INVESTMENT FUND FOR DEVELOPING COUNTRIES

8 July 2020

Disclosure Statement

Operating Principles for Impact Management

The Investment Fund for Developing Countries, IFU, hereby affirms its status as a Signatory to the Operating Principles for Impact Management. The Principles provide part of the framework IFU uses in its efforts to strengthen impact measurement and management.

This Disclosure Statement applies to the following assets (the "Covered Assets"): IFU's total portfolio.

The total assets under management in alignment with the Principles is Euro 836.2 million (equivalent to USD 936.4 million) as of 31 December 2019.

With this statement IFU confirms that its core/client business, including (a) impact management systems; (b) policies and practices; and (c) investment services (including debt, equity, and funds) are managed in alignment with the Principles.

Torben Huss
CEO

IFU

Fredericiagade 27
1310 Copenhagen K
Denmark

+45 33 63 75 00
ifu@ifu.dk
www.ifu.dk

CVR no. 23598612

IFC Operating Principles for Impact Management

IFU Disclosure Statement 2020

Principle 1:

Define strategic impact objective(s), consistent with the investment strategy
The Manager shall define strategic impact objectives for the portfolio or fund to achieve positive and measurable social or environmental effects, which are aligned with the Sustainable Development Goals (SDGs), or other widely accepted goals. The impact intent does not need to be shared by the investee. The Manager shall seek to ensure that the impact objectives and investment strategy are consistent; that there is a credible basis for achieving the impact objectives through the investment strategy; and that the scale and/or intensity of the intended portfolio impact is proportionate to the size of the investment portfolio.

The Investment Fund for Developing Countries (IFU) offers advisory services and risk capital in developing countries and emerging markets. IFU is owned by the Danish government and its overall purpose stated in the Law on International Development Cooperation is to further investments that promote sustainable development in developing countries and contribute to the implementation of the Sustainable Development Goals.

IFU has two types of investments: 1) Direct investments in project companies in the form of share capital and loans where IFU plays an active role in unfolding the company's potential during ownership; and 2) indirect investments in private equity funds, which act as fund managers and invest in projects on behalf of IFU and other partners.

IFU's investments are made on commercial terms with the dual purpose of creating measurable, beneficial development impact alongside a financial return.

Apart from IFU's own capital, IFU is managing several investment funds on behalf of public and private investors, including the Danish SDG Investment Fund established in 2018 with the purpose of investing in projects in developing countries supporting the Sustainable Development Goals. The fund has a total committed capital of DKK 4.9 billion, equivalent to approximately Euro 658 million, of which 60% is from pension funds and private investors.

The 2030 Agenda for Sustainable Development provides a shared blueprint for peace and prosperity for people and the planet, now and into the future. At its heart are the 17 Sustainable Development Goals (SDGs), which set out a pathway to inclusive growth and represent a call to action for the private and public sectors as well as civil society. The SDGs can only be achieved with an active engagement by the private sector and the SDGs provide an important framework for IFU's investment strategy. A business sector with responsibly run businesses contributes to attaining the Sustainable Development Goals. This also includes a sustainable business model that addresses environmental challenges and creates decent jobs and working conditions based on workers' rights, social dialogue and social protection. IFU subscribes to the UN Guiding Principles on Businesses and Human Rights with its clear expectation and requirement of respect for human rights.

IFU has a specific focus on investments in agribusiness, renewable energy and financial institutions. In the country contexts where IFU operates, investments in these three sectors are expected to have a large impact potential. As an important part of IFU's strategy, IFU follows up on the impact potential during the ownership period in order to ensure that the anticipated impact is achieved and reported.

Climate changes have extensive, negative consequences for the living conditions in both the poor countries and the growth and transition countries and may undermine the Sustainable Development Goals. IFU will contribute to the transformational changes that the 1.5 °C pathway of the Paris Agreement entails over the coming years, making its investment flows consistent with a pathway towards net zero greenhouse gas (GHG) emissions and climate-resilient development. IFU aims to increase the climate-relevant part of its portfolio to at least 40 per cent of the total investment volume.

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. 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. The promotion of gender equality is a cross-cutting objective of IFU's investments. To further step up this effort, 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.

The Danish Ministry of Foreign Affairs allocated DKK 200 million for IFU "high risk, high impact" investments in 35 African countries with a GNI per capita below USD 1,598. This includes countries like Benin, Burkina Faso, Malawi, Tanzania and Uganda. Special thematic focus is on creating decent jobs, installing renewable energy, supporting smallholders within agribusiness and increasing access to clean water, for example.

Principle 2:

Manage strategic impact on a portfolio basis
The Manager shall have a process to manage impact achievement on a portfolio basis. The objective of the process is to establish and monitor impact performance for the whole portfolio, while recognizing that impact may vary across individual investments in the portfolio. As part of the process, the Manager shall consider aligning staff incentive systems with the achievement of impact, as well as with financial performance.

As indicated above, IFU is committed to a range of impact objectives and in relation to climate change, specific targets have been established at portfolio level. IFU is exploring the possibility of establishing other impact investment criteria at portfolio level, which could subsequently guide the selection of investments.

IFU is currently updating and revising its portfolio impact management system. The elements of the impact management system, described further on the following pages, include an initial impact screening, impact analysis, impact planning with the investment company and other partners, impact monitoring during active ownership and impact assessment at exit.

At portfolio level, IFU applies a range of indicators aligned to the HIPSO indicators and the definitions agreed among European DFIs. They include cross-cutting indicators applicable to all investments and sector-specific indicators for priority sectors. Together with E&S performance of the investees, the impact performance is reported by companies and registered, enabling the compilation of reports across the portfolio or for a selected part of the portfolio.

In 2020, IFU published its first Sustainability and Impact Report that includes data on portfolio level for 2019. As IFU's new Impact Management System matures, it will in the future be possible to include more data on impact performance across the portfolio.

The Sustainability Team, which is part of the Investment department in IFU, has the overall responsibility for policies and key issues in relation to E&S and impact. At project level, the investment professionals have responsibility, also for the impact management of their projects, but the Sustainability Team provides advice, guidance and quality assurance of the various steps and deliverables.

Principle 3:

Establish the Manager's contribution to the achievement of impact
The Manager shall seek to establish and document a credible narrative on its contribution to the achievement of impact for each investment. Contributions can be made through one or more financial and/or non-financial channels. The narrative should be stated in clear terms and supported, as much as possible, by evidence.

IFU's investment companies must contribute with positive development effects and the investment should be financially additional to fully market-based investments. This can either be achieved by undertaking investments in endeavours that cannot attract other funding or by ensuring a non-financial additionality of the investments, i.e. a development effect that would otherwise not have been achieved. The additionality assessment involves an analysis of the counterfactual and there is currently not a well-established method among DFIs for undertaking this analysis.

However, the country targeted for an investment provides a good point of departure for ensuring investment additionality. According to its mandate, IFU can invest in all countries and territories eligible to receive development assistance as defined by the Development Assistance Committee of the OECD. However, at least 50 per cent of IFU's investments must be made in poorer developing countries, i.e. countries with a maximum GNI per capita of USD 3,116. In 2019, 84 per cent of the investments were below this threshold. As part of the "high risk, high impact" initiative mentioned above, IFU is furthermore aiming to invest 30% of new investments in the 35 African countries with a GNI per capita below USD 1,598.

For each investment IFU is preparing, the financial and non-financial additionality is assessed ex-ante, based on a country specific and an investment specific scoring system.

The country specific additionality scoring is focused on financial additionality and includes five indicators related to the investment risk and the availability of private investment capital: Country per capita income, OECD country risk classification, availability of domestic capital, the trend in foreign direct investments compared to the region, and the ease of doing business. Of the countries eligible for IFU investments, 25% are considered countries where IFU's investment will have a high financial additionality, 25% score low on financial additionality and investments in the remaining countries are assessed as having medium range financial additionality.

The investment specific additionality assessment is based on seven criteria related to IFU's possibility of influencing and providing leverage to the project, e.g. whether IFU is providing debt or equity, whether IFU has a board seat and the estimated catalytic effect of IFU's investment.

The scoring system provides a preliminary indication of additionality and guidance to the case-by-case analysis which is necessary before making a decision on all investments.

IFU assumes active ownership of most equity investments. As described further below, this enables IFU to follow-up on the non-financial additionality of the investment during ownership.

Principle 4:

Assess the expected impact of each investment, based on a systematic approach
For each investment the Manager shall assess, in advance and, where possible, quantify the concrete, positive impact potential deriving from the investment. The assessment should use a suitable results measurement framework that aims to answer these fundamental questions: (1) What is the intended impact? (2) Who experiences the intended impact? (3) How significant is the intended impact? The Manager shall also seek to assess the likelihood of achieving the investment's expected impact. In assessing the likelihood, the Manager shall identify the significant risk factors that could result in the impact varying from ex-ante expectations.

In assessing the impact potential, the Manager shall seek evidence to assess the relative size of the challenge addressed within the targeted geographical context. The Manager shall also consider opportunities to increase the impact of the investment. Where possible and relevant for the Manager's strategic intent, the Manager may also consider indirect and systemic impacts. Indicators shall, to the extent possible, be aligned with industry standards and follow best practice.

In 2020, IFU introduced a new impact management system, which includes a step-wise ex-ante assessment of the impact potential of each investment from identification to approval. The ex-ante assessment is focused on identifying and assessing the significance and relevance of the impact areas of the investment. Subsequently, pertinent indicators are selected for each impact area.

The initial screening of the investment opportunity is presented internally in a Gate 1 paper with a first assessment of the investment potential and an indication of the anticipated impact of the investment. At this stage the investment officer also undertakes an assessment of IFU's additionality, of major ESG risks and of potential negative impact. Furthermore, the investment proposal is checked against IFU's exclusion list and the climate policy. The anticipated impact pathway must be explained using at least one of the following four impact categories:

- Customer: The company provides better access to a product or service that is related to an SDG target (e.g. financial services, telecommunication, clean energy, water)
- Market: The product or service of the company can remove constraints or bottle necks for other businesses, are innovative or can lead to transformative change
- Society or community: The investment provides a significant number of additional direct or indirect jobs, has significant potential for the local community or contributes to the country's achievement of the SDGs
- Climate or environment: The company contributes to climate mitigation, climate adaptation or has significant environmental benefits.

If Gate 1 is passed, the investment is prepared for Clearance in Principle (CIP). This includes undertaking a desk-based impact analysis and identifying impact hypotheses, which should be tested as part of the later due diligence process.

In addition to the assessment of additionality described above, the impact analysis undertaken at CIP level includes analysing each of the impact areas identified in five dimensions: (1) What is the scope of the impact? (2) who will benefit? (3) what is the current need/gap with the beneficiary regarding the impact area? (4) what is the likelihood that the impact will occur and can be measured? and (5) how significant is IFU's non-financial contribution in relation to each impact area? The assessment is based on the information available at that stage and includes scoring of each impact area, which provides an overall impact score for the project.

In order to ensure an identification of relevant impact areas, each of the 3-5 impact areas identified must be linked to a specific SDG-target. Finally, each investment is classified according to three impact classes:

I. Avoid harm: Little or no positive impact of the investment
II. Benefit stakeholders: Significant positive impact potential
III. Contribute to solutions: Significant positive impact potential in an under-served context.

IFU does currently not include a quantitative or model-based assessment of the indirect economic effects of the investment, but follows closely the efforts to develop a joint assessment model among the European DFIs and welcomes a further harmonisation of impact assessment tools.

When an investment is proposed for Binding Commitment, an Impact Creation Plan is prepared and agreed with the company in order to ensure focus on impact delivery. A Results Framework is prepared specifying indicators, baseline and targets for the selected impact areas. HIPSO and EDFI harmonised indicators are used where relevant.

Principle 5:

Assess, address, monitor, and manage potential negative impacts of each investment
For each investment the Manager shall seek, as part of a systematic and documented process, to identify and avoid, and if avoidance is not possible, mitigate and manage Environmental, Social and Governance (ESG) risks. Where appropriate, the Manager shall engage with the investee to seek its commitment to take action to address potential gaps in current investee systems, processes, and standards, using an approach aligned with good international industry practice. As part of portfolio management, the Manager shall monitor investees' ESG risk and performance, and where appropriate, engage with the investee to address gaps and unexpected events.

Managing environmental and social (E&S) risk and impact is an integral part of IFU's investment process for both direct investments and investments in funds and financial institutions. IFU has in place an overall sustainability policy, highlighting the relevant sustainability issues. Furthermore, IFU has developed supplementary policies for example 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.

In the investment process, 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 (EDFIs).

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.

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.

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 the 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.

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. For the less risky 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.

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. The needed improvements are included in an Environmental and Social Action Plan and monitored until all aspects have been addressed in a satisfactory manner.

All investment companies submit annually an E&S report to IFU, where their policies and performance are registered. In 2019, this annual reporting was done in an electronic format for the first time. This has enabled IFU to aggregate E&S data across the portfolio and include these in the Sustainability & Impact Report, which was published for the first time in 2020.

Principle 6:

Monitor the progress of each investment in achieving impact against expectations and respond appropriately

The Manager shall use the results framework (referenced in Principle 4) to monitor progress toward the achievement of positive impacts in comparison to the expected impact for each investment. Progress shall be monitored using a predefined process for sharing performance data with the investee. To the best extent possible, this shall outline how often data will be collected; the method for data collection; data sources; responsibilities for data collection; and how, and to whom, data will be reported. When monitoring indicates that the investment is no longer expected to achieve its intended impacts, the manager shall seek to pursue appropriate action. The Manager shall also seek to use the results framework to capture investment outcomes.

Based on the identified potential impact areas of the investment, indicators are selected to monitor performance during the ownership period and from 2020 included in a Results Framework for each investment. For each indicator, a baseline, mid-term and end-of project target is agreed with the company. The indicators are mostly output indicators, and where possible outcome indicators, and they are to the extent possible aligned with indicators agreed with HIPSO and EDFI partners. The Results Framework is subsequently included in the investment agreement.

In addition to the annual E&S reporting described under Principle 5, investment companies report annually on the indicators in the investment-specific Results Framework. With baseline data and targets established from the start of the investment it will be possible to compare actual achievements with the anticipated achievements of the investment company. This new procedure will enable IFU to better use the Results Framework as a tool when undertaking active ownership of the investments and suggest corrective action if the expected development effects are not produced.

IFU's first Sustainability and Impact Report was published for 2019. It includes aggregated data on E&S and impact performance. With the new project specific Results Framework initiated in 2020, more impact data will be available in the future.

IFU is an active investor and is in most equity investments represented at board level. This is where follow-up on the impact creation plan and possible E&S issues takes place. When decisions on necessary changes in on-going investments are made, this is discussed in the IFU Investment Committee.

Principle 7:

Conduct exits considering the effect on sustained impact
When conducting an exit, the Manager shall, in good faith and consistent with its fiduciary concerns, consider the effect which the timing, structure, and process of its exit will have on the sustainability of the impact.

Exit decisions regarding equity investments are based on an assessment of the sustainability of the project company. This also involves an assessment of how E&S achievements can be maintained and how the company can continue to create positive development impacts. Debt investments do normally not involve an active decision to exit.

At exit, a Final Evaluation Report is prepared for each investment and presented in IFU's Investment Committee. This report also includes an assessment of E&S and impact achievements at the time of exit.

With the Results Framework at investment level introduced in 2020, the format of the Final Evaluation Report will be revised in order to reflect the more detailed results measurement for each investment.

Principle 8:

Review, document, and improve decisions and processes based on the achievement of impact and lessons learned
The Manager shall review and document the impact performance of each investment, compare the expected and actual impact, and other positive and negative impacts, and use these findings to improve operational and strategic investment decisions, as well as management processes.

The development impact of all IFU investments are assessed, planned and monitored as described above. The performance of each investment is reported in the annual sustainability report from each investment company and from 2020 also in an investment specific Results Framework comparing actual performance to the initial targets for selected indicators. If changes in the context or specific events produce a risk of negative impact, IFU has the possibility to react through its Board membership or directly to management.

The duration of an investment period is typically 5-8 years. Lessons learned from each investment are documented in the Final Evaluation Report and discussed in the Investment Committee. However, IFU's investment strategy and procedures for impact management and ESG have changed substantially over the last 5 years, which in many cases makes feedback from exits less relevant.

IFUs owner, the Danish Ministry of Foreign Affairs, has recently undertaken a comprehensive, independent evaluation of IFU, published in 2019. The evaluation also included an field assessment of a large sample of IFU investments. The recommendations have been included in the on-going strategy work in IFU.

IFU envisages to develop an internal evaluation policy, which will provide the underpinning for undertaking strategic evaluations at thematic, sector or country level, primarily for learning purposes. Furthermore, the possibility of undertaking impact studies will also be considered.

Principle 9:

Publicly disclose alignment with the Principles and provide regular independent verification of the alignment

The Manager shall publicly disclose, on an annual basis, the alignment of its impact management systems with the Principles and, at regular intervals, arrange for independent verification of this alignment. The conclusions of this verification report shall also be publicly disclosed. These disclosures are subject to fiduciary and regulatory concerns.

This Disclosure Statement re-affirms the alignment of IFU's processes, procedures and systems with the Principles, and will be updated annually.

As reflected in this disclosure statement, IFU has recently taken a series of initiatives to strengthen the impact management and measurement, many of which have not fully matured yet. It therefore also provides evidence of the evolution taking place and the ambitious agenda for the coming years.

IFU plans to commission an independent verification of its alignment with the Operating Principles in 1st quarter of 2021.