

Communication on Progress 2009



INVESTMENTS FOR DEVELOPMENT



Corporate social responsibility reporting

IFU, the Industrialisation Fund for Developing Countries, has been a member of the Global Compact since July 2008. This reporting is our Communication on Progress (COP) to the UN Global Compact.

Together with its sister fund IØ, the Investment Fund for Central and Eastern Europe, IFU introduced a corporate social responsibility (CSR) policy in 2005 (see annex 1), which is reviewed regularly. The policy states that the Fund's 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. The Fund aims to ensure that the investments continually contribute to sustainable development. Basing its CSR policy on international UN, ILO and OECD conventions, declarations and agreements, IFU seeks to contribute to the global achievement of the UN Millennium Development Goals.

The Fund is committed to securing high standards of CSR as a fundamental aspect of sound business management of the Fund's investments and business practice. The Fund has signed up to the 10 UN Global Compact principles and is committed to implementing and advancing these together with the project companies and within its sphere of influence.

The COP focuses on the areas, in which IFU through its efforts and encouragement can make a significant difference towards the project companies as part of the fulfilment of IFU's commitments in the CSR policy.

Active ownership

It is the policy of the Fund that project companies must be in compliance with all legal and regulatory requirements regarding CSR issues of the host country. In addition, when significant CSR issues are identified in a project, relevant international standards must be used as a baseline. If the project company does not comply with international standards on significant issues, the project company must draw up and implement a CSR Action Plan to improve these issues within a reasonable timeframe. The CSR Action Plan must then be approved by the project partners, including the Fund. Each project company is required to prepare an annual CSR Status Report for discussion and approval by its board of directors. The CSR Status Report serves as a tool for monitoring all CSR issues of relevance to the project company.

Through an active ownership IFU seeks to ensure that its CSR objectives are anchored in the business strategies of the project companies and fully adapted to and integrated into their procedures and operations. The Fund therefore, in addition to the requirements set out in IFU's CSR policy, induces each project company to adopt a written CSR policy of its own, which clearly defines and describes the company's vision, strategy and operational guidelines. IFU sees 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 2009, 23% of IFU's project companies (50 companies) had a written CSR policy of their own or were covered by a CSR policy issued by the parent company.

The Fund directly encourages project companies to identify areas of improvement, determine action plans and strengthen their environmental and social management capacity. For this purpose, the Fund makes its experience and tools available. In 2009, IFU launched a CSR handbook, which exemplifies how project companies implement strategic CSR, and how IFU's CSR policy should be interpreted. The handbook has been well received by partners and project companies.



Assessment of CSR performance in the project companies

Each year IFU carries out an internal assessment of its portfolio regarding compliance with its CSR policy, and each project is classified into one of five categories as follows: (1) excellent (2) good (3) fair (4) poor and (5) critical.

In 2009, compliance assessments were carried out for 185 projects. The compliance assessment does not include 33 projects that are either in the process of being established (19), projects with no physical activities (5), or projects under closing (9).

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.

CSR classification	Total score (%)	Environment (%)	OHS (%)	Human rights and labour practices (%)
Excellent	26.7	26.0	23.3	30.8
Good	50.2	53.0	50.8	47.0
Fair	21.8	20.0	24.3	21.1
Poor	1.1	0.5	1.6	1.1
Critical	0.2	0.5	0.0	0.0

Projects with the classification good are in compliance with local legislation and also in compliance with 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.

The classification shows an improvement of the total portfolio compared to 2008 with an increase in the total combined score of projects classified as either good or excellent from 71% to 77%.

Anti-corruption policy

Unfortunately, corruption/bribery is common in the countries where IFU and its business partners operate – and it is one of a number of risks that companies face every day. Whether it occurs in the developing world or anywhere else, corruption in all shades and nuances constitutes a substantial threat to our business projects, and is thereby a threat to the many employees that are dependent on the projects in which we invest and participate.

The Fund has a clear anti-corruption policy, which has evolved over the years, and IFU does not under any circumstances accept corruption and bribery. It is IFU's task and responsibility to set high standards for acceptable behaviour. Therefore, IFU's policy does not only cover bribery of public officials, but also private-to-private transactions, and addresses other aspects of corruption such as money laundering. The anti-corruption policy is clearly stated in all agreements with the project companies, and IFU expects that project companies or their representatives do not accept bribes in any form and do not provide improper benefits to customers, agents, contractors, suppliers, employers or government officials. The Fund is a member of Transparency International.

Reviews of project companies

IFU regularly asks advisers and external experts to conduct CSR reviews of either country portfolios or sector portfolios. The reviews cover all significant issues of IFU's CSR policy including external environment, occupational health and safety, and labour and human rights. The issues covered have developed over the years in accordance with the development of IFU's CSR policy. In 2005, 2006 and 2008, a total of 44 project companies were reviewed. All project companies received a report on the results of their review including an evaluation of the seriousness of the required action and any recommendations on further action.

CSR in the supply chain

Many companies around the world have been associated with suppliers violating CSR issues, and IFU encourages its project companies to minimize this risk by in different ways making their CSR policies clear to their suppliers and promoting improvements. This is a major task, especially because it often requires striking an equitable and practical balance between the commercial imperative of continuing business, and the ethical demands that flow from any CSR abuses by the supplier. The initial reaction might be to cease using the supplier. However, dropping a supplier as soon as it violates a CSR policy does not serve the overall goal of securing human and labour rights and reducing pollution of the environment – the violation will continue. A better CSR approach is to encourage and persuade the supplier to raise its performance by maintaining business contact.

Successful CSR investment in Tanzania

CSR has always been high on the agenda at Kibotrade Textiles in Tanzania. In 2009, Kibotrade Textiles received the Fairtrade certification and became the first company in the textile industry on mainland Africa to be SA 8000 certified. Maintaining high CSR standards has become part of the company's brand and a prerequisite for business.

Kibotrade Textiles employs 44 people and produces a wide range of made-to-order clothing for export, using high-quality knitted cotton. In 2007, IFU granted Kibotrade Textiles a loan to build a factory and continues to provide ongoing assistance.

According to partner and co-founder Bo Raahauge Rasmussen, CSR is a competitive advantage that Kibotrade Textiles can use to market its products and compete with textile companies in e.g. India and China. "CSR is important simply because we could not imagine running a business without such high standards. This also motivates our employees and gives us a considerable amount of goodwill. In addition, we can use CSR as a way of distinguishing ourselves from the competition."

In order to document high standards to customers, certification is essential. Kibotrade Textiles has chosen the global social accountability standard SA 8000 and the Fairtrade certification, which is highly valued in the fashion industry. Certification reassures ethically motivated consumers that Kibotrade Textiles provides the best working environment and terms for its employees. SA 8000 requires the company to respect the rights of its employees to earn a living wage that is sufficient to meet the basic needs in Tanzania.

In fact, Kibotrade Textiles goes beyond the requirements of certification. The company provides a free breakfast, an afternoon snack and a heavily subsidised lunch. Kibotrade Textiles covers health care expenses for its employees and teaches them about HIV/AIDS and other health issues. Employees can also take English lessons and attend training courses during working hours.

The next step for Kibotrade Textiles is to demonstrate its environmental considerations by certifying that its products are organic cotton fabrics.



Corporate Social Responsibility Policy (CSR Policy)

SCOPE

IFU/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.

The Funds' 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.

The Funds are committed to securing high standards of CSR as a fundamental aspect of sound business management of the Funds' investments and business practice. The Funds' 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.

The Funds have 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 the Funds' sphere of influence. The Funds' 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 the Funds' policy are the following:

- **Human rights:** It is a fundamental value of the Funds 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. The Funds advocate non-discrimination and encourage the project companies to promote gender equality.
- **Labour rights:** The Funds require 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. The Funds require that project companies establish joint labour-management health and safety committees.
- **Environment:** The Funds require 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:** The Funds encourage 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:** The Funds do 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. The Funds are members of Transparency International.
- **Excluded product areas:** The Funds do 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:** The Funds encourage 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, the Funds require that an hiv/aids policy be adopted by the project companies.
- **Animal welfare:** The Funds require that animals used in food production, for other commercial purposes or for testing are treated properly. The Funds request that veterinarians and agriculture technicians do efficient controls and inspections.

RESPONSIBILITIES AND APPROACH

The Funds' 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. The Funds 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.

The Funds 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, the Funds will make their 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. The Funds have 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, the Funds 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 the Funds. In case of breach of the CSR policy the Funds are entitled to take the necessary measures including exiting the project company.

TRANSPARENCY AND STAKEHOLDER DIALOGUE

The Funds 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.

The Funds are 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 Corporate Social Responsibility Policy was approved by the Supervisory Boards of IFU and IØ on Danish international investment funds.

23 October 2008
Sign. Finn Jønck

CSR appraisal and monitoring guidelines

IFU/IØ (the Funds) are committed to supporting the project companies in their work with CSR, and the purpose of these guidelines is to describe the appraisal and monitoring process, to clarify the responsibilities of the Funds, the Danish partner and the project partner and to introduce the tools available.

To ensure that the operational standards of a project company are set and implemented in accordance with the CSR policy, the Funds have established a CSR toolkit with specific operational procedures and guidelines to be applied during the appraisal stage and during the monitoring at the operational stage. The toolkit also includes a brochure that explains the principles of the CSR policy, interprets the policy and describes the procedures for sector-specific and particularly sensitive issues, e.g. hiv/aids, corruption and animal welfare.

The following figure outlines who is responsible for which tasks, and which tools are available to the project company in the different stages of the appraisal and monitoring process. Available tools and documents can be downloaded from the website www.ifu.dk.

Project Appraisal



The Funds' CSR assessment of the projects includes – in particular – two key components:

- an identification and assessment of the CSR risks and impacts (the likelihood of harm) of the project and
- an evaluation of the commitment and capacity of the investment partners to manage expected risks and impacts and work towards an international level of performance in accordance with Danish or EU rules and regulations or standards set by the World Bank/IFC, ILO or OECD.

The Funds will decide which level of documentation will be required to assess the CSR risks and impacts. It will depend on the specific sector, technology, size of production, location, local rules and regulations, climatic and cultural conditions, etc.

When partnering with experienced Danish companies with proven and well-documented CSR policies and experience, the Funds may accept that the project will be appraised and monitored on the basis of the Danish partner's policies and standards.

THE PROJECT COMPANY /PARTNERS

The project company and/or the Danish partner must identify the host country's rules and regulations regarding CSR-related issues relevant to the project company, as well as the enforcement and control systems.

The project company and/or the Danish partner must assess the actual, project-specific conditions regarding CSR issues taking into account the location of the project. Significant CSR issues must be assessed using relevant international standards as a baseline.

Available tools:

- Human Rights Quick Check (HRCA).
- Environmental Quick Check, including a climate check.

Supplementary tools:

- IFC Environmental, Health and Safety (EHS) guidelines.
- IFC Environmental and Social Impact Assessment (ESIA) guidelines.



The Funds must review and accept the assessment made by the project company and/or the Danish partner before issuing a binding commitment.

Best Judgement Declaration

THE PROJECT COMPANY /PARTNERS

The Danish partner must issue a Best Judgement Declaration on their best assessment of all significant deviations between international standards and host country rules and regulations in relation to all relevant CSR issues. The Best Judgement Declaration must be based on the assessment made by the project company and/or the Danish partner.

Available tool: Best Judgement Declaration Guidelines.



The Funds must receive and approve a satisfactory Best Judgement Declaration before disbursement.

The CSR Action Plan

THE PROJECT COMPANY /PARTNERS

The Danish partner and the project company must describe and quantify significant CSR issues and deviations from international standards in a well-defined CSR Action Plan specifying the required action and the agreed time frame for eliminating the deviations.

Available tool: CSR Action Plan Guidelines.

The project company must continuously monitor the issues identified in the CSR Action Plan to ensure sufficient control and must prepare an annual update of the Quick Check used in appraisal.

The responsibility for compliance with the Action Plan rests with the Board of Directors and the Management of the project company. The Board of Directors must prepare an annual review of the company's situation in respect of continued compliance with the CSR policy. If required, i.e. if new issues are identified, the Board must revise and update the list of issues and decide on a revised CSR Action Plan for further improvements.



The Funds must approve the CSR Action Plan as part of the project agreements before disbursement. The CSR action plan must be signed by all project partners including the Funds.

The CSR status report

THE PROJECT COMPANY /PARTNERS

The project company must prepare an annual CSR Status Report for discussion and approval by its Board of Directors at the board meeting at which the budget for the next financial year is presented for approval.

The CSR Status Report must describe:

- CSR activities, events and results during the year, including e.g. incidents of corruption and facility payments, environmental and work accidents and contributions to climate change mitigations.
- Progress on the CSR Action Plan.
- Compliance with rules and regulations.
- CSR competences and management.
- CSR-related communication and training and external communication to interested parties
- Monitoring of key CSR issues.

Available tool: CSR Status Report Guidelines for project company.

The annual CSR Status Report will serve as a tool for monitoring all CSR issues relevant to the project company. It is the responsibility of the Board of Directors to ensure the transparency and accountability of the CSR Status Report and a follow-up procedure, i.e. if new issues are identified.

The first CSR Status Report must be received by the Board of Directors no later than 15 months from the first disbursement date. Thereafter, a report must be received annually.



The Funds will review the CSR Status Report and make their comments and experience available for the project companies through the Board of Directors.