

Ethics and Compliance

Annual Report 2022

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1. About Ethics and Compliance at Nefco

Nefco is committed to fostering a culture of respect and ethical behaviour. Nefco is also committed to ensuring that funds entrusted to Nefco are managed with the highest standards of integrity and are used for their intended purposes.

The role of the Ethics and Compliance Department (“Ethics and Compliance”) is to lead and support Nefco’s work on ethics and compliance in all its operations. This is done in practice by:

- Providing advice and training to staff and management on integrity and compliance-related topics.
- Handling Nefco’s ‘Know Your Customer’ (KYC) process in relation to new and existing counterparties.
- 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.
- Together with Nefco’s Legal Department developing policies, rules and guidelines relating to integrity and ethics.
- Establishing procedures for integrity risk assessment and mitigation.
- Undertaking other internal and external initiatives that Ethics and Compliance deems necessary to achieve its mandate.

The compliance function at Nefco began its operations as a separate unit in April 2020. Since then, the department has grown to consist of the Chief Ethics and Compliance Officer and two Compliance Officers. During 2022, a Senior Adviser was seconded from the Nordic Investment Bank (NIB). The Chief Ethics and Compliance Officer reports administratively to the Managing Director and is independent of the operational departments in Nefco.

Reports on the first years of Ethics and Compliance’s operations were provided to the Board of Directors at meetings 1/2021 and 1/2022. This report provides an overview of the activities carried out during 2022.



2. Legal framework

Nefco has a robust and comprehensive legal framework in place 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 developments in this area are rapid and continuous, policies and rules are established and updated with the aim of keeping Nefco at the forefront of international best policy and practice.

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

2.1. Code of Conduct for Staff

At Board meeting 4/2022, Nefco's Board of Directors approved a new *Code of Conduct for Staff* which entered into force on 1 October 2022. The purpose of a code of conduct is to set out the ethical rules and principles of an organization. It is the key document for establishing expectations on behaviour among staff.

Nefco's first Code of Conduct entered into force in 2002 and has been subsequently updated four times. The previous Code of Conduct entered into force in 2014. All previous versions have been based on NIB's Code of Conduct¹. In contrast, the Code of Conduct approved in September 2022 was specifically developed for Nefco and was the result of broad internal consultations with Nefco staff and management, as well as comparisons with codes of conduct of other financial institutions. The intention was to put in place a document which is clear, up to date and reflects Nefco's culture and values. The changes included:

- An expanded section on conflicts of interest, including a strict prohibition for staff on investments in companies to which Nefco has or is considering providing financing;
- Incorporation of Nefco's values and culture, including expected workplace behaviour and the critical role of leaders; and
- Processes for handling situations related to conflicts of interest, outside activities, and financial investments.

To support the implementation of the new Code of Conduct, a compulsory e-learning course was prepared for staff.

Nefco is committed to fostering and promoting a culture of respect and ethical behaviour and to ensure that the funds entrusted to Nefco are managed with the highest standards of integrity.

As an employer, Nefco is committed to creating, together with its Staff, a sustainable and safe working environment built around shared beliefs and ethical behaviour. Nefco's working culture should support sound decision-making, professionalism, and well-being.

Nefco's Code of Conduct for Staff, Section 1.1

¹ NIB is an international financial institution, with partially the same owners, providing administrative services to Nefco.

3. Preventive integrity work

Prevention and proactive work are important parts of Nefco's integrity and compliance efforts. By providing advice, support, information and training, Ethics and Compliance aims to ensure that staff as well as counterparties understand Nefco's standards and expectations regarding compliance and integrity. Potential risks are mitigated by appropriate procedures, which are updated on a regular basis to adjust to risks, international best practices, and changes in Nefco operations.

3.1. Integrity Due Diligence

A key part of Nefco's preventive integrity work is the scrutiny of potential new counterparties, in order to identify actual or potential integrity risks. During 2022, the revision of the integrity due diligence (IDD) process, which followed the approval of the Policy on Integrity Due Diligence in 2020, was completed. Nefco's IDD process is benchmarked against and aligned with international 'Know Your Customer' standards and requirements used in the finance sector and among other IFIs.

Every new potential counterparty of Nefco, both for financing as well as consultancy contracts, undergoes an IDD review. In general, this consists of a review of beneficial ownership, legal and corporate structure, sanctions screening and adverse media. Nefco applies a risk-based approach and will adjust the scope of the review to the perceived risks. The review and analysis of IDD data results in a compliance risk rating – low, medium or high – reflecting the integrity risks identified. IDD reviews are updated on a regular basis, in general annually or semi-annually, depending on the assigned risk rating and the particular circumstances of each project. A new e-tool developed to manage IDD reviews was launched in June 2022 to facilitate processing, storing, reporting and follow-up of IDD reviews.

During the period 1 June² to 31 December 2022, 147 IDD reviews were completed, of which approximately 2/3 were new IDD's, with the remainder being updates of existing IDD reviews.

Nefco's IDD process was reviewed both as part of the complementary EU pillar assessment completed during spring 2022³ as well as by an internal audit during autumn 2022. Both reviews concluded with a positive outcome, resulting in no material recommendations to address.

² Statistics from when the e-tool was launched

³ <https://www.nefco.int/news/nefco-continues-to-comply-with-the-requirements-for-managing-eu-funds/>

Figure 1: Proportion of finalized IDD reviews according to type of counterparty

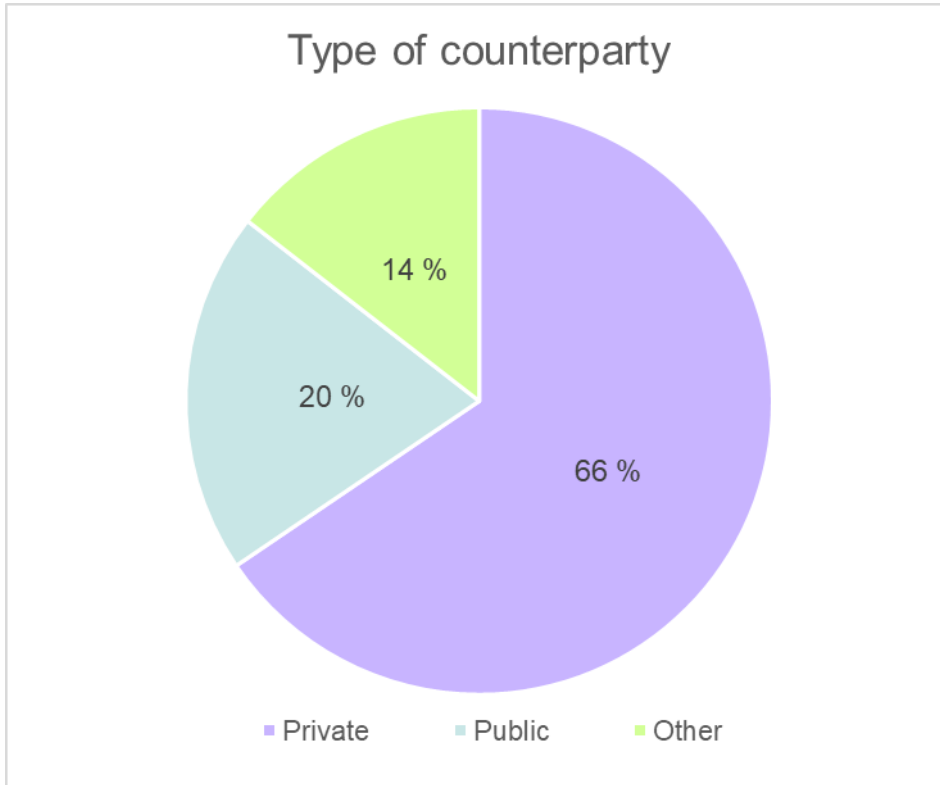
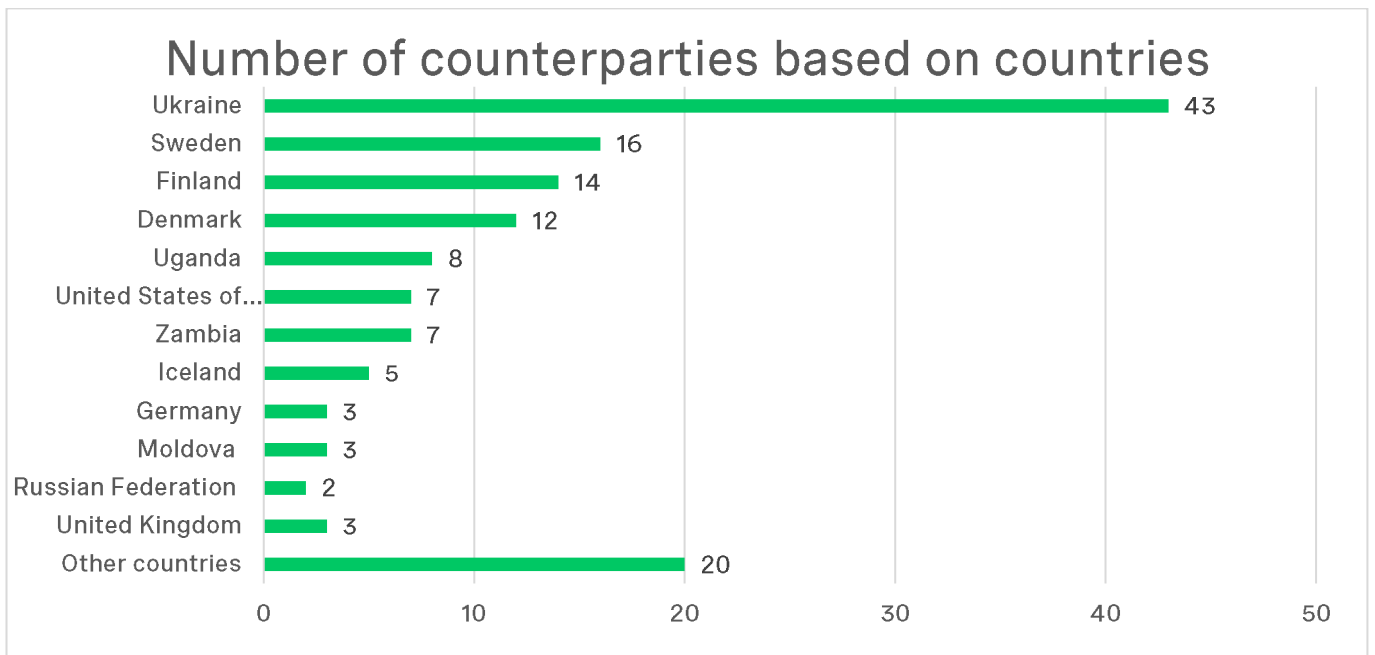


Figure 2: Distribution of finalized IDD reviews according to country of counterparty



3.2. Monitoring of sanctions

Russia's war against Ukraine has resulted in an unprecedented broadening and deepening of international sanctions. Following its [Policy on Integrity Due Diligence](#), Nefco monitors all sanctions lists by the United Nations, the European Union, the United States of America, and other International Financial Institutions, as well as any such other sanctions lists Nefco may from time to time deem relevant and appropriate in relation to Nefco activity.

As part of an IDD review, Nefco requires information on all ultimate beneficial owners (UBO) owning or controlling 10% or more of a Nefco counterparty. Following the risk-based approach, Nefco will, where appropriate, require information of 100% of the UBOs and screen these against sanctions lists, and assess the project in the light of relevant and applicable sanctions in force at the time. As an additional measure, Nefco may also require UBO information from entities, other than the Nefco counterparty, that execute, implement, or substantially contribute to a project.

Today, Nefco has no activities in Russia and Belarus other than those related to the winding down of operations and fulfilling of contractual obligations. Nefco has sanctions-related internal control processes in place. Any payments to or from an entity or individual in Russia or Belarus require a prior sanctions screening, as well as approval by the Managing Director and the General Counsel.

4. Investigations and complaints

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.

4.1. Complaints

During 2021, Nefco established a mechanism to review complaints and grievances⁴. 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 2022, no complaints were submitted to Ethics and Compliance.

4.2. Prohibited Practices

The definitions of Prohibited Practices (abuse, coercion, collusion, corruption, fraud, obstruction, money laundering, financing or terrorism), rules on the prevention of such practices, as well as sanctions in response to violations, were established in 2020 by Nefco's [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

⁴ <https://www.nefco.int/contact-us/complaints-review/>

senior staff members were appointed by the Board of Directors in September 2022 to serve on the panel for two years on a rotating basis.

4.3. Investigations during 2022

During 2022, Ethics and Compliance received one report regarding alleged irregularities in the procurement process and suspected Prohibited Practices. Irregularities in the procurement process could be substantiated and resulted in the financing agreement being terminated. In addition, Nefco will use the results of the investigation to further strengthen some of its internal procedures.

Ethics and Compliance also from time to time receives information on suspected misconduct having some form of link to Nefco, but which does not directly relate to Nefco funds or a Nefco project. In such cases, the situation is monitored and Nefco may take precautionary measures, but there is no full investigation by Ethics and Compliance.

5. Personal data protection

New and updated policies regarding the protection of personal data were approved by the Board of Directors in September 2021 and entered into force on 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 is appointed to act as the Data Protection Officer at Nefco.

During 2022, mapping of personal data collected by Nefco in its different activities and operations was carried out. Follow up on this mapping exercise will be carried out during 2023. For the first time, introductory training on how to handle personal data at Nefco was provided to Nefco staff, and further training will be provided during 2023. Nefco and NIB, which is providing Nefco with HR and ICT services among other things, are working on an agreement to formalize roles and responsibilities in relation to the management of personal data.

6. Planned activities for 2023

During 2023, Ethics and Compliance will focus on training, awareness raising and outreach, priorities which have also been reflected in Nefco's activity plan for 2023. Tools to provide e-learning for staff will be developed further to ensure all staff have an appropriate understanding of Nefco's principles and expectations concerning ethics and compliance issues. In addition, alternatives to provide accessible information and training for non-staff, e.g. consultants, will also be looked at.

In terms of development of the legal framework, Nefco's rules on investigations will be updated, to ensure they reflect best practices among international financial institutions.

We encourage anyone who has witnessed or suspects any form of Prohibited Practices (abuse, coercion, collusion, corruption, fraud, obstruction, money laundering, financing of terrorism), misconduct or other types of wrongdoing in a Nefco project to contact our Ethics and Compliance function

<https://www.nefco.int/contact-us/report-corruption-and-misconduct/>

corruption@nefco.int

An individual, a group of individuals or a legal entity which in its view has been, or may be, adversely affected by a decision or action by Nefco or a Nefco counterparty or by a Nefco funded project due to alleged non-compliance with Nefco policies, rules and procedures may file a complaint with Nefco.

<https://www.nefco.int/contact-us/complaints-review/>

complaints@nefco.int

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