

FMO SUSTAINABILITY BOND

Type of Engagement: Annual Review

Date:

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Introduction

In 2017, FMO issued sustainability bonds aimed at financing businesses, projects and financial institutions in developing and emerging markets, with the aim of supporting sustainable, private sector development. In March 2018, FMO engaged Sustainalytics to review the projects funded through the issued sustainability bonds and provide an assessment as to whether the projects met the Use of Proceeds criteria and the Reporting commitments outlined in the FMO Sustainability Bond Framework (updated version 2017).

Evaluation Criteria

Sustainalytics evaluated the projects and assets funded in 2017 based on whether the projects and programmes:

1. Met the Use of Proceeds and Eligibility Criteria outlined in the Sustainability Bond Framework; and
2. Reported on at least one of the Key Performance Indicators (KPIs) for each Use of Proceeds criteria outlined in the Sustainability Bond Framework.

Table 1 lists all the Use of Proceeds and Eligibility Criteria, while Table 2 list the associated the KPIs.

Table 1: Use of Proceeds and Eligibility Criteria

Use of Proceeds	Eligibility Criteria
Climate Change Mitigation	<p>Activities that</p> <ul style="list-style-type: none"> • Contribute to the mitigation of climate change by reducing or avoiding GHG, or contribute to the protection and/or enhancement of GHG sinks and reservoirs that absorb GHGs; • Can be a project or project component; • Should be disaggregated from non-mitigation activities through a reasonable level of data granularity. For example, a project with a total cost of EUR 100 million may have a EUR 10 million component for energy efficiency improvements – only the EUR10 million should be allocated. <p>Eligible categories:</p> <ul style="list-style-type: none"> • Energy efficiency; • Renewable Energy; • Transport; • Agriculture, forestry and land use; • Waste and wastewater; • Non-energy GHG reductions; and • Cross-sector activities <p>The eligible categories are explained in further detail in Appendix 1</p>
Climate Change Adaptation	<p>Activity needs to demonstrate that it potentially contributes to reducing the vulnerability to climate change identified in the project area, and that the following should be provided to substantiate this:</p> <ul style="list-style-type: none"> • A description of the context of climate vulnerability of the project based on an investigation of the vulnerabilities to climate change of the project's geographical area;

	<ul style="list-style-type: none"> An explicit statement of intent to address climate vulnerability as part of the project. This should be supported by an analysis of the project's planned activities to decipher a positive list of actions that can contribute to reducing vulnerability, or strengthening the resilience of communities, goods, or ecosystems to climate change; Articulating a clear and direct link between the climate vulnerability context and the specific project activities; and Evidences that the project does not have negative impacts in terms of climate change mitigation (e.g., enhancing carbon intensive infrastructures).
Inclusive Finance Criteria	<p>Finance of microfinance institutions (MFIs)</p> <ul style="list-style-type: none"> a) The end-client should meet two of three criteria to be eligible for the sustainability bond (see table 2): 1) number of employees <10; 2) turnover <USD 100,000; 3) total assets <USD 100,000; or b) If data mentioned in point 'a' is not available, then the loan size should be < USD 10,000. <p>Financing small- and medium-sized enterprises (SMEs) Financial institutions that specifically target one or more of the following populations:</p> <ul style="list-style-type: none"> 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)¹, as outlined in Table 2.
Exclusionary Criteria	<ol style="list-style-type: none"> Forced labour² or child labour³. Activities or materials deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international phase-outs or bans, such as: <ol style="list-style-type: none"> Ozone depleting substances, PCB's (Polychlorinated Biphenyls) and other specific, hazardous pharmaceuticals, pesticides/herbicides or chemicals; Wildlife or products regulated under the Convention on International Trade in Endangered Species or Wild Fauna and Flora (CITES); or Unsustainable fishing methods (e.g., blast fishing and drift net fishing in the marine environment using nets in excess of 2.5 km in length). Cross-border trade in waste and waste products, unless compliant with the Basel Convention and the underlying regulations. Destruction⁴ of High Conservation Value areas⁵. Radioactive materials⁶ and unbounded asbestos fibres. Pornography and/or prostitution.

¹ http://www.ifc.org/wps/wcm/connect/635f64804efbe2b18ef5cf3eac88a2f8/IFC_Factsheet_SME_Loan+Size+Proxy_Brief.pdf%20?MOD=AJPERES

² Forced labor means all work or service, not voluntarily performed, that is extracted from an individual under threat of force of penalty as defined by ILO conventions.

³ Persons may only be employed if they are at least 14 years old, as defined in the ILO Fundamental Human Rights Conventions (Minimum Age Convention C138, Art. 2), unless local legislation specifies compulsory school attendance or the minimum age for working. In such cases the higher age shall apply.

⁴ Destruction means the (I) elimination or severe diminution of the integrity of an area caused by a major, long-term change in land or water use or (2) modification of a habitat in such a way that the area's ability to maintain its role is lost.

⁵ High Conservation Value (HCV) areas are defined as natural habitats where these values are considered to be of outstanding significance or critical importance

⁶ This does not apply to the purchase of medical equipment, quality control (measurement) equipment or any other equipment where the radioactive source is understood to be trivial and/or adequately shielded.

	<p>7. Racist and/or anti-democratic media.</p> <p>8. The following products forming a substantial part of a project’s primary financed business activities⁷:</p> <ul style="list-style-type: none"> a) Alcoholic Beverages (except beer and wine); b) Tobacco; c) Weapons and munitions; d) Gambling, casinos and equivalent enterprises; or e) Nuclear energy.
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Table 2: Key Performance Indicators

Key performance indicators	
All eligible categories	<ul style="list-style-type: none"> • Case studies; • An estimation of annual GHG emission reduction from direct green investments • An estimation of the number of (in)direct jobs supported with our investments

Issuing Entity’s Responsibility

FMO is responsible for providing accurate information and documentation relating to the details of the projects that have been funded, including description of projects, estimated and realized costs of projects, and project impact.

Independence and Quality Control

Sustainalytics, a leading provider of ESG and corporate governance research and ratings to investors, conducted the verification of FMO’s Sustainability Bond Use of Proceeds. The work undertaken as part of this engagement included collection of documentation from FMO employees and review of documentation to confirm the conformance with the FMO Sustainability Bond Framework.

Sustainalytics made all efforts to ensure the highest quality and rigor during its assessment process and enlisted its Sustainability Bonds Review Committee to provide oversight over the assessment of the review.

Conclusion

Based on the limited assurance procedures conducted⁸, nothing has come to Sustainalytics’ attention suggests that the projects funded through proceeds of the FMO sustainability bond, are not in conformance with the Reporting Criteria outlined in the Sustainability Bond Framework. However, Sustainalytics identified one exception related to the inclusion of biodiversity conservation projects in the aquaculture and fishery sector. While biodiversity conservation in the named sectors is not explicitly included in the FMO Sustainability Bond Framework, biodiversity conservation is recognized by ICMA’s Green Bond Principles (2017) as impactful and is recognized by the FMO’s internal guidelines for green investments.⁹

⁷ For companies, ‘substantial’ means more than 10% of their consolidated balance sheets or earnings. For financial institutions and investment funds, ‘substantial’ means more than 10% of their underlying portfolio volumes.

⁸ Sustainalytics limited assurance process includes reviewing the documentation relating to the details of the projects that have been funded, including description of projects, estimated and realized costs of projects, and project impact, which were provided by the Issuer. The Issuer is responsible for providing accurate information. Sustainalytics has not conducted on-site visits to projects.

⁹ FMO corporate website: <https://www.fmo.nl/sustainability-bonds>

Detailed Findings

Table 3: Detailed Findings

Eligibility Criteria	Procedure Performed	Factual Findings	Error or Exceptions Identified
Use of Proceeds Criteria	Verification of the projects funded by the sustainability bond in 2017 to determine if projects aligned with the Use of Proceeds criteria outlined in the Sustainability Bond Framework and above in Table 1.	Most of the projects funded align with the FMO Sustainability Bond's Use of Proceeds criteria. Sustainalytics identified one exception.	Sustainalytics identified one exception, which relates to the inclusion of biodiversity conservation projects in the aquaculture and fishery sector. While biodiversity conservation in the named sectors is not explicitly included in the FMO Sustainability Bond Framework, biodiversity conservation is recognized by ICMA's Green Bond Principles (2017) as impactful and is recognized by the FMO's internal guidelines for green investments. ¹⁰ In addition, Sustainalytics welcomes FMO's commitment to include biodiversity projects in aquaculture and fishery in its Sustainability Bond Framework with the next framework update.
Reporting Criteria	Verification of the projects funded by the sustainability bond in 2017 to determine if impact of projects was reported in line with the KPIs outlined in the Sustainability Bond Framework and above in Table 2.	All projects reviewed reported on at least one KPI per Use of Proceeds criteria.	None

¹⁰ FMO corporate website: <https://www.fmo.nl/sustainability-bonds>

Appendix 1: List of financed projects in 2017

Climate Change Mitigation Projects

	Project Name	Country	Use of Proceeds	MDB ¹¹ Sector	MDB Sub-Sector	Eligibility Criteria Compliant?
1	ACCESS UGANDA SOLAR LTD.	Uganda	Solar PV Production	4. Renewable Energy	4.1. Electricity generation, greenfield projects - Solar Power	Yes
2	AFRICA EMS NYAMWAMBA LTD	Uganda	Hydro Power Project	4. Renewable Energy	4.1. Electricity generation, greenfield projects - Hydro Power	Yes
3	AL SHARIKA AL MAHALIYA LI AAMAL AL (Local Comp for Water and Solar)	Jordan	Solar PV Project	4. Renewable Energy	4.1. Electricity generation, greenfield projects - Solar Power	Yes
4	AZURE POWER INDIA PRIVATE LIMITED	India	Solar PV Project	4. Renewable Energy	4.1. Electricity generation, greenfield projects - Solar Power	Yes
5	BANCO BAC SAN JOSE S.A.	Costa Rica	Renewable Energy and Energy Efficiency Lending Program	9.4 Financing instruments	9.4.2 Renewable energy and energy efficiency financing through financial intermediaries or similar	Yes
6	BANCO DAVIVIENDA SALVADOREN O S.A.	El Salvador	Renewable Energy and Energy Efficiency Lending Program	9.4 Financing instruments	9.4.2 Renewable energy and energy efficiency financing through financial intermediaries or similar	Yes
7	BANCO DE LA PRODUCCION S.A. PRODUBA	Equator	Renewable Energy	9.4 Financing instruments	9.4.2 Renewable energy and energy efficiency financing through financial intermediaries or similar	Yes
8	BANCO PROMERICA S.A. (EL SALVADOR)	El Salvador	Renewable Energy & Energy Efficiency Lending programme	9.4 Financing instruments	9.4.2 Renewable energy and energy efficiency financing through financial intermediaries or similar	Yes
9	BANCO PROMERICA S.A. (GUATEMALA)	Guatemala	Renewable Energy Lending programme	9.4 Financing instruments	9.4.2 Renewable energy and energy efficiency financing through financial intermediaries or similar	Yes

¹¹ Definitions of sectors and projects are derived from those set forth by the Multilateral Development Banks (MDBs) in the "Joint Report on MDB Climate Finance 2012"; http://www.eib.org/attachments/documents/joint_report_on_mdb_climate_finance_2012.pdf

10	BOSFORO LTDA DE C.V.	El Salvador	Solar PV Project	4. Renewable Energy	4.1. Electricity generation, greenfield projects - Solar Power	Yes
11	ECO-BUSINESS FUND S.A., SICAV-SIF	Latin America & The Caribbean	Biosphere Conservation Projects	6.2 Reducing emissions from the deforestation or degradation of ecosystems	6.2.1 Biosphere conservation projects	Includes biodiversity conservation in the fishery and aquaculture sector
12	ELZ SAGLIK YATIRIM A.S.	Turkey	Construction of green buildings	2. Demand-side, greenfield energy efficiency	2.1 Construction of new buildings	Yes
13	FINANS FINANSAL KIRALAMA A.S.	Turkey	Renewable Energy and Energy Efficiency Lending Program	9.4 Financing instruments	9.4.2 Renewable energy and energy efficiency financing through financial intermediaries or similar	Yes
14	FRV ANDHRA PRADESH SOLAR FARM-I PRI	India	Solar Power Project	4. Renewable Energy	4.1. Electricity generation, greenfield projects - Solar Power	Yes
15	FRV SOLAR HOLDINGS IX B.V./JORDAN	Jordan	Solar PV Project	4. Renewable Energy	4.1. Electricity generation, greenfield projects - Solar Power	Yes
16	GENERACION RENOVABLE DE HONDURAS S.	Honduras	Solar PV Project	4. Renewable Energy	4.1. Electricity generation, greenfield projects - Solar Power	Yes
17	GOBIND SUGAR MILLS LIMITED	India	Waste to Energy	4. Renewable Energy	4.1. Electricity generation, greenfield projects - Biomass	Yes
18	HEKSAGON KATI ATIK YONETIMI SANAYI	Turkey	Waste Management	7. Waste and wastewater	7.1.1 Solid waste management that reduce methane emissions	Yes
19	UEP PENONOME II S.A.	Panama	Wind Power Project	4. Renewable Energy	4.1. Electricity generation, greenfield projects - Wind Power	Yes
20	LATAM LOGISTIC PER PROPCO LURIN 1 S	Peru	Construction of green buildings	2. Demand-side, greenfield energy efficiency	2.1 Construction of new buildings	Yes
21	LISI FO LLC	Georgia	Construction of green buildings	2. Demand-side, greenfield energy efficiency	2.1 Construction of new buildings	Yes
22	LLC TSUKORAGRO PROM (ASTARTA GROUP)	Ukraine	Energy Efficiency, Waste Water Treatment	1 Demand-side, brownfield energy efficiency, 7 Waste and wastewater	1.3 Agriculture, 7.1.2 Treatment of wastewater	Yes
23	LUBILIA KAWEMBE HYDRO LIMITED	Uganda	Hydro Power Project	4. Renewable Energy	4.1. Electricity generation, greenfield projects - Hydro Power	Yes

24	MABANI SEVEN COMPANY LIMITED	Ghana	Construction of green buildings	2. Demand-side, greenfield energy efficiency	2.1 Construction of new buildings	Yes
25	MECANISMOS DE ENERGIA RENOVABLE S.A.	Honduras	Solar PV production	4. Renewable Energy	4.1. Electricity generation, greenfield projects - Solar Power	Yes
26	MOHAMMED ENTERPRISES TANZANIA LTD	Tanzania	Non-energy greenhouse gas reductions, cleaner production	6. Agriculture, forestry and land use; 9. Cross sector activities	6.4.1 Agriculture projects that do not deplete and/or improve existing carbon pools; 9.3 Supply chain	Yes
27	NEPAL HOSPITALITY AND HOTEL PVT LTD	Nepal	Construction of green buildings	2. Demand-side, greenfield energy efficiency	2.1 Construction of new buildings	Yes
28	ODEABANK A.S.	Turkey	Renewable Energy Lending Program	9.4 Financing instruments	9.4.2 Renewable energy and energy efficiency financing through financial intermediaries or similar	Yes
29	PACIFIC SOLAR ENERGY S.A. DE C.V.	Honduras	Solar PV Project	4. Renewable Energy	4.1. Electricity generation, greenfield projects - Solar Power	Yes
30	SOLU HYDROPOWER PRIVATE LIMITED	Nepal	Hydro Power Project	4. Renewable Energy	4.1. Electricity generation, greenfield projects - Hydro Power	Yes
31	TORORO SOLAR NORTH LIMITED	Uganda	Solar PV production	4. Renewable Energy	4.1. Electricity generation, greenfield projects - Solar Power	Yes
32	USHER ECO POWER LIMITED	India	Waste management	7. Waste and wastewater	7.1.3 Waste recycling projects that recover or reuse materials and waste as inputs into new products or as a resource	Yes
33	VIENTOS DE ELECTROTECNIA S.A. DE C.	Honduras	Wind Power Project	4. Renewable Energy	4.1. Electricity generation, greenfield projects - Wind Power	Yes
34	YES BANK LIMITED	India	Solar and Wind Power Projects	4. Renewable Energy	4.1. Electricity generation, greenfield projects - Solar Power & Wind Power	Yes
35	ZEPHYR POWER (PVT) LTD.	Pakistan	Wind Power Project	4. Renewable Energy	4.1. Electricity generation, greenfield projects - Wind Power	Yes

Inclusive Finance

	Project Name	Country	Project Type	Eligibility Criteria Compliant?
1	AU FINANCIERS (INDIA) LTD.	India	MFI, SME	Yes
2	BANCO INTERNACIONAL S.A (ECUADOR)	Ecuador	SME	Yes
3	CJSC FINCA BANK	Kyrgyzstan	MFI, SME	Yes
4	FINANCIERA CONFIANZA S.A.A.	Peru	MFI, SME	Yes
5	FONDI BESA JSC	Albania	MFI, SME	Yes
6	KOMPANION BANK CJSC	Kyrgyzstan	MFI	Yes
7	PARTNER MIKROKREDITNA FONDACIJA	Bosnia and Herzegovina	MFI	Yes
8	PT MITRA BISNIS KELUARGA VENTURA	Indonesia	MFI	Yes
9	WOMEN ENTREPRENEURS DEBT FUND LP	Global	SME	Yes

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