

COMMUNICATION ON PROGRESS (COP) 2013



IFU INVESTMENT FUND FOR
DEVELOPING COUNTRIES

Dear reader

The overall mission of IFU and the funds managed by IFU 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 know-how 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. IFU's 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 2014
Tommy Thomsen, CEO

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 know-how and active support to the project companies.

IFU as a fund manager

IFU is fund manager for AIF, the Arab Investment Fund, IIP, IFU Investment Partners, KIF, the Danish Climate Investment Fund, and IØ, the Investment Fund for Central and Eastern Europe. Any projects under these funds are included in the reporting below.

IØ was founded in 1989. The Danish government decided in 2010 that IØ's activities are to be phased out, and IØ cannot enter into new commitments. However, IØ still has a portfolio of projects and is a signatory to the UN Global Compact.

CSR plays an increasing role

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

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, human rights and labour rights, health and safety and corruption.

Companies that do not take these issues seriously risk getting their reputation tarnished and losing customers. 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 works actively to overcome challenges and dilemmas

Recent years have shown economic challenges all over the world, which proves that active ownership is important and necessary. IFU works with project companies in sev-

eral developing countries and is aware of the challenges and dilemmas involved. Having a responsible business plan is crucial for a company to achieve a satisfactory result for the long term and is a key part of IFU's CSR efforts to assist its partners in setting up clear CSR strategies that benefit the company and as a minimum ensure compliance with international standards and local regulations.

IFU's CSR policy is based on the 10 principles of the UN Global Compact, which cover four areas: human rights, labour rights, environment and anti-corruption. IFU has added the areas of animal welfare and community development. Investments must 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 employee 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.



Beekeepers being trained at the Ingemann Beekeeping Academy in Nicaragua.

First step: 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 CSR 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.

Second step: Beyond compliance

IFU's goal is that a project company's CSR objectives will 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. IFU sees this as a signal of a strong commitment to CSR by the company.

Reporting on CSR key performance indicators

Over the last couple of years, IFU has supported companies and their boards in standardising their CSR reporting. During that process, IFU has moved closer to having a fixed number of key performance indicators (KPI) reported to IFU from all its project companies.

Increase in CSR policies in project companies

One KPI is the number of companies that have their own written CSR policy or are covered by a CSR policy defined by their parent company. In 2013, the number was 46 per cent, up from 41 per cent in 2012 and 30 per cent in 2011. As it encourages companies to define a CSR policy, IFU is proud to see this development.

Improved HIV/AIDS effort in sub-Saharan Africa

According to IFU's CSR policy, project companies in countries with an HIV prevalence rate of more than 3 per cent must adopt an HIV/AIDS policy, thereby helping to combat HIV/AIDS. IFU has decided to focus on sub-Saharan Africa recognising that it is the main region affected by HIV/AIDS.

In 2013, there were 25 project companies in sub-Saharan Africa in countries with an HIV/AIDS prevalence of more than 3 per cent. Of those, 42 per cent had an HIV/AIDS policy or similar activities, and 23 per cent were planning

to make activities and set up a policy in 2014. This is a huge improvement compared to 2011, when only 9 per cent of 22 project companies in sub-Saharan Africa had HIV/AIDS activities.

In terms of the number of employees, the HIV/AIDS policies and activities cover 58 per cent of the employees in the 25 companies.

Among the companies that have not yet considered activities, some are not operational, while others have very few or no employees. The remaining companies will be contacted early in 2014 to further discuss their options of getting an HIV/AIDS policy in place.

Assessment of CSR performance

Each year IFU carries out an internal assessment of its portfolio on compliance with its CSR policy. Each project is classified into one of five categories as follows: *Excellent, Good, Fair, Poor* and *Critical*.

In 2013, compliance assessments were carried out for 172 IFU projects and 2 AIF projects. The exercise did not include 20 projects that were in the process of being established, 19 projects with no physical activities, and 9 projects being exited. Similarly, for IØ, compliance assessments were carried out for 28 projects. The exercise did not include four projects with no physical activities and four being exited.



Production of textile at LTP Vietnam.

CSR classification	Total score (%)		Environment (%)		OHS (%)		Human rights and labour practices (%)		Anti-corruption (%)	
	IFU	IØ	IFU	IØ	IFU	IØ	IFU	IØ	IFU	IØ
Excellent	30	31	34	25	30	29	34	39	22	32
Good	51	55	50	64	50	57	49	54	54	43
Fair	17	13	16	7	18	14	15	7	22	25
Poor	2	1	0	4	2	0	2	0	2	0
Critical	0	0	0	0	0	0	0	0	0	0

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.

The result showed that 81 per cent of the IFU projects and 86 per cent of the IØ projects classified were classified as *Good* or *Excellent* in their CSR compliance.

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 IFU will engage in discussions with the partners on how the project can improve its CSR performance.

The total scores for IFU in 2013 are almost as high as previous years, but a little lower due to 11 companies scoring Poor in one of the categories compared to 5 scores in Poor last year. The Poor scores are related to labour conditions (e.g. working hours), safety issues and no adequate procedures to fight corruption. 3 of the 5 companies who scored Poor last year are not on the list anymore due to improvement. None of the projects scoring Poor are category A projects, which are projects with significant potential adverse CSR impacts. Furthermore, the total Excellent score has gone up from 28 per cent to 30 per cent this year. The total scores for IØ in 2013 are higher than previous years.

Corruption is recognised as one of the greatest barriers to sustainable development, and combating corruption is a key element in poverty alleviation. IFU has a zero tolerance policy and helps project companies to take a clear stand against corruption and urges them to initiate the necessary preventive measures to counter the risks identified. The results of the classification shown above show

that IFU must continue its focus on this agenda and work with corporate governance as part of IFU's board work in the project companies.

IFU's CSR due diligence tool in compliance with UN guiding principles

IFU uses the Global Compact Self Assessment Tool (<http://www.globalcompactselfassessment.org/>) for assessing CSR issues in project companies during the appraisal phase. This tool was re-launched in 2013 in a new and improved version to better reflect current standards and trends.

The Global Compact Self Assessment Tool is a free online tool that enables companies to measure their performance on the 10 principles of the UN Global Compact. The re-launched tool covers a new management section in addition to the updated human rights, labour, environment and anti-corruption sections. The new management feature enables self assessment of processes to ensure that the Global Compact principles are adequately assessed, defined, implemented and communicated in line with the Global Compact Blue Print and the UN Guiding Principles on Business and Human Rights.

Review of investments in funds

IFU has invested 13 per cent of its capital in other investment funds, mainly focusing on Africa. Until recently, IFU has focused its CSR work on the fund manager to ensure that adequate management systems are in place to address CSR risks and improve performance. Since EDFI's environmental and social standards for investments in funds were recently adopted, IFU has applied these standards that also focus on the actual performance of the companies in which the funds have invested.

In 2013, IFU initiated a review of the performance of its fund investments. Preliminary results indicate that the new standards are effective in ensuring high CSR performance of both the fund manager and its investee companies. However, a few funds into which IFU invested prior to the adoption of the new CSR standards appear not to be performing as intended. The associated risks will be addressed during 2014 and the review will be extended to cover the remaining funds.

Development results in positive CSR impacts

The purpose of IFU is to promote economic activity in developing countries through private sector investments.

In order to meet this purpose, project companies must have positive development effects such as for example creating jobs, transferring technology or providing employee training. All of these issues are considered in the appraisal phase together with the CSR impacts.

Employment is key

One of the most important development effects is employment, because it provides opportunities for people to escape poverty and improve their standard of living.

In each project IFU estimates the expected direct employment effect. When a project becomes operational, it reports its actual number of employees to IFU on an annual basis. New projects contracted in 2013 are estimated to generate close to 2,400 jobs.

Active projects established before 2013 employ around 35,000 people. Approximately 22,000 are employed in projects in Asia and nearly 10,000 are employed in pro-

jects in Africa. The remaining jobs are distributed on Latin America, Europe and Global.

Direct employment is only part of the development effect. According to UN research, every direct job created also produces one to two additional jobs in for example local supply chains or service companies. In that context, IFU's investments have over the years contributed to creating and preserving more than 350,000 jobs in developing countries.

Greenfield projects have a greater impact

Normally, greenfield projects are seen as having the highest development impact, because they introduce a new activity to the host country. Almost two thirds of the new projects contracted by IFU in 2013 were greenfield projects, and often in general terms these have a higher CSR performance.

New technology implemented

Transfer of technology plays an important role in development. Implementing modern technology helps enable developing countries to create more advanced products and services, often with less negative CSR impacts, and it makes them more competitive and cost efficient.

Close to 70 per cent of the new projects contracted in 2013 were expected to implement world class technology and just above 30 per cent were to implement average well-known technology.

Training enhances skills

In countries where formal vocational education is sparse, training by companies is essential. This will contribute to a general boost in the level of education and enhance the skills of people in poor countries, hence making them better qualified and more employable in the labour market.

More than 90 per cent of the new projects contracted in 2013 have plans to run training programmes for employees.

Danida CSR Training Fund

IFU manages the Danida CSR Training Fund, which can provide training grants to IFU's project companies. In 2013, IFU made grant commitments for 12 CSR training programmes. The project companies show considerable interest in applying for these grants. The total annual budget is DKK 3m.



Rockwool Thailand, production of stone wool.



Participants in IFU FOCUS China in 2013.

IFU FOCUS

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

IFU FOCUS has run for four straight years from 2010-2013 and has now covered six regions in Asia and Africa.

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 offer inspiration to sound business development within four key areas:

- CSR strategies and tools that work for the business
- People strategy, HR management and organisational development
- Avoiding bribes and facilitation payment
- Corporate governance

Participants have mainly been 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 2013, close to 300 people had participated in IFU FOCUS.

IFU FOCUS China

In 2010, the first IFU FOCUS seminar took place in China and received very good feedback from participants with 96 per cent wishing to participate again and bring more people from their company.

Therefore IFU FOCUS China was repeated in 2013. The topics of particular interest were people strategy as well as recruitment, retention and reward strategies in an employee market characterized by picky, pricy and scarce resources.

IFU FOCUS Ukraine

IFU FOCUS Ukraine was carried out for the first time in 2013 with the same overall objectives as the other IFU FOCUS seminars. The seminar was prepared together with Danish Business Association in Lviv to engage Danish companies not already in the IFU portfolio. There was a special focus on CSR strategies and tools and the new anti-corruption legislation in Ukraine.

40 people from 23 different project companies participated. Like previous IFU FOCUS', a high percentage of the participants had very positive comments about the whole idea of IFU FOCUS, the networking and the knowledge sharing with other IFU companies.

Ho Chi Minh, Vietnam

IFU together with Danida held a seminar in Ho Chi Minh City, Vietnam, in 2013, which had a similar format and content as IFU FOCUS with almost 80 participants.

Stakeholder engagement

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. IFU is a member of the Danish Ethical Trading Initiative (DIEH), and in 2013 IFU also participated in the 2nd Annual Forum on Business & Human Rights in Geneva.

IFU's own initiative is the IFU 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, 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 Awards 2013

For the third time, the Danish CSR Foundation (CSR Fonden) organised a national CSR event, CSR Awards 2013, 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 jury in 2013 was IFU's CSR Advisory Board, and the winner was Compact India, which had been nominated together with ScanCom do Brasil and LM Wind Power India.



Øivind Ramberg, managing director of GC Rieber Compact, accepted the CSR Investment award on behalf of Compact India.

IFU's CSR performance

IFU has its head office in Copenhagen and small regional offices in New Delhi, Beijing, Cairo, Accra, Nairobi, Johannesburg and Colombia. Three of the African offices are in the same building as the Danish embassy. In 2013, an average of 68 people were employed at IFU. Looking at the significant CSR issues for an organisation doing office work and visiting project companies around the world, IFU pays special attention to building performance including heating and electricity, health issues, transportation and compliance with staff ethics.

IFU has 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's investment directors and investment managers participate in board meetings and visit the project companies, which means that IFU has 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. IFU tries to find the right level of travel and keeps it to a minimum using e.g. new communication tools. But often IFU's investments are in areas where these communication tools are not yet available or reliable.

CSR improvements lead to increased productivity

Engsko Ethiopia produces mill stones used for grinding grain, coffee and different spices. Most products are sold locally.

In 2009, IFU provided a loan to enable the company to expand production. A CSR review was commissioned and numerous opportunities for improving CSR were identified. An action plan was established with specific deadlines for the improvements needed.

The issues identified were lack of personal protective equipment or its incorrect use, lack of safety procedures and limited knowledge about safety among employees. The production hall had poor lighting and indoor air quality, and a high level of noise.

IFU encourages a more focused approach to CSR

Once it became clear that local management was not capable of initiating the improvements without guidance, IFU assisted the company in identifying a good health and safety adviser who came up with pragmatic recommenda-

FACTS ABOUT THE COMPANY

Project name: Engsko Ethiopia

Danish partner: Engsko

Start: 2009

Country: Ethiopia

Status: In operation

IFU's loan: DKK 4.0m

Expected total investment: DKK 15.1m

Actual direct employment: 38

tions for training and improvements to work facilities as well as more attention on improved quality procedures and products.

Improvements implemented

Noise levels inside the factory were excessively high. Of the improvements made, the most significant noise reduction resulted from improving the conveyors used to transport the mill stones.

Lighting and ventilation would have given rise to improvement orders had the company been operating in Denmark. By setting up more appropriate lighting, polishing the windows, implementing better ventilation, and using an electric forklift truck, the working environment has improved considerably. Good housekeeping is now maintained.

Operating instructions including health and safety procedures have been made for work stations, proper personal protective equipment is provided, including instructions on how to use it correctly. All employees have been trained in these procedures and in first aid, and a health and safety committee now meets regularly.

In addition, employees are benefitting from recently upgraded changing room and canteen facilities.

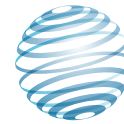
For the benefit of the business and all employees

Thanks to the training, a new working culture has emerged. Employees are more active in production and health and safety work, and they have started making suggestions for further improvements. In general, the employees are more motivated.

"I am very pleased and proud of the CSR improvement. This will lead to an increase in productivity of up to 10 per cent and the investment will soon be repaid," said Leif Madsen, director of Engsko United Milling Systems.



Peter Hansen, managing director of Engsko United Milling Systems, shows the production at Engsko Ethiopia to HRH Princess Marie.



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