

1. Scope and introduction

IFU, the Danish state-owned Development Finance Institution (DFI), provides equity, loans and guarantees on commercial terms to private sector investments in developing countries and emerging markets. IFU's objective is to promote investments which support sustainable development in developing countries in its three dimensions – economic, social and environmental - in a balanced and integrated manner and contribute to the realisation of the UN Sustainable Development Goals (SDGs).

This Corporate Governance Policy is part of the IFU sustainability policy framework that guides IFU's efforts towards supporting global sustainable development. IFU's Sustainability Policy is the main policy document, whereas the underlying thematic policies elaborate on IFU's commitment in relation to major global sustainability issues. This Corporate Governance Policy further explains how IFU approaches corporate governance issues and implements responsible business conduct measures.

Corporate governance refers to the structures and processes for the direction and control of companies. Corporate governance matters because it improves project companies' performance and helps develop capital markets. Sound corporate governance reduces risk, adds value to investments and prevents investors from being subjected to reputational risk.

That good corporate governance is important to the success of individual enterprises and the sound development of the private sector economy is a well-established fact today. IFU's experience as an active participant in the governance of our project companies demonstrates that careful and continuous attention to governance is essential to achieving our financial, sustainability and developmental goals.

As an investor in developing economies, which could be characterized by weak institutions and limited public and private sector capacity, IFU sees corporate governance as an integral part of the Environmental, Social and Governance (ESG) due diligence and a means to promoting the rule of law, reducing risks, fostering a more robust private sector and contributing to a sustainable and profitable business environment attractive to investment and entrepreneurship.

Through support to good corporate governance, IFU will not only strengthen global partnerships, but also contribute to the practical implementation of several of the UN Sustainable Development Goals.

2. Commitments

IFU is committed to the global Corporate Governance Development Framework (CGDF¹).

IFU upholds high corporate governance standards in its own operations and promotes continuous improvement in the structure and practice of good corporate governance in its investments through IFU's roles of shareholder, board member nominee and adviser. IFU contributes to the development of a corporate governance culture in the developing countries in which IFU operates through capacity building, the introduction of best practices and the demonstration effect IFU's investments provide in society and the broader economy.

3. Implementation

Governance in IFU project companies

IFU requires that at a minimum each project company must comply with all applicable local legal requirements for a corporate entity of its type and have in place a workable internal framework for its board and management, internal controls, transparency and shareholder rights.

We recognize that corporate governance is never a matter of "one size fits all". Desirable corporate governance structures and practices vary depending on factors including the company's size, industry and ownership pattern. The local business environment and relative sophistication of the private sector in the country in which the project company operates must also be considered.

Recognizing this, IFU, together with our investment partners, designs and promotes corporate governance frameworks in our investments tailored to the particular internal and external circumstances of each project company.

¹ The Corporate Governance Development Framework agreed by IFU and more than 30 other Development Finance Institutions. <http://cgdevelopmentframework.com/wp-content/uploads/2015/02/Corporate-Governance-Development-Framework.pdf>.

Contributing to corporate governance in developing countries

IFU strives to make our project companies leading examples of good governance in the markets in which they operate. We want the positive impact of our investments on the local business culture to last long after our exit. The solid operational performance of IFU project companies that have implemented best practices in corporate governance, and their success in attracting domestic and international capital provide an important demonstration effect for the broader economy. In addition, by insisting on and fostering professional boards, internal controls and independent auditing, IFU promotes the development of the private sector infrastructure necessary to support well-governed companies.

The IFU Corporate Governance Toolkit

To achieve fit-for-purpose governance structures and practices in our project companies, IFU has developed a set of tools that investment teams are required to apply in the course of due diligence. The IFU Corporate Governance Toolkit revolves around a detailed questionnaire to help project teams to determine if the proposed investment meets our minimum governance standards and to identify key governance-related challenges that the project company faces or will face. As part of the appraisal process, project teams must assess the governance strengths and weaknesses of a potential project company and, with the help of the toolkit, devise solutions to identified shortcomings. Where appropriate, these solutions may be formalized in a Corporate Governance Action Plan providing for the implementation of identified governance improvements, which will become an integral part of IFU's investment commitment to a potential investment partner and a condition for IFU's participation in the investment.

IFU's active role in corporate governance

IFU strongly believes that we can best achieve our financial and developmental objectives by being an active investor. As a (minority) shareholder of our project companies, we must actively exercise our rights and responsibilities, e.g., where appropriate, through participation on the board of directors. IFU's board member nominees must be empowered and encouraged to share and disseminate our extensive experience in hands-on governance.

IFU's staff and external board member nominees have served on boards of companies in a variety of countries, regions, industries and stages of development. This body of experience and expertise, and the support of the toolkit, enables IFU's board member nominees to provide guidance in the area of corporate governance, specifically tuned to a project company's business priorities, available resources, local environment and level of maturity. IFU's Sustainability Unit supports project teams and board member nominees in the use of the toolkit and in the application of this policy to specific investments and circumstances.

IFU's development objectives are the same regardless of whether we provide financing in the form of equity or debt. For this reason, also when IFU is a lender only, we endeavour to contribute experience and expertise in corporate governance in a similar fashion as when IFU is a shareholder.

Measuring results

The implementation of targets set out in agreed Corporate Governance Action Plans will be monitored on an on-going basis through IFU's board member nominees and via direct engagement by project teams with the company's management and our investment partners. Reference to Corporate Governance Action Plans will be included in IFU's investment agreements, and project companies will be required to provide periodic reports on progress made against the Corporate Governance Action Plan targets.

4. Approval and feedback

This policy was approved by IFU's Board of Directors on 12 October 2016. Minor corrections were made in May 2019 for communication purposes.