EXTERNAL ENVIRONMENT

This chapter outlines the context in which FMO operated in 2017. We will also look at what some of the changes in our external environment meant to our organization and our stakeholders, and how we responded.

Addressing global issues

The United Nations Sustainable Development Goals (SDGs) and the Paris Climate Agreement have set joint public and corporate agendas aimed at ending extreme poverty, reducing inequality and tackling climate change. They recognize that people living in poverty tend to suffer most from climate change, so these challenges will need to be addressed in tandem. Development banks can make significant contributions to the SDGs and have a role in limiting temperature increases below 1.5 - 2.0 degrees Celsius.

Stakeholder needs

By design, we address global issues every day. Our public and private stakeholders share our commitment to the SDGs and the Paris Climate Accord. They challenge us on how we, as a development bank, can set ambitious targets to address global issues and be transparent about outcomes achieved. We set targets to generate impact and with the help of our partners and expert recommendations, such as those from the Task Force on Climate-related Financial Disclosures and the EU High-level Group on Sustainable Finance, we refine ways to share progress.

Risks, opportunities and dilemmas

FMO has updated its strategy for the period up to 2025, in which we partner with others to invest in local prosperity focusing on projects that contribute to SDG 8 (Decent Work and Economic Growth), SDG 10 (Reduced Inequalities) and SDG 13 (Climate Action). We will deepen our focus on energy, financial institutions, and the agribusiness, food & water sectors because we believe this is where we can add more value. It did present us with the dilemma of whether to proceed in sectors such as manufacturing, ports and telecoms. To dedicate more resources to our focus sectors, we have decided to discontinue our debt offering in non-focus areas.

NGOs and local stakeholders have become more vocal

Local communities, NGOs, governments and the media increasingly expect development banks to foster local prosperity through investments with a positive impact on local communities. For high-impact projects they expect sponsors and financiers to ensure that local communities are consulted early on, to ensure that negative effects are mitigated and local communities benefit from positive spin-offs of the project.

Stakeholder needs

NGOs and local stakeholders call upon development banks to be more transparent about their investments. There is an increasing call to include dialogues with local stakeholders in the early stages of the investment cycle, and stakeholders wish to be informed through early disclosure of project information as well as progress reporting once projects are underway.

Risks, opportunities and dilemmas

FMO has implemented its updated sustainability policy, supported by various position statements, among other things regarding human rights, after fruitful consultations with a wide range of stakeholders including NGOs and the Dutch government. The increasing demand for transparency also leads to additional reporting requirements, such as EU reporting guidelines and the Dutch banking sector agreement on international responsible business conduct regarding human rights (IMVO).

Market dynamics are changing

Various forces are shaping the landscape for development banks. Public funds have increasingly become available for private projects, sometimes at subsidized rates. At the same time, the role of private impact investors has become more prominent as an efficient and affordable solution for banks and companies that used to be dependent on development bank funding.

Stakeholder needs

FMO clients often appreciate the added value we bring to their companies: capacity development, technical assistance, Environmental and Social Governance (ESG) knowledge as well as financial expertise and networks. They also expect faster services, priced at levels comparable to other impact investors. Governments expect development banks to take a leading role in blending public funds in private projects.

Risks, opportunities and dilemmas

We feel that these forces offer a strong opportunity for FMO to catalyze other financiers in high-impact projects, by building on our record of accomplishment to manage high-impact government funds and by catalyzing ever more private investors in high-impact projects. We are increasing the efficiency of our services, while strengthening our offering, such as ESG support.

Value for the Netherlands

In recent years FMO has increasingly been requested to combine impact in developing countries with value creation for the Netherlands. In addition to supporting Dutch international commitments in meeting SDGs and climate goals, FMO should enable Dutch companies to invest in developing countries and emerging markets, in case commercial funding is not available.

Stakeholder needs

The Dutch government has called upon FMO to clearly show how it supports the SDGs. Dutch companies indicate the need for financial and non-financial support for their activities in developing countries and emerging markets. FMO is called upon to align these two goals and in doing so, support the aid and trade agenda of the Dutch government.

Risks, opportunities and dilemmas

Our strategy for the period up to 2025 is designed to create local prosperity by focusing on three SDGs in particular. More decent jobs, less inequality and climate action create local stability, providing a more prosperous outlook and removing root causes of forced migration. FMO has taken steps to play a central role in assisting Dutch companies with investments in emerging markets through its subsidiary NedLinx B.V., which originated from the NL Business department. In these activities, FMO will uphold its approach to being additional to the market and avoiding competition with commercial financiers, whilst maintaining high ESG standards.

Regulatory developments

In December 2017, the Basel Committee announced the completion of the Basel III reforms. The long-awaited new agreement, referred to as Basel IV, sets the new global standards for capital requirements for banks, including the new standardized approach to credit risk. Of particular relevance to FMO is the proposed new capital treatment of equity exposures.

Stakeholder needs

An essential part of FMO's added value as a development bank is our ability to provide clients in developing countries with long-term capital.

Risks, opportunities & dilemmas

New regulations aim to make the banking sector more robust and better prepared for future crises. However, the proposed higher capital requirements for equity investments in Basel IV will limit our ability to provide clients with long-term capital, thereby having an effect on banks in developing countries and the use of financial instruments for economic development in these countries. As providing high-risk finance in developing countries is our core business we are challenged to define mitigating measures with the purpose to maximize our impact in responding to product demand from our clients.