to provide 21.3MW in power to local communities. Until July 2017 FMO was a lender to the project, alongside FinnFund and CABEL, supporting this project to contribute to local prosperity and increase access to electricity in the region.

Tragically on 2 March 2016 Berta Cáceres, an environmental activist and indigenous leader of local NGO COPINH who were opposed to the project, was murdered. Following the murder, FMO suspended operations and started seeking a responsible exit from the Agua Zarca project. This was realized in 2017.

FMO condemns and does not tolerate any activity that amounts to the oppression of, violence towards, or any other violation of the human rights of those who voice their opinion in relation to FMO activities or the activities of our clients. We have called on the Government of Honduras to ensure that those who are responsible for this horrendous crime are being brought to justice.

On 16 July 2018, FMO received a writ of summons initiating legal action by COPINH and the children of Berta Cáceres against FMO in relation to our former financing relationship with the Agua Zarca project. FMO recognizes the right to a legal process and trusts that the Court will confirm that FMO acted in good faith.





Right to an adequate standard of living, to include food, housing, water & sanitation.



Agribusiness, Food & Water

## Optimizing water resource management to protect local communities

Water is a precious commodity for large agricultural organizations and the local communities who depend on it. As one of the region's largest agro-industry companies, DanPer is conscious of the potential negative effects of their water use on neighboring communities. In light of this, DanPer partnered with FMO to ensure responsible water management that safeguards both the water resource itself and the community's access to it. ►

### A major fruit and vegetable company

DanPer is a joint Danish-Peruvian venture with over 6,500 employees and 6,000 hectares of fields on the north and south coasts, as well as in the central and south highlands of Peru. In these fields, DanPer produces a diverse portfolio of vegetables, fine fruits and Andean grains, mainly for export to North American and European markets. DanPer acts as driving force for employment in Peru and also as a major contributor to the fruit and vegetable export sector.

In 2015, FMO invested in the creation of a new DanPer farm called La Compositan, with direct links to the company's packaging and canning units. During our due diligence, we recognized that water management would need to form an important aspect of the Environmental and Social Action Plan (ESAP), and the company's overall environmental and social management system.

### Mitigating the negative effects of water resource management and upholding community rights

Throughout discussions with DanPer, we noted that a deliberate focus on water management would be vital to ensuring resource efficiency, but that it could also impact local communities' water source. The issue? The farm, situated on a plateau near the coast, was completely supplied by pumped ground water. However, further down in the valley lay communities who could potentially be affected by these ground water pumping activities. For instance, the water table could sink too low, thereby reducing access to irrigation water for local communities. Or it could rise too high, allowing ground water to seep up into the low-lying fields and impact community livelihoods. To gain a further understanding of DanPer's water management, we used part of the investment to gain deeper insight into the dynamics of groundwater. This was then taken into consideration when DanPer established their management system to satisfy long-term production needs without causing harm to the wider community.

**“DanPer established their management system to satisfy long-term production needs without causing harm to the wider community.”**

### The first company in Latin America with AWS certification

DanPer was eager to help solve this issue and agreed to FMO's request for an integrated water resource management plan which considered the extraction of water and its impact on the local communities. Furthermore, DanPer joined the Alliance of Water Stewardship (AWS) Council, making them the first private company in Latin America to achieve this certification. They connect with a variety of stakeholders in the wider community, including residents, local authorities, and even the Dutch embassy to ensure the success of the farm. In terms of practical solutions, DanPer rotates their wells and uses other types of water resource solutions such as drip irrigation. They also monitor and mitigate any potential effects of their water use on the wider community.

FMO's involvement with DanPer is a great example of collaboration to ensure good working conditions and help lower negative community impact. It is also an example of a company committed to moving beyond a 'business-first' model to incorporate environmental and social issues – including human rights. ●

## 2. Our salient human rights issues

FMO invests in a wide range of activities within our four investment departments: Energy; Agriculture, Food & Water; Financial Institutions; and Private Equity. We have performed an in-depth analysis of human rights issues in our investment portfolio during several internal workshops that included information on issues that had been raised by stakeholders. This process resulted in the identification of five key salient human rights issues (which can be interlinked). 2018 was the first year that FMO identified its salient human rights issues. We will now conduct this exercise annually to understand whether these salient risks still apply and whether new ones arise from our portfolio of investments.

- I **Right to life:** Avoid workplace and community fatalities related to client activities (e.g. workplace accidents, traffic accidents, threats and oppression of critics and opponents).
- II **Right to decent work:** Respect labor rights, wages, occupational health and safety, workplace accommodation, and family life.
- III **Rights of vulnerable people:** Ensure that vulnerable individuals or groups are identified and their rights are respected.
- IV **Right to an adequate standard of living:** Ensure adequate food, housing, water, sanitation, education, good governance of tenure of land, fisheries and forests.
- V **Right to not being subject to cruel and inhumane or degrading treatment:** Ensure protection from rights violations related to project security.



### I RIGHT TO LIFE

The right to life is the 'supreme' right and the most basic human right of all. As we select our clients and look at the way they manage their business, we strive to respect the right to life in three ways:

- Worker safety – avoiding occupational accidents and fatalities;
- Community safety – avoiding deaths or injuries related to client activities;
- Human rights defenders – ensuring that the investments we make do not damage people or the environment, and that critics and opponents are not threatened or oppressed.

Some of FMO's investments involve high-risk construction activities or work practices that could potentially result in a violation of this right if not properly managed. We therefore expect our clients to perform risk assessments, apply preventive measures, provide training in safe working methods, and record and learn from all accidents, incidents and near misses. We also expect them to systematically look at risks to community health and safety. For example, a project involving major construction requires traffic management and community engagement processes to avoid risks from surges of construction traffic on local roads and through communities. FMO also recognizes that inappropriate security actions can result in the violation of this inalienable right. We therefore work with our clients to ensure that adequate security training is provided – particularly in cases of armed security.

Lastly, we are seeing a disturbing trend. Many countries suppress and oppress human rights defenders, environmental activists, forest rangers and journalists. As a result, we are increasing our pre-investment due diligence activities to look systematically at contextual risks, including risks to human rights defenders, in the countries and sectors we invest in.



### II RIGHT TO DECENT WORK

Most of FMO's investments require short or long-term skilled and non-skilled labor. Labor rights are therefore at the core of our due diligence activities. In fact, all of FMO's investment contracts require our clients to be compliant with the International Labour Organization's (ILO) Core Labour Standards. In other words, they must prohibit child and forced labor, not discriminate, and allow freedom of association and collective bargaining. The prohibition of child or forced labor within our investments informs our list of excluded activities, and FMO's investment contracts also include the ILO's basic terms and conditions of employment regarding wages, working hours, and occupational health and safety.

FMO also assesses decent working conditions beyond the boundaries of the company we directly finance, including the rights of contractors and workers in the supply chain. An initial analysis of the nature of the supply chain allows us to identify the most salient issues that need to be managed or mitigated.

But no institution can do everything on their own. We partnered with other European development banks in 2017 to contribute to ILO's Decent Work Agenda. Together, we commission more in-depth research to identify actions that secure decent work for the people affected by our investments.

## HUMAN RIGHTS IN PRACTICE

# Decent working conditions in India

During our due diligence on an agro-processing factory in India, we discovered that the working standards of drivers hired by the transport companies our client is working with were below standard. We now work with our client to improve these conditions.

The drivers transport agricultural products from the farms to the factory. They cover long distances, partly on dirt roads. The client has to wait for several hours between assembly points and the factory before the cargo gets weighed and booked in the company's electronic system. Sometimes this means that, after arriving at the factory, the drivers can only return home the next day. We asked our client to investigate the drivers' working hours, when and how much the transporters are paid and how much time they can spend at home with their families. We also look into their working conditions more broadly.

The assessment identified several areas of improvement. As a result, our client is engaging with transporters to improve driver remuneration. The client has also provided shelter, sanitation and food for drivers arriving in the evening, so that they can refresh themselves and rest before they get back on the road the next day.



### II RIGHT TO DECENT WORK

Respect labor rights, wages, occupational health and safety, workplace accommodation, and family life.



### III RIGHTS OF VULNERABLE PEOPLE

FMO's objective is to make investments that support development and improve peoples' lives. Making sure that vulnerable people share in the benefits of our investments – and that their rights are not infringed – is central to our way of working.

The context and nature of each investment defines who, if anyone, is potentially vulnerable. In some projects, women as a group are vulnerable through poverty or lack of voice. Some projects have a permanent impact on land use with an effect on the future rights of children as well as those who are adults when the project is developed. In other projects, ethnic or religious groups may be vulnerable to marginalization or discrimination, poor people may be powerless within a community, or disabled people may face discrimination.

When it comes to these types of vulnerable people, we work hard with our clients and their operations to:

- ▶ Ensure that they have a voice in consultation carried out by the client or FMO;
- ▶ Ensure that their rights are respected;
- ▶ Ensure that they share in project benefits.

Our due diligence for high risk projects therefore includes identifying vulnerable groups and individuals through contextual and project-specific analysis. For instance, the rights of Indigenous People include the right to giving (or refusing) Free Prior and Informed Consent (FPIC). This is required if a project uses land under traditional use by Indigenous People or makes use of traditional knowledge.



### IV RIGHT TO AN ADEQUATE STANDARD OF LIVING

If an FMO investment requires people to move from their land, homes or businesses, their right to an adequate standard of living can be put at risk. This is of particular issue if the resettlement is involuntary. Sometimes this move is temporary, such as the use of land for construction equipment lay-down yards that can later be returned to its former use. Other times, however, it is permanent. Wherever possible, we try to avoid resettlement or minimize resettlement if it is unavoidable (particularly if this is involuntary). However, when it happens, our general guideline is that nobody should be worse off than before. In fact, our goal is for people to be better off.

FMO's approach to land changes – including land acquisition and change of land use by the projects and businesses we invest in – is guided by the IFC Performance Standard 5 on Land Acquisition and the Voluntary Guidelines on Responsible Governance of Tenure. This is explained in detail in our position statement on Land Governance. Given the importance of land and natural resources to people's identity and livelihoods, FMO has integrated a more systematic land check into our due diligence.

## HUMAN RIGHTS IN PRACTICE

# Widening the net of stakeholders in Pakistan

Our due diligence for a wind farm project revealed that the perspective of a specific vulnerable group – coastal fishers – had not been captured in earlier environmental and social impact assessments.

For a wind farm project in Pakistan, fishers living in local villages had informal and customary access rights to the project site as a route to their fishing grounds closer to the sea. This group fished partly for subsistence and partly for sale to fish traders based in the local villages, and cutting off access to this route would add up to two hours to their daily commutes. This in turn could affect their livelihood and right to food security.

The fishers are relatively ‘new’ to the area. As a result, they had been overlooked in previous environmental and social impact assessments, which focused on farmers and landowners. However, our new on-the-ground research defined this group as vulnerable due to the nature of their livelihood and their complete dependence on a fragile natural resource.

The project company agreed to consult with the fishers, characterize the impacts to them precisely, and then develop mitigation measures that would work for both the fishers and the company. Local fishers now have safe access through the wind farm construction site. This involved undertaking wind turbine construction in clusters in order to leave safe walkways between construction sites; training for security guards so that they checked the fishers’ identities in a mutually respectful manner before allowing access to the site; raising awareness among the fishers regarding the risks involved in walking through or past construction sites, and assessing the risks of overfishing or needlessly cutting mangroves in a biodiverse area.

One year later, construction is nearly complete and monitoring shows that the fishers are satisfied with the solution provided. Regular stakeholder engagement keeps the project company well-informed about local sentiment as well as real or perceived issues.



## V RIGHT TO NOT BEING SUBJECT TO CRUEL AND INHUMANE OR DEGRADING TREATMENT

Why do we consider ‘the right to not being subject to cruel and inhumane or degrading treatment’ a salient human rights risk in FMO’s portfolio? Principally due to the high likelihood of our clients using security in the form of armed or unarmed security guards at gates and entrances of the investment. Companies normally hire private security forces for this, but in some cases they rely on government support either through the police and/or the military.

Having said that, FMO has not encountered many security incidents. However, we must acknowledge that some of our investments are in countries in which the escalation of labor or community protests can occur. Armed guards or police can then become involved, creating the potential for the use of unnecessary force that can cause grave human rights violations.

FMO’s approach is to focus on vetting the security company and training the security guards. Where needed, we place special emphasis on community engagement, conflict resolution and health and safety practices.



## IV RIGHT TO AN ADEQUATE STANDARD OF LIVING

Ensure adequate food, housing, water, sanitation, education, good governance of tenure of land, fisheries and forests.

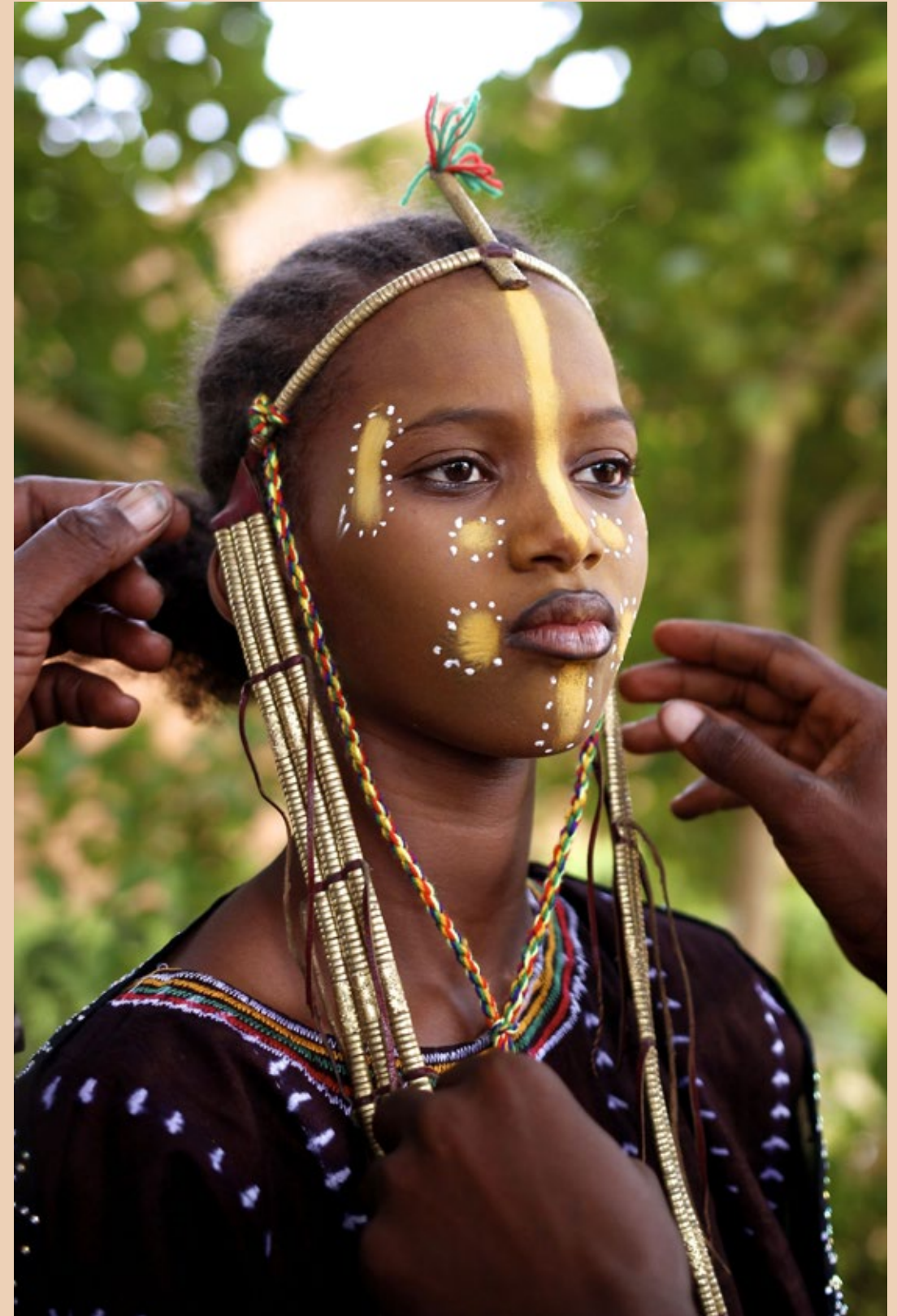
## HUMAN RIGHTS IN PRACTICE

# Acknowledging customary rights for nomadic people in Africa

One of our clients in Africa has expansion plans in an area used by Fulani cattle drivers. National legislation doesn't recognize Fulani land rights and the environmental and social impact assessment didn't recognize the impacts that the expansion could have on them as a group. When flagging this, our client has agreed to fill this gap.

Our client has started engaging with the Fulani more systematically and involving them in expansion planning. This includes identifying the places where the Fulani choose to (temporarily) live and the routes and lands they use. They also look into the prevalence of conflict between the Fulani and other land users, including their own plans, and explore measures to remain neutral in existing conflict and where possible contribute to reducing it.

Moving forward, we believe this experience can help our client to promote broader acknowledgement of Fulani customary rights, in his relationship with local authorities for example, as this is what is ultimately needed to create opportunities and work out appropriate solutions for – and with – the Fulani.



### I II RIGHTS OF VULNERABLE PEOPLE

Ensure that vulnerable individuals or groups are identified and their rights are respected.

### 3. Human rights due diligence

We are committed to strengthening our human rights due diligence activities throughout our investment process. To do this, we use the UN Guiding Principles as our compass and the IFC Performance Standards on Environmental and Social Sustainability as our operating tool.

#### THE CONCEPT OF DUE DILIGENCE

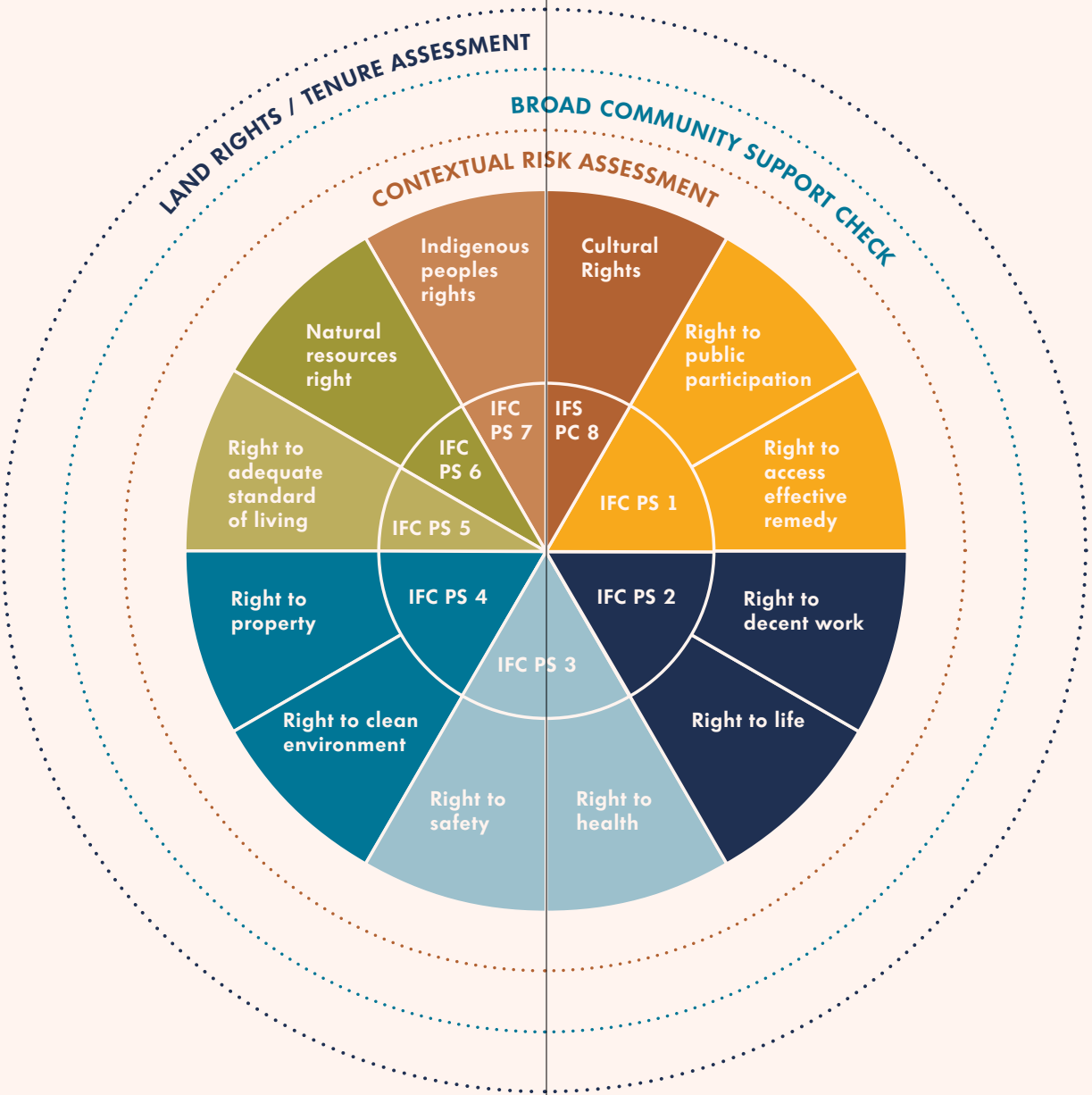
In banking, due diligence refers to a specific phase in the investment process – the in-depth research that takes place prior to making a final investment decision. In a business and human rights context, due diligence is used more widely to include all activities geared towards respecting human rights throughout a project cycle, during an investment process or across company operations. In this report we refer to due diligence as it is used in a business and human rights context unless stated otherwise.

#### HUMAN RIGHTS DUE DILIGENCE: AN INTEGRATED APPROACH

Human rights due diligence is an integral part of FMO’s overall Environmental and Social (E&S) due diligence. We use the figure below to explain the convergent relationship between the IFC Performance Standards and human rights to our employees. The three outer circles represent our efforts in 2018 to strengthen our human rights due diligence.

#### THREE MAIN AREAS OF ACTIVITY

- In 2018, we focused on three main areas of activity to strengthen our human rights due diligence. We:
- Developed and implemented human rights due diligence guidance;
  - Conducted human rights training and awareness-raising activities;
  - Ran Human Rights Risk Assessment (HRRA) pilots.



OUR INVESTMENT PROCESS

Our enhanced approach leads to clear results. This infographic presents an overview of the human rights due diligence improvements we have made at each of the seven steps in our investment process.

I CLIENT SELECTION

Existing practice

- ▶ Perform initial screening of country/sector/client and fit with investment criteria.
- ▶ Confirm that the transaction will not breach FMO's Exclusion List.

This is the phase where our investment teams identify project opportunities to pursue. Our E&S staff are part of these teams so that E&S considerations are included from the start.

II CLEARANCE IN PRINCIPLE

Existing practice

- ▶ Conduct a desk-based assessment of E&S risks and opportunities.
- ▶ Identify possible red flags.

Improvements made

- ▶ Conduct a desk-based human rights contextual risk assessment, including early-warning screening for risk to human rights defenders.
- ▶ Perform an early assessment of community support for the project, including Free, Prior and Informed Consent (FPIC) if needed.

During this phase, our investment teams perform an initial assessment of risks and opportunities, define the key terms of client engagement, and scope any further assessment needs. They document these processes in a 'Clearance in Principle' proposal, informing FMO's decision to continue preparing an opportunity for a final investment decision.

III DETAILED ASSESSMENT OR 'DUE DILIGENCE'

Existing practice

- ▶ Perform a site visit, including visits to key stakeholders.
- ▶ Engage consultant support in various fields as needed.
- ▶ Define and negotiate further E&S requirements prior to FMO's decision to invest.

Improvements made

- ▶ Conduct further human rights contextual risk assessment as informed by Clearance in Principle. This includes on-the-ground research and consultation with local civil society.
- ▶ Conduct further assessment of land rights if applicable.
- ▶ Conduct more systematic assessment of community support, including FPIC, if needed.

In this phase, we carry out a detailed project assessment, referred to by banks as 'due diligence'. We document the results in a Finance Proposal informing FMO's final decision to invest. In some cases we rely on partner development finance institutions to perform the due diligence.

IV DECISION TO INVEST

Existing practice

- ▶ Credit E&S advice.
- ▶ Make an investment decision, including additional E&S conditions if needed.
- ▶ Provide ex-ante disclosure of proposed investments, including E&S categorization and rationale.

Improvements made

- ▶ Review Finance Proposals against the newly-developed human rights due diligence guidance (see page 29).

FMO's Credit Department evaluates all Finance Proposals and writes Credits Advices in support of a final investment decision by the Investment Committee. After investment approval, FMO discloses proposed investments for at least 30 days prior to contracting. We do this using a World Map on our [website](#). This provides stakeholders with the opportunity to provide their input.

V CONTRACTING & INVESTMENT DISCLOSURE

Existing practice

- ▶ Finalize and include E&S covenants and an E&S Action Plan in the legal agreement.
- ▶ Disclose signed investments on FMO website, including E&S categorization and rationale.

Improvements made

- ▶ Include human rights-related covenants as needed in the legal agreement(s) resulting from the additional focus on human rights.

FMO includes E&S requirements and conditions in all its agreements with clients to ensure that they are legally binding. We disclose all contracted investments during the full tenor of our engagement in the World Map on our [website](#).

VI DISBURSEMENT

Existing practice

- ▶ Verify E&S conditions for disbursement and overall compliance.

Disbursement can take place upon achievement of the disbursement-related conditions, E&S and other, as set in the legal agreement.

VII MONITORING

Existing practice

- ▶ Review the client's E&S monitoring reports and accident and incident reports.
- ▶ Review the consultant E&S monitoring reports.
- ▶ Conduct client visits.
- ▶ Perform an annual Client Credit Review.

Improvements made

- ▶ Address problems in the clients' implementation of human rights due diligence and human rights-related emergencies.
- ▶ Conduct a regular and more systematic ongoing community support check, including FPIC if needed.

After the agreement is signed, we continue to monitor and work with our clients to ensure implementation of our E&S requirements.

## AN ENHANCED APPROACH LEADS TO CLEAR RESULTS

Our investment process in practice.

### ► Client selection

## No time? No deal.

During a recent transaction in West Africa involving a power plant, we discovered potential risks such as legacy land issues, local employment expectations, and ongoing construction dangers. Upon review of the initial information, however, the investment team discovered that the deal structure would not provide FMO with sufficient leverage or enough time prior to construction and financial close to ensure and monitor whether our environmental, social and human rights requirements would be met. We also concluded that we would not have a voice at the table to reach a satisfactory resolution to these issues. We chose not to pursue the deal and the Clearance in Principle process never started.

### ► Clearance in Principle

## CHANGING PERSPECTIVES

## From ‘risk to bank’ to ‘risk to people’

A Clearance in Principle meeting about financing an existing hydropower project in Latin America recently introduced a dilemma: our newly-developed human rights due diligence guidance and human rights e-learning were not reflected in the deal team’s proposal. The deal team was initially surprised by the critical human rights questions posed around contextual risk and community support, arguing that because the plant was already operational, the risk profile was low. However, upon further reflection they realized that they had been reasoning from a ‘risk to the bank’ perspective, and not necessarily from a ‘risk to people’ perspective. The CIP was approved on the condition that the Finance Proposal demonstrates the use of the new human rights due diligence guidance and – more importantly – provides comfort that E&S and human rights impacts are well managed and Broad Community Support is in place.

### ► Detailed assessment or ‘due diligence’

## Rights-sensitive compensation measures

An assessment of historical land use for an energy project in Africa revealed a clear distinction between the rights of original and new settlers. Our increased understanding allowed the project to identify compensation measures that were sensitive to this. The approach reflected the established social hierarchy while ensuring that no party was left out of project benefit streams due to social prejudices. This was found to be the best way to minimize the risk of project-related conflict while respecting socio-economic human rights.

### ► Detailed assessment or ‘due diligence’

## Right to water issue leads to a “no”

During the detailed assessment of a project producing fruits for export, our investment team found that the project was located in a very water-scarce area. This meant that the project relied fully on groundwater from a poorly-managed aquifer. The project was not expected to run out of water during the lifetime of our loan and the company had a privileged position with respect to aquifer access. However, initial signs of water shortage among the local population had started to become visible. The investment team decided to discontinue investigating this opportunity because local community water rights could not be ensured.

### ► Decision to invest

## Human right issues in the supply chain

Upon review of the Finance Proposal for an expansion loan to a large coffee trader which sources coffee from multiple countries, FMO’s credit department issued positive advice with the condition that the client commits to the development and implementation of a supply chain management plan, including systems and verification practices to manage human rights and biodiversity issues in the coffee supply chain.

### ► Contracting and investment disclosure

## Considering women as a vulnerable group – E&S action items

One of our Human Rights Risk Assessment pilots highlighted the possible human rights risk of not properly identifying vulnerable groups and women in particular. The likely consequence on this project would have been inequalities in access to jobs and other benefits between men and women, possibly leading to an increase in women’s vulnerability. Of course, it is an IFC Performance Standard requirement to identify vulnerable groups and take measures to manage impacts that may disproportionately affect them. But our Human Rights Risk Assessments led us to realize that we could improve our implementation practice in this area. In this particular case we included the further identification and management of impacts on women into the Environmental & Social Action Plan that we agreed with our client.

## A PERSONAL STORY

# Heroes

After returning from a project visit in Africa, one of our E&S officers wrote an internal blog to share his impressions from meetings with human rights defenders in this country:

“This is not about me. I am not a hero. But I did meet some. I met a few women and men who feel they need to stand up for their fellow countrymen. Because their fellow countrymen sometimes disappear. Lifted from their bed in the middle of the night. Or picked up from the street. Brought to jails. Nobody knows how they are doing. Sometimes they are released. Sometimes they are not. The people who stand up for them run similar risks.

This is about human rights defenders. I was in a country and talked to some. In a house or a restaurant. They are not looking for fame. They just care for society and its needs. They fight for freedom of speech, against sexual harassment, for transparency. They investigate, document, review and tell the world about their findings. Their motives may be different, but in the end they all strive for justice. And all the time their life, and the life of their families and loved-ones are at risk. How do you cope with that? I couldn't. They do.

During the meeting they are extremely professional, factual, to the point. But also extremely polite, asking how you are doing and offering you coffee. I must admit, I was not prepared for the emotional impact these meetings had on me.

As an Energy E&S specialist, I do a lot of visits to clients and projects, with a lot of nice technical talking about emissions, noise, energy efficiency, contractor occupational health and safety records and community consultation. Usually on my return flights I felt exhausted but very happy about all that I had learned.

But this time it was different. The world is not always a nice place to live in, as we all know. But being face-to-face with, as I call it, the evil side of mankind and the people who actually have the courage to stand up to this... I was struggling with a lot of questions. What can you do, what can clients do, what can FMO do?

We need to think about this. One thing I know: heroes do exist. I've met them. Human rights defenders. Respect.”

## HUMAN RIGHTS DUE DILIGENCE GUIDANCE

We have developed human rights due diligence guidance to support our E&S staff as they explicitly apply a human rights lens to our existing due diligence processes. This guidance contains four main topics: contextual risk analysis, a broad community support check, a Free, Prior and Informed Consent (FPIC) check and a land rights assessment. We launched it in May 2018 and have updated it several times since then based on our investment teams' feedback.

## TRAINING AND AWARENESS RAISING

We have developed and implemented a series of internal training and awareness-raising sessions to introduce the concept of business and human rights to the organization, and to support the adoption of the newly-developed due diligence guidance.

To date, all E&S employees have been trained in the use of the human rights due diligence guidance. We also developed and implemented an FMO-wide e-learning module, including a brief history of human rights, key definitions and the explicit human rights focus for 2018. Following the e-learning, we implemented workshops in all business, credit and legal teams focusing on salient human rights impacts and dilemmas per sector.

Lastly, we have issued a request for proposals for the development and implementation of an in-depth training program for our E&S employees, starting next year.

## HUMAN RIGHTS RISK ASSESSMENT PILOTS

We used 2018 to experiment with Human Rights Risk Assessment (HRRRA) as part of our regular environmental and social due diligence as described in the investment process (see page 24 - 25). The objective of this experiment was to better understand the additional value that an explicit human rights risk assessment by a dedicated human right specialist can bring in terms of: (i) identifying risks to workers, local communities and other rights holders, and (ii) informing the management of such risks by our clients and partners.

We have carried out HRRRA pilots on five investments: two in the Agriculture, Food & Water sector and three in the Energy sector. Four of these were new investments, and we used HRRRA as part of our detailed assessment to inform our final decision to invest (step 4). In one case, we carried out an HRRRA in collaboration with an existing client as part of our monitoring (step 7).

The evaluation of these pilots will inform the future use of dedicated human rights risk assessment and expertise.

**Senior Investment Officer** - Agribusiness, Food & Water:

"I used the human rights toolkit to get a better understanding of all the sensitive issues in a new country. I started off investigating irregularities related to land acquisitions and I learned that the issue of land expropriation is bigger than I had anticipated. This helped me to better assess whether a potential client had followed due process in acquiring its land.

The human rights due diligence guidance also drew my attention to other issues. It made me realize that the topics that I didn't think of at the beginning can have an impact on the people with an interest in the project, such as employees, local communities and suppliers. The newly developed guidance helps me to see a project in its overall context. It makes me look more critically at the impact of my projects on workers, the local community and its surrounding environment."





Rights of vulnerable people.



Energy

# Wind farm profit-sharing helps vulnerable people thrive

In South Africa, all projects must engage in profit-sharing with communities within a 50-kilometre radius. FMO fully supports this approach. For the Cookhouse Wind Farm Project, we added a new component – bringing local communities together to enhance the beneficial impact on vulnerable people. ►

## Renewable energy for emerging markets

The Cookhouse Wind Farm was developed by African Clean Energy Developments (ACED) under the first round of the South African Renewable Energy Procurement Programme. It is one of the largest wind farms in Africa. FMO participated through the Apollo Investment Partnership II (AIIM), which has a direct interest in the project. It is fully aligned with our Renewable Energy strategy for emerging markets, with close partnership and significant support from local communities.

## Sharing profits with local communities

Profit-sharing was a deciding factor when choosing commercial investors. The winning bid from AIIM involved two parts. The first involved Social Economic Development: making local communities shareholders in the project through the Cookhouse Community Trust. FMO provided a loan to these communities – Cookhouse, Bedford, Somerset East and Adelaide – that allowed 46,000 people to acquire 25% joint ownership of the project. The loan quickly repaid itself through the profits from the wind farm, and then began to build up capital. As co-owners through the trust, these communities can now submit proposals to the trust's board to allocate the resulting funds for specific local projects. This also allows them to bring their concerns and advice to the table.

## Helping schoolchildren thrive

The second component involved a needs assessment across the three communities. This assessment highlighted an opportunity to help vulnerable children in the area by improving the quality of local schools. More specifically, the trust was able to allocate funds in a structured way to raise the level of school management and staff. And it has certainly proved to be a success – just a few years after starting, many more children are graduating with their diplomas in hand.

## Aligning communities to reduce economic rivalry

This type of success story comes with its own challenges. For instance, the creation of three more adjacent wind farms created the potential for rivalry among competing communities for financial resources and specific objectives. To mitigate this possibility, FMO created a Community Liaison Office as an interface between the project and the surrounding communities. It also provides a grievance mechanism to hear community concerns. The office constantly engages with the local government, residents, businesses and other stakeholders through newsletters, informal meetings with community leaders and large and small-scale community meetings. This approach therefore aligns local objectives for enhanced impact to vulnerable people in the area.

## Lessons learned

We will apply our lessons learned to future projects of this type. Continuous engagement with local government, residents, businesses and other stakeholders through both formal and informal channels is important, as is early implementation of community projects. Coordination by independent advisors is also crucial for some communities – the transparent appointment of community representatives and independent trustees can help overcome a lack of competencies to properly manage sensitive processes.

## Putting decisions into local hands

Overall, the South African joint-ownership approach brings a huge set of advantages to our projects. Capacity-building, skills transfer and development programs provide clear financial and social benefits to local communities. Ownership also puts decision-making power into their hands. And the projects run smoothly with mutual benefits for all involved – we have never encountered opposition to our projects as a result. ●

## 4. Enabling remedy

According to the Office of the United Nations High Commissioner for Human Rights' interpretive guide for the UN Guiding Principles, remediation and remedy refer both to the process of providing remedy for an adverse human rights impact and the substantive outcomes that can counteract, or make good, the adverse impact<sup>1</sup>. FMO enables access to remedy in two important ways: through our own Independent Complaints Mechanism and through the client-level grievance mechanisms that we promote.

### FMO'S INDEPENDENT COMPLAINTS MECHANISM

FMO established its Independent Complaints Mechanism (ICM) in 2014 together with the German Investment Corporation (DEG). Proparco joined the ICM in July 2018. We consider the ICM part of our commitment to the UN Guiding Principles and to promoting greater accountability and transparency. The mechanism ensures the right to be heard for complainants who feel affected by an FMO-financed operation in order to enable dispute resolution and assist FMO in drawing lessons learned for current and future operations.

The ICM consists of complaints offices in each financial institution and an Independent Expert Panel (IEP or Panel). The Panel decides on the admissibility of a complaint, processes admissible complaints and conducts dispute resolution or compliance review activities. Concretely, the mechanism attempts to resolve concerns raised by the complainant(s), while acting as a problem-solving function. This is a consensual process with the complainant, the client and other relevant stakeholders. Another function is to evaluate and report compliance with FMO policies and other applicable standards. A key aspect of the process is the provision of advice and recommendations to FMO management. Finally, we engage in follow-up activities and report on efforts to take corrective actions whenever applicable. You can access our ICM [online](#). Here you can also find the ICM annual reports which disclose the complaints received and the follow-up.

### CLIENT GRIEVANCE MECHANISMS

In addition to our own ICM, we require and promote grievance mechanisms at the level of our partners and clients in line with the requirements of the IFC Performance Standards and the UN Guiding Principles. We further request them to develop and disseminate their grievance mechanisms in a culturally-appropriate manner and to monitor and report to us on the grievances they receive and the remedy they provide. We monitor the effectiveness of our clients' grievance mechanisms and assist them in improving their practices as needed. The case study on the next page provides an example of the benefits of an effective grievance mechanism.

### AVOIDING GRIEVANCES

Since prevention is better than a cure, we would like to emphasize the importance that we attach to the early identification of (potential) human rights impacts and the measures required to avoid and manage them. Equally important is a thorough assessment of stakeholder engagement practices and the level of community support and monitoring at regular intervals (more often as needed) throughout our engagement with clients and partners. The description of our investment process in chapter 3 aims to illustrate this.



Rights of vulnerable people.



Energy

# Grievance mechanism smooths the way for a project in Cameroon

A recent project in Cameroon highlighted the importance of engaging with Indigenous People. Local grievance mechanisms are an important aspect of this engagement. First, they ensure that people's voices are heard, even if they are only indirectly affected. Second, they help ensure smooth projects that benefit everybody concerned. ►

## A power plant project with resettlement activities

Globeleq is a leading investor, developer, owner and operator of power projects in Africa. The organization operates the Kribi project in Cameroon, which consists of a 216MW power plant and its associated 100km 225kV transmission line. Key project impacts range from the resettlement of 682 people prior to construction to the health and safety of community and workers during operations.

## A grievance mechanism as a key success factor

Globeleq is a firm believer that an efficient and functional grievance mechanism (GM) – based on best international standards such as IFC Performance Standards – must be set up during the early stages of project development as a key success factor. This is especially important for projects that involve resettlement. As Catherine Minya from Globeleq says: “It allows us to gather any issue that may arise from communities or other stakeholders and address these issues appropriately before they escalate.”

## Hand-in-hand with stakeholder engagement

Globeleq further believes that grievance mechanisms go hand-in-hand with stakeholder engagement, and that they help ensure effective engagement with all communities or affected groups throughout a project's activities. For this project, the company initiated a comprehensive stakeholder mapping process as a first step. They then identified all groups of potentially impacted people, including those who were most vulnerable. This led to the inclusion of (and targeted development actions for) an Indigenous Group that lived in the vicinity of the project but was not directly affected. Globeleq disclosed all project information, including the grievance redress process that used focus group discussions to gather grievances, fears and clarifications. They consistently used local language translators to ensure that both parties understood each other every step of the way.

**“It allows us to gather any issue that may arise from communities or other stakeholders and address these issues appropriately before they escalate.”**

## NGO cooperation

The Kribi project also defined complaint reporting channels at multiple levels and distributed them widely across the communities. These channels ranged from reaching out to the Community Liaison Officer/Grievance Officer, the Senior Divisional Officer, the Subcontractors and local NGOs. They hired an NGO to assist the company throughout the project's implementation, including receiving grievances and witnessing the compensation process. They also ran sensitization meetings in areas such as opening bank accounts, the proper use of compensation sums, the elaboration of plans to avoid the misuse of money, and the establishment of ID cards for indigenous people.

## No unrest, delays or cost overruns

The grievance redress mechanism developed by the Kribi Project team allowed them to promptly and effectively follow-up on complaints. From its inception to its current daily activities, Globeleq has resolved more than 400 complaints throughout the development of the 216 MW Kribi power plant and its associated 100km T-line. As a result, they have experienced no community unrest, delays or cost overruns. ●

## 5. Looking ahead

As we move forward, we will continue to assess our activities through a human rights lens. We will also continue to develop and apply human rights guidance in a thorough, systematic, documented and accountable way. This means that the forms and documents we produce internally will move from 'clearance in principle' through to 'decision to invest' and 'monitoring'. Specific components will demonstrate that we have properly conducted the human rights aspects of our due diligence activities, along with clear and describable outcomes.

### OUTCOMES AND LESSONS LEARNED

#### From contextual human rights risk analysis to project mitigation measures

Our use of contextual human rights risk analysis has made us increasingly aware of the different types of contextual human rights risks. It has also shown us that we have more experience in identifying and dealing with certain risks than with others. For instance, some contextual human rights risks are easier to translate into possible project implications than others. One striking example in this area is the assessment of historical land use for an energy project in Africa (see page 27, Rights-sensitive compensation measures).

At other times, the situation is more complicated. For instance, what is the potential effect on our projects in regions characterized by military dominance across all major economic activities, non-transparent tax regimes, and high risk to people who criticize the regime? What can FMO do to address issues such as suspected army control over local recruitment, or the misuse of community development funds? These are questions that have begun to feature more explicitly in our investment decision process. See page 28.

#### Divergence of views on human rights-responsive due diligence

During our efforts to address human rights more explicitly, we have come to realize that there is a large spectrum of views on what human rights-responsive due diligence means. This diversity is present in practitioners who work on managing social impacts on a daily basis. It is also further influenced by country, clients, co-financiers and other stakeholders, such as shareholders, local communities and civil society. FMO will continue to work with the global business and human rights community, including IFC and other Development Finance Institutions, commercial banks that are part of the Dutch Banking Sector Agreement, civil society and others, towards more convergence in human rights policy and practice.

#### Worker and community safety as an important human rights issue

The right to life is often argued to be the most important human right, since it is impossible to enjoy the other human rights without it. The most common potential violation of the right to life in our portfolio is the loss of life through worker and community safety incidents. We therefore require our clients to report on incidents and accidents when they occur, conduct root cause analyses, and adjust their processes and practices as needed. We also recognize that we can do more to demonstrate our zero-tolerance position with respect to violations to this important right.

### NEXT STEPS

FMO is committed to taking a number of important steps as we strengthen our human rights due diligence approach even further.

#### Develop human rights due diligence guidance for indirect investments

We have developed and implemented human rights due diligence for direct investments in Energy, and Agriculture, Food & Water projects. We are planning to run a similar exercise for our indirect investments in financial institutions and private equity and debt funds. Indirect investments make up approximately half of our portfolio.

#### Develop the human rights due diligence capacities of E&S staff

An in-depth human rights learning and development program targeted to E&S staff across FMO is currently under development. An external supplier will help us deliver the program.

#### Provide tailored management information

We will start collecting data on our clients' environmental and social performance in a systematic way. Making this information available to E&S Managers and our wider Investment and Credit management teams. This will help us effectively address human rights by further increasing knowledge and ownership of human rights beyond our E&S staff. We expect that this will result in better visibility of – and regular dialogue about – client and portfolio environmental and social performance.

## STAKEHOLDER ENGAGEMENT

The FMO Human Rights Position Statement is the result of close and meaningful engagement with our stakeholders. It is important for our continuous learning to make use of the knowledge of organizations with human rights expertise. With some organizations we have structural dialogue, whereas we reach out to others when we think their expertise could be valuable. On specific topics we engage with NGOs who specialize in these areas. For example, FMO invited experts on human rights defenders to tap into their expertise in the development of FMO's early-warning system for risks to human rights defenders. They have helped us to define human rights defenders and to recognize threats to their rights. Moreover, we have learnt from them how we can activate local expertise and what steps we can take when human rights defenders are in danger.

We also engage with human rights experts in cases of investment opportunities. We then look for organizations with expertise on the relevant topic or country and with local presence.

In 2019, FMO will continue its proactive approach to engaging with our stakeholders within the field of human rights. We will work together with peer European and international development finance institutions, as well as parties to the Dutch Banking Sector Agreement, including commercial banks.

## GET INVOLVED

This last chapter has described some of the issues that we are currently reflecting on. We look forward to a continued dialogue with our stakeholders regarding these and other matters, and we are open and grateful to any feedback that you may wish to share. As we have stated a number of times throughout this document – and as we demonstrate in our various examples of our clients' on-the-ground activities – no one institution can go it alone. When it comes to FMO and our support of human rights across the globe, we're all in this together.





Right to decent work.



Energy

# Project-based Human Resources improvements with wider human rights applications

Sometimes, a partnership between a development finance institution (DFI), a client and the leading contractor can lead to improved labor and working conditions on construction sites. This can in turn generate positive spill-over effects beyond DFI-financed projects. ►

## A diverse workforce with Human Resources challenges

FMO has invested in several run-off-the river hydroelectricity sites in Uganda, all in relatively remote locations. We have investments in the Fund of Frontier Energy, and we also provide lines of credit to the projects themselves, making us both an equity investor and a lender. To conduct its East African projects, VS Hydro directly employs Sri Lankan staff in addition to local Ugandan and Kenyan staff. The company also uses specialist sub-contractors and local labor during construction. During the project's peak, this resulted in approximately 350 workers on each of the projects, approximately 80% of which were from Uganda and Kenya. During the monitoring of one of the projects in 2016, an independent FMO consultant flagged the absence of contracts and poor Occupational Health and Safety standards.

## A labor audit as a catalyst for positive change

Frontier Energy therefore prepared a standard labor contract to be used by VS Hydro, and partnered with FMO to conduct a specialist labor audit on three of the projects in 2017. The audit confirmed weaknesses with respect to Human Resources management systems and overall working conditions. This contributed to poor record-keeping concerning working hours, overtime hours and payments, as well as the number of workers onsite. These problems were particularly acute with respect to sub-contractors. The gaps in management were further exacerbated by language and cultural barriers between the predominantly Sri Lankan management and supervisors, and the mostly Ugandan workforce.

The audit created a catalyst for productive discussions between FMO, client Frontier Energy and VS Hydro. Our discussions centered on topics such as how to address the identified gaps, and how to strengthen overall on-site Human Resources and contractor management systems. As one VS Hydro manager stated: "If we hadn't been audited, we would not have been challenged on our practices and we might have been reluctant to make changes".

## Improving Human Resources practices on the ground

As a first step, a senior manager at VS Hydro was tasked with overseeing the company's response and the development of its Human Resources capacity. The company then hired a specialist Human Resources consultant to review its internal systems and resources and produce an action plan with timelines. The result was a range of policy changes and the allocation of new resources to supporting enhanced Human Resources management processes. These include:

- An expansion of Human Resources capacity, such as new worker registration, new policies and worker contracts, and improved record keeping for working hours aligned to local Ugandan legislation;
- The closer monitoring of sub-contractors on working conditions to meet legal and good practice requirements, and a workplace culture that shows greater respect and understanding between different cultures;
- A revised approach to worker engagement and grievances, including improved Occupational Health and Safety.

## Ongoing challenges and lessons learned

All involved parties recognize that fixing the entire range of issues and maintaining good working conditions and labor standards will be an ongoing process that will require backing and leadership from the top management team. This process will include investing in people and Human Resources systems, and improving planning, sub-contractor management and contract prices that better reflect labor costs.

VS Hydro states that they have drawn on the lessons learned in this case and applied upgraded Human Resources systems to new sites in Western Uganda and Rwanda. ●



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