

# COMMUNICATION ON PROGRESS (COP) 2012



**IFU** INVESTMENT FUND FOR  
DEVELOPING COUNTRIES

## 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 our investments and business practice. The Funds' board of directors, 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 2013*

Finn Jønck

Managing Director

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## IFU as a partner

IFU – Investment fund for developing countries was established in 1967, and for more than four decades our work has proven that it very often means good business for all parties if investment and development go hand in hand.

### **IFU's activities are based on the following:**

- We invest risk capital on market terms in the form of share capital, loans and guarantees in private sector companies that are established or will be established in developing countries or emerging markets. We call them project companies.
- We provide professional advice regarding the business environment, investment terms and CSR issues as well as cultural and political barriers, etc., with assistance from our regional offices in developing countries and emerging markets and through our global network of advisers.
- We provide continual knowhow and active support to the project companies.

### **The Investment Fund for Central and Eastern Europe (IØ)**

IFU is fund manager for IØ, the Investment Fund for Central and Eastern Europe. IØ was founded in 1989. The Danish government decided in 2010 that IØ's activities should be phased out, and IØ cannot enter into new commitments.

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### CSR reporting

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).

### CSR plays an increasing role

CSR plays an increasing role in business. Company investors, customers, clients and other stakeholders have become less tolerant of irregularities in relation to issues such as the environment, labour rights, health and safety, human rights and corruption.

Companies that are not taking these issues seriously risk getting their reputation tarnished and losing customers, thereby jeopardising their business. The risk is particularly high when investing in developing countries, because foreign companies are expected to implement high standards and are often under more intense public scrutiny.

IFU is well aware of these risks and has for several years been assisting Danish companies in complying with international standards and local regulations. This is done by applying IFU's CSR policy and offering advice to project companies on how to implement it.

### Signed the UN Global Compact

IFU is a signatory to the UN Global Compact, and our CSR policy is based on its 10 principles covering four areas: human rights, labour rights, environment and anti-corruption plus areas such as animal welfare and community.

IFU's CSR work is in line with the Danish government's rights-based approach to development.

According to the CSR policy, IFU investments must, on an on-going basis, contribute to creating jobs and income, improving corporate governance, sound environmental and social performance and development in the local communities involved.

Implementing these objectives in a company's business strategy helps reduce the risk to the business, but it can also make a company more profitable and produce business opportunities. A fair salary can minimize costly job turnover, saving energy can reduce expenses and high health and safety standards can limit loss of working days. A good reputation may also create new business.

### Compliance and international standards are the baseline

It is IFU's policy that project companies must at all times be in compliance with all host country regulatory requirements. In addition, international standards must be used as a baseline for significant CSR issues, and if these standards are not met, the project company must draw up and implement a CSR Action Plan to address the issues.

### Proactive approach - beyond compliance

IFU's goal is for a project company's CSR objectives to be anchored in its business strategy and be fully adapted to and integrated in company procedures and operations, so that CSR remains a strategic driver after IFU has exited.

IFU encourages each project company to adopt its own CSR policy with a view to clearly defining and describing the company's vision, strategy and operational guidelines and e.g. sign up to the UN Global Compact. IFU sees this as a signal of strong commitment to CSR by the company, but companies may also apply other means to ensure high standards.

### Reporting on CSR Key Performance Indicators

Over the last couple of years, IFU has supported companies and their boards in standardising their CSR reporting. In that process, IFU has moved closer to identifying a number of key performance indicators (KPI) on CSR reported on by the project companies.



*Niebuhr China, production of gearwheels.*

One KPI has been to measure the number of companies which have their own written CSR policy or were covered by a CSR policy defined by their parent company. In 2012, the number was 41 per cent, up from 30 per cent in 2011 and 27 per cent in 2010.

### Assessment of CSR performance

Each year IFU carries out an internal assessment of its portfolio on compliance with its CSR policy. The CSR classification is a combination of four separate classifications: 1) environment, 2) occupational health and safety (OHS), 3) human rights and labour practices and 4) anti-corruption. Each project is scored on one of five categories as follows: *Excellent*, *Good*, *Fair*, *Poor* and *Critical*.

In 2012, compliance assessments were carried out for 169 IFU projects. The exercise did not include 21 projects that were in the process of being established, 20 projects with no physical activities, and 13 projects being exited. Similarly for IØ, assessments were carried out for 33 projects. The exercise did not include two projects that were in the process of being established, seven with no physical activities, and three being exited.

The result showed that 83 per cent of the IFU projects and 80 per cent of the IØ projects classified were classified as good or excellent in their CSR compliance (see chart below).

Projects with the classification *Good* are in compliance with local legislation and international standards, e.g. IFC/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 given extra attention, and the Funds will engage in discussions with the partners on how the project can improve its CSR performance.

The scores in 2012 are very similar to those of previous years, but as a new feature, project companies are also

rated on the extent to which they have implemented adequate procedures to fight corruption.

Corruption is recognised as one of the greatest barriers to sustainable development, and combating corruption is a key element in poverty alleviation. The Funds have a zero tolerance policy on corruption and help project companies to take a clear stand against corruption. The Funds encourage project companies to identify and assess the risk of becoming involved in corruption in all parts of their operations and business relations and urge them to initiate the necessary preventive measures to counter the risks identified. The results of the classification are satisfactory to the Funds, but we will continue to have focus on this issue to obtain further improvements.

### CSR Advisory Board

IFU participates in several forums in order to remain aware of stakeholder expectations and keep up-to-date with developments in standards for good ethical behaviour, dilemmas and risks.

One initiative is our CSR Advisory Board, which has four members, each representing important IFU stakeholder issues: human rights, environment, development and corporate policy. The advisory 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:

- Poul Engberg-Pedersen, Deputy Director General in IUCN, The International Union for Conservation of Nature.
- John Nordbo, Conservation Director, Head of Climate Programme, WWF
- Sune Skadegaard Thorsen, Senior Partner, Global CSR
- Malene Østergaard, CSR & Environment Director, Danfoss

CSR classification	Total score (%)		Environment (%)		OHS (%)		Human rights and labour practices (%)		Anti-corruption	
	IFU	IØ	IFU	IØ	IFU	IØ	IFU	IØ	IFU	IØ
Excellent	28	25	31	21	29	21	31	30	19	27
Good	55	55	55	61	51	61	55	55	61	43
Fair	16	20	14	18	19	18	14	15	18	30
Poor	1	0	0	0	1	0	0	0	2	0
Critical	0	0	0	0	0	0	0	0	0	0



### Updated CSR handbook

In 2012, IFU re-published its CSR handbook, which serves as a tool for project companies operating in difficult environments in developing countries. The handbook contains relevant information that will help project companies comply with IFU's CSR policy and conduct business in a sustainable and responsible manner.

The handbook can be used both as a manual and a reference book. It contains examples on how to deal with complex challenges and handle specific problems.

A key issue in the 2012 edition is the strategic and proactive approach to CSR. Responsibilities towards suppliers and other business relations are also emphasised in light of the UN Guiding Principles on Business and Human Rights.

### Portfolio review in West Africa

In 2012, IFU's project portfolio in western Africa was subject to an independent, external CSR review. The review was carried out by SGS, and ten project companies in western Africa were included in the review located in Benin (2), Cameroon (1), Gambia (1), Ghana (3), Liberia (1) and Nigeria (2).

The aim of the review was to assess compliance with national legal requirements as well as conformance to IFU's CSR policy. Key issues reviewed were how CSR is integrated in the business operations, human rights, labour practices, health and safety, environment and anti-corruption.

The review generally follows the practices of previous CSR reviews carried out in eastern and southern Africa, China, India and Vietnam.

SGS found that, overall, the companies had a very good local compliance level. No critical issues such as child labour or forced labour were raised at any of the companies, and no serious health and safety issues were reported.

IFU's administration is very pleased with the results of the CSR review, mainly because of the good compliance level. It is also encouraging that several companies have policies in place, have appointed a person responsible for CSR and have established health and safety committees that meet regularly.

One lesson to be learned, however, is that some companies, in many cases SMEs, work with CSR on an ad hoc basis rather than with a systematic and structured approach. This is not a unique conclusion to IFU-financed SME projects, but it points out an area where IFU will focus its advice in the future.

### Danida CSR Training Fund

IFU manages the Danida CSR Training Fund, which can provide training grants to IFU's project companies. In 2012, IFU made grant commitments for 11 CSR training programmes. The project companies have shown considerable interest in applying for these grants. The total annual budget is DKK 3m.

### The Funds' CSR performance

The Funds' have their head office in Copenhagen and small regional offices in Beijing, New Delhi, Cairo, Accra, Nairobi and Johannesburg. Three of the African offices are in the same building as the Danish embassy. In 2012, an average of 67 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 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.

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 are in areas where these communication tools are not yet available or reliable.



*Participants in IFU FOCUS West Africa.*

## **IFU FOCUS**

IFU FOCUS ran for the third straight year in 2012 and has now covered six regions in Asia and Africa. Based on the positive experience from the past two years, an IFU FOCUS event was held in Accra, Ghana.

IFU FOCUS consists of interactive seminars on CSR and HR facilitated by IFU and delivered in cooperation with international and local experts.

CSR and HR are important elements in building strong and sustainable companies. This often poses a challenge in developing countries, and in that sense IFU FOCUS provides an important framework for training, new insight and sharing of best practice. The seminars also deliver additivity and offer inspiration to sound business development within four key areas: CSR, corporate governance, anti-corruption and people strategy.

The topics covered at the seminars vary according to need. For the seminar in Accra the main topics were:

- CSR strategies and tools that work for business
- People strategy in an African context
- How to avoid bribes and facilitation payment

Participants are mainly management-level staff from the project companies, Danish partners, local partners and, depending on the size of the company, CSR and HR managers. By the end of 2012, 209 people had participated in IFU FOCUS.

## **CSR Awards 2012**

For the second time, CSR Fonden, the Danish CSR Foundation, organised a national CSR event – CSR Awards 2012 – which served as an overarching award ceremony for granting 14 CSR-related awards to people, organisations and companies in recognition of their contributions to excellent CSR initiatives. IFU is part of this initiative and has established a special award, the CSR Investment award, for sustainable investment in developing countries.

The CSR Investment award is given to a company that has made a special effort towards sustainability, has a proven sustainable business model and high environmental, social and governance standards.

The jury was IFU's CSR Advisory Board, and the winner was Protea Farm (FynBloem), a flower producer based in South Africa, see case below.

## Winner of IFU's CSR Investment award 2012

### Protea Farm (FynBloem) - making South African community blossom

Protea Farm (FynBloem) grows, picks and packs South Africa's national flower, the Protea. The flowers are sold locally in South Africa and exported overseas.

The principles of the UN Global Compact are a cornerstone in Protea Farm's business, and the company is GlobalGAP certified. The CSR effort is solidly anchored in the organisation. The 73 employees all take an active part in the CSR work and share the company's vision to create a sustainable international business.

#### Ambitious CSR goals

Protea Farm has ambitious goals for its CSR work and has comprehensive programmes to follow up on goal fulfilment. The targeted effort and the communication of progress and results show the employees what the company strives for and the possible rewards for society, the company and the employees themselves.

"It creates commitment and more openness to change when the employees know and understand the goals. We also tell our customers about our CSR goals, and they get excited about it and follow our progress," says Beyers Venter, CEO of Protea Farm.



Protea Farm, South Africa.

## FACTS ABOUT THE COMPANY

Project name: Protea Farm

Danish partner: LML Holding

Start: 2010

Country: South Africa

Status: In operation

IFU's loan: DKK 7.4m

Expected total investment: DKK 26.4m

Actual direct employment: 73



#### Significant reduction of carbon emissions

A good example of Protea Farm's ambitious approach is the goal to change the overseas shipping of the flowers from air to sea. Today all flowers are shipped by air, but the goal is to ship 80 to 90 per cent by sea by 2014-15 and thus reduce carbon emissions by 98 per cent.

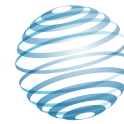
A new packing facility also has a positive effect on the environment, reducing carbon emissions by 1.5 tonne per day.

#### Supporting equal rights and opportunities

Protea Farm is located in a rural area near Cape Town where few jobs are available. That has made the company very important to the local community, not only in terms of education, jobs and income in a poor area, but also as a role model for environmental and socially sustainable business operations.

"We have proved that it is possible to run a business in a way that creates equal rights and opportunities for all. In that way we contribute to eliminating prejudice and bringing people together in a community without discrimination," said Noah Chinyanga, CSR assistant at Protea Farm.

## Corporate Social Responsibility Policy (CSR Policy)



**IFU**

INVESTMENT FUND FOR  
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### 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