

Environmental and Sustainability Policy

Adopted by the Board of Directors of the Nordic Environment Finance Corporation on 17 March 2022 with entry into force as of 18 March 2022.

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Responsible Function/Department

Environment and Sustainability

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Environmental and Sustainability Policy	Board of Directors	17.3.2022*	18.3.2022	Public
Sustainability Policy	Board of Directors	25.10.2013	1.11.2013	Public

This Policy shall be reviewed at least every three (3) years.

*As revised on 22 April 2022, see footnote 12.

1. Introduction

The Nordic Environment Finance Corporation ("**NEFCO**") was established in 1990 by the Nordic countries, Denmark, Finland, Iceland, Norway and Sweden, to promote investments of Nordic environmental interest. As a pioneer in green financing, NEFCO only finances projects that generate positive environmental and/or climate-related impacts. Today, NEFCO's task is to accelerate the green transition by financing Nordic green solutions that have the potential to be scaled up on global markets. By offering risk capital to small and medium-sized projects, NEFCO is ready to take financial risk if a project has a scalable green upside.

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 Nordics, focusing particularly on projects where NEFCO's financing can provide additionality, meaning that the projects may not have been realised without NEFCO's financing.

2. Scope and Aim of the Policy

This Environmental and Sustainability Policy ("**Policy**") sets out the commitments, principles and obligations applicable to NEFCO's financing activities and internal operations. Projects or activities financed, wholly or in part, directly with NEFCO's own capital ("**the Investment Fund**") or through NEFCO managed trust funds will need to adhere to this Policy.

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

This Policy is aligned with and intended to support the implementation of NEFCO's Strategy for 2021-2025. This Policy should be read in conjunction with other NEFCO Legal Framework documents.

As best practice around environmental and sustainability issues is constantly developing, this Policy shall be regularly revised and updated.

3. Principles and Commitments

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 financing activities contribute to the global Agenda 2030 via the universal Sustainable Development Goals, the EU Green Deal and the Nordic Vision 2030.

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 clients and projects to align their activities with the taxonomy.

The Nordic countries are committed to **carbon neutrality** and the 1.5-degree target of the Paris Agreement. NEFCO contributes to the Nordic countries' efforts to fight climate change through investing in projects that reduce and prevent the release of greenhouse gas emissions and help to make 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 make investments in projects that rely on fossil fuels¹.

Due to the increased use of material resources, the need for efficient circular solutions is growing. Greater quantities of useful materials for further production can be extracted from waste or industrial by-products. NEFCO will pursue projects which follow the **EU's Circular Economy Action Plan**, in which waste is described as secondary raw material, to promote sustainable, resource-efficient and non-toxic cycles.

Biodiversity is 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 investments are sustainably designed and implemented to protect biodiversity.

NEFCO respects **human rights** in its own operations and financing activities and thus expects its clients and partners 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 the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights.

NEFCO is committed to the shared goals and objectives of the Nordic countries in promoting **inclusiveness and gender equality**. In its financing, NEFCO aims to actively promote gender equality and ensure that adverse impacts are minimised and mitigated.

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 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 expertise. In addition, an independent team performs an environmental assessment and a review of social and governance aspects. NEFCO applies risk-based assessments to evaluate the potential

¹ See the fossil fuel exclusions on page 5.

negative environmental and social risks of a project, depending on its nature and scale. All projects are assessed for their compliance with international² and/or national legislation, regulations and standards.

NEFCO aims to **minimise the negative impacts** of its financing; in the case that adverse impacts cannot be avoided, these should be appropriately reduced, mitigated or compensated for, and a plan for doing so developed.

NEFCO monitors its projects and makes annual disclosures of the **impact of its financing** and its own operations. NEFCO is committed to improving its sustainability **disclosure** in a systematic, harmonised and transparent way and cooperates with its clients to improve their annual reporting. NEFCO, as a signatory, supports the International Financial Institution Framework for a Harmonised Approach to Greenhouse Gas Accounting³.

To fulfil its purpose and maintain an outstanding working culture, NEFCO operations are based on the following values: **Thrive together, Grow for good** and **Ever improving**. Sustainability considerations, together with the NEFCO values, play an important role in building a future for us all.

² European Principles for the Environment, available at: https://www.nefco.int/wp-content/uploads/2019/04/European-Principles-for-the-Environment_2006.pdf

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

4. Exclusion List

NEFCO will not knowingly finance **projects** in which its proceeds are used for activities related to 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 evictions⁴
- Forced labour⁵ or child labour⁶
- 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, processing or distribution of tobacco
- Production, manufacturing or processing of alcohol (except beer and wine)

⁴ '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.

⁵ 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.

⁶ 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.

Forestry and Husbandry Exclusions

- Commercial activities relating to primary and old growth forests⁷
- Destruction⁸ of High Conservation Value areas⁹
- Any greenfield livestock husbandry farm (meat, eggs and dairy products)
- Keeping of animals for the primary purpose of fur production or any activities involving fur production
- Aquaculture farms raising fish directly in fenced-in areas of natural waters

Fossil Fuel Exclusions

NEFCO Investment Fund and NEFCO-managed Trust Fund¹⁰ exclusions:

- Investments in components related to the use of fossil fuels
- Investment projects that include any components related to the use of fossil fuels financed by other project participants¹¹
- Projects leading to a lock-in effect on any use of fossil fuels within or outside the project scope

The following project elements are **not** covered by the fossil fuel exclusions:

- Back-up power generation for off-grid solutions or an emergency generator, provided that alternative fossil free solutions with, e.g., batteries have first been carefully considered and deemed not to be feasible,
- Transportation and hauling, when not a key part of the project and when renewable energy sources to meet transportation needs are not readily available.

Additionally, for investments in Least Developed, Low Income and Lower Middle-Income countries¹², the following project elements are **not** covered by the fossil fuel exclusions¹³:

- Waste heat from processes using fossil fuels,
- Agricultural, industrial and manufacturing processes where alternative investments in renewable energy have been carefully considered and deemed not to be feasible from a current technological and cost perspective and where the investments are designed to be converted for future renewable energy use so as to avoid lock-in effects.

⁷ Forestry definitions as described in the Convention on Biological Diversity, <https://www.cbd.int/forest/definitions.shtml>

⁸ 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.

⁹ 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>).

¹⁰ In case of trust fund having a separate, external to NEFCO, decision making body, NEFCO shall make its recommendation to the respective body.

¹¹ Exception: Individual projects in the Sweden-Ukraine District Heating (SUDH) programme may include gas boilers, financed by local contributors. This is justified from the perspective that the SUDH projects are demonstration projects with a specific purpose to demonstrate the transformation of the Ukrainian district heating sector in a long-term sustainable direction. The SUDH projects typically represent the beginning of a development in this direction.

¹² As of 22 April 2022, limited only to countries as defined by DAC List of ODA Recipients.

¹³ As a main rule, these exemptions do not apply to investments in high-emitting fuels such as non-conventional fossil fuels (shale oil, shale gas, oil sands, tar sands, crude bitumen or bituminous sands), coal or oil.