Support to FIs: Financing Sustainable Development
Today’s topics

1. FMO in a nutshell
2. FMO’s ESMS: Environmental & Social Policy and Procedures
3. Support to Client FIs: Financing Sustainable Development
FMO
Netherlands Development Finance Company

> Located in The Hague, The Netherlands
   No overseas offices
> Working area: world-wide
> Shareholders:
   - State of The Netherlands (51%) – Triple A rating
   - Dutch Banks (42%)
   - Others (7%)
> Largest European Bilateral Development Finance Institution
Twofold mission

> Development
To have a significant impact on the financial-economic, environmental and social development of emerging markets, by providing private companies with financial means and know-how.

> Return
Appropriate economic and financial returns are a pre-condition for effective risk partnership and continuity.
FMO’s clients

> Private enterprises

> Financial institutions
  - Banks (-> SMEs) (including branches of European & US Banks
  - Leasing, insurance, housing finance, trade facilities
  - Micro credit banks
FMO’s Environmental & Social Management System: Environmental & Social Policy and Procedures
FMO Objectives of environmental and social management

- Risk assessment
- Characterize development impact
- Maximize Added Value:
  - mitigate risks
  - optimize development impact
Maximize risks
FMO Environmental & Social Procedures fully integrated in the credit process: our ESMS

1. General information: Inform client
2. Contact with client: Collect Information
3. Term Sheet
4. Investment decision to proceed: go / no go
5. Appraisal (due diligence) / Advise to Investment Committee / Conditions
6. Management decision
7. Contract clauses: covenants, disbursement conditions
8. Monitoring (credit review)
Direct Financing of Companies / Projects

- Environmental & Social Policy & Management System
- Responsible person in management
- Environmental coordinator
- Comply with environmental, health & safety and social requirements (national law, World Bank Group Policies and Guidelines, ILO Conventions) – E&S Action Plan
- Annual Environmental & Social Report
Support to FIs:
Financing Sustainable Development
FMO’s Sustainability Policy in practice - FIs

For Financial Institutions two parts:

1) Consider FI as a company
   > Environmental & social risk to FMO through our client’s portfolio (indirect credit risk, reputation risk)
   > Social risk: labor conditions at FI
   > Assessment process similar to direct investments
FMO’s Sustainability Policy in practice - FIs

2) Focus on FI *portfolio* management
   > Environmental & Social Policy
   > Environmental & Social Management System
   > Responsible person in management & coordinator
   > Exclusion list
   > Annual Environmental & Social Report
To exclude risky business ...
Tool: Sustainability Course for Financial Institutions

> 4-day FMO Course
  “Financing Sustainable Development”

> “How financial institutions can manage environmental and social risks and improve the sustainability of their portfolio”

> Let participants lay foundation for tailor-made system for their own financial institution (Building Blocks)
Day 1 “The meaning of sustainable development for financial institutions”

> The Strategic Relevance of Sustainable Development

> Strategic relevance for participating financial Institutions

> Towards a Vision and Action Plan of Participating FI’s

> Building Block I: Strategy + preparation for own vision and action plan
Day 2 “How to manage environmental and social risk for financial institutions”

- Risk awareness, identification and mitigation
- Group work: Cases on risk in different industry sectors
- Building Block II: Start with development of an Environmental and Social Management System by the participants
- Site-visit
Day 3 “Grasping the opportunities of sustainable development and managing the change”

> Sustainable business opportunities (with special attention for social issues)
> Breakout session for Banks, SME Banks/Leasing Companies and Investment Funds
> Building Block III: Development of specific opportunities by the participants
> Introducing: the UNEP-FI – signatories Regional Task Force
Day 3 (continued)

- Communication with stakeholders
- Building Block IV: External communication plan for your FI
- Management of change
- Building Block V: Getting commitment from key representatives and co-ordination of activities within your FI
- Preparation of an Environmental & Social Action Plan
- Building Block VI: Action Plan

(heavy day …)
Day 4 “The Sustainability Action Plan for each participating FI”

> Development of a presentation on the Environmental and Social Action Plan by the Participants

> Presentation by each participating Financial Institution on their Environmental and Social Action Plan
Only then it all starts...

> 6 months for preparation – develop policy, system, procedures

> 6 months for implementation – train staff, implement system

> FMO provides ongoing support with financial help of a targeted Netherlands’ government subsidy program.
We like to share and co-operate

> Courses jointly with IFC & other IFIs
> UNEP-FI – Sustainable Management & Reporting Forum
  (FMO is a member)
> UNEP-FI regional task forces
> Regional branches of European and US banks

> Always have to keep the benefit to our Client FIs in mind …