GREEN FOR GROWTH FUND

Sustainability-related disclosure: statement on sustainable investment objective

Introduction

This statement is published by the Green for Growth Fund (GGF, “the Fund”) on its website in accordance with Article 10 of Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (SFDR, “the Regulation”). Its purpose is to provide transparency on the promotion of environmental or social characteristics and, as applicable to GGF, of sustainable investments[1] on websites.

Additional publicly available documents that are related to and complementing this statement include:

- Periodic reports (including Annual Impact Report) and information published on the GGF Website
- GGF statement on consideration of principal adverse impacts on sustainability factors (March 2021) in accordance with Article 4 of the Regulation
- GGF statement on integration of sustainability risks (March 2021) in accordance with Article 3 of the Regulation
- Finance in Motion’s[2] (“the Advisor”) Disclosure statement to the Operating Principles for Impact Management

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

[1] The Regulation defines `sustainable investment’ as “an investment in an economic activity that contributes to an environmental objective, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy, or an investment in an economic activity that contributes to a social objective, in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labour relations, or an investment in human capital or economically or socially disadvantaged communities, provided that such investments do not significantly harm any of those objectives and that the investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance”.

[2] Finance in Motion serves as GGF’s Advisor.

Sustainable investment objective of the financial product

GGF is an impact fund that aims to mitigate climate change and promote sustainable economic activity, primarily by investing in measures that reduce energy consumption, resource use and CO2 emission. In pursuing an explicit sustainable (environmental) investment objective[3] it therefore falls within the scope of Art. 9 of the SFDR. The Fund further strives for systemic impact by raising awareness of the importance and benefits of energy efficiency, resource efficiency and renewable energy measures, as well as by developing the capacity of local institutions to successfully deliver and promote green finance. The entire GGF investment portfolio is dedicated to this environmental impact objective. The Fund's investment guidelines and strategy require each investment to meet minimum environmental impact standards to be eligible.

GGF's activities have been mapped against the Sustainable Development Goals (SDGs) at an SDG target level, based on which 7 goals have been selected as core SDGs. For more information on GGF's contributions towards these SDGs, please refer to the Fund's website.

GGF further carries the LuxFLAG Climate Finance Label[4], which must be renewed on an annual basis. The LuxFLAG Climate Finance Label is awarded to investment funds that can demonstrate that they invest at least 75% of their total assets in investments clearly and directly related to the mitigation and/or adaptation of climate change or cross-cutting activities.

No index nor benchmark have been designated as a reference. Details on how the Fund's objective to mitigate climate change by reducing carbon emissions is ensured are provided in the below sections on investment strategy and monitoring approach.

(Investment) Strategy to attain sustainable investment objective

Investment strategy. The investment strategy of the Fund focuses primarily on providing debt financing to financial intermediaries in Southeast Europe, the Caucasus, and the Middle East and North Africa ("the target regions"), particularly commercial banks, leasing companies and microfinance institutions, with the purpose of on-lending for energy and resource efficiency, as well as renewable energy projects. The strategic approach of providing dedicated finance through financial intermediaries has been shown as particularly effective in building outreach, strengthening local financial systems, and creating impact at scale. Financial institutions further play a vital role in mainstreaming energy and resource efficiency and renewable energy investments with their clients. To a limited extent, the Fund also directly finances renewable energy, energy and resource efficiency projects to provide an important signaling effect and support climate technology deployment in its target regions.

[3] In the following, the terms "sustainable investment objective" and "positive/environmental impact objective" shall be used interchangeably.

[4] https://www.luxflag.org/labels/climate-finance/about-label.html

The Fund's strategy is closely aligned with the strategies and standards of its IFI shareholders, including EIB, KfW, EBRD and IFC. Significant alignment with the European Union Taxonomy for Sustainable Activities is anticipated pending finalisation of the underpinning delegated acts. The financed energy and resource efficiency and renewable energy projects contribute to the Nationally Determined Contributions (NDCs) under the Paris Agreement of the majority of Fund target markets, as well as a number of related national commitments[5] prevalent in the Fund's target regions.

Investee selection. Investees of the Fund are referred to as "partner institutions" (PIs). Selection is guided based on a comprehensive set of eligibility requirements and investment criteria, as defined in the Fund's Investment Guidelines and the Environmental & Social Policy. Linked to the Fund's environmental objective, these include commitment to internationally recognized environmental, social, and governance (ESG) standards, principles of good corporate governance, potential to reach GGF's target group, negative and positive screening, adherence to the GGF's E&S Policy, commitment to good governance principles, as well as to strict controls on the use of proceeds in regard to eligible measures.

Use of Proceeds. For its investments through financial intermediaries, GGF provides its PIs with dedicated funding for on-lending ("sub-loans") to households, businesses, and renewable energy companies in line with contractually agreed, GGF-specific, use-of-proceeds requirements including both minimum environmental impacts and limits on loan amounts to end borrowers.

Key to attaining the Fund's environmental objectives of reducing carbon emissions and primary energy use, the Fund's Investment Guidelines stipulate that each investment shall achieve CO_2 emissions reductions or primary energy savings of at least 20% with reference to stringent benchmarks[6]. This is further detailed in specific use-of-proceeds requirements for each financial intermediary that describe eligibility criteria at the sub-loan level, to ensure that the Fund's objectives are met.

Through its direct investments to energy efficiency, resource efficiency and renewable energy projects, GGF directly contributes to the development of sustainable energy production capacity and reduced CO_2 emissions to mitigate climate change. To date, a large share of the Fund's direct investments were the first of their kind in their respective country. In this way, the GGF is helping to set an example for others in its target regions and open the way for future similar projects.

Technical assistance. The Fund complements its investment activities with tailored technical assistance. This has shown to be particularly effective in delivering transformational benefits for partners and local stakeholders. Technical assistance activities include capacity building and training for partners and key sector players; validating and monitoring energy savings, CO_2 emission reductions, and other environmental impacts related to water, waste, and material use; increasing awareness and uptake of energy and resource efficiency and renewable energy solutions in the financial sector and among the public; and building the ecosystem for financing energy and resource efficiency measures and renewable energy projects by developing markets for such investments.

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[5] Including National Renewable Energy Action Plans (NREAPs) and National Energy Efficiency Action Plans (NEEAPs).

[6] These baseline scenarios are, in case of an equipment replacement, the energy performance of the replaced equipment. In case of new equipment or construction, the reference benchmarks are nationally defined and recognized energy performance standards, investments are required to exceed the national mandated standards by minimum 20%.

No significant harm to sustainable investment objectives

GGF places a priority on effective management – i.e. avoiding, minimizing and mitigating – of potential environmental and social (E&S) risks and impacts associated with its investments. Key factors include, but are not necessarily limited to, pollution prevention and control; protection of biodiversity; natural habitats and cultural heritage; occupational and community health & safety; labor standards and working conditions; indigenous peoples' rights; involuntary resettlement; gender equality; and human rights. To that end the GGF maintains, implements, and continuously improves an Environmental and Social Management System (ESMS). The ESMS includes GGF's Environmental and Social Policy (E&S Policy), the Fund's E&S Exclusion List and detailed E&S procedures.

The Fund requires its PIs to carry out their activities (for direct investments) or to use proceeds (for financial intermediaries) in compliance with the GGF Exclusion List[7]. The GGF Exclusion List is aligned to those of the Development Finance Institution shareholders of the Fund and prohibits financing activities with inherent or elevated sustainability risk, such as those related to coal, oil and gas sectors, activities involving child or forced labor, large hydropower dams and those involving the destruction of high conservation value areas, among others.

Equally, PIs must carry out activities in compliance with national law, and in a manner consistent with the IFC Performance Standards and good international industry practice, including relevant World Bank Group EHS Guidelines and the principles and standards contained in the EU environmental legislation where applicable. GGF is also committed to the eight core conventions of the International Labour Organization and the International Bill of Human Rights, the key provisions of which are reflected in the relevant IFC Performance Standards.

GGF is committed to actively promoting good governance, integrity and transparency standards in its financing/investment activities, including in the selection of PIs.

For more details, please refer to the GGF statement on the integration of principal adverse impact.

Monitoring of sustainable investment objective

Assessing the GGF's impact is important as it demonstrates progress towards the Fund's primary environmental objectives, as well as providing insights and learnings that inform the GGF's strategy. Impact is continuously monitored through a set of key positive impact indicators (see below), combining different data sources and assessment methodologies.

Data sources. The Fund draws on the following data sources:

[7] See Annex 1 of the GGF Environmental & Social Policy.

- (Internal) Fund-level data: Covering a range of data points at the Fund and portfolio level, allowing monitoring of the Fund's overall activities related to resource mobilization, financing, and technical assistance.
- PI reporting: Contractually agreed reporting on a set of predefined indicators, submitted by the PIs to the Fund on a regular basis, utilized for continuous monitoring of use-of-proceeds.
- eSave: A tool developed specifically for financial institutions for the management of green sub-loan portfolios. It is being used both by the staff of GGF PIs to determine eligibility of projects and report their impact characteristics, as well as by the Fund for monitoring its environmental impact.
- Environmental impact studies: Depending on the scale and nature of the project, specialized consultants are engaged to assess the environmental impact of proposed investments.
- External evaluations: GGF collaborates on external evaluations which provide additional perspectives and analysis of the Fund's impact.
- On-site visits: Site visits facilitated through the Advisor's staff operating from several offices across the region, facilitating continuous exchange with PIs, and the incorporation of on-the-ground knowledge of market needs into investment strategies.

Assessment methodologies. For a large proportion of its monitoring, GGF utilizes first-hand data, such as from PI reporting or GGF's own, internal Fund monitoring data. In order to assess and monitor its environmental impact, the Fund applies the following assessment methodologies:

- The Fund's primary environmental indicators relating to CO_2 emissions reductions and primary energy savings are calculated and reported in accordance with recognized methodologies/approaches:
  - CO_2 emissions reductions are calculated and 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.
  - Primary energy savings are calculated and reported in accordance with the requirements of EU Directive 2012/27/EU.
- Financial Intermediaries: depending on the nature and scale of a sub-loan, two specific assessment approaches are used:
  - Standard Measures: smaller, readily assessed sub-loans are directly calculated and reported in an online tool called 'eSave'. The tool calculates a number of positive environmental impact metrics (such as energy and emission savings) by combining project data provided by the PI and additional country-specific assumptions. The eSave calculation model draws on base parameters that are adapted to climatic region specific meteorological data (heating and cooling degree days, solar irradiation, precipitation levels etc.), fuel specific parameters (primary energy and CO_2 emission factors), country/region specific technical data (grid mix of electricity, efficiency of standardized

technologies, etc.), crop-specific parameters (irrigation needs, fuel efficiency of agro-equipment, etc.).

- Non-standard Measures: larger, more complex sub-loans are assessed on an individual basis by a recognized expert who is sub-contracted by the Fund's technical assistance facility to perform such impact assessments. Individual impact assessments are further checked against the Fund's investment guidelines for eligibility by the Technical Advisor of the Fund before being reported by a PI via the eSave tool.

Due diligence (concerning environmental objectives of the Fund). Assessing the potential of an investment to contribute to the Fund's positive impact objective follows a two-step approach in the pre-investment phase:

- During pre-screening, the investee's alignment with the Fund's requirements is assessed. This relates to minimum requirements regarding environmental, social and governance aspects, as well as responsible finance practices, as per the Fund's Issue Document and Investment Guidelines.
- During the due diligence phase, the investment's alignment with the Fund's impact objectives is reviewed, taking into consideration different elements such as potential outreach to the target group, the investee's capacity to deliver the expected impact and the Fund's specific impact contribution.

Positive Impact indicators and reporting. In order to measure the positive impact of its activities, GGF has identified a set of indicators. These were selected based on GGF's impact agenda and include:

- tCO_2/year of CO_2 emission reduction
- Mwh/year of primary energy savings
- MW of renewable energy capacity installed/financed
- cubic metre/year of water saved/treated
- tons/year waste avoided/treated
- tons/year input materials saved/avoided
- Volume and number of sub-loans delivered

Impact results towards these indicators along with additional metrics are regularly published on the Fund's website and in periodic publications and reports.

For **more information** on the Fund's impact monitoring approach and results please see:

- GGF Annual Impact Reports
- Quarterly factsheets on investment & environmental impact
- GGF Website [Impact Subpage]
- Advisor's Disclosure statement to the Operating Principles for Impact Management

Engagement policies and positive impact management

Engagement with PIs is an integral component of the Fund's investment process and central to managing the Fund's achievement of its environmental impact objectives. GGF considers itself as a long-term partner to its PIs in line with its target to sustainably strengthen the green finance capacities in the local investment environments of its target regions. This engagement includes the provision of tailored technical assistance to develop green financial products, train PI staff on green finance practices/requirements, enhance a PI's capacity to assess environmental impacts, and offer assistance to end-clients for green investments, among others.

Engagement with PIs takes place on a continuous basis, facilitated through the Advisor's network of offices in GGF target regions, through regular reporting requirements, and through the networking and platform building efforts of the Fund, which contribute to knowledge sharing and scaling up of good practices among and across PIs.