Equator Principles Reporting 2008

FMO

Finance for *Development*

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Finance for Development

FMO follows Equator Principles – and goes beyond

In 2005, the Netherlands Development Finance Company (FMO) adopted the Equator Principles and implemented its sustainability policy in 2000. FMO has been using the Safeguard Policies / Performance Standards since then and applied these to all financings. This means including financings of less than US$10 million and not only project finance but corporate finance as well. Hence FMO's goes further than the Equator Principles require.

Please see our E&S Sustainability Policy to find more specific information on FMO's approach to addressing E&S issues in its financing decisions on the FMO website.

Experience shows that good economic, environmental and social (E&S) management, and corporate governance, are interrelated. Paying proper attention to these issues is good for business. As a consequence FMO highly values the environmental and social criteria that financing partners apply and therefore decided to endorse the Equator Principles. The main objective is to achieve a more in-depth collaboration and a more efficient application of environmental and social criteria in all financing transactions that FMO concludes together with other Equator banks.

The graph below presents FMO's number of projects reviewed according to IFC performance Standards.

Projects reviewed by region (contracted in 2008)					
	Direct investments			**Financial Institutions**	**Total**
	project finance	non-project finance	total		
AFRICA	*9*	8	17	47	**64**
ASIA	*1*	16	17	46	**63**
EUROPE & CENTRAL ASIA	*0*	8	8	25	**33**
LATIN AMERICA & THE CARIBBEAN	*1*	13	14	21	**35**
GLOBAL	*0*	1	1	1	**2**
TOTAL	***11***	**46**	**57**	**140**	**197**

We have environmental and social specialists working in our investment deal teams.
This means that they work with the client from the start of the due diligence phase. At the Credit department environmental and social analyst independently review the E&S part for Clearance In Principle (CIP) and Finance Proposals, according to the 4-eyes principle. FMO's Sustainability Procedures outline in detail the way how FMO lives up to her commitment of promoting investments in emerging markets that are environmentally and socially sustainable and does so by incorporating environmental and social review in the entire investment process. In 2008 the Sustainability Team is installed. The focus of this team is on:

- Further integration of environmental , social and corporate governance aspects (ESG) into FMO's financial services;
- Creating a long-term partnership with our clients on ESG;
- Advancing from risk management to an opportunity-based approach;
- Presenting the business case for ESG.

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Managing environmental and social risk

Our environmental and social risk management starts with the risk categorization of the financing based on a first assessment. In line with the IFC categorization, we classify all potential new projects according to A (highest) to C (lowest) risk categories:

- Category A: potential adverse environmental or social impacts are significant and likely to be irreversible or unprecedented (e.g. mining).
- Category B: potential adverse environmental or social impacts are real but site-specific, reversible and can be mitigated (e.g. extension of existing industrial plants, telecoms networks etc.).
- Category C: potential adverse environmental or social impacts are negligible (e.g. software company).

The graph below presents the Environmental and Social category of the projects reviewed according to IFC Performance Standards.

Projects reviewed by E&S Category (contracted in 2008)					
	Direct investments			**Financial Institutions**	**Total**
E&S Category	*project finance*	non-project finance	total		
A	***1***	7	8	45	**53**
B	***10***	30	40	61	**101**
C	***0***	9*	9	34	**43**
TOTAL	***11***	**46**	**57**	**140**	**197**

* *After being classified as category C, not further reviewed*

Once the risk category of a project has been determined, we assess the environmental and social risks. The assessment includes the level of risk management and gap analysis with regard to current compliance with our environmental and social criteria. The environmental and social risks are captured by an environmental and social risk factor on a scale of 0-99, set out in the FMO scorecard which is updated annually.

Added value

Our environmental and social added value comprises working with our clients towards compliance with the IFC Performance Standards. If a project does not comply at the start of the cooperation, we prepare and agree on action plans with our clients. Within our Investment and Mission Review department our environmental and social analysts check the risks and give their advice with regard to the Action Plan and other Environmental and Social aspects of the financing before the final investment decision is taken. The compliance of our clients with the Performance Standards and the progress against the agreed Action Plan is monitored annually.

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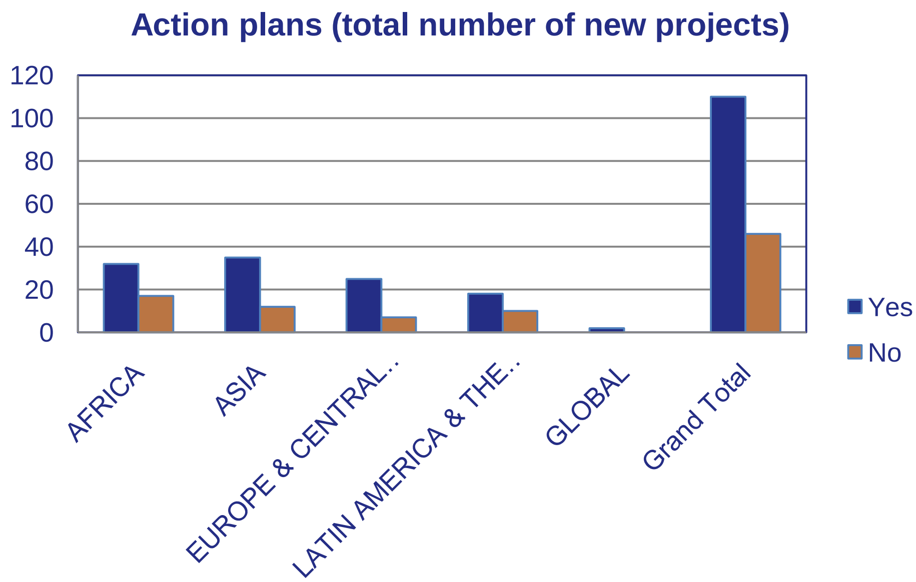
Please see below the number of actions plans agreed in 2008.



In our annual report 2008 we provide some illustrative case studies (p 25-29):

- Creating affordable housing: Houses for Africa (p25/26, 2nd column starting with 'Given the current…);
- Supporting after care: Hohhot clean coke plant China (p26 2nd column starting with 'In 2008, we provided…);
- Stimulating clean energy & housing finance: (p26 2nd column last par. starting with 'We have also invested in a clean energy …);
- Improving transparency: Redstone housing (p28 1st column last par., starting with 'In 2008, we contracted ….);
- Tackling E&S dilemmas: (p28, 2nd column last par, starting with 'As well as taking ….);
- Additionality in agriculture, investing with partners: (p29 2nd par., starting with 'Many of our clients ….and Pampa').