

## **FMO response to the report:**

### **“In Practice: Information Disclosure at FMO” by IAP/Fundeps, November 2020**

#### **Introduction**

FMO welcomes the report ‘*In Practice: Information disclosure at FMO*’ by the International Accountability Project (IAP) and Fundeps. The report contains an analysis of information disclosed by FMO on proposed investments. Also, it contains suggestions for the improvement of FMO’s practice of Environmental, Social and Governmental (ESG) information disclosure on proposed investments, as well as suggestions to improve the provision of relevant, timely and accessible information to local communities affected by these investments.

FMO recognizes that there is a wider call by NGOs for further disclosure measures, both on content, *what is disclosed?* as well as on form, *how it is disclosed?* FMO appreciates such input or feedback. We encourage stakeholders to maintain a critical view on FMOs policies and practices, because they are an important source for learning and continuous improvement in the way FMO operates. We are proud on our [Client Disclose policy](#) that makes sure relevant information on all our proposed investments is publicly shared, which often leads to meaningful engagements and to useful additional information on proposed investments.

#### **The importance of information disclosure**

FMO shares the following assumptions in the report:

- The disclosure of project information to affected communities is an important element of effective community engagement, which in turn is needed to manage the impact of a project well.
- Seeking and receiving relevant project information is a community right.
- Disclosed information on websites often does not reach affected communities.
- Information disclosure practices that enable communities to express their views on project risks, impacts and mitigation measures, can improve the project’s impact on communities’ wellbeing and development.

Furthermore, FMO believes that - if promoted and supported well - the disclosure of information can help entrepreneurs to continuously improve their stakeholder engagement practices and build constructive and mutually beneficial relationships with communities that last beyond FMO’s engagement in an investment. FMO believes in entrepreneurs as agents of change. We seek to promote fair disclosure and community engagement practices by our clients, locally and, as much as possible, prior to project activities, rather than taking charge of the disclosure of project information ourselves. In that process we aim to empower both communities and our clients.

#### **FMOs approach on disclosure of information**

Our approach towards the disclosure of project and portfolio information is as follows:

1. Client requirements with respect to the disclosure of project information.
  - Objective: to improve a project or the way a client runs its business.
  - What: as prescribed by the International Finance Cooperation Performance Standards (IFC PS): the client will promote and provide means to ensure that relevant information is disclosed and disseminated to undertake a process of consultation in a manner that provides the affected communities with opportunities to express their views on project risks, impacts and mitigation measures. The client will provide affected communities with access to information on:
    - (i) the purpose, nature, and scale of the project,
    - (ii) the duration of proposed project activities,
    - (iii) any risks to and potential impacts on such communities and relevant mitigation measures,
    - (iv) the envisaged stakeholder engagement process,
    - (v) the grievance mechanism.
  - How: clients’ performance on disclosing project information and wider stakeholder engagement is included in FMO’s due diligence prior to the decision to invest or not. FMO contractually requires

clients to adhere to applicable ESG standards as the IFC PS. FMO monitors clients' performance. In case of underperformance, we engage with clients and use our leverage to address the shortcomings. Contract provisions enable us to end a client relationship if shortcomings are structural and lacking clients' commitment or willingness to improve.

2. Ex-ante disclosure of project information by FMO
  - **Objective:** to help FMO take the decision to invest or not.
  - **What:** FMO discloses basic project information for all its investments to enable stakeholders to connect to a project of FMO and contact us in case of missing information. Our [Client Disclosure Policy](#) describes the type of project information we disclose: client details, the funding objective, why we fund the potential project, and the E&S categorization and rationale. For higher risk projects FMO also indicates which IFC PS are triggered and why.
  - **How:** FMO discloses such information through the [World Map](#) on our website, for at least 30 days prior to contracting. FMO receives, on a structural basis, questions and comments from stakeholders based on the information that we disclose. This leads to meaningful conversations with stakeholders and provides FMO with valuable input on its investments. From contracting onwards, the project information remains available throughout the tenor of FMO's engagement.
3. Ex-post disclosure of project and portfolio information by FMO
  - **Objective:** to help FMO improve its investment process.
  - **What:** FMO informs its stakeholders on its ESG risks and opportunities and how it is managed. With the received feedback we improve our practices, including practices at client level.
  - **How:** FMO discloses such information largely through stakeholder engagement meetings, our annual report, and our website.
4. Lastly, generating trust is a key objective of FMO's transparency and disclosure activities; we say as we do and do as we say. Consequently, we avoid disclosing project information that is likely to change during the transaction process and is hence not practical to re-disclose every time a change occurs. Likewise, we are limited in our ability to disclose commercially sensitive information of our clients. This is the reason we do not share our own assessments of clients or client action plans for example.

### Reflections on the report

- *Disclosure of project status, project approval and publication date, avoiding info gap, languages, and the Independent Grievance Mechanism*  
FMO appreciates very much that the report points out to some of the inconsistencies - in terms of E&S information and missing details of our clients - at our World Map pages. Those inconsistencies will be considered during our review to improve our practices. In addition, the report gives suggestions to improve FMOs ex-ante and ex-post disclosure of information: such as including the status of the project, the date of signing, closing the time gap between ex-ante and ex-post disclosure and adding a link to independent grievance mechanisms. FMO can assure that those issues also will be considered in the internal review of our transparency and disclosure practices.
- *The disclosure of ESIA's, management plans, stakeholder engagement plans*  
As mentioned above, FMO sees project information disclosure and stakeholder engagement as a client responsibility. Hence, the client discloses this information, not FMO. In promoting this responsibility, FMO follows the IFC PS and ask our clients to scale community engagement to the risks, impacts and the development stage of a project, and to tailor it to the language and communication preferences of the affected communities, their decision-making process, and the needs of disadvantaged or vulnerable groups. This means that international standards mandate that the type of information disclosed and the way in which this is done by the client is tailored to the risk and local context.

- *FMO's position compared to its peers*  
FMOs current ESG disclosure practices positions us in between MDBs and bilateral DFIs. FMO discloses less project specific ESG information and we have slightly shorter ex-ante disclosure periods than MDBs, who maintain a 30-60 days depending on a project's risk profile and maintain 120 days only in exceptional cases. Besides, we are one of the few bilateral DFIs disclosing project summaries prior to contracting. With respect to ex-post information disclosure, FMO was the first bilateral DFI with an Independent Complaints Mechanism (together with DEG in 2014). Also, we are a frontrunner by setting a public ESG target and through the disclosure of an E&S issue list and salient human right issues in our annual report.

### **Next steps**

To monitor the disclosure and community engagement practices executed by our clients, FMO has in place systems, processes, and human resources to pick up signals of substandard client performance. In some cases, this can be complex and with significant challenges on the ground. Hence, we very much welcome the experience of and collaboration with NGOs. FMO is particularly interested in exploring opportunities to promote and support our clients in their disclosure and community engagement practices locally, both at client level and through our investment process.

In addition, we see the relevance and welcome the role of NGOs in building awareness in local communities of their rights, to support them in effectively engaging with our clients, and to alert us in case of malpractices in disclosing information or the wider community engagement practices by one of our clients.

Finally, FMO will review the recommendations in the report - and additional suggestions made by other NGOs - in more detail. This review will also consider the interests of other stakeholders, such as our shareholders, clients, and other DFIs. The review will be subject to a Management Board decision.

*The Hague, 7 January 2021*