

English version of the adopted Criteria Memorandum.  
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## CRITERIA MEMORANDUM

### 1. Introduction

The starting point for FMO's financing policy is the statutory objective that is therefore quoted here:

*“The aim of the company is to contribute to the development of business in developing countries in the interest of the economic and social progress of these countries, this in accordance with the intention of the governments of the respective countries and with Dutch government policy with regard to development cooperation.”*

FMO, the Ministry of Finance and the Ministry of Foreign Affairs propose a number of policy principles and criteria that, after approval by the Supervisory Board, serve as a guideline in the identification, choice and implementation of FMO's services. These policy principles and criteria respond to the current policy with regard to the Dutch development cooperation. Adjustment of these criteria to changing circumstances takes place among others on the basis of periodic (semi-annual) policy meetings between the ministries of Finance and Foreign Affairs and FMO. These policy principles and criteria are included below under points 2 to 8.

### 2. Policy principles

The operational policy is based on the following principles:

- a. Development value: FMO's raison d'être is the presence of market failure as a result of which commercial financing is not or not sufficiently available or offered on workable conditions in the market. FMO is committed to mitigating this market failure and to contributing to a solution to this failure.  
FMO optimizes its contribution to the development of business in developing countries, thereby maximizing its contribution to the Sustainable Development Goals (SDGs) and the goals of the Climate Convention.<sup>1</sup>FMO optimizes this contribution under the condition of a sufficient financial return in line with the agreements on this with the Ministry of Finance ('standard return').  
FMO will indicate in its long-term strategy how it distinguishes itself in a positive way from other development finance institutions through being ambitious and forward looking in investment areas and disciplines. FMO's distinctive performance can be found in the field of development value, international corporate social responsibility, value creation for customers, risk appetite, mobilization or sector choice.
- b. Mobilization: FMO is committed to attracting as much additional private sector funding as possible in order to maximize its development value. FMO also deploys its expertise to enhance its development value with public funds.
- c. Additionality: FMO prevents crowding out private parties. FMO offers financial services to the extent that the commercial market does not or does not sufficiently provide them, or which are only offered by the commercial market on terms that do not fit in a solid business model.<sup>2</sup> In addition, FMO may in exceptional cases demonstrate its additionality through its

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<sup>1</sup> At the date of signature, “the Climate Agreement” refers to the “Paris Agreement” of December 12, 2015, which concerns an operationalization of the UN Framework Convention on Climate Change. In the future, this passage may relate to subsequent multilateral climate treaties.

<sup>2</sup> For the elaboration of the considerations surrounding additionality, see the [document](#) “Multilateral Development Banks' harmonized framework for additionality in private sector operations”, Sections 4 and 5 in particular.

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contributions to higher environmental, social and governance (“ESG”) standards that are not required in the market, thereby achieving a transformation effect.

Concessional resources (such as the funds that FMO manages on behalf of the Ministry of Foreign Affairs) are only used to create additional development value and are not used to gain an advantage over other financiers. Through its additionality, FMO contributes to sustainable (local) market development without competing with commercial financing.

- d. Supervision: FMO is a supervised financial institution and complies with international standards and national legislation in the field of banking supervision.
- e. Good governance: FMO applies the principles of good governance within all areas business operations

In giving substance to these principles, FMO will adhere to the relevant international standards/ best practices.

### **3. International Corporate Social Responsibility (ICSR).**

FMO contributes to the global impact agenda. FMO's vision on impact is in line with the policy principles as described in section 2.

With regard to its services and products, FMO endorses and acts in line with internationally accepted conventions, principles and standards for impact and risk management regarding environment, society and governance (“ESG”).<sup>3</sup> This is included in FMO's sustainability policy and FMO's responsible investment statement.<sup>4</sup> FMO's operational ESG standards are the IFC Performance standards; FMO's (ESG) risk management policy is in line with the OECD guidelines for multinational corporations and the UN Guiding Principles on Business and Human Rights. FMO expects from, and works with, its clients to identify, assess and mitigate ESG risks and its negative impacts.

In general this comes down to:

- Exclusion from financing specific activities as described in the list of exclusions;
- Assessment of the financing portfolio and underlying financing for the contribution to FMO's impact ambitions and objectives regarding compliance with international accepted ESG standards;
- Assessment of the financing against Dutch and European anti-abuse legislation, with the view to avoiding tax avoidance/evasion among (potential) customers;
- Assessment of funding against relevant standards in the field of informed consultation and participation, broad community support and free, prior and informed consent.<sup>5</sup> Inclusion of clauses in the financing contracts that determine impact and ESG goals and reporting requirements and that make it possible, after weighing of risks, to terminate a financing relationship if these goals are not met; and
- Monitoring compliance with the above points during the term of the financing.

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<sup>3</sup> Environmental, Social and Governance

<sup>4</sup> See [FMO's Sustainability Policy Universe](#) for a list of all internationally accepted conventions, principles and standards that FMO subscribes to. FMO's exclusion list is also included in FMO's sustainability policy.

<sup>5</sup> Informed Consultation and Participation (as stated in the IFC performance standards), Broad Community Support (as stated in the IFC performance standards) and Free, Prior and Informed Consent (as stated in the OECD Due diligence guideline for corporate social responsibility).

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FMO periodically assesses whether a revision of FMO's sustainability policy is necessary. With each substantial policy review and development of new policy, the ministries of Foreign Affairs and Finance are consulted. Whether and to what extent comments made by the State lead to changes is at the discretion of the management of FMO with further details explained to the State why certain comments did not lead to amendments. In addition, FMO informs the Ministries of Foreign Affairs and Finance the moment that FMO is aware of (suspected) serious violations of the sustainability policy by a customer. FMO also informs the ministries of Finance and Foreign Affairs on incidents, including the action the organization will take thereon. With regard to the ministry of Foreign Affairs, FMO reports in line with the reporting obligation imposed by the ministry to all partner organizations with regard to discrimination, sexual and non-sexual harassment, abuse, exploitation and use of violence.

#### **4. Bribery, Corruption, Money Laundering and Counter-Terrorism**

FMO complies with international regulations<sup>6</sup> and Dutch legislation to prevent corruption, bribery, money laundering and counter-terrorism. To prevent bribery and corruption, FMO's employees, customers, and other counterparties should - in line with Dutch legislation and regulations- comply with FMO's policy on "Anti-Bribery & Corruption". In accordance with legislation and regulations, FMO is committed to prevent anti- money laundering, financing terrorist activities and violations of sanctions.

#### **5. Country selection**

Developing countries are defined for this purpose as the countries that are included by the World Bank in at least one of the "World Development Reports" from the past four years in the categories "low-income economies", "lower-middle income economies" and "upper-middle income economies" or that actually belong to these at the time of the financing approval, as well as countries or territories that have been or will be explicitly designated by the Dutch government for this purpose.

If one of the countries as defined above cannot withstand the test of criticism, from the point of view of the Dutch government, the Ministry of Foreign Affairs will inform FMO of this in writing and FMO will refrain from doing business in that country.<sup>7</sup> FMO will phase out existing investments as far as possible.

In addition, FMO uses the following principles:

- a. no new financing that conflict with the sanction regimes relevant to FMO, including those of the United Nations or the European Union. FMO consults where necessary the Ministry of Foreign Affairs, among others because of political sensitivities and the interpretation of sanction regimes;
- b. During the year, FMO asks where necessary for advice for investments in countries that are in war/armed conflict with another country, due to political sensitivities. Further consideration can be given to this at the Quarterly meeting between the Ministry of Foreign Affairs, the Ministry Finance and FMO;
- c. Striving to realize approximately 70% of the total value of financing in the so-called "low-income economies" and "lower middle-income economies". For this percentage the World Bank's 'List of Economies' from four years ago will be used. FMO aims to realize 35% of the committed portfolio in the 55 poorest countries according to a list set by the Ministry of Foreign Affairs and FMO;

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<sup>6</sup> OECD Guidelines for Multinational Enterprises, OECD Guidelines for Anti-Corruption and Integrity at SOEs and OECD Guidelines for Corporate Governance of SOEs.

<sup>7</sup> It should be noted that existing investments in these countries cannot be withdrawn without further ado.

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- d. Deploying extra human resources and developing and implementing specific programs and/or instruments for countries or country groups for which the Dutch government, from time to time, asks FMO to pay extra attention, in accordance with the policy framework. The agreements in this regard are laid down in so-called 'side letters' between the State and FMO.

## **6. Sector selection**

Activities that are considered for financing need to contribute to FMO's development value, including, but not limited to, activities in the agribusiness, energy and financial sector. FMO shows ambition in sectors where it can add most development value. Excluded are activities/institutions (i) that conflict with legal provisions, government regulations/measures or good morals in the Netherlands and/or the country concerned, (ii) that are in conflict with internationally legal provisions, (iii) that are on the FMO exclusion list and (iv) that are excluded in FMO's sustainability policy (e.g. excluded activities related to fossil fuels).

## **7. Other criteria**

- a. FMO's clients or counterparties are natural persons, companies and/or legal entities that are part of the business community or that operate commercially. Owners and managers are of impeccable corporate moral standing, taking into account the standards and practices in the country concerned;
- b. the continuity of the client/counterparty must be guaranteed by an expected positive financial and economic return;
- c. the client/counterparty must be carried by entrepreneurs with good financial position, who can themselves take a substantial financial risk. They must be managed by capable, preferably local, managers. A thorough analysis of all possible risks must show that these risks are manageable and therefore acceptable, and also take into account the quality of local supervision;
- d. FMO is committed to its financing activities in the countries where it supports employment, contribute to reducing inequalities between and within countries by promoting social and economic inclusiveness, and by focusing on helping to achieve the goals of the international Climate treaty.
- e. FMO commits to the development and implementation of innovations (new products, services, business models and ways of working) that contribute to the development value; and

## **8. Final provision**

Internal policy documents, guidelines and criteria exist for the policy principles and criteria procedures, which are adjusted from time to time to reflect changes in FMO's field of activity and services.