

# Environmental and Sustainability Policy

Adopted by the Board of Directors of the Nordic Environment Finance Corporation on 9 June 2026 with entry into force on 1 July 2026.

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### Responsible Function / Department

Environment and Sustainability

### Document version history and review dates

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This Policy shall be reviewed at least every five (5) years.

## 1. Introduction

The Nordic Environment Finance Corporation (NEFCO) was established in 1990 by the Nordic countries, Denmark, Finland, Iceland, Norway and Sweden, with the purpose of promoting investments of Nordic environmental interest. Our task is to accelerate the green transition by helping to accelerate the scale-up of Nordic solutions and deliver lasting value. As a pioneer in green financing, NEFCO only finances projects that generate positive environmental and/or climate-related impacts. NEFCO strives to demonstrate that green investments are viable and concrete and deliver win-win outcomes for our clients, partners, people and the environment.

NEFCO serves the interest of its owners, the Nordic governments, and supports globally set common targets. NEFCO contributes to the generation of positive direct and indirect environmental impacts with relevance to the Nordic countries. We step in to help accelerate the scale-up of Nordic green solutions and mobilise green investments from public and private actors. NEFCO's role is to bridge the gap between ambition and action.

## 2. Scope and purpose of the Policy

This Policy sets out the commitments, principles and obligations that apply to all NEFCO's financing activities and internal operations. Activities financed, wholly or in part, through NEFCO's own capital as well as donor-funded programmes managed by NEFCO must adhere to this Policy.

This Policy will support staff in carrying out their work and in their decision-making. This Policy outlines what NEFCO expects from its counterparties in terms of sustainability and the kind of scrutiny they can expect when partnering with NEFCO. Details on NEFCO's environmental and sustainability evaluation procedures are outlined in the Environmental and Sustainability Guidelines.

This Policy is aligned with and intended to support the implementation of NEFCO's Strategy 2030. This Policy should be read in conjunction with other NEFCO Legal Framework documents.

### 3. Principles and alignment

NEFCO's environmental priorities are to accelerate the green transition and work towards carbon neutrality and a sustainable, circular and biodiversity-positive economy. NEFCO's work is guided by Nordic priorities and Vision 2030, the EU Green Deal, the Paris Climate Agreement and the Kunming-Montreal Global Biodiversity Framework. NEFCO acknowledges the need to operate within the Earth's planetary boundaries, recognising the scientific limits that safeguard the stability and resilience of global ecosystems.

NEFCO will actively use the EU Taxonomy framework. NEFCO aims to continuously increase the alignment of its portfolio with the **EU Taxonomy for sustainable investments** and is committed to engaging with new and existing counterparties to align their activities with the taxonomy.

The Nordic countries are committed to **carbon neutrality** and to pursuing efforts to limit global warming to 1.5°C in line with the Paris Agreement. NEFCO contributes to the Nordic countries' efforts to fight climate change through investing in activities that reduce and prevent the release of greenhouse gas emissions and contribute to making necessary adaptations in response to climate change. Through its investments, NEFCO complements and supports Nordic climate financing, accelerating necessary climate action. As a matter of principle, NEFCO will not finance investments that rely on fossil fuels<sup>1</sup>.

Due to the global increase in the use of material resources, the need for efficient circular and long-lasting and/or high-value solutions is growing. Greater quantities of useful materials for further production can be extracted from waste or industrial by-products. NEFCO will pursue solutions that align with the **EU's Circular Economy Action Plan**, in which waste is defined as a secondary raw material, to promote sustainable, resource-efficient and non-toxic cycles.

NEFCO is committed to the ambition of achieving zero pollution and aims to implement solutions that support the targets outlined in the **EU's Zero Pollution Action Plan**.

Biodiversity and healthy terrestrial and marine ecosystems are a prerequisite for all life on our planet. Conserving biodiversity and using natural capital sustainably is critical. NEFCO strives for alignment with the **EU Biodiversity Strategy** and is committed to ensuring that its activities are sustainably designed, managed and implemented to protect nature and biodiversity.

The Nordic region faces various environmental challenges in its marine and coastal ecosystems. NEFCO shall work for the **good health and protection of marine and coastal ecosystems** in the Nordic region, including the Baltic Sea. NEFCO focuses on the mitigation of eutrophication, elimination of pollution and promotion of biodiversity.

NEFCO respects **human rights** in all of its activities and thus expects its counterparties to do the same. NEFCO adheres to the **minimum social safeguards** referred to in the EU Taxonomy for sustainable activities framework and seeks to ensure alignment with OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights.

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<sup>1</sup> See the fossil fuel exclusions under Section 5.

NEFCO is committed to the shared goals and objectives of the Nordic countries in promoting **equality, diversity and inclusion**. For this purpose, NEFCO acts in accordance with its Equality Policy.

NEFCO applies good **governance principles** and practices in all its operations. NEFCO promotes transparency and accountability. NEFCO is committed to ensuring that its funds are used for their intended purposes and to taking all reasonable steps to ensure that resources entrusted to NEFCO are managed with the **highest level of integrity** as outlined in, inter alia, the NEFCO Policy on Anticorruption and Compliance and the NEFCO Policy on Integrity Due Diligence.

All NEFCO financing activities are assessed by a dedicated project team, including financial, legal and integrity experts. In addition, an independent team performs an environmental assessment and review of social and governance aspects. NEFCO applies risk-based assessments to evaluate the potential negative environmental and social risks of investments, depending on their nature and scale. All investments are assessed for their compliance with relevant international<sup>2</sup> and/or national legislation, regulations and standards on sustainability.

NEFCO aims to **minimise the negative impacts** of its operations; in the case that adverse impacts cannot be avoided, they should be appropriately reduced, mitigated or compensated for, according to a purpose-developed plan.

NEFCO monitors and discloses **the impact of its financing** activities and its own operations on an annual basis. Impact shall be defined, assessed, monitored and disclosed transparently in line with the NEFCO Strategy 2030. NEFCO is committed to improving its sustainability and impact **disclosure** in a systematic, harmonised and transparent way and cooperates with its clients to improve their sustainability disclosures. NEFCO, as a signatory, supports the International Financial Institution Framework for a Harmonised Approach to Greenhouse Gas Accounting<sup>3</sup>.

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<sup>2</sup> European Principles for the Environment were adopted by the Council of Europe Development Bank, the EBRD, the European Investment Bank, the Nordic Environment Finance Corporation and the Nordic Investment Bank. They are an initiative launched in response to the drive for increased harmonisation of environmental principles, practices and standards associated with the financing of projects.

<sup>3</sup> <https://unfccc.int/climate-action/sectoral-engagement/ifis-harmonization-of-standards-for-ghg-accounting>

## 4. Governance

Environmental and sustainability aspects are integrated in NEFCO's core governance structure. The roles and responsibilities of the governing bodies of NEFCO, in the context of environment and sustainability, are described below.

**The Control Committee** monitors that NEFCO's operations are conducted in accordance with its Statutes which define its purpose and mandate.

**The Board of Directors** approves the Environmental and Sustainability Policy and has the overall responsibility for ensuring that NEFCO operates according to the respective principles, commitments and guidelines. All decisions for financing funded from NEFCO's own capital, are proposed by NEFCO's Managing Director for the approval of the Board of Directors.

**The Managing Director**, assisted by the **Management Committee**, reviews the Environmental and Sustainability Policy. The Managing Director approves the Environmental and Sustainability Guidelines and other rules relevant to the implementation of this Policy.

**The NEFCO Investment Committee** and the **NEFCO Trust Funds Investment Committee**, both chaired by the Managing Director, are responsible for decisions on NEFCO's financing activities in accordance with their respective mandates. The NEFCO Investment Committee and NEFCO Trust Funds Investment Committee consider inter alia environmental, sustainability and integrity issues in relation to each investment and project proposal.

**The Environmental and Sustainability Department** is responsible for the development of the Environmental and Sustainability Policy, Guidelines and other relevant rules and procedures. It oversees that the environmental and sustainability assessments for investment proposals (whether funded by NEFCO's own capital or trust funds) are performed according to applicable policies, guidelines and rules, as well as providing independent expert advice within the decision-making process within the NEFCO Investment Committee and/or NEFCO Trust Funds Investment Committee. The Environmental and Sustainability Department heads work on all sustainability matters concerning NEFCO's internal operations.

## 5. Exclusion list

NEFCO will not finance **activities** in which the proceeds are used for any of the following:

### Legal and convention exclusions

The *production of or trade* in any product or *activity* deemed illegal under host country (i.e. national) laws or regulations, international conventions and agreements or subject to international phase outs or bans, such as:

- Ozone-depleting substances (ODSs), polychlorinated biphenyls (PCBs) and other specific, hazardous pharmaceuticals, pesticides/herbicides or chemicals
- Wildlife or wildlife products regulated under the Convention on International Trade in Endangered Species or Wild Fauna and Flora (CITES)
- Unsustainable fishing methods including, e.g., blast fishing and drift-net fishing
- Transboundary movements of waste prohibited under international law
- Activities prohibited in relation to the protection of biodiversity resources or cultural heritage
- Unbonded asbestos fibres or products containing asbestos

### Ethical exclusions

- Forced evictions<sup>4</sup>
- Forced labour<sup>5</sup> or child labour<sup>6</sup>
- Violations of local and Indigenous Peoples' rights
- Ammunition and weapons, military equipment or infrastructure
- Sex trade, sexual exploitation and related infrastructure, services and media
- Gambling and related equipment, hotels with in-house casinos
- Production, manufacturing or processing of cannabis (>0.3% THC<sup>7</sup>) for non-medical purposes
- Production, manufacturing, processing or distribution of tobacco
- Production, manufacturing or processing of alcoholic beverages (except beer and wine)
- Greenfield livestock husbandry farms (meat, eggs and dairy products)
- Keeping of animals for the primary purpose of fur production

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<sup>4</sup> 'Forced eviction' refers to the acts and/or omissions involving the coerced or permanent or temporary involuntary displacement of individuals, groups and communities from homes and/or lands and common property resources which they occupy or depend on, thus eliminating or limiting the ability of an individual, group or community to reside or work in a particular dwelling, residence or location, without the provision of, and access to, appropriate forms of legal or other protection.

<sup>5</sup> Forced labour means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty as defined by ILO conventions.

<sup>6</sup> Persons may only be employed if they are at least 14 years old, as defined in the ILO Fundamental Human Rights Conventions (Minimum Age Convention C138, Art. 2), unless local legislation specifies compulsory school attendance or the minimum age for working. In such cases the higher age shall apply.

<sup>7</sup> Concentration of tetrahydrocannabinol / psychoactive compound.

## Nature and natural resources exclusions

- Commercial activities relating to primary and old growth forests<sup>8</sup>
- Destruction<sup>9</sup> of High Conservation Value areas<sup>10</sup>
- Aquaculture farms raising fish directly in fenced-in areas of natural waters
- Extraction of mineral deposits from the deep sea
- Sand and seabed mining

## Fossil fuel exclusions

- Activities involving fossil fuel<sup>11</sup> extraction, processing, transport, or energy production
- Activities leading to a lock-in effect of fossil fuels within or outside the scope of the financed activity

The following elements of the financed activity are **not** covered by the scope of the exclusions and thus can be financed:

- i) Back-up power generation for off-grid solutions or an emergency generator, provided that fossil free alternatives (e.g., batteries) have been carefully assessed and found not to be feasible
- ii) Any reuse of waste heat
- iii) Processes for which renewable/electrified alternatives are not yet feasible, provided the investment can be converted to renewable energy in the future to avoid lock-in
- iv) Transportation and hauling, when renewable energy sources meeting the transportation needs are not readily available.

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<sup>8</sup> Forestry definitions as described in the Convention on Biological Diversity, <https://www.cbd.int/forest/definitions.shtml>

<sup>9</sup> Destruction means the (1) elimination or severe diminution of the integrity of an area caused by a major, long-term change in land or water use or (2) modification of a habitat in such a way that the area's ability to maintain its role is lost.

<sup>10</sup> High Conservation Value (HCV) areas are defined as natural habitats where these values are considered to be of outstanding significance or critical importance (see <http://www.hcvnetwork.org>).

<sup>11</sup> Coal, peat, oil (petroleum) and natural gas, as well as related unconventional resources such as oil shale, oil sands, bitumen and heavy oil, and fuels and products derived from these resources