Swedfund’s response to the SOMO, Green Advocates & Swedwatch report ”Cut and Run”

Swedfund International AB (Swedfund) welcomes independent reviews, either the focus is on our internal processes or on our portfolio companies operations. Such reviews are valuable as a complement to the reviews and monitoring we do ourselves. We encourage other stakeholders to analyze our business, as this will help us in our ambition to improve our work. The SOMO, Green Advocates and Swedwatch review of Vattenfall’s and Swedfund’s investment in Buchanan Renewable Fuel’s (BRF) operations in Liberia is therefore of interest to us.

In summary

Vattenfall initiated their interest in this investment in 2009 and invited Swedfund to be part of the investment. In 2010 Swedfund invested together with Vattenfall in 30% of BRF. The investment was done through a Swedish holding company in which Vattenfall was the majority shareholder.

The main driving force for Vattenfall was to secure biomass for their future needs and the driving force for Swedfund was to support the rejuvenation of the rubber industry and assumed development effects for Liberia.

During the investment period the project developed according to plan with respect to the ESG aspects.

During the second quarter of 2012, our strategic partner Vattenfall reevaluated their investment and plans regarding their ownership in BRF. As a consequence they exercised their right to purchase Swedfunds shares in the holding company. This decision was not ours and left us with no choice but to sell our shares to Vattenfall. Swedfund underlined the importance of continued ESG performance standards in the operations after exit.

Other facts

Due Diligence

Swedfund always conducts a due diligence prior to making its investment decision. The methodology of the due diligence can however vary depending on the partner(s) involved in the project. In this particular case, Vattenfall was our strategic partner and had done in depth studies, with both internal as well as external resources, of all concerned aspects of the project. Thereby, Swedfunds methodology in this case was to evaluate the reports commissioned by Vattenfall using both internal and external resources and based on the result of such evaluation we made our investment decision.
Corporate Governance in operations

The way Swedfund acted before we sold our BRF shares to Vattenfall was to channel our views through the Board and management of BRF. BRF reacted promptly and corrective actions were taken on issues put forward to the Board on the allegations reported in the first report from SOMO, “Burning Rubber”.

Swedfund’s exit

Our exit was from Vattenfall and on Vattenfall’s request. Swedfund would have planned a longer engagement in Liberia, but the decision to exit was Vattenfall’s to make. We had a dialogue with Vattenfall and during these exit discussions, we voiced our concern to Vattenfall about continued adherence to current ESG standards after exit. Swedfund was however not in a position to require such adherence but received the verbal commitment from Vattenfall that they would include this in their exit towards BRF.

No follow-ups on the ground have been made after divesting. Swedfund has followed its policies in this case and has done an internal post exit evaluation and report focusing on the time that Swedfund was an investor in the project.

We acknowledge the fact that the issue of continued adherence to ESG standards is an area that requires further investigation and possible development.

Swedfund’s responses to the Recommendations given in the Report

1. Improve the development and implementation of a human rights due diligence process to identify, prevent, and mitigate adverse impacts on human rights and the environment.
   
   **Respons:**
   The Human Rights aspects are an integral part of Swedfunds due diligence process. We are looking into the possible need of improving/enhancing this particular area with a focus on the United Nations Guiding Principles on Business and Human Rights: Implementing the United Nations “Protect, Respect and Remedy” Framework.

2. As part of the due diligence process, ensure that appropriate exit policies and procedures are in place to guarantee that responsibility to respect human rights and the environment are met. This policy should be in line with Vattenfall’s and Swedfund’s Codes of Conducts and Sustainable Development Policy and should be integrated into the companies’ business models.
   
   **Respons:**
   When business conditions change, which happens sometimes, we have a responsibility to responsibly end our involvement. However even as a
Development Financial Institution, we don’t have an infinite perspective. We agree on the principle recommendation.

3. Conduct a post-divestment evaluation of the impacts of the BRF project, including interviews with impacted smallholder farmers and mapping of the options available to assist the farmers in overcoming the negative impacts they have experienced.

Respond:
Swefund acknowledges the fact that continued adherence to set ESG standards is an area that needs to be investigated further and is, at the moment, exploring various options on how to deal with possible similar occurrences in future investments.