



Operating Principles for  
Impact Management

Norfund

# Operating Principles for Impact Management

Norfund Disclosure Statement  
April 2024



Norfund is a founding signatory to the Operating Principles for Impact Management (the Impact Principles). The Impact Principles provide a reference point against which the impact management systems of funds and institutions may be assessed. They draw on emerging best practices from a range of asset managers, asset owners, asset allocators, and development finance institutions.

This Disclosure Statement affirms Norfund investments and operations are managed in alignment with the Impact Principles. Total committed capital under management in alignment with the Impact Principles is US\$ 3.3 billion as of December 31st, 2023.





## Principle 1 - Strategy

### **Define strategic impact objective(s), consistent with the investment strategy.**

“The Manager shall define strategic impact objectives for the portfolio or fund to achieve positive and measurable social or environmental effects, which are aligned with the Sustainable Development Goals (SDGs), or other widely accepted goals. The impact intent does not need to be shared by the investee. The Manager shall seek to ensure that the impact objectives and investment strategy are consistent; that there is a credible basis for achieving the impact objectives through the investment strategy; and that the scale and/or intensity of the intended portfolio impact is proportionate to the size of the investment portfolio.”

- Norfund is fully funded over the Norwegian government development budget and the fund's operations and mandate are set out in the “Norfund act” (Act nr. 26 of 9<sup>th</sup> of May 1997). In accordance with this law, Norfund invests with a development objective and is assessed based on development impacts achieved. Norfund aims to achieve impact on all investments and report on its operations to the Ministry of Foreign Affairs.
- Since 2022, Norfund has also managed the Climate Investment Fund, also funded over the Norwegian government development budget, but with the aim to contribute to reducing or avoiding GHG emissions by investing in renewable energy in developing countries.
- According to its parliamentary mandate Norfund operates to “assist in developing sustainable business and industry in developing countries” by taking on high-risk investments through equity, loans or guarantees.
- Norfund's Board of Directors (BoD) approves the strategies for both the development mandate (2023-2026) as well as the climate mandate (2022-2026) with clear targets for portfolio impact performance. These targets are aligned with specific SDGs and SDG targets. Norfund's investment areas and priority markets are selected based on where we are likely to have the highest development impact.
- In accordance with the strategy, Norfund has four investment areas; namely Renewable Energy, Financial Inclusion, Scalable Enterprises and Green Infrastructure. These have been chosen based on development rationales formalised in sectoral theories of change for each investment area. The revision of theories of change started in 2023 and will be finalised in 2024, including an updated evidence base.
- Each investment area is tracked against specific impact ambitions, as well as other impact KPIs tracking cross portfolio impacts, all aligned with the SDGs.
- To ensure investments are conducted in areas with high expected impact, Norfund targets its investments geographically to 30 core developing countries. Norfund may also invest in other countries in Sub-Saharan Africa and Least Developed Countries (LDCs). The geographic approach was revised as part of the strategy review in 2022, based on criteria related to additionality, impact, and Norfund's competence.
- Norfund has set targets for portfolio shares invested in specific sectors, geographic regions and instruments, defined through assessments of additionality and impact expectations. While not absolute, these targets act as signposts to ensure that allocations are made in line with strategic priorities.
- Finally, to deliver on our mandate to support sustainable businesses, Norfund also operates with an internal rate of return target. This reflects that profitability of investees is considered key for impact sustainability and to deliver on our mandate; a business that runs deficits will not survive. All returns are reinvested.

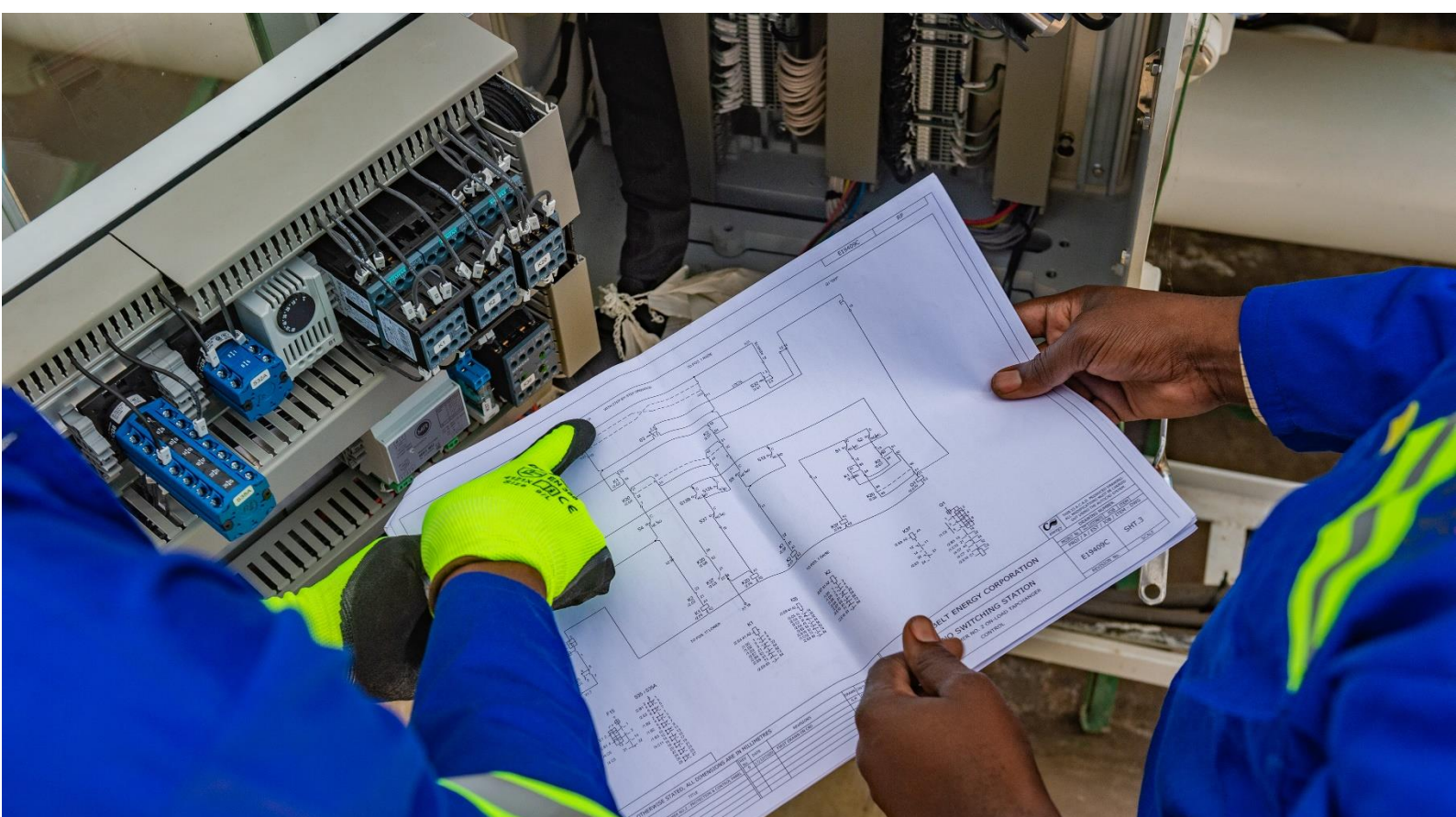


## Principle 2 – Impact Management

### Manage strategic impact on a portfolio basis.

“The Manager shall have a process to manage impact achievement on a portfolio basis. The objective of the process is to establish and monitor impact performance for the whole portfolio, while recognizing that impact may vary across individual investments in the portfolio. As part of the process, the Manager shall consider aligning staff incentive systems with the achievement of impact, as well as with financial performance.”

- Norfund operates with a development mandate, with investment strategies developed based on this mandate. Impact considerations guide the choice of investment areas, geographical allocations, and choice of priority instruments. This is designed to optimise impact at portfolio level through asset allocation and instrument choice.
- Norfund performs primary data collection on a common set of development impact indicators annually for the entire portfolio. This allows for tracking of developments in individual investments and aggregation at the portfolio level.
- Development impact data is published yearly in the report on operations, presenting each investment area's financial and development impact results.
- Norfund maintains a limited bonus policy with 2.5 percent of total salary budget available for bonus considerations. Bonuses are awarded based on qualitative assessments of outstanding performance by individuals to resolve specific cases or longstanding issues. This is to incentivise efforts to improve quality in Norfund's processes and is not directly connected to financial return or impact performance.





## Principle 3 – Investor Contribution

### **Establish the Manager's contribution to the achievement of impact.**

“The Manager shall seek to establish and document a credible narrative on its contribution to the achievement of impact for each investment. Contributions can be made through one or more financial and/or non-financial channels. The narrative should be stated in clear terms and supported, as much as possible, by evidence.”

- According to Norfund's mandate, Norfund must ensure it invests in viable, profitable undertakings that “would not otherwise be initiated because of the high risk involved.”
- Additionality assessment is an integrated part of the investment process for all new investments.
- Norfund uses an additionality framework that establishes expected additionality based on indicators relating to market context, investment modality and project characteristics. The framework is based on the OECD definition of additionality and includes both financial and value (non-financial) additionality.
- For Investment and Credit Committee papers for Clearance in Principle (CIP) and Final Approval (FA), investment teams must include the investment additionality score, generated with Norfund's additionality calculator. The calculator scores the project on the ten ambitions in the additionality framework. Investments scoring below a certain threshold need a particularly well substantiated argument for how it is still additional.
- In addition to the score, the investment team must include a narrative description of Norfund's additionality, highlighting any aspects not captured by the framework.
- Where specific opportunities are identified, Norfund can utilise a business support facility to co-finance complimentary impact-enhancing measures with grant funding (e.g. leadership training program for female employees, investment-related community development initiatives, etc.).
- Norfund's additionality framework has been evaluated, both in an external evaluation and as part of the OECD's evaluation of Norfund's ODA eligibility. Norfund has also published case studies highlighting Norfund's contribution in the specific cases. A high-level assessment of additionality of each investment (since 2019) is also published on Norfund's webpages.





## Principle 4 – Assess Impact

### **Assess the expected impact of each investment, based on a systematic approach.**

“For each investment the Manager shall assess, in advance and, where possible, quantify the concrete, positive impact potential deriving from the investment. The assessment should use a suitable results measurement framework that aims to answer these fundamental questions: (1) What is the intended impact? (2) Who experiences the intended impact? (3) How significant is the intended impact? The Manager shall also seek to assess the likelihood of achieving the investment’s expected impact. In assessing the likelihood, the Manager shall identify the significant risk factors that could result in the impact varying from ex-ante expectations. In assessing the impact potential, the Manager shall seek evidence to assess the relative size of the challenge addressed within the targeted geographical context. The Manager shall also consider opportunities to increase the impact of the investment. Where possible and relevant for the Manager’s strategic intent, the Manager may also consider indirect and systemic impacts. Indicators shall, to the extent possible, be aligned with industry standards and follow best practice., by evidence.”

- For each sector Norfund invests in, Norfund has developed a “Theory of Change” that describes how and why a desired change is expected to happen. Each theory of change has three components: 1) a narrative that includes a problem statement, a hypothesis of change, and an assessment of the evidence base, 2) a diagram visualising the causal pathway, and details of the intermediary steps, and 3) a framework for monitoring and evaluation.
- The Norfund project cycle includes multiple stages of assessments and approvals. Investment departments undertake all activities, screenings and analysis related to the investment, but require approval at key stages for projects they deem promising. After initial screening, Clearance in Principle (CIP) by the Investment or Credit Committee (IC/CC) is required to proceed to due diligence, deeper analysis, and negotiations. Final Approval (FA) by the IC/CC is then required before an agreement can be signed. Investments of a certain size or characteristics require additional approval by the BoD. At the other end, an exit approval by the IC is required for equity sales and a post-exit analysis is submitted after completion of an exit as lessons learned documentation.
- The IC and CC are constituted by Norfund Management staff members, a Norfund E&S officer and external members, whose objective is to ensure the quality of Norfund investments and exchange of experience within Norfund. The IC and CC are both headed by the CEO. The committee considers financial, impact, risk, business integrity, climate and ESG aspects of investments.
- The BoD consists of members appointed by the General Assembly, which is constituted by the Minister of International Development, and in addition two members elected among and by Norfund’s employees.
- Investment and credit committee documents for CIP and FA include a section wherein the project manager states the expected development impacts of the proposed investment.
- For each proposed direct investment, project managers are required to present quantitative baselines and targets for the sector specific impact ambitions before the investment decision is taken, allowing for subsequent progress tracking on project and portfolio level against target impact.





- For investments through funds, the requirement of a baseline and target is currently waived due to the inherent uncertainty regarding exact portfolio of the fund investments. Once invested, development impact of fund investees is tracked in the same way as direct investments.
- Impact ambitions are set, monitored, and reported using the [\*Harmonised Indicators for Private Sector Operations \(HIPSO\)\*](#) and/ or the [\*Joint Impact Indicators\*](#) where possible and indicators aligned with standardised metrics when not available in the catalogue of HIPSO. Indicators are tracked on an annual basis.
- Risk factors of an investment are rated, and necessary mitigating measures are mapped in investment committee notes for preliminary and final approval.







## Principle 5 – ESG Risk Management

### **Assess, address, monitor, and manage potential negative impacts of each investment.**

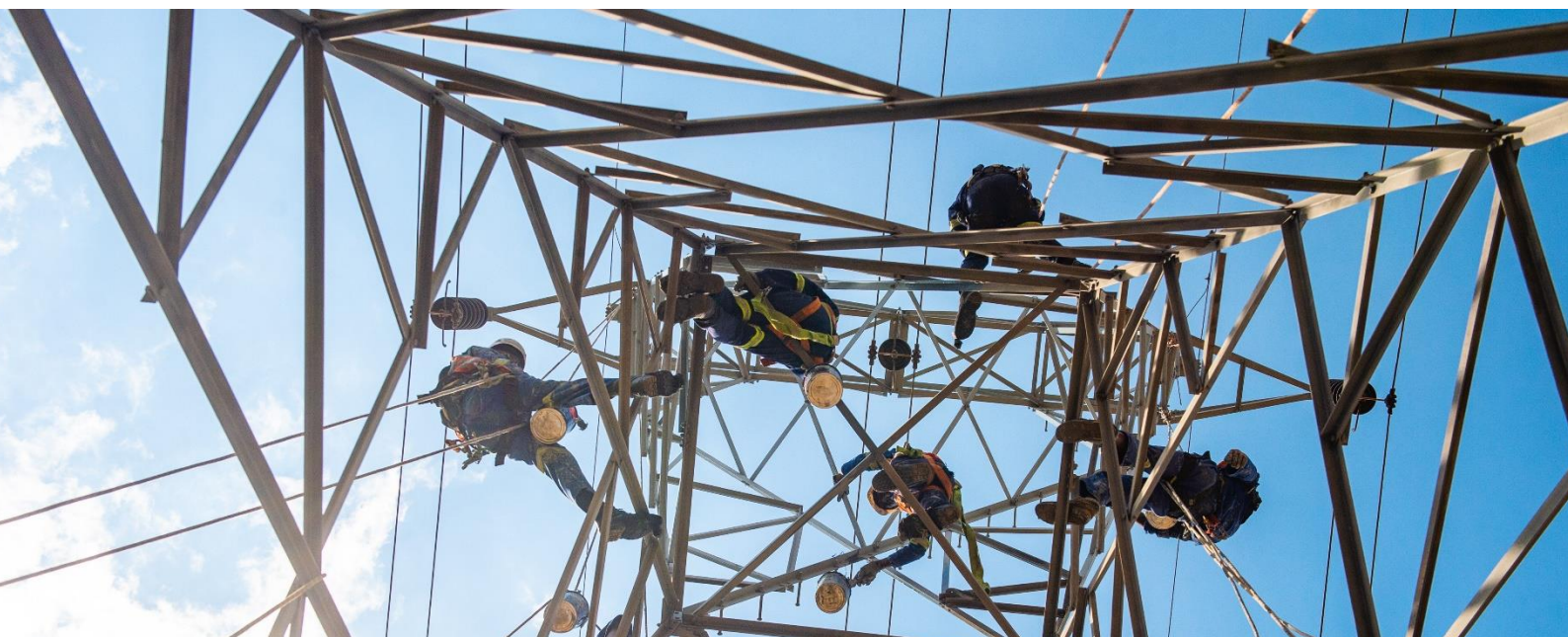
“For each investment the Manager shall seek, as part of a systematic and documented process, to identify and avoid, and if avoidance is not possible, mitigate and manage Environmental, Social and Governance (ESG) risks. Where appropriate, the Manager shall engage with the investee to seek its commitment to take action to address potential gaps in current investee systems, processes, and standards, using an approach aligned with good international industry practice. As part of portfolio management, the Manager shall monitor investees’ ESG risk and performance, and where appropriate, engage with the investee to address gaps and unexpected events.”

- Norfund’s approach to Environmental and Social Risk Management is described in our Environmental and Social Management System (ESMS). The ESMS consists of four parts; (i) an ESG policy, (ii) an overview of Roles and Responsibilities related to E&S, (iii) Procedures for E&S Risk Management and (iv) Performance Management indicators.
- [Norfund’s ESG policy](#) presents our E&S commitments and outlines the main standards we use in our work. The policy also describes how we work to identify, assess and manage the environmental and social risks associated with the operations of our clients, and provides an overview of the cross-cutting issues that guide our work.
- 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 E&S risks connected to the type of investment we make.
- The ESG policy outlines the key elements of our E&S work:
  - We incorporate appraisal of Environmental & Social risks into our analysis and decision-making processes
  - We require the companies we invest in to adhere to high standards
  - We monitor and promote environmental and social performance throughout our investment period
  - We work to improve capacity and competence
  - We promote transparency and disclosure of performance
- The IFC Performance Standards for environmental and social sustainability (“[IFC Performance Standards](#)”) and the [World Bank Environmental, Health and Safety Guidelines](#) are the main standards for operationalising Norfund’s sustainability commitments. We are also committed to the [Harmonised EDFI Exclusion list](#), EDFI Principles for Responsible Financing and the Corporate Governance Development Framework.
- Roles and responsibilities related to E&S are described in the ESMS. Project Managers have the overall responsibility for all aspects of a project, including E&S, and take part in regular E&S training. Each investment department has dedicated E&S specialists that lead or support E&S work depending on the risk profile and performance of the project. Norfund uses the EDFI harmonised categorisation system (A, B+, B, C: FI-A, FI-B, FI-C) to capture the inherent E&S risks of its investments. When co-investing with other development finance institutions with trusted E&S systems, Norfund collaborates on E&S assessments.





- The Environmental and Social Risk Management Procedures (E&S Procedures) describe the E&S actions that must be implemented throughout the project cycle to identify, assess, and manage the E&S risks associated with the operations of our clients. The procedures are based on EDFI's Harmonised E&S standards and are integrated in the investment process described in Norfund's Investment Manual.
- The E&S Procedures outline objectives, actions and outputs for each step of the project cycle. The outputs of each phase must be documented before the project can move to the next phase of the project cycle.
- Every investment decision is taken based on two investment committee notes (Clearance in Principle and Final Approval), wherein the investment team includes their E&S assessment in a separate section, ensuring that E&S considerations are highlighted at both stages of the decision-making process. Shortcomings and value add opportunities are included in an Environmental and Social Action Plan which is made part of the Investment Agreement.
- An E&S officer is a member of the investment committee, enabling E&S concerns to be raised and considered in the committee itself during the decision-making process.
- E&S monitoring involves review of relevant documentation on E&S performance, site visits and meetings with the client, board members and co-investors. The intensity of monitoring is determined by an E&S Performance Assessment framework classifying key E&S criteria on a four-level spectrum from strong to poor. We provide training and may also use our Business Support facility to assist investees in strengthening their understanding and management of E&S risks and opportunities.
- As a responsible investor, we value the views and interests of relevant stakeholders and seek to ensure that such views and interests are addressed in a balanced manner through sound governance of our investees. We work with our investees to implement appropriate governance requirements, practices and processes with the aim to make better business decisions and ensure compliance with laws and regulations.
- Norfund is a signatory to the corporate governance development framework ([CGDF](#)) and utilises this framework for its corporate governance risk assessment when deemed necessary.
- In 2020, signed the [EDFI Statement on Climate and Energy Finance](#), which among others commits Norfund to a net zero portfolio emissions target and aligning all new financing with the Paris agreement. In 2023/24 a net zero strategy for Norfund was developed, and Norfund also took steps to operationalise assessment of Paris alignment for each new direct investment, as described in the 2023 Norfund Annual Report. Norfund has also, for the first time, estimated the GHG emissions of the portfolio.





## Principle 6 – Impact Monitoring

### **Monitor the progress of each investment in achieving impact against expectations and respond appropriately.**

“The Manager shall use the results framework (referenced in Impact Principle 4) to monitor progress toward the achievement of positive impacts in comparison to the expected impact for each investment. Progress shall be monitored using a predefined process for sharing performance data with the investee. To the best extent possible, this shall outline how often data will be collected; the method for data collection; data sources; responsibilities for data collection; and how, and to whom, data will be reported. When monitoring indicates that the investment is no longer expected to achieve its intended impacts, the Manager shall seek to pursue appropriate action. The Manager shall also seek to use the results framework to capture investment outcomes.”

- As part of investment agreements, Norfund requires investee reporting on key development impact indicators, in line with Norfund’s yearly reporting schedule.
- Norfund utilises impact monitoring indicators based on relevant HIPSO definitions, to monitor the development impact performance of investments, disaggregated by gender wherever possible and relevant.
- Norfund collects a set of development impact data for all investments on an annual basis through its development impact reporting system. In the last couple of years, the collection and structuring of these data have been improved.
- Each direct investment requires a baseline and target for key impact ambitions at time of investment. Progress can then be tracked annually against target impact.
- Norfund also estimates the indirect job effects of the investments using a publicly available model called the [Joint Impact Model](#). The estimates are calculated using economic modelling and do not represent actual figures.
- Targeted, in-depth case studies and impact studies are undertaken in certain instances to capture wider development outcomes of selected strategic investments.
- Going forward, Norfund will see whether practices related to engaging with investees on impact performance can be improved.





## Principle 7 – Impact at exit

### Conduct exits considering the effect on sustained impact

“When conducting an exit, the Manager shall, in good faith and consistent with its fiduciary concerns, consider the effect which the timing, structure, and process of its exit will have on the sustainability of the impact.”

- Exit opportunities are considered already prior to commitment. However, Norfund has no fixed holding period; instead Norfund focuses on flexibility in the game plan to be able to support the investees through the ownership.
- The life of an investment is determined primarily by how long Norfund’s investment is considered additional and Norfund regularly monitors exit opportunities in the portfolio.
- An exit is considered when Norfund no longer sees itself as additional, meaning that the investee can continue to operate and grow with commercial financing and investors, or if an investment is seen to require a partner other than Norfund to ensure future growth and sustainability. An exit is then pursued if an appropriate buyer can be identified.
- Each equity exit (with exceptions for certain pre-defined exit arrangements) requires a presentation to the investment committee for approval. This is documented with an exit approval note presenting the overall situation of the investment, as well as options and recommendations for exit strategies. This document includes a section specifically on development impact.
- Investment sustainability is an important element of the exit decision. This is considered key for maintained development impact and can affect the timing, structure, and choice of buyer.
- Going forward, Norfund will seek to formalize some of the processes related to responsible exits.





## Principle 8 – Impact review

### **Review, document, and improve decisions and processes based on the achievement of impact and lessons learned**

“The Manager shall review and document the impact performance of each investment, compare the expected and actual impact, and other positive and negative impacts, and use these findings to improve operational and strategic investment decisions, as well as management processes.”

- Norfund reviews the overall performance of its portfolio on key impact targets associated with each investment area through the aggregation of investee data gathered through DE reporting templates.
- Every investment exit requires a post-exit note, wherein process, management and results are discussed. A specific section on lessons learned is written and included, and development impact is considered along with financial and ESG performance.
- An investment baseline and target are mandatory inclusions in investment decision papers and project impact performance is assessed at exit in the exit approval note.
- Norfund regularly analyses the development of exited projects at the portfolio level to extract learnings. Data is collected for investees after Norfund’s exit and an analysis is conducted for investee survival and post-exit performance on various impact and financial indicators.
- To improve on its post-exit tracking, Norfund established a routine in 2019 whereby investee outcomes and development impact data are collected (to the extent possible) three years after Norfund’s exit. This standardisation allows for continuous updates of a post-exit database and investigation of the sustainability of exited investments. This is instituted as an internal learning tool, but with select publication of results.
- Norfund also conducts impact analyses and reviews to reflect on investment, sector, and strategy-level lessons learned on ad hoc basis. Examples include case studies, learnings from previous sector or geographic specific strategies, and failed investments.





## Principle 9 - Disclosure

### **Publicly disclose alignment with the Impact Principles and provide regular independent verification of the alignment.**

“The Manager shall publicly disclose, on an annual basis, the alignment of its impact management systems with the Impact Principles and, at regular intervals, arrange for independent verification of this alignment. The conclusions of this verification report shall also be publicly disclosed. These disclosures are subject to fiduciary and regulatory concerns.”

- This disclosure statement is published on Norfund’s website annually.
- Norfund’s alignment with the principles will be independently verified every four years.
- In 2023, Norfund engaged BlueMark to independently verify the alignment of Norfund’s impact management practices with the Operating Principles for Impact Management.
- BlueMark has office locations in London, UK; New York, NY; Portland, OR; and San Francisco, CA and is headquartered at 915 Battery St, San Francisco, CA 94111, USA.
- BlueMark is a leading provider of impact verification services in the impact investing market. It conducted the verification with an independent and unconflicted team experienced in relevant impact measurement and management issues.
- BlueMark’s assessment findings covered both areas of strength and areas for improvement, as reflected in [the Verifier Statement](#). BlueMark’s full assessment methodology, based on its professional judgment, consisted of:
  1. Assessment of the IM system in relation to the Impact Principles, using BlueMark’s proprietary rubric, and examining processes and policies against the following criteria: • Compliance of the IM system with a threshold level of practice; • Quality of the IM system’s design in terms of its consistency and robustness; and • Depth of sub-components of the system, focused on completeness
  2. Interviews with Norfund staff responsible for defining and implementing the IM system;
  3. Testing of selected Norfund transactions to check the application of the IM system; and
  4. Delivery of detailed assessment findings to Norfund, outlining areas of strong alignment and recommended improvement, as well as BlueMark’s proprietary benchmark ratings on the extent of alignment to each of the Impact Principles.

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### **Disclaimer:**

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