POSITION STATEMENT ON HYDROPOWER

FMO
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Contents

1. Introduction

FMO is the Dutch entrepreneurial development bank. Since 1970, it has been a driving force behind investments that enable entrepreneurs to increase inclusive and sustainable prosperity in emerging markets and developing countries.

By engaging with underserved markets, FMO invests in some of the world's most challenging business environments and economies, many of which have fragile private sectors, limited job security, and high poverty rates.

2. FMO Vision & Strategy

FMO envisions a world where, by 2050, more than nine billion people live well within planetary boundaries[1].

FMO is committed to promoting inclusive and sustainable economic growth and addressing inequalities in emerging markets and developing countries—both of which are essential for reducing poverty.

FMO strives to create value, opportunities, and development impact[2] through its investments and works closely with customers and financing partners to manage—including avoiding and mitigating, and, where not possible, minimizing—potential and actual negative impacts on people and the environment. It also aims to ensure that this development impact is sustained without compromising resources for future generations.

FMO aims to maximize its development impact and contribution to the United Nations Sustainable Development Goals (SDGs) by focusing on three priorities where it can have greatest impact: SDG 8: Decent Work and Economic Growth, SDG 10: Reduced Inequalities, and SDG 13: Climate Action.

[1] For further information on FMO's vision and strategy, refer to FMO's Impact webpage.

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

3. FMO Position Statement on Hydropower

The Position Statement on Hydropower is an integral part of FMO's Sustainability Policy Universe—a comprehensive policy framework that defines FMO's approach to financing development impact and addresses environmental, social, and governance (ESG) and human rights impact[3] across its investment portfolio.

FMO's Position Statements are supplementary to the Sustainability Policy and are not stand-alone policy documents. 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. Additionally, they outline how FMO selects investments, works with customers and other stakeholders, and monitors customers' ESG performance.

The Position Statements also underpin FMO's commitment to responsible business conduct by upholding high standards of ethics and integrity—including transparency and accountability in FMO's investment actions and decision-making—which safeguard its assets and reputation.

FMO's approach to sustainability is shaped by many factors and continues to evolve as part of an ongoing process. This process involves monitoring and responding to changes in the broader context in which it operates, continuously engaging with stakeholders, effectively addressing dilemmas and challenges in order to uphold its commitments, and taking appropriate steps based on lessons learned.

Consequently, the Position Statement on Hydropower is a living document that is regularly reviewed and updated over time[4].

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[3]FMO 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.

[4]This Position Statement was approved by FMO's Management Board on 23 December 2016. It was last updated in April 2026.

3.1. Hydropower

FMO uses the term “hydropower project” to refer to the construction and operation of dams, associated power plants and related infrastructure, as well as the generation of hydroelectric power and the associated transmission and distribution infrastructure.

Hydropower contributes to two key objectives (1) providing reliable and affordable energy to businesses and households in developing countries, and (2) mitigating climate change as a renewable energy source.

Hydropower is a highly efficient and cost-effective source of electricity. Unlike most other renewable energy sources, hydropower can provide baseload power. Additionally, hydropower can generate substantial government revenue and reduce a host country’s dependence on costly fossil fuels.

Like other infrastructure projects, hydropower projects are technically complex and may involve significant technical challenges and material negative impacts on people and the environment. Dams and their associated installations can have downstream negative impacts as they disrupt natural water flows and may cause land areas to flood. Potential negative environmental impacts include, but are not limited to, loss of critical habitat and biodiversity; greenhouse gas emissions; disruption of aquatic species migration; and changes in water availability and quality. Potential negative social and human rights impacts include, but are not limited to, conflicts over land or water use; complex resettlement; loss of livelihoods; impacts on the rights of Indigenous Peoples and local communities; and the destruction or loss of access to cultural heritage.

3.2. FMO Approach

FMO recognizes the value of hydropower and its potential economic and environmental benefits as a clean, renewable energy source. At the same time, FMO acknowledges the potential negative environmental and social (E&S) and human rights impacts associated with hydropower projects.

FMO recognizes its responsibility to respect human rights in line with applicable international standards, and it acknowledges that its customers likewise hold their own responsibility to respect human rights. Further information on FMO’s approach to human rights can be found in

FMO's Position Statement on Human Rights.

The standards that primarily guide FMO's due diligence and assessment processes with respect to land acquisition are the IFC Performance Standards on Environmental and Social Sustainability (IFC Performance Standards) and the associated World Bank Group General Environmental, Health, and Safety Guidelines (EHS Guidelines). The IFC Performance Standards address a significant portion of the ESG-related requirements set out in the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct (OECD Guidelines) that are relevant to FMO's investments. While they do not explicitly reference the United Nations Guiding Principles on Business and Human Rights—which are embedded within the OECD Guidelines—the IFC's approach aligns with internationally recognized human rights principles and standards and informs FMO's human rights due diligence with respect to its customers.

3.3. FMO Implementation

As outlined in FMO's Sustainability Policy, FMO expects all customers to comply with the applicable ESG-related and human rights laws and regulations in their host country.

FMO adopts a risk-based approach, as outlined in Section 5.1 of its Sustainability Policy, to assess and manage the potential ESG and human rights impacts of its investments. FMO conducts rigorous due diligence and comprehensive assessments to identify and assess the potential negative impacts associated with hydropower projects, taking into account the country- and sector-specific risks, and other relevant contextual factors.

The due diligence process includes:

1) identifying the type and magnitude of the potential negative E&S and human rights impacts;
2) assessing the feasibility of the proposed hydropower project plan, including timelines, costs, and expected development outcomes; and
3) evaluating customers' capacity, capability, and willingness to manage these potential negative E&S and human rights impacts.

Depending on the risk category and the type and potential magnitude and materiality of negative impacts identified, FMO may require customers to assess the scope, scale, likelihood, and potential materiality of negative E&S and human rights impacts as part of an Environmental and Social Impact Assessment (ESIA), and to implement an Environmental and Social Management System (ESMS) to manage and monitor these impacts in accordance with the IFC Performance Standards. If the customer cannot adequately mitigate negative E&S and human rights impacts, FMO will not proceed with financing.

Additionally, customers are expected to engage stakeholders, including project-affected communities[5], through an inclusive, meaningful, and transparent consultation process. The scope and scale of the consultation process should reflect, and be commensurate with, the potential impacts identified and the extent to which they may affect stakeholders. At a minimum, it must include disclosure of relevant project information and be conducted in a manner that allows stakeholders to express their views without fear of reprisal. Customers are also expected to consider and respond to these views, and to take them into account in the project design (where possible), execution, and strategies for mitigating negative impacts.

As part of the measures and actions in the Environmental and Social Action Plan (ESAP), hydropower projects must demonstrate a reduction in greenhouse gas emissions, calculated in accordance with the International Finance Institutions (IFI) Harmonized GHG Accounting Principles[6], and customers must provide specific plans to compensate for any negative effects.

Given their highly technical and complex nature, FMO conducts close monitoring of hydropower projects and may also commission independent, qualified, and reputable industry experts to provide support.

Finally, where appropriate, customers are expected to establish and administer suitable and effective grievance mechanisms to address complaints from project-affected communities, enabling early identification, timely intervention, and prompt remediation of project-related impacts.

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[5]FMO's Position Statement on Human Rights, Position Statement on Gender Equality, and Position Statement on Land Governance provide additional information on the approach to stakeholder engagement with affected communities and in relation to their respective topic areas.

[6]International Financial Institutions (IFIs) Technical Working Group developed harmonized GHG accounting principles for consistency, comparability, and improved climate impact assessment, focusing on project-level emissions using common baselines (e.g., for renewable energy/efficiency projects) and transparency, guided by GHG Protocol principles on relevance, accuracy and completeness.

4. Stakeholder Feedback

FMO considers stakeholder feedback an integral part of policy development and strives to ensure that its policies are ambitious, relevant, realistic, and enforceable; contribute to societal needs; and underpin its license to operate.

FMO welcomes feedback on its position statements, which can be submitted by email to consultation@fmo.nl.

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Appendix I: FMO’s Sustainability Policy Universe

The Sustainability Policy Universe is a comprehensive policy framework that defines FMO’s approach to financing development impact and addresses environmental, social, and governance (ESG) and human rights impacts across its investment portfolio.

The Sustainability Policy Universe consists of the following documents:

- Sustainability Policy;
- Exclusion List; and
- Position Statements
  - Combined Position Statement on Fossil Fuels
  - Position Statement on ESG Impact and Financial Intermediaries
  - Position Statement on Human Rights
  - Position Statement on Gender Equality
  - Position Statement on Land Governance
  - Position Statement on Hydropower
  - Position Statement on Responsible Tax
  - Position Statement on Animal Welfare

The Sustainability Policy defines FMO’s commitment to achieving development impact and serves as a guide for its investment decisions and actions.

The Exclusion List is an EDFI-harmonized document that defines activities that FMO will not finance or support, directly or indirectly.

The Position Statements are an integral part of the Sustainability Policy Universe and are supplementary to the Sustainability Policy. They are not stand-alone policy documents; however, they provide additional context on FMO's sustainability choices, as well as additional policy requirements in relation to major global sustainability issues, specific themes, and investment sectors. Additionally, they outline how FMO selects investments, works with customers and other stakeholders, and monitors customers’ ESG performance.