



Norfund



# CLIMATE POSITION



## CLIMATE CHANGE AFFECTS US

Climate change affects our investments in two ways:

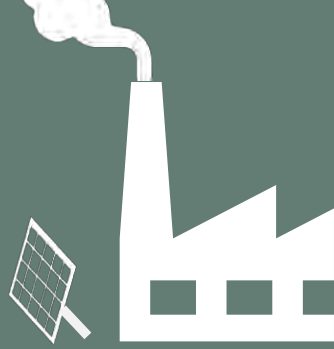
- Physical risks from a changing climate such as droughts and floods
- Transition risks from a changing business environment such as new legislation and technologies

Further, developing countries are vulnerable and underprepared for climate change. Climate change is therefore a threat to development and poverty reduction.

## We have a development mandate

*Therefore ...*

## WE INVEST FOR A CLEAN, CLIMATE RESILIENT FUTURE IN DEVELOPING COUNTRIES



## WE AFFECT THE CLIMATE

Norfund affects the climate through investing in businesses that emit greenhouse gases

On the other hand, our significant investments in renewable energy avoid emissions from more carbon-intensive sources

# We build our climate position on three pillars

We invest for a clean,  
climate resilient future in developing countries

## RESILIENCE

By resilience, we mean the capacity of individuals, economies and societies to cope with the effects – physical and economic – of climate change. Job creation and economic development enables such resilience.



The poor and vulnerable are the most affected by climate change. Norfund's priority to the Least Developed Countries (LDCs) and job creation helps make these groups more resilient to climate change.

## REDUCTION

By reduction, we mean reducing or avoiding emissions to enable the transition to an energy system aligned with the Paris Agreement.



By investing in renewable energy, Norfund helps avoid emissions and facilitates the transition to a low-carbon economy. We also enable access to clean energy.

## RISK

By risk, we mean the physical risks, such as flooding, drought and cyclones, and transition risks, such as policy, technology and reputational risk, that impact companies. These risks can also be turned into opportunities.



By assessing material climate risks (physical and transition) for sectors, geographies and companies, we help our investees succeed.

# Climate change informs our strategy and investment process

## INVEST IN CLIMATE SOLUTIONS



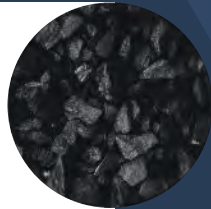
- Continue investing in large-scale renewables
- Increase investments in greenfield, distributed generation and transmission
- Invest in waste management and water solutions

## INTEGRATE CLIMATE ACROSS INVESTMENTS



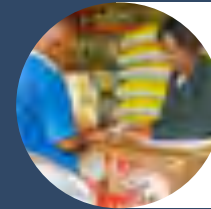
- Map climate risks for all new investments
- Include climate requirements and action plans in investment terms when appropriate
- Use our role as owners to influence and support companies on climate

## AVOID FOSSIL FUELS



- Exclude investments in oil and coal
- Exclude investments in gas, except gas-fired power where it supports an energy transition aligned with the Paris Agreement

## BUILD CLIMATE RESILIENCE



- Enable adaptation for people and communities by investing in Least Developed Countries and in Sub-Saharan Africa

**MOBILIZE INVESTORS, ENGAGE WITH EXPERTS AND CIVIL SOCIETY, COMMUNICATE OUR AMBITIONS AND IMPACT**

# INVEST IN CLIMATE SOLUTIONS



# Continue investing in large-scale renewables

## THE PROBLEM

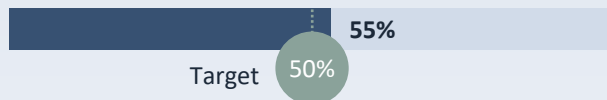
# 79%

of businesses in Sub-Saharan Africa experience electrical outages<sup>1</sup>

This lack of reliable electricity hampers economic growth and poverty reduction. In developing countries, fossil fuel is the prevailing energy source.<sup>2</sup> Further, climate change could push 100 million people into poverty by 2030. Low-carbon solutions are needed to provide sustainable power supply.

## OUR SOLUTION

Clean Energy is Norfund's largest investment area, and we invest at least half of capital allocated in renewables



Total Clean Energy portfolio<sup>3,4</sup>

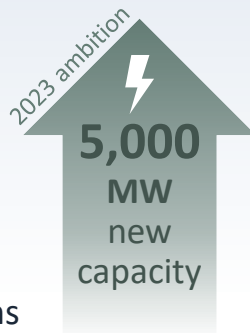
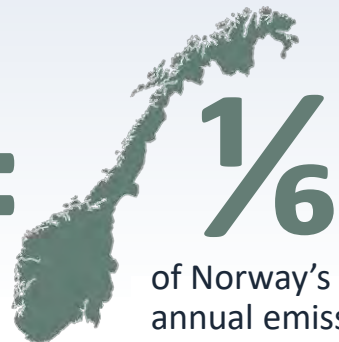
## 11.3 BILLION NOK

## OUR IMPACT

# 8

 million tonnes CO<sub>2</sub> equivalents avoided per year

=



<sup>1</sup> World Bank, 2017

<sup>2</sup> World Bank, 2015

<sup>3</sup> Committed capital by end 2019

<sup>4</sup> In October 2020 Norfund exited a major part of its hydropower investments through the sale of the subsidiary SN Power, mobilizing approximately 10,9 billion NOK for new investments



**Central Solar de Mocuba** is Mozambique's first large-scale solar power plant, which provides electricity equivalent to the consumption of more than 170,000 households. The 40 MWs power capacity is helping secure the supply of electricity and stabilize the grid.

Norfund invested in 2015 and has provided a total of 10.5 million USD in the form project development funds, guarantees and equity.

## Increase investments in greenfield, distributed generation and transmission

### THE PROBLEM

Clean energy penetration requires more than large-scale renewables. Millions of households and businesses still rely on burning of biomass, diesel generators and other fossil sources for energy. Alternatives to grid-connected power is acutely needed, as well as new power plants and transmission lines to reach unelectrified villages.

**1** billion people live without access to electricity

Mainly in Sub-Saharan Africa and South Asia.<sup>1</sup>

### OUR SOLUTION

- **Greenfield:** Contributing to the building of new power plants
- **Distributed generation:** By providing households and industries with onsite electricity production, such as off-grid and mini-grid solutions
- **Transmission:** By interconnecting different parts of a country to the national power grid

### OUR IMPACT

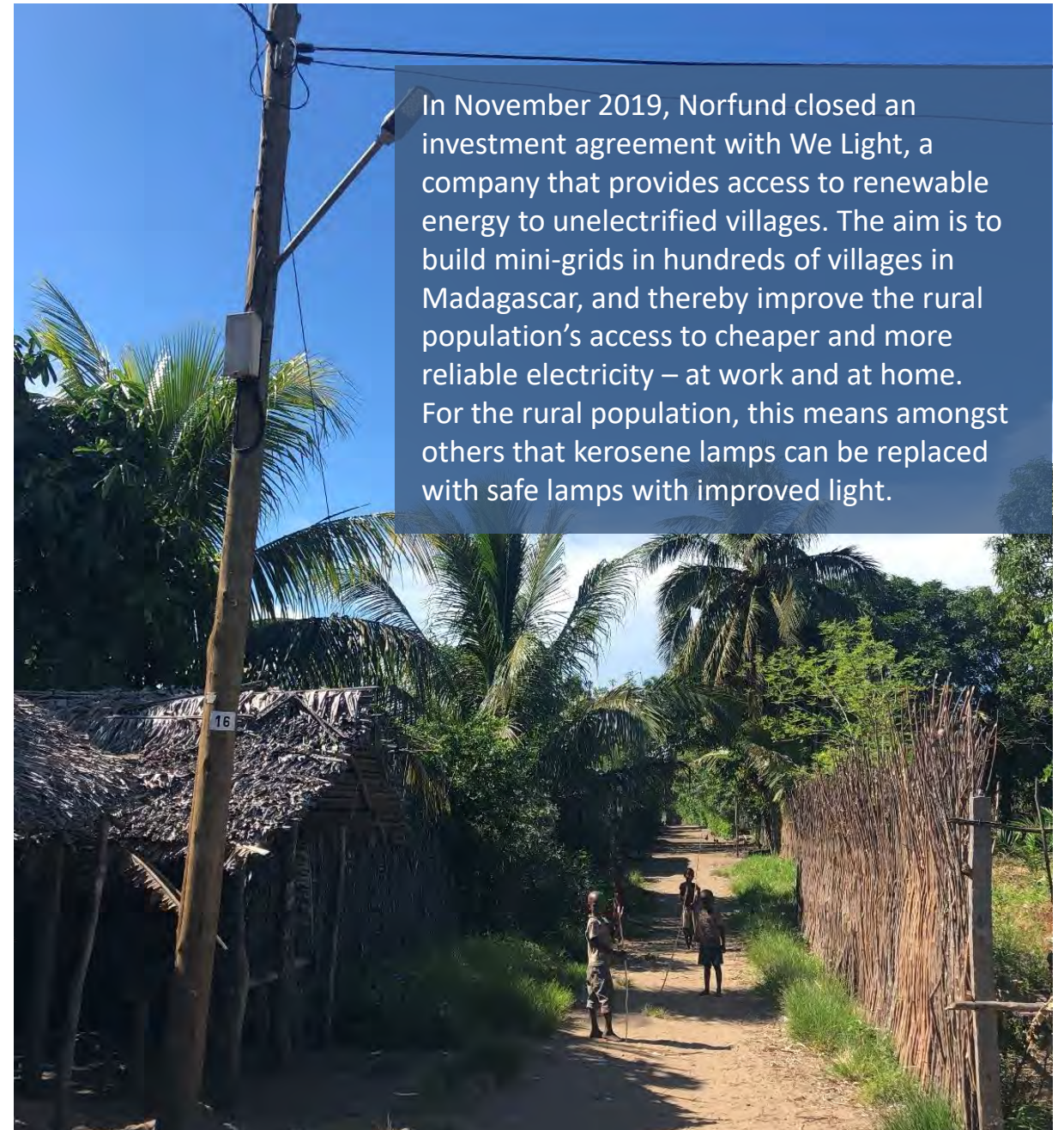
We provide clean and reliable electricity to more households and businesses.

Our 2023 target:

**1.5**  
MILLION NEW  
HOUSEHOLDS



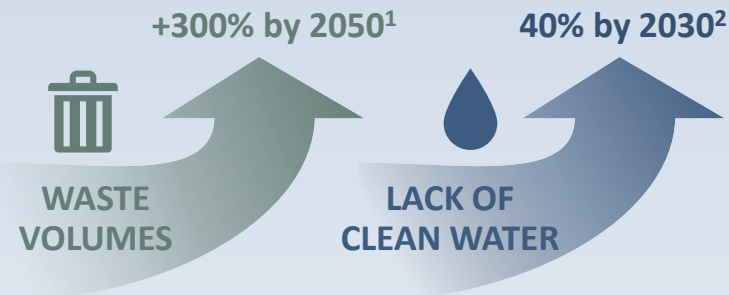
<sup>1</sup> World Bank, 2018



In November 2019, Norfund closed an investment agreement with We Light, a company that provides access to renewable energy to unelectrified villages. The aim is to build mini-grids in hundreds of villages in Madagascar, and thereby improve the rural population's access to cheaper and more reliable electricity – at work and at home. For the rural population, this means amongst others that kerosene lamps can be replaced with safe lamps with improved light.

# Invest in waste management and water solutions

## THE PROBLEM



- Methane emissions and pollution from landfills
- Risks to human health and safety
- Vulnerability to extreme weather

## OUR SOLUTION

Norfund is expanding into **waste management** and **water solutions**, build partnerships with professional, likeminded investors and make 6-10 investments by 2023.

## OUR IMPACT



Waste management efficiently **prevents emissions** by saving energy in the processing of materials, reducing the flow of materials into landfills and the extraction of raw materials.<sup>3,4</sup>



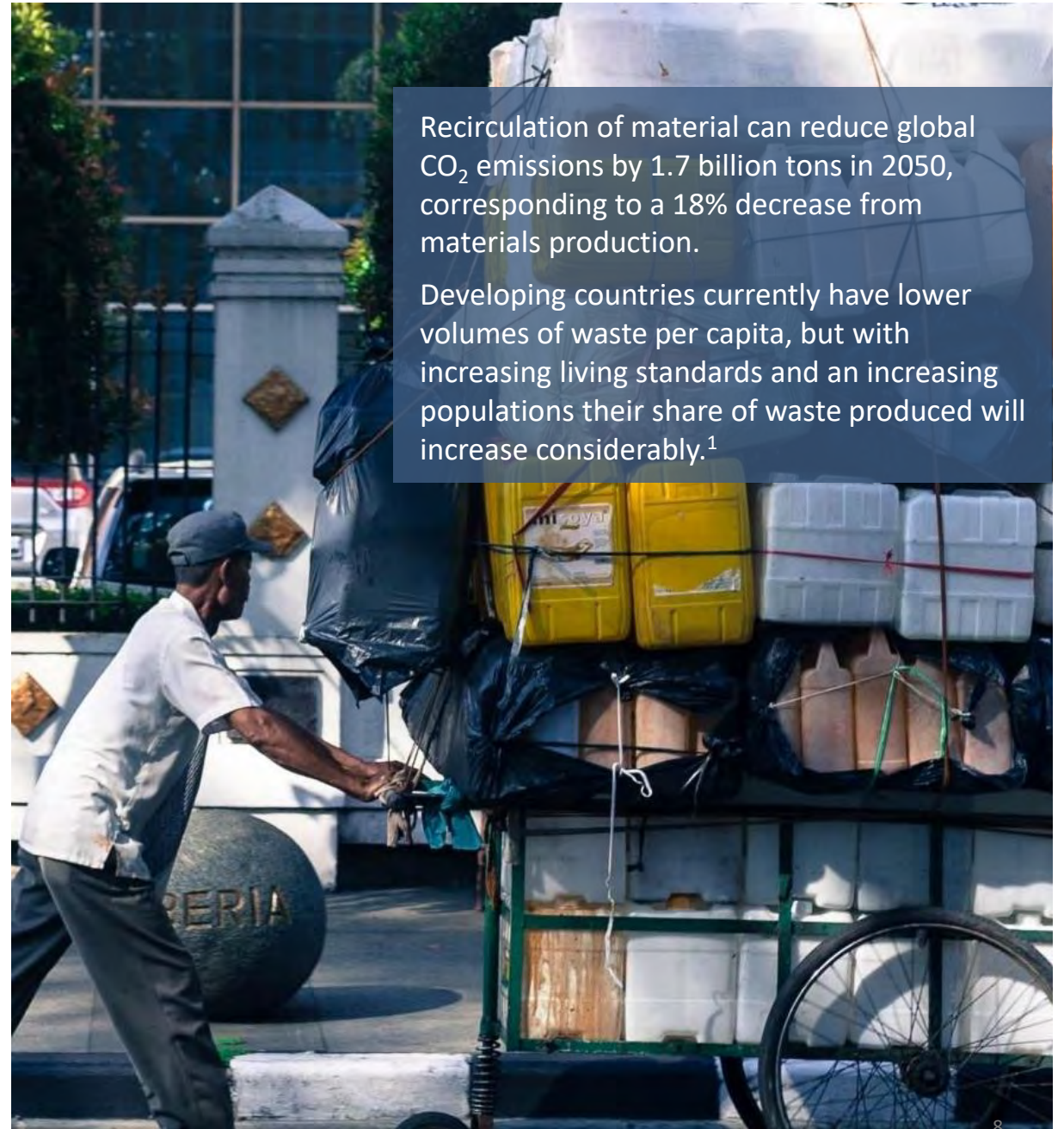
Water solutions help creating more **climate resilient and livable communities** by limiting adverse impacts of drought or flooding.

<sup>1</sup> Total projected waste generation, SSA. World Bank, 2018

<sup>3</sup> Ellen MacArthur Foundation, 2019

<sup>2</sup> Global water undersupply of water. McKinsey, 2009

<sup>4</sup> UNFCC, 2020



Recirculation of material can reduce global CO<sub>2</sub> emissions by 1.7 billion tons in 2050, corresponding to a 18% decrease from materials production.

Developing countries currently have lower volumes of waste per capita, but with increasing living standards and an increasing populations their share of waste produced will increase considerably.<sup>1</sup>



# AVOID FOSSIL FUELS

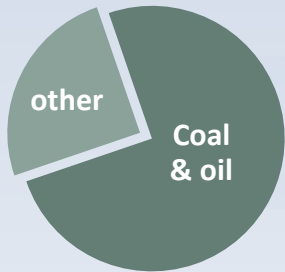


# Exclude investments in oil and coal

## THE PROBLEM

**Today:** Oil & coal accounts for  $\frac{3}{4}$  of global fossil-fuel CO<sub>2</sub> emissions<sup>1</sup>

**2050:** Net zero emissions to limit global warming



**Transition** to low-carbon economies is both a moral imperative and a financial risk



## OUR SOLUTION

We exclude the financing of fossil fuels from our portfolio by refraining from any new direct investments in:



## OUR IMPACT

We support a **green transition**, thereby contributing to the Paris objective of net zero.  
By excluding oil & coal we also **reduce transition risk**.

<sup>1</sup> 2014 estimates. Boden, T.A., G. Marland, and R.J. Andres, 2017

“The large number of coal power plants still projected to be built are a looming threat to us all and can undermine our global efforts for carbon neutrality.

I repeat my appeal: no new coal power plants should be built after 2020.”

–UN Secretary General Antonio Guterres

# Exclude investments in gas, except gas-fired power where it supports an energy transition aligned with the Paris agreement

## THE PROBLEM



The need for electricity is immense



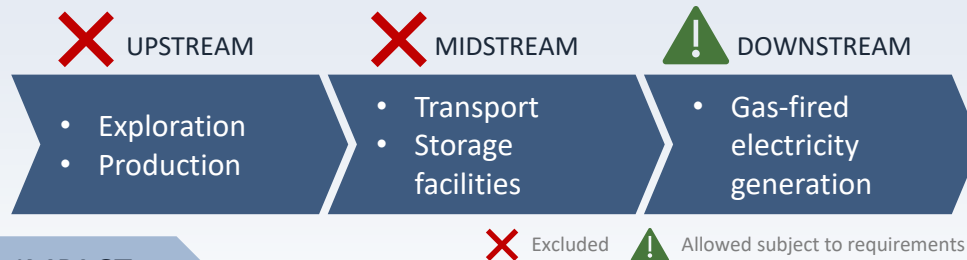
Natural gas is a domestic and a source of income resource in Africa



Natural gas has lower emissions than oil & coal, but still represents large emissions

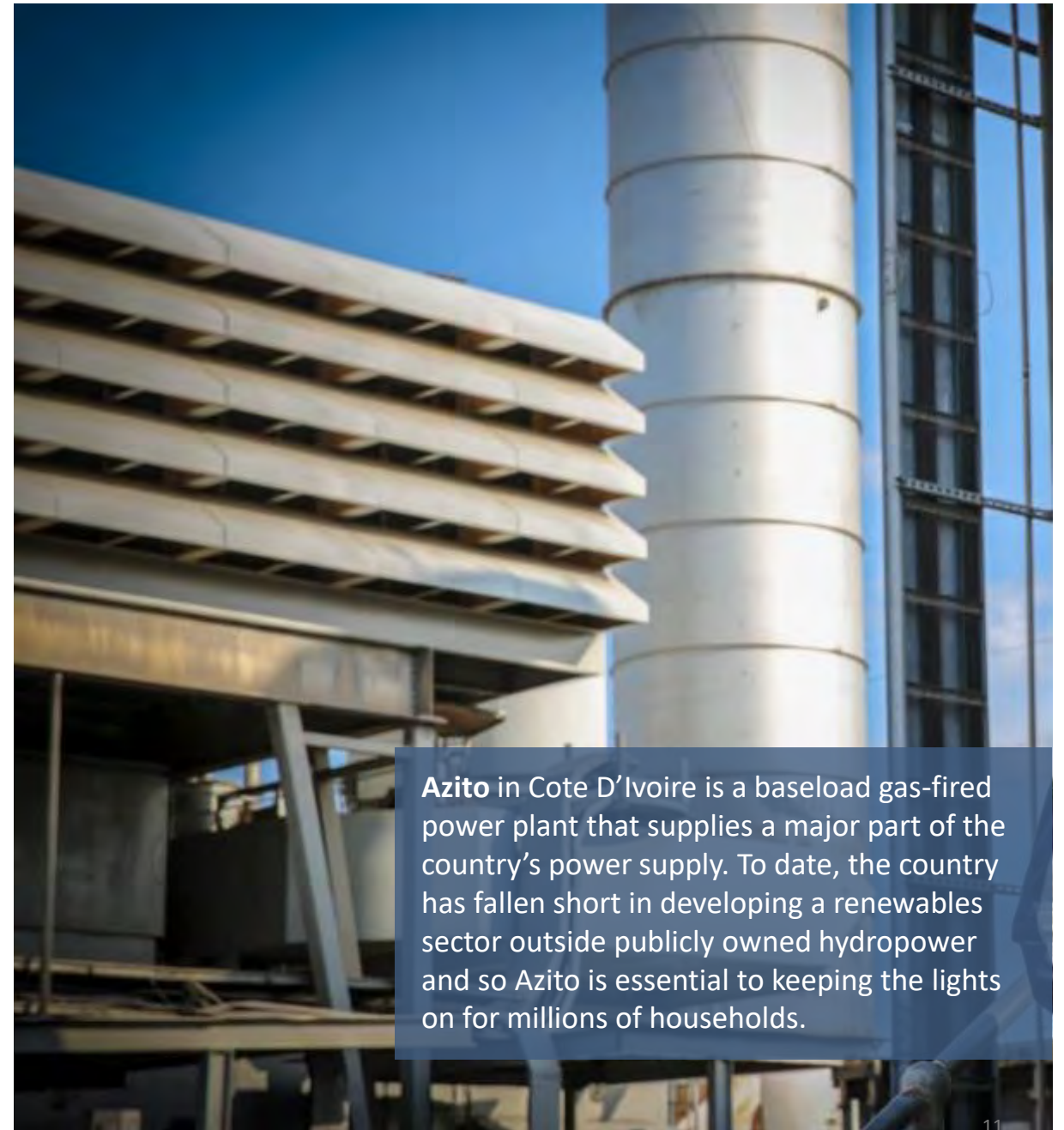
## OUR SOLUTION

Gas has a role to play for development only when renewables are not yet an option. Therefore, we exclude investment in up- & midstream gas and have adopted a tool for ensuring that new investments in gas-to-power are Paris-aligned<sup>1</sup>.



## OUR IMPACT

We support an energy system aligned with the Paris Agreement



**Azito** in Cote D'Ivoire is a baseload gas-fired power plant that supplies a major part of the country's power supply. To date, the country has fallen short in developing a renewables sector outside publicly owned hydropower and so Azito is essential to keeping the lights on for millions of households.

<sup>1</sup> From 2030, new investments in gas-fired power will generally be excluded. Any subsequent new financing, in exceptional cases, will be clearly justified, specified, and publicly disclosed.

# INTEGRATE CLIMATE ACROSS INVESTMENTS



# Map climate risks for all new investments

## PROBLEM



To our investees, climate change translates to...

physical risk...



transition risk...



and business opportunities



Companies will be exposed differently and may lack capacity to respond.

## SOLUTION

We assess climate risks and opportunities, using a climate risk tool

1. Identify six main risk types

2. Assess investee exposure

3. Identify mitigating measures

4. Actively follow up and support

Physical risks: Storms, flooding, drought  
Transition risks: legal/policy risk, market/technology risk, reputational risk

## IMPACT

We build awareness and capacity in our investees to manage climate impacts, reducing financial risk and seizing climate-related business opportunities.



## Include climate requirements and action plans in investment terms when appropriate

### PROBLEM

Although climate impact may be material and business relevant, it is often challenging to create appropriate incentives for companies to address the issue, in particular when facing several other pressing issues.

### SOLUTION

We do not expect our investees to be “perfect” at investment but will design incentives and collaboratively work to improve.

#### DEBT



##### Use of funds:

Dedicated financing of green activities, such as a bank’s green lines to its clients



##### Covenants:

Requirements in investment agreements that borrower meet certain climate criteria



##### Pricing:

Lowering the interest rate if climate criteria are met, such as lowering emissions

#### EQUITY



##### Climate action plans:

A plan for mitigating climate risks and installing adaptive capabilities

### IMPACT

By setting clear climate incentives for investees, we encourage risk mitigation and resilience. This supports business development and translates to reduced financial risk for Norfund.



**Banco Promerica** in Costa Rica has been at the forefront of sustainable project finance. Their green lines finance distributed energy systems, certified green buildings, recycling and sustainable tourism, among other things. As part of Banco Promerica Costa Rica’s eagerness to contribute to the SDGs, Norfund has supported their green lines through a 15MUSD sub-debt instrument on a 10-year term. Norfund’s funding enables the bank to replicate the business model across the region.

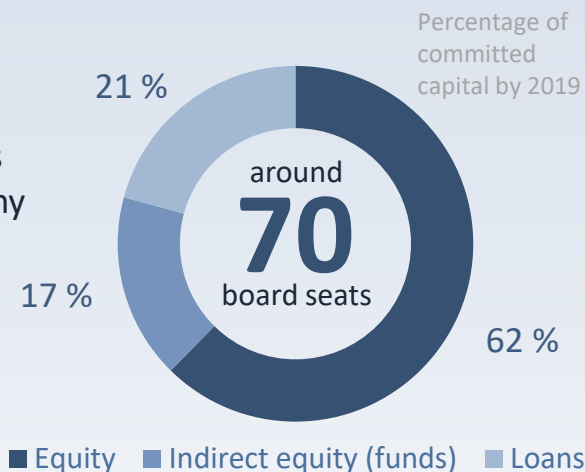
## Use our role as owners to influence and support companies on climate

### PROBLEM

Climate change is not necessarily top of mind for companies, especially in our markets. Reasons may be financial, information or technical barriers within the company.<sup>1</sup> Without adequately accounting for climate risk, investees may be exposed to climate risk such as flooding or regulation against carbon intensive activities.

### SOLUTION

- Follow up climate action plans
- Influence and support company through board seats ▶
- Dialogue with management
- Business Support



### IMPACT

Material climate risks are understood and managed by our investees, and incentives are in place where relevant. Also, we facilitate exits by making investees climate resilient and thereby more attractive to investors.

<sup>1</sup> Crick, F., Eskander, S., Fankhauser, S., Diop, M, 2018



A photograph of a man and a woman working together at a desk in a warehouse. The man, on the left, is wearing a blue polo shirt and is looking down at a document. The woman, on the right, is wearing a dark grey cardigan and is also looking down at the document. They are surrounded by stacks of yellow and white sacks, likely containing grain. The background shows shelves with more sacks and some boxes. The text "BUILD CLIMATE RESILIENCE" is overlaid in large white letters across the center of the image.

# BUILD CLIMATE RESILIENCE

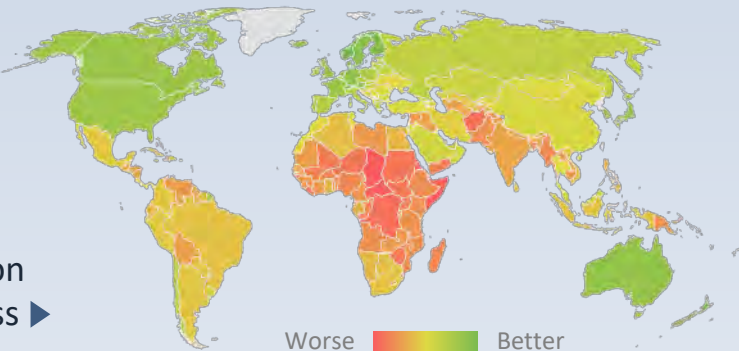




# Enable adaptation for people and communities by investing in Least Developed Countries and Sub-Saharan Africa

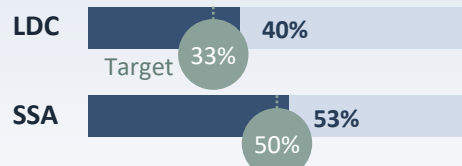
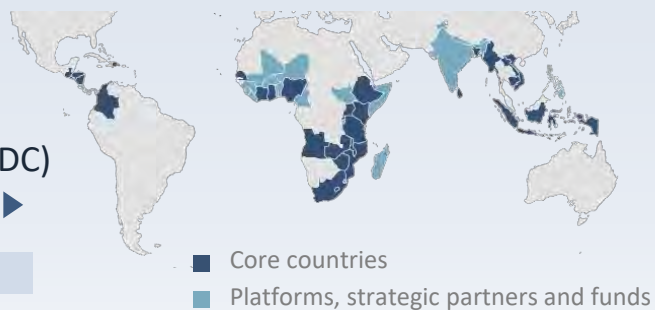
## PROBLEM

Developing countries are the **most vulnerable** and **least ready** for climate change.<sup>1</sup> The ND-GAIN index ranks all countries on vulnerability and readiness ▶



## SOLUTION

Poverty reduction is a key enabler of climate resilience. Norfund's geographic focus is Least Developed Countries (LDC) and Sub-Saharan Africa (SSA) ▶



## IMPACT

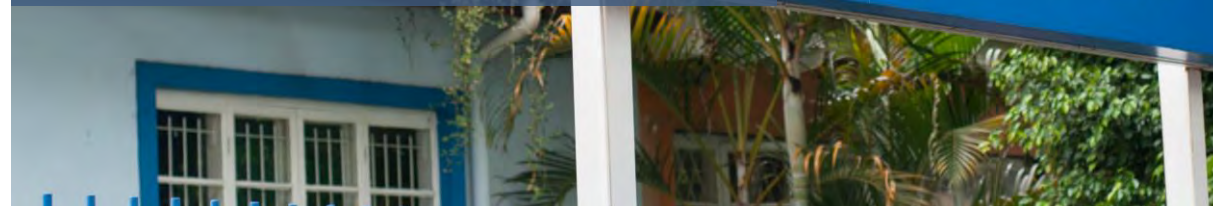
We contribute to climate resilience & adaptation where needed the most.

<sup>1</sup> University of Notre Dame Global Adaptation Index, 2018

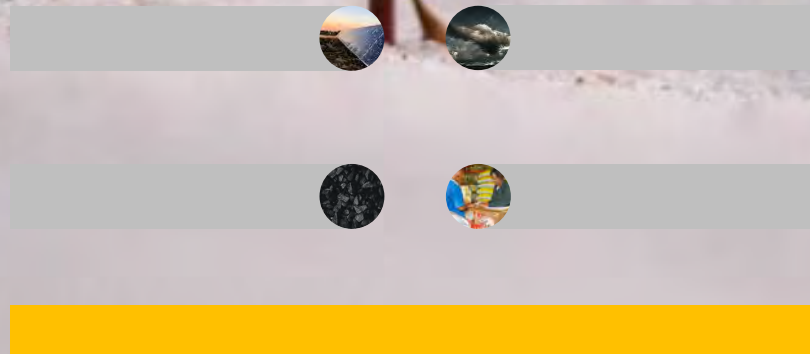
<sup>2</sup> Total portfolio as of 2019



When the cyclone «Idai» which hit the coast of Mozambique in 2019, the chicken farmer Marcos Jo de Soccoia lost his house and 600 chicken and ducks. With only three ducks remaining he was bankrupt and didn't know what to do. When the catastrophe happened, he had an outstanding debt of 13,000 MT to the Norfund-backed microfinance institution Socremo. They decided to issue the farmer a new loan, which enabled him to rebuild his house and chicken farm.



# MOBILIZE, ENGAGE AND COMMUNICATE



# Mobilize investors, engage with experts and civil society, communicate our ambitions and impact

## THE PROBLEM



Since our capital is limited, investing alone is insufficient



We are not experts on climate change and its impacts



Climate impact is difficult to measure and communicate clearly

## OUR SOLUTION

- 1. Mobilize:** As a minority investor, we attract other investors and lenders for investments in renewables and other related investments
- 2. Engage:** We engage with and learn from others on climate issues
- 3. Communicate:** We publish our climate position, ambitions and results to PRI<sup>1</sup>, in our reports/website and align with TCFD<sup>2</sup>

## OUR IMPACT

Mobilised capital to climate investments in developing countries, open and effective learning with others and transparency of ambitions and impact.

<sup>1</sup> Principles for Responsible Investment

<sup>2</sup> Task Force on Climate-Related Financial Disclosures

This climate position was informed by valuable input from NGOs, climate experts and peers. By engaging with stakeholders through several rounds of discussions, our climate position has become more relevant to us and to the companies we invest in.

*Are Norfund's investees fit to handle inevitable changes in climate?*

*Important for Norfund that slogan isn't just "do no harm", but "do good"*

*Paris alignment and carbon footprinting run a risk of becoming checkbox exercises*

CIVIL SOCIETY

PEERS AND EXPERTS

*Paris alignment is hard to operationalize, as NDCs tend to be inadequate*

*TCFD is a really strong instrument that goes beyond perceiving climate as merely financial risk*

*Carbon footprinting is methodically challenging and can be very retrospective*

Norfund 