



Disclosure Statement, Operating
Principles for Impact Management

Swedfund International AB

April 8th, 2021

Swedfund fights poverty through sustainable investments

Swedfund International AB is Sweden's development finance institution for sustainable investments in developing countries and plays an important role in the implementation of Agenda 2030. Our mission is to fight poverty through sustainable investments. A developed private sector with decent jobs contributes to stable communities and reduced poverty. Swedfund is a state-owned company and is managed by the Swedish Ministry of Enterprise and Innovation. Its operations are financed by capital injections, for which the Swedish Ministry for Foreign Affairs is responsible, and through reflows from the portfolio.

We have defined three sectors within which we focus our investments, and which are particularly important for achieving the goal of reducing poverty: Energy & Climate, Financial Inclusion, in order to increase the proportion of SMEs and promote entrepreneurship, as well as Healthcare. Climate, gender equality and women's empowerment, and digitalisation are three thematic areas that permeate what we do, regardless of the choice of instrument, geography, or sector. We invest in equity, provide loans, and utilise funds as instruments to reach out to more small and medium-sized enterprises. Our business model is based on three pillars: impact on society, sustainability, and financial viability. By setting requirements for development results and working closely with our portfolio companies, we monitor and ensure that they develop in the right direction. We have a geographical focus on Sub-Saharan Africa and least developed and low-income countries in Asia.

Swedfund International AB (Swedfund or the "Signatory") hereby affirms its status as a Signatory to the Operating Principles for Impact Management (the "Principles"). This Disclosure Statement applies to the following assets (the "Covered Assets"): Swedfund's total portfolio. The total assets under management in alignment with the Principles is MUSD 599 as of December 31st, 2020.



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PRINCIPLE 1:

Define strategic impact objective(s), consistent with the investment strategy. *The Manager shall define strategic impact objectives for the portfolio or fund to achieve positive and measurable social or environmental effects, which are aligned with the Sustainable Development Goals (SDGs), or other widely accepted goals. The impact intent does not need to be shared by the investee. The Manager shall seek to ensure that the impact objectives and investment strategy are consistent; that there is a credible basis for achieving the impact objectives through the investment strategy; and that the scale and/or intensity of the intended portfolio impact is proportionate to the size of the investment portfolio.*

- Swedfund is Sweden's development finance institution for sustainable investments in developing countries and plays an important role in the implementation of Agenda 2030.
- Swedfund is a state-owned company and is managed by the Swedish Ministry of Enterprise and Innovation. Its operations are financed by capital injections, for which the Swedish Ministry for Foreign Affairs is responsible, and through reflows from the portfolio. According to Swedfund's Owner's instruction, the work of the organisation must contribute to the realisation of the goal for Sweden's Policy for Global Development (PGD) and the objective of the operations is the goal of Sweden's international aid - to contribute to the creation of conditions for improved standards of living for people who live in poverty and oppression. Swedfund's operations shall contribute to economically, socially, environmentally, and climatically sustainable development, aligned with the goals of the 2030 Agenda.
- Our mission is to fight poverty by sustainable investments in developing countries.
- We invest in equity, provide loans, and utilise funds as instruments to reach out to more small and medium-sized enterprises.
- Our business model is based on three pillars: impact on society, sustainability and financial viability. By setting requirements for development results and working closely with our portfolio companies, we monitor and ensure that they develop in the right direction.
- Swedfund has formulated Theories of Change (ToC) for its overall mission as well as for its focus sectors and themes. The ToCs frame the development impact rationale for all investments in association with Swedfund's mission, strategy, and targets. The relevance, conditions, and evidence of the ToCs are verified through impact studies and dialogues with stakeholders.
- As a development finance institution, impact forms an integrated part of Swedfund's decision making process, from proposal to exit. The achievement of our Impact focused mission steers the development of our (i) strategy, (ii) targets and (iii) processes, which in turn collectively stipulates the foundation of how impact is integrated in Swedfund's decision making.

PRINCIPLE 2: *Manage strategic impact on a portfolio basis.* *The Manager shall have a process to manage impact achievement on a portfolio basis. The objective of the process is to establish and monitor impact performance for the whole portfolio, while recognizing that impact may vary across individual investments in the portfolio. As part of the process, the Manager shall consider aligning staff incentive systems with the achievement of impact, as well as with financial performance.*

- Swedfund sets targets and manages its impact both on portfolio level and in individual investments. We have portfolio level mission objectives relating to the economical sustainability of investments, environmental and climatic sustainability of investments, social sustainability of investments and regarding Swedfund's additional role:
 - Turnover and profitability shall increase in not less than 60% of the Company's investments during the holding period with a base year corresponding to the investment year.
 - By 2045, Swedfund's investment portfolio shall be climate-neutral, meaning the portfolio shall have a net zero release of greenhouse gases. Also, the total release of greenhouse gases per invested Swedish krona shall accordingly decline over time with 2020 as the base year.
 - Increased gender equality in the investment portfolio, which entails fulfilment of the 2x-Challenge criteria or equivalent in at least 60% of the investments of the total portfolio, not later than three years from the date of investment.
 - Compliance by 100% of the investment portfolio with decent working conditions in accordance with the core ILO conventions not later than three years from the date of investment.
 - The Company's investment portfolio shall mobilise not less than 30% of commercial capital.
- The portfolio level mission targets guide investment selection and management. Swedfund's impact management process is integrated to its investment management process including environmental, social and governance (ESG) management.
- Swedfund's mission targets are at the core of Swedfund's strategy and form a basis for our annual plans and target setting for management, departments and all staff.
- Data across all three pillars, impact on society, sustainability and financial viability, is collected and verified annually through surveys and annual reports of portfolio companies. The data is aggregated at portfolio level and published in Swedfund's annual integrated report. Swedfund's impact and sustainability data reported in the integrated report is audited by an external auditor with equivalent level of authority as the financial data.
- Indicators that are collected and analysed for portfolio management are harmonized with other Development Finance Institutions, private sector investors or other industry initiatives such as HIPSO, the 2X Challenge and the GIIN's IRIS catalogue. It is essential for Swedfund to align with relevant industry initiatives and encourage harmonization in order to ensure quality indicators, enable benchmarking of our performance with our peers, but most importantly also contribute to the continued knowledge and growth of the industry.

PRINCIPLE 3:

Establish the Manager's contribution to the achievement of impact. The Manager shall seek to establish and document a credible narrative on its contribution to the achievement of impact for each investment. Contributions can be made through one or more financial and/or non-financial channels.¹ The narrative should be stated in clear terms and supported, as much as possible, by evidence.

(1) For example, this may include improving the cost of capital, active shareholder engagement, specific financial structuring, assisting with further resource mobilization, providing technical/market advice or capacity building to the investee, and/or helping the investee to meet higher operational standards.

- A prerequisite for all Swedfund's investment operations is the demonstration of additionality. This is assessed through an additionality assessment based on OECDs definition of additionality.
- As mentioned under Principle 1, Swedfund has developed Theories of Change for its overall mission as well as key sectors and focus themes (e.g., gender, climate, digitalisation). Each investment is assessed to formulate a relevant impact narrative in line with relevant Theory of Change. This narrative will be evaluated regularly throughout the investment life cycle e.g., ex ante evaluation (due diligence), ex post impact studies and other engagements during the holding period and exit evaluations and studies.
- To achieve desired development effects, Swedfund uses financial contributions through its investment and works to mobilise capital, shares know how directly and throughout its network and stakeholders, monitors and support implementation of ESG Action Plan, and builds capacity through Technical Assistance funding.

PRINCIPLE 4:

Assess the expected impact of each investment, based on a systematic approach. For each investment the Manager shall assess, in advance and, where possible, quantify the concrete, positive impact potential deriving from the investment. The assessment should use a suitable results measurement framework that aims to answer these fundamental questions: (1) What is the intended impact? (2) Who experiences the intended impact? (3) How significant is the intended impact? The Manager shall also seek to assess the likelihood of achieving the investment's expected impact. In assessing the likelihood, the Manager shall identify the significant risk factors that could result in the impact varying from ex-ante expectations. In assessing the impact potential, the Manager shall seek evidence to assess the relative size of the challenge addressed within the targeted geographical context. The Manager shall also consider opportunities to increase the impact of the investment. Where possible and relevant for the Manager's strategic intent, the Manager may also consider indirect and systemic impacts. Indicators shall, to the extent possible, be aligned with industry standards and follow best practice.

- All three pillars, impact on society, sustainability and financial viability, are included in Swedfund's investment process and impact concept clearance and due diligence is applied to all Swedfund's investments.
- Swedfund's Impact Management System is aligned with the Principles uses the Impact Management Project's five dimensions of impact to frame the analysis.
- All investment proposals that will be presented to the Investment Committee for concept clearance are required to firstly go through an additionality assessment and impact potential assessment, ensuring that we only invest where there is an explicit need for our funds/lack of commercial capital but also identifying key impact areas and risks to be further assessed during a potential due diligence. This assessment can be conducted either by investment officers or by dedicated impact experts.
- Results from due diligence presented to the Investment Committee shall show the alignment with Swedfund's applicable Theory of Change and key Sustainable Development Goals, have a narrative on level of expected impact, and answer the following questions: What is the expected impact, Who will experience the impact, How much impact is expected to occur, Contribution of Swedfund, Level of risk that desired impact will not be realised.
- In addition, key metrics to be assessed for the baseline and to be monitored during the investment are identified as applicable. Key metrics include portfolio levels indicators that are measured for all investments, sector specific indicators and investment specific indicators.
- A value creation plan based on the assessment of expected impact is created ex-ante as applicable and this together with an ESG Action Plan is anchored with the investment. The aim of the value creation plan is to find ways to accelerate positive impact. Negative impact is managed through Swedfund's ESG Management System described in Principle 5.

PRINCIPLE 5:

Assess, address, monitor, and manage potential negative impacts of each investment. For each investment the Manager shall seek, as part of a systematic and documented process, to identify and avoid, and if avoidance is not possible, mitigate and manage Environmental, Social and Governance (ESG) risks. Where appropriate, the Manager shall engage with the investee to seek its commitment to take action to address potential gaps in current investee systems, processes, and standards, using an approach aligned with good international industry practice. As part of portfolio management, the Manager shall monitor investees' ESG risk and performance, and where appropriate, engage with the investee to address gaps and unexpected events.

- Swedfund's Ethical Compass states international commitments, policies, guidelines and transparency obligations that Swedfund has adopted. Swedfund's Policy for Sustainable Development and Anti-Corruption Policies are integral parts of our sustainability framework and determine the requirements we set for our portfolio companies regarding impact and sustainability. The policies are available at our home page:

<https://www.swedfund.se/media/2242/swedfund-policy-for-sustainable-development.pdf> and <https://www.swedfund.se/media/2373/swedfund-anti-corruptionpolicy-june-2020.pdf>

- Swedfund's sustainability goals imply that
 - 100% of Swedfund's investments shall act consistently with ILO's Declaration on Fundamental Principles and Rights of Work and ILO Basic Terms and Conditions of Employment within 3 years from the time of the investment.
 - 100% of portfolio companies have implemented an Environmental and Social Management System within 3 years from the time of the investment, including Human Rights.
 - 100% of portfolio companies have implemented an Anti-Corruption Management System within 3 years from the time of the investment.
- ESG considerations are applied to all Swedfund's investments and Swedfund's Environmental and Social Management System describes in detail how ESG is included in our investment process to identify and mitigate ESG risks.
- Swedfund categorises all potential investments in four or three risk categories to reflect the potential ESG risks and impact related to the business activities of the investment. The risk categorisation guides our due diligence procedure. The main frameworks and guidelines used during the due diligence are EDFI Harmonised ES Standards, IFC Performance Standards and the United Nations Guiding Principles on Business and Human Rights (UNGP). In addition, we apply specific lenses to assess for example gender and climate issues.
- The risk assessment finds further guidance by the Impact Management Project's Nine types of Impact risks, to structure our analysis in (i) Type of impact risk, (ii) Level of impact risk and lastly (iii) a mitigation strategy.
- The improvements that the investments are required to undertake in order to meet our ESG requirements are summarised in an ESG Action Plan that is included in the investment agreement.
- Once the agreement has been signed and the funds disbursed, Swedfund will follow the implementation of the ESG Action Plan and monitor the performance of the investment through annual surveys, site visits, audits and work through boards and sustainability committees.
- Ahead of the exit process, the investment is analysed on the basis of Swedfund's three pillars as applicable. During this process, we consider whether further initiatives are necessary, for example to mitigate residual risks.

PRINCIPLE 6:

Monitor the progress of each investment in achieving impact against expectations and respond appropriately. *The Manager shall use the results framework (referenced in Principle 4) to monitor progress toward the achievement of positive impacts in comparison to the expected impact for each investment. Progress shall be monitored using a predefined process for sharing performance data with the investee. To the best extent possible, this shall outline how often data will be collected; the method for data collection; data sources; responsibilities for data collection; and how, and to whom, data will be reported. When monitoring indicates that the investment is no longer expected to achieve its intended impacts, the Manager shall seek to pursue appropriate action. The Manager shall also seek to use the results framework to capture investment outcomes.*

- As an active owner, Swedfund collects data to assess performance across its three pillars (see Principle 1). Swedfund's performance and result management constitutes of both quantitative and qualitative data.
- As part of Swedfund's investment agreements with its clients, Swedfund outlines data collection, methodologies, and responsibilities prior to the beginning of monitoring activities and requires that its clients report on key indicators each year.
- Both qualitative and quantitative data including portfolio level and sector level indicators is gathered through annual sustainability surveys via our online data collection system, WorldFavor. Other reporting from our portfolio companies, such as fund reports and annual reports, are used as well. ESG & Impact Team is responsible for collecting and verifying the data.
- The data is aggregated and analysed on portfolio level and the results are published in Swedfund's annual integrated report. Swedfund's impact and sustainability data reported in the annual integrated report is audited by an external auditor with equivalent level of authority as the financial data. Portfolio level metrics are assessed towards Swedfund's mission goals.
- In addition, Swedfund reports quarterly to the Board of Directors on the portfolio progress including impact related information. We conduct regular internal business reviews to discuss performance regarding our strategy and business plan.

PRINCIPLE 7:

Conduct exits considering the effect on sustained impact. *When conducting an exit, the Manager shall, in good faith and consistent with its fiduciary concerns, consider the effect which the timing, structure, and process of its exit will have on the sustainability of the impact.*

- Swedfund's investment process includes a pre-exit evaluation, as applicable, including effects on sustained impact and mitigations needed to maintain and sustain generation of impact also after Swedfund's active engagement, e.g., timing, need for additional assessment or initiatives for example by using Technical Assistance funding. This assessment can affect timing, structure and choice of buyer.

- Swedfund is a long-term investor with engagements ranging on average between 7-10 years. This provides a significant time period to support capacity building and influencing relevant aspects that are believed to be essential in order to generate desired impact in investees. Generated impact and potential to achieve even more are taken into account when considering exit.
- Debt instruments are in many cases self-liquidating in nature. In these cases, Swedfund writes an exit report including an impact evaluation.
- An exit report is documented for performed exits, including an assessment of Swedfund's three pillars. The assessment summarizes the expected impacts at the time of investment, compares the actual impact in relation to the baseline, evaluates Swedfund's contribution to the actualised impact. The exit assessment is essential for Swedfund's continuous learning and improvements of future investment decisions.
- Some exits are of special interest to understand development effects. In these cases, Swedfund will aim to conduct impact studies to harvest learnings.

PRINCIPLE 8:

Review, document, and improve decisions and processes based on the achievement of impact and lessons learned. *The Manager shall review and document the impact performance of each investment, compare the expected and actual impact, and other positive and negative impacts, and use these findings to improve operational and strategic investment decisions, as well as management processes.*

- Swedfund's results are evaluated on a regular basis by independent governmental agencies, committees, researchers and others.
- An annual evaluation of performance towards mission targets is conducted by the Board of Directors and management as a part of Swedfund's integrated reporting.
- With each new commitment Swedfund conducts an ex-ante analysis which states the expected impact to be generated by the investment project. The analysis includes both a quantitative and qualitative assessment and is performed as an integrated part of the due diligence, as applicable. A baseline is established for each investment which subsequently enables a tangible assessment of impact improvements or potential deviations in relation to expectations and targets during the active management phase.
- Regular reviews of the actual impact in individual projects are also assessed based on data and in direct dialogue with the investees, which further supports the identification of potential gaps and needs in order to deliver on targets. In doing so Swedfund can proactively improve the portfolio's impact performance while also learning from our portfolio companies and continuously improve our support in future projects.
- Swedfund has started to conduct demand-driven impact studies to better understand the development effects from different investments and to be able to identify the assumption and conditions that can enhance the desired impact. These studies are generally delivered by a third party. Impact studies also enable us to build empirical

support for our Theories of Change while also identifying additional relevant pathways to deliver development impact

- Swedfund has established an internal audit function in 2020 and further developed its impact management system. We conducted an internal audit on our impact management system to be able to further develop our impact assessment, management and evaluations.

PRINCIPLE 9:

Publicly disclose alignment with the Principles and provide regular independent verification of the alignment. *The Manager shall publicly disclose, on an annual basis, the alignment of its impact management systems with the Principles and, at regular intervals, arrange for independent verification of this alignment. The conclusions of this verification report shall also be publicly disclosed. These disclosures are subject to fiduciary and regulatory concern.*

- This Disclosure Note re-affirms the alignment of Swedfund's impact management procedures with the Principles and will be updated annually.
- Swedfund's impact and sustainability data reported in the annual integrated report is audited by an external auditor with equivalent level of authority as the financial data, meaning our portfolio companies' results regarding impact on society has also undergone an independent audit. Swedfund's annual integrated reports are available at <https://www.swedfund.se/en/about-swedfund/>
- The independent verification report on the alignment of Swedfund with the Operating Principles for Impact Management is available at <https://www.swedfund.se/media/2459/swedfund-opim-verification-statement-2021.pdf> covering total assets under management.
- The verification will be replicated regularly, likely every third year.
- Information on the current independent verifier is as follows:
 - *Name and address:* Transcendent Group Stockholm AB, Sveavägen 20, 111 57 Stockholm, Sweden
 - *Qualifications:* "At Transcendent Group we are experts in making the complex straightforward. We are specialists in Governance, Risk and Compliance (GRC) and we tailor make solutions to fit our client's situations and circumstances. Our services provide security and enable new opportunities for our clients in the public and private sectors, including government agencies, businesses and other organisations in a variety of industries. All internal audit consultants at Transcendent Group have several years of experience and work in accordance with IIA's guidelines. Most consultants hold related certifications, including CIA, CISA, CISM and CFE."
 - *Verification process:* Swedfund has outsourced its internal audit function to Trancendent Group Stockholm AB. The main purpose of the internal audit is to monitor that Swedfund's operations are in line with guidelines from the Board

of Directors. Annual plan for the internal audit is approved the Board and the internal audit reports regularly to Audit Committee.

- *Most recent review:* The most recent verification statement was dated March 4th, 2021.

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