

Nordic Development Fund



ENVIRONMENTAL AND SOCIAL POLICY

**Adopted by the Board of Directors
on 13 October 2021
In force as of 18 October 2021**

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Responsible Department

Quality Assurance and Reporting

Document version history and review dates

<i>Document name</i>	<i>Adopted by</i>	<i>Adopted on</i>	<i>Entry into force as of</i>	<i>Information Classification</i>
Environmental and Social Policy	NDF Board of Directors	13 October 2021	18 October 2021	Public

Replaced documents

<i>Document name</i>	<i>Adopted by</i>	<i>Adopted on</i>	<i>Entry into force as of</i>	<i>Information Classification</i>
NDF Environmental & Social Policy and Guidelines	NDF Board of Directors	8 March 2017	8 March 2017	Public

Related documents

Environmental and Social Guidelines
Gender Equality Policy
Gender Equality Guidelines

1 Introduction

The Nordic Development Fund (NDF or Fund) recognises the importance of environmental and social sustainability in delivering on its purpose. The negative impacts of climate change are increasingly being felt across the globe and most acutely by people in the least developed countries where social and environmental resilience is already stretched thin. Thus, interventions in such circumstances require thinking beyond “do no harm” to ensuring net positive benefits to the environment and communities, i.e., “do good”. The Environmental and Social Policy (Policy) spells out NDF’s principles and commitments concerning environmental and social sustainability, with the aim to ensure that environmental and social risks are actively addressed in NDF’s work and to enhance the outcomes and eventually the impact of NDF-supported activities beyond what would have been possible without NDF’s intervention.

The purpose of NDF is to advance Nordic leadership in addressing climate change and development challenges through financing, knowledge and partnerships. NDF’s primary focus is on climate change mitigation and adaptation. NDF engages in both the public and the private sector, and uses financial instruments flexibly, alone or in various combinations, to match the need of the project. NDF’s financing of projects contribute towards the delivery of the Paris Agreement and Sustainable Development Goals (SDGs). Together with strategic partners, NDF develops, launches and scales high-impact projects to support developing countries and the most vulnerable people affected by climate change. The Policy is aligned with this purpose, as well as with the Statutes of NDF, according to which NDF was established as an organisation to promote economic and social development. The Policy is informed by Strategy 2025 (Strategy)¹ and supports its implementation. Environmental and Social considerations play a role in all three NDF principles set out in the Strategy: complement, co-create and convene.

2 Rationale

Environmental and social (E&S) sustainability is of paramount importance to NDF. As a co-financing organisation, NDF seeks to both harmonise its E&S policies with its main strategic partners and through its funding and expertise, encourage partners to think beyond business as usual. A shift from “safeguards”, often built *ad-hoc* to reactively address a specific problem, towards Environmental and Social Standards is being implemented across the multi- and bilateral development institutions. Such standards promote better management of risk, encourage gender-responsiveness (especially tackling gender-based violence and harassment), support better stakeholder engagement, include worker and community health and safety and labour considerations, and increasingly align projects and programs with the Paris Agreement.

The role of NDF is to co-finance with strategic partners. That is to say that NDF does not create projects on its own but relies on collaboration with other Multilateral Development Banks (MDBs), Development/International Finance Institutions (DFIs/IFIs), Financial Intermediaries² or private sector companies. Thus, NDF’s E&S Policy must recognise the diversity of situations where NDF funding is applied and take the appropriate response in applying risk management to environmental and social matters during project preparation and implementation. NDF not only helps strengthen and / or complement the E&S studies and instruments prepared but aims to promote the adoption of Nordic priorities early on in project design and development to add value and, subsequently, impact. Nordic priorities on climate and development such as human rights, gender equality, non-discrimination and inclusiveness are priorities that NDF strives to ensure are addressed and reflected in project design and development.

¹ NDF Strategy 2025 (2020). Available at www.ndf.int.

² For the purposes of this Policy, the term “Financial Intermediary” means an entity such as a fund or bank through which NDF provides financing to Financial Intermediary sub-projects.

3 Objective

The objective of the Policy is to ensure that environmental and social implications in the context of climate change and development are systematically addressed and mainstreamed in the Fund's work, as well as measured in the Fund's results. Ultimately, this Policy supports NDF in its efforts towards effective and sustainable development and climate change mitigation and adaptation.

4 Principles

NDF is a co-financing organisation that complements financing provided by NDF's strategic partners. Under such co-financing arrangements, the recipient³ together with NDF and any strategic partner will apply a common approach to environmental and social risk assessment and management materially consistent with NDF's "Minimum Standards" (see Box 1). Such a common approach may be acceptable to NDF, provided that such an approach is materially consistent in content and outcomes with the Minimum Standards (MS). NDF will require recipients to apply either Minimum Standards or the common approach to the project.

All project activities financed by NDF will be reviewed as part of NDF's project screening process to enable NDF decide if the project should be financed and, if so, the way in which environmental and social risks and impacts should be addressed in the planning and implementation phase. NDF will continually monitor the compliance of projects regarding Minimum Standards. The scope of the review will be appropriate to the nature and scale of the project and commensurate with the level of its environmental and social risks and impacts. The review will assess the environmental and social risks and impacts of the project and the capacity and commitment of the recipient to implement the project in accordance with the Minimum Standards and assign a risk rating. When a project activity involves existing and/or associated facilities, the review will consider the environmental and social risks and impacts associated with such facilities and activities.

It is the responsibility of the recipient of NDF financing to ensure that adequate information is provided so that NDF can undertake an environmental and social review in accordance with this Policy. The information required depends on the risk rating of the project and will be specified in the Environmental and Social Guidelines (Guidelines). NDF's role is to:

- a. review the information provided by the recipient;
- b. determine whether the recipient is already using an E&S risk management framework consistent with this Policy⁴;
- c. in coordination with the strategic partner, provide guidance to assist the recipient in developing appropriate measures to meet the Minimum Standards or the common approach; and
- d. help identify opportunities for additional environmental or social benefits.

In cases where the environmental and social footprint may not be known at the time of NDF's financing decision, NDF will:

- (i) assess the financing proposal based on the risks and impacts inherent to the sector and the context of the business activity; and
- (ii) assess the recipient's capacity and commitment to manage the environmental and social risks and impacts in accordance with the relevant Minimum Standards or the common approach.

³ "Recipient" is used here to refer to the entity receiving NDF financing.

⁴ E&S management frameworks of the World Bank (Environmental and Social Standards) and IFC (Performance Standards) will be the benchmarks to which the proposed E&S risk management framework will be compared to.

When NDF is requested to finance a project that is under development, or where the project has already prepared the environmental and social assessments, NDF's review will include a gap analysis of the project design and implementation against the Minimum Standards or common approach to identify whether any additional studies and/or mitigation measures are required to meet NDF's requirements.

For Financial Intermediary activities, NDF will conduct due diligence on the Financial Intermediary, and the activities planned to be financed by NDF to the extent that they are known at the time of the review to assess:

- (i) the Financial Intermediary's existing environmental and social policies and procedures and its capacity to implement those policies and procedures;
- (ii) measures necessary to strengthen the Financial Intermediary's existing environmental and social management system, in order to be in compliance with the Minimum Standards.

NDF may defer the due diligence of the Financial Intermediary sub-projects to the Financial Intermediary, especially in cases where they are not known at the time of NDF's review. NDF will monitor to ensure that such Financial Intermediary sub-projects meet and continue to meet the Minimum Standards.

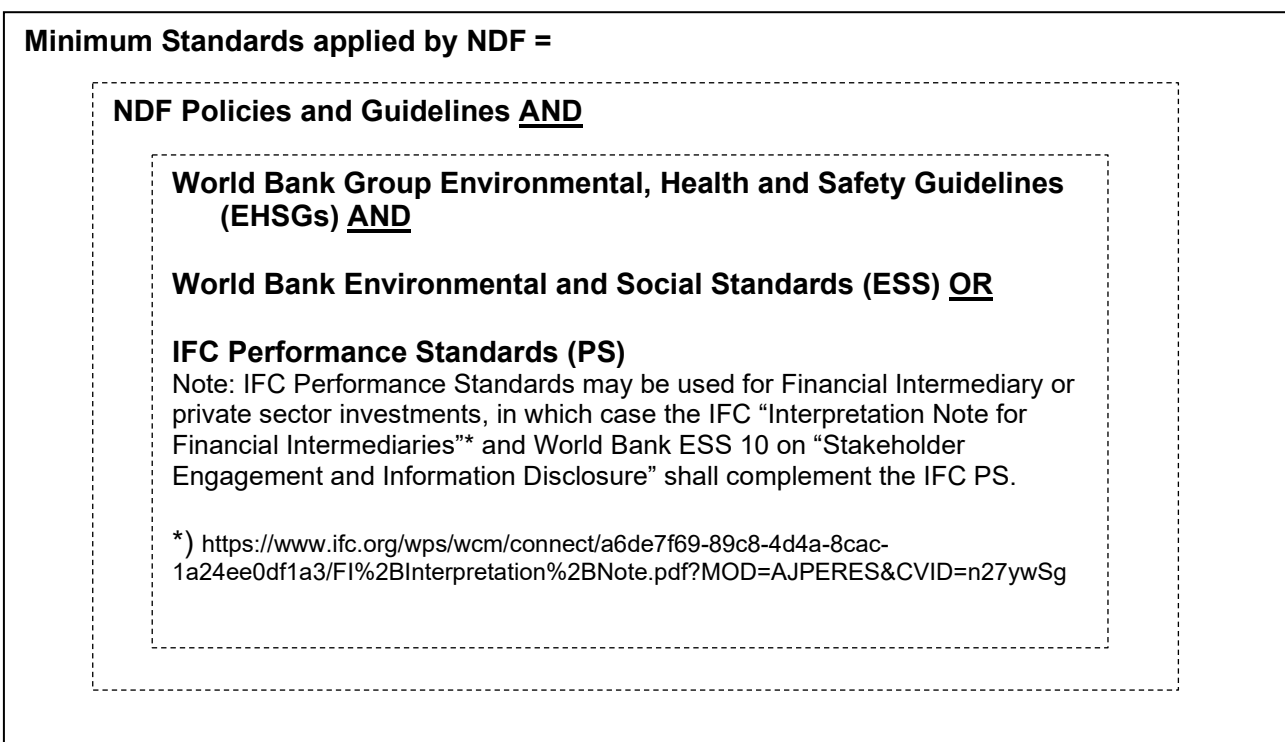
NDF Minimum Standards

The Environmental and Social Policy sets out the following Minimum Standards built on the World Bank Environmental and Social Standards⁵ and IFC Performance Standards⁶ for policies, procedures, systems and capabilities related to identifying and addressing Environmental and Social Risks and Impacts in projects and programs. The application and interpretation of these Minimum Standards will be summarised in the Environmental and Social Guidelines. NDF-financed projects are also required to apply the relevant requirements of the World Bank Group Environmental, Health and Safety Guidelines (EHSGs)⁷.

⁵ <https://www.worldbank.org/en/projects-operations/environmental-and-social-framework/brief/environmental-and-social-standards>.

⁶ https://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Sustainability-At-IFC/Policies-Standards/Performance-Standards/.

⁷ https://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Sustainability-At-IFC/Policies-Standards/EHS-Guidelines.



Box 1: NDF Minimum Standards

Excluded activities

There are several types of activities that NDF does not finance in accordance with the Exclusion List, included as Appendix 1 to this Policy. Deviations from the Exclusion List are only reserved for extraordinary circumstances and will require a waiver approved by NDF’s Board of Directors. Any process for deviating from the Exclusion List will be described in the Environmental and Social Guidelines.

5 Commitments

Institutional level commitments:

- NDF’s primary focus is on climate change adaptation and mitigation considering the Sustainable Development Goals (SDGs), especially goal number 13 calling for urgent action to combat climate change and its impacts and the Paris Agreement. NDF promotes projects designed to achieve co-benefits between climate change, development and gender equality.
- NDF as a signatory, supports the International Financial Institution Framework for a Harmonised Approach to Greenhouse Gas Accounting⁸.
- NDF will not knowingly finance projects that would contravene national laws or country obligations under relevant international treaties, conventions and agreements.
- NDF is committed to the respect for human rights in its financed projects.

⁸ <https://unfccc.int/climate-action/sectoral-engagement/ifis-harmonization-of-standards-for-ghg-accounting>.

- NDF supports rights of workers guided by the eight fundamental conventions⁹ of the International Labour Organization.
- NDF is committed to the principles of transparency, accountability and stakeholder engagement, and promoting adoption and implementation of these principles in the projects it finances. NDF is also committed to its business ethics and to fight fraud and corruption in all its activities. Details of NDF's commitments are found in separate policy documents¹⁰.
- NDF is committed to full gender mainstreaming of the projects and programs it finances, preventing gender discrimination and actively promoting gender equality.
- NDF builds partnerships with recipients to assist them in adding value to their activities, improve long-term sustainability and strengthen their environmental and social management capacity.
- NDF works together with strategic partners and other organisations in coordinating effective interventions to promote environmental and social sustainability.
- NDF seeks to actively engage the private sector not just as a financing partner, but also for innovation and implementation of sustainable projects.

Operational level commitments:

- All activities financed by NDF shall meet the requirements of this Policy.
- When co-financing projects with strategic partners, NDF will cooperate with them to agree on a common approach for project assessment, management of environmental and social risks and impacts, monitoring and reporting as per the NDF Minimum Standards.
- NDF will require the recipients of its financing to assess risks caused by climate change to the projects. NDF will climate screen all investments.
- NDF will require the recipients of its financing to adopt measures to effectively prevent and address any form of violence and harassment, including sexual harassment, exploitation and abuse, gender-based violence, bullying, intimidation, and/or exploitation.
- NDF requires the recipients of its financing to identify vulnerable people and/or Indigenous Peoples¹¹ who may be disproportionately impacted by NDF-financed activities and develop and implement mitigation measures so that they are not disproportionately impacted.
- When a project is impacting Indigenous Peoples, NDF requires its activities to comply with the principle of Free, Prior and Informed Consent of Indigenous Peoples (FPIC). NDF recognises that FPIC allows them to give or withhold consent to a project that may affect them or their territories. Once they have given their consent, they can withdraw it at any stage. Furthermore, FPIC enables Indigenous Peoples to negotiate the conditions under which the project will be designed, implemented, monitored and evaluated.
- NDF requires recipients of NDF financing to apply requirements of national law with respect to public information and consultation, identify stakeholders potentially affected by and/or interested in projects, and to develop and implement a grievance mechanism.
- NDF requires recipients of NDF financing to disclose sufficient information about the risks and impacts arising from projects, engage with stakeholders in a meaningful, effective, inclusive and culturally appropriate manner and take into consideration the feedback provided through such engagement.

⁹ <https://www.ilo.org/global/standards/introduction-to-international-labour-standards/conventions-and-recommendations/lang--en/index.htm>.

¹⁰ NDF Policy on Access to Information, NDF Anticorruption Guidelines, NDF Policy on Anticorruption and Integrity. Documents available at www.ndf.int.

¹¹ NDF is aware of the different meanings of the term "Indigenous Peoples" in Africa, Asia and Latin America. For Africa, NDF follows the definition of Indigenous Peoples adopted by the African Union Commission in 2005, which has also been endorsed by the African Union Heads of States and Governments.

- NDF will require the recipients of its financing to take active measures in the protection, conservation, management and sustainable use of living natural resources. Recipients are required to ensure that activities include measures to safeguard and, where feasible, enhance ecosystems and the biodiversity they support.

6 Governance and accountability

The Policy entails the following responsibilities within NDF.

The Board of Directors (Board) shall assess the appropriateness of the Policy and its alignment with the prevailing strategy and other relevant circumstances.

NDF's Managing Director (MD) shall have the overall responsibility to ensure the implementation of the Policy including sufficient resourcing. The Director, Quality Assurance and Reporting (QAR) Department has the responsibility for the day-to-day monitoring and implementation activities of the Policy, including capacity of staff.

As part of their work, NDF staff shall ensure that NDF-supported activities adhere to this Policy. The QAR Department will provide more detailed guidance on implementation activities of the Policy.

Both NDF Management and staff are expected to liaise with relevant stakeholders and partners on issues relating to environmental and social matters, as well as to participate in relevant networks on environmental and social issues, in accordance with their roles within the organisation.

7 Policy review

As knowledge and recommended practices around E&S issues constantly develop, this Policy will be regularly revised and updated as deemed relevant. NDF Management will periodically assess and recommend when a revision of the Policy and the Guidelines is required.

Annex 1: Exclusion List

The NDF Exclusion List defines the types of projects that the Fund will not finance.

NDF will not knowingly finance, directly or indirectly, projects involving the following:

1. Forced labour, or harmful or exploitative forms of child labour.
2. Activities deemed illegal under host country laws or regulations, or international conventions and agreements or subject to international phase-out bans, such as:
 - a. Production of or trade in products containing PCBs;
 - b. Production of or trade in pharmaceuticals, pesticides/herbicides and other hazardous substances subject to international phase-outs or bans (Rotterdam Convention, Stockholm Convention);
 - c. Production of or trade in ozone-depleting substances subject to international phase-out (Montreal Protocol);
 - d. Trade in wildlife or wildlife products regulated under the CITES Convention;
 - e. Transboundary movement of waste prohibited under international law (Basel Convention) except for non-hazardous waste destined for recycling;
 - f. Activities prohibited by host country legislation or international conventions relating to the protection of biodiversity resources or cultural heritage;
 - g. Production or trade in or use of unbonded asbestos fibres or asbestos-containing products;
 - h. Shipment of oil or other hazardous substances in tankers which do not comply with IMO requirements.
3. Unsustainable fishing methods, including blast-fishing, drift-net fishing or trawling in the marine environment.
4. Production and distribution of ammunition and weapons, and weapons carriers.
5. Ethically controversial projects:
 - a. Sex work and related infrastructure and services;
 - b. Gambling and related equipment;
 - c. Tobacco (production, processing and distribution).
 - d. Alcohol (production, processing and distribution of hard liquor)
6. Production of or trade in radioactive materials. This does not apply to medical equipment, quality control (measurement) equipment and any equipment where the radioactive source is trivial and/or adequately shielded.
7. Investments into search, extraction, production, distribution, processing and promotion of fossil fuels (coal, oil, natural gas and peat).
8. Activities that increase use of fossil fuels and/or prolong the technical or economic lifetime of heat and power production using fossil fuels, except for back-up in power generation plants, for household cooking purposes and for processes where feasible alternatives do not exist.
9. Biofuel projects if they are:
 - a. Based on feedstock grown on land with high carbon content or biodiversity value, such as rainforests, wetlands, peat lands and grasslands, in reserves or on protected lands, or on lands with a high conservation value;

- b. Using a feedstock for production of liquid biofuels, where the overall climate and development benefits would be higher by using the same feedstock unprocessed for, e.g., direct combustion in a co-generation plant.
- c. Using solid biomass fuels from forests, planted or natural, having a carbon cycle incompatible with the Paris Agreement.
- d. First generation biofuel projects with production area over 75ha.

10. Commercial logging operations or the purchase of logging equipment for use in primary tropical moist forests or old-growth forests.

11. Production or trade in wood or other forestry products other than from sustainably managed forests.