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# POLICY

Sustainability

**Table of Contents**

- 1. Introduction..... 3**
- 2. Purpose and scope ..... 3**
- 3. Thematic sustainability commitments ..... 5**
- 4. Operational implementation – investment process ..... 9**
- 5. Operational implementation – IFU’s own operations ..... 12**
- 6. Approval and revisions ..... 14**
- Annex A: Sustainability requirements for direct investments..... 15**
- Annex B: Sustainability requirements for funds..... 16**
- Annex C: Sustainability requirements for financial institutions ..... 17**
- Annex D: Sustainability requirements for Danida Sustainable Infrastructure Finance ..... 18**
- Annex E: Applicable international framework for sustainability..... 19**
- Annex F: Abbreviations used ..... 20**



## 1. Introduction

IFU has the ambition to be a ‘best-in-class’ impact investor, guided by the vision and mission to invest and create a world where growing populations live well and achieve their fullest potential within the boundaries of the planet<sup>1</sup>. IFU’s impact investment strategy focusses specifically on the two pillars of building a green economy and building a just and inclusive economy. Such green and/or just and inclusive impact is required for all IFU investments and incorporated during project screening, early in the investment process. As a development finance institution, IFU provides equity, loans and guarantees on commercial terms to private sector investments in developing countries and emerging markets. IFU’s objective is to promote investments which support sustainable development in its three dimensions – economic, social and environmental – in a balanced and integrated manner in developing countries and contribute to the realisation of the UN Sustainable Development Goals (SDGs)<sup>2</sup>.

IFU, the Danish SDG Investment Fund and the Danish Green Future Fund, together with other IFU managed funds, strive to contribute to the achievement of the SDGs by participating in relevant, inclusive and sustainable investments through the mobilization of Danish and foreign public and private capital, technology and knowhow based on international standards for responsible business conduct.

IFU’s dual purpose is to generate measurable, beneficial green and/or just and inclusive impacts alongside financial returns, realising that long-term investment returns are prerequisites for creating continued development. Therefore, IFU only engages in investments where there is a clear case for environmental and/or social, and economic impact. Furthermore, IFU believes that responsible business conduct adds value to investments and generates the right impact. This includes, but is not limited to, creation of decent work opportunities, access to affordable and sustainable energy, reduction in greenhouse gas emissions, resilient infrastructure, local tax contribution, sustainable consumption and production, gender equality and health, community health, food security and ensuring human rights are protected.

As sustainability is an evolving agenda, this policy has been prepared in consultation with peers, the private sector, government and civil society, and IFU continuously wishes to learn about and adopt high standards and good practices in order to strengthen capacity and improve due diligence, monitoring and impact.

## 2. Purpose and scope

This Sustainability Policy sets out IFU’s commitment to invest into good Environmental, Social and Governance (ESG) practices, as well as supporting green and/or just and inclusive impact. This policy outlines the sustainability requirements that apply to IFU itself, IFU managed funds, and IFU’s direct investments in the form of equity and loans to project companies, as well as investments in private equity funds, financial institutions and other financial intermediaries.

Sustainability covers ESG issues including human rights, as well as the consideration of green, just and inclusive impacts. This Sustainability Policy is the overarching policy for ESG and impact, which is supplemented by specific underlying thematic policies, including the:

- Climate policy
- Human rights policy
- Animal welfare policy
- Gender equity policy
- Corporate governance policy
- Anti-corruption policy, and
- Tax policy.

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<sup>1</sup> IFU Investment Strategy 2021 – 2024.

<sup>2</sup> In agreement with the 2030 Agenda for Sustainable Development.



Where appropriate in this policy, these supporting policies are referenced.

IFU's commitments related to impact investment includes four focus areas that form an integral part of IFU's Investment Strategy. These focus areas direct investment into:

- sustainable food systems
- healthcare
- green energy and infrastructure
- financial services, and
- transformational businesses.

IFU implements its policies using various internal guidelines and tools for investment professionals. Annexes A-E outline specific requirements that apply to the different types of investments. These requirements are conveyed to the project sponsor and inserted in legally binding agreements. In some cases, for instance syndication with other development finance institutes (DFIs), IFU may opt to use other formats covering in scope and contents the same type of sustainability requirements.

It is IFU's experience that high ESG and impact standards are prerequisites for continuous positive returns and long-term business success. High impact investments have a positive effect on both sustainability and financial performance, preparing a business to, for instance, address its climate change impact and social license to operate. Investments in developing countries are challenged by volatility, uncertainty, complexity and ambiguity, and this calls for due diligence in relation to ESG issues. Effective due diligence of sustainability issues reduces risks to workers, the environment, local communities and other stakeholders, improves impact and provides business benefits like access to markets, reduced staff turnover, cost efficiency in production and improved stakeholder relations.

## **2.1 International commitments to development**

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)

form the international development policy framework for IFU's investments.

The Danish Government – IFU's owner – is committed to the Agenda 2030 through its 2021 development policy "The World We Share". Over the years, the Danish Government has signed up to and ratified all relevant internationally agreed UN, ILO and OECD conventions, declarations, agreements and principles for sustainable development. IFU commits to adhering to the same.

Since 2017, the UN Guiding Principles on Business and Human Rights have been part of the legal basis for IFU's operations, cf. section 9 of the Danish Act on International Development Co-operation. The SDGs define global sustainable development priorities and aspirations for 2030. IFU applies the SDGs as an overarching framework to shape, manage and communicate our contribution to sustainable development. That implies maximising positive impacts on people, planet and profit and thereby contributing to prosperity and preventing and minimising adverse impacts.

Furthermore, IFU in its investment strategy and individual investment decisions takes into account the effects of its investments on the goals expressed in the Rio Declaration on Environment and Development, the Paris Agreement on Climate Change and the UN Convention Against Corruption.

In 2009, IFU signed up to the principles of the UN Global Compact, which outline the fundamental responsibilities of business in the areas of human rights, labour, environment and anti-corruption. Together with other European DFI's, IFU became a signatory to the Operating Principles for Impact Management (OPIM) in 2019. Thereby IFU is obligated to publish an annual Disclosure Statement, as well as externally verified information on its Impact Management System, at regular intervals.



IFU has together with the other European DFIs signed up to the joint European Development Finance Institutions (EDFI) Statement on Climate and Energy Finance in 2020, which states that “*EDFIs will align all new financing with the objectives of the Paris Agreement by 2022 and will transition our investment portfolios to net-zero GHG emissions by 2050 at the latest*”.

## **2.2 Danish, host country and international obligations for benchmarking**

IFU is domiciled in Denmark and subject to Danish law. With regards to sustainability, IFU will adhere to the Danish guidelines on responsible business conduct (Erhvervsstyrelsen 2018) and the OECD Guidelines for Multinational Enterprises (2011), including the two sub-set publications; Responsible Business Conduct for Institutional Investors (2017) and Due Diligence *Guidance for Responsible Business Conduct* (2018).

In countries where IFU invests, IFU requires project companies to follow international standards and principles in addition to complying with national regulations. IFU considers national policies and priorities when relevant to the specific investment. In order to operationalize the management of ESG impacts in accordance with international principles, the primary standards that guide the scoping of IFU's due diligence and monitoring of investments are the:

- OECD's Convention on Combating Bribery (1997)
- UN Global Compact Principles (1999)
- UN Convention against Corruption (2010)
- UN Guiding Principles on Business and Human Rights (2011)
- World Bank Group General and Sector-specific Environmental Health and Safety Guidelines (2007 and later amendments)
- IFC Environmental and Social Performance Standards (2012 and related guidance notes), and
- ILO Basic Terms and Conditions of Employment and ILO Core Labour Standards.

## **3. Thematic sustainability commitments**

Sustainability being an integral part of IFU's investment strategy, IFU is committed to contributing to social, environmental and economic sustainable development, including the SDGs, through delivering on its investment strategy.

Aligned with the UN United Nations Guiding Principles on Business and Human Rights (UNGP) and the OECD Guidelines for Multinational Enterprises, IFU will furthermore identify, prevent and mitigate potential adverse ESG risks that IFU may cause or contribute to, or to which IFU is directly linked through investments and other business relationships. Where adverse impacts are identified, IFU will use its leverage to address and mitigate such adverse impacts.

IFU is committed to ensuring that the management of ESG risks in investments are aligned with international standards, where these go beyond regulation in host countries and where these standards may improve operational excellence of the companies. This includes finding innovative solutions using IFU's leverage as an investor.

In the following, the ESG issues highlighted are those that IFU considers particularly relevant in order for investments to be contributing to the SDGs.

### **3.1 Climate change mitigation and adaptation**

IFU is committed to align its investments with the objectives of the Paris Agreement and to ensure that our portfolio will demonstrate net zero emissions by 2040.

Contributing to building green economies, including climate change mitigation and adaptation, is key to the global green transition and will have a very important role to play in assisting developing countries prosper,



increase their resilience, improve local livelihoods and reduce climate-related migration. Hence, climate change is impacting several of the SDGs individually and in combination.

For IFU to achieve a net-zero emissions portfolio by 2040, IFU will screen all its new direct investments in terms of their strategic fit. Their alignment with the climate policy will be determined as either (i) misaligned, (ii) aligned or (iii) conditionally aligned, where misaligned means covered by the IFU exclusion list, aligned means qualifying as climate finance and conditionally aligned means satisfying do no significant harm principles and other requirements as specified.

IFU is committed to make climate-related financial disclosures in line the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and embed climate action and climate risk management, at every level of its institution. Working with the TCFD recommendations requires comprehensive analysis of climate issues, and IFU will develop and continuously improve its approach and practices in the coming years.

Listed below, IFU's climate policy targets:

1. achieving net-zero portfolio emissions by 2040 at the latest: IFU will continuously report on the current greenhouse gas emissions in the portfolio and present an outlook for the future, with a road-map towards its target of net-zero by 2040.
2. decreasing 3-year rolling average of carbon intensity measured at sector level
3. having minimum 50% of all new direct investment volume contracted between 2022-2024 qualifying as climate finance

Further information about IFU's position on climate change-related investments is outlined in IFU's climate policy, which is available on IFU's website.

### **3.2 Prevent and minimise pollution and protect nature**

IFU is committed to supporting and promoting a preventative and precautionary approach to environmental challenges, in accordance with the UN Convention on Biological Diversity, amongst others, and to conduct environmental and social due diligence and monitoring to guide IFU's investments. IFU strives to protect biodiversity and invest in sustainable and resilient agriculture and forestry.

By continuously focusing on preventing and minimising adverse impacts on the environment and nature related to its investments, IFU works to ensure that local stakeholders are not exposed to unhealthy environments, and that they have access to and benefit from biodiversity and ecosystem services.

### **3.3 Ensure animal welfare**

IFU is committed to setting high animal welfare standards and using Danish rules and regulations as a comparative benchmark for (but not limited to) good management practice, physical environment, veterinary practice and the use of medicine, transport and slaughtering.

Guidance from the principles referred to as the Five Freedoms of Animal Welfare and the Terrestrial Animal Health Code of the World Organisation for Animal Health (OIE) is implemented in IFU's investment process. This means that animals (e.g. pigs, cattle, sheep and poultry) used in food production and for other commercial purposes and testing should be housed, fed, watered and looked after in consideration of their physiological and behavioural needs and protected against pain, suffering, fear, distress, injury or disease in the best possible manner.

Further information about IFU's position on animal welfare is outlined in a specific policy available on IFU's website.



### **3.4 Respect and support human rights**

IFU is committed to respecting human rights and is subject to the UNGP according to Danish law.

The Office of the United Nations High Commissioner for Human Rights defines human rights as the rights inherent to all human beings, whatever their nationality, place of residence, sex, national or ethnic origin, colour, religion, language, or other status. All human beings are equally entitled to human rights without discrimination. These human rights are described in the International Bill of Human Rights. Additional human rights treaties define these rights in greater detail with respect to particular groups of people or circumstances.

IFU respects internationally recognized human rights and takes measures to avoid supporting activities that may cause, contribute or are directly linked to human rights abuses. This means that all internationally recognized human rights are considered potentially relevant to IFU's activities.

In line with the UNGP, IFU maintains a grievance mechanism for handling complaints where IFU's project companies may have caused or contributed to adverse impacts on human rights or been directly linked to activities causing or contributing to adverse impacts on human rights. Where IFU has caused or contributed to adverse impacts of human rights, IFU will provide access to remedy.

Further information about our position on implementation of the UNGP can be found in a specific human rights policy, which is available on IFU's website.

### **3.5 Support and promote decent work**

IFU is committed to supporting and promoting decent work, and all IFU's investments must adhere to core ILO conventions on child labour, forced labour, non-discrimination and freedom of association. Furthermore, IFU's requirements for decent work cover working conditions and terms of employment, collective dismissals, gender equality, privacy, occupational health and safety, grievance mechanisms and worker accommodation.

The pursuit of economic growth through direct and indirect job creation and income generation should be accompanied by protecting the fundamental rights of workers. For any business, the workforce is a valuable asset, and a sound worker-management relationship is crucial to the sustainability of a business.

### **3.6 Prevent land grabbing and ensure human rights related to involuntary resettlement and livelihood restoration**

IFU is committed to preventing land grabbing and securing human rights related to involuntary resettlement and livelihood restoration by ensuring that its investments adhere to IFC Performance Standards.

The avoidance of land grabbing and securing human rights in relation to involuntary resettlement and livelihood restoration are considered important to support the ability of people and families to be able to sustain their living conditions and provide the basis for local business and markets.

### **3.7 Ensure informed consultation, participation and inclusiveness**

IFU is committed to ensuring that local stakeholders affected by its investments are consulted on an informed and participatory basis that promotes inclusiveness. IFU pays special attention to vulnerable groups, such as elderly or disabled community members.

Specifically, where indigenous peoples are potentially affected by projects, IFU is - in line with IFC Performance Standards – committed to ensuring that the process of Informed Consultation and Participation meets the principles of Free, Prior and Informed Consent (FPIC).



IFU recognizes the importance of informed consultation and participation to ensure the respect for human rights. In addition, an informed and participatory consultation process can strengthen the basis for sustaining development effects in terms of improved transfer of knowledge and technology, as well as for developing local capabilities and capacities.

Hereby, IFU contributes to the implementation of pillar 3 in 'The World 2030' of the Danish Ministry of Foreign Affairs (2017): Inclusive, sustainable growth and development.

### **3.8 Improve and promote gender equality and health**

IFU is committed to improving gender equality in the private sector in developing countries when mobilizing capital and investing in projects. This will help advance women as entrepreneurs, business leaders, employees and consumers and enhance their economic empowerment. Furthermore, IFU will support and motivate investment companies to address and demonstrate a commitment to empowerment of women through issues related to leadership, pay equity, workplace benefits and professional development, workforce participation, workplace environment, including women's health and sexual and reproductive health.

The unequal treatment of women in the global economy is recognized as an important human rights challenge and, if managed, holding a significant positive potential for sustainable development. IFU seeks to integrate "gender smart" decision-making into its investment processes and to demonstrate that investing with a gender lens can reap business returns in addition to social returns. IFU has set a target that by the end of 2024, no less than 40% of investments, including Funds and FI investments in IFU's portfolio, must either be eligible for the 2X Challenge or have plans in place to be eligible<sup>3</sup>. Further information about IFU's position on gender equality and health is outlined in a specific policy, which is available on IFU's website.

### **3.9 Uphold and promote good corporate governance**

IFU is committed to the global Corporate Governance Development Framework (CGDF). The importance of good corporate governance to the success of individual enterprises and the sound development of the private sector economy is today well-established. IFU's experience as an active participant in the CGDF and in the governance of IFU's investments demonstrates that careful and continuous attention to governance is essential to achieve IFU's financial, sustainability and developmental goals.

IFU upholds high corporate governance standards in its own operations and promotes continuous improvement in the structure and practice of good corporate governance in its investments through IFU's roles of shareholder, board member nominee and adviser. IFU contributes to the development of a corporate governance culture in the developing countries in which IFU operates through capacity building, the introduction of best practices and the demonstration effect IFU's investments provide in society and the broader economy. This includes maintaining its own established grievance mechanism and ensuring that project companies also establish and maintain grievance mechanisms. IFU's policy on corporate governance can be found on IFU's website.

### **3.10 Maintain zero tolerance towards corruption**

IFU is committed to maintaining a zero-tolerance policy regarding corruption, including bribery, fraud and facilitation payment. The central instruments are the UN Convention against Corruption and the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, and both are incorporated in Danish law, which IFU is subject to. IFU participates in the Danish Ministry of Justice's working group on the implementation of the OECD Convention into Danish law. IFU ensures that investment companies take a clear stand against corruption, and responds immediately to any allegations

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<sup>3</sup> IFU signed up to the 2X Challenge in May 2019, which strives to mobilize capital towards women's economic empowerment. Currently the name is being changed to the 2X Collaborative. <https://www.2xchallenge.org/>



of corruption, implementing corrective and preventive measures.

IFU's approach is cooperation in good faith with our partners in determining whether a violation has occurred, and which actions should be taken. In case of non-compliance with IFU's anti-corruption policy, IFU will require an investigation of the project company and recommend measures for continuous operations within the law.

If IFU receives sufficient information about bribery involving one of IFU's portfolio companies or a business partner of IFU and the alleged bribery is connected to IFU's investment, we will immediately pass on this information to local or Danish law enforcement authorities. We will inform our project partner(s) before passing on any information.

Furthermore, if IFU becomes aware of that any of the business partner, which IFU investment with, is involved in bribery, IFU will add this business to IFU's internal warning list.

IFU has established a whistle-blower system, managed by a third party, which enables employees and others to anonymously raise a concern of corruption related to any of IFU's investments.

IFU recognises that corruption is one of the greatest barriers to sustainable development with a disproportionate impact on developing countries and that combating corruption is a key element to poverty alleviation. Further information about IFU's position on anti-corruption is outlined in a specific policy guideline available on IFU's website.

### **3.11 Avoid money laundering**

IFU is committed to avoiding money laundering. Although IFU is not a bank, IFU has chosen to apply anti-money laundering measures in accordance with the Danish Anti-Money Laundering Act to its lending business to prevent criminals' illegal use of legal entities and the financial system for the purposes of money laundering and terrorist financing. This includes checking IFU's borrowers' identity, ownership and governance structure and legal status.

### **3.12 Uphold fair tax planning and tax payment**

IFU is committed to ensuring proper payment of taxes. IFU believes that taxation is a key component of sustainable development. The companies in which IFU invests must at all times comply with local tax laws and pay taxes where they have their economic activity. IFU would never use holding companies in third countries (countries which are neither host countries for the investors nor the investment) to evade taxes or to conceal anything. If holding companies in third countries are necessary for other reasons (commercial or legal), IFU will not incorporate them in third countries that are either on the EU list of non-cooperative jurisdictions for tax purposes or do not comply with OECD's Global Forum.

IFU's tax policy can be found on IFU's website.

## **4. Operational implementation – investment process**

The Sustainability Policy is implemented through a control framework, describes how IFU manages ESG risks and impacts during the investment process, through defining ESG and impact tasks and responsibilities.

### **4.1 Investment process**

IFU's investment process has been designed in such a way that investments are screened, assessed and approved according to a gradually increased engagement level passing several approval stages. At each stage, impact and ESG aspects are investigated, and findings integrated in IFU's decision papers at "Gate 1", "Clearance in Principle", "Binding Commitment" and "Shareholder Agreement" level.



Identifying and managing sustainability issues are an integral part of IFU's investment process for both direct project investments and investments in funds, financial institutions and other financial intermediaries. IFU's investment process consists of screening, appraisal, due diligence, active ownership and exit and is aligned with the UNGP and the OECD Guidelines for Multinational Enterprises.

#### 4.1.1 Screening

Project screening leading up to "Gate 1" includes:

- Ensuring that IFU does not finance activities on IFU's exclusion list, either directly or indirectly
- The IFU exclusion list includes the entire EDFI exclusion list is available on IFU's website
- Biodiversity screening to assess that projects do no significant environmental harm
- Social screening to ensure projects meet the minimum ILO and OECD standards
- Screening projects on impact to check potential contribution towards building a green economy and/or building a just and inclusive economy, and
- Formulating initial impact hypothesis, including consideration of gender opportunities.

#### 4.1.2 Appraisal

The appraisal process leading up to "Clearance in principle" includes:

- Conducting a contextual risk assessment to screen the project for possible human rights impacts
- Carrying out risk-based appraisal for environmental and social categorisation, including EDFI ESG risk categories (A, B+, B, C). IFU identifies environmental, human rights and social issues as well as corporate governance issues, which present severe adverse risks to IFU, and which are relevant for the project companies or the portfolio of funds and financial institutions
- Evaluating the project sponsor's, project company's, fund manager's or financial institution's awareness of and capability to manage sustainability issues, and
- Assessing ex-ante the project's potential development effects and contribution to the SDGs, through developing an impact hypothesis

#### 4.1.3 Due diligence

The due diligence process leading up to "Binding commitment" includes aspects such as:

- Assigning **dedicated ESG specialists** within IFU to engage actively with all category A, B+, and, where warranted, category B clients. The level and exact focus of engagement depend on the type, severity and extent of the ESG risk to the project/IFU.
- For **all projects**, IFU's due diligence comprises:
  - Reviewing thoroughly the **expected direct and indirect development effects** and conduct an ex-ante assessment and developing value creation and impact creation plans.
  - Conducting a **pre-investment assessment of potential adverse impacts on human rights** for relevant rightsholders to assess the potential impacts related to each human right relevant for the investment. Businesses have a responsibility to undertake due diligence to address the actual and potential human rights impacts of their business activities and relationships as set out in the UNGP.
  - If ESG risks have been identified during due diligence and require further actions, an **ESG Action Plan** is prepared. The action plan could include mitigation of the potential adverse human rights impacts identified in the appraisal and due diligence to comply with IFU requirements and relevant international sustainability standards. Action points could also include initiatives that would enhance development effects and improve the contribution to the SDGs.
- For **category A and B+ projects**, IFU's due diligence is extended to comprise:
  - Assessing the extent to which relevant **international sustainability standards** are met. The standards will include the IFC Performance Standards and the related IFC/World



Bank Group Environmental, Health & Safety (EHS) Guidelines or other relevant and credible, globally or regionally recognised standards that encourage continuous improvements.

- Ensuring that an **Environmental and Social Impact Assessment (ESIA)** has been conducted to meet international standards (IFC Performance Standards). This can be achieved in terms of analyses identifying the gaps in an ESIA meeting national requirement standards against international standards (IFC Performance Standards).
  - If the pre-investment assessment of potential adverse impacts on human rights shows that there is risk of severe adverse human rights impacts, which are not already managed in mitigation measures proposed based on IFC Performance Standards, IFU will complement the work with an assessment of these impacts in order to address them.
  - Approving an **ESG Action Plan** that describes the actions and timeframe required for addressing sustainability issues. The action plan must be approved by the project partners, including IFU.
  - Ensuring the establishment of an **Environmental and Social Management System (ESMS)**, including a procedure to handle complaints and providing **access to remedy**
- Confirming the existence of a **written sustainability policy** for the project company, approved by management, and, if not, ensure that such a document is prepared.

Where IFU co-invests with other Development Finance Institution partners, IFU may choose to apply requirements differing from IFU's own in order to harmonise the requirements of all co-investors, as long as they are not substantially different from IFU's or the IFC Performance Standards, including due consideration of the UNGP.

#### 4.1.4. Active ownership and exit

IFU uses its leverage as a minority shareholder and/or lender to:

- **Exercise and build leverage**, e.g. through board membership, typically over several years, where IFU shares and disseminates its experience and facilitates networking and partnerships regarding the business environment and sustainability issues. In case of identified adverse impacts, IFU will use its leverage and if needed seek to increase its leverage to have such adverse impacts addressed and mitigated
- Ensure **timely implementation** of the Environmental and Social Management System and the ESG Action Plan
- **Monitor compliance** with IFU's requirements (see Annex A-D) through e.g. site visits by IFU board members, investment professionals or ESG officers or external experts
- Initiate ESG improvements and assist project companies, fund managers and financial institutions in establishing **Environmental and Social Management Systems** through the provision of training and tools, and
- Require an **Annual Sustainability Report** and regularly review and assess the sustainability performance of the investment companies in order to ensure continuous improvement throughout the extensive investment period.

Furthermore, when exiting projects, IFU will register expectations regarding development effects, review key impact data as appropriate and conduct final evaluation reporting according to IFU's impact management procedures, which are aligned with the SDGs and will be continuously improved.



## **4.2. Stakeholder engagement**

IFU is committed to proactively engaging external stakeholders and will, where appropriate, engage in general policy dialogue with relevant stakeholders in society on issues related to sustainability in line with informed consultation and participation described in section 3.2.

## **4.3 Disclosure, transparency and accountability**

IFU is committed to requiring the project companies to exercise a pro-active and constructive dialogue with stakeholders by disclosing relevant information in a transparent manner.

## **4.4 Grievances and remedy**

IFU is committed to using its leverage as an investor to ensure that the project companies establish grievance mechanisms and provide access to remedy that are appropriate taking into account the cultural and social context of the investments and in line with the UNGP. Where IFU is investing in funds, IFU is also committed to promoting the said approach. IFU has established a grievance mechanism according to UNGP.

## **5. Operational implementation – IFU’s own operations**

IFU is committed to integrating sustainability considerations in its own operations at its head office, as well as in its regional offices. IFU’s operations based in Copenhagen follow Danish rules and regulations within all sustainability-related issues.

The sustainability issues that IFU is committed to working to improve are:

### **5.1 Environment**

IFU strives to continuously limit energy consumption, apply energy efficient solutions, minimise water consumption, substitute hazardous materials and increase recycling of waste. IFU sources renewable electricity and pays attention to environmental issues related to its supply chain e.g office cleaning and the canteen, where food is at least 50% organic. Furthermore, environmental as well as health & safety considerations are reflected in the terms and conditions of its contractors working at its premises.

### **5.2 Social, including implementation of the UNGP**

As part of implementing the UNGP in the internal operations, IFU is committed to maintaining a healthy and safe working environment for its staff. It is therefore a key priority for IFU to continue to regularly conduct staff satisfaction surveys, workplace assessments and staff appraisal interviews.

It is important for IFU to maintain high standards for safety and security for employees traveling to jurisdictions that are considered having elevated health and security risks. IFU is committed to striving for equal representation in management and will work towards promoting equal opportunities for promotion.

All IFU’s investment professionals are trained in sustainability issues so that they can manage basic ESG assessments for EDFI categories B and C. Each year they will receive supplementary competence development training to keep abreast with new developments.

### **5.3 Governance**

IFU is committed to upholding high corporate governance standards in its own operations and continuously promotes improvements in the structure and practice of good corporate governance in IFU managed funds, investment boards and committees.



## **5.4 Stakeholder engagement**

As an organisation, IFU continuously seeks dialogue with its stakeholders in order to be able to act proactively on stakeholder concerns. IFU will meet with civil society organizations twice a year to ensure a dialogue about stakeholder input and concerns.

IFU cooperates with other development finance institutions to harmonise ESG requirements and procedures. Harmonisation improves efficiency during appraisal, due diligence, monitoring and in the engagement processes, as well as simplifies and increases negotiation leverage towards project companies and fund managers.

IFU has a Sustainability Advisory Board with members appointed in their personal capacity, each representing important IFU stakeholder issues: climate change, biodiversity, gender, human rights, corporate governance, anti-corruption, impact accounting and reporting, development research and policy. The advisory board meets regularly to discuss and advise on key issues.

IFU is a member of EDFI, UN Global Compact Network Denmark, Transparency International Denmark, The Tax Dialogue, the Danish Ethical Trading Initiative (DIEH), the DFI Gender Finance Collaborative and 2X Challenge and the Danish Social Investment Forum (DANSIF), in order to keep abreast of the latest international developments within sustainability and responsible business conduct.

## **5.5 Disclosure, transparency and accountability**

IFU is committed to providing transparent, accountable information about IFU's sustainability activities and performance and continuously endeavours to improve the quality of this information. Information is shared in many ways, including on IFU's website and through stakeholder meetings.

The impact of IFU's investments and the contribution to the SDGs are measured by a set of indicators across the investment portfolio. A selection of these are reported in IFU's Annual Report aligned with disclosure according to the global goals. These indicators include the consideration of mobilisation of private capital, number of direct and indirect jobs created, total reduction in greenhouse gas emissions, local tax contribution, financial performance, additionality, catalytic effects and sustainability.

IFU's Annual Report also constitutes the mandatory Communication on Progress to the UN Global Compact on actions taken to support the Global Compact principles, as well as the corporate social responsibility reporting required by the Danish Financial Statements Act, including reporting on gender, climate and human rights. In addition, IFU do report to the UN-PRI according to their formats.

IFU aims at being transparent about the use of holding company structures in all investments and annually discloses the use of holding companies, the reasons for using holding companies in third countries, and the aggregate amount of tax payments as reported in the accounts of companies in which IFU invests.

## **5.6 Grievances and remedy**

IFU is committed to maintaining a grievance mechanism through which external stakeholders can report alleged breaches of this policy. Grievances from those affected by an IFU project can be resolved locally by the project company or the affected individuals, and communities can use IFU's grievance mechanism in an effort to reach a solution. Based on experience, the grievance mechanism will be reviewed regularly and further developed as deemed fit for purpose.

IFU is committed to addressing grievances in a manner that is fair, objective and constructive, including to investigate the matter and seek to resolve any breach of policy. IFU will consider a variety of options, including third party investigations, negotiated settlements, contractual remedies and the future relationship(s) 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.

IFU reports grievance cases to its board of directors and publicly reports on the status and outcome of grievances received on an aggregated basis, considering confidentiality regulations and legal obligations.

## **6. Approval and revisions**

This policy was approved by IFU's Board of Directors and takes effect on 23 June 2022. The policy is publicly accessible and communicated to all relevant parties internally and externally.

IFU's Sustainability Unit monitors developments in the relevant international conventions and sustainability requirements. The unit is responsible for proposing future adjustments and changes to IFU's management in connection with the statutory annual policy review by IFU's board of directors.



## Annex A: Sustainability requirements for direct investments

The vast majority of IFU's investments are direct investments. The project companies must continuously work towards achieving satisfactory long-term sustainability results contributing to the 2030 Agenda, and such activities must be anchored in the business plan. Project companies should contribute to creating jobs and income, improving corporate governance, sound environmental and social performance and green and/or just and inclusive impacts in the local community. Businesses have a responsibility to undertake due diligence to address the actual and potential sustainability impacts of their business activities and relationships, including human rights, as set out in the UN Guiding Principles on Business and Human Rights. Project companies are also encouraged to actively engage with local stakeholders.

Through the shareholder agreements, IFU requires project companies to:

- Operate in **compliance with host country regulations**.
- Continuously **identify, prevent and/or mitigate potential and actual adverse impacts** on sustainability issues, including human rights, that the company may cause or contribute to, or to which they are directly linked through a business relationship. Including considering energy efficient and low carbon solutions.
- **Comply with relevant international standards** for sustainability identified during appraisal and due diligence and work towards implementing international standards over time. For each project company, international standards are defined as specifically and operationally as possible, taking into consideration the risks and opportunities specific to the individual business, its local context, size and resources.
- **Adopt a written sustainability policy** approved by their board of directors or similar governance body, which is made publicly available and communicated internally and externally to relevant stakeholders.
- **Assign sustainability responsibilities** to a designated representative of senior management.
- **Appoint a person with overall responsibility for sustainability**, including the management of activities and resources and delegation of tasks. It must be a suitably trained person with appropriate knowledge of sustainability issues related to the project.
- Establish an **Environmental and Social Management System (ESMS)** to ensure continuous improvement and implement sustainability decisions relevant to the company size and sector as well as the environmental, economic, cultural and social context in which the project operates.
- Implement **corrective Action Plans** to address any identified shortcomings in relation to compliance with relevant international standards on sustainability issues.
- Take a clear, **written stand against corruption** and **implement anti-corruption procedures and controls** in accordance with international principles and standards.
- **Promote sustainability issues** in interaction with suppliers and business partners and require them to demonstrate due diligence in relation to **potential and actual adverse** impacts.
- **Prepare and submit to IFU an annual report** that provides a status on sustainability issues and green and/or just and inclusive impacts, including the implementation of the action plan and actions taken to address adverse impacts, for discussion and approval by the company's board of directors or a similar governance body.
- **Be transparent and informative** about their business and performance in order to help affected communities and other stakeholders understand the risks, impacts and opportunities of the project communities.
- **Establish a procedure to handle complaints** by individuals and communities, who may be adversely affected by the activities of the project company and ensure access to remedy for the affected persons and/or notify the appropriate authorities.



## Annex B: Sustainability requirements for funds

IFU applies EDFI's Environmental and Social Standards for Fund Investments for all IFU investments in funds. IFU's requirements also include issues related to corporate governance and business ethics as well as green and/or just and inclusive impacts. Funds must employ management systems that effectively address sustainability risks in portfolio companies and realise opportunities for improvements over the investment period.

IFU requires fund managers to:

- **Commit to an investment code on sustainability**, promoting energy efficiency and to apply the IFU exclusion list in selecting portfolio companies.
- Use **international standards as a benchmark** for portfolio companies.
- Implement and maintain an appropriate **Environmental and Social Management System (ESMS)** in order to ensure continuous improvement, including a procedure to handle complaints and ensure access to remedy.
- **Take a clear, written stand against corruption** and **implement anti-corruption procedures and controls** in accordance with international principles and standards.
- **Assign sustainability responsibilities** to a designated representative of senior management and/or board member to take accountability for the overall sustainability management and allocate appropriate resources for implementation of the ESMS.
- **Assign sustainability responsibilities to a fully dedicated and suitably qualified professional** within the Fund or retain external suitably qualified sustainability professional(s) to support the Fund's relevant teams.
- **Assess the ESG aspects** of all new investments as an integral part of the investment appraisal procedure.
- Enter into agreements that **contractually bind portfolio companies to comply** with the fund investment code.
- Agree with the portfolio companies on **corrective action plans** to address any identified shortcomings in relation to sustainability issues.
- **Monitor sustainability performance** of portfolio companies including their progress towards action plans and targets for continuous improvements as well as any serious incidents.
- **Report annually** on the fund's social and environmental management system and sustainability performance of portfolio companies. Such annual sustainability reporting should also include green and/or just and inclusive impacts like number of jobs, tax payments, GHG emissions, gender equality, etc.



## Annex C: Sustainability requirements for financial institutions

IFU applies EDFI's Harmonized Environmental and Social (E&S) Standards for financial institutions (FIs) for all IFU investments in financial institutions, including micro-finance. A shortened version is presented below. E&S Standards for FIs are graduated and implemented according to the EDFI-FI category definitions. The categorization depends on the institution's portfolio risk and will be commensurate with the potential E&S impact and risk profile of the existing and/or proposed FI's portfolio and will consider the type, size and sector exposure of the FI's entire portfolio. FIs must employ management systems that effectively address sustainability risks in relation to own operations and clients and realise opportunities for improvements over the loan period. IFU's requirements below also include issues related to corporate governance and business ethics as well as green and/or just and inclusive impacts.

IFU requires FIs to:

- **Commit to fair treatment, non-discrimination and equal opportunity of own employees**, to maintain or improve employee-management relationships, and comply with all relevant local environmental, health & safety and labour laws and the requirements of the IFC Performance Standard 2.
- Take a clear, **written stand against corruption** and implement “**Know Your Customer**” (KYC) **policy**, procedures and controls in order to comply with national anti-money laundering and terrorist financing regulations.
- Comply with and apply the **IFU exclusion list** in selecting clients.
- Develop, implement and continuously improve an appropriate **Environmental and Social Management System (ESMS)** and ensure integration into transaction due diligence and monitoring processes.
- **Appoint a representative of senior management** and/or board member to take accountability for the overall sustainability management and allocate appropriate resources for implementation of the ESMS.
- **Assign sustainability responsibilities to a fully dedicated and suitably qualified professional** within the FI or retain external suitably qualified sustainability professional(s) to support the FI's relevant teams.
- **Implement an action plan** to address any gaps against IFU's sustainability requirements.
- Provide IFU with **annual sustainability monitoring report**. Report serious sustainability events directly related to the FI shortly after having become aware of the event and report any planned retrenchment as soon as possible.
- **Contractually bind clients** to comply with the minimum requirements as follows:
  - **Review the operations of non-retail clients** for compliance with the national E&S laws and regulations, as applicable where financing presents sustainability risks.
  - **Assess risks of Higher Risk Transactions (project finance and/or long-term corporate finance)** against the IFC Performance Standards.
- Implement an **E&S tracking Management Information System (MIS)**, which monitors Higher Risk Transactions and transactions that expose the FI to contextual E&S risks.

### Investment in microfinance

When investments include micro-financing, IFU is committed to requiring micro-finance institutions (MFI's) to endorse the Client Protection Principles as set forth by SPTF and CERISE as part of the Client Protection Pathway<sup>4</sup> to ensure prudent, transparent and respectful treatment of clients. IFU requires the principles to be the minimum standards that clients should expect when doing business with a financial service provider and include 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.

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<sup>4</sup> The Client Protection Pathway provides a roadmap for implementing the [Client Protection Standards](#) and demonstrates commitment to client protection.



## Annex D: Sustainability requirements for Danida Sustainable Infrastructure Finance

IFU has an administrative role in the execution of the Danish Sustainable Infrastructure Finance (DSIF) programme, which provides soft and concessional loans to public entities. DSIF investments must promote the SDGs and be aligned with national development plans. Projects should contribute to creating jobs and socioeconomic returns, improving good governance, sound environmental and social performance including on gender equality and health and green and/or just and inclusive impacts in the local community. Project implementors are also encouraged and, depending on the specific project context, obligated to actively engage with local stakeholders.

DSIF requires project implementors to:

- Operate in **compliance with host country regulations**.
- Continuously **identify, prevent and/or mitigate potential and actual adverse impacts** on sustainability issues, including human rights, that the project may cause or contribute to, or to which they are directly linked.
- **Comply with relevant international standards** for sustainability identified during appraisal and work towards implementing international standards over time. For each project, international standards are defined as specifically and operationally as possible, taking into consideration the risks and opportunities specific to that project, its local context, size and resources.
- **Take a clear, written stand against corruption**.
- **Ensure that project management units have competent staff to handle sustainability issues**, including the management of activities and resources and delegation of tasks. It must be suitably trained staff with appropriate knowledge of sustainability issues related to the project.
- **Promote sustainability issues** in interaction with suppliers and business partners and require them to demonstrate due diligence in relation to significant impacts.
- **Report to IFU/Danida Sustainable Infrastructure Finance** status on sustainability issues, including the implementation of the action plan and actions taken to address adverse impacts. Compliance is closely monitored.
- **Be transparent and informative** about their activities and performance in order to help affected communities and other stakeholders understand the risks, impacts and opportunities of the project communities.



## **Annex E: Applicable international framework for sustainability**

### **International conventions, declarations and agreements**

#### **Agenda 2030 Development**

1. UN Sustainable Development Goals (UN 2015)
2. UNFCCC Paris Declaration (UN 2015)
3. UN Addis Ababa Action Agenda for Development Finance (UN 2015)

#### **Human rights**

1. International Bill of Human Rights (IBHR) covering The Universal Declaration of Human Rights (UN, 1948), including the International Covenant on Civil and Political Rights (UN, 1966) and the International Covenant on Economic, Social and Cultural Rights (UN, 1966)
2. UN Guiding Principles on Business and Human Rights (2011)
3. UN Declaration on the Rights of Indigenous Peoples – UNDRIP (UN, 2007)

#### **Labour rights**

1. ILO Convention 29 on Forced Labour (ILO, 1930)
2. ILO Convention 105 on the Abolition of Forced Labour (ILO, 1957)
3. ILO Convention 87 on Freedom of Association and Protection of the Rights to Organize (ILO, 1948)
4. ILO Convention 98 on the Right to Organize and Collective Bargaining (ILO, 1949)
5. ILO Convention 100 on Equal Remuneration (ILO, 1951)
6. ILO Convention 111 on Discrimination (Employment and Occupation) (ILO, 1958)
7. ILO Convention 138 on Minimum Age (ILO, 1973)
8. ILO Convention 182 on the Worst Forms of Child Labour (ILO, 1999)

#### **Environment and climate**

1. Rio Declaration on Environment and Development (UN, 1992)
2. Montreal Protocol on Substances that Deplete the Ozone Layer (UNEP, 1999)
3. Stockholm Convention on Persistent Organic Pollutants (POPs) (UNEP, 2004)
4. The Rotterdam Convention/PIC Convention on Certain Hazardous Chemicals in International Trade (UNEP, FAO, 2004)
5. UN Convention on Biological Diversity (UNEP, 1993)
6. Paris Agreement to the UN Framework Convention on Climate Change (UN, 2015)
7. Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and Their Disposal (UNEP, 1992)
8. CITES Convention on International Trade in Endangered Species of Wild Fauna and Flora (UNEP, 1975)

#### **Gender equality and sexual and reproductive health and rights**

1. The Convention on the Elimination of all Forms of Discrimination Against Women (CEDAW) (UN, 1979)
2. CEDAW's Optional Protocol (UN, 1999)
3. Beijing Declaration and Platform for Action (PFA) (UN, 1995)
4. Convention on preventing and combating violence against women and domestic violence (Istanbul Convention) (2014)
5. Cairo Declaration on Population and Development (UN, 1994)

#### **Anti-Corruption**

1. UN Convention Against Corruption (UN, 2010)
2. Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (OECD, 1997)

#### **Tax**

1. OECD's Global Forum on Transparency and Exchange of Information for Tax Purposes (OECD, 2009)
2. EU list of non-cooperative tax jurisdictions (EU, 2017)

#### **Danish Government - agreed strategy covering IFU investments**

The World We Share, Danish strategy for development cooperation, Ministry of Foreign Affairs (2021)



## Annex F: Abbreviations used

EDFI	European Development Finance Institutions Association
EHS	Environment, Health and Safety
ESG	Environment, Social and Governance
ESIA	Environmental and Social Impact Assessment
ESMS	Environmental and Social Management System
IFC	International Finance Corporation
IFU	Investeringsfonden for Udviklingslande (Investment Fund for Developing Countries)
ILO	International Labour Organisation
MFI	Microfinance institution
OIE	World Organization for Animal Health
OPIM	Operating Principles for Impact Management
SDG	Sustainable Development Goal
TCFD	Task Force on Climate-related Financial Disclosures
UNGC	United Nations Global Compact
UNGP	United Nations Guiding Principles on Business and Human Rights
WBG	World Bank Group



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