

# IMPACT AND SUSTAINABILITY POLICY

## NORDIC IMPACT FUNDS

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## Introduction and Scope

Nordic Impact Funds (NIF) invests in locally anchored companies with scalable and economically viable models for impact and a natural alignment between commercial and impact performance.

The present policy outlines NIF's approach to impact and sustainability, including the practices, procedures, tools, and templates that enables NIF to actively manage, measure, and report the positive and potential adverse impact of its portfolio in alignment with regulation, industry standards, and best practices.

NIF's Nordic Impact Investments fund (NII) is designated as **Article 9** under [SFDR](#) and relevant disclosures can be found [here](#).

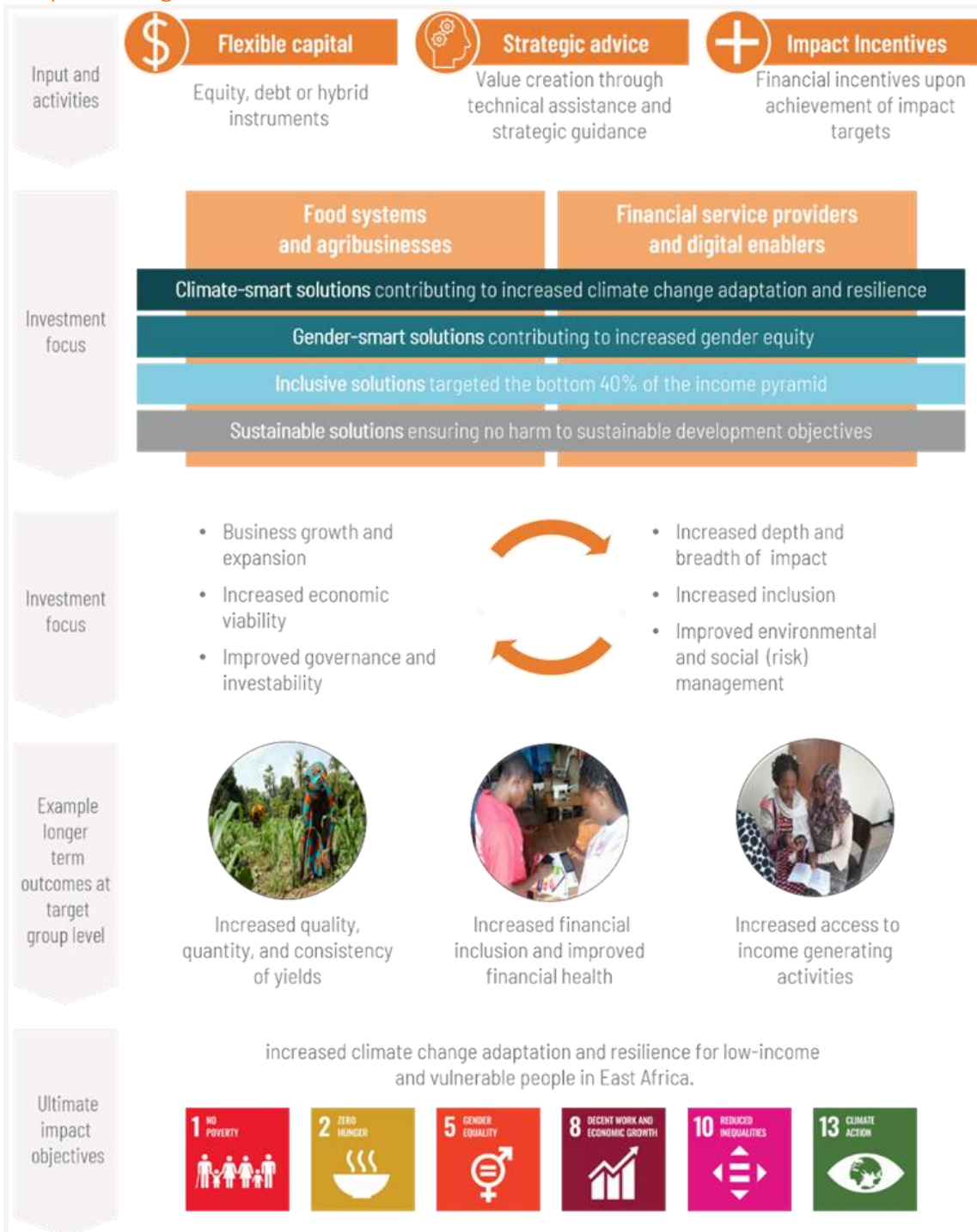
This policy is revised annually to ensure continuous development and alignment with learnings and an industry in motion.

## Impact and Sustainability Strategy

NIF's impact and sustainability strategy is rooted in a holistic approach, incorporating both intentional positive impact (*do good*) and mitigating potential adverse impacts (*do no harm*).

The overall impact objective of NIF is to increase livelihoods, climate adaptation and resilience for low-income populations in East Africa. To this end, NIF offers finance, strategic advice, and (in selected cases) impact incentives to companies who operate in food and agricultural value chains as well as financial and digital enablers who have sustainable, climate-smart, and gender-smart solutions that benefit low-income populations.

### Theory of Change



## Impact and Sustainability Management System

### Industry alignment

NIF's impact and sustainability management system (ISMS) builds on a selection of widely accepted international standards and frameworks which have been operationalized to meet the needs throughout NIF's investment process and cater for the context we operate in. The table below provides an overview of the most central standards which NIF's approach is aligned with and/or inspired by.

Standard / Framework	Description
 <p>GIIN GLOBAL IMPACT INVESTING NETWORK</p>	<p>Definition of Impact Investment: <i>Impact investments are investments made with the <b>intention to generate positive, measurable social and/or environmental impact alongside a financial return.</b></i></p>
 <p>Sustainable Development Goals</p>	<p>The SDGs provides a set of shared global priorities for sustainable development and thus the SDGs guide our impact thesis and <b>priority outcomes.</b></p>
 <p>Operating Principles for Impact Management</p>	<p>The nine Principles outline good investment practices for impact investors. By aligning with the Principles we ensure that our investment process is <b>aligned with industry best practices</b> at a generic level.</p>
 <p>IMP Norms, Five Dimensions of Impact</p>	<p>The Five Dimensions of impact is the core inspiration for our <b>impact assessment framework</b> applied in the due diligence process as well as our annual impact monitoring and reporting framework.</p>
 <p>2X Global, 2X Challenge Criteria</p>	<p>NIF's <b>gender lens</b> is aligned with the 2X Global framework and the 2X Challenge Criteria and benchmarks for gender lens investing.</p>
 <p>IRIS+</p>	<p>To the degree possible, <b>indicators</b> of the core impact assessment framework as well as broader impact measurement and reporting are aligned with the IRIS+ metric catalogue.</p>
 <p>IFC Performance Standards</p>	<p>IFC's Performance Standards guide our sustainability risk mapping, and the topics considered for the <b>identification of material (adverse) impacts.</b></p>
 <p>UNEPFI</p>	<p>UNEPFI's materiality guideline and impact radar has informed the process and <b>methodology</b> for our sustainability risk mapping and identification of <b>material (adverse) impacts.</b></p>
 <p>SFDR</p>	<p>NIF's fund is a designated <b>Article 9 fund</b> under the SFDR.</p>

## Investment process

NIF integrates impact and sustainability considerations throughout the investment process using structured tools and templates ensuring compliance with best practices and alignment across the portfolio.

	Phase	Core activity	Tool/output
Pre-investment	 1 Sourcing	Pipeline building through local presence and long-standing relations in entrepreneurship, start-up ecosystem, and impact investment networks.	• Impact thesis
	 2 Screening	Initial screening of impact potential and sustainability risks based on readily available information and documentation	• Impact screening • Exclusion list
	 3 Assessment	Advanced assessment and rating of impact results and future potential as well as mapping and assessment of sustainability risks.	• Impact assessment • Sustainability risk assessment
	 4 Structuring	Investment agreement incorporating alignment on impact potential, measures of success, risk mitigation plan, and value creation action plan.	• Value creation plan
Post-investment	 5 Monitoring	Monitoring of key impact and risk metrics ensuring a maintained and/or increased focus on agreed impact case and active risk management.	• Impact and sustainability data template
	 6 Value creation	Strategic advice contributing to improved governance, investability, and impact and sustainability management systems.	• Value creation results tracker
	 7 Reporting	Reporting of achievements and learnings to shareholders, stakeholders, and partners.	• Impact report • SFDR reporting template
	 8 Exit assessment	Assessment of impact and risks related to exiting the investment.	• Exit assessment tool

### 1. Sourcing

NIF is committed to sourcing investment opportunities that align with our impact objectives through the following five avenues:

- **Applications** on the website directly from potential investees which are automatically screened and included in our database
- **Referrals** from portfolio companies, co-investors, and other stakeholders who are familiar with NIF's investment strategy and impact thesis
- **Networks** in impact entrepreneurship ecosystems where we can keep an eye on latest innovations, trends, and challenges
- **Mapping** and landscape studies based on an impact hypothesis to seek out investable business models and companies addressing issues experienced by our target group
- **Scouting** by our colleagues on the ground

Through our local presence and long-standing relationships within the entrepreneurship, start-up ecosystem, and impact investment networks, we source investment opportunities that are deeply embedded within the target communities. This local engagement helps identify businesses that have a genuine commitment to social and environmental impact.

## 2. Screening

In the initial screening phase, NIF conducts a rapid screening of the impact potential and sustainability risks of companies based on readily available documentation. This includes a) evaluating how the business aligns with our impact thesis and b) assessing the company's exposure to our exclusion list, including a high-level identification of material topics for the future sustainability risk assessment.

To conduct this screening, we use a structured screening tool which considers the following aspects:

	Impact potential	Sustainability risks
Key considerations	<ul style="list-style-type: none"> <li>Who does the company/solution benefit?</li> <li>What social and environmental outcomes does the company/solution contribute to?</li> <li>How committed is the founder/management towards impact?</li> </ul>	<ul style="list-style-type: none"> <li>Is the company exposed to any exclusion criteria directly or indirectly through its value chain?</li> <li>What are potentially material topics to consider during the due diligence phase and sustainability risk assessment?</li> </ul>
Tools	<ul style="list-style-type: none"> <li>Impact screening</li> </ul>	<ul style="list-style-type: none"> <li>Sustainability risk screening (exclusion list)</li> </ul>





If violations to the exclusion list are identified or if the company is not contributing to any of the impact objectives, NIF will not proceed with the investment opportunity.



## 3. Assessment

### Impact assessment and rating

NIF employs a rigorous model for assessing impact and considers both the company's impact on the target population as well as NIF's contribution to the company in achieving this impact. The assessment framework includes four dimensions that evaluate the value created by the company: **Depth**, **Breadth**, **Inclusion**, and **Additionality** and two dimensions that evaluate the value that NIF brings to the company: **Financial Contribution** and **Non-financial Contribution**.

Every potential investee (and portfolio company) is scored on each dimension of impact on a one-to-five Likert scale. Ratings are compared with peers, with the existing portfolio, and, if we invest, with itself over time. This approach allows NIF to compare potential investments across different sectors and impact areas and track impact improvements over time.

Dimension	Considerations	Example indicators
 Depth	To what degree does the company's product or service make a significant difference to the target group? – Is it transformative or just a marginal change for each individual?	<ul style="list-style-type: none"> <li>Change in disposable income</li> <li>Change in financial resilience</li> <li>Change in climate adaptation and resilience</li> </ul>
 Breadth	How many people are affected by the company's activities? – How many people can be reached?	<ul style="list-style-type: none"> <li>Number of impacted individuals (e.g. clients and/or suppliers)</li> <li>Scalability</li> </ul>
 Inclusion	To what degree does the company reach underserved population groups? – Does it serve or source from women, smallholder farmers, low-income population groups etc.)	<ul style="list-style-type: none"> <li>Proportion of low-income people</li> <li>Proportion of women</li> </ul>
 Additionality	To what degree would the impact have happened without the company? – How many comparable products/services exist?	<ul style="list-style-type: none"> <li>Innovative aspect of solution</li> <li>Underservedness of target group / number of competitors</li> </ul>




 Financial contribution	<p>Would this company likely have accessed finance from other sources if not NIF? – How will the company leverage NIF finance to increase depth, breadth, inclusion, or sustainability?</p>	<ul style="list-style-type: none"> <li>• Financial need</li> <li>• Investor interest</li> <li>• Financial gap in sector / area</li> </ul>
 Non-financial contribution	<p>How can NIF leverage its expertise, experience and network to address challenges the company is facing? – How will the company leverage NIF expertise to increase depth, breadth, inclusion, or sustainability?</p>	<ul style="list-style-type: none"> <li>• Non-financial needs</li> <li>• NIF expertise/experience</li> <li>• Linkages with existing portfolio</li> </ul>

Companies are rated based on the following scores.

	Score	Rating	Conclusion
Company impact	< 12	Low	NIF will not invest
	12 – 15	Medium	NIF may invest
	> 15	High	NIF may invest
NIF contribution	< 4	Low	NIF will not invest
	4 - 7	Medium	NIF may invest
	> 7	High	NIF may invest

*Sustainability risk assessment and rating*

In parallel, NIF conducts a comprehensive sustainability risk assessment. This process identifies material sustainability risks – both to the company's commercial viability and its potential adverse effects on society and the environment. The sustainability risk assessment is inspired by [UNEPFI's European Sustainability Reporting Standards \(ESRS\) and Interoperability Package](#) (adjusted to suit the needs and context of NIF) as well as aligned with the [EU's Sustainable Finance Disclosure Regulation](#) to enable monitoring and disclosure of required sustainability risks and adverse impacts. Lastly, the assessment includes an evaluation of the company's gender equity and more specifically whether it complies with at least one of the [2X Challenge Criteria](#). The table below summarises the core considerations at organizational/operational and supply chain level.




Dimension	Considerations for organization/operations	Considerations for supply chain
 Environment	<p>How does the company's operations and product/service affect the natural environment, e.g. through production practices, distribution channels, or product life cycle</p>	<p>What environmental adverse impacts are the company exposed to in its value chains? E.g. through manufacturing practices or farming practices of sourced components</p>
 Social	<p>How does the company's operations and product/service affect people, e.g. through labour practices, human resource management, or direct contracting terms with suppliers or clients</p>	<p>What social adverse impacts are the company exposed to in its value chain? E.g. through harmful child labor or working conditions of suppliers</p>
 Governance	<p>How does the governance practices affect the people and planet, e.g. what are the policies and practices in place to address potential conflicts of interest, aligning with local regulation, and addressing potential incidences</p>	<p>What governance risks are the company exposed to in its value chain? Does it operate in or depend on sectors characterized by conflicts or reputational risks?</p>

Companies are rated based on the following results.

Result		Rating	Conclusion
PAI reporting ability	Not able to report	Low	NIF will not invest
	Reports on most PAIs	Medium	NIF may invest
	Reports on all PAIs	High	NIF may invest
ESG risk management rating	Material violations and unsatisfactory mitigating factors	Low	NIF will not invest
	Exposure to risk, with acceptable mitigating factors	Medium	NIF may invest
	No or limited exposure with appropriate mitigating factors	High	NIF may invest
Compliance with 2X criteria	No	No	Action plan required
	Yes (minimum 1 criteria)	Yes	Action plan not required

*ISMS assessment and rating*

In addition, NIF assesses the company's ability to define, measure, manage, and report its positive impact as well as sustainability risks by evaluating the company's impact and sustainability risk management system(s). The table below outlines key elements considered in the assessment.

Dimension	Considerations	
 Define	ToC / materiality	<p>To what extent does the company have a clearly articulated impact thesis outlining how its product, service, or business model contributes to positive impact for the target group?</p> <p>To what extent does the company have an evidence-based understanding of the potential adverse impacts the company is exposed through directly or through its value chain?</p>
	KPIs / PAIs	<p>To what extent does the company collect and monitor relevant KPIs speaking to the positive effects of its product, service, or business model?</p> <p>To what extent does the company collect and monitor relevant KPIs (Principle Adverse Impacts) speaking to the potential adverse impacts its product, service, or business model?</p>
 Manage	Capacity and accountability	<p>To what extent does the company have relevant policies and practices in place related to managing its positive and potential adverse impacts?</p> <p>To what extent does the company have the required capacity and accountability mechanisms in place to actively manage its positive impact and sustainability risks?</p>
 Report	Transparency and comprehensiveness	To what extent does the company report its positive impact and risks in a way that is transparent and fully covers relevant areas (both positive and negative)?
	Verification	To what extent is the reporting methodology verified or verifiable by third party actors?

Companies are rated based on the following results.

Result		Rating	Conclusion
Across the four dimensions	Not at par with maturity, need for improvement	Below expectations	Action plan required
	At par with maturity, but room for improvement	Fair	Action plan recommended
	Beyond what can be expected at maturity level	Beyond expectations	Action plan not required

The impact and sustainability risk assessments are conducted by reviewing documentation, through structured surveys, meetings with existing or co-investors, founders, management, and employees as well as site visits, including interviews with supply chain actors and clients.

Based on shortcomings or untapped potential identified during the impact and sustainability risk assessments, NIF and the company collaboratively develop a tailored value creation plan that outlines how NIF will provide advice and technical assistance to strengthen the company's capacity to deliver deeper, broader, and more sustainable impact.

#### 4. Structuring

The investment agreement is structured to include clear alignment on impact potential, material risks, and measures of success. This includes specific impact metrics, ensuring that both NIF and the investee company are committed to achieving defined impact outcomes.

Building on the diagnostic of the assessment phase, NIF and the investee signs a letter of intent (value creation plan) outlining the strategic advice and support NIF will provide to enhance governance, investability, sustainability, and impact management as well as how the investee will commit to working with NIF to improve these areas.

#### 5. Monitoring

NIF continuously monitors key impact metrics to ensure that the investee maintains or enhances its focus on the agreed impact objectives. This involves regular data collection and analysis to track performance against impact targets. Portfolio indicators are collected at least annually, and selected impact metrics deemed key levers of (impact) success for the portfolio company are collected at a frequency deemed relevant and feasible for the individual portfolio company (usually quarterly). NIF seeks to gather insights and evidence related to the key drivers of impact and sustainability performance, thereby feeding back into the investment process at the screening and assessment stages.

Based on the identified sustainability risks and their materiality, NIF implements a proactive risk management practice to address and mitigate any emerging sustainability risks.

#### 6. Value creation

To support portfolio companies in scaling sustainably and enhancing their ability to generate significant social and environmental impact, NIF provides technical assistance and strategic advice to portfolio companies. The required support is defined in the due diligence phase and the mutual engagement is agreed in a letter of intent (value creation plan). The most common themes related to impact and sustainability are:

- Enhancing inclusion and gender equity of the company, its operations and/or products and services
- Strengthening the climate resilience of the company and its operations
- Maturing impact measurement and management systems, including improving data, governance, and management structures

#### 7. Reporting

The guiding principles of NIF's reporting practice are:

- **Transparency:** Data access and quality is among the main challenges for quality impact reporting – especially for unlisted SMEs in developing markets. Accepting that the data foundation is imperfect, NIF strives to present results in a transparent manner outlining our level of confidence for each result.
- **Credibility:** NIF operates in a complex system with multiple actors contributing to the ultimate impact achieved, therefore, we strive to attribute impact according to our investments and activities (e.g. to avoid double counting among co-investors).
- **Enterprise-friendly:** NIF portfolio companies are committed founders whose primary purpose is to generate the intended impact while running a healthy business. We seek to ensure that our reporting requirements are as lean and relevant as possible to allow the portfolio companies to maintain their focus on the day-to-day operations while providing useful insights (to NIF and the company).

- **Industry-alignment:** While there is no single standard for impact measurement, some standards are increasingly being adopted by the impact investment industry. To contribute to increased harmonization and alignment (and comparison of performance across funds and investors), NIF seeks to align with international standards, where feasible and relevant.

NIF tracks a wide range of impact objectives at portfolio level in line with our commitment to achieving social and environmental objectives. Company specific metrics are aggregated to portfolio level to ensure relevance at company level and coherence at portfolio level.

NIF publishes an impact report annually, highlighting activities, results, learnings, and potential adjustments to our impact measurement and management system. NIF's impact reporting practice is aligned with best practices in the impact investment industry, such as BlueMark's [publication](#) from 2022.

## 8. Exit

Before exiting an investment, NIF conducts an exit assessment considering:

- **Risks:** Conducting a thorough assessment of the impact and risks associated with exiting the investment. This includes evaluating how the company will sustain its impact without NIF's engagement and identifying potential risks that could arise post-exit.
- **Preservation:** Ensuring that the exit strategy preserves the impact created during the investment period, such as through finding buyers who share a commitment to impact or implementing impact-linked covenants

## Annex A: List of tools and templates

Tool/template	Investment step	Objective	Latest update
Exclusion list	Screening	Ensure compliance with NIF (and our investors') exclusion criteria	November 2024
Impact screening template	Screening	Ensure contribution to NIF impact objectives	November 2024
Impact assessment tool	Due diligence	Understand extend of impact potential	November 2024
Sustainability (risk) assessment tool	Due diligence	Understand sustainability risks and mitigation plan	November 2024
Value creation letter of intent	Structuring	Align expectations on priorities related to impact and sustainability, including NIF's contribution	November 2024
Monitoring tool	Investment period	Monitor impact and principle adverse impacts at quarterly and annual frequency	November 2024
Reporting template	Investment period	Receive appropriate data for NIF impact reporting and SFDR compliance	November 2024
Exit assessment template	Exit	Ensure sustained impact beyond NIF's investment and integrate learnings in future investments	November 2024