

## 1. Scope

IFU is a development finance institution providing share capital participation, loans and guarantees on commercial terms to the private sector in developing countries and emerging markets. IFU's strategic objective is to be Denmark's main engine for shaping and enhancing sustainable and profitable private sector growth opportunities in developing countries in collaboration with Danish know-how, risk capital and commercial enterprises.

This sustainability policy defines sustainability - in the context of sustainable development - as the framework for the environmental, social and governance (ESG) requirements in IFU's investee companies, IFU-managed funds and their investee companies (hereafter collectively referred to as investees) and strives to achieve high sustainability standards. IFU's board of directors, management, employees and advisers must act in accordance with this policy.

## 2. Commitment to sustainable development

IFU is committed to ensuring that investees reduce sustainability risks and contribute to sustainable development, which IFU believes adds value to the investee and enhances business opportunities.

The investees must continuously work towards achieving satisfactory long term results within sustainability, and such activities must be anchored in the business plan. Investees should contribute to creating jobs and income, improving corporate governance, sound environmental and social performance and development in the local community.

IFU has signed up to the UN Global Compact principles. IFU promotes these principles, and through its investments IFU strives to create shared value by:

- Respecting and promoting **all basic human rights**, including **labour rights** and **occupational health and safety**, and address adverse human rights impacts that the investment may cause or contribute to. This includes providing for or cooperating in the remediation of affected individuals and communities.
- Enhancing **positive development effects**, including creation of jobs and income, payment of taxes, contribution to government revenue, transfer of know-how and cleaner technologies, training and education, gender equality, community health and food security and other corporate social responsibility related activities.
- Securing **good corporate governance and business ethics**, including **anti-corruption**, anti-fraud, transparency and stakeholder engagement.
- Improving **environmental performance** through a preventive and precautionary approach that addresses environmental challenges, including **climate change**, loss of **biodiversity** and land use changes.
- Ensuring good **animal welfare**, including proper treatment of animals used in food production and for other commercial purposes and testing.

In this way IFU seeks to contribute to the UN Millennium Development Goals and the UN Sustainable Development Goals.

## 3. Appraisal process

Identifying sustainable development effects is an integrated part of the appraisal process, and IFU expects its partners to share IFU's aspirations regarding sustainability. IFU requires investees to comply with national regulations in the host country in which they operate and work towards implementing international standards. International standards are based on UN,

ILO and OECD conventions, declarations, agreements and principles. Standards could include the IFC Performance Standards or other credible, globally or regionally recognised standards that encourage continual improvements. For each investee, international standards are defined as specifically and operationally as possible.

During the appraisal process, risks, impacts and mitigation measures related to each investment are assessed, considering factors such as the sector, technology, location, host country regulations, climatic conditions and cultural issues. This process identifies the significant issues that are relevant for the investee, and an assessment is made of the extent to which international standards are or will be implemented. An action plan with a reasonable time schedule to meet these standards and comply with IFU's sustainability requirements<sup>1</sup> is elaborated, as appropriate for each investee. The action plan must be approved by the project partners, including IFU, and is a condition for IFU's disbursement.

#### **4. Sustainability requirements**

In order to implement IFU's sustainability policy, IFU requires investees to:

- Operate in compliance with host country regulations.
- Comply with international standards for significant issues identified during appraisal.
- Adopt a written sustainability policy approved by their board of directors or similar governance body, which is communicated to relevant stakeholders.
- Appoint a person with overall responsibility for sustainability, including the management of activities and resources and delegation of tasks.
- Establish a system 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 activity operates.
- Promote sustainability issues in interaction with suppliers and business partners.
- Prepare an annual report that provides a status on sustainability issues, including the implementation of the action plan, for discussion and approval by their board of directors or similar governance body. A copy of the report must be sent to IFU.

#### **5. Exclusion list**

IFU will not finance activities that are set out in IFU's exclusion list<sup>2</sup>.

#### **6. Active ownership**

IFU seeks active ownership of investees through board membership, where IFU shares and disseminates its experience, facilitates networking and partnerships regarding the business environment and sustainability issues. Where IFU is a lender only, IFU also works to have a similar influence as when IFU is a shareholder.

---

<sup>1</sup> Specified in IFU's Sustainable Investment Handbook, which can be found at <http://www.ifu.dk/en/sustainability-handbook>

<sup>2</sup> IFU has adopted the EDFI exclusion list, which can be found at <http://www.ifu.dk/en/exclusion-list>

IFU monitors each investee's sustainability activities through visits, reports and dialogue to ensure improvements over time. In case an investee breaches this policy, IFU is entitled to take the necessary measures, including exiting the investment.

IFU has developed a number of tools and templates to support sustainability efforts in investees, and draws on its regional offices and global network of advisers.

## **7. Stakeholder dialogue**

IFU is committed to stakeholder engagement and will, where appropriate, engage in policy dialogue with all relevant stakeholders in society on issues related to sustainability. IFU seeks continuous dialogue with its stakeholders to keep up to date with developments within sustainability to be able to take qualified decisions and act proactively on stakeholder concerns.

IFU cooperates with other development finance institutions to harmonise environmental, social and governance procedures. Harmonisation improves efficiency during appraisal, monitoring and the engagement process, as well as simplifies and increases negotiation leverage towards investees.

## **8. Transparency and accountability**

IFU provides transparent, accountable information about IFU's sustainability activities and performance and continuously endeavours to improve the quality of this information.

IFU encourages investees to be transparent and informative about their business and performance in order to create the best possible platform for a continuous and proactive stakeholder dialogue.

## **9. Grievances**

Complaints related to investees should be promptly addressed in a manner that is fair, objective and constructive. IFU encourages investees to establish a procedure to handle complaints by individuals and communities, who may be adversely affected by the activities of the investee. If the investees do not effectively respond to complaints, IFU has a grievance mechanism through which stakeholders can report alleged breaches of this policy.

The above policy was approved by IFU's Board of Directors on 20 November 2014.