Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO)
Netherlands Development Finance Company

Position Statement on Responsible Tax

FMO (the Netherlands Development Finance Company) is the Dutch entrepreneurial development bank. Since 1970 we have been a driving force behind investments empowering entrepreneurs in emerging markets. It is our role and mandate to create local prosperity in some of the world's most challenging economies.

This Position Statement is an integral part of the FMO Sustainability Policy framework that steers FMO's activities. The Position Statements explain FMO's choices in relation to major global sustainability issues and further explain how we select investments, work with customers and other stakeholders, and monitor performance. They reflect our objective to apply the highest possible standard of ethics and integrity to our business activities.

Responsible Tax

Contributions to governments are relevant for each nation to finance public goods such as infrastructure, health, and education, contributing to the wellbeing of the people that live there. A healthy tax environment is based on compliance and trust from both taxpayers, tax authorities and governments.

FMO's choices

FMO is statutorily bound and therefore committed to contribute to the sustainable development of the private sector in the countries where we are active in. We are fully committed to dealing with tax issues in our due diligence and in our decision-making on each transaction, customer, and investment. By doing so, FMO complies with both national and international tax regulations. s.

We were among the first development banks to implement an assessment by tax experts of our customers' international tax practices, as part of our due diligence process. FMO has developed a methodology to appraise whether its customers show responsible tax behavior, and act within FMO's Responsible tax principles as described below.

Implementation

Responsible tax behavior within FMO

FMO implements responsible tax behavior within FMO with the following measures:

- FMO complies with tax regulations both nationally and internationally, which means reporting and filing the relevant tax returns and being transparent to relevant stakeholders. As (partially) government-controlled development bank, FMO sometimes, in accordance with local law or tax treaties concluded by the Netherlands, benefits from withholding tax exemptions in the countries where it is active.

- Tax control is assured by integrating tax in business processes, rather than by ‘post event’ monitoring/reporting tools. This way we can identify, assess, and manage relevant tax related matters early on in the process.
- Tax planning is performed to reduce the risk of double taxation and to assure that FMO’s tax position is in line with the purpose and scope of the applicable laws and general business rationale.

Responsible tax behavior in FMOs portfolio: Responsible Tax Principles

Through its investments, FMO is indirectly exposed to the tax matters of its investees and customers. FMO proactively engages with both customer groups on these tax matters. We require them to comply with all applicable tax laws and to follow **FMO’s Responsible Tax Principles.**

- FMO does not support actions that contribute to tax evasion.
- FMO measures tax avoidance structures against the relevant items mentioned under the Base Erosion Profit Shifting (BEPS) report of the OECD and the EU’s Anti-Tax Avoidance Directive. The items mentioned herein are amongst others: hybrid instruments, harmful tax practices, limitation on interest deductions, prevention of tax treaty abuse, transfer pricing.
- FMO mitigates potential aggressive tax avoidance structures by requiring investees and customers to have and maintain transfer pricing documents, which contributes to transparency towards tax authorities.
- FMO mitigates potential tax avoidance structures by requiring country-by- country reporting , following the internationally accepted standards for country-by-country reporting requirements (consolidated turnover of 750 million euro).
- Corporate structures must be explained by functionalities. Structures that include jurisdictions listed on the non-cooperative jurisdictions (as defined by EU) and identified as annex 1 ‘non-cooperative jurisdictions’ (NCJs), are either not acceptable, or the tax avoidance risk is mitigated by evidence made available to FMO that income has been taxed, or, exclusion of application of identified harmful tax regime (as reported by EU).
- Based on OECD for Multinational Enterprises (OECD MNE) guidelines, customers are expected to obtain tax rulings that are based on published country tax (incentive) policies and regulation.
- Tax holidays or incentives are acceptable under the condition that such tax incentives are clearly provided for in the local (tax) legislation.
- FMO requires its customers to approach tax matters in a responsible manner.

- When we identify an unbalanced tax situation[1], we will take appropriate steps with the purpose to bring the customer to act in line with our Responsible Tax Principles. FMO is committed to engage with its (future) customer(s) to support them in finding and/or implementing appropriate mitigants. If mitigants cannot be found or implemented, or progress is insufficient, FMO may decide not to invest or to explore solutions for responsible disengagement, in line with our development mandate.

FMO's tax department provides expert advice on customer's companies' tax performance. This advice is taken on board by our credit department in their investment advice to the investment committee, either with or without conditions.

Partner alignment

As a bilateral DFI – Development Finance Institution – FMO is one of 15 members of the European network EDFI where all institutions work towards common goals and harmonization in its policies and practices.

We jointly developed a set of guidelines, EDFI Principles for Responsible Tax in Developing Countries, that also addresses the use of intermediary jurisdictions called offshore financial centers (OFCs) when structuring investments. Many target countries do not possess the legal, judicial, regulatory and financial infrastructure to accommodate the requirements of institutional investors seeking to invest in the private sector in developing countries. For more information, please visit the policy pages on the EDFI website.

More information

If you have questions related to our Position Statement on Responsible Tax, please contact us via consultation@fmo.nl.

This Position Statement has been approved by FMO's Management Board on 23 December 2016 as a confirmation of existing effective policy and has most recently been updated in December 2022.

[1] For example, unbalanced tax situations are clear situations of tax avoidance, base erosion by the taxpayer or opposite, an unfair tax treatment towards the taxpayer.