INVESTMENT FUND FOR
DEVELOPING COUNTRIES

12 July 2021

Disclosure Statement

Operating Principles for Impact Management

The Investment Fund for Developing Countries, IFU, ("the Signatory") hereby affirms its status as a Signatory to the Operating Principles for Impact Management (the "Impact Principles"). These 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 value of the total covered assets in alignment with the Impact Principles is Euro 1.039,105,530 (equivalent to USD 1,276,280,000) as of 31 December 2020.

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.

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IFC Operating Principles for Impact Management

IFU Disclosure Statement 2021

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 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 and IFU managed funds contracted investments at a total of DKK 2 billion (approximately USD 320 million) in 2020, which is at an all-time high and an increase of close to 80 per cent compared to 2019. IFU's Board approved a new investment strategy in October 2020. The ambition is that IFU's new investment strategy will enable IFU to become a best-in-class impact investor. Therefore, new investments are guided by a set of impact priorities that steer the selection based on the investments' potential and ability to assist developing countries in improving the livelihood of people without jeopardising global sustainability.

The two strategic impact priorities of IFU are building a green economy and building a just and inclusive economy, which are directly linked to SDG 8, Decent work and economic growth, SDG 10, Reduced inequalities, and SDG 13 Climate action. A green economy will assist the world in reducing the use of resources, preventing the global temperature to rise, contributing to a circular economy and allowing developing countries to avoid the unsustainable development path that high-income countries have followed. A just and inclusive economy is a necessity because there is a strong need to reduce inequalities and poverty by addressing the fact that billions of people lack access to essential goods, services and rights. This entails that IFU must sharpen its investment focus.

Consequently, the new investment strategy determines priorities related to impact, sectors and countries, which are selected based on a combination of IFU's experience and track-record, development needs, and how best to maximise IFU's additionality and the outcome of the investments. IFU's investments are focused in five focus areas:

- Healthy lives (SDG 3)
- Healthy foods (SDG 2)
- Financial inclusion (SDG 1, 8 and 9)
- Energy, water and waste (SDG 6,7, 11 and 12)
- Transformational business (SDG 8)

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. Promoting gender equality and contributing to SDG 5 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. In 2020, IFU has established two targets related to 2X investments: Not less than 30% of the new investments each year must have a gender focus, and by the end of 2024, 40% of the portfolio should be 2X eligible or have plans to become 2X eligible.

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.

IFU has a clear process for integrating impact considerations throughout the investment process, which is outlined at a high-level in the new Investment Strategy and in more operational detail through the Control Framework. As indicated above, IFU is committed to a range of impact objectives, and in relation to climate change and gender, specific targets have been established at portfolio level.

IFU has recently revised its portfolio impact management system and aligned it to the new investment strategy. 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 crosscutting 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 2021, IFU published its second Sustainability and Impact Report that includes data on portfolio level. 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 and Impact 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 and Impact Team provides advice, guidance and quality assurance of the various steps and deliverables. IFU's control framework describes the division of tasks and responsibilities through the investment cycle related to ESG and impact between investment professionals and staff in the Sustainability and Impact Team.

IFU has recently upgraded its staff progression framework, which includes a description of the expectations towards staff regarding ESG and impact. Furthermore, a long-term performance programme enables IFU to remunerate investment professionals on the basis of financial and impact performance of the projects they are responsible for.

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.

IFU has a consistent process in place to assess its financial and non-financial contribution(s) to investee achievement of impact. For each investment IFU is preparing, the financial and non-financial additionality is assessed ex-ante, based on country specific and an investment specific criteria.

The country specific additionality 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 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.

IFU assumes active ownership of its investments. For each investment, an Impact Creation Plan is developed together with the investee company, which clarified expectations and agreements regarding the company's further impact creation. The Impact Creation Plan documents the intended non-financial contribution of IFU in relation to the specific investment. As described further below, this enables IFU to follow-up on the non-financial additionality of the investment during ownership.

In specific cases, IFU provides co-financing of technical assistance that supports the impact creation plan and training in relation to ESG aspects of the investee. Over time, IFU will seek to compile an evidence-base and case studies for its contribution to investee impact, including the effect its Sustainability Facility has on investee's achievement of impact.

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.

IFU's impact management system comprises a step-wise ex-ante assessment of the impact potential of each investment from identification to approval. The ex-ante assessment involves an assessment of the alignment of the potential impact with IFU's impact priorities, the significance of the impact to the targeted stakeholders and the likelihood that it will occur and can be measured. 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 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 and the impact potential is scored based on its alignment to IFU's impact priorities.

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. The identified impact areas should each be linked to a specific SDG target.

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. The preparation of the Impact Creation Plan also involves an assessment of opportunities to increase the impact. Together with the investee company, a Results Framework is prepared specifying, for each impact area, the relevant indicators to follow as well as a baseline value and annual targets for each of the indicators. HIPSO harmonised indicators are used where relevant.

IFU is currently working to improve this aspect by developing a catalogue of recommended indicators for the impact focus areas in the investment strategy.

As part of the due diligence of a project proposal an impact analysis is undertaken, including an analysis of each of five impact 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?

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 fund investments and for greenfield projects where project management is yet to be established.

Based on the E&S categorisation, the due diligence phase includes an assessment of sustainability risks, impacts and mitigation measures related to the specific project. E&S due diligence is the responsibility of the investment professionals in low risk projects (category C and C), whereas the Sustainability and Impact Team is responsible for assessing high-risk projects.

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 (when travel restrictions allow this). 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. Through its grant mechanism, the Sustainability Facility, IFU provides assistance on a case-by-case basis to portfolio companies to help them implement part of their ESAP.

All investment companies submit annually an E&S report to IFU, where their policies and performance are registered. Since 2019, this annual reporting has been submitted in an electronic format. 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 second time in 2021.

As highlighted by the independent verification, IFU could further align to principle 5 by formalizing procedures to engage investees in case ESG monitoring data indicates underperformance and IFU will work to ensure this through its procedures for Active Ownership currently being developed.

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 value is indicated by the investee company and annual targets are agreed. 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. 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.

In addition to the project specific indicators reported on the basis of the results framework, a number of indicators (in most cases as defined by HIPSO) are collected for all projects and aggregated at portfolio level. IFU's second Sustainability and Impact Report was published for 2020. 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 recognises that development effects at outcome level can usually not be captured by project reporting alone and is currently considering how best to make use of impact studies or evaluations to support the impact narrative and assess unintended effects. In order to strengthen its reporting, IFU is furthermore assessing the possibility of applying the Joint Impact Model to the entire portfolio, which will serve to provide an estimation of indirect effects at portfolio level.

IFU is an active investor and is represented at board level in most equity investments. 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. However, as pointed out in the independent verification, IFU could formalize its system for follow-up in case of under-performance. This aspect is included in the current development of templates and procedures for impact management under the active ownership workstream.

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.

IFU is currently reviewing its exit procedures and will, as part of this, consider how impact and sustainability aspects can be better integrated in the basis for deciding exits and additional financing of on-going projects.

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. The enhanced emphasis on collecting data on impact performance compared to expectations, will allow for better analysis across projects and priority sectors, which can feed into future strategy work and the ex-ante impact assessment tools.

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

The current development of a portfolio level results framework for IFU will enable portfolio and sector level reporting and analysis. IFU furthermore envisages to leverage learning by engaging in evaluations and impact studies to supplement company reporting. Such studies are envisaged to be undertaken at thematic, sector or country level, primarily for learning purposes. IFU has tested the Joint Impact Model, which is a model-based assessment of the indirect economic and climate effects of the investment and expects to roll this out to the entire portfolio.

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 engaged BlueMark, a Tideline company, to independently verify the alignment of IFU's impact management practices with the Operating Principles for Impact Management. BlueMark's assessment findings cover both areas of strength and areas for improvement, as reflected in the Verifier Statement, which was submitted 24 March, 2021. Bluemark's verification encompassed IFU's total portfolio, which was valued at Euro 836.2 million (equivalent to USD 936.4 million) as of 31 December 2019. It is foreseen that IFU will undertake its next independent verification in 2024.