



Swedfund's Policy for Sustainable Development

1. Purpose and scope

Swedfund's goal and mission as the Swedish Development Finance institution is to fight poverty through sustainable investments in developing countries. Our commitment to sustainable development is guided by Agenda 2030, including the UN Sustainable Development Goals and the Addis Ababa Action Agenda, which together with the Paris Agreement, constitute a transformative plan of action aimed at eliminating poverty, reducing inequalities, and protecting our planet. This Policy for Sustainable Development forms an integral part of Swedfund's Sustainability Frameworkⁱ and applies to all Swedfund's investments and activities, regardless of company type, sector or instrument.

Our investments are long-term commitments. It is our conviction that sustainable business practices mitigate risks and create long-lasting value in our portfolio, companies, and society. Swedfund's business model is based on three equally important pillars: Impact on Society, Sustainability, and Financial Viability. This Policy for Sustainable Development describes what we expect from ourselves and our investments in order to fulfil our ambitions within the first and second pillars.

Within the pillar of "Impact on Society" we assess and monitor the impact contribution of our investments, including increased number of decent jobs, improved access to essential products and services, improved gender equality and women's economic empowerment, reduced environmental and climate footprint, and increased tax generation.

Within the pillar of "Sustainability" we assess and monitor the performance of our investments in relation to environmental and social considerations, respect for human rights, corporate governance, and business ethics.

2. Swedfund's commitment to all stakeholders

Swedfund is a signatory of and/or has committed to a set of international standards, principles for responsible investment, and sustainable business practices. These standards and commitments have been defined in close dialogue with our stakeholders and integrated into our business model and investment process. A complete list of our commitments is included in our Ethical Compassⁱⁱ.

The cornerstones of our responsibility as an investor include:

- We will not finance any activity, production, use, distribution, business, or trade involving any activity excluded by the EDFI Harmonized Exclusion List and the EDFI Fossil Fuels Exclusionⁱⁱⁱ.
- We identify, assess, manage, and monitor the environmental, social, and governance performance of our portfolio and individual investments throughout the investment process:
 - a. We will only invest in businesses that share our view on sustainability and are expected to meet our requirements over time. During due diligence, we assess whether the requirements are met. If gaps are identified, we require that the

- portfolio company commits to an ESG action plan that aims to ensure compliance within a defined timeline.
- b. The applicable requirements and the action plan form part of the legal agreement with the portfolio company. In the event of a breach, contractual remedies are available to Swedfund.
- c. Throughout the life of the investment, we regularly monitor the ESG performance, including implementation of the ESG action plan, and support our portfolio companies in improving their ESG performance where applicable.
- We identify, assess, manage, and monitor the impact of our portfolio and individual investments throughout the investment process:
 - a. During due diligence, we assess the potential impact of the prospective investment along the Five Dimensions of Impact (what, who, how much, contribution and risk) in line with Swedfund's goals, overall Theory of Change, and relevant sector-specific Theory of Change.
 - b. The identified gaps and opportunities for leveraging the desired impact inform the development of the plan for active ownership, including commitments by the portfolio company and contractual requirements, as applicable.
 - c. Throughout the life of the investment, we regularly monitor the impact performance against expected targets at the portfolio and individual investment levels and support portfolio companies as they strive to achieve their full impact potential.
- We contribute to the wider development and harmonization within the investor community of sustainability and impact measurement, management, and reporting.

3. Swedfund's key thematic areas for Sustainable Development

Swedfund has identified key thematic areas for sustainable development including Human Rights and Decent Work, Gender Equality and Women's Empowerment, Environment and Climate, as well as Business Ethics, Corporate Governance and Anti-Corruption, and Tax. We recognize that these thematic areas are closely interlinked, might overlap, and are equally important. They are described in more detail, either in this Policy, or in Swedfund's Code of Conduct, Anti-Corruption Policy, Tax Policy and in Guiding Notes.

Human Rights

Swedfund recognizes that all business enterprises should respect human rights including labor rights. This means avoiding infringing upon basic human rights and addressing any adverse human rights impacts of the enterprise:

- This responsibility to respect human rights refers to all Internationally Recognized Human Rights – understood, at a minimum, to be the Universal Declaration of Human Rights, the International Covenant on Civil and Political Rights and the International Covenant on Economic, Social and Cultural Rights (collectively known as the International Bill of Human Rights) and the ILO's Declaration on Fundamental Principles and Rights at Work. In addition, we recognize the UN Convention on the Rights of the Child and the Children's Rights and Business Principles (CRBP).
- We are committed to working actively to comply with the United Nations Guiding Principles on Business and Human Rights (UNGPs). We continuously develop and implement a human rights due diligence process to identify, prevent, mitigate, and account for how we address our impacts on human rights and engage and consult with potentially affected stakeholders.

The human rights due diligence process is largely embedded in our existing environmental and social management system.

- To fulfil our commitment to respect human rights, we aim to avoid causing or contributing to adverse human rights impacts resulting from our own activities and to address such impacts if they occur. Where we identify that we have caused or contributed to adverse human rights impacts, we will provide for, or cooperate in, their remediation through legitimate processes.
- We also aim to prevent or mitigate adverse human rights impacts that are directly linked to our operations by our business relationships. Where we identify adverse human right impacts that are directly linked to our operations through our business relationships, we will seek to work with our business partners to ensure that remediation occurs.
- We work actively to encourage and support our portfolio companies in their efforts to safeguard and contribute to strengthening human rights, through their own collaboration and engagement with stakeholders on the topic.

Gender Equality and Women's Empowerment

Swedfund is committed to promoting women's empowerment and gender equality, which are fundamentally linked to our mission to contribute to poverty and inequality reduction.

- We collaborate with partners to align our efforts and amplify our impact on women's empowerment and gender equality. As a signatory of the *2X Challenge*, we work alongside other DFIs to mobilize funds for investments that provide women in developing countries with improved access to leadership opportunities, quality employment, finance, and products and services that enhance economic participation.
- We seek to embed a gender lens in Swedfund's investment process with the goal of ensuring that women's empowerment and gender equality is systematically addressed as a key area for decision making and value creation throughout the lifetime of our investments.
- We strive to assure that the right conditions are in place not only to prevent and fight gender-based discrimination, violence, sexual exploitation, abuse, and harassment, but also to enable positive gender impact during and beyond Swedfund's active ownership.
- We work actively with our portfolio companies to contribute to a world with equal rights, equal conditions, equal opportunities, and equal power.

Environment and Climate

Swedfund is committed to protecting the environment and climate. Climate change is one of the biggest challenges the global community is currently facing and one of the greatest barriers to development. Climate change severely affects private and public sector businesses, livelihoods and has a negative impact on inclusive growth and sustainable development. Climate change and poverty go hand in hand, and the impacts of climate change are disproportionately burdening developing countries. Additionally, groups in vulnerable situations, including, in many contexts, women, are likely to be disproportionately affected by climate change.

- We commit to align with the goals of the Paris Agreement, which aims to limit global warming well below 2, preferably to 1.5 degrees Celsius compared to pre-industrial levels. We strive to reduce our own emissions and work closely with our portfolio companies to support their low carbon transitions.
- In line with this, Swedfund shall invest in low emission pathways and climate resilient development; and contribute towards net zero emissions. Specifically, Swedfund's climate goals as specified by our owner, the Swedish government, are: (i) Investment portfolio shall be climate neutral by 2045 and (ii) the portfolio's average GHG emissions per invested SEK shall decrease over time.

- We assess the climate vulnerability and climate risks, both physical and transition risks, of our portfolio companies and support them on adaptation measures.
- Our investments within the energy sector shall focus on renewable energy production and distribution, thereby precluding any type of investment in fossil fuels.
- Additionally, Swedfund is a signatory to the Task Force for Climate-related Financial Disclosures (TCFD).

Business Ethics and Corporate Governance

Swedfund is committed to supporting ethical business practices and good corporate governance in the following ways:

- We commit to counteracting corruption and tax avoidance and will only invest in sound and clear corporate structures.
- We undertake, as a signatory to the Corporate Governance Development Framework (CGDF), to integrate corporate governance in our investment operations, ensure internal responsibility for corporate governance, provide, or procure corporate governance training^{iv} collaborate with other CGDF signatories^v and report on the implementation of the Framework to the other signatories.
- We stand for transparency in our operations and investments within the boundaries of our confidentiality requirements and we provide information regarding our activities on our website and through other channels including our annual integrated report.

4. Requirements for Swedfund's portfolio companies

We invest in equity and provide loans, directly and indirectly through financial institutions and funds. When investing, we expect each portfolio company, regardless of company type, sector or instrument, to be committed to the following requirements, in addition to the requirements stipulated in other key documents in Swedfund's Sustainability Framework.

When investing with other Development Finance Institutions, the EDFI Harmonized Environmental and Social Standards will be applied as minimum standards. When investing with other investors who share our mind-set with respect to impact and sustainability issues, Swedfund may agree to apply requirements which differ from, but are substantially similar to, the requirements in this Policy in order to harmonize the requirements of all investors, provided that such requirements are satisfactory to Swedfund.

4.1. Requirements for all portfolio companies

- Comply with legal and regulatory requirements in the jurisdictions where they operate.
- Comply with the Harmonized EDFI Exclusion List and EDFI Fossil Fuel Exclusion Listⁱⁱⁱ.
- Develop, implement, and maintain an appropriate Environmental and Social Management System.
- Act consistently with the ILO's Declaration on Fundamental Principles and Rights at Work and the ILO's Basic Terms and Conditions of Employment^{vi}.
- Adhere to applicable IFC Performance Standards and IFC EHS Guidelines as appropriate to the size and nature of the business.
- Respect all Internationally Recognized Human Rights and conduct regular human rights due diligence in order to identify, prevent, mitigate, and account for potential adverse impacts and risks as appropriate to the size and nature of the business.

- Contribute to increasing women's empowerment and gender equality in line with 2X Challenge criteria and counteracting unacceptable behaviors and practices in line with the ILO C190 - Violence and Harassment Convention.
- Assess climate impact and risks of the project/activity and undertake efforts to mitigate climate change impacts and risks as appropriate to the size and nature of the business.

In addition, Swedfund will also generally make mandatory that financial institutions and fund managers require their clients to develop an Environmental and Social Management System covering the above requirements as appropriate.

4.2. Additional requirements for our portfolio companies

In specific situations it might be necessary to apply additional requirements on our portfolio companies. Some examples of these additional requirements include:

- Acting consistently with the United Nations Guiding Principles on Business and Human Rights (UNGP) appropriate to the size and nature of the business.
- Complying with relevant client protection principles.
- Adopting additional international guidelines to manage key risks and impacts of the company, such as guidelines on water, forestry, land rights, and biodiversity.
- Estimating and accounting for Greenhouse Gas (GHG) emissions in line with the GHG Protocol^{vii}.
- Assessing climate risks and opportunities and identifying appropriate adaptive measures^{viii}.
- Becoming a signatory to IFC's Operating Principles on Impact Management.
- Establishing an Impact Management and Measurement system.
- Striving to ensure that the total remuneration to senior executives is reasonable and well-considered.
- Embedding impact and sustainability in the agenda of the Board of Directors by including relevant competence on the Board, establishing an impact and sustainability committee, or including impact and sustainability as standard items for board meetings.

Where a portfolio company already fulfils the applicable requirements, we may engage with them to recommend relevant areas and applicable guidelines for further development to ensure long-lasting value creation.

5. Swedfund's complaints mechanisms

Swedfund recognizes that individuals and communities that are subject to risks or impacts from our activities or our portfolio companies need to be able to lodge a grievance directly with Swedfund. Therefore, we make a grievance mechanism available on Swedfund's website to respond in a timely manner to legitimate concerns and grievances about Swedfund and our portfolio companies.

In addition, via Swedfund's website, a whistleblowing service is available for employees, contractors, and consultants at our portfolio companies to make it easy to anonymously report serious irregularities.

6. Approval, revision, and distribution

This Policy for Sustainable Development was adopted by the Board of Swedfund International AB on 16 June 2021. The Policy is distributed to all employees and portfolio companies of Swedfund. The Policy is publicly available on the website. We regularly evaluate the results of implementing this policy. The policy will be reviewed annually and updated when necessary, in close cooperation with all our stakeholders.

ⁱ <https://www.swedfund.se/en/about-swedfund>

ⁱⁱ Our Ethical Compass: <https://www.swedfund.se/media/2432/ethical-compass-17112020.pdf>

ⁱⁱⁱ EDFI Exclusion Lists: <https://www.swedfund.se/media/2441/edfi-fossil-fuel-exclusion-list-october-2020.pdf>

^{iv} [Training - CG Development Framework](#)

^v [Signatories - CG Development Framework](#)

^{vi} **The ILO's Declaration on Fundamental Principles and Rights at Work** refers to The Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87); Right to Organise and Collective Bargaining Convention, 1949 (No. 98); the Forced Labour Convention, 1930 (No. 29); Abolition of Forced Labour Convention, 1957 (No. 105); Minimum Age Convention, 1973 (No. 138); Worst Forms of Child Labour Convention, 1999 (No. 182); the Equal Remuneration Convention, 1951 (No. 100); and the Discrimination (Employment and Occupation) Convention, 1958 (No. 111).

ILO Basic Terms and Conditions of Employment refers to Hours of Work (No. 1); Minimum Wage (No. 26, 131); and Occupational Safety and Health (No. 155).

In those countries that have not ratified the ILO conventions, special assessments will be made.

^{vii} <https://ghgprotocol.org/>

^{viii} For financial institutions, this could involve following the TCFD (Task Force on Climate-related Financial Disclosures) recommendations: <https://www.fsb-tcfd.org/>