

COMMUNICATION ON PROGRESS (COP) 2010



Dear Reader

IFU's and IØ's (the Funds) overall mission is to enhance sustainable economic growth, development and more equitable income distribution by financing private sector investments in developing countries and reforming economies.

Our corporate social responsibility (CSR) policy is ambitious and is based upon international UN, ILO and OECD conventions, declarations and agreements. We hereby seek to contribute to the global achievement of the UN Millennium Development Goals.

It is our objective that our investments contribute to a lasting economic, environmental and social sustainable development through the creation of healthy and safe workplaces and the transfer of knowhow and cleaner technologies. We wish to contribute to the social and economic development of the local community – and we also encourage the project companies to engage themselves locally.

We are committed to securing high CSR standards as a fundamental aspect of sound business management of IFU's investments and business practice. IFU's Supervisory Board, management, employees and advisers must conduct all their business operations in accordance with the values and the spirit laid down in the CSR policy.

We signed up to the 10 UN Global Compact principles in 2008, because they are a set of universal principles that help us underline our CSR policy, wherever in the world we create business, and we are committed to implementing and advancing these principles together with the project companies and within IFU's sphere of influence.

Copenhagen, April 2011
Finn Jønck
Managing Director, CEO

Private sector investments create development

IFU, the Industrialisation Fund for Developing Countries, is fund manager for IØ, the Investment Fund for Central and Eastern Europe. IFU was founded in 1967, IØ in 1989. For four decades, IFU has proved that good business for all parties very often requires investment and development to go hand in hand. We ensure business opportunities for Danish companies abroad, and we create local jobs and local income in the countries we invest in.

The Danish government decided in 2010 that IØ's activities are to be phased out, and IØ cannot enter into new commitments.

Our CSR policy

The Funds' corporate social responsibility (CSR) policy states that the Funds' investments shall, on an ongoing basis, contribute to the creation of jobs and income, improving corporate governance, sound environmental and social performance, and development in the local communities involved. The full policy can be found in an annex to this document.

The CSR policy covers the four areas of the UN Global Compact: human rights, labour rights, environment and anti-corruption. The policy also has special focus on climate change, occupational health and safety, animal welfare and community development. This Communication on Progress (COP) focuses on the areas where the Funds can make a significant difference through their efforts and encouragement towards the project companies, and thereby fulfil commitments in the CSR policy.

This COP, required annually of all signatories to the UN Global Compact, includes both IFU and IØ (the Funds) and constitutes the mandatory reporting as required by the Danish Financial Statements Act, section 99 a (7).

The baseline - compliance policy

It is the policy of the Funds that project companies must be in compliance with all host country legal and regulatory requirements regarding CSR issues at all times. In addition, international standards must be used as a baseline for significant CSR issues. If these standards are not met, the project company must draw up and implement a project specific CSR Action Plan to address these issues within a reasonable timeframe.

Both during due diligence and monitoring of project companies, the Funds focus on whatever CSR issues are material and significant for the specific investment, which vary in every case depending on the project in question, and what is most significant from a country and sector specific point of view.

The Funds have an exclusion list of sectors in which we do not invest.

Active ownership - beyond the baseline

The Funds' goal is for a project company's CSR objectives to be anchored in its business strategy and be fully

adapted to and integrated into its procedures and operations so that CSR remains a strategic issue after the Funds have exited. Active ownership through board representation is an important means to achieve this goal.

We advocate a strategic approach to CSR, because we believe it is the right approach to get added value from the time and resources allocated. The Funds see no incompatibility in doing business in an ethical and transparent manner and achieving good financial results, if this is done with the right approach. At the same time, we are aware that many project companies are struggling with practical issues in their daily operations such as enforcing the use of personal protective equipment and the number of working hours.

The Funds induce each project company to adopt its own CSR policy, which clearly defines and describes the company's vision, strategy and operational guidelines, and e.g. sign up to UN Global Compact. The Funds see this as a signal of strong commitment and anchoring of CSR in the company, although other means may be used to ensure high standards. In 2010, 27% of the IFU project companies had a written CSR policy or were covered by a CSR policy made by the parent company. This is four percentage points higher than in 2009. For IØ, 11% of the project companies had a CSR policy.

New due diligence tool

In 2010, IFU introduced an updated due diligence tool as part of the appraisal process for new projects. It is called the Global Compact Self Assessment Tool and was launched at the UN Global Compact Leaders' Summit in June 2010. The tool may be used by companies of all sizes from all sectors and provides a means of testing their performance on the UN Global Compact principles.

IFU took part in the development of this new tool to provide IFU and its project companies with an instrument based on international standards and best practice that inspires continuous improvement and enables them to track and demonstrate progress.

New CSR status reporting guidelines

IFU requires all project companies to prepare an annual CSR Status Report for discussion and approval by their boards of directors. The CSR Status Report serves as a

tool for the company to get an overview of its performance and identify issues for improvement. IFU has launched a new set of guidelines to improve the project companies' CSR reporting and thus ensure that relevant information becomes available to the board.

CSR Advisory Board and other stakeholder engagements

To keep up-to-date with new opportunities, dilemmas and risks, IFU has a CSR Advisory Board with four members, each representing important IFU stakeholders on one of the issues: human rights, environment, development and corporate policy. The board meets regularly to discuss key issues such as media communication, due diligence tools, supply chain dilemmas and anti-corruption and facilitation payments. The members are:

- John Nordbo, Conservation Director, Head of Climate Programme, WWF
- Jakob Simonsen, Director, UNDP Nordic Office
- Sune Skadegaard Thorsen, Senior Partner, Global CSR
- Malene Østergaard, CSR & Environment Director, Danfoss

IFU is member of the association of European Development Finance Institutions (EDFI), a group of 15 organisations. EDFI has established a working group for harmonisation of appraisal procedures on CSR issues, which is a strong network for IFU and facilitates knowledge sharing between sister organisations.

In 2010, IFU joined BSR, Business for Social Responsibility, which is a network of members including leaders and other peers and stakeholders – all focused on creating viable sustainable solutions. Here IFU will benefit from the insights, expertise and relationships within the network from years of hands-on work in the field.

Development of competences within IFU

Procedures and knowledge about CSR issues are part of IFU's ongoing development of competences through internal sharing of knowledge, courses and other forms of training. This contributes to the continuous improvement of the quality of IFU's advice to project companies.

In 2010, IFU held a board seminar to train investment managers and external advisers in handling CSR dilemmas within corporate governance in their capacity as board members in IFU's project companies.

Also, all investment managers and employees working with project companies completed a training course in the new CSR due diligence and reporting tools.

IFU FOCUS - training of project companies

To encourage and help project companies to improve their performance and set up their own policies and systems, the Funds introduced IFU FOCUS for the first time in 2010. IFU FOCUS is a seminar on CSR and HR facilitated by IFU and delivered by international and local experts to



Participants in IFU FOCUS China, held in Beijing 27-28 September 2010.

the management of IFU's project companies. CSR and HR are key elements in building strong and sustainable companies. Separately, CSR and HR represent specialist functions with cross functional impact. Together, they leverage one another and are part of the definition and execution of good management practice.

IFU FOCUS creates a framework for training, new insight and sharing of best practice. It provides a platform for exchanging solutions to daily challenges for companies in similar situations and provides an opportunity for networking with companies and managers with the same interests and experience. The topics covered vary according to the needs in the region where the seminar is offered. The UN Global Compact was introduced to the participants as a universal instrument to reach high standards on key CSR issues.

In 2010, IFU FOCUS was held in China and Vietnam with focus on CSR as a business case and the current status on labour law, practices and dilemmas. The seminars also facilitated discussion and sharing of best practices on anti-corruption and facilitation measures. To initiate discussions, the UN Global Compact Dilemma Game was used

and proved appropriate to make people with different backgrounds discuss the same dilemmas.

In China there were 32 participants from 21 companies (47% of IFU's active project companies in China) and in Vietnam 30 participants from 13 companies (65% of IFU's active project companies in Vietnam). In 2011, IFU FOCUS will focus on India and Africa.

Danida CSR Training Fund

IFU manages the Danida CSR Training Fund, which provides training grants for IFU's project companies. In 2010, IFU gave commitments to grants for eight CSR training programmes in five countries including training in managing chemicals, personal protection equipment, HIV and other health issues. The project companies have shown considerable interest in applying for these grants, which have a total annual budget of DKK 3m.

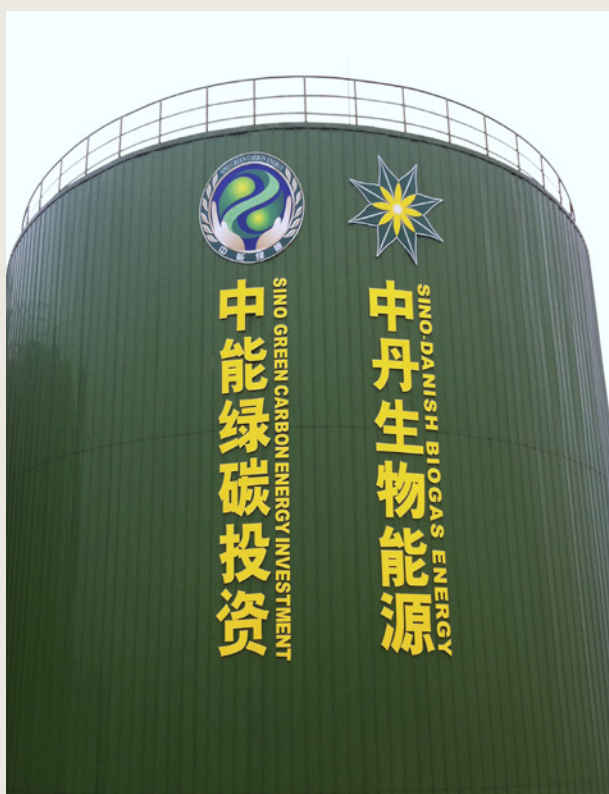
Climate and energy investments

IFU seeks investment opportunities that help address the climate and environmental challenges that developing countries face. In 2010, eight new climate and energy investments were made, which contributed to reducing greenhouse gas emissions. Climate and energy investments involve the production of renewable energy, the manufacture of components for the production of renewable energy, a significant increase in energy efficiency and energy savings, energy consultancy, biogas production, landfill gas recovery, as well as climate and energy facilities or funds.

Reviews of project companies

IFU regularly commissions external experts to make CSR reviews of either country or sector portfolios. The reviews cover all active projects in operation and relevant issues in IFU's CSR policy. All project companies reviewed receive a report including possible recommendations for further action and improvement of performance. Since 2005, 63 project companies have been reviewed.

In 2010, 19 project companies in eastern and southern Africa were reviewed. In general, the companies showed genuine intentions and efforts to comply with CSR requirements. However, instances of non-compliance were identified mainly regarding systematically formalising existing practices, and recommendations were made to take immediate action. IFU will follow the companies' initiatives to implement these recommendations closely.



Anyang Biogas, China.

Assessment of CSR performance

Each year IFU carries out an internal assessment of its portfolio regarding compliance with its CSR policy. Each project is classified into one of five categories as follows: excellent, good, fair, poor and critical.

In 2010, compliance assessments were carried out for 179 IFU projects. The compliance assessment does not include 30 projects that are in the process of being established, eight projects with no physical activities, and ten projects being exited. Similarly for IØ, assessments were carried out for 57 IØ projects. The compliance assessment does not include three projects that are in the process of being established, ten projects with no physical activities, and five projects being exited.

The CSR classification is a combination of three separate classifications: 1) environment; 2) occupational health and safety (OHS); and 3) human rights and labour practices. Projects with the classification good are in compliance with local legislation and international standards, e.g. World Bank EHS guidelines on significant CSR issues. Projects with the classification excellent go beyond that. Projects with the classification fair, poor or critical are projects to which IFU pays much attention to advise the projects on how to improve their CSR performance. For IFU, the classification shows an improvement compared to 2009 with an increase in the total combined score of projects classified as either good or excellent from 77% to 82%. The increase can be attributed both to an improvement in the classifications made for several projects, and the fact that the projects exited in 2010 had below-average classifications. For IØ, the classification shows an improvement compared to 2009 with an increase in the total combined score of projects classified as either good or excellent from 79% to 87%. The main rea-

son for the increase for IØ is the improvements made in the classification for several projects (mainly fair to good), combined with the fact that there are significantly fewer projects classified in total (almost 30%), so the improvements have a proportionately higher effect on the overall result.

The reasons for projects being classified as either poor or critical vary and include sewage treatment not working optimally, poor reporting or improper use of personal protective equipment.

CSR in the supply chain

Many companies around the world have been associated with suppliers violating CSR standards. The Funds encourage project companies to minimize this risk by in different ways making their CSR policies clear towards their suppliers and promoting improvements. This is a major task, especially because it often requires striking an equitable and practicable balance between the commercial imperative of profitable business, and the ethical demands that flow from any CSR abuses by the supplier. The initial reaction might be to cease to use the supplier. However, it does not serve the overall goal of securing human and labour rights and reducing pollution of the environment as the violations will probably continue. A better CSR approach is to encourage and persuade the supplier to raise its performance by continuously supporting the supplier's efforts. In 2011, the Funds will focus on how to further support the project companies in their effort to improve performance in their supply chain.

The Funds' CSR performance

The Funds' have their head office in Copenhagen and small regional offices in New Delhi, Beijing, Accra, Nairobi and Johannesburg. Two of the African offices are in the

CSR classification	Total score (%)		Environment (%)		OHS (%)		Human rights and labour practices (%)	
	IFU	IØ	IFU	IØ	IFU	IØ	IFU	IØ
Excellent	26	34	27	33	23	35	28	33
Good	56	53	57	50	56	54	54	56
Fair	17	13	14	17	19	11	17	11
Poor	1	0	1	0	2	0	1	0
Critical	0	0	1	0	0	0	0	0

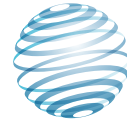
same building as the Danish embassy. In 2010, an average of 71 people were employed at the Funds including 56 at the head office. Looking at the significant CSR issues for an organisation doing office work and visiting project companies around the world, the Funds pay special attention to building performance including heating and electricity, health issues, transportation and compliance with staff ethics.

The Funds' head office moved in 2010 to new and refurbished buildings, which is expected to reduce both heating and electricity consumption by up to one third due to better insulation and new IT equipment.

The Funds have a comprehensive set of guidelines on staff ethics formalising the ethical standards and policies applicable for all IFU employees. IFU employees deal with a

wide array of cultures and therefore need to understand not only political, social and economic features of a country but also be sensitive to local cultures and appreciate the impact of these aspects in a business and social context, including anti-corruption, which requires strict staff ethics. IFU is furthermore represented on the board of Transparency International Denmark

The Funds' investment managers participate in board meetings and visit the project companies, which means that the Funds have many travel kilometres every year. It is also often necessary to be present on site to be able to monitor all aspects of a company's performance. The Funds try to find the right level of travel and keep it to a minimum using e.g. new communication tools. But often the Funds' investments operate in an area where these communication tools are not yet available or reliable.



Corporate Social Responsibility Policy (CSR Policy)

Scope

IFU's overall mission is to enhance sustainable economic growth, development and more equitable income distribution by financing private sector investments in developing countries and reforming economies.

IFU's investments in project companies shall on an ongoing basis contribute to the creation of jobs and income, improvement of corporate governance, sound environmental and social performance, and to development of the local communities. We seek to ensure that our investments will contribute continually to sustainable development.

IFU is committed to securing high standards of CSR as a fundamental aspect of sound business management of IFU's investments and business practice. IFU's Supervisory Board, management, employees and advisers must conduct all their business operations in full accordance with the values and the spirit laid down in the CSR policy.

IFU has signed up to the 10 UN Global Compact principles, and we are committed to implementing and advancing these together with the project companies and within IFU's sphere of influence. IFU's policy is based upon international UN, ILO and OECD conventions, declarations and agreements, and we hereby seek to contribute to the global achievement of the UN Millennium Development Goals.

Issues of concern

The main issues of concern covered by IFU's policy are the following:

Human rights: It is a fundamental value of IFU to respect the basic human rights, and we cannot accept forced or compulsory labour and the use of child labour in activities, which are dangerous to the moral or physical well-being and development of the child. IFU advocates non-discrim-

ination and encourage the project companies to promote gender equality.

Labour rights: IFU requires that all employees in the project companies have as a minimum the right to rest, reasonable limitation of working hours, periodic holiday, and reasonable remuneration. All employees must be allowed freedom of assembly and participation in workers' organisations.

Occupational health and safety (OHS): Sound OHS procedures include application of principles of industrial hygiene, substitution of hazardous substances, establishment of work procedures and material safety data sheets and ensuring personal protective equipment. IFU requires that project companies establish joint labour-management health and safety committees.

Environment: IFU requires that the project companies actively manage their environmental impact, and that they take actions to improve their environmental performance as appropriate. The project companies must support a preventive and precautionary approach to environmental challenges.

Climate change: IFU encourages the project companies to contribute to climate change mitigation and adaptation in accordance with the spirit of the Kyoto Protocol on Climate Change. The project companies should give attention to major contributions to climate change and consider appropriate measures to minimise the effect.

Anti-corruption: IFU does not accept corruption and bribery. The project companies or their representatives should not accept bribes in any form and should not provide improper benefits to customers, agents, contractors, suppliers, employers or to government officials. IFU is member of Transparency International.

Excluded product areas: IFU does not finance projects, which produce goods and services that are prohibited in Denmark for any environmental, human rights or other CSR reasons.

Community development and society aspects: IFU encourages the project companies to contribute to the development of the local community within their ability and the scope of their core business and business concept. In countries seriously affected by the hiv/aids epidemic, IFU requires that an hiv/aids policy be adopted by the project companies.

Animal welfare: IFU requires that animals used in food production, for other commercial purposes or for testing are treated properly. IFU requires that veterinarians and agriculture technicians do efficient controls and inspections.

Responsibilities and approach

IFU's CSR objectives and activities must be anchored in the business strategies of the project companies and must be fully adapted to and integrated into their procedures and operations. IFU will induce each project company to adopt a written CSR policy, which clearly defines and describes its vision, strategy and operational guidelines. The project companies must strive to constantly improve their own CSR policies, standards and performance and promote these towards their suppliers where relevant.

IFU will enhance and support the project companies directly and in cooperation with other investment partners and relevant stakeholders in identifying areas of improvement, determining action plans and strengthening their environmental and social management capacity. For this purpose, IFU will make its experience and tools available and seek to mobilise support to development of competence in the project companies.

CSR objectives and activities of the project companies must be based on a thorough assessment and broad understanding of the interrelationship between the project company and the local community, taking into account the economic, political, cultural and social contexts and diversity in which they operate. IFU has prepared a set of CSR appraisal and monitoring guidelines to assist in the implementation of the CSR policy.

Legal framework and norms

Project companies must at all times be in compliance with host country legislation regarding CSR issues. Good CSR performance is defined by the norms of ethical behaviour in the various countries and is thereby under constant development. Therefore, IFU and the project companies shall be in continuous dialogue with their stakeholders to be able to act proactively in accordance with their expectations and demands.

Whenever significant CSR issues are identified in a project, relevant international standards must be used as a baseline. In case of deviations, the project company must draw up and implement a CSR action plan to mitigate the issues within a reasonable timeframe. The CSR action plan must be approved by the project partners, including IFU. In case of breach of the CSR policy IFU is entitled to take the necessary measures including exiting the project company.

Transparency and stakeholder dialogue

IFU will provide transparent and accountable information about their own activities and achievements and constantly strive to improve the quality and extent hereof.

We encourage our investment partners and project companies to be transparent and informative about their businesses and CSR performance in order to create the best possible platform for a continuous and proactive stakeholder dialogue.

IFU is committed to the principles of stakeholder engagement and will, where appropriate, engage in policy dialogue with their partners and with governments on issues related to CSR.

The above CSR Policy was approved by IFU's Supervisory Board on

23 October 2008

Signed Finn Jønck