

<b>Policy</b>	 <b>Norfund</b>		
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# Norfund's Responsible Tax Policy

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## 1. Introduction

Strengthening the private sector and building sustainable private businesses in developing countries are recognized as key action areas for implementation of the Sustainable Development Goals (SDGs). Profitable companies generate tax income to governments. Increasing the tax base enables governments to spend more on infrastructure and public services.

Norfund's mandate is to contribute to developing sustainable businesses and industry in developing countries that would not otherwise be initiated because of the high risk involved. Appropriate, prudent and transparent tax behavior is a key component of corporate responsibility for investors and the investees. As a responsible investor, Norfund requires that all its investees have good corporate governance and sound environmental and social practices.

A responsible tax policy is a fundament for Norfund's operations and is based on the following documents:

- The Norfund Act
- Norfund's statutes
- Letter from the Norwegian ministry for Foreign Affairs «Norfund's investments through third countries» dated 25.8.2014, referring to Prop. 93 S (2013-2014) «Additional appropriations and re-priorities in the state budget 2014», and the Storting's handling of this
- EDFI's Principles for Responsible Tax in Developing Countries

## Seven fundamental principles

Norfund's handling of tax-related issues is based on seven fundamental principles:

### **1. Norfund recognizes that tax revenues are fundamental to the ability of governments in developing countries to fund infrastructure and public spending and stimulate sustainable development.**

Successful businesses will contribute to increased government tax revenues which allow the government to provide services such as education, health care and public infrastructure. Successful business development, generating tax income for the host countries, is an important development effect for Norfund.

Through its operations, Norfund complies with current legislation and guidelines issued by its owner, the Government of Norway.

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Norfund recognizes the role of tax in its development effectiveness reporting by including information collected on taxes paid by clients at an aggregate level. This complements other development indicators and helps position the role of development finance in reaching the Sustainable Development Goals (SDGs).

**2. Norfund’s investees shall pay taxes to the countries in which they operate and where the income occurs.**

Norfund requires all investees to act responsibly with regards to taxation and to comply with the local tax legislation. All companies that Norfund invests in shall pay taxes and other tax-like fees to the governments of their host countries.

Norfund requires the investees to act transparently towards the host country authorities.

Norfund is a minority investor and cannot take a role as legislator, regulator, auditor or tax inspector in sovereign jurisdictions. However, through active ownership, Norfund seeks to ensure that all the companies we invest in are run professionally, responsibly and predictably. When necessary, binding plans of actions are established to secure that the companies implement the agreed standards during the investment period.

As a co-investor, Norfund will contribute to increased awareness on tax compliance, which should include third party investors, though Norfund cannot assume responsibility for their actions. Norfund respects the sovereign right of developing countries to use fiscal policy to manage their economies. Norfund will not contribute to harmful tax practices through bargaining for tax exemptions for its investee companies. However, Norfund considers it appropriate for investee companies to use targeted tax incentives, including reliefs, claims and exemptions.

**3. Norfund doesn’t support aggressive tax planning or engage in any artificial arrangements to reduce its tax liabilities.**

Norfund requires that the companies it finances act responsibly and transparently in matters related to taxation and encourages them to maintain a tax policy that is disclosed to the public. Norfund will also encourage its co-investors to do the same.

Norfund seeks to prevent participating in potentially harmful tax practice, where there is a significant risk of tax evasion by the client or an unfair tax treatment towards the client. Prior to investing, Norfund conducts due diligence commensurate with the size and type of the proposed investment to assess the risk of a prospective investee company adopting irresponsible tax practices. Norfund requires that:

- ***Investee Companies should be tax compliant.*** Investee companies should comply with all applicable laws and regulations in the countries where they operate.
- ***Investee Companies should not engage in base erosion and profit shifting.*** Investee

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companies should not utilize intragroup transactions or inappropriate transfer pricing methods to artificially divert taxable profits from the countries where they operate.

- **Investee Companies should not engage in aggressive tax planning.** Investee companies should not engage in any forms of aggressive tax planning depleting local tax bases.

If due diligence indicates irresponsible tax behavior, Norfund works with its investee companies to develop appropriate remedies, which might include a requirement to disclose non-compliance to the relevant tax authorities or the development of tax processes and systems, which mitigate against further risks of non-compliance.

Norfund assesses the tax responsibility of its investees and monitors the realization of tax responsibility regularly.

Norfund also investigates the background of the co-investors and their ultimate beneficiaries based on clear guidelines for partner risk assessment. The partner's areas of expertise and knowledge, previous and existing positions, relationships and investments, other roles in the society and reputation are among the factors that are carefully considered.

**4. Norfund seeks to limit the use of Offshore Financial Centers (OFCs). OFCs are used only when necessary to meet the fund's development priority of investing in high risk markets and to protect the fund's capital.**

Offshore financial centers (OFCs) offer stable jurisdictions that can mitigate important investment risks when investing in poor countries with capacity constraints. The use of intermediate jurisdictions may be necessary to provide a stable financial, legal and regulatory environment for investment, furthering Norfund's developmental impact (for instance, by increasing its capacity to mobilize other investors and generate investments to support business development, increase local tax revenues and growth).

Norfund's use of intermediate jurisdictions is always motivated by non-tax benefits and never to avoid payment of taxes to the host countries of the investments, or to escape transparency. Norfund appreciates the efforts of civil societies and politicians to fight for transparency and against illicit capital flows.

Norfund does not accept the use of holding company structures if their objective is to exploit asymmetry of taxation to the disadvantage of the host country. Asymmetry of taxation means a situation where countries treat the same object differently for tax purposes, and this asymmetry can be exploited to avoid taxes in the developing country.

Norfund strives to invest through holding companies and funds registered in countries that *comply* with the progressively tightening standards of [Global Forum on](#)

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Transparency and Exchange of Information for Tax Purposes, including the automatic exchange of tax information (AEIO), and/or through countries with which Norway has a tax information exchange agreement. In certain cases, Norfund can invest through holding companies and funds registered in countries that *largely comply* with the standards. If so, an explanation shall be included in the investment documentation. On these prerequisites, other relevant selection-criteria for which OFC is to be used are geographical location and established tax-agreements with the investee country, as well as already established relations with investee/ co-investor.

Direct investments can be made in all developing countries regardless of how the countries in question have been classified or if they have been classified at all by Global Forum on transparency and Exchange of Information for Tax Purposes.

**5. For investments in funds, Norfund requires that the fund’s investment policy complies with Norfund’s mission and principles in respect of both the investee companies and management company structures used.**

Norfund also requires the companies that are a part of a fund’s administrative structures and their shareholders to report their income related to the compensation paid by the fund in accordance with the tax legislation of each country.

**6. Norfund promotes transparency by disclosing project specific information to the extent possible and within the legal limits of client protection.**

Norfund aims to provide accurate information to its stakeholders and other interested parties about its activities and investments. Annually and on a country-by-country basis Norfund publishes the amount of taxes and fees in aggregate that its investees pay to governments and the legal domiciles of its investee funds and companies. Norfund seeks to promote transparency of information on taxes paid in the target countries, while respecting the confidentiality of client information. As a general rule, Norfund expects new investees to allow Norfund to publish a country-by-country breakdown of how and where their business generate economic value, where that value is taxed, and the amount of taxes paid as a result. These transparency principles may be waived in certain cases. If so, an explanation shall be included in the investment documentation.

Norfund requires transparency of ultimate beneficial ownership of its Partners. This also includes those persons who exercise ultimate effective control over a legal person or arrangement. As a general rule, Norfund also expects its investees to allow Norfund, on request, to publicize information on ultimate beneficial owners<sup>1</sup>. These transparency principles may be waived in certain cases. If so, an explanation shall be included in the investment documentation.

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<sup>1</sup> Ultimate beneficial owners are defined as natural persons controlling more than 10 per cent of the equity capital of the investee, directly or indirectly.

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Norfund requires that the corporate structure of the project company and its company group is transparent to the tax authorities of the relevant countries.

Norfund contributes to tax information transparency through its own operations as well as to the debate on tax issues. Norfund is actively engaged in promoting responsible tax policy development and co-operation with other European development finance institutions and other relevant bodies.

7. Norfund will continue to monitor developments and review this policy regularly, and minimum every second year, with a view to remain consistent with evolving international standards and the best practice of multilateral and bilateral development finance institutions. Civil society will also be involved in future review processes.

### **Norfund's approach to tax governance, risk management**

Norfund's tax policy, along with its overall business strategy, is decided by the Board of Directors.

Day-to-day practice based on this policy, and necessary development of Norfund's tax strategy in light of legislative changes, evolving tax practices and other tax policy matters is the responsibility of Norfund's CEO. Any case that implies deviations from this policy shall be submitted to the Board of Directors for decision.

Norfund is by law exempted from Norwegian corporation tax, but is otherwise subject to Norwegian taxes, including employment taxes. Norfund's engagement with the tax authorities and civil society, is based on principles of integrity, transparency and fairness with a shared goal of cooperative compliance and sharing a positive tax future.