


<b>Policy</b>			
<b>Policy issued by:</b>	<b>Policy approved by:</b>	<b>Originally issued:</b>	<b>Revision date:</b>
Administration	Norfund Board	03.07.2020	12.06.2024

# Policy for Environmental and Social Sustainability

## 1. Introduction

Norfund’s mandate is to assist in building sustainable businesses in developing countries by providing much needed risk capital. Norfund invests to create jobs, improve lives and support the transition to net zero, thereby contributing to the UN Sustainable Development Goals and the Paris Agreement. At the core of Norfund's approach lies the recognition that effective management of Environmental and Social (E&S) risks and impacts is essential for achieving our objectives.

Implementing robust E&S measures not only mitigates risks to workers, the environment and local communities, but typically also yields significant business benefits such as cost efficiency and improved stakeholder relations.

Recognizing the varying levels of adoption of international environmental and social standards across the diverse markets we operate in, Norfund integrates E&S risk and opportunity assessments into its decision-making and investment monitoring processes. Some of our investees<sup>1</sup> may not fully comply with our requirements at the time we invest. Therefore, Norfund actively supports our investees to progressively align with international standards and best practices. Our commitment to supporting investees in enhancing their E&S performance is integral to Norfund’s value proposition and additionality.


## 2. Purpose and scope

This policy sets out relevant sustainability objectives and frameworks that guide Norfund’s work and outlines how environmental and social considerations are integrated into the investment process. The policy covers Norfund’s mandates and all types of investees. Relevant aspects of this policy are incorporated in our own operations.

## 3. E&S sustainability objectives

Through our investment activities, Norfund seeks to strengthen investees’ E&S performance and avoid adverse environmental and social impacts. The approach is risk-based, adjusted to the nature, size and profile of each investee and guided by the following objectives:

- **Promote resource efficiency and reduce pollution.** Norfund seeks to avoid or minimize pollution to air, water and land, and promote the sustainable use of resources, including raw materials, energy and water.
- **Support climate change mitigation and adaptation.** Norfund is committed to contribute to a ‘just transition’ and to align the portfolio with the Paris Agreement’s net zero goal by 2050. The target is to contribute to real-economy decarbonization by increasing climate finance, aligning all new financing with the Paris Agreement over time, and assisting the investees in the transition towards a low-carbon economy. Norfund acknowledges that the markets we invest in are vulnerable to climate change. We support our investees with adapting to a changing climate and promote resilience. The principles of the Task force on Climate related Financial Disclosure (TCFD) guides our work on climate risks and opportunities.


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- Promote protection of biodiversity and ecosystems.** Adverse impacts on biodiversity and ecosystem services are being exacerbated by climate change and pose material risks to human welfare and health, societies and businesses. Impacts on biodiversity and ecosystem services are particularly important in Norfund’s markets and Norfund is committed to help protect and conserve biodiversity, maintain the benefits from ecosystem services and promote the sustainable management of living natural resources, thereby enhancing the resilience and sustainability of our portfolio companies.
- Respect human rights and promote decent work.** Norfund respects human rights, as defined by the International Bill of Human Rights, and draws on the United Nations Guiding Principles on Business and Human Rights (UNGPR). We are committed to promoting compliance with ILO’s Declaration on Fundamental Principles and Rights at Work<sup>ii</sup> which covers the elimination of child labour, forced labour and discrimination in the workplace, protection of employees’ freedom of association and the right to collective bargaining, and a safe and healthy working environment. Decent work also covers working conditions and terms of employment (including wages)<sup>iii</sup>, and employee access to grievance mechanisms.
- Encourage diversity and gender equality.** We work to strengthen equality and equity across all levels in investees and through the products and services they offer. This also requires addressing gender-based discrimination, violence and harassment. Norfund is committed to promoting compliance with the ILO Convention on Violence and Harassment.
- Seek positive community outcomes.** Norfund aims to avoid or minimize the risks and impacts to community health, safety, and security that may arise from project related activities and identify opportunities for development benefits. In cases where involuntary resettlement is unavoidable, we require mitigation measures such as fair compensation, including the reconstruction and improvement to livelihoods and living conditions. When indigenous peoples and other vulnerable and marginalized groups are affected, their specific needs must be addressed. Informed consultation and participation with indigenous peoples throughout the project process is a core requirement and may include Free, Prior and Informed Consent under certain circumstances.
- Protect clients and consumers.** Norfund is committed to promote the delivery of safe, responsible, and fair services to clients and consumers. When investing in financial service providers, we are guided by the Client Protection Pathway<sup>iv</sup> where relevant, which encompasses appropriate product design and delivery, prevention of over-indebtedness, transparency, responsible pricing, fair and respectful treatment of clients, privacy of client data, mechanisms for complaint resolution and governance.

#### 4. E&S sustainability framework

Norfund will only invest in projects that are in line with EDFI Exclusion List, EDFI Fossil Fuel Exclusion List and Norfund Fossil Fuel Standard. Investees must comply with applicable laws and regulations while working towards compliance with international environmental and social standards.

We acknowledge the importance of harmonised E&S standards with broad market recognition and seek to align our own standards with those of our peers. Norfund has endorsed the EDFI Principles for Responsible Financing of Sustainable Development and commit to operate in accordance with the EDFI Statement on Climate and Energy Finance and Harmonised EDFI Environmental and Social Standards<sup>v</sup>.

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The IFC Performance Standards for Environmental and Social Sustainability (“IFC PS”) and the World Bank Environmental, Health and Safety Guidelines are the main frameworks for operationalizing Norfund’s sustainability commitments. The IFC PS cover a comprehensive array of environmental and social topics:

- Assessment and Management of Environmental and Social Risks and Impacts (PS1)
- Labor and Working Conditions (PS2)
- Resource Efficiency and Pollution Prevention (PS3)
- Community Health, Safety, and Security (PS4)
- Land Acquisition and Involuntary Resettlement (PS5)
- Biodiversity Conservation and Sustainable Management of Living Natural Resources (PS6)
- Indigenous Peoples (PS7)
- Cultural Heritage (PS8)

A central element of the IFC PS is the application of a mitigation hierarchy to anticipate and avoid adverse impacts on workers, communities, and the environment, or where avoidance is not possible, to minimize, and where residual impacts remain, compensate/offset for the risks and impacts, as appropriate.

We take a proportionate approach and adjust our requirements to the nature, size and risk profile of each investee. In specific situations it might be necessary to apply additional international guidelines and industry standards to manage key risks and impacts.

## 5. Operationalisation

E&S risk management is integrated into the investment process as outlined in the Investment Manual, and is supported by training, procedures and tools. The organisation has dedicated specialists on environmental, climate and social issues that work with investment teams and investees to identify, assess and manage relevant issues throughout all investment phases, from screening to exit.

**Appraisal of E&S risks is incorporated into the analysis and decision-making processes.** Our investment process starts with the screening of the project against relevant exclusion lists and standards, an assessment of Paris Alignment and material climate risks, and a risk categorisation based on the project’s potential E&S risks and impacts. If the project passes these checks and receives initial approval from our investment/credit committee, we conduct due diligence to assess E&S risks and impacts and determine their significance. This also includes evaluating the potential investee’s capacity, commitment and track record in managing such issues, determining how gaps and opportunities can be addressed and assessing whether the risk profile, including mitigation measures, meets Norfund’s risk appetite. The findings of this phase inform the final investment decision.

**The companies we invest in are required to work towards recognised E&S standards.** The investment agreement normally incorporates specific requirements tailored to each individual investee. Project specific action plans addressing gaps against relevant frameworks identified during the due diligence phase are included, where relevant.

**Norfund monitors E&S performance throughout the investment period.** Monitoring the risk management of the project and identifying opportunities for improving performance are key activities post-investment. We require regular reporting on E&S performance from our investees and strive to align reporting requirements with co-investors. We also conduct site visits, provide training and may use the Business Support facility to assist investees in strengthening their understanding and management of E&S

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risks and opportunities.

**We seek to exit responsibly** and conduct post-exit analyses to draw lessons from our investments and improve internal systems.

## 6. Stakeholder engagement

Stakeholder engagement is important for successful management of E&S risks and impacts. Norfund engages actively in discussions with stakeholders and takes part in working groups and networks (such as EDFI and 2X Global<sup>vi</sup>) aiming to further strengthen our approach to sustainability. We also expect investees to identify and engage with their key stakeholders and disclose information as required by national laws and applicable international standards.

Norfund seeks to be transparent about our approach to risk management. Norfund is a signatory of the UN Principles for Responsible Investment (UNPRI) and the Operating Principles for Impact Management (OPIM) and annually reports on our approach to responsible investments.

Our grievance mechanism<sup>vii</sup> allows stakeholders to voice concerns related to Norfund’s operations and our investments. We also require investees to establish and maintain operational level grievance mechanisms, accessible to affected communities and other stakeholders. We do not accept retaliation against workers, communities and individuals who raise grievances.

## 7. Approvals and revision

This policy was approved by Norfund’s Board of Directors 12 June 2024. The policy is publicly accessible and communicated to all relevant parties internally and externally. The policy will be reviewed annually and updated when necessary.

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<sup>i</sup> In this policy “Investees” refer to companies, financial service providers and funds that receive financing from Norfund.

<sup>ii</sup> The ILO Declaration on Fundamental Principles and Rights at Work adopted in 1998 and amended in 2022 refers to The Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87); Right to Organise and Collective Bargaining Convention, 1949 (No. 98); the Forced Labour Convention, 1930 (No. 29); Abolition of Forced Labour Convention, 1957 (No. 105); Minimum Age Convention, 1973 (No. 138); Worst Forms of Child Labour Convention, 1999 (No. 182); the Equal Remuneration Convention, 1951 (No. 100); the Discrimination (Employment and Occupation) Convention, 1958 (No. 111), the Occupational Safety and Health Convention, 1981 (No. 155), and the Promotional Framework for Occupational Safety and Health Convention, 2006 (No. 187).

<sup>iii</sup> Including Hours of Work (Industry) Convention, 1919 (No. 1), Minimum Wage-Fixing Machinery Convention, 1928 (No. 26) and Minimum Wage Fixing Convention, 1970 (No. 131)

<sup>iv</sup> <https://cerise-sptf.org/client-protection-pathway/>

<sup>v</sup> Harmonised EDFI Environmental and Social Standards encompass (a) Environmental and Social Category Definitions and (b) Requirements for Environmental and Social Due Diligence, Environmental and Social Contractual Requirements and Monitoring and (c) an Exclusion List, all of which are reviewed regularly.

<sup>vi</sup> <https://www.2xglobal.org/>

<sup>vii</sup> <https://www.norfund.no/norfunds-whistleblowing-channel/>