



## **RESPONSIBLE INVESTMENT POLICY**

**Norsad Capital Limited  
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## **NORSAD RESPONSIBLE INVESTMENT POLICY**

With this Responsible Investment (RI) Policy Norsad expresses its commitment to incorporating Environmental, Social and Governance (ESG) sustainability criteria in its financing activities and communicates the expected standards of performance to its clients and stakeholders.

The last policy update and approval was in April 2021. The policy is aligned to the Norsad Social and Environmental Sustainability Handbook and forms the basis of the Norsad Social and Environmental Management System (SEMS).

### **1 Norsad's Purpose Statement**

#### **To Build a Better Africa**

"We support the growth of profitable companies in Africa through tailor-made debt solutions, enabling them continue to have substantial social impact through the services and employment they provide".

### **2 Norsad's Approach and View of Responsibilities**

We recognize that ESG factors play a pivotal role in enabling the long-term sustainability of our investments.

In striving to achieve sustainable growth outcomes through our financing, we recognize that such growth can also have negative impacts on local communities, the workforce and the physical environment within which they are located. Norsad is committed to ensuring that the costs of economic growth do not fall disproportionately on employees or those who are poor or vulnerable, that the environment is not degraded in the process, and that natural resources are managed efficiently and sustainably.

Norsad recognizes that the primary responsibility for managing ESG issues, that its risks and impacts, as well as opportunities, rests with our clients. As such, we seek clients who are aligned with our purpose, and committed to sustainable growth and who wish to improve their ability to manage these issues within their business activities. We expect sustainability objectives and activities to become fully anchored in our clients' business strategies and to be adapted and integrated into their procedures and operations.

### **3 Norsad Commitment to ESG and Sustainability**

This RI Policy focuses specifically on Norsad's approach to addressing, managing and monitoring ESG issues in its financing decisions. To fulfil our commitment to sustainable growth, we integrate the assessment of ESG risks, impacts, and opportunities, into our business processes. Norsad has prepared a set of sustainability appraisal and monitoring guidelines to assist in the implementation of the RI policy.

#### **4 Risk Management Approach and Applied Standards**

Norsad shall require partner investee companies apply the following international principles and standards when applicable:

- ESG-legal and regulatory requirements in the countries where they operate.
- International Finance Corporation (IFC) Performance Standards (and accompanying Guidance Documents) appropriate to the size and nature of the business.
- IFC Good Practice Note on HIV/AIDS in the Workplace and other IFC Good Practice Notes where relevant.
- IFC Interpretation Note on Financial Intermediaries.
- The World Bank Group Environmental, Health and Safety Guidelines (EHS Guidelines).
- International Labour Organisation's (ILO) Core Conventions and recommendations and ILO's Basic Terms and Conditions of Employment
- EDFI Principles for Responsible Financing.
- Task force on Climate Change-related Financial Disclosures (TCFD).
- 2X challenge guidelines with regards to gender equality.
- Acceptable code of good governance – The King Code will be encouraged, King IV in particular.
- Any relevant sector sustainability Guideline or Directive in countries of operations.

The client's approach to managing ESG risks should focus on avoiding, or at least reducing, mitigating or compensating for, negative risks where possible. This should include establishing accessible platforms and transparent processes for affected communities, stakeholders and employees to engage with companies on any environmental and social issues that result from company operations. Risks are identified, monitored and mitigated at each stage of the investment cycle. Where necessary, Norsad provides support to clients to effectively manage risk. Norsad seeks to engage its clients in assessing and addressing the ESG risks of their business operations. We look for opportunities to facilitate performance improvement provided such impacts can be adequately assessed and sufficiently mitigated.

When investing in Financial Institutions (FIs), Norsad's focus is both on identifying ESG risk exposure in the institutions' portfolio (including indirect risks) and pipeline as well as on assessing the capacity of the institution to manage the potential indirect ESG impact of its business.

#### **5 Good Corporate Governance and Business Integrity**

We believe that good corporate governance is essential for financially sound companies. We support our Portfolio Companies at various stages of their life cycles to implement good governance, spanning board governance to controls. Specifically, we prioritize an experienced, active and engaged board of directors with the skill to properly oversee and direct management and encourage protocols to enhance transparency and good governance.

The following are our broad governance considerations:

- Corporate governance structures and oversight procedures.
- Risk management practices.
- Conflicts of interest.
- Transparency (including financial and operational reporting).
- Fraud, anti-bribery and anti-corruption controls.

## 6 Climate Change

We acknowledge that climate change is the largest threat currently facing humankind and the environment at large. We are well aware of the additional risks that rises in global temperature are likely to pose to any organisation as well as their stakeholders; therefore, there is a need to incorporate climate-related considerations into business practices. Despite the challenges posed by climate change, Norsad is committed to being part of the solution.

Norsad is a signatory to the United Nations Principles for Responsible Investment (UNPRI). As part of Norsad's ongoing mandatory reporting requirements under the UNPRI, from 2023, Norsad will adopt and disclose climate related information in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

Due to the materiality of the climate related risk, we have developed a supplementary Climate Policy.

## 7 Development Impact and ESG Value Add

Norsad is committed to managing the impact of our investment operations through our investment process by measuring and managing the developmental effects of our investments. As an impact investor, we achieve added value in economic and social growth by offering financing and risk sharing opportunities that show demonstrated value add in terms of ESG impact(s). To do so the company will, where appropriate, draw on the United Nations Global Compact Sustainable Development Goals (SDG) Industry Matrix to identify opportunities for shared value in the sectors we invest in. As a profit with purpose investor, the company seeks to encourage our investments to have a clearly articulated development impact.

Norsad's role is often essential in helping our clients manage and improve their SE performance. Norsad will support its clients in seeking collaboration in identifying areas of improvement, determining action plans and strengthening their social and environmental management capacity. For this purpose, Norsad will make its experience available to help support the growth of competence within its client's operations.

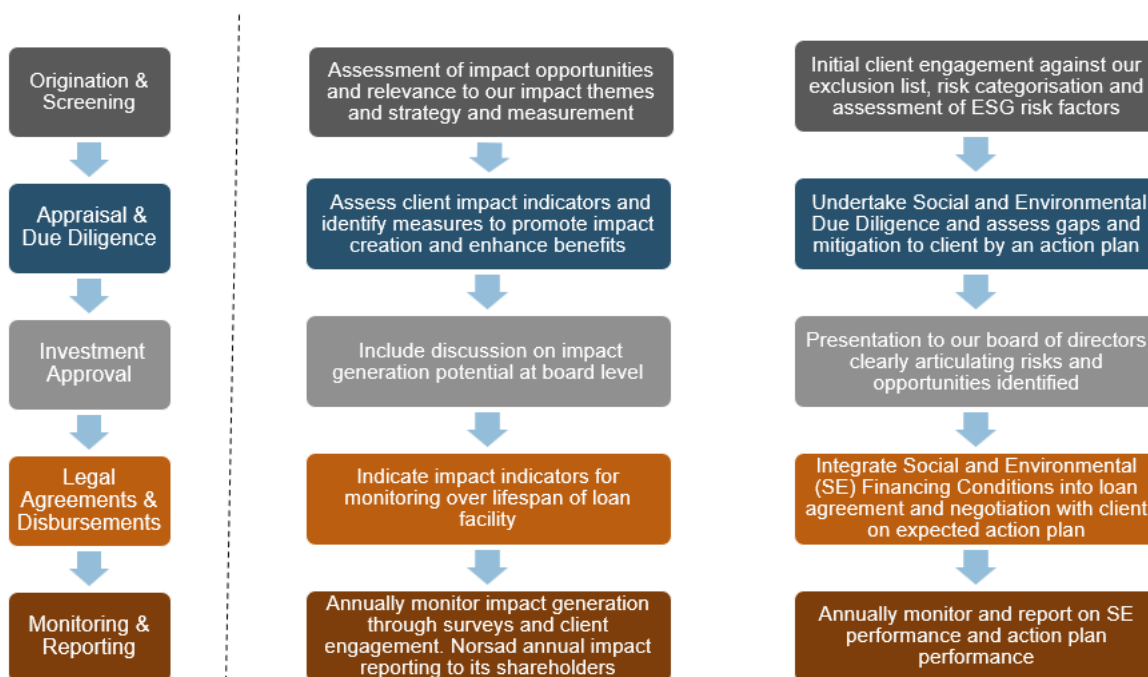
With respect to investments in financial institutions, Norsad requires the FI to have an appropriate Social Environmental Management System (SEMS), that is integrated into the FI's credit and monitoring processes, to manage the ESG risks related to its

portfolio. For its microfinance FI clients Norsad recommends them to apply and align to customer empowerment and customer outcome agendas such as SFTF and CERISE which have built on client protection work developed by the SMART Campaign Principles.

## 8 Norsad ESG Procedures

The Norsad SEMS or the Norsad Social and Environmental Sustainability Handbook outlines the core operational procedures and processes to be adhered to in the investment cycle. It provides a structured framework for applying ESG business principles in the investment process and helps to maintain quality and consistency.

The integration of ESG matters into our investment process is integral to fulfilling our purpose to Build a Better Africa. Refer to the schematic below:



### Some further details into our processes:

- Screening: Norsad screens all potential investments and assesses all potential clients against the exclusion list (see Appendix 1).
- Risk Categorisation: Norsad adopts a risk-based approach when assessing investment opportunities. A SE risk category is assigned to each potential investment and is categorised according to its SE risk. The SE risk categorisation determines the level of SE due diligence required, commensurate with the SE risk categorisation.
- Social and Environmental Due Diligence (SEDD): Norsad conducts due diligence assessments of its investees under the SE requirements and standards of this policy.

- ESG Action Plans (ESG APs): Final investment decisions are taken after ESG risks have been identified, assessed and realistic mitigation plans in the form of ESG APs are developed.

Where ESG impacts are significant, an external consultant will be engaged.

When appointing external consultants, Norsad will ensure that:

- Consultants have the requisite skills, capacity and experience in the sector of the investment in markets Norsad operates in.
- Are familiar with the typical investment processes for DFIs, impact investors and PE firms, report rewriting and making suitable recommendations, cognisant of the limitations of the investor.
- Experienced in identifying ESG value-add opportunities and identifying SE risks

For existing clients applying for new or additional loans, a decision will need to be made as to whether or to undertake a new SEDD, or whether to place reliance on the previous SEDD combined with the ongoing SE monitoring of the client to date. This decision will need to be made on a case-by-case basis considering such factors as the SE risk categorisation, the purpose of the new finance, and the client's previous SE performance and responsiveness to timely and accurate SE monitoring and reporting.

Norsad will also use external consultants for other capacity support areas such as monitoring of projects where internal capacity is limited. External consultants may also be used to advise on other ESG matters of high-risk sectors and supplement on capacity.

## 9 Financing Exclusions

There are certain types of activities Norsad will not finance, as described in Norsad's Exclusion List (Appendix 1).

This exclusion list is based on the IFC exclusion list. No waiver will be applied to the exclusion list under any circumstances. However, Norsad will also apply an exclusionary screening approach to exclude certain sectors, services/products that have relatively poor ESG practices that can have reputational risks to Norsad and its shareholders.

## 10 Co-financing

Norsad aims to increase co-financing with stakeholders and other financial institutions in the region. In cases where a financing partner applies the same SE sustainability criteria as Norsad, and has established equivalent or more stringent policies, procedures and capacity, Norsad will rely on that partner's due diligence but negotiate and consider its non-negotiable Conditions Precedent in the loan agreement.

In cases where Norsad is the ESG lead, other members of the syndicate may want to co-participate in the SEDD site visit or even to undertake their own parallel process. The ESG assessment should be resolved for the best benefit of the client and investors.

## **11 Responsible Stewardship and Monitoring Compliance**

Active ownership and responsible stewardship involves engaging with our clients to influence corporate behaviour around long-term sustainability issues. We drive this through ESG APs and annual ESG monitoring.

The level of monitoring of all clients will depend on the nature of the SE risk and impact. Monitoring of the ESG performance of direct investments and FIs financed by Norsad is undertaken by means of annual ESG monitoring reports, follow-up on any agreed ESG AP and periodic monitoring visits when necessary. In cases where the client has been required to carry out a ESG AP, there may be more frequent follow-up in the initial year(s), according to the time frame as set in the action plan. Additionally, clients are required to notify Norsad if any unusual events relating to ESG incidents occur during their operations.

Monitoring and compliance requirements are formalized in our legal documentation. Where a client is non-compliant with its ESG commitments, Norsad will work with the client to bring it into compliance to the extent feasible, and if the client fails to establish compliance, Norsad shall exercise remedies where appropriate.

## **12 Evaluation**

Norsad recognizes that there will be times when we are not able to attain our SE sustainability commitments to their fullest potential, or where the actions of our clients result in disproportionately negative ESG impacts. For us these are important learning opportunities that will allow us to reflect on and evaluate both our actions and those of our clients.

We will therefore conduct ex-post reviews of our investments to determine ways in which we can improve our sustainability approach and in so doing, further contribute to the achievement of our growth objectives.

Norsad will also review and update its RI policy and its SEMS procedures to incorporate any changes in international standards, the general risk environment or Norsad procedures.

## **13 Reporting**

To achieve its sustainability mandate, Norsad will report to its investors and shareholders at least annually in its Annual Impact Report. Our reporting will provide transparent and accountable information on investment activities, while observing commercial confidentiality of our clients.



## APPENDIX 1

### “SOCIAL AND ENVIRONMENTAL EXCLUSION LIST”

“**Social and environmental exclusion list**” is based on the IFC exclusion list.

Norsad does not finance any activity involving:

1. Child<sup>i</sup> or forced labour.<sup>ii</sup>
2. Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international bans, such as pharmaceuticals, pesticides/herbicides, ozone depleting substances, PCB, wildlife or products regulated under CITES.
3. Production or trade in weapons and munitions<sup>iii</sup>
4. Production or trade in alcoholic beverages (excluding beer and wine)<sup>iii</sup>
5. Production or trade in tobacco<sup>iii</sup>
6. Gambling, casinos and equivalent enterprises.<sup>iii</sup>
7. Production or trade in radioactive materials. This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where IFC considers the radioactive source to be trivial and/or adequately shielded.
8. Production or trade in unbonded asbestos fibres. This does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%.
9. Drift net fishing in the marine environment using nets more than 2.5 km. in length.
10. Cross-border trade in waste and waste products (ex Basel Convention).
11. Destruction<sup>iv</sup> of High Conservation Value areas.<sup>v</sup>
12. Pornography and/or prostitution.
13. Racist and/or anti-democratic media.

All **financial intermediaries (FIs)**, except those engaged in activities specified below\*, must apply the following exclusions, in addition to Norsad's Exclusion List:

1. Production or activities involving harmful or exploitative forms of forced labour<sup>ii</sup>/harmful child labour.
2. Commercial logging operations for use in primary tropical moist forest.
3. Production or trade in wood or other forestry products other than from sustainably managed forests.

\* When investing in **microfinance** activities, FIs will apply the following items in addition to the Norsad Exclusion List:

1. Production or activities involving harmful or exploitative forms of forced labour<sup>ii</sup>/harmful child labour.<sup>iii</sup>
2. Production, trade, storage, or transport of significant volumes of hazardous chemicals, or commercial scale usage of hazardous chemicals. Hazardous chemicals include gasoline, kerosene, and other petroleum products.
3. Production or activities that impinge on the lands owned, or claimed under adjudication, by Indigenous Peoples, without full documented consent of such peoples.

\* **Trade finance investments**, given the nature of the transactions, FIs will apply the following items in addition to the Norsad Exclusion List:

1. Production or activities involving harmful or exploitative forms of forced labour<sup>ii</sup>/harmful child labour.<sup>iii</sup>

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<sup>i</sup> Harmful child labour means the employment of children that is economically exploitive, or is likely to be hazardous to, or to interfere with, the child's education, or to be harmful to the child's health, or physical, mental, spiritual, moral, or social development.

<sup>ii</sup> Forced labour means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty. <sup>iii</sup> This does not apply to project sponsors who are not substantially involved in these activities. "Not substantially involved" means that the activity concerned is ancillary to a project sponsor's primary operations <sup>iv</sup> Destruction means the (1) elimination or severe diminution of the integrity of an area caused by a major, longterm change in land or water use or (2) modification of a habitat in such a way that the area's ability to maintain its role is lost.

<sup>v</sup> High Conservation Value (HCV) areas are defined as natural habitats where these values are of outstanding significance or critical importance (see <https://hcvnetwork.org/>).