

APPROACH TO RESPONSIBLE INVESTMENT

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Links to other corporate policies

Investment Guidelines

Version Control, Checks, Approvals					
When	Version	Who	Description		
17.04.2024	V2.2	Board	Update of Climate and Energy Finance commitments, language regarding CPPs and EDFI Harmonized Standards for E&S Procedures and Standards, exclusion list to reflect EDFI harmonization, references to gender equality, misc.		
10.12.2019	V2.1	Board	Extension of review process until December 2020		
08.12.2017	V2.0	Board	Revision of policy and exclusion list reflecting EDFI Harmonization		
12.08.2013	V1.1	Board	Revision of exclusion list reflecting SIFEM Board instructions		
02.12.2011	V1.0	Board	Approval and entry into force (Annex 21 of SIFEM's Procedure Manual)		



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LIST OF ABBREVIATIONS

CEO Chief Executive Officer

EDFI The Association of European Development Finance Institutions

EHS Environmental, Health & Safety

ESAP Environmental and Social Action Plans

ESIA Environmental and Social Impact Assessment ESG Environmental, Social and Governance matters ESMS Environmental and Social Management System

E&S Environmental & Social

IFC International Finance Corporation (a member of the World Bank Group)

IFC PS International Finance Corporation Performance Standards

ILO International Labor Organization

UN United Nations



1 INTRODUCTION

SIFEM seeks risk-adjusted returns on its long-term investments in emerging and frontier markets, while generating sustainable, positive impacts. Responsible investing involves integrating environmental, social, and corporate governance (including business integrity) (ESG) matters into investment decision-making and portfolio management. SIFEM asserts that proper ESG risk management not only reduces risks to workers, the environment, local communities and other affected stakeholders, but it can also serve to reduce reputational and financial risks. Proper ESG risk management can also serve to generate a range of sustainable, positive financial, environmental and societal impacts. Examples include: accessing new markets, reducing costs through energy and resource efficiency measures, reducing emissions and waste, creating better, safer jobs, and enhancing community relationships.

Underpinning SIFEM's fiduciary responsibility is its commitment to invest responsibly. SIFEM commits to:

- Integrating ESG matters into its investment practices across entire investment cycles -- from deal sourcing, analyses, decision-making, investment management to exits;
- Identifying and appropriately mitigating ESG risks at the investees in which it invests;
- Requiring investees¹ to minimize their adverse impacts and enhance positive effects on the environment and all stakeholders (including employees and any affected communities);
- Requiring investees to comply with the legal and regulatory requirements in the jurisdictions
 where they operate, at a minimum, and work over defined time frames towards relevant
 international E&S guidelines and standards²;
- Requiring investees to observe high standards of business integrity and governance³;
- Requiring investees to ensure a preventive and precautionary approach with respect to their environmental and social impacts. If negative environmental or social impacts are unavoidable, they must be appropriately mitigated or compensated for;
- Promoting gender parity and women's economic empowerment;
- Encouraging investees to establish open dialogues with their stakeholders on the environmental and social impacts of their activities;
- Encouraging investees to consider the potential for positive impacts and opportunities from business activities (e.g., certifications to enter new markets, strengthening of supply chain structures/management, and employee training); and
- Seeking continuous improvement in its own ESG management, where the aim is to always enhance positive effects in relation to the environment, workers, communities, and other affected stakeholders.

SIFEM's commitments to Climate and Energy Finance are the following:

 Align all new financing with the objectives of the Paris Agreement and Nationally Determined Contributions (NDCs);

SIFEM invests in companies directly, and indirectly via financial intermediaries (funds, financial institutions, and other investment vehicles).

Benchmark is the Corporate Governance Development Framework (SIFEM is a signatory to this Framework)(see http://cgdevelopmentframework.com/)

Benchmarks include the UN Guiding Principles for Business and Human Rights (see: https://www.unglobalcompact.org/library/2), the ILO Fundamental Conventions (ILO Core Labor Conventions) (see: http://www.ilo.org/wcmsp5/groups/public/@ed_norm/@declaration/documents/publication/wcms_095895.pdf), and the IFC Performance Standards on Social and Environmental Sustainability (see: http://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/policies-standards/performance-standards">http://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/policies-standards/performance-standards) and the associated Environmental, Health and Safety (EHS) Guidelines.



- Adhere to the Harmonized EDFI Fossil Fuel Exclusion List;
- Build on SIFEM's track record in climate finance and the mobilization of private sector finance by adhering to SIFEM's Climate Approach;⁴
- Invest strategically and provide assistance to investees to support the development of Parisaligned projects, and to promote green growth, climate adaptation and resilience, nature-based solutions, access to green energy, and a Just Transition to a low-carbon economy. At least 25% of new investments will be dedicated to positive climate outcomes; and
- Make climate-related financial disclosures in line with high international standards, specifically adopting the recommendations of the Task Force on Climate-related Financial Disclosures.

2 POLICY STATEMENT

SIFEM's Approach to Responsible Investment stipulates SIFEM's ESG-related investment requirements. It is based on internationally accepted standards which include the UN Guiding Principles for Business and Human Rights, ILO Core Labor Standards, International Finance Corporation's (IFC's) Performance Standards on Environmental and Social Sustainability (2012) and the associated Environmental, Health and Safety (EHS) Guidelines, the Corporate Governance Development Framework, and the Universal Standards under the Client Protection Pathway.⁵

SIFEM's Approach to Responsible Investment is aligned with, or materially similar to, the policies used by other European Development Finance Institutions (EDFIs).

3 SCOPE AND APPLICATION

This Policy applies to SIFEM, SIFEM's Portfolio Manager,⁶ and its investees: Fund Managers and their underlying portfolio companies, as well as Financial Institutions and their sub-borrowers.

SIFEM is cognizant that its direct and indirect investments may not be compliant with this policy at the time of investment. In such cases, SIFEM's Portfolio Manager works with Fund Managers and Financial Institutions prior to investment to develop Environmental and Social Action Plans (ESAPs) and achieve compliance within defined time frames. SIFEM requires that Fund Managers and Financial Institutions take the same steps to ensure that their portfolio companies and sub-borrowers achieve compliance. SIFEM's Portfolio Manager actively assists SIFEM's Fund Managers and Financial Institutions in reaching compliance and/or supporting Fund Managers' and Financial Institutions' efforts to ensure their portfolio companies' and sub-borrowers' compliance, thereby adding value.

SIFEM requires that its Fund Managers and Financial Institutions only provide financing to portfolio companies and sub-borrowers, which are expected to reach compliance with this Approach to Responsible Investment within defined time frames. Failure to reach compliance within established deadlines, and other material breaches in this Policy, may trigger remedial actions or divestment.

SIFEM's Portfolio Manager's CEO may under extraordinary circumstances grant and revoke waivers of this Policy.

⁵ See https://cerise-sptf.org/universal-standards//

⁴ 230413_SIFEM_Climate_Approach.pdf

⁶ responsAbility Investments AG is SIFEM's Portfolio Manager



4 CORE REQUIREMENTS

SIFEM's Approach to Responsible Investment comprises the following core requirements:

- Appended Implementation Guideline A SIFEM's Responsible Investment Requirements
- Appended Implementation Guideline B SIFEM's E&S Requirements for Funds and Fund Managers
- Appended Implementation Guideline C SIFEM's E&S Requirements for Financial Institutions
- Appended Implementation Guideline D Exclusion List

5 POLICY AUTHORITY AND REVISION

SIFEM's Portfolio Manager is responsible for the implementation of SIFEM's Approach to Responsible Investment. SIFEM's Portfolio Manager's Head of Environmental, Social and Governance (ESG) is responsible for the Policy's implementation.

This Policy will be reviewed and revised, as necessary, to reflect changes in ESG practices and standards and lessons learned. At a minimum, it will be reviewed biennially. The next scheduled review will be in December 2025.



APPENDED IMPLEMENTATION GUIDELINE A – SIFEM'S RESPONSIBLE

INVESTMENT REQUIREMENTS

SIFEM's Portfolio Manager shall:

- Ensure that SIFEM's Approach to Responsible Investment is integrated into investmentdecision making process and portfolio management.
- Maintain a management system which supports:
 - Not directly, or indirectly financing investees engaged in excluded activities found in Appended Implementation Guideline D Exclusion List;
 - Identifying and assessing potential investees' expected impacts and ESG risks (including possible integrity and reputational risks), following EDFI Harmonized Approach to Environmental and Social Standards for Fund Investments or Financial Institutions;
 - Actively promoting gender parity and women's economic empowerment as part of SIFEM's investment decision-making processes (e.g., through active engagement with Fund Managers and Financial Institutions on the 2X Global framework);⁷
 - Assisting SIFEM's Fund Managers and Financial Institutions to develop, maintain, and if necessary, enhance their ESG management systems through the delivery or facilitation of training or guidance;
 - Actively monitoring (including engagement with) and tracking its Funds' and Financial Institutions' adherence to SIFEM's Approach to Responsible Investment as set out in Appended Implementation Guideline B – SIFEM's E&S Requirements for Funds and Fund Managers and Appended Implementation Guideline C – SIFEM's E&S Requirements for Financial Institutions;
 - Tracking and following up on Environmental and Social Action Plans (ESAPs);
 - Ensuring that material breaches of SIFEM's Approach to Responsible Investment by a Fund, portfolio company or Financial Institution are investigated and resolved in a timely manner; and
 - Identifying and assessing areas in which its Fund Managers, and their underlying portfolio companies, and Financial Institutions can generate sustainable, positive impacts, and where possible, support efforts to generate such impacts.
- Ensure that it has adequate in-house ESG capacity to fulfill these requirements and has access to commercial tools and third party resources to support and supplement this capacity.

When SIFEM co-invests with other development finance institutions, its Portfolio Manager may apply some, or all of these co-investors' (aligned) requirements to achieve a harmonized set of requirements.

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⁷ See https://www.2xglobal.org/what-we-do/#2xcriteria



APPENDED IMPLEMENTATION GUIDELINE B – SIFEM'S E&S REQUIREMENTS FOR

FUNDS AND FUND MANAGERS8

Fund Managers must commit to providing reasonable labor and working conditions to their employees by ensuring that their own operations meet the requirements of IFC Performance Standard 2- Labor and Working Conditions.⁹

Fund Managers must develop and implement Environmental and Social Management Systems (ESMSs) before they make their first investment. These ESMSs should support the identification, assessment, remediation, and management of E&S issues in their pipelines and portfolio companies, and their sophistication should be commensurate with the ESG risks and impacts associated with the Funds' investment strategies.

Fund Managers' ESMS should, at a minimum, contain the following elements:

E&S Policy and Processes:

A policy describing how the Fund Manager will identify, assess, mitigate, and monitor its portfolio companies' compliance with the Exclusion List, Local legislation, and International Standards. The policy should also include a description of the ways in which it develops Environmental and Social Action Plans to address its portfolio companies' non-compliance.

ESG in the Investment Procedures

A procedure describing all the ESG steps that need to be taken for all new investments and follow-on investments including but not limited to: E&S screening and categorisation, ESDD, ESAP, monitoring and exit.

Exclusion List:

Apply the list of excluded activities found in Appended Implementation Guideline D – Exclusion List, which is aligned with EDFI, when assessing potential portfolio companies and monitoring portfolio companies.

Local Legislation:

Ensure that all Fund parties and portfolio companies uphold all applicable local laws and regulations, including environmental, health & safety and labor laws, corporate governance regulations, and laws intended to prevent extortion, bribery and financial crime.

International E&S Standards:

Ensure that all portfolio companies work over defined time frames to comply with relevant international standards, including the UN Guiding Principles for Business and Human Rights, ILO Core Conventions, and the IFC Performance Standards and associated EHS Guidelines.

For portfolio companies providing consumer or asset financing: Seek to adhere to the eight Client Protection Standards. 10

Roles and Responsibilities:

Assign ESG responsibilities to ensure effective oversight of the ESMS by senior management and implementation by suitably qualified staff or consultants.

Funds investing in Financial Institutions (including MFIs) must ensure that the Financial Institutions (including MFIs) adhere to APPENDED IMPLEMENTATION GUIDELINE C – SIFEM'S E&S REQUIREMENTS FOR FINANCIAL INSTITUTIONS

See: http://www.ifc.org/wps/wcm/connect/topics ext content/ifc external corporate site/sustainability-at-ifc/policies-standards/performance-standards/ps2

standards/performance-standards/ps2
 See https://cerise-sptf.org/universal-standards/



E&S Risk Categorization:

Categorize potential portfolio companies as having high, medium-high¹¹ medium or low E&S risk using adequate instruments to determine the appropriate level of management and monitoring¹².

Assessment:

Assess E&S issues of all new investments, as an integral part of the investment appraisal process, against the Exclusion List, Local legislation, and International Standards.

For high-risk portfolio companies, use a suitably qualified expert to evaluate compliance with the Exclusion List, Local legislation and International E&S Standards and carry out a gap analysis by applying the relevant IFC Performance Standards and EHS Guidelines. An evaluation shall include an adequate Environmental and Social Impact Assessment (ESIA) or adequate Environmental and Social Audit¹³.

Monitoring:

Monitor portfolio companies' performance and continued compliance with the Exclusion List, Local Legislation and International Standards, and progress on agreed ESAPs on ESG matters including their progress towards action plans, using technical expertise where necessary. For high-risk portfolio companies, external monitoring is recommended, and in some cases, it may be required. Identify and record any serious incidents involving portfolio companies and material breaches of the Exclusion List, Local Legislation and International E&S Standards.

Work with portfolio companies to continually improve their ESG performance.

Reporting of Serious Incidents:

Report any serious incidents, including all fatalities, and any other material breach of law to governing bodies and investors, in any portfolio company to SIFEM's Portfolio Manager within three (3) business days. Reporting shall include a description of the incident, its impacts, and measures being taken to address them and prevent any future similar event. SIFEM's Portfolio Manager shall be informed of the on-going implementation of those measures.

Annual E&S Reporting:

Submit regular reporting on E&S Performance (not less than annually) in a format acceptable to SIFEM's Portfolio Manager.

Grievance Mechanism:

Establish and maintain an appropriate grievance mechanism for employees and any other internal or external stakeholders of the Fund (e.g., customers and the local community).

11 SIFEM can request or require its Fund Managers to introduce a medium-high risk categorization.

¹² For assessing risks and categorization FMO Toolkit for Private Equity Funds (https://www.fmo.nl/esg-toolkit) or an equivalent tool or consultant report must be used.

For greenfield operations and major expansion of existing facilities, risks and impacts should be evaluated through an adequate Environmental and Social Impact Assessment (ESIA). ESIA requirements can be found in IFC Performance Standard 1, Assessment and Management Systems, Guidance Notes (Annex A). For existing operations, the evaluation of risks and impacts shall be assessed through an adequate Environmental and Social Audit. Audit requirements can be found in IFC Performance Standard 1, Assessment and Management Systems, Guidance Notes (Annex B). See https://www.ifc.org/wps/wcm/connect/9fc3aaef-14c3-4489-acf1-a1c43d7f86ec/GN English 2012 Full-Document_updated_June-27-2019.pdf?MOD=AJPERES&CVID=mRQmrEJ



APPENDED IMPLEMENTATION GUIDELINE C – SIFEM'S E&S REQUIREMENTS FOR FINANCIAL INSTITUTIONS

Financial Institutions must commit to providing reasonable labor and working conditions to their employees by ensuring that their own operations meet the requirements of IFC Performance Standard 2- Labor and Working Conditions.

Financial Institutions must develop and implement Environmental and Social Management Systems (ESMSs) before SIFEM's investment, appropriate to its portfolio.

The ESMS should support the identification, assessment, remediation, and management of ESG issues in their underlying loan portfolio, and its sophistication should be commensurate with the ESG risks in that portfolio.

Financial Institutions' ESMSs should, at a minimum, contain the following elements:

E&S Policy and Processes:

A policy describing how the Financial Institution will identify, assess, mitigate, and monitor its sub-borrowers' compliance with the Exclusion List, Local legislation, and International Standards. The policy should also include a description of the ways in which it develops Environmental and Social Action Plans to address certain of its sub-borrowers' non-compliance.

ESG in investment procedures:

A procedure describing all the ESG steps that need to be taken for all new investments and follow-on investments including but not limited to: E&S screening and categorisation, ESDD, ESAP, monitoring and exit.

Exclusion List:

Apply the list of excluded activities found in Appended Implementation Guideline D - Exclusion List, which is aligned with EDFI, when assessing potential subborrowers and monitoring sub-borrowers.

Local Legislation:

Ensure that the Financial Institution and all sub-borrowers uphold all applicable local laws and regulations, including environmental, health & safety and labor laws, corporate governance regulations, and laws intended to prevent extortion, bribery and financial crime.

International E&S Standards:

Ensure that the Financial Institution and all sub-borrowers comply with relevant international standards, including the UN Guiding Principles for Business and Human Rights, and ILO Core Conventions.

Financial Institutions having sub-borrowers, or are likely to have sub-borrowers, which could potentially have significant adverse social or environmental impacts must also apply the IFC Performance Standards and associated EHS Guidelines.

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Client Protection Principles

For microfinance Institutions, Financial Service Providers, and others providing consumer or asset financing: Seek to adhere to the Client Protection Standards.¹⁴

¹⁴ See: https://cerise-sptf.org/universal-standards/



Roles and Responsibilities:

Assign ESG responsibilities to ensure effective oversight of the ESMS by senior management and implementation by suitably qualified staff or consultants.

E&S Risk Categorization:

Categorize potential corporate sub-borrowers as having high, medium-high, ¹⁵ medium or low E&S risk using adequate instruments to determine the appropriate level of management and monitoring.

Assessment:

Assess ESG issues of all new sub-borrowers, appropriate to the borrower, as an integral part of the investment appraisal process, against the Exclusion List, Local Legislation, and relevant international standards, including the UN Guiding Principles for Business and Human Rights, and ILO Core Conventions.

In the assessment of high-risk sub-borrowers, or sub-borrowers with high-risk activities, the IFC Performance Standards and associated EHS Guidelines shall also be applied.

Monitoring:

Monitor sub-borrowers' performance as appropriate to ESG risk, and continued compliance with the Exclusion List, Local Legislation, and relevant international standards, including the UN Guiding Principles for Business and Human Rights, ILO Core Conventions, and in the cases of high-risk sub-borrowers, or sub-borrowers with high-risk activities, the IFC Performance Standards and associated EHS Guidelines.

Monitor progress on agreed ESAPs on ESG matters, including progress towards action plans, using technical expertise where necessary. For high-risk sub-borrowers or sub-borrowers with high-risk activities, external monitoring is recommended, and in some cases, it may be required.

Identify and record any serious incidents and material breaches in the Requirements.

Seek to work with sub-borrowers to continually improve their ESG performance as relevant.

Reporting of Serious Incidents: Any serious incidents, including all fatalities, and any other material breach of law to governing bodies and investors, associated with the Financial Institution's own operations must be reported to SIFEM's Portfolio Manager within three (3) business days. Reporting shall include a description of the incident, its impacts, and measures being taken to address them and prevent any future similar event. SIFEM's Portfolio Manager shall be informed of the on-going implementation of those measures.

Annual E&S Reporting:

Submit regular reporting on E&S Performance (not less than annually) in a format acceptable to SIFEM's Portfolio Manager.

Grievance mechanism:

Establish and maintain an appropriate grievance mechanism for employees and any other internal or external stakeholders of the Financial Institution (e.g., subborrowers and the local community).

¹⁵ SIFEM can request or require its Fund Managers to introduce a medium-high risk categorization.



APPENDED IMPLEMENTATION GUIDELINE D – EXCLUSION LIST

This exclusion list is aligned with the Harmonized EDFI Exclusion List

Any activity, production, use of, trade in, distribution of or involving:

- Forced labor¹⁶ or child labor¹⁷ 1.
- Activities or materials deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international phase-outs or bans, such as:
 - Ozone depleting substances, PCB's (Polychlorinated Biphenyl's) and other specific, hazardous pharmaceuticals, pesticides/herbicides or chemicals;
 - b) Wildlife or products regulated under the Convention on International Trade in Endangered Species or Wild Fauna and Flora (CITES); or
 - Unsustainable fishing methods (e.g. blast fishing and drift net fishing in the marine c) environment using nets in excess of 2.5 km in length)
- Cross-border trade in waste and waste products, unless compliant to the Basel Convention and the underlying regulations
- Destruction¹⁸ of High Conservation Value areas¹⁹ 4.
- Radioactive materials²⁰ and unbounded asbestos fibres 5.
- 6. Construction of new and extension of any existing coal fired thermal power plants
- 7. Pornography and/or prostitution.
- Racist and/or anti-democratic media 8.
- Weapons and munitions²¹
- 10. In the event that any of these following products form a substantial part of a project's primary financed business activities:22
 - a) Alcohol beverages (except beer and wine);
 - b) Tobacco; or
 - Gambling, casinos and equivalent enterprises c)

Forced labor means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or

penalty as defined by ILO conventions.

Persons may only be employed if they are at least 15 years old, as defined in the ILO Fundamental Human Rights Conventions (Minimum Age Convention C138, Art.2), unless local legislation specifies compulsory school attendances or the minimum age for working. In such cases the higher age shall apply.

Destruction means the (1) elimination or severe diminution of the integrity of an area caused by a major, long-term 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.

High Conservation Value (HCV) areas are defined as natural habitats where these values are considered to be of outstanding significance or critical importance (see http://www.hcvnetwork.org).

This does not apply to the purchase of medical equipment, quality control (measurement) equipment or any other equipment

where the radioactive source is understood to be trivial and/or adequately shielded.

This is an SIFEM specific requirement (i.e., it is more stringent than the ÉDFI requirement).

For portfolio companies, "substantial" means more than 10% of their consolidated balance sheets or earnings. For financial institutions (banks), "substantial" means more than 10% of their underlying portfolio.



Fossil Fuel Exclusion List

This exclusion list is aligned with the Harmonized EDFI Exclusion List

The following investment exclusions are considered as a minimum common requirement by all EDFI members for all new Direct Financing (Debt or Equity), for Indirect Equity through new commitments to investment funds, and new dedicated lending²³ via financial institutions:

- Coal prospection, exploration, mining or processing
- Oil exploration or production
- Standalone fossil gas exploration and/or production²⁴
- Transport and related infrastructure primarily²⁵ used for coal for power generation
- Crude Oil Pipelines
- Oil Refineries

Construction of new or refurbishment of any existing coal-fired power plant (including dual)

- Construction of new or refurbishment of any existing HFO-only or diesel-only power plant²⁶ producing energy for the public grid and leading to an increase of absolute CO2 emissions²⁷
- Any business with planned expansion of captive coal used for power and/or heat generation²⁸

will be used for one or more of the purposes described.

^{23 &}quot; Dedicated lending" is defined for these purposes as loans conditioned by a use of funds clause specifying that such financing

Gas extraction from limnically active lakes is excepted from this exclusion.

²⁵ "Primarily" means more than 50% of the infrastructure's handled tonnage.

For indirect equity through investment funds, investments (up to a maximum of 20% of the fund) in new or existing HFO-only or diesel-only power plants are allowed in countries that face challenges in terms of access to energy and under the condition that there is no economically and technically viable gas or renewable energy alternative.

²⁷ I.e. where energy efficiency measures do not compensate any capacity or load factor increase.

²⁸ This does not apply to coal used to initiate chemical reactions (e.g. metallurgical coal mixed with iron ore to produce iron and steel) or as an ingredient mixed with other materials, given the lack of feasible and commercially viable alternatives.