

2019

# IFU SUSTAINABILITY AND IMPACT REPORT



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## ABOUT THIS REPORT

This report covers activities in IFU and IFU managed funds, except Danida Sustainable Infrastructure Finance (DSIF), for the financial year 1 January to 31 December 2019. The report serves as our Communication on Progress in implementing the ten principles of the UN Global Compact and supplements the statutory statement in our Annual Report on corporate social responsibility and gender diversity at management level, in accordance with section 99 a and b of the Danish Financial Statements Act. Read about DSIF in our Annual Report 2019.

# LETTER FROM THE CEO

This is IFU's first stand-alone Sustainability and Impact Report where we present the results of our efforts to generate measurable, beneficial development impacts alongside financial returns when investing in developing countries.

We firmly believe that responsible business conduct adds value to investments and generates development impacts. Consequently, our investment strategy is guided by the Sustainable Development Goals, the UN Global Compact principles and the UN Guiding Principles on Business and Human Rights.

During the years, IFU's sustainability and impact dimensions have evolved. From a simple calculation of expected employment effects to a holistic sustainability approach covering for example climate change, health and safety in the workplace, anti-corruption, gender issues and tax.

By issuing this report we take an additional step in providing transparent and accountable information about IFU's work on sustainability and impact creation. We hope it will increase insight into our work, improve the understanding of IFU's investment strategy and demonstrate more clearly how we use our leverage to create impact

The figures in the report are based on the annual sustainability reporting and data collection from our projects. In 2019, this process was improved, which enabled us to present the information in a more comprehensive and detailed form across the portfolio.



In general, the figures show that through our investments IFU is contributing to developing solid sustainability practices and results.

For example, the investments within microfinance are serving 25 million clients, of whom 20 million are women, total employment for the active portfolio is close to 255,000 people, and 82 per cent of the direct investments have taken initiatives to reduce the risk of corruption.

Despite the positive results, we acknowledge that there is room for improvement when it comes to the quality of the data for performance and impact management at portfolio as well as project level. Moreover, the results reveal that we need to further develop our ability to perform active ownership and to advance the sustainability performance of projects that do not yet meet our sustainability requirements.

In 2019, we launched a new sustainability policy, which highlights IFU's commitment to sustainability issues particularly relevant for supporting the SDGs when investing in developing countries. The Sustainability Policy was supplemented by separate policies on climate, human rights and gender equality to emphasise our commitment to be at the forefront in relation to these global sustainability challenges.

During the year, we also updated our investment strategy to include a more strategic approach to creating development and impact by introducing impact creation plans for the individual investments. We intensified our support to gender equality by joining the 2X Challenge, which is a joint DFI initiative to identify and support companies that advance opportunities for women. We also made a commitment to end investments in fossil-fuel based power production to the grid in 2020. In a transition period until 2023, investments in hybrid solutions would still be possible.

And last but not least, we continued to invest in renewable energy, banks, microfinance and agribusiness companies, all having a solid potential for improving the livelihood of people in the developing countries.

We hope that you will find this report interesting. We look forward to your comments and an open dialogue on how IFU can continue to improve our efforts. ■

Torben Huss, CEO

**BY ISSUING THIS REPORT WE TAKE AN ADDITIONAL STEP IN PROVIDING TRANSPARENT AND ACCOUNTABLE INFORMATION ABOUT IFU'S WORK ON SUSTAINABILITY AND IMPACT CREATION**

# IFU IN BRIEF

**IFU INVESTS DIRECTLY IN PROJECT COMPANIES AND INDIRECTLY IN PRIVATE EQUITY FUNDS, WHICH ACT AS FUND MANAGERS AND INVEST IN PROJECTS ON BEHALF OF IFU**

IFU is an independent government-owned fund offering advisory services and risk capital to companies wishing to set up businesses in developing countries and emerging markets. Investments are made on commercial terms with the dual purpose of creating measurable, beneficial development impacts alongside financial returns. Apart from IFU's own capital, IFU is fund manager of several investment funds based on public or public-private capital. IFU is normally minority shareholder, which impacts IFU's leverage.

IFU has two types of investments: 1) Direct investments in project companies in the form of share capital and loans; and 2) indirect investments in private equity funds, which act as fund managers and invest in projects on behalf of IFU and other partners. These funds are breaking the ice for IFU, thereby providing access to attractive/emerging markets, business areas/sectors or business models. ■

## An overview of IFU and IFU managed funds

Stated committed capital is the amount at inception of fund.



Read more about the funds in IFU's Annual Report 2019.

## IFU AND IFU MANAGED FUNDS OVERALL

During the years, IFU has invested in 1,300 projects in more than 100 countries. Total expected investments in the projects are DKK 210bn, of which IFU has contributed with DKK 23bn in share capital, loans and guarantees.

In 2019, total contracted investments by IFU and IFU managed funds amounted to DKK 1.1bn in 25 projects.

At year-end, the active portfolio covering all funds contained 196 projects. More than half of these projects are greenfield investments. Greenfield investments are investments in new projects where both management and facilities need to be established, whereas brownfield investments are investments in existing companies, which have operated for years.

IFU is engaged in investments all over the developing world. In the active portfolio, 38 per cent of the pro-

jects are in Africa, 34 per cent in Asia, 11 per cent in Latin America and 12 per cent in Eastern Europe, mainly Ukraine. The last 5 per cent is investments in global companies operating in more than one country. ■

### Active portfolio at 31 December 2019 (no. of projects)

IFU	170
SDG	8
DCIF	13
DAF	5
IIP	3
IØ	7
<b>Total</b>	<b>206</b>
Eliminations*	(10)
<b>Consolidated total</b>	<b>196</b>

\* Ten projects are eliminated due to inter-fund investments, or because they have received financing from more than one fund.

### Reporting scope

IFU's Sustainability and Impact Report 2019 focuses on IFU's direct investments in project companies and indirect investments in private equity funds, which combined account for IFU's significant sustainability impacts. The impacts of IFU's own activities (offices) are small in comparison and are covered at the end of the report.

The Sustainability and Impact Report 2019 is based on sustainability reports submitted to IFU. Out of the 196 active projects in IFU's portfolio, 131 projects were required to submit a report. The remaining 65 projects are either new projects not yet required to report or inactive projects.

In total, 88 direct investments and 33 private equity funds have submitted a report in 2019 after end of the financial year. This is 92 per cent of projects required to report in this reporting period. The remaining 8 per cent are projects in distress that have not prepared a report, or projects that have reported in a not applicable format.

As the projects have different financial years, the reported performance data cover different

reporting periods within 2018-2019. Nevertheless, the aggregated data represent a snapshot of the portfolio's overall performance in 2019 that is useful for highlighting the achievements and for reviewing where increased attention is needed to improve the sustainability performance and impact creation of IFU's investments. As IFU continuously contracts new projects and exits terminated projects, the composition of the portfolio varies from year to year, and thus the portfolio performance is not directly comparable.

An important note is that 67 per cent of the portfolio are projects contracted before 2015, when IFU's sustainability policy was strengthened significantly. These projects are not required to meet the same sustainability requirements as projects contracted in the period 2015-2019, and IFU cannot reopen contracts to add additional requirements. IFU is pleased to see that some projects contracted before 2015 are meeting the new requirements, but not all, and this explains the portfolio performance on some parameters.

**THE COMPOSITION OF IFU'S PROJECT PORTFOLIO VARIES FROM YEAR TO YEAR, AND THUS THE PORTFOLIO PERFORMANCE IS NOT DIRECTLY COMPARABLE**

# SUPPORTING THE GLOBAL GOALS

The 17 Sustainable Development Goals (SDGs) are a universal call to action set by the United Nations to end poverty, protect the planet and ensure that all people enjoy peace and prosperity. IFU contributes to the SDGs by promoting private sector investments, which support sustainable development in its three dimensions – economic, social and environmental – in a balanced and integrated manner.

Since the beginning of IFU more than 50 years ago, it has been a requirement that all investments create impact and are commercially viable. During the years, the sustainability and impact dimensions have evolved. From a simple calculation of expected employment effects to a holistic sustainability approach covering climate change, human rights, anti-corruption, gender issues and tax, among other things.

As an active investor it is IFU's ambition to create sustainable changes and solutions in the project, which will last after IFU has exited. IFU is therefore committed to the SDG agenda, and the SDGs are used as a framework to position, communicate and conduct IFU's sustainability and impact efforts.

Sustainability and impact issues are integrated parts of the investment process, from initial screening through due diligence analysis, binding agreements on implementation, action plans and annual reporting from project companies. Read more about this process on page 20.

During screening, investments are assessed against our exclusion list, which defines which sectors we should not invest in. An ex-ante analysis is also undertaken of the potential impacts covering how the investment company contributes to both positive development effects as well as potential negative ones. These are subsequently tracked during the time IFU is involved in the project. The methodology is further described on page 7. For all eligible projects, E&S risks that need attention are then included in the due diligence process, and an Environmental and Social Action Plan (ESAP) is developed and monitored. Focus has now shifted to developing plans for mitigating ESG risks and optimizing impact.

We have learnt that integrating sustainability issues has two sides. Firstly, it covers E&S risk identification

and mitigation, and secondly, the establishment and active promotion of positive development impact. As an example, compliance with international labour standards also ensures that our project companies contribute to SDG 8 on decent work, and a project reducing GHG emissions will also support SDG 13 and the goals of the Paris Climate Agreement.

IFU has developed a comprehensive framework for planning, monitoring and following up on sustainability issues and impact in our project companies. This framework will continuously be elaborated in order to further improve our contribution to the SDGs.

When assessing the positive and negative impact of an investment, the context should be taken into account. This includes the social, economic and environmental conditions and the current state of the challenges the project is seeking to influence. Consequently, individual projects have different sustainability requirements and impact plans. From 2020, impact creation plans for individual investments have been introduced. This entails that targets and indicators related to specific SDG targets are agreed for each investment and subsequently reported on. The results coming out of this reporting will be included in future sustainability and impact reporting.

Several elements of IFU's overall sustainability approach are still under development, and unfortunately there is not yet a global standard for impact measurement and reporting among DFIs. Yet in 2019, IFU signed IFC's Operating Principles for Impact Management. These principles now provide a piece of the framework to our overall impact management ambition and will become subject to regular independent verification.

In addition, IFU is currently exploring how we can set portfolio impact targets and proactively steer our investments towards higher impact by focussing on the SDGs they can most significantly contribute to within our three priority sectors of climate, agribusiness and financial institutions. We are also investigating the possibilities for undertaking strategic impact assessments. ■

**IFU'S AMBITION IS TO CREATE SUSTAINABLE CHANGES AND SOLUTIONS, WHICH WILL LAST AFTER IFU HAS EXITED**

## Results, outcome and impact

In this report, the term impact covers development effects in a broader sense, but in development evaluation terminology, impact only refers more narrowly to the intended or unintended, positive or negative long-term effects, such as reduced poverty, improved wellbeing and health as well as economic growth. These high-level effects can normally not be attributed to a single investment, and it is therefore difficult to provide robust documentation for a company's contribution to the sustainable development goals.

However, when analyzing the effects as part of a results chain, it is possible to explain how an individual company may contribute to the overall development agenda. If monitoring data is collected along the results chain, this can support the impact justification and indicate whether the investment is leading to the expected results, even though it is often only possible to collect data at output level and below. Testing the outcome and impact hypotheses is normally best undertaken through an impact study combining quantitative and qualitative methods.

IFU's main input is capital, but input from IFU also includes advisory services and sustainability requirements to ensure that the project has policies, processes and the competences to address identified shortcomings in relation to sustainability issues and ensure continuous improvement of the impact and sustainability performance.

Activities are the projects' business operations, for example a wind farm's production of renewable energy, and other commercial activities as well as initiatives to deliver on the impact goals.

Outputs are tangible immediate products, services and practices that result from the activities undertaken by the project. They can be sector-specific, for example renewable energy generation or increased availability of microfinance loans, or they can be general outputs, like direct job creation and tax payments. Outputs may lead to both sector-specific and general outcomes that are short to medium-term changes, or effects, on individual stakeholders or the environment.










## LINK BETWEEN IFU POLICY COMMITMENTS AND SDG TARGETS

This table provides an overview of IFU policy commitments in the Sustainability Policy, 2019, in support of the SDG agenda and the SDG targets that IFU's investments contribute to the achievement of. Listed are also some of the key performance indicators (KPIs) that IFU used to measure and assess the positive and negative development impacts in 2019. IFU will continue to set up more commitments and align the indicators with the SDG targets and improve the data collection to strengthen the reporting on the development impact of IFU's investments.

SDG	IFU commitments from Sustainability Policy (2019) in support of SDGs	SDG targets relevant to IFU	IFU reported KPIs in 2019
	Investing in financial institutions with a clear strategy and track record of providing better access to quality financial services to all women, including female entrepreneurs.	<p><b>1.1</b> Eradicate extreme poverty.</p> <p><b>1.4</b> Ensure that all men and women have equal rights to economic resources.</p>	<ul style="list-style-type: none"> <li>• Total investment in microfinance funds and institutions.</li> <li>• Share of microfinance loans to women.</li> </ul>
	Invest in sustainable and resilient agriculture and forestry and striving to protect biodiversity.	<p><b>2.3</b> Double the agricultural productivity and incomes of small-scale food producers.</p> <p><b>2.4</b> Ensure sustainable food production systems and implement resilient agricultural practices.</p>	<ul style="list-style-type: none"> <li>• Share of agribusiness projects that support smallholder farmers.</li> </ul>
	Supporting companies to demonstrate a commitment to healthy lives, including issues related to women's health and sexual and reproductive health.	<p><b>3.7</b> Ensure universal access to sexual and reproductive health-care services.</p>	<ul style="list-style-type: none"> <li>• Share of direct investments that have taken initiatives to promote health and reproductive health activities.</li> </ul>
	No specific commitment yet.	<p><b>4.3</b> Ensure equal access to affordable and quality technical, vocational and tertiary education.</p> <p><b>4.4</b> Substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills.</p>	No suitable indicators yet.
	Supporting companies to address and demonstrate a commitment to empowerment of women related to e.g. leadership, pay equity, workplace benefits, workforce participation and workplace environment.	<p><b>5.1</b> End all forms of discrimination against all women and girls.</p> <p><b>5.5</b> Ensure women's full and effective participation and equal opportunities for leadership.</p>	<ul style="list-style-type: none"> <li>• Share of female employees in direct investments.</li> <li>• Share of women in leading positions in direct investments.</li> </ul>
	No specific commitment yet.	<p><b>6.1</b> Achieve universal and equitable access to safe and affordable drinking water for all.</p>	No suitable indicators yet.
	Increasing the share of climate-relevant projects like renewable energy, energy efficiency and climate adaptation to at least 40 per cent of IFU's portfolio by 2030.	<p><b>7.1</b> Ensure universal access to affordable, reliable and modern energy services.</p> <p><b>7.2</b> Increase the share of renewable energy in the global energy mix.</p> <p><b>7.3</b> Double the global rate of improvement in energy efficiency.</p>	<ul style="list-style-type: none"> <li>• Installed capacity of renewable energy sources and expected GHG savings during lifetime.</li> <li>• Share of direct investments that have measures to reduce energy consumption.</li> </ul>
	Supporting and promoting decent work, covering working conditions and terms of employment, collective dismissals, gender equality, privacy, occupational health and safety, grievance mechanisms and worker accommodation.	<p><b>8.2</b> Achieve higher levels of economic productivity through diversification, technological upgrading and innovation.</p> <p><b>8.5</b> Achieve full and productive employment and decent work for all.</p> <p><b>8.8</b> Protect labour rights and promote safe and secure working environments.</p>	<ul style="list-style-type: none"> <li>• Total number of direct employees in all investments and the share of female employees.</li> <li>• Share of direct investments with a high level of domestic purchase of goods and services</li> <li>• Share of direct investments that have taken initiatives to promote equal opportunities.</li> <li>• Share of direct investments that had accidents involving workers.</li> <li>• Share of employees below the age of 25 in direct investments.</li> </ul>



SDG	IFU commitments from Sustainability Policy (2019) in support of SDGs	SDG targets relevant to IFU	IFU reported KPIs in 2019
	No specific commitment yet.	<b>9.2</b> Promote inclusive and sustainable industrialization and significantly raise industry's share of employment and gross domestic product.	No suitable indicators yet.
	Respecting that all human beings are equally entitled to human rights without discrimination.	<b>10.2</b> Empower and promote the social, economic and political inclusion of all.	No suitable indicators yet.
	No specific commitment yet.	<b>11.1</b> Ensure access for all to adequate, safe and affordable housing.	No suitable indicators yet.
	Supporting and promoting a preventive and precautionary approach to environmental challenges. Ensuring that local stakeholders are not exposed to unhealthy environments, and that they have access to and benefit from biodiversity and ecosystem services.	<b>12.2</b> Achieve the sustainable management and efficient use of natural resources. <b>12.3</b> Reduce food losses along production and supply chains. <b>12.4</b> Achieve the environmentally sound management of chemicals and all wastes and significantly reduce their release to air, water and soil. <b>12.5</b> Reduce waste generation through prevention, reduction, recycling and reuse.	<ul style="list-style-type: none"> <li>• Share of direct investments that have an environmental management plan in place to manage and monitor the environmental performance.</li> </ul>
	Mobilising climate-relevant private investments to support developing countries' transformation to low-carbon and climate-resilient pathways by leveraging substantial financing to mitigation and adaptation projects.	<b>13.a</b> Mobilise capital to address the needs of developing countries in the context of meaningful mitigation actions.	<ul style="list-style-type: none"> <li>• Number of contracted climate investments.</li> </ul>
	No specific commitment yet.	Not applicable yet.	No suitable indicators yet.
	Striving to protect biodiversity and invest in sustainable and resilient agriculture and forestry.	<b>15.2</b> Promote the implementation of sustainable management of forests. <b>15.5</b> Take action to reduce the degradation of natural habitats and halt the loss of biodiversity.	No suitable indicators yet.
	Maintaining a zero-tolerance policy regarding corruption, including bribery, fraud and facilitation payment as well as avoiding money laundering.	<b>16.5</b> Reduce corruption and bribery in all their forms.	<ul style="list-style-type: none"> <li>• Share of direct investments that have taken initiatives to reduce the risk of corruption.</li> </ul>
	Ensuring proper payment of taxes to host countries.	<b>17.1</b> Strengthen domestic resource mobilization to improve domestic capacity for tax and other revenue collection. <b>17.17</b> Encourage and promote effective public, public-private and civil society partnerships.	<ul style="list-style-type: none"> <li>• Total tax contribution from investments per continent.</li> </ul>

## FINANCIAL INCLUSION REDUCES POVERTY AND INEQUALITIES

### THE CHALLENGE

Ending poverty is the first and ultimate goal, and eradicating poverty is an indispensable requirement for sustainable development.

Financial inclusion is important for reducing poverty and inequalities, but in most developing countries, access to financial services is sporadic. This is not least the case in rural areas, and it hampers the ability for people to invest in and grow their business. Only 21 per cent of firms in Sub-Saharan Africa have a line of credit, and 67 per cent of the adult population in the region is unbanked.

### LINKED TO SDG 1

IFU's investments contribute to the achievement of:



### ACTIVITIES AND RESULTS

To improve access to capital, IFU had an active portfolio of eight microfinance funds and institutions in Africa, Asia and Latin America at year-end 2019. IFU's total contracted investments in these eight projects are more than DKK 600 million.

It is IFU's ambition to integrate a gender lens when making decisions in its investment processes and to demonstrate that this approach will reap business returns in addition to social returns. In 2019, the investments had a total of 25 million clients, of whom 20 million are women. These investments contribute to redress power imbalances and give women

better options for managing their own lives and becoming financially independent.

IFU has also engaged in financing local banks in developing countries. The focus is on supporting banks targeting small and medium-sized local companies, which can develop and grow their business through loan financing. Investing in banks enables IFU to better service the local business community in developing countries compared to direct investments in individual small companies. •

### CREATING LOCAL DEVELOPMENT THROUGH MICROFINANCE






IFU is part of the public-private partnership Nordic Microfinance Initiative (NMI) together with the public development finance institution Norfund and several Norwegian and Danish private investors and pension funds like KLP and PBU. NMI invests in medium-sized microfinance institutions with a commercial foundation, professionally operated and with focus on achieving a social mission and creating social impact.

One of the borrowers is Suhasini Marimuthu, a 33-year old woman from India, who has had a small shop for 6 years. Through a loan from Dvara KGFS financial services, financed by NMI, she has been able to ensure a steady increase in income and the variety

of products she sells. Her priority to customer satisfaction has given her a stable customer base, and recently she received a micro-entrepreneur loan to attain her goal, namely to get a permanent shed for her shop. She can already see that it was a well-thought-out decision as her profit is increasing steadily.

## POLLUTION PREVENTION CONTRIBUTES TO HEALTHY ECOSYSTEMS

THE CHALLENGE	LINKED TO SDG 12
<p>Worldwide material consumption has expanded rapidly, and action is needed to ensure that current material needs do not lead to the over-extraction of resources or to the degradation of environmental resources. This includes improving resource efficiency, reducing waste and preventing pollution of air, water and soil.</p>	<p>IFU's investments contribute to the achievement of:</p> <div style="display: flex; justify-content: space-around; align-items: flex-start;"> <div style="text-align: center;"> <p>TARGET 12-2</p>  <p>SUSTAINABLE MANAGEMENT AND USE OF NATURAL RESOURCES</p> </div> <div style="text-align: center;"> <p>TARGET 12-4</p>  <p>RESPONSIBLE MANAGEMENT OF CHEMICALS AND WASTE</p> </div> <div style="text-align: center;"> <p>TARGET 12-5</p>  <p>SUBSTANTIALLY REDUCE WASTE GENERATION</p> </div> </div>

### ACTIVITIES AND RESULTS

IFU strives to prevent and minimise the environmental impacts related to its investments, and thereby ensure that local communities are not exposed to unhealthy environments. As pollution prevention methods and cleaner technologies

are available in most of the world, IFU encourages projects to adopt the best available technologies where financially and technically viable. ▪

### Monitoring environmental performance

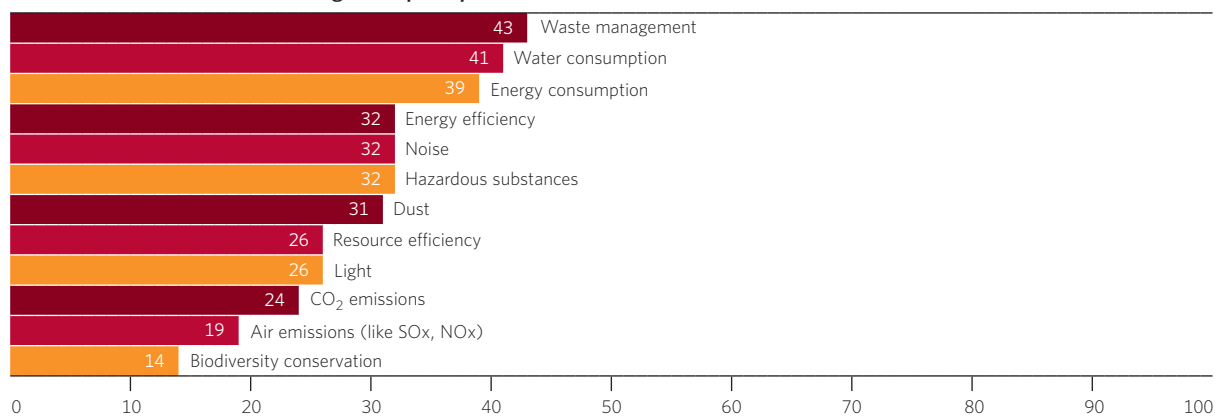
IFU requires all direct investments to take the necessary steps to avoid or minimize pollution of the surrounding environment and establish an environmental management plan to continually monitor the environmental performance in accordance with environmental requirements from IFU and/or local authorities.

In 2019, 49 per cent of the direct investments reported that they have an environmental management plan in place. Most of the project companies without an environmental management plan are investments in sectors where the environmental impacts are limited, while some are investments contracted before 2015, when the management plan was not a requirement.

The table below shows focus areas included in projects' environmental management plans. An important note is that the relevance of an environmental focus area depends on the sector, and this portfolio overview does not show if each project has the right focus areas included in their plan. This question is a part of IFU's dialogue on action plans with each project.

However, focus areas in most environmental management plans are consumption of water and energy as well as waste management. Furthermore, 39 per cent have reported that their environmental management efforts have included training of the employees.

Focus areas in environmental management plan (per cent\*)



\*Per cent of the 88 direct investments that have submitted a report in 2019

## DECENT JOBS CREATE SUSTAINABLE ECONOMIC GROWTH

### THE CHALLENGE

Productive employment and decent work are key elements to creating positive development impacts, because it provides opportunities for people to escape poverty and improve their standard of living, which in turn helps make countries more stable economically and socially.

The International Labour Organization (ILO) has noted that 190 million jobs are needed to address current levels of unemployment, and that a further 340 million jobs will need to be created by 2030.

### LINKED TO SDG 8

IFU's investments contribute to the achievement of:



### ACTIVITIES AND RESULTS

In 2019, close to 255,000 people were employed in the projects included in IFU's active portfolio. Over 125,000 are employed in Asia and close to 80,000 in Africa. In addition, almost 50,000 people are employed in companies in Latin America, Europe and in the global companies. The share of female employees is more than 30 per cent.

In addition, every direct job created is estimated to generate one to two additional jobs for instance in local supply chains or with service companies. In the 2019 status reports from IFU's direct investments, 34 per cent of the projects stated that the domestic purchase of goods and services accounts for more than 80 per cent of the total expenditure costs, thereby contributing to maintaining or creating new local jobs and growth.

In many developing countries, having a job does not guarantee a decent living. In addition to creating jobs, IFU supports and promotes decent work. This means that all workers must have an employment contract specifying the terms of employment, including reasonable wages and working hours, and migrant workers must have adequate housing and living conditions.

IFU's requirements for decent work also include occupational health and safety initiatives that effectively prevent and protect workers against health and safety risks in the workplace. Furthermore, the project must respect workers' right to privacy, freedom of association and collective bargaining, and promote equal opportunities and prevent discrimination.

IFU's direct investments also support developing economies through transfer of technology and competence building. Modern technology enables project companies to develop more advanced and cost-efficient products and services, making the developing countries more competitive. Company-sponsored employee training contributes to boost the general level of education, making people more employable.

In many developing countries, unemployment among young people is high. However, provided with the necessary skills and opportunities, young people can be a driving force for local development. Therefore, IFU encourages the project companies to engage and empower youth by providing jobs, adapted training and mentorship programmes. In 2019, 20 per cent of the workers in the project companies were below the age of 25. Going forward, IFU will strengthen the efforts to ensure that projects include the younger generation in the labour market. •

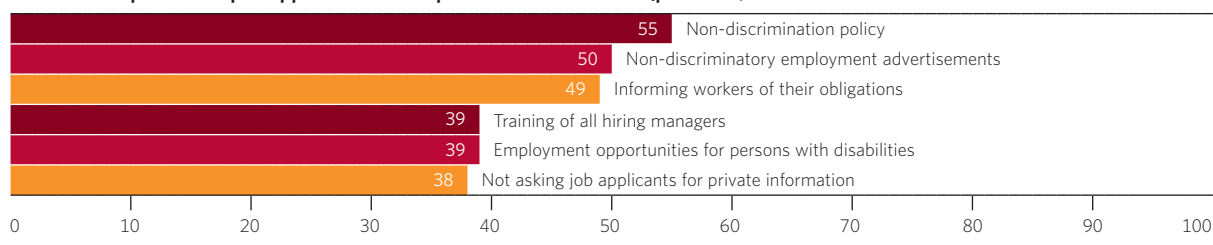
## Promoting equal opportunities and preventing discrimination

IFU requires all investments to adhere to the core ILO conventions on non-discrimination. This means that direct investments must take measures to prevent and address harassment, intimidation, and/or exploitation, especially in regard to women, as well as base the employment relationship on the principle of equal opportunity and fair treatment. The project company may choose the initiatives most suitable within their business and local context.

In 2019, 69 per cent of the direct investments reported that they had taken initiatives to promote equal opportunities and prevent discrimination. The table below shows what kind of initiatives have been taken and the share of project companies who have taken such initiatives. The most common initiative implemented is setting up a policy ensuring unbiased and transparent criteria for hiring, wages, promotion, training, discipline, retirement and termination.

Going forward, IFU will strengthen the dialogue with the remaining 31 per cent of the project companies to improve their performance.

### Initiatives to promote equal opportunities and prevent discrimination (per cent\*)



\*Per cent of the 88 direct investments that have submitted a report in 2019

## Preventing accidents

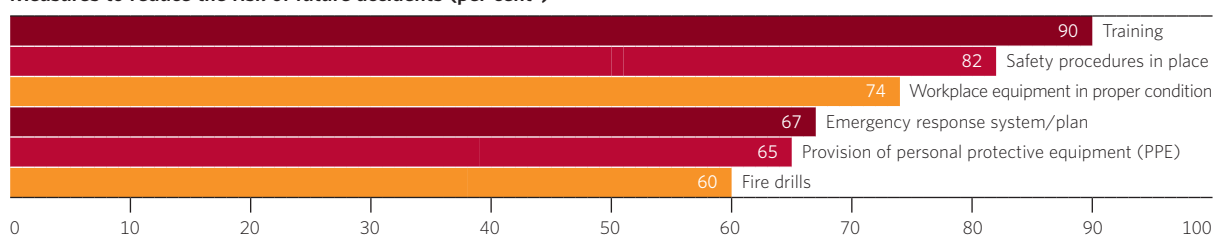
ILO conventions on occupational health and safety provide IFU's framework for creating safe and healthy work facilities and taking the necessary precautions to protect the workers from work-related risks and predictable dangers in the workplace.

In 2019, 36 per cent of the direct investments reported that they had had accidents involving workers. The total number of accidents were 380. Three of these accidents were fatal, and the two companies involved have investigated the accidents and implemented measures to prevent similar accidents in the future.

However, every accident is one too many, and IFU closely follows up on each project company's initiatives to reduce the number of accidents and ensures that all project companies have the necessary precautionary measures in place relevant for the sector in question.




The table below shows what kind of measures have been taken and the share of project companies who have taken such initiatives. The most common measures taken by the direct investments to reduce the risk of future accidents are safety training of the employees and having safety procedures in place. Since only a few project companies are non-manufacturing, IFU finds that the figures are not satisfactory, especially on fire drills and PPE.

### Measures to reduce the risk of future accidents (per cent\*)



\*Per cent of the 88 direct investments that have submitted a report in 2019

## RENEWABLE ENERGY SUPPORTS CLIMATE STABILITY

THE CHALLENGE	LINKED TO SDG 7 AND 13
<p>Access to modern, affordable and clean energy is one of the big challenges in developing countries for both people and businesses. In Sub-Saharan Africa alone, around 50 per cent on average do not have access to electricity and 40 per cent of businesses report that access to energy is a major operational constraint.</p> <p>At the same time, many developing countries are the ones facing the most severe consequences of climate change, affecting livelihoods, private sector development and economic growth. Consequently, the need for investments in clean energy in general and especially in renewable energy in developing countries is high.</p>	<p>IFU's investments contribute to the achievement of:</p> <div style="display: flex; justify-content: space-around; align-items: flex-start;"> <div style="text-align: center;"> <p>TARGET 7-2</p>  <p>INCREASE GLOBAL PERCENTAGE OF RENEWABLE ENERGY</p> </div> <div style="text-align: center;"> <p>TARGET 7-3</p>  <p>DOUBLE THE IMPROVEMENT IN ENERGY EFFICIENCY</p> </div> <div style="text-align: center;"> <p>TARGET 13-A</p>  <p>IMPLEMENT THE UN FRAMEWORK CONVENTION ON CLIMATE CHANGE</p> </div> </div>

### ACTIVITIES AND RESULTS

In recent years, IFU has increased its investments in wind and solar projects in several developing countries like Kenya, Pakistan, Egypt and Mongolia.

In 2019, IFU contracted four climate investments; three new investments and one additional financing for phase two of an ongoing project. Excluding one platform investment in a company working globally, where calculation is not yet possible, the investments will install renewable energy capacity of 336 megawatt, and are expected to produce more than 1,000 GWh per annum when fully operational. In total, the projects are expected to represent GHG savings of approximately 9,500,000t CO<sub>2e</sub> during their lifetime.

In total, IFU's current portfolio includes renewable energy projects with an overall capacity of 1,160 megawatts distributed on 680 megawatts in wind power and 480 megawatts in solar power.

From 2020, IFU will no longer make new investments in fossil fuel-based power production to the grid. IFU can, however, in a transition period until 2023, invest in transitional hybrid technologies, e.g. gas, in combination with renewables for power production, if strong development impact criteria are met. Aligned with the Paris Agreement such criteria could be that the investment is in a low-income country, and it is in accordance with the country's national long-term energy plans, and that it meets an acute energy need or secures broader access to energy.

IFU assesses the climate impacts of its investments by calculating the GHG emissions they cause and by identifying climate change-resilient technologies and adaptation measures to be put in place as part of the investment.

Projects are required to take all necessary measures to ensure that the project is energy efficient, thereby reducing contributions to global warming to a minimum. The project should over time work towards a level in line with best practice within its sector or set a goal of reducing its CO<sub>2</sub> emissions. During appraisal, IFU estimates the absolute carbon emissions and savings of the project. The estimations are calculated by an independent consultant.

Projects emitting more than 25,000 tonnes of CO<sub>2</sub> equivalent annually are required to monitor and report on emissions to IFU. The information on emissions will be used to discuss how to reduce the emissions in terms of choice of technology, introduction of mitigation measures, etc.

In 2019, 59 per cent of the direct investments reported that they have measures to reduce energy consumption. Examples of measures include installation of energy-efficient production equipment and solar panels, use of LED light bulbs and motion sensors to switch off lights and energy saving awareness campaigns and training of employees. •

## FINANCING THE GREEN TRANSITION



To reduce CO2 emissions and improve access to energy in developing countries, IFU invested DKK 170 million in JCM Power in 2019. The global platform is highly skilled in developing, structuring and operating large energy projects, which is a missing competence that prevents many solid renewable energy projects from receiving commercial financing and consequently from being realized.

JCM Power is engaged in several renewable energy projects in e.g. Pakistan, Malawi and Cameroon. The aim of the investment is to contribute to install 800 megawatt of wind and solar energy in developing countries.

## TAX CONTRIBUTION IMPROVES SOCIAL WELFARE

### THE CHALLENGE

The SDGs can only be realised with a strong commitment to global partnership and cooperation. This includes tackling tax evasion and supporting tax collection.

Every year, African countries lose billions in taxes, in amounts proposed to surpass foreign development aid. The lack of tax revenue has a negative impact, starting with non-existent transport infrastructure, missing schools and hospitals and non-functioning public service.

### LINKED TO SDG 17

IFU's investments contribute to the achievement of:



### ACTIVITIES AND RESULTS

All IFU's projects depend on effective public, public-private and civil society partnerships. In most projects, collaboration with the local authorities is important for achieving license to operate, and IFU sees proper payment of taxes to host countries as an important part of creating development impact when making investments.




IFU projects must respect local tax laws and pay taxes where they have their economic activity. For 2019, IFU has information on taxes from 146 direct investments and funds. Total reported annual corporate taxes from these investments amount to approximately DKK 3.1bn. These figures do not include taxes paid by employees and VAT. •

#### Corporate tax per continent (in DKK 1,000)

Africa	1,207,406
Europa	73,667
Asia	1,167,695
Global	629,594
Latin America	56,343
<b>Total</b>	<b>3,134,704</b>

**Note:** Tax information regarding 16 projects under establishment, 19 inactive projects, 4 PDP projects and 11 projects where reporting is missing/unavailable has been excluded.

## EMPOWERMENT OF WOMEN IN THE WORKPLACE

THE CHALLENGE	LINKED TO SDG 3 AND 5
<p>Gender inequalities are still deep-rooted in many societies. Women experience lack of access to decent work and face occupational segregation and gender wage gaps. In many places, they have limited access to basic education and health care and are victims of violence and discrimination.</p> <p>However, women play an important role in the economy of the developing countries, and their integration in the labour market and in the private sector has a significant impact on the livelihood of families.</p>	<p>IFU's investments contribute to the achievement of:</p> <div style="display: flex; justify-content: space-around; align-items: flex-start;"> <div style="text-align: center;">  <p>TARGET 3-7 UNIVERSAL ACCESS TO SEXUAL AND REPRODUCTIVE CARE, FAMILY PLANNING AND EDUCATION</p> </div> <div style="text-align: center;">  <p>TARGET 5-1 END DISCRIMINATION AGAINST WOMEN AND GIRLS</p> </div> <div style="text-align: center;">  <p>TARGET 5-5 ENSURE FULL PARTICIPATION IN LEADERSHIP AND DECISION-MAKING</p> </div> </div>

### ACTIVITIES AND RESULTS

IFU believes that opportunities exist to create value in companies and communities by integrating gender equality in company leadership and corporate culture as well as in workplace policies and health initiatives. By promoting gender equality and women's empowerment in the private sector, IFU contributes to unlocking business opportunities for female entrepreneurs and advance women as business leaders, employees and consumers.

Based on the SEAF (Small Enterprise Assistance Funds) Gender Equality tool, IFU applied and developed a Gender Equality Scorecard (GES) in 2019 to assess women's economic empowerment and gender equality. The scorecard helps companies initiate internal dialogue on how to approach gender equality, set goals and track progress. The scorecard is structured around six issues related to equal pay, workforce participation, leadership, benefits and professional development, women-powered value chains and workplace environment. Workplace environment includes initiatives that improve women's health and sexual and reproductive health.

Four IFU projects have tested the scorecard, and based on the test results, it will be adjusted and rolled out to relevant companies in 2020. The tests showed that the scorecard inspires conversation and reflection at senior management level and also highlighted the importance of salary transparency to promote equal pay.

In 2019, 23 per cent of the employees in direct investments were women. 19 per cent of the projects have reported that the share of women in leading positions is more than 40 per cent. However, in nearly half of the projects, the share of women in leading positions is less than 10 per cent.

To further step up the effort to support gender equality, IFU has joined the 2X Challenge launched by the development finance institutions of the G7 countries in 2018. The aim is to advance opportunities for women through enterprise support, leadership and career progression, quality employment and products, as well as services that enhance women's economic participation. Since 2019, altogether 12 finance institutions have taken part in identifying eligible businesses that are committed to one or more of these areas. The target is to achieve a total of USD three billion in commitments to finance projects by the end of 2020. ■

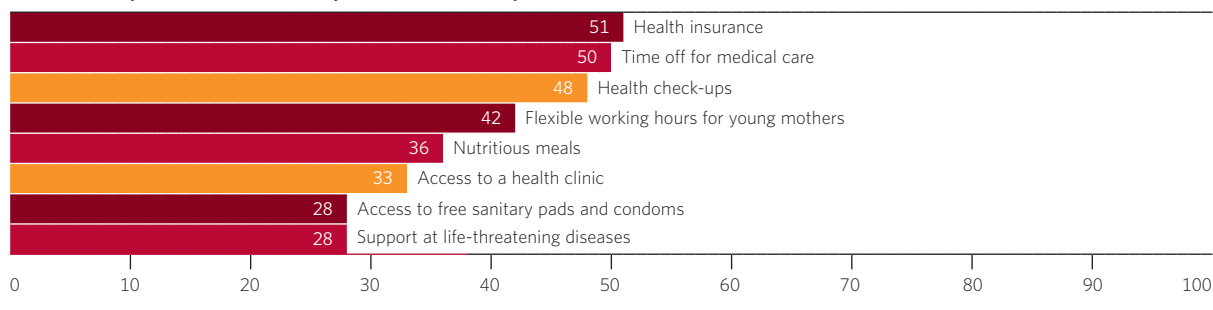


## Promoting health and reproductive health

IFU encourages projects to address and promote health and reproductive health for all employees. This includes providing flexibility at work for women to relieve the double burden of managing work and family demands concurrently and ensuring women's health in the workplace.

In 2019, 67 per cent of the direct investments reported that they had taken initiatives to promote health and reproductive health. The table below shows what kind of initiatives have been taken and the share of project companies who have taken such initiatives. The most common initiatives include offering health insurance for employees as well as providing health check-ups and time off for medical care. It is satisfying that so many project companies follow IFU's recommendations, creating both opportunities for women and business benefits, e.g. that almost half the projects provide flexible working hours for young mothers returning to work.

### Initiatives to promote health and reproductive health (per cent\*)



\*Per cent of the 88 direct investments that have submitted a report in 2019

## ADVANCING OPPORTUNITIES FOR WOMEN




In 2019, IFU disbursed a loan of EUR 10 million to United Exports in South Africa supporting the extension and upgrading of its blueberry production. During the high picking season, United Exports employs more than 5,000 people, of whom nearly 90 per cent of the seasonal and more than 50 per cent of the permanent workers are women.

The high number of women employees qualifies United Exports to become part of the 2X Challenge, and against that backdrop, IFU and United Exports have signed a memorandum of understanding reflecting United Exports' commitment to women's economic

empowerment. United Exports has launched several initiatives for both seasonal and permanent staff, including health awareness days, a mobile clinic service and counselling on issues like marital or parental problems and substance addiction.

## ANTI-CORRUPTION IS KEY TO POVERTY ALLEVIATION

THE CHALLENGE	LINKED TO SDG 16
<p>Corruption is one of the greatest barriers to sustainable development with a disproportionate impact on developing countries, and combating corruption is a key element to poverty alleviation. According to the UN, corruption is costing the global economy USD 3.6 trillion every year.</p>	<p>IFU's investments contribute to the achievement of:</p>  <p>TARGET 16-5 SUBSTANTIALLY REDUCE CORRUPTION AND BRIBERY</p>

### ACTIVITIES AND RESULTS

IFU is maintaining a zero-tolerance policy regarding corruption, including bribery, fraud and facilitation payment. All projects must comply with any anti-corruption legislation in the country in which they operate and take a clear, written

stand against corruption. In addition, IFU requires that projects assess the risk of corruption, establish an anti-corruption culture, and make their anti-corruption commitment known to business partners. •

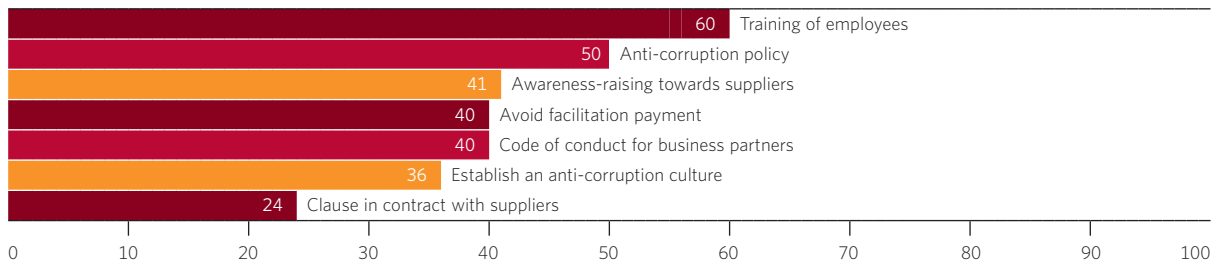
### Reducing the risk of corruption

IFU requires direct investments to implement anti-corruption procedures and controls in accordance with international principles and standards. The project may choose the initiatives most suitable within their business and local context.

In 2019, 82 per cent of the direct investments reported that they had taken initiatives to reduce the risk of corruption. 50 per cent of the direct investments have an anti-corruption policy, 40 per cent have a code of conduct for business partners, and 60 per cent have trained their employees in anti-corruption. With regard to the funds, 86 per cent reported that they have a written stand against corruption.

Going forward, IFU will work to ensure that all projects take a written stand in the form of an anti-corruption policy and conduct anti-corruption training of their employees. Furthermore, IFU will encourage projects to include a clause on anti-corruption in the contracts with their suppliers.

Initiatives to reduce the risk of corruption (per cent\*)



\*Per cent of the 88 direct investments that have submitted a report in 2019

## SUSTAINABLE AGRICULTURE CREATES FOOD SECURITY

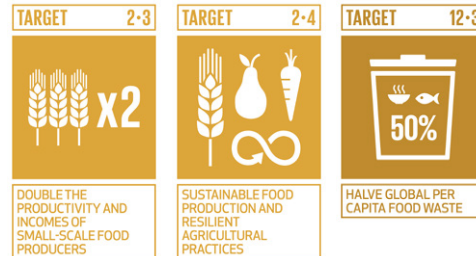
### THE CHALLENGE

Hunger and malnutrition remain a barrier to development in many countries, and investments in agribusiness are crucial for creating economic growth and social progress.

Food waste is a serious global problem. Every year, one third of total global food production is wasted. In developing countries, one of the main reasons for food waste is insufficient and ineffective storage and transport facilities.

### LINKED TO SDG 2 AND 12

IFU's investments contribute to the achievement of:



### ACTIVITIES AND RESULTS

IFU has during the years been investing in agribusiness projects along the whole value chain from farm to fork. At year-end 2019, the active agribusiness portfolio included 52 projects at a total of DKK 2bn in contracted investments.

37 per cent of these agribusiness projects have reported that they support smallholder farmers. In Africa and Asia, smallholder farmers produce the majority of the food consumed,

and smallholders therefore play a critical role in addressing the challenges of food security, poverty and climate change.

IFU's investments in improving and upgrading agribusiness infrastructure have the potential to reduce food waste and undernourishment and increase farmers' income. ■

### SUPPORTING SMALLHOLDER DEVELOPMENT



IFU has invested in a pan-African agricultural fund, the Silverlands Fund, which focuses on primary agriculture and associated processing.

In Tanzania, Silverlands has established a cropping and livestock operation aiming at developing and expanding markets for local small-scale farmers. This includes training, purchase of local crops and selling quality feed and day-old chicken for local breeding.

To facilitate market access and improve the outcome of the small-scale farmers, Silverlands has supported the set-up of Agricultural Marketing Co-operative

Societies (AMCOS), and IFU has supported the AMCOS by offering a training grant of DKK 1 million. The training is based on Conservation Agriculture, which is a sustainable agriculture production system comprising a set of farming practices adapted to the requirements of crops and local conditions of each region. The farming and soil management techniques protect the soil from erosion and degradation, improve its quality and biodiversity, and contribute to the preservation of natural resources, water and air, while optimizing yields.

Since 2018, more than 8000 farmers have participated in the training, of which half are women.

# SUSTAINABILITY IN IFU'S INVESTMENT PROCESS

**THE SUSTAINABILITY POLICY SETS OUT IFU'S COMMITMENT TO INVEST IN SUSTAINABLE DEVELOPMENT AND TO CONTRIBUTE TO THE REALISATION OF THE SDGS**

Managing environmental and social (E&S) risks and impacts is an integral part of IFU's investment process for both direct investments and investments in funds and financial institutions. The foundation is IFU's sustainability policy that sets out IFU's commitment to invest in sustainable development and to contribute to the realisation of the Sustainable Development Goals (SDGs).

### New sustainability policies

In February 2019, IFU's board of directors approved an updated sustainability policy highlighting sustainability issues that IFU considers particularly relevant in order for investments to contribute to the SDGs.

The policy specifies that IFU applies an exclusion list, which includes 12 types of production and activities that IFU does not finance. These 12 have been adopted by all the European DFIs, which are members of the European Development Finance Institutions (EDFI). The full list is annexed in IFU's sustainability policy.

The policy includes more elaborate references to key international standards and frameworks relevant for private sector investments and a clear commitment

to the UN Guiding Principles on Business and Human Rights.

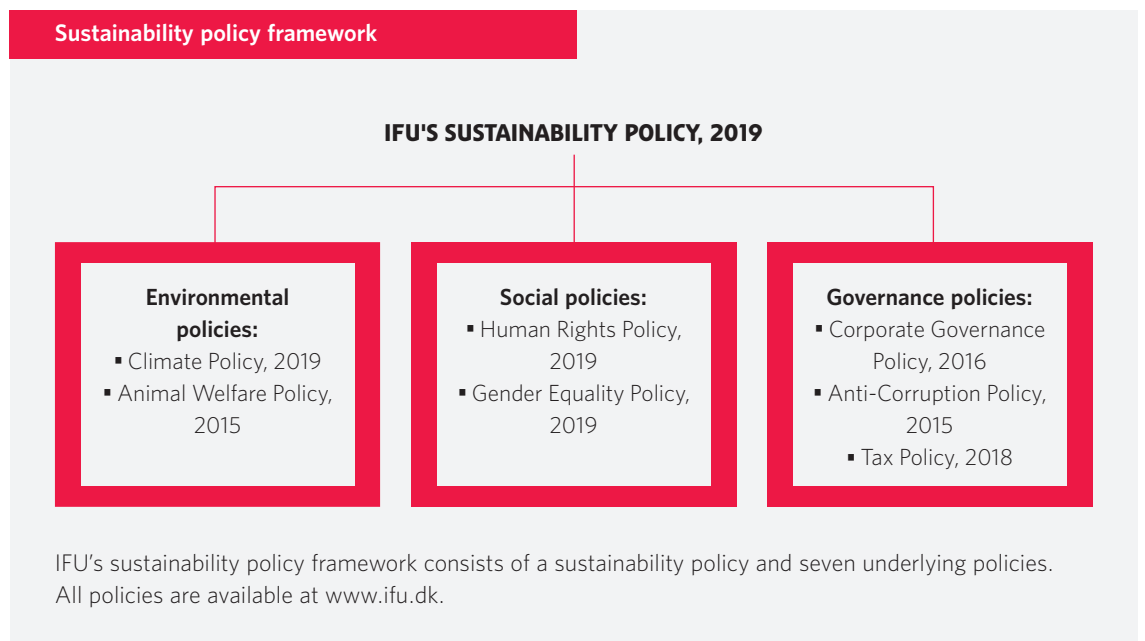
IFU's sustainability policy and approach to investments is based on the international development agenda, Agenda 2030, and its three core components:

- the Sustainable Development Goals (2015),
- the UNFCCC Paris Declaration (2015) and
- the Addis Ababa Action Agenda on Finance for Development (2015)

Since 2017, the UN Guiding Principles on Business and Human Rights (UNGPR) have been part of the legal basis for IFU's operations, cf. section 9 of the Danish Act on International Development Cooperation.

Furthermore, the policy has annexes with specific sustainability requirements for IFU's direct investments in the form of equity and loans to project companies, as well as investments in private equity funds and financial institutions.

During 2019, IFU has also developed and launched supplementary policies on climate, human rights and gender equality. These policies are part of IFU's



sustainability policy framework with seven underlying policies that specify IFU's commitments and further explain how IFU implements responsible business conduct measures in relation to global sustainability challenges. All IFU's policies are based upon and aligned with international UN, ILO and OECD conventions, declarations, agreements and principles for sustainable development.

The extensive process of preparing the new policies has included public hearings and dialogue meetings with Danish civil society organisations and other external stakeholders, who have provided valuable input. Furthermore, the policies have been discussed with IFU's Sustainability Advisory Board, which has provided constructive feedback in the drafting of the policies.

### Categorisation of risks

During appraisal, IFU assesses and approves investments according to a gradually increased engagement level passing several approval stages. The first phase is a screening where IFU identifies project-related sustainability risks and impacts to be assessed during the due diligence phase, and categorises projects in terms of environmental and social risk. IFU uses the risk categories A, B+, B and C that are defined and used by all European Development Finance Institutions (ED-FIs). Category A projects are projects with significant potential adverse environmental or social impacts or risks, e.g. large wind farms and cement manufacturing. Contrary to this, category C projects are projects with minimal or no adverse social or environmental impacts or risks, e.g. offices or IT development companies. Around 23 per cent of the active portfolio are high-risk investments (A and B+ projects).

IFU also evaluates the project sponsor's track record, commitment and capability to manage sustainability issues. This is especially relevant for greenfield projects where project management is yet to be established.

### Applying international standards

Based on the E&S categorisation, the due diligence phase includes a comprehensive assessment of sustainability risks, impacts and mitigation measures related to the specific project.

IFU requires project companies to follow international standards and principles in addition to complying with national regulations. In order to operationalize the management of sustainability issues in accordance with international principles and set minimum requirements, the primary standards that guide the

scoping of IFU's due diligence of investments are the IFC Environmental and Social Performance Standards (2012), which are based on a number of international core conventions, declarations and agreements.

In all direct investments, the sustainability performance is assessed using the UN Global Compact Self Assessment Tool co-developed by IFU. For high-risk projects (A and B+), IFU ensures that an Environmental and Social Impact Assessment (ESIA) is conducted where required by authorities, and IFU initiates an Environmental and Social Due Diligence against the IFC Performance Standards and the related IFC Environmental, Health, & Safety (EHS) Guidelines. The EHS Guidelines contain sector-specific performance levels and measures that are generally considered to be achievable in new facilities at reasonable costs by existing technology. IFU wishes to ensure implementation of the IFC Performance Standards and EHS Guidelines in all high-risk direct investments and requires fund investments to do the same.

For the less critical projects (B and C), it may be relevant to apply other international standards like ISO 14001, OHSAS 18001 and SA 8000. Agribusiness projects are required to use Danish standards regarding animal welfare and slurry management as a baseline.

**IFU WISHES TO ENSURE IMPLEMENTATION OF THE IFC PERFORMANCE STANDARDS AND EHS GUIDELINES**

### INTERNATIONAL COMMITMENTS

IFU's policies are based upon and aligned with the following international conventions, declarations, agreements and principles for sustainable development:

- UN Sustainable Development Goals
- UNFCCC Paris Declaration
- Addis Ababa Action Agenda on Finance for Development
- UN Global Compact
- UN Guiding Principles on Business and Human Rights (UNGPs)
- OECD Guidelines for Multinational Enterprises
- Rio Declaration on Environment and Development
- Paris Agreement on Climate Change
- UN Convention Against Corruption
- UN Principles for Responsible Investment (UNPRI)
- Climate Action in Financial Institutions

**IFU EXERCISES ACTIVE OWNERSHIP AND USES ITS LEVERAGE TO INITIATE IMPROVEMENT OF THE SUSTAINABILITY PERFORMANCE OF PROJECTS**

The purpose of these assessments is to identify potential gaps in the current performance or planned measures in the project, and indicate which improvements are necessary to meet the requirements of IFU's sustainability policy and the relevant sustainability standards over time.

In addition, IFU conducts site visits to identify areas that require further attention. For some high-risk projects, site visits include stakeholder identification and engagement.

In greenfield projects with a construction phase, IFU also focuses on special risk and impact during construction. This could include occupational health and safety risks, issues related to land ownership and land use as well as impacts on the local community.

**Exercising active ownership**

Before the investment is approved, IFU ensures commitment to a written sustainability action plan describing the measures to be implemented within an agreed time frame to meet the requirements of IFU's sustainability policy and the relevant sustainability standards. Both the sustainability action plan and the impact creation plan act as tools for IFU's ongoing management and monitoring of the sustainability performance of the project.

In 2019, 31 per cent of the direct investments reported that they have a current action plan. The main reasons for not having a plan are that previous plans have been fulfilled or that the investments were contracted before 2015, when action plans were not as explicit and formally implemented as today.

Throughout the investment period, IFU exercises active ownership and uses its leverage to initiate improvement of the sustainability performance of the project. However, IFU is normally minority shareholder and thus does not have the opportunity to exercise management control. IFU's investment professionals have the overall responsibility for ensuring that the sustainability requirements are met, and typically they participate on the board of directors of the direct investments. In 2019, IFU was board member or observer in 62% per cent of the total direct investments portfolio. IFU's Sustainability Unit assists the investment professionals and provides them with tools and training.

Projects are required to prepare an annual sustainability report to be discussed and approved by their board of directors. The report serves as an important tool for the annual stocktaking of the project's sustainability performance and development impacts. The annual reports must be submitted to IFU and are essential for IFU's ability to perform active ownership and pro-

vide transparent sustainability information about its investments.

In 2019, 88 of 95 direct investments required to report submitted an annual sustainability report to IFU. Two of the remaining projects have reported in a not applicable format, whereas five projects are in distress and have not prepared a report in this reporting period. On top of the 95 projects, 12 new projects are not required to report yet.

IFU has invested in six financial institutions. Two of these have submitted an annual sustainability report to IFU in 2019. The remaining four are new investments not yet required to report.

Out of 44 fund investments, 33 submitted an annual sustainability report in 2019. Seven of the remaining investments are new fund investments not yet required to report, one has been exempted from reporting, and three did not report in the reporting period.

**Providing tools and training for projects**

IFU has developed a variety of tools to support the projects in their sustainability efforts. These include a Sustainable Investments Handbook that explains how IFU's sustainability requirements should be interpreted and can be implemented to ensure that sustainability is an integrated part of the strategic and daily operation of a project company.

In 2019, the handbook was updated to reflect the commitments and approach in IFU's new sustainability policy. The handbook applies to all direct investments, however, funds and financial institutions may also use the handbook in their dialogue with their portfolio companies and clients.

In 2018, IFU established a Sustainability Facility for IFU project companies to promote sustainability aspects. In 2019, the Sustainability Facility supported two projects on gender equality, a HIV/AIDS project and a project on implementation of an Environmental and Social Management System.

**Resolving grievances regarding investments**

IFU has a grievance mechanism through which external stakeholders can report alleged breaches of IFU's sustainability policy. This includes grievances from individuals and communities affected by an IFU project. In 2019, the grievance mechanism was reviewed and updated in light of the Danish Anti-Money Laundering Act, section 35, that requires financial institutions to set up an externally administered whistleblower mechanism.

Grievance reports will be received through a web portal established in collaboration with an external provid-

## Sustainability in the investment process

### SCREENING

- First gate impact screening
- Identification of project-related sustainability risks and impact
- Pre-assessment of potential adverse impacts on human rights
- Evaluation of projects' sustainability awareness, capability and track record
- Categorisation of projects according to environmental and social risk level

### DUE DILIGENCE

- Assessment of impact aligned with SDGs for all projects
- UN Global Compact Self-Assessment for all projects
- Environmental and Social Impact Assessment (ESIA) for high-risk projects
- Complementary assessment of severe adverse human rights impacts
- Site visit, including stakeholder identification and engagement for high-risk projects

### APPROVAL

- Binding commitment to IFU's sustainability requirements and to sustainability action plan and impact creation plan

### ACTIVE OWNERSHIP

- Ongoing monitoring of sustainability performance
- Follow-up on sustainability action plan and impact creation plan
- Annual sustainability status report, including impact reporting

IFU's investment process is aligned with the standards adopted by the European Development Finance Institutions (EDFIs) and will therefore be applied in a similar way when co-financing among EDFIs occurs.

#### IFU HAS A GRIEVANCE MECHANISM THROUGH WHICH EXTERNAL STAKEHOLDERS CAN REPORT CONCERNS

er, who will assist IFU in administrating the reports. IFU will investigate the grievances and seek to resolve any breaches of IFU's policy. Measures may include third-party investigations, negotiated settlements, contractual remedies and considering the future relationship with the breaching parties. Furthermore, IFU will whenever justified use its leverage to seek to ensure access to remedy for affected individuals and communities and/or notify the appropriate authorities.

In 2019, IFU received two grievances regarding its investments. One grievance concerned land use and is not resolved yet. The other concerned governance issues in a project company and was rejected by IFU.

#### Stakeholder engagement and partnerships

IFU participates in several fora to keep up to date with stakeholder expectations and the international developments within sustainability and responsible business conduct. IFU is a member of European Development Finance Institutions (EDFI), UN Global Compact Net-

work Denmark, Transparency International Denmark, The Tax Dialogue, the Danish Ethical Trading Initiative (DIEH) and the DFI Gender Finance Collaborative.

In addition, IFU has its own Sustainability Advisory Board with members appointed in their personal capacity, each representing issues of particular importance to IFU: human rights, environment, development research and policy. The advisory board meets regularly to discuss and advise on key issues. Main topics discussed in 2019 were related to IFU's new sustainability policies.

At the end of 2019, IFU's Sustainability Advisory Board members included:

- Lars Engberg-Pedersen, Senior Researcher, DIIS
- Nanna Callisen Bang, Deputy Director & Head of Programme, Tuborgfondet
- John Nordbo, Climate Advocacy, CARE ▶

**IFU CONSIDERS RESPECT FOR HUMAN RIGHTS TO BE A MINIMUM STANDARD APPLIED IN ALL ITS OPERATIONS**

- Allan Lerberg Jørgensen, Lead Sustainability Advisor, Social Impact, A.P. Moller Maersk
- Malene Østergaard, Director, Ethics & Human Rights, Danfoss
- Gitte Dyrhagen Husager, Head of Private Sector Engagement, Danish Church Aid
- Mads Bugge Madsen, Director, Ulandssekretariatet
- Jacqueline Bryld, International Director, Sex & Samfund

In order to maintain an open dialogue about stakeholder concerns and ensure quick response to public initiatives, IFU meets with civil society organisations twice a year. In 2019, IFU's new policies were on the agenda.

**Strengthened human rights due diligence**

As a state-owned institution IFU has a special responsibility and duty to protect human rights as described in the International Bill of Human Rights. IFU considers respect for human rights to be a minimum standard applied in all its operations, and expects its employees and its projects to actively encourage those involved in their business activities to adopt the same or similar standards. In 2019, IFU strengthened its human rights due diligence process for direct investments as an integral part of the investment process.

In the screening phase, IFU conducts a pre-investment screening of potential adverse impacts on

human rights for relevant rightsholders related to the project. The assessment takes into account country and project risks like projects in fragile states, projects in countries with no guarantee of workers' rights, projects in countries with high risk of corruption and projects involving a number of risk aspects such as land take, use of migrant workers, location in water, scarce areas or handling of personal data, etc.

If this screening shows that there is a risk of severe adverse human rights impacts, IFU will assess to what extent these impacts are covered by the IFC Performance Standards. To support the assessment, IFU has mapped the link between the IFC Performance Standards and the human rights and developed a human rights due diligence matrix. The outcome of this due diligence is either additional mitigation measures to those included to comply with the IFC Performance Standards or a separate and more thorough human rights impact assessment of the potential severe adverse impacts.

In 2019, IFU carried out a pilot test of the human rights due diligence process and conducted ten assessments with the use of the human rights due diligence matrix. None resulted in a need for a separate human rights impact assessment, while two resulted in additional mitigations measures. ■

**The IFC Performance Standards (PS)**

<b>PS1:</b> Assessment and Management of Environmental and Social Risks and Impacts	<b>PS1</b> concerns management of environmental and social performance throughout the life of the project, and it applies to all projects. It establishes the importance of integrated assessment to identify the environmental and social impacts, risks and opportunities of projects; effective community engagement through disclosure of project-related information, and consultation with local communities on matters that directly affect them.
<b>PS2:</b> Labour and Working Conditions	
<b>PS3:</b> Resource Efficiency and Pollution Prevention	
<b>PS4:</b> Community Health, Safety, and Security	
<b>PS5:</b> Land Acquisition and Involuntary Resettlement	<b>PS2-8</b> describe potential environmental and social risks and impacts that require particular attention and that may apply depending on project circumstances and the identified environmental and social impacts and risks. These standards establish objectives and requirements to avoid, minimise, and where residual impacts remain, to compensate for risks and impacts to workers, affected communities and the environment. They address a number of crosscutting topics such as climate change, gender, human rights and water.
<b>PS6:</b> Biodiversity Conservation and Sustainable Management of Living Natural Resources	
<b>PS7:</b> Indigenous Peoples	
<b>PS8:</b> Cultural Heritage	



## The link between IFC Performance Standards and human rights

The figure shows the link between IFC Performance Standards (PS) and human rights, and the rights of most relevance to IFU projects.

Most relevant for IFU within PS1 (Assessment and Management of Environmental and Social Risks and Impacts) is the right to life as aspects of emergency preparedness and response. Other relevant rights covered by PS1 are the right to non-discrimination and the right to public participation related to stakeholder engagement and access to grievance mechanism.

The right to decent work covers all human rights related to working conditions, e.g. right to work, right to enjoy just and favourable conditions of work, right to form and join trade unions and the right to strike, etc., which are all covered by PS2 (Labour and Working Conditions).

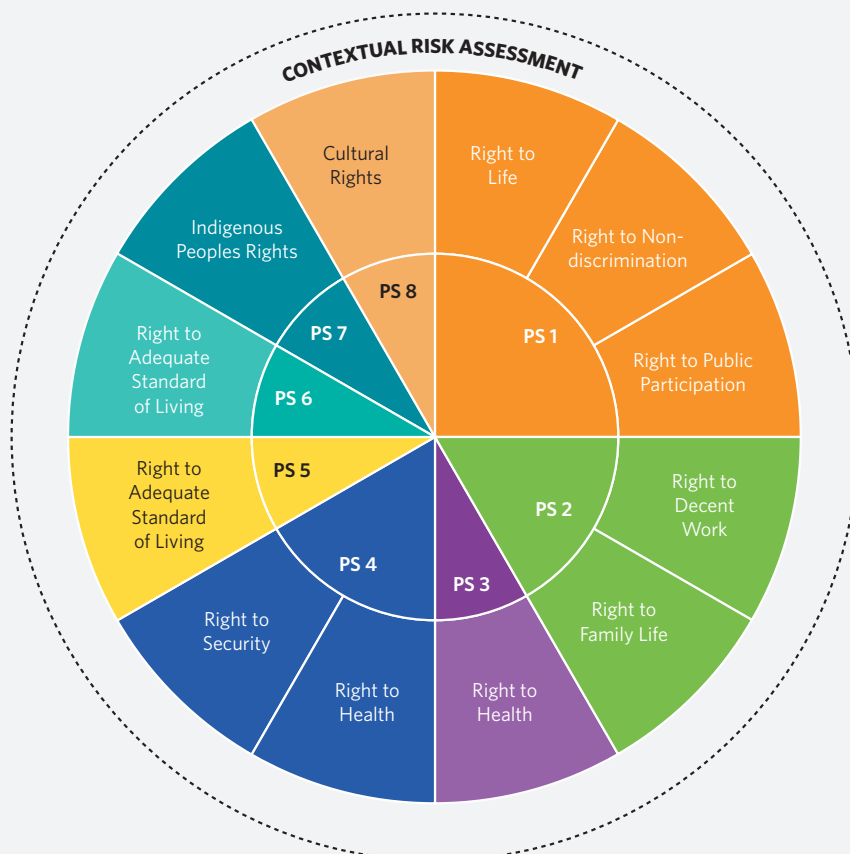
Rights covered by PS4 (Community Health, Safety and Security) include the right to health and the right to security. For PS5 (Land Acquisition and Involuntary Resettlement) the right to adequate standard of living is of most relevance to IFU projects.

Environmental impacts under PS3 (Resource Efficiency and Pollution Prevention) and PS6 (Biodiversity Conservation and Sustainable Management of Living Natural Resources)

only lead to human rights impacts when affecting the right-holders, through impacts on the right to health (PS4) and the right to adequate standards of living (PS5). In the figure, these indirect impacts are indicated with shaded colours. Impacts on biodiversity that do not affect the livelihood or other ecosystem services of communities do not necessarily translate into a human rights impact. This could be the case for e.g. impacts on birds and bats from windfarms.

PS7 (Indigenous People) and PS8 (Cultural Heritage) are covered by indigenous people's rights and cultural rights, respectively.

While most of the human rights are an integral part of IFC PS, two specific human rights risks are not covered sufficiently. One is human rights risks in the supply chain, which needs specific attention related to impacts on all human rights. The other is the right to privacy that is particularly relevant for companies handling significant amounts of personal data, such as private banking, micro-finance, health providers and Information and Communication Technology (ICT). The right to privacy also relates to companies' surveillance, workers personal information kept by the company and personal information of community members collected by the company in relation to e.g. land acquisition and resettlement.



# SUSTAINABILITY MANAGEMENT IN PROJECTS

AS IFU EACH YEAR CONTRACTS TENS OF PROJECTS THERE WILL ALWAYS BE NEW PROJECTS THAT DO NOT MEET THE REQUIREMENTS YET

IFU encourages all projects to work strategically with sustainability and formally anchor the activities in the business plans and daily practices, and projects are required to adopt a written sustainability policy and establish an Environmental and Social Management System (ESMS). As IFU each year contracts tens of projects there will always be new projects that do not meet the requirements yet, but are in the process of implementing them.

## Policy commitments

IFU views the sustainability policy as a key performance indicator that states the level of sustainability ambition and offers clear evidence of the project's sustainability commitment. 65 per cent of the direct investments have a written sustainability policy, while 95 per cent of the funds have a policy or investment code, which includes sustainability commitments. Direct investments without a written policy are either projects contracted before 2015, when this was not a requirement, or projects (20 per cent) that are in the process of preparing a policy. The same goes for funds without a policy or investment code. All six financial institutions have a sustainability policy.

Furthermore, IFU requires microfinance institutions (MFIs) to endorse the Client Protection Principles to ensure prudent, transparent and respectful treatment of clients. This includes appropriate product design and delivery, prevention of over-indebtedness, transparency, responsible pricing, fair and respectful treatment of clients, privacy of client data and mechanisms for complaint resolution. All the MFIs have endorsed the Client Protection Principles.

## Processes in place

The management system ensures that the project continually identifies and assesses all significant sustainability risks and impacts, addresses any identified shortcomings in relation to sustainability issues and

ensures continuous improvement of the sustainability performance.

For direct investments, the management system is an indicator of the projects' ability to manage their specific adverse impacts. When investing in funds or financial institutions, IFU focuses on the funds' or institutions' ability to employ a management system that effectively addresses sustainability risks related to their portfolio companies and clients.

42 per cent of the direct investments have an Environmental and Social Management System, while 80 per cent of the funds have implemented a management system. 89 per cent of funds contractually bind their portfolio companies to comply with the policy or investment code, assess ESG aspects of the investments and monitor the sustainability performance of the portfolio companies.

Direct investments without a management system are either projects contracted before 2015, when this was not a requirement, or projects (20 per cent) that are in the process of implementing a system. As many new projects are greenfield investments, the establishment of the management system will await the construction and management of the company/the facilities.

All projects are required to appoint a person with the overall responsibility for sustainability at operational level and ensure that the person is suitably trained and have appropriate knowledge of sustainability issues related to the project. 81 per cent of the direct investments have a dedicated person responsible for sustainability, while this applies to 84 per cent of the funds.

IFU can still improve how sustainability requirements are made explicit and how IFU follows up and has a dialogue with projects that do not meet the require-

**IFU REQUIRES PROJECT COMPANIES TO PROMOTE SUSTAINABILITY ISSUES IN INTERACTION WITH THEIR SUPPLIERS AND BUSINESS PARTNERS**

ments. Going forward, IFU will work to ensure that all projects meet the management requirement, which is emphasised in the new sustainability policy.

**Grievance mechanism**

The projects are also required to establish a grievance mechanism for receiving, processing and settling complaints by individuals and communities. This includes providing clear and easily accessible information on how complaints can be submitted, what kind of complaints can be reported, and how complaints are processed and resolved. Furthermore, the projects must ensure access to remedy for the affected persons and/or notify the appropriate authorities.

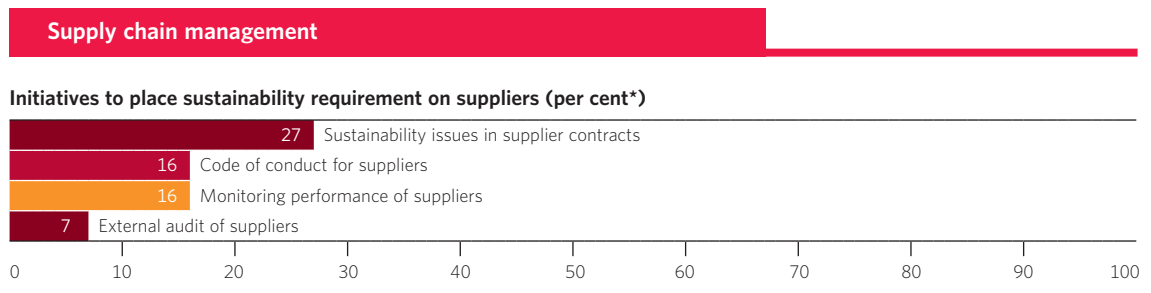
49 per cent of the direct investments have a grievance mechanism for external stakeholders. In 2019, 11 per cent of the project companies reported that they had received complaints. Grievance mechanisms are in place in 70 per cent of funds. This is expected to increase in the coming years, as it is a new requirement in IFU’s sustainability policy.

**Supply chain management**

IFU requires project companies to promote sustainability issues in interaction with their suppliers and business partners. The projects may choose the initiatives most suitable within their business and local context, but IFU recommends them to prepare a code of conduct listing the sustainability principles and standards that the suppliers are expected to meet.

In 2019, 40 per cent of the direct investments reported that they had taken initiatives to place sustainability requirements on suppliers. The most common initiative is to include sustainability issues in the business contract with suppliers.

This is an area where IFU finds that there is room for improvement, and project companies in general should use their leverage to promote sustainable supply chains. ■



\*Per cent of the 88 direct investments that have submitted a report in 2019

# IFU'S STAFF AND PREMISES

THE SUSTAINABILITY IMPACTS OF IFU'S OWN ACTIVITIES ARE SMALL COMPARED TO THE IMPACTS OF IFU'S INVESTMENTS AND THEREBY LESS MATERIAL

The sustainability impacts of IFU's own activities are small compared to the impacts of IFU's investments and thereby less material.

During 2019, the average staff amounted to 88 full-time employees (FTE). 81 per cent of the staff was employed in Copenhagen and 19 per cent across Africa, Asia, Latin America and Eastern Europe. Twenty different nationalities are represented among IFU's employees.

HR statistics 2019*	
Full-time employees	88
Female employees	43%
Average age of employees	44 years
Average seniority	9 years
Employee turnover	13.4%
Retention (five years of seniority or more)	49.5%
New people on-boarded	16

\*Excluding students and others on hourly wage

## Learning culture

To successfully execute IFU's strategy based on creating impact and return on investments, IFU's staff is key. IFU is a global knowledge organisation, and the ability to deliver results relies on teamwork, knowledge sharing and on-going organisational learning and development. IFU has a mandatory onboarding programme for all employees that includes anti-corruption training.

In 2019, IFU's learning culture was further enforced to sustain an organisation where values, processes and practices encourage individuals and the organisation to increase knowledge, competences and performance.

During the year, special focus has been on feedback, because ongoing constructive dialogue within and across teams, offices and people working in different parts of the world is important for sharing knowledge and improving performance. Engaging in and giving constructive feedback to colleagues as well as seeking

feedback for own development, will continue to be a top priority for IFU's learning culture.

## Gender composition

IFU's policy and objectives for the gender composition of the board and leadership positions in IFU follow the guidelines of the Danish Business Authority, Section 11 (2) of the Danish Gender Equality Act and Section 99 b of the Danish Financial Statements Acts.

IFU's board of directors consists of up to ten members and is appointed by the minister for development cooperation. To have a balanced composition on the board of directors, the objective is to have representation of at least one third of each gender. Currently, the board consists of seven members and one observer. Five are male (71 per cent), and two are female (29 per cent). Observers are not included as per the guidelines from the Danish Business Authority.

The objective for the gender composition of leadership positions at IFU is the same as the above. IFU did not meet the objective in 2019, given a 68/32 per cent split between males and females end of 2019. It is IFU's policy to increase the share of the under-represented gender in leadership positions.

## Environment, health and safety

IFU strives to continuously limit energy consumption on IFU's premises, apply energy-efficient solutions, minimise water consumption and increase recycling of waste. IFU also includes environmental considerations in purchasing of goods and services. Furthermore, environmental as well as health and safety considerations are reflected in the terms and conditions of contractors working at IFU's premises. IFU has a joint management and employee committee that discusses work-related issues, including health and safety. IFU also conducts workplace assessments (APV) on a regular basis. ■

# REPORTING PRINCIPLES

This report covers the relevant and significant sustainability issues and development impact creation for the financial year 1 January 2019 to 31 December 2019. It gives IFU's stakeholders an overview of IFU's performance in these areas, complementing our Annual Report.

The report focuses on IFU's investments, which account for IFU's significant sustainability impacts. The impacts of IFU's own activities are considered to be small in comparison, and only a few key figures on IFU's staff and premises are included in the report.

The report is based on sustainability reports submitted to IFU in 2019 by 88 direct investments, including one microfinance institution and 33 private equity funds together with the annual financial reports after the end of the financial year. This is 88 per cent of the 137 projects required to report in this reporting period. The remaining projects are either inactive or new projects not yet required to report.

The direct investments are obliged to use an online reporting template with fixed questions and answer options, e.g. standardised tick boxes. This template was introduced in 2019 to align the sustainability reports and enable aggregation of more data. However, procedures for gathering data in the projects will always be of varying quality, and IFU will continue to adjust the indicators and questions in the template to improve the answers and the data accuracy.

Funds use an IFU Word template to submit their annual sustainability reports to IFU. Funds are also allowed to use a template provided by another investment partner when co-financing with other EDFIs occurs. This makes direct comparison of data more difficult.

As the projects have different financial years, the reported performance data cover different reporting periods within 2018-2019. Thus, the aggregated data represent a snapshot of the portfolio's overall performance, but not the exact performance in 2019.

As IFU continuously contracts new projects and exits terminated projects, the composition of the portfolio varies from year to year, and thus the portfolio performance is not directly comparable. ■

