Ethics and Compliance
Annual Report 2023
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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 by:

- Providing advice and training to, and raising awareness among, staff and management on integrity and compliance-related topics.
- Handling Nefco’s ‘Integrity Due Diligence’ (IDD) process in relation to new and existing counterparties.
- Collaborating with and supporting other parts of Nefco to ensure the organization’s requirements on ethics, integrity and anti-corruption are appropriately implemented in Nefco projects.
- Receiving and investigating reports on integrity violations and non-compliance.
- Together with Nefco’s Legal Department, developing policies, rules, guidelines and other documents relating to integrity and ethics.
- Establishing rules and procedures for Nefco’s ‘Know Your Customer’ (KYC) and integrity risk assessment and mitigation; and
- Undertaking other internal and external initiatives that Ethics and Compliance deems necessary to achieve its mandate.

The compliance function at Nefco consists of the Chief Ethics and Compliance Officer, two Compliance Officers (of which one is on a leave of absence) and an Integrity Analyst. During 2023, the team also included an intern. 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, 1/2022, and 1/2023. This report provides an overview of the activities carried out during 2023.

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).

All public policies and rules relating to ethics and compliance in Nefco are available at https://www.nefco.int/about-nefco/compliance/. The most recent addition to the documents is the Ukrainian translation of the Policy on Anticorruption and Compliance.
2.1. Code of Conduct for the Control Committee

The Code of Conduct for the Control Committee was approved by the Control Committee on 29 September 2023 and entered into force on 1 October 2023. The Code of Conduct is aligned with the Codes of Conduct for the Control Committee of the Nordic Investment Bank (NIB) and Nordic Development Fund (NDF). It contains provisions on core principles governing the work of the Control Committee, conflict of interest, investments, inside information, confidentiality, and public statements.

With the Code of Conduct for the Control Committee in place, the Code of Conduct for the Board and the Managing Director being approved in 2021 and Code of Conduct for Staff being renewed in 2022, Nefco has completed the revision of the Codes of Conduct for its governing organs and staff. The work on the Codes of Conduct has been carried out in close cooperation with the General Counsel of 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 Nefco staff and its 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 reflect Nefco’s risk-based approach, 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 to identify actual or potential integrity risks. Nefco’s Integrity Due Diligence (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 checks and analysis. Nefco applies a risk-based approach and adjusts the scope of a 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 circumstances of each project.

Where a medium rating is proposed, mitigating measures are indicated and the case is reviewed not only by the integrity analyst and project manager, but also by the head of the relevant department and the Chief Ethics and Compliance Officer before finalization.

During 2023, 238 IDD reviews were completed, of which 202 were new IDDs, with the remainder being updates of existing IDD reviews. Of these, 210 IDDs resulted in a low compliance risk rating and 28 in a medium compliance risk rating.
Nefco’s IDD process has been reviewed both as part of the complementary EU pillar assessment completed during spring 2022 as well as by an internal audit during autumn 2022. Both reviews concluded with a positive outcome, resulting in no material recommendations to address.

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 IFIs, as well as any such other sanctions regimes Nefco may deem relevant and appropriate in relation to Nefco activity.

As part of a full IDD review, Nefco requires information on all ultimate beneficial owners (UBO) owning or controlling directly or indirectly 10% or more of a Nefco counterparty. Following a 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 and other 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 implemented a range of sanctions-related internal control processes to ensure compliance with relevant sanctions. These risk control measures include any payments to or from an entity or individual in Russia or Belarus requiring a prior sanctions review, as well as approval by the Managing Director and the General Counsel.
3.3. **Training and outreach**

An important part of Ethics and Compliance’s preventive work is to provide information and training, both internally to staff as well as to Nefco’s counterparties, to ensure it is clear what is expected in terms of ethics and integrity when working at or with Nefco.

In 2023, Nefco’s first e-learning on the topic of Prohibited Practices was launched. Prohibited Practices are the eight types of activities which are not acceptable in any Nefco operations, namely abuse, coercion, collusion, corruption, fraud, obstruction, money laundering and financing of terrorism. The e-learning introduces and emphasizes the importance Nefco places on addressing fraud, corruption and other misconduct, and provides explanations of the Prohibited Practices and what staff are expected to do if they suspect Prohibited Practices in any of Nefco’s operations.

![NEFCO](image)

**Let’s get started!**

The purpose of this eLearning is to give you an overview of Nefco’s rules and principles on ethics and anticorruption to help you navigate your everyday work.

- What are Prohibited Practices?
- Why is Nefco committed to preventing Prohibited Practices?
- Who must follow the Anticorruption Policy, and when does it apply?
- What are typical signs/red flags to look out for?
- What should you do if you hear or see signs of Prohibited Practices?

You can find the Anticorruption Policy on the intranet and Nefco website. Click on ‘Introduction’ to start the course.

The new e-learnings on Prohibited Practices and the Code of Conduct for Staff are compulsory and are a mandatory part of the onboarding for all new staff members joining Nefco.

4. **Investigations and complaints**

According to Nefco’s legal framework, 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

A complaint can be submitted through Nefco’s website 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 is sent to the Managing Director for decision.

During 2023, four complaints were submitted to Nefco and handled by Ethics and Compliance:

One complaint related to the selection of a land plot for a Nefco project. The review concluded that the complaint was substantiated. The client provided a new land plot before the complaint review was completed.

One complaint concerned a bid being rejected in connection with a client’s tender due to late submission. This complaint was found to be unsubstantiated.

One complaint claimed that the financial figures included in a bid did not correspond to data available from open sources and that the tenderer therefore did not meet the tender criteria. Review of this complaint is still ongoing at the time of this report.

One complaint related to possible tax evasion, which Ethics and Compliance concluded could be reasonably established as not being substantiated.

The complaints review mechanism is a good tool to address the concerns of external stakeholders, to ensure that Nefco carries out its operations in a fair and transparent manner, and to help guarantee that Nefco upholds its high governance and integrity standards. The complaints review mechanism also provides a useful opportunity for Nefco to review its procedures and practical routines to identify possible risks at an early stage. Generally, at the conclusion of a complaints review, Nefco introduces measures to improve Nefco’s ways of working. These improvements are implemented whether or not the complaint is found to be substantiated.

4.2. Prohibited Practices

No reports were provided regarding suspected or alleged Prohibited Practices during 2023.

4.3. Sexual Exploitation, Sexual Abuse and Sexual Harassment

Nefco’s Policy on the Prevention of Sexual Exploitation, Sexual Abuse and Sexual Harassment (SEAH Policy) entered into force in 2020. All Nefco counterparties undertake to comply with the principles of the SEAH Policy through the terms of Nefco’s consultancy and financing agreements. In 2023, Nefco received the first report regarding alleged violations of the SEAH Policy. The investigation concluded that the allegation was substantiated. As the subject of the investigation was not a Nefco staff member, disciplinary measures could not be taken. However, Nefco is closely following up on the implementation of the SEAH Policy by the counterparty and may if needed take contractual measures in case of non-compliance.
5. **Personal data protection**

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 has been appointed to act as the Data Protection Officer at Nefco.

During 2023, a data Processing Agreement was entered into by Nefco and the Nordic Investment Bank (NIB) to formalize roles and responsibilities in relation to the management of personal data. The main reason for the Agreement was that NIB provides Nefco with HR and ICT services. Nefco has continued its work to ensure compliance with the legal framework on the protection of personal data by reviewing the purpose and legal basis of personal data collected. Internal access to certain personal data has also been reviewed and some restrictions implemented. An e-learning focusing on informing staff what they need to know and keep in mind when processing personal data has been developed. The intended launch date of this e-learning is mid-2024.

Nefco received one data subject access request during 2023. An individual contacted Nefco to exercise their rights as a data subject and requested information on what personal data Nefco holds about them. Nefco responded to the request in a timely manner.

6. **Planned activities for 2024**

In 2024, Nefco will introduce a new platform for whistleblowers. The GDPR-compliant platform will be available in several languages. It will be possible to submit reports completely anonymously through the platform.

The rules and guidelines on how Nefco conducts IDD reviews will also be revised and updated to reflect current workflows, Nefco’s evolving operational environment, new internal and external (including legal and regulatory) developments and requirements, as well as lessons learned following the introduction of the Nefco IDD Tool in 2022.

Internally, a compliance report platform will be introduced, to facilitate the submission of annual reports on financial and business interests. An e-learning on how to handle personal data will also be launched.
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