

Ethics and Compliance

Annual Report 2021

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1. About Ethics and Compliance

The compliance function at Nefco began its operations as a separate unit in April 2020. This report covers the activities during 2021.

The role of the Ethics and Compliance Department ("Ethics and Compliance") is to support NEFCO's commitment to high standards of ethics and integrity in all its operations. This is done in practice by inter alia:

- Providing advice and training to staff and management on integrity and compliance-related topics;
- Collaborating with and supporting the operational units to ensure Nefco's requirements on ethics, integrity and anti-corruption are appropriately implemented in Nefco projects;
- Receiving and investigating reports on different forms of integrity violations and non-compliance;
- Developing and leading Nefco's know your customer- process in relation to new and existing counterparties;
- Together with NEFCO's Legal function, develop policies, rules and guidelines relating to integrity and ethics;
- Establishing procedures for integrity risk assessment and mitigation.

Ethics and Compliance reports administratively to the Managing Director and is independent of the operational departments in Nefco. An annual report on its work is provided to the Board of Directors and to the Control Committee and the Chief Ethics and Compliance Officer has unrestricted access to the chair of the Board of Directors and the chair of the Control Committee.

2. Activities in 2021

Legal framework

Nefco has a solid legal framework in place intended to ensure that Nefco's activities are carried out with high ethical standards. Nefco's legal framework is aligned with member country legislation, international standards and best practices applied by other International Financial Institutions (IFIs) . As the development in this area is rapid and continuous, policies and rules are established and updated with the aim of keeping Nefco in the forefront in this area.

All public policies and rules relating to Ethics and Compliance are available on <https://www.nefco.int/about-nefco/compliance/>. In addition, internal rules and guidelines are established in relation to integrity due diligence and investigations.

Proactive and preventive work

Prevention and proactive work is an important part of integrity and compliance efforts. Ethics and Compliance works proactively by providing advice and support where needed and relevant, and more specifically in the following areas:

Integrity Due Diligence

A key part of preventive integrity work is the scrutiny of potential new counterparties, in order to identify actual or potential integrity risks. This know-your-customer (KYC) process has undergone a revision during 2020-2021 to ensure it is in line with relevant international standards and best practices. All potential new counterparties undergo an integrity due diligence (IDD) review, which look at among other things, ownership and corporate structure, management, relevant jurisdictions, and a screening for sanctions and PEPS (politically exposed persons) is carried out, after which a compliance risk rating is applied (low, medium or high).

Relevant policy and rules: *Policy on Integrity Due Diligence, Rules and Guidelines for Integrity Due Diligence (internal)*

Conduct and Ethics

Ethics and Compliance ongoing provides advice on regarding the practical application of the code of conduct, eg in relation to conflicts of interests.

A Code of Conduct for the Board of Directors was approved by the Board in March 2021. The Code of Conduct includes inter alia an obligation for board members to annually declare financial and business interest to avoid and mitigate any actual, potential or perceived conflict of interest.

A revision of the Code of Conduct for Staff is ongoing, in consultation with Nefco staff and management.

As a part of the practical implementation of the Policy on the Prevention of Sexual Exploitation, Sexual Abuse and Sexual Harassment (SEAH Policy) a risk assessment tool is under development in Nefco. The purpose of the tool is to identify indicators of increased risk of SEAH in proposed projects, to ensure appropriate mitigating measures can be taken.

Relevant policies: *Code of Conduct for the Staff, Code of Conduct for the Board of Directors and the Managing Director, Policy on the Prevention of Sexual Exploitation, Sexual Abuse and Sexual Harassment*

Training

To promote compliance with Nefco's legal framework, it is key that training is provided for staff on relevant topics. During 2021, training sessions were held on Nefco's revised integrity due diligence-process. In addition, training was provided to all new staff members on Nefco's work and requirements relating to anticorruption and integrity.

Investigations and Reviews

Suspected breaches of Nefco's standards and requirements in the area of ethics and integrity shall be reported to Ethics and Compliance, which will investigate the matter in accordance with applicable policies and rules and make recommendations for measures where relevant.

Complaints

During 2021, Nefco has established a mechanism to review complaints and grievances. A complaint can be made by anyone who feels that they have been adversely affected by a decision or action by Nefco or a Nefco counterparty due to non-compliance with Nefco's legal framework. Complaints are reviewed by Ethics and Compliance and a report with conclusions and, where relevant, recommendations are sent to the Managing Director for decision.

During this first year the complaints mechanism has been in place, Ethics and Compliance has received three complaints, all related to procurement by Nefco clients. The recommendations to the Managing Director have related to strengthening the procurement capacity within Nefco as well as the support provided by Nefco to project counterparties. Implementation of measures related to this are ongoing.

Relevant rules: *Rules and Procedures for Complaints Review*

Prohibited Practices

The definitions of Prohibited Practices (abuse, coercion, collusion, corruption, fraud, obstruction, money laundering, financing or terrorism) and rules on prevention and sanctions in response to violations were established in 2020, by the Policy on Anticorruption and Compliance. A report on a suspected Prohibited Practice can be made anonymously and whistle-blowers are protected.

If, after investigation by Ethics and Compliance, a Prohibited Practice can be substantiated, a recommendation for sanction will be submitted to the Sanctions Panel for decision. The Sanctions Panel consists of the Managing Director, an external expert and a senior staff member. Two external experts and three senior staff members were appointed by the Board of Directors in September 2020 to serve on the panel for two years on a rotating basis. During 2021, procedures and tools have been developed for the work of the Sanctions Panel.

Ethics and Compliance has during 2021 received three reports regarding alleged Prohibited Practices in Nefco projects. Two of these reports were submitted by external whistleblowers, one was reported internally by Nefco staff. Two of the cases were closed after the initial assessment due to lack of sufficient, reliable information to support opening an investigation. One case resulted in a recommendation on sanctioning to the Sanctions Panel.

Ethics and Compliance also receives information on suspected misconduct having some form of link to Nefco, but do not directly relate to Nefco funds or a Nefco project (eg a Nefco counterparty is under investigation for misconduct in some form in connection with activities not related to Nefco). In these cases, the situation is monitored and Nefco may take precautionary measures, but they are not be investigated by Ethics and Compliance.

Relevant policy and rules: *Policy on Anticorruption and Compliance, Interim Rules for Investigation and Enforcement (internal)*

3. Cooperation with stakeholders

Ethics and Compliance cooperates with stakeholders and peers in order to work more effectively in areas of joint interest and to keep up to date with the efforts and current developments by relevant IFIs in the area of integrity and compliance. Such cooperation include both participating in meetings with other IFI compliance/integrity functions to discuss common areas of interest as well as practical collaboration with co-financiers/IFIs in relation to information on alleged Prohibited Practices. Ethics and Compliance also collaborates with the compliance functions at Nordic Investment Bank (NIB) and Nordic Development Fund (NDF), eg by sharing information on and aligning policies and procedures.

4. Data Protection

New and updated policies regarding protection of personal data was approved by the Board of Directors in September 2021 and entered into force 1 October 2021. The framework consists of six different documents and is benchmarked against relevant national and EU legislation. The Chief Ethics and Compliance Officer was appointed by the Board of Directors to act as the Data Protection Officer at Nefco. Implementation and training will take place during 2022.

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