Introduction

1. In December 2011, the European Development Finance Institutions (EDFI) adopted harmonised Environmental & Social Standards for Fund Investments (EDFI standards for funds) to be used when co-financing among EDFIs occurs.

2. These guidelines describe how IFU will apply the EDFI standards for all IFU investments in funds.

3. The EDFI standards for funds cover environment and social (E&S) issues, whereas IFU uses the term sustainability, which includes E&S issues as well as issues related to anti-corruption and animal welfare. Where EDFI refers to E&S, IFU understands and interprets this to mean sustainability and to include all the issues in IFU's sustainability policy.

Objective

4. As in the EDFI standards for funds, the objective is that "Funds where EDFI capital is invested should employ management systems which effectively address E&S risks in portfolio companies and realize opportunities for improvements over the investment period as a fundamental part of a portfolio company's value."

Screening prior to clearance in principle (CIP)

5. The Danish partner's sustainability policy and other partners' commitment to and awareness of sustainability issues must be assessed by IFU's investment professional, if necessary assisted by the sustainability unit. If established, a fund's and fund manager's commitment to sustainability and awareness of sustainability issues in relation to their investment strategy must also be assessed.

6. The EDFI standards for funds and IFU's sustainability policy must be introduced to the fund and fund manager. The fund and fund manager must be made aware of sustainability performance monitoring and reporting requirements, and the requirement to use international standards as a benchmark for portfolio companies.

7. Funds are to be categorised as FI in ODIN. The portfolio companies and/or the investment pipeline must be categorised in terms of their risk level (A, B+, B and C) in chapter 6 (the slide only relevant for fund investments) of the CIP..

8. Conclusions of the screening process are to be written in chapter 6 (the slide only relevant for fund investments) of the CIP.

Appraisal prior to binding commitment (BC)

9. In line with the EDFI standards for funds, the IFU investment professional must be assisted by the sustainability unit[1] during the appraisal phase to assess the sustainability management systems of the fund manager in relation to the risk level of the investment strategy.

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1 Alternatively, the sustainability unit may use a qualified expert, who may be an external third party consultant or an EDFI specialist or a specialist from another trusted party with appropriate knowledge.

10. As stated in the EDFI standards for funds, "This assessment should review the E&S risk level of focus sectors, if any, the E&S risks and performance of existing portfolio companies, the portfolio of previous funds of the same manager with a similar investment strategy and/or the investment pipeline, and the capability of the fund manager to address adequately such risks and impacts." The assessment for established funds should include reviewing the due diligence assessments of recent investments and their sustainability performance.

11. As stated in the EDFI standards for funds, "Where a fund manager's E&S management systems are assessed to be inadequate or not (yet) in place, EDFIs will assist with advice, support and/or training." IFU should make fund managers aware of the possibility of using IFU's CSR Self Assessment as a due diligence tool.

The agreement

12. The agreement by which IFU makes a commitment to participate in a fund must as a minimum include all the sustainability requirements specified in the EDFI standards for funds shown in the table below.

13. The EDFI requirements include a commitment to ensure that portfolio companies comply with international standards. Portfolio companies must comply with host country legislation at all times. In addition, whenever significant sustainability issues are identified at a portfolio company, international standards must be used as a baseline. International standards must be defined by the fund manager as ILO Core Conventions and, for example, one of the following:
    1. IFC Performance Standards on Social and Environmental Sustainability and IFC EHS Guidelines, or
    2. Sector specific standards such as the Rainforest Alliance, MSC, FSC, GlobalGAP, SA8000, BSCI and other certified fair trade or ecological standards.

    For high risk portfolio companies categorised as B+ or A, the IFC Performance Standards are the appropriate benchmark.

14. Where considered relevant following the appraisal, the fund manager will be required to provide to IFU for review and recommendations the sustainability due diligence assessments of the first few investments.

Investment management

15. As stated in the EDFI standards for funds, "EDFIs will monitor the E&S performance of fund managers and their portfolio companies through reports, dialogue and visits." IFU's investment professional, assisted by the sustainability unit if necessary, must monitor the ability of the fund manager to ensure the satisfactory sustainability performance of their portfolio companies.

16. The investment professional can request the fund manager to assist in arranging a site visit to one or more of the portfolio companies (according to point 13 in the table below).

Sustainability requirements for funds[2]
IFU's requirements for funds are identical to those in the EDFI standards for funds and are shown in the following table.

Investment code & exclusion list	1. Commit to an investment code on E&S prior to the first investment from an EDFI member. This investment code defines the principles, objectives, policies and management systems to be deployed by the fund manager. 2. Apply EDFI's exclusion list in selecting investees.
Responsibilities	3. Implement and maintain appropriate E&S management systems and assign E&S responsibilities to a designated representative of senior management and, where appropriate, to a suitably trained E&S officer.[3]
Assessment & categorization	4. Assess the E&S impacts of all new investments as an integral part of the investment appraisal process, with reference to relevant national laws and regulations and international standards, including the ILO Core Conventions and where relevant the IFC Performance Standards and IFC EHS Guidelines[4]. For high risk investees, the IFC Performance Standards and IFC EHS Guidelines are the appropriate benchmark. 5. Categorize (potential) investees as high, medium or low risk using adequate instruments to determine the appropriate level of management and monitoring. 6. For high risk investees, use a suitably qualified expert for the environmental and social assessment (impact assessment or audit with reference to IFC's Performance Standards and IFC EHS Guidelines).
Improvements over time	7. Agree with the investee on corrective action plans to address any identified shortcomings in relation to E&S matters.
Investment undertaking	8. A fund manager shall not invest in a company if it has high E&S risks and/or significant E&S shortcomings if the fund manager cannot contractually bind or in other way demonstrate robust evidence that E&S risks are or will be addressed in an appropriate way. Where the fund manager has effective control or significant influence,[5] the fund manager shall contractually bind investees to comply with the E&S requirements for investees set out below and set up a monitoring system to ensure compliance.

2 Guidance notes with suggestions on tools for and implementation of the EDFI E&S Guidelines for Fund Investments can be found at www.edfi.eu
3 If there is no suitable trained officer, a fund manager can also mandate an external consultant or expert to take this role as long as there is a designated E&S representative of senior management of the fund manager. This representative is responsible for E&S aspects for the fund and for the assignment of any external consultant. Suggestions for training can be found at www.edfi.eu
4 In exceptional cases, and if agreed upon by all participating EDFI members, funds can forego using the IFC Performance Standards as the benchmark for their E&S management system, if they additionally exclude all financing of sectors on the high risk sector list.
5 A fund manager will be deemed to have significant influence over a portfolio company where its fund has (i) an ownership interest in the portfolio company in excess of 20%, which is presumed to be a level that allows for participation in the financial and operating policies of a portfolio company (if the percentage is lower but gives rise to the same participation, this will also meet the definition of significant influence); or (ii) board representation to a level that allows for participation in

Climate change	9. Assess and support the reduction of carbon emissions for investees with significant CO_2 equivalent emissions (according to IFC Performance Standard 3, Pollution Prevention and Abatement).
Monitoring	10. Monitor the performance of investees on E&S issues including their progress towards action plans and targets for improvements as well as any serious incidents. For high risk investees external monitoring is recommended.
Reporting	11. Submit an annual E&S monitoring report in a format acceptable to EDFI members, including risk ratings for investees, issues, improvements and future targets. 12. Report serious incidents immediately, with plans for corrective actions and follow-up. 13. Make relevant E&S information available for EDFI members and assist with site visits upon request, e.g. for evaluation purposes.

Sustainability requirements for portfolio companies
IFU's requirements for portfolio companies (investees) are identical to those in the EDFI standards for funds and are shown below.

1. Comply with all applicable local environmental, health & safety and labour laws and regulations.
2. Work over time to comply with relevant international standards, including the ILO Core Conventions and, as a minimum for high-risk investees, the IFC Performance Standards and IFC EHS Guidelines.
3. In case of non-compliances with these requirements, commit to an action plan to address issues, with appropriate targets, responsibilities and timetable for improvements.
4. Adopt policies and commit to continuous improvements on E&S matters.
5. Report annually on E&S matters to the fund managers.
6. Report serious incidents immediately, with plans for corrective actions and follow-up.

determining the financial and operating policies of the portfolio company; or (iii) rights to influence the financial and operating policy decisions of the portfolio company pursuant to a shareholders' or similar agreement.