

COMMUNICATION ON PROGRESS (COP) 2011



INVESTMENT FUND FOR
DEVELOPING COUNTRIES

Dear reader

IFU's and IØ's (the Funds) overall mission is to enhance sustainable economic growth, development and more equitable income distribution by financing private sector investments in developing countries and reforming economies.

Our corporate social responsibility (CSR) policy is ambitious and is based upon international UN, ILO and OECD conventions, declarations and agreements. We hereby seek to contribute to the global achievement of the UN Millennium Development Goals.

It is our objective that our investments should respect the fundamental human rights and contribute to a lasting economic, environmental and social sustainable development through the creation of healthy and safe workplaces and the transfer of knowhow 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 CSR standards as a fundamental aspect of sound business management of our investments and business practice. The Funds' supervisory board, management, employees and advisers must conduct all their business operations in accordance with the values and the spirit laid down in the CSR 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 CSR 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.

Copenhagen, April 2012
Finn Jønck
Managing Director, CEO

Private sector investments create development

IFU - Investment fund for developing countries is fund manager for IØ, the Investment Fund for Central and Eastern Europe. IFU was founded in 1967, IØ in 1989. For more than four decades, IFU has proved that private sector investment creates a basis for development. We ensure business opportunities for Danish companies abroad, and we create local jobs and local income in the countries we invest in.

The Danish government decided in 2010 that IØ's activities are to be phased out, and IØ cannot enter into new commitments.

Our CSR policy

According to IFU's corporate social responsibility (CSR) policy, IFU's investments must, on an ongoing basis, contribute to creating jobs and income, improving corporate governance, sound environmental and social performance and developing the local communities involved. The full policy can be found in an annex to this document.

This means that the management of IFU's investments must strive to seek a balance between the concerns for profitability, the concerns of the society and the value to the community through appropriate due diligence, addressing hotspots and using its leverage within the framework of corporate social responsibility.

There is no doubt that CSR is a moving target. New issues are constantly put on the agenda, and new dilemmas regularly have to be considered. In 2011, IFU improved its procedures, tools and the assistance provided to project companies in order to strike the right balance.

IFU's CSR policy covers the four areas of the UN Global Compact: human rights, labour rights, environment and anti-corruption plus areas such as animal welfare and community development.

This COP, required annually of all signatories to the UN Global Compact, includes both IFU and IØ (the Funds) and constitutes the mandatory reporting as required by the Danish Financial Statements Act, section 99 a (7).

Compliance and international standards forming the baseline

It is IFU's policy that IFU investments, known as project companies, must at all times be in compliance with all host country regulatory requirements. In addition, international standards must be used as a baseline for significant CSR issues, and if these standards are not met, the project company must draw up and implement a CSR Action Plan to address the issues.

Proactive approach - beyond compliance

IFU's goal is for a project company's CSR objectives to be anchored in its business strategy and be fully adapted to and integrated into company procedures and operations, so that CSR remains a strategic driver after IFU has exited.

All IFU projects must commit to following IFU's CSR pol-

icy. Further, IFU encourages each project company to adopt its own CSR policy, so as to clearly define and describe the company's vision, strategy and operational guidelines, and eg sign up to the UN Global Compact.

IFU sees this as a signal of strong commitment to CSR in the company, but companies may also apply other means to ensure high standards.

In 2011, 30 per cent of project companies (67 companies) had a written CSR policy or were covered by a CSR policy defined by their parent company. In 2010, the number was 27 per cent, which in turn was four percentage points higher than in 2009. For IØ, 11 per cent of the project companies had a CSR policy.

CSR Awards 2011

In 2011, the Danish CSR Foundation (CSR-Fonden) organised for the first time a national CSR event – CSR Awards 2011 – which served as an overarching award ceremony for granting 12 CSR-related awards to people, organisations and companies that have contributed to excellent CSR initiatives.

IFU was part of this initiative and launched its special prize, the CSR Investment award for sustainable investment in developing countries.



Factory hall at Elo Automated Qingdao, China.

The CSR Investment award is given to a company that is making a special and dedicated effort towards sustainability, has a proven sustainable business model and high environmental, social and governance standards.

In practice, the company must have created healthy workplaces with good working conditions, introduced a preventive approach to environmental issues and fair operating practices, such as those required under the Global Compact, for example. At the same time, the company must have made a contribution to society.

The jury was IFU's CSR Advisory Board, and the winner was the vegetable producer Danper in Peru, see case on page 7.

Anti-corruption initiatives

In the fight against corruption, 2011 was an important year with many new initiatives taken worldwide. Corruption distorts markets, stifles growth, debases democracy and undermines the rule of law.

In 2011, IFU held training sessions for investment managers and project companies participating in IFU Focus on anti-corruption measures and specifically on the issues dealt with in the UK Bribery Act.

IFU does not accept corruption and bribery and encourages its project companies to have a clear policy, internal training and adequate procedures in place to prevent bribery, reflecting the bribery risks companies face.

Management must promote an anti-bribery programme, demonstrate assessment of relevant risks, and business partners should be checked.

IFU has been a member of Transparency International, Denmark since 2004 and is represented on the board.

CSR advisory board

To stay up-to-date on new opportunities, dilemmas and risks, IFU established a four-member CSR advisory board in 2007, each representing important IFU stakeholders on



Mr Arne H Berg, chairman of Danper, Peru, is presented with the IFU CSR Investment award by Mr Jørgen M Clausen, chairman of Danfoss, and Mr Finn Jønck, managing director of IFU.

one of these issues: human rights, occupational health and safety, environment, development and corporate policy. The board meets regularly to discuss key issues like media communication, due diligence tools, supply chain dilemmas, anti-corruption and facilitation payments. The members are:

- John Nordbo, Conservation Director, Head of Climate Programme, WWF
- Jakob Simonsen, Director, UNDP Nordic Office
- Sune Skadegaard Thorsen, Senior Partner, Global CSR
- Malene Østergaard, CSR & Environment Director, Danfoss

EDFI cooperation - guidelines for investments in funds

IFU is member of the association of European Development Finance Institutions (EDFI), a group of 15 organisations. EDFI has established a working group for harmonisation of appraisal procedures on CSR issues, which is a strong network for IFU and facilitates knowledge sharing between sister organisations.

In 2011, the EDFI Environment + Social Working Group finalised a set of harmonised environmental and social guidelines for funds. These are based on high international CSR standards, which aim to ensure a compatible due diligence process and more efficient and timely processes for EDFI members when they invest together in funds.

IFU has implemented these standards into its appraisal process.

Danida CSR Training Fund

IFU manages the Danida CSR Training Fund, which can provide training grants to IFU's project companies.

In 2011, IFU made grant commitments for training programmes in eight project companies, including a training centre for beekeepers at Ingemann Food Nicaragua,

HIV/AIDS and road awareness programmes at Rabai Power Plant, Kenya, as well as training of suppliers and an employee satisfaction survey at Dantrafo Suzhou, China.

The project companies have shown considerable interest in applying for these grants, which have a total annual budget of DKK 3m.

Assessment of CSR performance

Each year IFU carries out an internal assessment of its portfolio regarding compliance with its CSR policy. Each project is classified into one of five categories as follows: *Excellent, Good, Fair, Poor* and *Critical*.

In 2011, compliance assessments were carried out for 164 IFU projects. The compliance assessment does not include 34 projects that are in the process of being established, nine projects with no physical activities, and 14 projects being exited. Similarly for IØ, assessments were carried out for 45 IØ projects. The compliance assessment does not include four projects that are in the process of being established, 11 projects with no physical activities, and six projects being exited.

The CSR classification is a combination of three separate classifications: 1) environment, 2) occupational health and safety (OHS) and 3) human rights and labour practices.

Projects with the classification *Good* are in compliance with local legislation and international standards, eg IFC/ World Bank EHS guidelines on significant CSR issues. Projects with the classification *Excellent* go beyond that. Projects with the classification *Fair, Poor* or *Critical* are projects to which IFU and IØ pay much attention in order to advise the projects on how to improve their CSR performance.

The scores in 2011 are very similar to those in 2010 for both IFU and IØ.

CSR classification	Total score (%)		Environment (%)		OHS (%)		Human rights and labour practices (%)	
	IFU	IØ	IFU	IØ	IFU	IØ	IFU	IØ
Excellent	27	31	29	31	25	33	27	29
Good	56	54	54	51	55	53	58	58
Fair	16	14	15	18	18	11	15	13
Poor	1	1	2	0	2	2	0	0
Critical	0	0	0	0	0	0	0	0

The Funds' CSR performance

The Funds' have their head office in Copenhagen and small regional offices in New Delhi, Beijing, Accra, Nairobi, Cairo and Johannesburg. Three of the African offices are in the same building as the Danish embassy. In 2011, an average of 68 people were employed at the Funds including 54 at the head office. Looking at the significant CSR issues for an organisation doing office work and visiting project companies around the world, the Funds pay special attention to building performance including heating and electricity, health issues, transportation and compliance with staff ethics.

The Funds have a comprehensive set of guidelines on staff ethics formalising the ethical standards and policies applicable for all IFU employees. IFU employees deal with a wide array of cultures and therefore need to understand not only political, social and economic features of a country but also be sensitive to local cultures and appreciate the impact of these aspects in a business and social context, including anti-corruption, which requires strict staff ethics.

The Funds' investment managers participate in board meetings and visit the project companies, which means that the Funds have many travel kilometres every year. It is also often necessary to be present on site to be able to monitor all aspects of a company's performance. The Funds try to find the right level of travel and keep it to a minimum using e.g. new communication tools. But often the Funds' investments operate in an area where these communication tools are not yet available or reliable.

IFU Focus

IFU Focus consists of interactive seminars on CSR and HR facilitated by IFU and delivered in cooperation with international as well as local experts.

IFU Focus ran for a second year in 2011. Based on the positive experiences from 2010, IFU Focus events were held in New Delhi, Johannesburg and Nairobi.

CSR and HR are key 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. The seminars deliver additionality and offer inspiration to sound business development within four key areas:

1. CSR adding value to the business strategy
2. How to do corporate governance right
3. Anti-corruption measures
4. Managing diversity and using people strategy to develop efficient organisations

The topics covered at the seminars varied according to the needs in the region where the seminar was offered.

Participants are mainly project company managements, Danish partners, local partners and, depending on the size of the company, CSR and HR managers. By the end of 2011, 167 people had participated in IFU Focus.



Participants in IFU Focus East Africa, held in Nairobi in November 2011.

Winner of IFU's CSR Investment award 2011

Danper, Peru – a leader in CSR

Danper is a joint venture between Danish and Peruvian shareholders producing asparagus, artichokes, peppers and other kinds of fruit and vegetable in Peru for export. Since being established with 80 employees in 1991, the company has provided employment to more than 20,000 rural Peruvians in one of the least developed regions of northern Peru. IFU has invested more than DKK 24m as a combination of a minority shareholding and a loan. IFU has also served on the board of directors of the company during the 20-year period.

Danper's production is located near Trujillo, 550 km north of Lima. The company is Peru's second largest exporter of processed asparagus and artichokes, and one of the three largest agricultural companies in Peru and a leader in CSR.

Training develops skills

The company is based partly on own production and partly on more than 500 local farmers supplying vegetables from their own farms. The crops supplied stem from the cultivation of more than 5,000 hectares of land – most of which was previously desert.

Danper works closely with suppliers and conducts systematic training which helps improve production processes and ensures high quality products. Training courses help to build skills and know-how among staff and the local farmers, thus contributing to creating an effective and sustainable agricultural production. The training includes courses held by senior agricultural experts, whereby participants stay abreast of developments within climate, the environment and other topics.

Danper employs nearly 8,000 people directly – of which the majority are women – and has indirectly created 15,000 jobs in the region.

Health campaigns

The company is certified to OHSAS 18000, which forms the basis for the strategic work to ensure a healthy and safe working environment, both in agriculture and in processing.

Danper has also established a health programme to improve the health of employees and their families. The company has its own medical clinic, which, among other things, helps women during pregnancy and after they have given birth.

FACTS ABOUT THE COMPANY

Danper Trujillo

Danish partner: AHB Holding A/S

Start: 1991

Country: Peru

Actual direct employment: 7,800

Indirect employment: 15,000

Signed up to Global Compact: 2009

Certificates: ISO 9000, HACCP, ISO 14001,

OHSAS 18001, GLOBALGAP, USGAP, BASC

Danper cooperates with regional and national authorities on active programmes on contraception and birth control as well as various health campaigns and also operates a mobile medical clinic serving rural communities that otherwise would have no access to medical care.

Focus on environment programmes

In the areas where it operates, Danper has arranged for electricity and clean water and has also contributed to developing the road network.

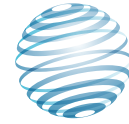
Concern for the environment is a high priority, and Danper was the first agricultural and food company in Peru to be certified to ISO 14000. The company has conducted studies to analyse the effects of its activities on the environment, and effective programmes have been developed to eliminate or minimise adverse environmental effects.

Danper has launched a programme to reduce, reuse and recycle waste and assure that resource consumption is minimised striving for virtually 100 per cent of waste recycling. For example, residue from the production of asparagus and artichokes is used to feed 1,500 milk-producing cows and their calves. Part of this production is processed into milk for drinking and cheese that is sold to the local population.

In 2011, IFU made a new investment with ABH Holding in a project named Danper Agricola to produce grapes and avocado.



Corporate Social Responsibility Policy (CSR Policy)



IFU

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Scope

IFU's overall mission is to enhance sustainable economic growth, development and more equitable income distribution by financing private sector investments in developing countries and reforming economies.

IFU's investments in project companies shall on an ongoing basis contribute to the creation of jobs and income, improvement of corporate governance, sound environmental and social performance, and to development of the local communities. We seek to ensure that our investments will contribute continually to sustainable development.

IFU is committed to securing high standards of CSR as a fundamental aspect of sound business management of IFU's investments and business practice. IFU's Supervisory Board, management, employees and advisers must conduct all their business operations in full accordance with the values and the spirit laid down in the CSR policy.

IFU has signed up to the 10 UN Global Compact principles, and we are committed to implementing and advancing these together with the project companies and within IFU's sphere of influence. IFU's policy is based upon international UN, ILO and OECD conventions, declarations and agreements, and we hereby seek to contribute to the global achievement of the UN Millennium Development Goals.

Issues of concern

The main issues of concern covered by IFU's policy are the following:

Human rights: It is a fundamental value of IFU to respect the basic human rights, and we cannot accept forced or compulsory labour and the use of child labour in activities, which are dangerous to the moral or physical well-being and development of the child. IFU advocates non-discrim-

ination and encourage the project companies to promote gender equality.

Labour rights: IFU requires that all employees in the project companies have as a minimum the right to rest, reasonable limitation of working hours, periodic holiday, and reasonable remuneration. All employees must be allowed freedom of assembly and participation in workers' organisations.

Occupational health and safety (OHS): Sound OHS procedures include application of principles of industrial hygiene, substitution of hazardous substances, establishment of work procedures and material safety data sheets and ensuring personal protective equipment. IFU requires that project companies establish joint labour-management health and safety committees.

Environment: IFU requires that the project companies actively manage their environmental impact, and that they take actions to improve their environmental performance as appropriate. The project companies must support a preventive and precautionary approach to environmental challenges.

Climate change: IFU encourages the project companies to contribute to climate change mitigation and adaptation in accordance with the spirit of the Kyoto Protocol on Climate Change. The project companies should give attention to major contributions to climate change and consider appropriate measures to minimise the effect.

Anti-corruption: IFU does not accept corruption and bribery. The project companies or their representatives should not accept bribes in any form and should not provide improper benefits to customers, agents, contractors, suppliers, employers or to government officials. IFU is member of Transparency International.

Excluded product areas: IFU does not finance projects, which produce goods and services that are prohibited in Denmark for any environmental, human rights or other CSR reasons.

Community development and society aspects: IFU encourages the project companies to contribute to the development of the local community within their ability and the scope of their core business and business concept. In countries seriously affected by the hiv/aids epidemic, IFU requires that an hiv/aids policy be adopted by the project companies.

Animal welfare: IFU requires that animals used in food production, for other commercial purposes or for testing are treated properly. IFU requires that veterinarians and agriculture technicians do efficient controls and inspections.

Responsibilities and approach

IFU's CSR objectives and activities must be anchored in the business strategies of the project companies and must be fully adapted to and integrated into their procedures and operations. IFU will induce each project company to adopt a written CSR policy, which clearly defines and describes its vision, strategy and operational guidelines. The project companies must strive to constantly improve their own CSR policies, standards and performance and promote these towards their suppliers where relevant.

IFU will enhance and support the project companies directly and in cooperation with other investment partners and relevant stakeholders in identifying areas of improvement, determining action plans and strengthening their environmental and social management capacity. For this purpose, IFU will make its experience and tools available and seek to mobilise support to development of competence in the project companies.

CSR objectives and activities of the project companies must be based on a thorough assessment and broad understanding of the interrelationship between the project company and the local community, taking into account the economic, political, cultural and social contexts and diversity in which they operate. IFU has prepared a set of CSR appraisal and monitoring guidelines to assist in the implementation of the CSR policy.

Legal framework and norms

Project companies must at all times be in compliance with host country legislation regarding CSR issues. Good CSR performance is defined by the norms of ethical behaviour in the various countries and is thereby under constant development. Therefore, IFU and the project companies shall be in continuous dialogue with their stakeholders to be able to act proactively in accordance with their expectations and demands.

Whenever significant CSR issues are identified in a project, relevant international standards must be used as a baseline. In case of deviations, the project company must draw up and implement a CSR action plan to mitigate the issues within a reasonable timeframe. The CSR action plan must be approved by the project partners, including IFU. In case of breach of the CSR policy IFU is entitled to take the necessary measures including exiting the project company.

Transparency and stakeholder dialogue

IFU will provide transparent and accountable information about their own activities and achievements and constantly strive to improve the quality and extent hereof.

We encourage our investment partners and project companies to be transparent and informative about their businesses and CSR performance in order to create the best possible platform for a continuous and proactive stakeholder dialogue.

IFU is committed to the principles of stakeholder engagement and will, where appropriate, engage in policy dialogue with their partners and with governments on issues related to CSR.

The above CSR Policy was approved by IFU's Supervisory Board on

23 October 2008

Signed Finn Jønck