

The FMO logo is displayed in a large, white, sans-serif font in the top left corner of the page. The background of the entire page is a photograph of a worker in a yellow hard hat and orange safety vest cleaning solar panels with a long-handled brush. The solar panels are arranged in rows on a roof, and there are trees and a clear sky in the background.

FMO

Entrepreneurial
Development
Bank

2022

Sustainability Bonds Newsletter

Newsletter **no.13**

Cover image: FMO supports the SUSI Asia Energy Transition Fund with a USD 20 mln equity investment in the first USD 80 mln first close, as Southeast Asia requires substantial investment into new renewable energy generation and energy-efficient technologies to meet its climate and development goals— such as through microgrids, commercial and industrial energy solutions, storage and utility.

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Newsletter No. 13 – April 2022

The Sustainability Bonds Newsletter is published annually. It reports on the allocations of projects selected for Green, Social and Sustainability Bonds. It is sent to investors and is made available via [Green Social Sustainability Bonds](#).

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Contact

FMO – Treasury
T +31 70 314 98 52
E Treasury.FO@fmo.nl
W [Green Social Sustainability Bonds](#)

FMO in 2021:

Resilience during times of change

While we have 8 years left to achieve the Sustainable Development Goals, the world still has a long way to go. We can see first-hand how inequality has increased through the widely different ways countries are recovering from the pandemic. Additionally, the global temperature is still on course to breach the 1.5-2-degree limit of the Paris Agreement. More than ever, there is an urgent need for the private sector to work with governments and civil society to find, nurture and finance projects that will bring positive change.

Over the past year, FMO has continued to support customers throughout the pandemic, even with travel restrictions. Even though we didn't achieve our target on FMO new investments, we exceeded our target on the mobilization of third-party funds and nearly achieved our target for public fund investments. This is in part

due to a significant revaluation of our private equity portfolio, and partly because of the appreciation of the US dollar on our assets' value. We have also seen that, despite the initial negative outlook, most of our customers were able to meet their financial obligations.

In our recently launched [Annual Report](#), we look back at the impactful partnerships we forged and our financial results. We also reflect on how the pandemic and internal complex processes such as our financial economic crime (FEC) enhancement project have affected business activities with new customers, among other topics. Throughout all of this, one thing is clear: we aim to be a key driver of change as we continue to mobilize funds to achieve the SDGs—by being transformative not only through our impact, but also by transforming ourselves.

OUR VISION

We believe in a world in which, in 2050, more than 9 billion people live well and within the means of the planet's resources.

OUR SDGs



OUR MISSION

We empower entrepreneurs to build a better world.

STRATEGIC GOAL

Your preferred partner to invest in local prosperity.

OUR STRATEGY

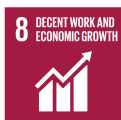
→ Higher Impact Portfolio → Deeper Relationships → Higher Productivity

OUR MARKETS

- Agribusiness, Food & Water
- Energy
- Financial Institutions
- Dutch Business



OUR SDG FOCUS



Decent work and economic growth

By investing in underserved markets, we support job growth, improved labor standards and economic prosperity. Jobs allow people to develop themselves and lift their families out of poverty;



Reduced inequalities

is about promoting social and economic inclusion of all, which we support by investing in the world's poorest countries and inclusive business;



Climate action

We provide finance to projects that reduce greenhouse gas emissions, increase resource efficiency, preserve and grow natural capital and support climate mitigation. We aim to align our portfolio to a 1.5-degree pathway.

FMO and the EU taxonomy

Starting in 2022, FMO is required to report EU Taxonomy eligibility in line with the Non-Financial Reporting Directive (NFRD). An economic activity can be eligible for Taxonomy alignment if it can be mapped to one of the environmentally sustainable activities described in the Delegated Acts accompanying the Taxonomy Regulation.

As all of FMO's investments are made outside the EU in Emerging Markets (EMs), none of our counterparties are in scope of the NFRD and thus are not required to disclose their taxonomy eligibility or alignment. As FMO's eligibility disclosures must be based on actual information disclosed by financial or non-financial undertakings, and estimates are not permitted, for FMO's mandatory disclosures 0% of the balance sheet is Taxonomy eligible.

Until there is more clarity on the application outside the EU, FMO will continue to classify assets, steer, and report based on its Green label. At the same time, FMO will review developments in the Taxonomy to determine what can be aligned at each stage and fill data gaps where required. FMO's Green Label for new investments is largely aligned with the environmental objectives of the EU Taxonomy. ESG standards are an integral part of FMO's investment process. We expect alignment will be more challenging in some sectors than others and will depend on the applicability of sector-specific 'do no significant harm' (DNSH) criteria in EMs. FMO sees a risk that it could become harder to invest in EMs if institutions are not given the flexibility and time to align with the Taxonomy. This could send an incorrect signal that investing in EMs is not sustainable.

FMO is advocating to stakeholders that the Taxonomy be more inclusive towards companies operating in EMs. Based on the results of this study, FMO's disclosures could change materially in the future.

GREEN AND SUSTAINABILITY BONDS

Green and Sustainability Bonds outstanding

Since 2012, FMO has been active in the thematic bond market with the issuance of Green and Sustainability Bonds. FMO has developed a leading role as established issuer in the Sustainability Bond market, as we have successfully issued 4 Sustainability Bonds in EUR (€500 million each) and 1 in SEK (SEK 2.7 billion). So far, we have issued 2 Green Bonds, one in USD (\$500 million) and a SEK 1,500 million Green bond.

Year of Issue	Amount	Tenor	Isin code
Sustainability Bonds			
2013	EUR 500 mln, 1.25% 13/11/2018 (matured)	5 year	XS0993154748
2015	EUR 500 mln, 0.125% 20/04/2022	7 year	XS1219963672
2016	SEK 2,700 mln, 0.75% 29/11/2023	7 year	XS1527323411
2017	EUR 500 mln, 0.125% 01/06/2023	6 year	XS1622394143
2020	EUR 500 mln, 0.125% 01/04/2027	7 year	XS2150158405
Green Bonds			
2019	USD 500 mln, 2.75% 20/02/2024	5 year	XS1527323411
2020	SEK 1,500 mln, 0.86% 27/03/2028	8 year	XS2146570077

Key features FMO Sustainability Bonds Framework



FMO has industry leading Sustainability Ratings

Sustainalytics

In 2021, FMO has received the 2nd highest rating out of 1,071 banks and the 2nd highest rating out of the total population assessed (out of 15,125 organizations).

Oekom

FMO received a rating from the German rating agency ISS ESG that classified FMO as Prime with a C+ score (December 2021).



FMO is a member of the Green Bond Principles (GBP)

Reporting

- Reporting through guidelines that recommend transparency, disclosure and reporting
- Use of Proceeds and impact reporting via Sustainability Bonds Newsletter
- Project disclosure on [FMO world map](#)



External assurance to ensure alignment with Green Bond Principles and industry best practices

Second Party Opinion provided by Sustainalytics:

"FMO Sustainability Bonds Framework is credible and impactful and aligns with the four core components of the Green Bond Principles 2021, Social Bond Principles 2021 and Sustainability Bond Guidelines 2021"

Sustainalytics' review of eligible projects in 2015-2022

All of the climate change mitigation projects were assessed and all of them meet the eligibility criteria

- All of the other footprint projects were assessed and all of them meet the eligibility criteria
- All of the inclusive finance were assessed and all of them meet the eligibility criteria

FMO's inaugural USD Green Bond is listed on Bloomberg Barclays MSCI Green Bond Index

Reasonable assurance

FMO has obtained since 2019 reasonable assurance from EY on Green investments. The reasonable assurance on Green Investments is an integrated part of the overall assurance engagement on the sustainability information in the FMO annual report and therefore no specific assurance is provided on the Green Investments standalone. Please refer to the combined independent auditor's and assurance report. Investors can invest in green and social projects without running project risks and benefit from an impact return (Avoided GHG emissions and jobs supported).



National pioneer

First Green Bond issuer in the Netherlands



Partnership

Partnership FMO and Climate Bonds Initiatives

Harmonization developments

- EDFI launched the Harmonization Initiative on Responsible Financing and Impact Measurement in 2019.
- In 2020, EDFIs announced joint ambitions for climate action.
- The Partnership for Carbon Accounting Financials (PCAF) launched the first global standard for measuring and reporting financed emissions.
- Since 2020, FMO reported on jobs supported and financed absolute GHG emissions using the Joint Impact Model.





100% green in a Least Developed Country

FMO has provided a USD 12 mln senior debt loan, together with Building Prospects Fund, to Mekong Timber Plantations Limited (MTP), which is one of Laos' largest forestry plantation companies with more than 24,000 ha land. The total plantation area consists of 9,519 ha of high-quality eucalyptus and acacia, all FSC certified. MTP is an investee company of the New Forests Tropical Asia Forest Fund (TAFF), a fund focused on certified plantation forestry with an emphasis on technological, silvicultural, and ESG improvements. With FMO's financing, MTP aims to further expand its plantation area and to establish an integrated saw log, veneer and chipping mill.



Reducing inequalities through finance

Lendingkart Finance Limited (“Lendingkart”) is a fast-evolving fintech Financial Institution that provides unsecured loans to micro and small and medium enterprises (MSMEs), using a digital lending platform coupled with data analytics models and machine learning technological capabilities – instead of traditional credit assessment methodologies – to evaluate creditworthiness of these borrowers. FMO has invested the local currency equivalent of USD 15 mln in Non-Convertible Debentures issued by Lendingkart. The proceeds will enable Lendingkart to continue supporting its end-clients during these challenging Covid-19 times, as long-term local currency funding is still relatively scarce in India. With a focus towards women-run MSMEs and micro enterprises (with loan tickets < USD 10,000), the loan therefore contributes to FMO’s Reducing Inequalities target.

Progress report on use of the proceeds

More project information can be found on <https://www.fmo.nl/worldmap>

Reporting

FMO will report to stakeholders on an annual basis via the Sustainability Bonds Newsletter in line with the Green Bond and Social Bond reporting templates published during the Green Bond Principles (GBP) 2021 Annual General Shareholder Meeting. The reporting currency is USD as the majority of FMO's asset is denominated in USD (about 80%). The FX rate at issuance date is used to report the USD outstanding of the issued Green/Sustainability Bonds.

Allocation reporting

- The progress on allocation of use of proceeds for new and existing projects on a portfolio basis
- The bond allocations are based on outstanding portfolio and 85% of the committed non-disbursed project portfolio, per region, MDB category

Impact reporting

We will continue to report on impact on a portfolio basis for the direct green investments (current Avoided GHG emissions) and the jobs supported with our investments. FMO will report annually on the UoP, each year after publication of the annual report.

The table below outlines the reporting characteristics of the Use of Proceeds

Item	From 2019
Frequency	Annually
Impact	Portfolio level
Use of Proceeds (UoP)	Sustainability Bond allocations to outstanding + committed non-disbursed eligible project portfolio
Templates	Use templates released during GBP 2021
Reporting Ccy	USD

- The actual annual GHG emission reduction from direct green investments on a portfolio level
- An estimation of the number of (in)direct jobs supported with our investments on per target group

Sustainability Project Portfolio

The Sustainability Bonds allocation report shows that FMO has allocated USD 1.7 billion to eligible green and inclusive projects as per December 2021, against a total Sustainability Bonds outstanding of USD 1.95 billion. Allocations of foreign currency investments of the eligible project portfolio are converted into USD at the exchange rate of the reporting date (December 2021). The committed non-disbursed eligible project portfolio equals USD 162 million as per December 2021.

Pending project allocations, USD 248mln of the Sustainability Bonds proceeds (or 13% of total) is invested in FMO's Treasury sub-portfolio (of which USD 189mln is invested in ESG Bonds). Full allocation will happen in Q2 2022.

Green Project Portfolio

The Green Bond allocation report shows that FMO has allocated USD 652 million to eligible green projects as per December 2021, against a Green Bond outstanding of USD 652 million. Allocations of foreign currency investments of the eligible project portfolio are converted into USD at the exchange rate of the reporting date (December 2021). The committed non-disbursed eligible project portfolio equals USD 137 million as per December 2021.

We measure our impact on employment and environment, through jobs supported and avoided greenhouse gas emissions (GHG). More information on impact methodologies can be found on <https://www.fmo.nl/impact/how-we-measure-impact>

The direct environmental impact of FMO's Sustainability Bond is an actual avoidance of approximately 524,087 tons of GHG (SDG13).

The direct environmental impact of FMO's Green Bond is an actual avoidance of approximately 106,046 tons of GHG (SDG13).

In 2020, FMO changed its methodology for avoided GHG emissions to align with the new Partnership for Carbon Accounting Financials (PCAF) Global Standard. The most important differences are that we report on the actual instead of the expected avoided emissions and do so for the entire portfolio instead of new investments as done in previous years. The actual GHG reduction is based on the annual reductions in an operational year of the direct green investments, multiplied by the ratio between the Sustainability / Green Bond allocation and the Project Size.

Since 2020, FMO has launched the Joint Impact Model (JIM) to measure employment and environmental impact among its portfolio of investments. The model is used to estimate the number of supported Direct and Indirect jobs reported in this newsletter. The model has been developed in a joint effort with partner development finance institutions that agreed on harmonizing their methodology and assumptions. The model has been made

publicly available for impact investors, bilateral and multilateral development banks and other interested parties. It works using input/output modelling, combining the latest available macroeconomic statistics from several reliable sources, and it gives fair estimation on key indicators such as direct and indirect jobs supported, GHG emissions and total value added supported by clients in the portfolio.

The numbers published in this newsletter are comparable across institutions using this model.

In 2021, the JIM 2.0 was launched, which aligns with the PCAF Global Standard. This led to considerable changes in several estimates. Please refer to the "How we report" section from our annual report 2021 for more details. Additionally, the PCAF methodology for attribution of impact figures at facility level is now being used.

For more information, please visit: <https://jointimpactmodel.com/>.

FMO SUSTAINABILITY BONDS ALLOCATION REPORTING 2021

Portfolio date: December 2021

Eligible Sustainability Project Portfolio

Green projects	Amount (in mUSD)	Allocation of Sustainability Bonds	Amount (in mUSD)
Renewable Energy	749	2020: XS2150158405	540
Mixed	443	2017: XS1622394143	561
Agriculture, forestry and landuse	60	2016-2017-2018: XS1527323411	314
Energy efficiency	39	2015: XS1219963672	537
Conservation of natural resources	13		
Climate Change Adaptation	8		
Total Green projects	1,313 67%		
Social projects			
Gender: Women-owned SMEs	58		
Microfinance	98		
Least Developed Countries	168		
Mixed	43		
Youth finance	22		
Total Social Projects	390 20%		
Total Eligible Sustainability Project Portfolio	1,704		
FMO's Treasury sub-portfolio¹	248		
Total assets	1,952	Total issued Sustainability Bonds	1,952

Percentage of net proceeds of Sustainability Bonds allocated to Eligible Sustainability Project Portfolio 87%

Existing projects² 79%

New projects³ 8%

¹ of which USD 189mln of ESG Bonds (Green bonds and Sustainability Bonds)

² Existing projects = outstanding sustainability project portfolio for projects contracted in 2012-2021 per reporting period (Dec-21)

³ New projects = committed non-disbursed sustainability project portfolio for projects contracted during 2012-2021 as per reporting period (Dec-21)

FMO GREEN BONDS ALLOCATION REPORTING 2021

Report date: December 2021

Use of Proceeds for Eligible Green Projects

Climate change mitigation	Amount (in mUSD)	Allocation of Green bonds	Amount (in mUSD)
Renewable Energy	272	2019: XS1953035844	500
Mixed	179	2020: XS2146570077	152
Agriculture, forestry and land use	66		
Climate Change Adaptation	98		
Energy efficiency	0		
Lower-carbon and efficient energy generation	9		
Total Climate Change Mitigation	624		
Other Footprint	Total		
Biodiversity	7		
Pollution mitigation	17		
Conservation of natural resources	3		
Total Other Footprint	28		
Total Eligible Green Project Portfolio	652	Green funding	652

Percentage of net proceeds of Green Bonds allocated to Eligible Green Project Portfolio 100%

Existing projects¹ 79%

New projects² 21%

¹ Existing projects = outstanding green project portfolio for projects contracted in 2018-2021 per reporting period (Dec-21)

² New projects = committed non-disbursed green project portfolio for projects contracted in 2018-2021 as per reporting period (Dec-21)

FMO SUSTAINABILITY BOND IMPACT REPORTING 2021

Portfolio date: December 2021

Eligible Project Category	Signed Amount (in USD mln)	Share of Total Portfolio Financing	Direct Jobs Supported	Indirect Jobs Supported	GHG emissions avoided in tCO ₂ e
a/	b/	c/	d/	e/	f/
Green investments	1,313	67%			
Renewable Energy	749	38%	138	24,794	489,017
Mixed	443	23%	478	10,503	24,997
Agriculture, forestry and landuse	60	3%	151	3,887	
Energy efficiency	39	2%	64	245	10,073
Conservation of natural resources	13	1%	315	818	
Climate Change Adaptation	8				
Social projects	390	20%			
Gender: Women-owned SME	58	3%	74	2,565	
Microfinance	98	5%	251	9,731	
Least Developed Countries	168	9%	552	17,994	
Mixed	43	2%	182	3,402	
Youth finance	22	1%	61	1,542	
FMO's Treasury sub-portfolio (Green bonds)	248	13%			
Total	1,952	86%	2,267	75,481	524,087

a/ Eligible category

b/ Signed amount represents the amount legally committed by the issuer for the portfolio or portfolio components eligible for Green / Sustainability Bonds financing

c/ This is the share of the total portfolio cost that is financed by the issuer

d/ Direct jobs refer to the number of full-time equivalent employees, as defined at a local level, working for the customer company or on a project.

e/ Estimates of indirect impact are based on industry averages. In reality indirect effects will be different at the individual company level due to differences in individual company characteristics.

f/ Sample of impact indicators (impact for debt funded part) for direct green investments -GHG emissions avoided in tCO₂e

FMO GREEN BOND IMPACT REPORTING 2021

Portfolio date: December 2021

Eligible Project Category	Signed Amount (in USD mln)	Share of Total Portfolio Financing	Direct Jobs Supported	Indirect Jobs Supported	GHG emissions avoided in tCO ₂ e
a/	b/	c/	d/	e/	f/
Climate change mitigation	624	96%			
Renewable Energy	272	42%	12	2,980	106,046
Mixed	179	28%	183	10,519	
Agriculture, forestry and landuse	66	10%	1,001	2,345	
Climate Change Adaptation	98	15%	157	3,879	
Energy efficiency	0	0%			
Lower-carbon and efficient energy generation	9	1%		27	
Other Footprint	24	4%			
Biodiversity	7	1%	10	77	
Pollution mitigation	17	3%	3	11	
Conservation of natural resources	0	1%	11	507	
Total	648	100%	1,377	20,345	106,046

a/ Eligible category

b/ Signed amount represents the amount legally committed by the issuer for the portfolio or portfolio components eligible for Green / Sustainability Bonds financing

c/ This is the share of the total portfolio cost that is financed by the issuer

d/ Direct jobs refer to the number of full-time equivalent employees, as defined at a local level, working for the customer company or on a project.

e/ Estimates of indirect impact are based on industry averages. In reality indirect effects will be different at the individual company level due to differences in individual company characteristics.

f/ Sample of impact indicators (impact for debt funded part) for direct green investments -GHG emissions avoided in tCO₂e

Use of Proceeds criteria

Green investments

FMO looks for investments in the following three “Green” categories:

- **Climate Change Mitigation:** An activity is mitigating climate change if it contributes to either reducing GHG emissions into the atmosphere, or sequester GHG emissions from the atmosphere. If the project or activity relates to Energy efficiency, it should achieve at least 20% reduction in energy consumptions or GHG emissions
- **Climate Change Adaptation:** An activity is considered as climate change adaptation if the intention of the activity or project design is to reduce the vulnerability of human or natural systems to the impacts of climate change and climate-related risks, by maintaining or increasing adaptive capacity and resilience
- **Other Footprint:** This category includes those activities that do not directly target climate change mitigation or adaptation yet have a positive impact on the environment including water, waste and biodiversity

FMOs green eligibility criteria are aligned with the Common Principles for Climate Mitigation Finance and the Common Principles for Climate Adaptation Finance

Eligible projects may include:

- Renewable energy projects such as solar, wind, ocean, geothermal power and hydro
- Energy efficiency projects, such as improvements in existing buildings, upgrade heating controls, IFC EDGE certified building projects
- Waste management
- Agriculture, forestry and other land use

Inclusive business investments

Inclusive finance focuses on expanding access to affordable and responsible financial products and services to the poor and vulnerable populations. This includes microfinance as well as directly financing organizations that are often unable to gain access to financial products and services such as small- and medium-sized enterprises. A wide range of financial products and services are incorporated within the remit of inclusive finance including savings, credit, insurance, remittances, and payments (source: UNPRI).

Eligible projects include microfinance institutions (MFI), and financing of micro, small- and medium-sized enterprises (MSMEs) through financial intermediaries in developing and emerging markets in which FMO operates. To be eligible for the use of proceeds, financial institutions should:

- Specifically target one or more of the following populations: females; rural populations who are focusing on agricultural production and agricultural value chains; economically excluded individuals; and low-income populations who earn less than USD 8 per day; and
- be identified as an SME, as defined by the International Finance Corporation (IFC), as outlined in below table.

Projects are classified as microfinance if they meet the following criteria:

- End-client should meet two of the three criteria to qualify: the number of employees < 10; turnover < USD 100,000; total assets < USD 100,000;
- If before mentioned data under bullet 1 is not available, the end-client average loan size should be less than USD 10,000. (source: IFC)

Projects are classified as SMEs if they meet the following criteria:

- The end-client should meet two of three criteria to be eligible for the Sustainability Bond (see below table): 1) 10 < number of employees < 300; 2) USD 100,000 < turnover < USD 15,000,000; 3) total assets < USD 100,000; or
- If data mentioned in point ‘a’ is not available, then the SME average loan size should be between USD 10,000 or more, but less than USD 1,000,000 (10,000 < USD < 1,000,000)

Management of Proceeds

The net proceeds of any issue under the SBF are held within FMO's Treasury in a sub-portfolio that is linked to FMO's lending operations in the fields of green finance and inclusive finance. As long as the notes issued under the SBF are outstanding, the balance of the sub-portfolio will be reduced by amounts corresponding to the financing or refinancing of eligible projects, or to repay a note issued under the SBF.

Pending allocations, the net proceeds of the notes will be held in FMO's liquidity portfolio and may temporarily be used for different purposes in case of liquidity stress situations. FMO expects the bond proceeds to be fully allocated within 2 years from the issue date.

Projects eligible to be financed with the proceeds of FMO's Green \ Social \ Sustainability Bonds include projects that meet the eligibility criteria described above and are:

- Projects committed after the issuance of the Green \ Social \ Sustainability Bond; or
- Projects committed before the issuance of the Green \ Social \ Sustainability Bond but funded (disbursed) after the issuance of the Bond;



Sahyadri Farmers Producer Co, based in Nasik, India, is a farmer-owned company that procures, processes and markets fruits & vegetables from its ~7000 small and marginal farmers.



FMO funded the development, construction, and operation of the **Baynouna solar project**, based in Jordan, making it the largest PV solar project in the country.

Process to define green and social¹ projects

IMPACT

- Green and Reduce Inequality (RI) definition
- IFI definition of climate finance

INVESTMENT

- Apply for green and RI label
- Exclusion list
- ESG standards

CREDIT

- Approve green and RI label
- Take note of green and RI label
- Impact narrative

TREASURY

- Consider for thematic bond
- Green label
- RI label
- Issue mgt

¹ Social projects aiming at reducing inequality