

Policy	 Norfund <i>ESG Policy</i>		
Policy issued by:	Policy approved by:	Originally issued:	Revision date:
Administration	Norfund Board	03.07.2020	

Norfund Environmental, Social and Governance (ESG) policy

1. Purpose and scope:

As the Norwegian Investment Fund for Developing countries, our mission is to create jobs and improve lives by investing in businesses that drive sustainable development, contributing to Sustainable Development Goal 1 – No Poverty.

Acknowledging Agenda 2030 and the Sustainable Development Goalsⁱ, the Addis Ababa Agenda for Actionⁱⁱ and the UNFCCC Paris Declaration (2015)ⁱⁱⁱ, Norfund seeks both to ensure rights protection of relevant stakeholders as well as promotion of social and environmental performance improvements in our investment portfolio. Norfund believes that high ESG standards are prerequisites for succeeding at delivering on our mandate. Appropriate ESG measures reduce risk to workers, the environment, local communities and other stakeholders and provides business benefits, increasing our impact.

This policy describes the sustainability commitments of Norfund when we finance projects and how we commit the companies we are directly invested in (“investees”) to responsible business practices. The policy covers our direct investments in the form of equity and loans to investees as well as investment through subsidiaries, in private equity funds, financial institutions and designated platform companies. We adapt our approach to best assess the ESG risks connected to the type of investment we make. We integrate the appraisal of ESG into our investment process.

2. Environmental, Social and Governance commitments:

The IFC Performance Standards for environmental and social sustainability^{iv} (“IFC Performance Standards”) and the World Bank Environmental, Health and Safety Guidelines are the main standards for operationalizing Norfund’s sustainability commitments. The IFC Performance Standards are an international benchmark for identifying and managing environmental and social risk and we believe that these are the standards best operationalized to capture ESG risks.

Norfund is a signatory to the UN Principles for Responsible Investment^v. Furthermore, Norfund is committed to:

- The Harmonized EDFI Exclusion list^{vi}
- EDFI Principles for Responsible Financing^{vii}
- The Corporate Governance Development Framework^{viii}

3. Undertakings:

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We incorporate appraisal of Environmental & Social (“E&S”) risks into our analysis and decision-making processes

- Norfund screens all potential investments and will never make investments triggering the EDFI Exclusion list.
- Norfund adopts a risk-based approach when assessing investment opportunities. An E&S risk category is assigned to each potential investment determining how due diligence of environmental and social risks of the investments will be carried out.
- Norfund carries out due diligence of its investees under the requirements of this policy including the IFC Performance Standards.
- Final investment decision shall be taken after E&S risks are identified, assessed and realistic mitigation plans developed.

We require the companies we invest in to adhere to high standards

Norfund shall, through appropriate instruments, require that our investees comply with:

- The EDFI exclusion list
- Applicable national laws and regulations
- Applicable IFC Performance Standards
- Applicable World Bank Group General and Sector-Specific Environmental Health and Safety Guidelines^{ix}
- ILO Core Conventions^x

In situations in which national regulations and international standards prescribe different levels of performance, whichever is the most stringent shall apply.

When co-investing with other development finance institutions, Norfund may choose to apply requirements differing from those set out in this policy in order to harmonize requirements towards the client.

For some investments categorized as low risk, operations in accordance with IFC performance standards might not be required. Nevertheless, national laws and regulations and the ILO core Conventions shall apply to them.

Norfund seeks partners and investees that share our values regarding sustainability. This does not entail that only projects without social and environmental risks will be financed. If Norfund’s due diligence identifies shortcomings, an Environmental and Social Action Plan (ESAP) shall be developed and made contractually binding. The ESAP will specify how the portfolio company over time shall work to ensure fully compliant operations.

We monitor and promote environmental and social performance throughout our investment period

Performance is the responsibility of the investee. As an investor, whether lender or shareholder, Norfund shall ensure that we have appropriate instruments granting us the influence over how agreed standards are implemented and adhered to by the investee. Norfund will promote internal systems and governance arrangements for the investee to deliver on E&S requirements.

On an annual basis, Norfund collects reporting from all investees on E&S performance as well as development impact. For high E&S risk investments, more frequent monitoring may be appropriate.

We work to improve capacity and competence

To deliver on this policy, Norfund will work according to our internal systems. We will continuously monitor emerging practices in the sustainability field, are committed to keeping our policy, system and internal procedures updated and will invest in the competency of both our own investment staff and E&S advisors.

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We also work together with our investees to raise their awareness and seek to support them in managing the required levels of E&S performance. Norfund has a business support facility offering grant-based assistance to investees.

We promote transparency and disclosure of performance

We will report on implementation of this policy as well as environmental and social performance in our portfolio, while observing normal commercial confidentiality and privacy of our investees.

4. Corporate Governance

A key part of Norfund’s added value as investor is to ensure that the interests of all stakeholders of a company are addressed in a balanced manner and that appropriate governance requirements, practices and processes are in place. We work with governance to ensure that the E&S undertakings are addressed in an accountable manner as well as with general governance arrangements of the investee.

To promote good corporate governance, Norfund is committed to the Corporate Governance Development Framework developed specifically for development finance.

Appropriate, prudent and transparent tax behaviour is a key component of corporate responsibility for investors and the investees. Norfund’s approach to these topics are outlined in our Responsible Tax Policy^{xi}.

5. Cross-cutting issues

Norway’s development policy identifies Human rights, Gender Equality, Climate and Environment and Anti-corruption as cross cutting issues relevant to all aspects of development.

Human rights

Norfund acknowledges the corporate responsibility to respect human rights. We strive, through our own investments and the obligations we require from our investees, to avoid adverse impacts on human rights.

Norfund acknowledges the UN Guiding Principles on Business and Human Rights (UNGPR). The best way for us to do so in practice is to undertake due diligence and support investees in accordance with the IFC Performance Standards. These standards incorporate the human rights deemed relevant in a company and/or project setting and provide practical and operational guidance to understand impacts and potential risks to the rights of local stakeholders.

In certain situations, and in a complex operating context, stakeholder rights may be influenced beyond the impacts likely to follow from the project itself. In such cases, Norfund will strengthen due diligence by adding contextual risk assessments. Such assessments can help capture higher-level risks that may influence stakeholders negatively. In some instances, such as when investing in fragile and conflict-affected areas, Norfund may also carry out a full human rights’ due diligence in addition to due diligence based on the IFC Performance Standards.

In line with the UNGPR and the IFC Performance Standards, Norfund requires investees to establish grievance mechanisms to handle complaints from stakeholders. Norfund itself also maintains a grievance mechanism for handling complaints directed to Norfund when our investees may have caused or contributed to adverse impacts affecting stakeholders.

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Gender Equality

Our position on gender equality is described in a separate document made available on Norfund's web page.

Climate and Environment

Our position on climate is described in a separate document made available on Norfund's web page. We also acknowledge the importance and relevance of other environmental aspects. We here work with and adhere to the relevant IFC Performance Standards as well as relevant local, national and international regulations.

Anti-Corruption

Our work on anti-corruption is described in our Business Integrity Policy^{xii} and in Norfund's Code of Conduct^{xiii}.

6. Accountability, approval and revisions

This policy was approved by Norfund's board of directors on July 3rd, 2020.

The policy is publicly available through our website and will be subject to adjustments at regular intervals.

ⁱ<https://sustainabledevelopment.un.org/content/documents/21252030%20Agenda%20for%20Sustainable%20Development%20web.pdf>

ⁱⁱ https://www.un.org/esa/ffd/wp-content/uploads/2015/08/AAAA_Outcome.pdf

ⁱⁱⁱ https://unfccc.int/files/essential_background/convention/application/pdf/english_pari_agreement.pdf

^{iv} https://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Sustainability-At-IFC/Policies-Standards/Performance-Standards

^v <https://www.unpri.org>

^{vi} https://www.edfi.eu/wp/wp-content/uploads/2017/09/EDFI-Exclusion-List_-September-2011.pdf

^{vii} https://www.edfi.eu/wp/wp-content/uploads/2017/09/EDFI-Responsible-Financing-SDG_Principles_final_190515.pdf

^{viii} <http://cgdevelopmentframework.com/>

^{ix} https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/policies-standards/ehs-guidelines/ehsguidelines

^x https://www.ilo.org/asia/decentwork/dwcp/WCMS_143046/lang--end/index.htm

^{xi} <https://www.norfund.no/app/uploads/2020/01/Norfund-Responsible-Tax-Policy-ID-280681.pdf>

^{xii} <https://www.norfund.no/app/uploads/2020/02/Norfund-Business-Integrity-Policy-ID-279200.pdf>

^{xiii} <https://www.norfund.no/app/uploads/2020/01/Norfund-Code-of-Conduct-updated-as-of-20-August-2019-ID-291909.pdf>