

COMMUNICATION ON ENGAGEMENT (COE) 2015



INVESTMENT FUND FOR
DEVELOPING COUNTRIES



Dear reader

The overall mission of IFU and IFU managed funds is to enhance sustainable economic growth, development and more equitable income distribution by financing private sector investments in developing countries and emerging markets.

Our sustainability policy is ambitious and is based upon international UN, ILO and OECD conventions, declarations, agreements and principles. We hereby seek to contribute to the global achievement of the 17 Sustainable Development Goals (SDGs) which were formally accepted by the United Nations, General Assembly in 2015.

It is our objective that our investments contribute to a lasting economic, environmental and social sustainable development through the creation of healthy and safe workplaces and the transfer of know-how and cleaner technologies. We wish to contribute to the social and economic development of the local community – and we also encourage the project companies to engage themselves locally.

We are committed to securing high sustainability standards as a fundamental aspect of sound business management of our investments and business practice. IFU's board of directors, management, employees and advisers must conduct all their business operations in accordance with the values and guidance in the sustainability policy.

We signed up to the 10 UN Global Compact principles in 2008, because they are a set of universal principles that help us underline our sustainability policy wherever in the world we create business, and we are committed to implementing and advancing these principles together with the project companies and within IFU's sphere of influence.

This Communication on Engagement, required annually of all signatories to the UN Global Compact, constitutes IFU's mandatory reporting as required by the Danish Financial Statements Act, section 99 a (7).

Copenhagen, April 2016
Tommy Thomsen, CEO

IFU as a partner

IFU – Investment Fund for Developing Countries was established in 1967, and for almost fifty years our work has proven that good business and social and environmental responsibility for all parties often go hand in hand.

IFU's activities are based on the following:

- We invest risk capital on market terms in the form of share capital, loans and guarantees in private sector companies that are established or will be established in developing countries or emerging markets. We call them project companies.
- We provide professional advice regarding the business environment, investment terms and sustainability issues as well as cultural and political barriers, etc., with assistance from our regional offices in developing countries and emerging markets and through our global network of advisers.
- We provide continual know-how and active support to the project companies.

IFU as a fund manager

IFU is fund manager for the Arab Investment Fund (AIF), IFU Investment Partners (IIP), the Danish Climate Investment Fund (DCIF), the Danish Agribusiness Fund (DAF) and the Investment Fund for Central and Eastern Europe (IØ). All projects under these funds are included in this report.

The Investment Fund for Central and Eastern Europe (IØ)

IØ was founded in 1989. The Danish government decided in 2010 that IØ's activities are to be phased out, and IØ cannot enter into new commitments. However, IØ still has a portfolio of projects and is a signatory to the UN Global Compact.

The Danish Climate Investment Fund (DCIF)

The Danish Climate Investment Fund (DCIF) was established by the Danish State in 2012 for the purpose of promoting climate investments in developing countries and emerging markets to help reduce global warming and promote transfer of Danish climate technology. DCIF has procured DKK 1.3bn of public and private funds. The public funds have been provided by the Danish government and IFU, which have contributed DKK 525m. Private funds of a total of DKK 774m have been contributed by pension funds PensionDanmark, PKA and Pædagogernes Pensionskasse (PBU), the private investment fund Dansk Vækstkapital and Aage V. Jensen Charity Foundation.

The fund can invest in a broad range of climate projects, e.g. wind and solar parks, biogas plants, energy efficiency projects, renovation and upgrading of power and industrial plants and climate-friendly agricultural crops are also included.

The Danish Agribusiness Fund (DAF)

The Danish government and IFU contribute in collaboration with the two pension funds PensionDanmark and PKA with DKK 700m to the new Danish Agribusiness Fund (DAF). The DKK 700m consists of DKK 88m from development aid, DKK 212m from IFU and DKK 200m from PensionDanmark and PKA respectively. The fund is expected to raise additional capital of DKK 100m in a second closing.

The purpose of the fund is to undertake agribusiness related investments within the food value chain in emerging markets. Such investments include commercially viable and attractive private sector projects within primary production, food processing and the supporting industries. DAF will invest in projects throughout the entire value chain from farm to fork, where a Danish commercial interest is included – thereby increasing the export of Danish technology. Danish companies are among the leading in the world with regard to efficient use of resources, and Danish agribusiness companies can contribute to secure efficient and environmentally friendly growth in the food production and processing in developing countries. The funds are expected to generate investments of close to DKK 6bn in improved production, distribution and food sales in developing countries.

Sustainability policy

IFU's Sustainability Policy provides the framework for the environmental, social and governance (ESG) requirements in the companies in which IFU invests. IFU is committed to ensuring that the project companies reduce sustainability risks, contribute to sustainable development and in general achieve high sustainability standards, which IFU believes adds value to the project company and enhances business opportunities.

IFU promotes the Global Compact principles through its investments and thereby strives to create shared value by:

- respecting and promoting all basic human rights, including labour rights and occupational health and safety, and addressing adverse human rights impacts that the investment may cause or contribute to as outlined in e.g. the UN Guiding Principles on Business and Human Rights;
- enhancing positive development effects, including the creation of jobs and income, payment of taxes, contribution to government revenue, transfer of know-how and cleaner technologies, training and education, gender equality, community health and food security and other corporate social responsibility-related activities;
- securing corporate governance and business ethics, including anti-corruption, anti-fraud, transparency and stakeholder engagement;
- improving environmental performance through a preventative and precautionary approach that addresses

environmental challenges, including climate change, loss of biodiversity and land use changes; and

- ensuring good animal welfare, including proper treatment of animals used for food production and for other commercial purposes and testing.

The investees must continuously work towards achieving satisfactory long-term results in sustainability, and such activities must be anchored in their business plan.

Sustainability throughout the investment process

IFU is aware of potential challenges and dilemmas in relation to sustainability. Consequently, addressing significant sustainability issues in the business plan is crucial for a project company to achieve satisfactory long-term results, and it is the objective of IFU's sustainability efforts that its partners set up clear sustainability strategies that benefit the company.

Identifying sustainability impacts is an integrated part of IFU's investment process that consists of four phases; screening, due diligence, agreement and investment management as shown in the model below.

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IFU's sustainability workflow model



Projects that are on IFU's exclusion list are not eligible for financing and consequently not screened. The screening phase involves an initial assessment of potential projects that IFU and IFU managed funds are considering investing in. The sustainability policy of the project sponsor, if such a policy exists, is considered together with information about the project sponsor's track record, commitment and competences to work with sustainability issues. Project-related sustainability risks and impacts to be assessed during the due diligence phase are identified, and projects are categorised in terms of environmental and social risk.

The due diligence phase includes a comprehensive assessment of sustainability risks, impacts and mitigation measures related to the specific project. On-site visits are made to all potential projects and project representatives must answer questions in the Global Compact Self Assessment Tool, which helps to identify gaps in the current perfor-

mance or planned measures at the project and indicate what improvements can be made. The results of the assessment are written in an action plan that describes the measures to be implemented within an agreed time frame. Project companies must comply with national regulations in the country in which they operate and have to work towards implementing relevant international standards. An environmental and social impact assessment is required for projects with high environmental and social risks. Further specification of IFU's sustainability requirements can be found in IFU's sustainability policy and handbook.

When entering into an agreement, IFU requires project companies to implement the agreed action plan and to:

- adopt a written sustainability policy approved by their board of directors or similar governance body, and which is communicated to relevant stakeholders;
- appoint a person with overall responsibility for sustainability, including the management of activities and resources and delegation of tasks;
- establish a system to ensure continuous improvement and implement sustainability decisions relevant to the company size and sector as well as the environmental, economic, cultural and social context in which the activity operates;
- promote sustainability issues in interaction with suppliers and business partners;
- prepare an annual report that provides a status on sustainability issues.

Project companies must comply with sustainability requirements set by IFU throughout the investment period. Project companies are monitored during the investment management phase so their progress in implementing the action plan can be tracked. IFU's representative on the board of a project company plays a particularly important role. On an annual basis the project companies are required to prepare an annual sustainability status report to be submitted to the board of directors for review and approval. The report is to serve as a tool for the annual stocktaking by its board of directors of sustainability issues relevant to the project company. IFU also conducts an annual internal classification of the sustainability performance of all projects to get an overview of the development status and to be able to focus on the projects that are not performing as planned.

CASE FERTIN PHARMA - INDIA

Strengthening environmental and social conditions at Fertin Pharma

Fertin Pharma in India, a company producing medical chewing gum, applied for a Danida CSR training fund grant in 2015 to help with the implementation of a CSR policy and various training activities for the employees. The company also plans to use the grant to purchase equipment that will minimise greenhouse gas and particle emissions from the process factory. The grant will help Fertin Pharma India implement the environmental management system ISO 14001 and the occupational health and safety system OHSAS 18001. Consequently, the Danida training fund will contribute to strengthening the company's environmental and social conditions.



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Annual assessment of sustainability performance

Sustainability classification	Total score (%)		Environment (%)		OHS (%)		Human rights and labour practices (%)		Anti-corruption (%)	
	IFU	IØ	IFU	IØ	IFU	IØ	IFU	IØ	IFU	IØ
Excellent	32	30	37	30	33	30	36	35	22	26
Good	52	63	46	65	50	61	51	61	59	65
Fair	15	7	16	4	16	9	12	4	18	9
Poor	1	0	1	0	1	0	1	0	1	0
Critical	0	0	0	0	0	0	0	0	0	0

Totals may not add up due to rounded figures.

Assessment of sustainability performance

The annual classification of project companies is based on an assessment of their sustainability performance. The classification is a combination of four separate areas within sustainability: 1) environment, 2) occupational health and safety (OHS), 3) human rights and labour practices and 4) anti-corruption. Each project company is classified into one of five categories as follows: Excellent, Good, Fair, Poor and Critical.

Project companies with the classification Good are in compliance with local legislation and relevant international standards in terms of applicable and relevant significant sustainability issues. Project companies with the classification Excellent go beyond that and are active in local community, have high quality reports and certified management systems. Project companies with the classification Fair, Poor or Critical are given extra attention, and IFU will engage in discussions with the partners on how a project company can improve its performance.

In 2015, internal assessments were carried out for 186 projects under IFU and IFU managed funds. The exercise did not include 12 projects that were in the process of being established, 16 projects with no physical activities or inactive for other reasons and 9 projects being exited. Moreover, it did not include IFU's three investments under IFU managed funds. Similarly for IØ, classification was carried out for 23 IØ projects, one project was not assessed since it does not have any physical activity.

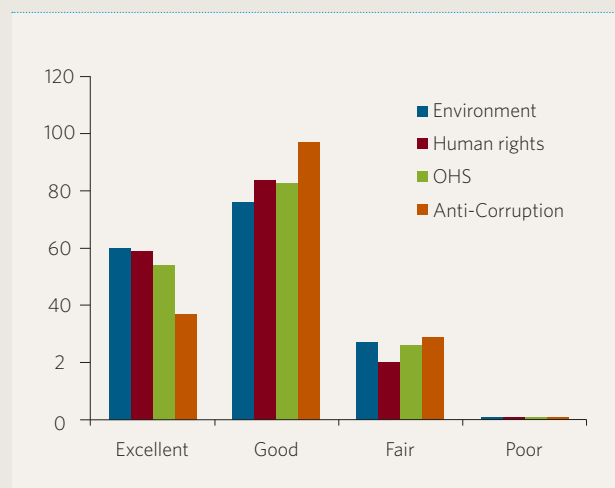
The ratings in 2015 are very similar to those of 2014. As seen in the table above, the majority of projects are classi-

fied as Good and Excellent. In fact 78 per cent of the projects have Good and Excellent ratings within all four sustainability areas. The figure below shows the ratings across the different areas do not differ significantly, although, it appears that anti-corruption is an area where there is a potential to move projects from Good to Excellent. Only one project is rated as Poor in all four categories and will need close follow-up in 2016. The classifications of IØ are very similar to those of previous years.

IFU's aim is to develop the companies they are involved with and move the companies' performance in specific areas from Poor to Excellent. In 2014, six projects were classified as Poor, three out of these six projects have been

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Classification of 164 projects, 2015 (excluding IØ)



Sustainability indicators from annual status reports

Indicators	2013 (147 projects)	2014 (157 projects)	2015 (156 projects)
Establishment of health and safety committee	35%	50%	57%
Active participation in local community	30%	38%	54%
Sustainability in supply chain	31%	43%	49%
Signed up to Global compact	10%	12%	16%

upgraded to Fair or Good, two projects are being exited and one is still classified as Poor.

All projects under DCIF work professionally with sustainability, which is also reflected in their sustainability classifications, where all projects have been classified as Good or Excellent in the sustainability classification.

The five new projects signed in 2015 are expected to reduce CO₂-equivalent emissions by approximately 706,000 tons during their lifetime.

More project companies increased their sustainability awareness

IFU has since 2014 required project companies to prepare their own sustainability policy or to comply with a policy prepared by their parent company. A written sustainability policy has been used as a key performance indicator since 2009, and every year since the number has increased. In 2015, 76 per cent of the companies that have submitted an annual status report have a sustainability policy, which is 5 percentage higher than in 2014. The project companies' annual status reports show an increased focus on sustainability. All the sustainability indicators presented in the table above have increased from 2013 to 2015.

Stakeholder engagement

IFU participates in several fora in order to monitor stakeholder expectations and keep up-to-date on developments in standards for good ethical conduct, dilemmas and risks. For this purpose, IFU is a member of the Danish Ethical Trading Initiative (DIEH).

IFU's own initiative is the IFU Sustainability Advisory Board, which has five members, each representing impor-

tant IFU stakeholder issues: human rights, environment, development and corporate governance policy. The advisory board meets regularly to discuss and advise on key issues, such as due diligence tools, supply chain dilemmas and anti-corruption and facilitation payments, and media communication. Topics discussed in 2015 include

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CASE ALLER AQUA - EGYPT

Aller Aqua to improve business through CSR

In 2015, Aller Aqua Egypt applied for a grant to help the company reach International standards with regards to noise, environment and occupational health and safety. The grant will be used to purchase equipment for better handling of waste, reduction of noise and reduction in indoor air pollution. A CSR handbook will be written and given to all employees. To improve the business, 15 employees will take English lessons to strengthen their skills when speaking to international business partners. Consequently, the Danida grant will contribute to strengthening the workers' knowledge regarding their own rights as well as their understanding of sustainability issues, and improve their working conditions.



grievance mechanisms, what the Sustainable Development Goals mean for investors and project companies and NGO cooperation in relation to the establishment of the Danish Agribusiness Fund.

The Sustainability Board members are:

- Lars Engberg-Pedersen, Senior Researcher, DIIS
- Nanna Callisen Bang, Programme Manager, CARE
- John Nordbo, Head of Conservation Department, World Wildlife Foundation, WWF
- Allan Lerberg Jørgensen, Department Director, Danish Institute of Human Rights
- Malene Østergaard, Director, Group Sustainability, Danfoss

CASE DANPER - PERU

Employee healthcare at DanPer

Over a 25-year period, DanPer has developed from a small company to one of Peru's largest exporters of agricultural products. In 2012, a new project with grapes, blueberries and asparagus was established in Olmos – a 1,000 hectare desert area about 400 km north of Trujillo. In 2015, DanPer Olmos Agricola applied for a grant to implement a health care centre and carry out health programmes for the employees. The company has carried out a similar health care programme before which was very successful. The main purpose of the programme is to improve the health of the workers and to minimise medical leave of absence in the company. Moreover, equipment for the health centre will be purchased in order to introduce a health care service for the employees of the farm. Consequently, funding from the Danida training fund will improve the health of workers, minimise medical leave, increase health education amongst workers and improve the efficiency of the farm.



Danida CSR Training Fund

IFU manages the Danida CSR Training Fund. Through this fund IFU can support project companies to meet sustainability objectives and contribute to capacity building. There are two types of grants; an assessment grant (of up to DKK 75.000), which may be provided to cover actual costs of an expert assessment of significant sustainability issues and training needs at the company and/or at key suppliers; and a main grant (of up to DKK 500.000), which may be provided to implement sustainability measures, technical assistance and sustainability training. The total annual budget of the fund is DKK 3m. In 2015 grants were given to 9 projects, of which 3 were given as assessment grants and 6 as main grants.

IFU FOCUS

IFU FOCUS is a range of interactive seminars on sustainability and HR, facilitated by IFU and delivered in cooperation with international and local experts. Sustainability and HR are important elements in building strong and sustainable companies. This often poses a challenge in developing countries, and in that sense IFU FOCUS provides an important framework for training, new insight and sharing of best practice.

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IFU FOCUS has run for six years from 2010-2015 and has covered six regions in Asia and Africa. The latest IFU FOCUS took place in November in Nairobi, Kenya. 39 people from 27 different companies participated in the seminar. Attendance were mainly management-level staff from IFU's project companies and potential project companies, Danish Partners, local partners and depending on the size of the company, CSR and HR managers.

CASE GUSTU - BOLIVIA

Strengthening the supply chain at Gustu

The gourmet restaurant Gustu applied for a main grant in 2015 to help solve logistic issues and strengthen the restaurant's supply chain. Gustu was established in 2013 and has won an award for the best restaurant in South America in both 2014 and 2015. Gustu has two main CSR policies that shape the concept of the company.

- 1) The labour policy: This is applied not only by offering safe working environmental conditions or fair salaries, pension or social security, but mainly by operating as a service and culinary school for young disadvantaged Bolivians.
- 2) The suppliers' policy: Gustu works exclusively with Bolivian products and suppliers from all regions in the country to demonstrate Bolivia's diversity and richness to the world, and to boost employment and development.

The Gustu team discovered that a number of institutions in Bolivia focus on supporting small producers and suppliers located in isolated communities and areas all over the country. Unfortunately, producers and farmers lack logistics and can only bring samples to Gustu instead of a constant direct supply. The grant will be spent on analysing the logistic issues, training the suppliers over a period of ten months and establishing a small pilot logistic company serving the restaurant and other nearby markets.



As per the end of 2015, a total of 379 people had participated in IFU FOCUS.

CSR Abroad award 2015

For the fifth time, the Danish CSR Foundation (CSR Fonden) organised a national CSR event, CSR Awards 2015, which served as an overarching award ceremony for granting CSR-related awards to people, organisations and companies in recognition of their contributions to excellent CSR initiatives. The CSR Abroad award, established by IFU together with Danida and the Danish Trade Council, was this year given to Neutral.com ApS. Neutral produces apparel from 100% organic cotton and has shown an exceptional commitment to ensure sustainability throughout their value chain - making the company a frontrunner in a very difficult industry.

1. Scope

IFU is a development finance institution providing share capital participation, loans and guarantees on commercial terms to the private sector in developing countries and emerging markets. IFU's strategic objective is to be Denmark's main engine for shaping and enhancing sustainable and profitable private sector growth opportunities in developing countries in collaboration with Danish know-how, risk capital and commercial enterprises.

This sustainability policy defines sustainability - in the context of sustainable development - as the framework for the environmental, social and governance (ESG) requirements in IFU's investee companies, IFU-managed funds and their investee companies (hereafter collectively referred to as investees) and strives to achieve high sustainability standards. IFU's board of directors, management, employees and advisers must act in accordance with this policy.

2. Commitment to sustainable development

IFU is committed to ensuring that investees reduce sustainability risks and contribute to sustainable development, which IFU believes adds value to the investee and enhances business opportunities.

The investees must continuously work towards achieving satisfactory long term results within sustainability, and such activities must be anchored in the business plan. Investees should contribute to creating jobs and income, improving corporate governance, sound environmental and social performance and development in the local community.

IFU has signed up to the UN Global Compact principles. IFU promotes these principles, and through its investments IFU strives to create shared value by:

- Respecting and promoting **all basic human rights**, including **labour rights** and **occupational health and safety**, and address adverse human rights impacts that the investment may cause or contribute to. This includes providing for or cooperating in the remediation of affected individuals and communities.
- Enhancing **positive development effects**, including creation of jobs and income, payment of taxes, contribution to government revenue, transfer of know-how and cleaner technologies, training and education, gender equality, community health and food security and other corporate social responsibility related activities.
- Securing **good corporate governance and business ethics**, including **anti-corruption**, anti-fraud, transparency and stakeholder engagement.
- Improving **environmental performance** through a preventive and precautionary approach that addresses environmental challenges, including **climate change**, loss of **biodiversity** and land use changes.
- Ensuring good **animal welfare**, including proper treatment of animals used in food production and for other commercial purposes and testing.

In this way IFU seeks to contribute to the UN Millennium Development Goals and the UN Sustainable Development Goals.

3. Appraisal process

Identifying sustainable development effects is an integrated part of the appraisal process, and IFU expects its partners to share IFU's aspirations regarding sustainability. IFU requires investees to comply with national regulations in the host coun-

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try in which they operate and work towards implementing international standards. International standards are based on UN, ILO and OECD conventions, declarations, agreements and principles. Standards could include the IFC Performance Standards or other credible, globally or regionally recognised standards that encourage continual improvements. For each investee, international standards are defined as specifically and operationally as possible.

During the appraisal process, risks, impacts and mitigation measures related to each investment are assessed, considering factors such as the sector, technology, location, host country regulations, climatic conditions and cultural issues. This process identifies the significant issues that are relevant for the investee, and an assessment is made of the extent to which international standards are or will be implemented. An action plan with a reasonable time schedule to meet these standards and comply with IFU's sustainability requirements¹ is elaborated, as appropriate for each investee. The action plan must be approved by the project partners, including IFU, and is a condition for IFU's disbursement.

4. Sustainability requirements

In order to implement IFU's sustainability policy, IFU requires investees to:

- Operate in compliance with host country regulations.
- Comply with international standards for significant issues identified during appraisal.
- Adopt a written sustainability policy approved by their board of directors or similar governance body, which is communicated to relevant stakeholders.
- Appoint a person with overall responsibility for sustainability, including the management of activities and resources and delegation of tasks.
- Establish a system to ensure continuous improvement and implement sustainability decisions relevant to the company size and sector as well as the environmental, economic, cultural and social context in which the activity operates.
- Promote sustainability issues in interaction with suppliers and business partners.
- Prepare an annual report that provides a status on sustainability issues, including the implementation of the action plan, for discussion and approval by their board of directors or similar governance body. A copy of the report must be sent to IFU.

5. Exclusion list

IFU will not finance activities that are set out in IFU's exclusion list.²

6. Active ownership

IFU seeks active ownership of investees through board membership, where IFU shares and disseminates its experience, facilitates networking and partnerships regarding the business environment and sustainability issues. Where IFU is a lender only, IFU also works to have a similar influence as when IFU is a shareholder.

IFU monitors each investee's sustainability activities through visits, reports and dialogue to ensure improvements over time. In case an investee breaches this policy, IFU is entitled to take the necessary measures, including exiting the investment.

IFU has developed a number of tools and templates to support sustainability efforts in investees, and draws on its regional offices and global network of advisers.

7. Stakeholder dialogue

IFU is committed to stakeholder engagement and will, where appropriate, engage in policy dialogue with all relevant stakeholders in society on issues related to sustainability. IFU seeks continuous dialogue with its stakeholders to keep up to date with developments within sustainability to be able to take qualified decisions and act proactively on stakeholder concerns.

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IFU cooperates with other development finance institutions to harmonise environmental, social and governance procedures. Harmonisation improves efficiency during appraisal, monitoring and the engagement process, as well as simplifies and increases negotiation leverage towards investees.

8. Transparency and accountability

IFU provides transparent, accountable information about IFU's sustainability activities and performance and continuously endeavours to improve the quality of this information.

IFU encourages investees to be transparent and informative about their business and performance in order to create the best possible platform for a continuous and proactive stakeholder dialogue.

9. Grievances

Complaints related to investees should be promptly addressed in a manner that is fair, objective and constructive. IFU encourages investees to establish a procedure to handle complaints by individuals and communities, who may be adversely affected by the activities of the investee. If the investees do not effectively respond to complaints, IFU has a grievance mechanism through which stakeholders can report alleged breaches of this policy.

The above policy was approved by IFU's Board of Directors on 20 November 2014.

1) Specified in IFU's Sustainable Investment Handbook, which can be found at <http://www.ifu.dk/en/sustainability-handbook>

2) IFU has adopted the EDFI exclusion list, which can be found at <http://www.ifu.dk/en/exclusion-list>