GREEN FOR GROWTH FUND

Sustainability-related disclosure: statement on consideration of principal adverse impacts on sustainability factors

Introduction

This statement is published by the Green for Growth Fund (GGF, "the Fund") on its website in accordance with Article 4 of Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (SFDR, "the Regulation"). The Fund takes into account principal adverse impacts on sustainability factors.

Against this background, the purpose of this statement is to provide transparency on (i) how GGF considers the principal adverse impacts and (ii) the principal adverse impacts of investment decisions on sustainability factors. Other publicly available documents that are related to this statement include:

- GGF statement on the integration of sustainability risks in the investment process (March 2021) in accordance with Article 3 of the Regulation
- GGF statement on the promotion of sustainable investment objectives (March 2021) in accordance with Article 10 of the Regulation
- GGF Environmental & Social Policy (June 2020)
- Other periodic reports, fact sheets and information published on the GGF website

This statement is made on 9th March 2021 in reference to the calendar year 2020.

The strategic focus of the GGF is to foster energy savings and/or CO_2 reductions by supporting investments in energy and resource efficiency measures and renewable energy projects. To evidence its achievement of this strategy the Fund assesses and reports to shareholders on annualized CO_2 emissions reductions and primary energy savings against recognized benchmarks on a quarterly basis for all of its investments. Emissions reductions are reported in accordance with the requirements of the International Financial Institution Framework for a Harmonised Approach to Greenhouse Gas Accounting and its corresponding supporting standards. In regard to primary energy savings, assessment and reporting follows the approach of the EU Directive 2012/27/EU on energy efficiency.

Description of principal adverse impacts and the policies and actions to identify and prioritise and address such impacts

The GGF engages with Partner Institutions (PIs) both through private debt investments in financial intermediaries and direct investments in renewable energy, energy efficiency and resource efficiency projects. Given the nature of its investments, adverse impacts on sustainability related factors may occur, particularly in relation to, emissions and pollution; biodiversity and natural habitats; water and waste; human rights; social and employee matters; anti-corruption and anti-bribery matters. Against this background, the GGF places a priority on the effective management of (potential) principal adverse impacts of its investment decisions on these factors.

When investing in financial intermediaries, strict use-of-proceeds requirements are put in place, including type of end borrower and limits to loan amounts to end borrowers. The GGF funds via financial intermediaries are largely extended to individual households and SMEs. As a result of such an investment strategy, the risk of causing principal adverse impacts on the environment and/or the society via individual end borrowers is inherently diminished.

While the level of management of potential adverse sustainability impacts depends on the size, nature and scale of the investment, GGF acknowledges that effective management of adverse impacts requires careful governance and therefore maintains a comprehensive environmental and social management system (ESMS) and a detailed risked-based AML/CFT framework that define the Fund's commitments to managing adverse impacts.

The key document summarizing the Fund's ESMS is the GGF E&S policy, complemented with detailed E&S procedures and tools to support implementation. The GGF Exclusion List is an integral part of the E&S Policy and prohibits the use of GGF funding for activities with an elevated risk of causing adverse impacts, such as those related to the coal, oil and gas sectors, activities involving child or forced labour, large hydropower dams and those involving the destruction of high conservation value areas, amongst others. The exclusion list also explicitly excludes those activities that could have significant adverse impacts on biodiversity, cultural heritage, indigenous peoples, or that cause involuntary resettlement, unless those impacts are assessed by a qualified expert and the PI contractually agrees to properly address and mitigate the impacts identified.

Within the investment process, thorough E&S due diligence processes are a key tool for identifying potentially significant adverse sustainability impacts and assessing the PI's capacity and commitment to address and mitigate against these impacts. The scope of the E&S due diligence is customized depending on the initial E&S risk categorization of the investment. The categorization (high, medium-high, medium, low) takes into consideration the potential and likelihood of causing principal adverse sustainability impacts.

For direct investments, the Fund may commission external E&S consultants, specialised in assessing renewable energy or resource efficiency projects, to support the Advisor's in-house E&S team in the E&S due diligence process. For higher risk projects, i.e. those that may cause principal adverse impacts, the Fund requires an Environmental and Social Impact Assessment (ESIA) and/or other studies to be undertaken in accordance with the relevant IFC Performance Standards. Where an ESIA or similar study is required, a satisfactory report(s) must be provided to the GGF for review prior to the Fund's final investment decision. All direct investments are required to apply the applicable IFC performance standards, the World Bank Group's Environmental, Health & Safety Guidelines, and relevant EU Environmental legislation as required. For FI investments (via financial intermediaries), the E&S due diligence is focused on assessing the policies, procedures and capacity in place at the financial intermediary, to effectively manage the risks and impact of the lending portfolio to be financed by the Fund. All PIs are required to implement or maintain a comprehensive environmental and social management system (ESMS) that define the PI's commitments to managing adverse impacts.

Those PIs who are likely to finance higher risk projects are required to refer such projects to the Fund's stand-by E&S consultants, who review the project against the IFC performance standards, relevant guidelines and applicable legislation, and recommend potential mitigation measures as relevant.

Results of the E&S due diligence form an integral part of each investment proposal. Where principal adverse impacts are identified during the E&S due diligence process, these are described along with the Advisor's assessment of the ability of the project or PI to mitigate and manage the impacts to international standards. If the E&S due diligence appraisal determines that additional measures are required for the PI to meet the Fund's E&S requirements, these are presented in the Investment Proposal and included in the loan documentation. Direct investments and FI subprojects which are not considered to have the capacity to manage potential principal adverse sustainability impacts (even with appropriate technical assistance support) are excluded from financing.

Regular monitoring of the PIs E&S performance is considered crucial in order to effectively manage the potential risks of principal adverse impacts of the Fund's investments. PIs are required to report on E&S performance on an annual basis. Direct investments may be subject to more frequent monitoring. Where appropriate, third party consultants may be engaged to support the E&S monitoring of investments. When incidents do occur that may lead to principal adverse impacts, such as explosions, spills, or accidents resulting in death, serious health impacts or environmental contamination, PIs are required to inform the Fund. Where the management of principal adverse impacts is not satisfactory, the Fund will agree with the PI on remedial measures to be implemented.

The Fund ensures that governance factors are assessed as part of the investment process, to ensure that corruption, bribery and other adverse governance practices are not promoted. The Fund's AML/CFT policy defines the minimum eligibility requirements for investees, the scope of which is determined on risk-sensitivity basis, and refrains from financing sanctioned investees and investees assessed as prohibited or at very high-risk for Money Laundering/Terrorist Financing.

Engagement policies

The Fund focuses on private debt transactions and has only very limited exposure to publicly traded securities or listed companies and as such does not undertake investor engagement within the meaning and context provided by Article 3(g) of Directive 2007/36/EC on the exercise of certain rights of shareholders in listed companies. Nevertheless, engagement with PIs is an integral component of the Fund's investment process and contribution to positive development impact. This engagement often includes (but is not necessarily limited to) the ability and capacity of the PI to manage adverse ESG impact. Where appropriate, e.g. when a PI does not meet the required standards of ESG management, technical assistance or capacity building is provided as part of the engagement with a PI.