2020

IFU SUSTAINABILITY AND IMPACT REPORT

INVESTMENT FUND FOR DEVELOPING COUNTRIES

CONTENTS

ABOUT THIS REPORT

This report presents IFU's contribution to sustainable development and covers activities in IFU and IFU managed funds, except Danida Sustainable Infrastructure Finance (DSIF), for the financial year 1 January to 31 December 2020. The report also serves as IFU's Communication on Progress in implementing the ten principles of the UN Global Compact and supplements the statutory statement in IFU's Annual Report on corporate social responsibility and gender diversity at management level, in accordance with section 99 a and b of the Danish Financial Statements Act. Read about DSIF in the Annual Report 2020.

The report contains sections that are also included in the Annual Report and vice versa, allowing both reports to stand alone.

LETTER FROM THE CEO

In 2020, IFU and IFU managed funds contracted investments of close to DKK 2bn. This is an all-time high investment level and an increase of close to 80 per cent compared to 2019. In total, IFU and IFU managed funds made 18 new investments of DKK 1.6bn and 13 additional investments in ongoing projects of DKK 345m.

The Covid-19 pandemic has had a strong negative impact in developing countries, and IFU has carefully been monitoring the development in its own portfolio and assisted companies in handling the consequences related to their business and employees.

IFU'S OVERARCHING AMBITION IS TO BE A BEST-IN-CLASS IMPACT INVESTOR

In 2020, we made Covid-19 related investments of DKK 323m in new and ongoing projects. Moreover, IFU provided grants through our Sustainability Facility for project companies to buy protective equipment, train employees and assist healthcare workers and patients in preventing the spread of Covid-19.

Looking ahead, the ambition is that IFU's new investment strategy will enable IFU to become a best-in-class impact investor and steer our investments towards building green, just and inclusive economies. IFU's investments will support economic growth and decent job creation in companies, financial institutions and funds that contribute to the green transition and improve access to basic needs and services for the vulnerable poor. Consequently, our investments will deliver on climate action and reducing inequalities.

Guided by our support to the UN Global Compact principles and the Sustainable Development Goals (SDGs) we continue to strengthen our approaches, processes and commitments on Environmental, Social and Governance (ESG) improvements and impact creation.

In November 2020, we joined the other European Development Finance Institutions (EDFIs) in a commitment to align all new financing decisions with the objectives of the Paris Agreement by 2022 and to ensure that our portfolio will demonstrate net zero emissions by 2050 at the latest. These commitments are in line with IFU's Climate Policy.

Furthermore, we have for the first time structured our reporting on climate change in accordance with the framework recommended by the Task Force on Climate-related Financial Disclosures (TCFD) and have with the support from UNEP DTU calculated the portfolio GHG footprint from our investments. We will continue developing these practices in the coming years.

We have also developed a Gender Strategy that further seeks to roll out our existing Gender Policy and ensure that we continue to expand the number of investments that qualify for the 2X Challenge launched by development finance institutions (DFIs) to advance opportunities for women.

Last but not least, we in 2020 made our first investment through Denmark's Green Future Fund, which was established by the Danish government to support the green transition in Denmark and abroad. The investment was in a 94-megawatt wind power plant that will create jobs, develop skills and generate income in one of the poorer regions in Brazil.

With IFU's new investment strategy we are accelerating our efforts to contribute to the SDGs, and with this report we invite you to an open dialogue on our approaches and performance. ▪

Torben Huss, CEO

IFU IN BRIEF

The Investment Fund for Developing Countries (IFU) is Denmark's development finance institution acting as a Danish impact investor contributing to green, just and inclusive societies as well as supporting the Sustainable Development Goals (SDGs) in developing countries. Investments are made on commercial terms with the dual purpose of creating measurable, beneficial development impacts alongside financial returns.

IFU has two types of investments: 1) Direct investments in project companies in the form of share capital and loans; and 2) indirect investments in private equity funds, which act as fund managers and invest in projects on behalf of IFU and other partners.

Apart from IFU's own capital, IFU is fund manager of several investment funds and facilities based on public or public-private capital. IFU is normally minority shareholder, which impacts IFU's leverage.

MORE THAN HALF OF IFU'S PROJECTS ARE GREENFIELD INVESTMENTS

Over time, IFU and IFU managed funds have invested in 1,318 projects covering over 100 different countries in Africa, Asia, Latin America and Europe. The total expected investment in these projects is close to DKK 227bn, with IFU and IFU managed funds contributing close to DKK 25bn. In 2020, total contracted investments by IFU and IFU managed funds amounted to DKK 2bn in 31 projects.

At year-end, the active portfolio covering all funds contained 192 projects. More than half of these projects are greenfield investments. Greenfield investments are investments in new projects where both management and facilities need to be established, whereas brownfield investments are investments in existing companies, which have operated for years.

IFU is engaged in investments all over the developing world. In the active portfolio, 39 per cent of the projects are in Africa, 32 per cent in Asia, 11 per cent in Latin America and 12 per cent in Eastern Europe, mainly Ukraine. The last six per cent is investments in global companies operating in more than one country. ▪

Active portfolio at 31 December 2020 (no. of projects)	
IFU	161
SDG	16
DCIF	12
DAF	4
IIP	3
IØ	6
Total	**202**
Eliminations*	(10)
Consolidated total	**192**

* Ten projects are eliminated due to inter-fund investments, or because they have received financing from more than one fund.

Reporting scope

IFU's Sustainability and Impact Report 2020 focuses on IFU's direct investments in project companies and financial institutions and indirect investments in funds which account for IFU's significant sustainability impacts. The impacts of IFU's own activities (offices) are small in comparison and are covered at the end of the report.

The report is based on sustainability reports submitted to IFU by 83 direct investments, 39 funds and five financial institutions. This is 92 per cent of projects required to report in this reporting period. Additional analysis of the performance of the portfolio on specific issues like greenhouse gas emissions are also included in the report.

An important note is that a third of the portfolio are projects contracted before 2015 where IFU's sustainability policy was strengthened significantly. These projects are not required to meet the same sustainability requirements as projects contracted in the period 2015-2020, and IFU cannot reopen contracts to add additional requirements. However, IFU is pleased to see that many projects contracted before 2015 are meeting the new requirements.

See reporting principles on page 33.

IFU managed funds and facilities – an overview	Established	Purpose	Capital** DKKm	Capital provided by
IFU and IFU managed funds				
IFU	1967	Private sector development in developing countries supporting the Sustainable Development Goals	4,040	State and accumulated profit
The Investment Fund for Central and Eastern Europe*/***	1989	Private sector development in Eastern Europe (being wound down)	92	State and accumulated profit
IFU Investment Partners*	2012	Joint investments in larger IFU projects	500	Two Danish pension funds
The Danish Climate Investment Fund*	2014	Climate investments in developing countries	1,290	IFU and institutional and private investors
The Danish Agribusiness Fund*	2016	Agribusiness and food investments in developing countries	800	IFU and institutional investors
The Danish SDG Investment Fund	2018	Large investments supporting the Sustainable Development Goals in developing countries	4,858	IFU and institutional and private investors
Investment facilities within IFU				
Project Development Programme	2016	Project development	50	State
NEIF – Neighbourhood Investment Facility	2018	Investments in energy efficiency and renewable energy in Ukraine and Georgia	131	State
High Risk High Impact	2019	High risk investments in Africa with high impact potential	200	State
Denmark's Green Future Fund	2020	Financing predominantly in the form of loans for climate investments in developing countries	1,000	State
Grant facilities outside IFU				
SME facility	2014	Grants for improving investments with Danish small and medium-sized enterprises in developing countries	60	State
NEIF – Neighbourhood Investment Facility	2018	Grants for improving investments in Ukraine and Georgia	10	State
DSIF				
Danida Sustainable Infrastructure Finance	2017	Loan guarantees with a grant element for public infrastructure projects, which cannot be funded through private investments	3,525	State
Project Development Facility - Danida Sustainable Infrastructure Finance	2017	Project development of infrastructure proposals for possible financing under Danida Sustainable Infrastructure Finance.	50	State

Notes:
* Closed for new investments.
** Either current equity capital for IFU and IØ, outstanding guarantee commitment for DSIF or originally committed capital or loan facilities for other funds and facilities. Figures for capital cannot be added, as part of IFU's equity is invested in other IFU managed funds and capital contributions to the investment facilities HRHI, PDP and NEIF are included in IFU's equity.
*** Total capital contribution to IØ was DKK 1,898m in the period 1990-2001, and DKK 3,740m has been paid back as per end of 2020. Both figures in nominal prices.

NEW INVESTMENT STRATEGY

THE INVESTMENT STRATEGY DETERMINES PRIORITIES RELATED TO IMPACT, SECTORS AND COUNTRIES

The overarching ambition of IFU's new investment strategy is to become a best-in-class impact investor. Therefore, new investments are guided by a set of impact priorities that steer the selection based on the investments' potential and ability to assist developing countries in improving the livelihood of people without jeopardising global sustainability.

The rationale is that there is a strong need for building a green, just and inclusive economy. A green economy will assist the world in reducing the use of resources, preventing the global temperature to rise, creating a circular economy and allowing developing countries to avoid the unsustainable development path that high-income countries have followed. A just and inclusive economy is a necessity because there is a strong need to reduce inequalities and poverty by addressing the fact that billions of people lack access to essential goods, services and rights.

This entails that IFU must sharpen its investment focus. Consequently, the new investment strategy determines priorities related to impact, sectors and countries, which are selected based on a combination of IFU's experience and track-record, development needs, and how best to maximise IFU's additionality and the outcome of the investments.

The priority impacts are selected to steer IFU's investments towards projects that can: reduce inequalities by increasing access to basic needs and services, reduce emissions and the use of resources, improve the supply of sustainable products, services and solutions as well as create more decent jobs and increase income, profits and local tax bases. Moreover, development issues such as gender, human rights, skills development and climate change mitigation and adaptation are included as impact denominators across all investments.

The prioritised sectors are: healthy foods, healthy lives, financial inclusion, energy, water and waste as well as transformational businesses. These sectors are selected because they have high value for people in developing countries and hold solid potential for supporting the ambition to assist in building green, just and inclusive societies. Moreover, the selection is based on IFU's existing competences and our ability to drive impact within these sectors.

IFU continues to have strong focus on assisting Danish companies in doing business in developing countries. Within the prioritised sectors, Danish businesses hold world-class technology and have proven solutions and business concepts that have the potential to make a difference in developing countries. ▪

The impact potential of investments

Most investments in developing countries contribute to the overall economic development of the country by supporting employment and by paying taxes. However, IFU also assesses the specific impact potential of each project. For example, an investment in renewable energy generation increases the supply of electricity and is at the same time an investment in the green transition, which is particularly effective in countries with high emissions and high carbon intensity in their existing energy generation.

An investment in a bank or another financial institution does not automatically have a high impact. It depends on whether that financial institution contributes to providing access to financial services to some of the groups that have little or no access. This could be rural households, small enterprises, women or young people. Microfinance is also an example of financial services with great impact potential.

Investments in agribusiness could also potentially have a wider impact on poor people and the environment through linkages to primary producers, including small-scale farmers. By setting standards to agricultural producers and providing technical assistance to enhance sustainable production, processors and buyers can contribute to transformational change in the sector.

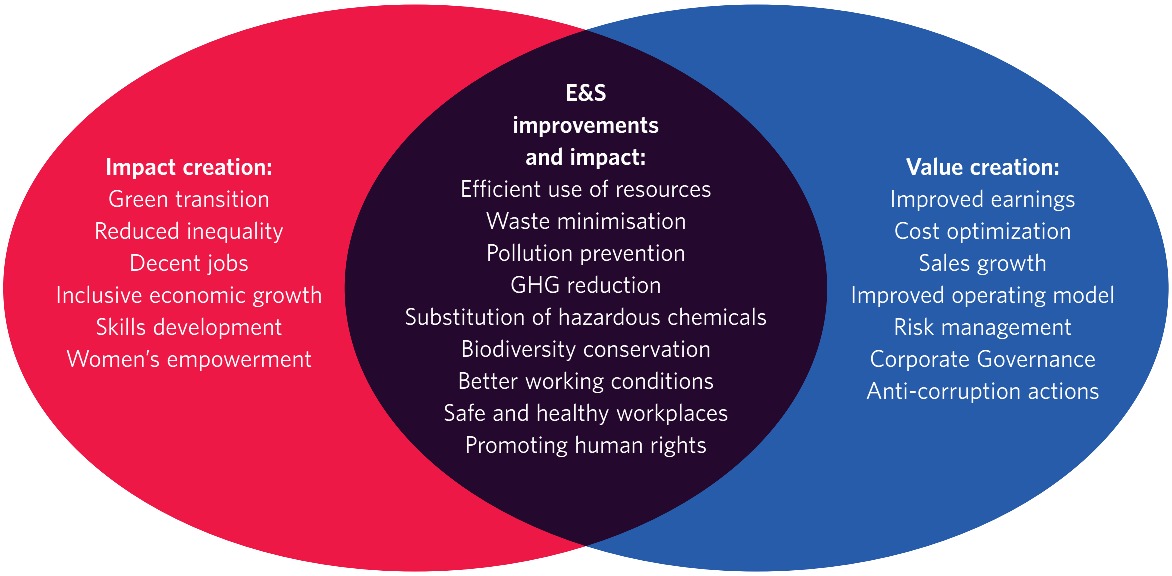
In the case of hotels and safari lodges, IFU assesses the potential of working with the company to improve environmental standards, employment policy (also in relation to gender) and skills development for the often high number of local employees.

Steering on impact and value

It is IFU's experience that there is a clear correlation between good financial performance and the impact of the project company, and IFU sees an increasing demand for high impact companies resulting in higher exit prices. Consequently, IFU is focusing on creating profitable business with high impact by steering on impact throughout IFU's engagement in projects.

CHOOSING THE RIGHT PROJECTS

CREATING VALUE WITH PROJECTS



To help choosing the right projects as per investment strategy, IFU conducts an initial screening of all potential projects. The screening is based on a set of criteria to settle if they meet the requirements regarding priority sectors and countries, return expectations and impacts supporting green, just and inclusive societies. For green investments, the EU taxonomy is the overall reference, with a clear focus on climate mitigation and adaptation, transition to circular economy, pollution prevention and control, sustainable protection of water and marine resources as well as protection and restoration of biodiversity and ecosystems. For inclusive investments the focus is on social impact business, bottom-of-the-pyramid strategy, increasing incomes for 40 per cent lowest income segment as well as impact on behaviour of other market actors. In addition to this impact scoring, IFU also makes use of an exclusion list, which is agreed upon amongst all European Development Finance Institutions (EDFIs).

Through active ownership IFU ensures that the planned impact priorities are operationalised and that the projects are following international Environmental and Social (E&S) standards and principles and delivering measurable environmental and social outcomes in the broader context of value creation.

Read more about IFU's screening of impact during the gating process, due diligence approach, and impact, planning, monitoring and evaluation as an integrated part of the investment process on page 8.

SUSTAINABILITY IN IFU'S INVESTMENT PROCESS

MANAGING SUSTAINABILITY RISKS AND IMPACTS IS AN INTEGRAL PART OF THE INVESTMENT PROCESS

IFU has a comprehensive framework for managing sustainability risks and impacts as an integral part of the investment process for both direct investments and investments in funds and financial institutions. This ensures that the investments contribute to building a green, just and inclusive economy and that environmental and social (E&S) risks and adverse impacts are mitigated.

Sustainability policy framework

IFU's Sustainability Policy is the foundation that sets out IFU's commitment to invest in sustainable development and to contribute to the realisation of the Sustainable Development Goals (SDGs). The policy highlights sustainability issues that IFU considers particularly relevant in order for investments to contribute to the SDGs. Furthermore, the policy has annexes with specific sustainability requirements for IFU's direct investments in the form of equity and loans to project companies, as well as investments in private equity funds, financial institutions and other financial intermediaries. IFU's commitments in relation to major global sustainability issues are clarified in underlying policies, which further explain how IFU implements responsible business conduct measures.

IFU'S SUSTAINABILITY POLICY

Environmental policies:
- Climate Policy
- Animal Welfare Policy

Social policies:
- Human Rights Policy
- Gender Equality Policy

Governance policies:
- Corporate Governance Policy
- Anti-Corruption Policy
- Tax Policy

IFU's sustainability policy framework consists of a sustainability policy and seven underlying policies. All policies are available at www.ifu.dk.

INTERNATIONAL COMMITMENTS

IFU's policies are based upon and aligned with the following internationally agreed UN, ILO and OECD conventions, declarations, agreements and principles for sustainable development:

- UN Sustainable Development Goals
- UNFCCC Paris Declaration
- Addis Ababa Action Agenda on Finance for Development
- UN Global Compact
- UN Guiding Principles on Business and Human Rights (UNGPs)
- OECD Guidelines for Multinational Enterprises
- Rio Declaration on Environment and Development
- Paris Agreement on Climate Change
- UN Convention Against Corruption
- UN Principles for Responsible Investment (UNPRI)

Sustainability in the investment process

SCREENING	• Creation of impact hypothesis • First gate impact screening against investment strategy • Identification of project-related sustainability risks and opportunities, and impact potential • Pre-assessment of potential adverse impacts on human rights • Evaluation of projects' sustainability awareness, capability and track record • Categorisation of projects according to environmental and social risk level
DUE DILIGENCE	• Development of impact areas aligned with the SDGs in a results framework • UN Global Compact Self Assessment for low-risk projects • Environmental and Social Impact Assessment (ESIA) for high-risk projects • Complementary assessment of severe adverse human rights impacts • Site visit, including stakeholder identification and engagement for high-risk projects
APPROVAL	• Binding commitment to IFU's sustainability requirements and to environmental and social action plan and impact creation plan • Agreement on results framework with indicators and targets for reporting
ACTIVE OWNERSHIP	• Ongoing monitoring of sustainability performance • Follow-up on environmental and social action plan and impact creation plan • Annual sustainability status report, including impact reporting

ONLY PROJECTS WITH A POSITIVE IMPACT SCORE GET THROUGH THE FIRST GATE

Investment process overview
IFU's investment process follows four main phases that are aligned with the standards adopted by the European Development Finance Institutions (EDFIs). The process will therefore be applied in a similar way when co-financing among EDFIs occurs.

During appraisal, IFU assesses and approves investments according to a gradually increased engagement level passing several approval stages from the initial screening phase, through a thorough due diligence phase to final approval.

First gate impact screening
In 2020, IFU developed a new project screening tool integrating impact criteria with the general investment criteria, which all project ideas are submitted to. This ensures that IFU does not engage in preparing a project that is on the investment exclusion list or a project that does not positively contribute to IFU's impact priorities of building green, just and inclusive economies.

The project screening tool will positively score an investment as contributing to the green economy if it supports climate mitigation and/or adaptation, circular economy, pollution prevention and control, sustainable protection of water and marine resources, or the protection and restoration of biodiversity and ecosystems. A requirement of do-no-significant harm to any of these environmental priorities is also included in the assessment. Similarly, a positive score is given on building a just and inclusive economy if the investment company is a social impact business, targets the bottom-of-the-pyramid, and/or increases incomes for the 40 per cent lowest income segment.

Only projects and investments that score positive on at least one of these priorities will advance to the next stage of the investment process.

E&S categorisation of risks
In the screening phase, IFU identifies project-related E&S risks and impacts to be assessed during the due diligence phase. This includes a pre-investment screening of potential adverse impacts on human rights for relevant rightsholders related to the project. IFU categorises the projects based on the identified E&S risk, using the risk categories A, B+, B and C that are defined and used by all EDFIs.

Category A projects are projects with significant potential adverse environmental or social impacts or risks, e.g. large wind farms and cement manufacturing. Contrary to this, category C projects are projects with minimal or no adverse social or environmental impacts or risks, e.g. offices or IT development companies. IFU also evaluates the project sponsor's track record, commitment and capability to manage sustainability issues. This is especially relevant for greenfield projects where project management is yet to be established.

DURING DUE DILIGENCE, THE IMPACT POTENTIAL IS ASSESSED FURTHER IN RELATION TO THE SDGS

Impact and E&S due diligence

When an investment opportunity is approved for consideration, IFU engages in a thorough due diligence of the project. The impact potential is assessed further in relation to the SDGs, and project-specific impact areas are identified. The due diligence also includes a comprehensive assessment of E&S risks, adverse impacts and mitigation measures related to the specific project based on the E&S categorisation. As improved E&S standards of the project have a positive impact, for example on the environment and on the quality of jobs, mitigation efforts will also contribute to impact creation.

IFU requires direct investments to follow international standards and principles in addition to complying with national regulations. The primary standards for high-risk projects (A and B+) that guide the scoping of IFU's due diligence of investments are the IFC Environmental and Social Performance Standards (2012), which are based on a number of international core conventions, declarations and agreements. For high-risk projects, IFU ensures that an Environmental and Social Impact Assessment (ESIA) is conducted where required by authorities, and IFU initiates an Environmental and Social Due Diligence against the IFC Performance Standards and the related IFC Environmental, Health, & Safety (EHS) Guidelines. The EHS Guidelines contain sector-specific performance levels and measures that are generally considered to be achievable in new facilities at reasonable costs by existing technology.

In low-risk projects (B and C), the E&S performance is assessed using the UN Global Compact Self Assessment Tool co-developed by IFU. Furthermore, it may be relevant to apply other international standards like ISO 14001, OHSAS 18001 and SA 8000.

In all projects, IFU conducts an anti-corruption due diligence, either by using the anti-corruption module of the UN Global Compact Self Assessment Tool or by conducting a full review of current anti-corruption policy and practises.

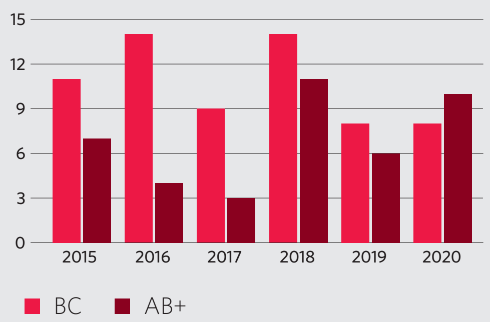
If the human rights screening shows that there is a risk of severe adverse human rights impacts, IFU will assess to what extent these impacts are covered by the IFC Performance Standards, or there is a need for a separate and more thorough human rights impact assessment. Read about IFU's human rights due diligence on page 20.

IFU also assesses the climate impacts of the direct investments by calculating the GHG emissions they cause and by identifying climate change resilient technologies and adaptation measures to be put in place as part of the investment. Read about IFU's climate actions on page 22.

In addition, IFU conducts site visits to identify areas that require further attention. For high-risk projects with issues regarding community health, safety, and security, land acquisition and involuntary resettlement or indigenous peoples, site visits include stakeholder identification and engagement.

In greenfield projects with a construction phase, IFU also focuses on special risk and impact during construction. This could include occupational, health and safety risks, issues related to land ownership and land use as well as impacts on the local community.

Risk categorisation of IFU's portfolio



During the last five years, IFU has invested in larger and more complex projects that are categorised as high-risk (A or B+), which requires more in-depth due diligence as well as more intensive active ownership work after signing. At year-end 2020, 56 per cent of the active portfolio are high-risk investments compared to 39 per cent in 2015.

Lake Turkana Wind Power, Kenya.

The purpose of all assessments during due diligence is to identify potential gaps in the current performance or planned measures in the project, and indicate which improvements are necessary to meet the requirements of IFU's sustainability policy and the relevant sustainability standards over time.

Exercising active ownership

IFU's investment strategy involves adding value to the project by playing an active role throughout the investment period. With regards to sustainability, this translates into ensuring commitment to a written environmental and social action plan describing the measures to be implemented within an agreed time frame to meet the requirements of IFU's sustainability policy and the relevant sustainability standards. Likewise, an impact creation plan with a project-specific results framework, including specific targets, is prepared and agreed upon with the project and other investors. These tools provide a framework for IFU's ongoing management and monitoring of the sustainability performance of the project. ▸

The IFC Performance Standards (PS)

PS1: Assessment and Management of Environmental and Social Risks and Impacts	**PS1** concerns management of environmental and social performance throughout the life of the project, and it applies to all projects. It establishes the importance of integrated assessment to identify the environmental and social impacts, risks and opportunities of projects; effective community engagement through disclosure of project-related information, and consultation with local communities on matters that directly affect them.
PS2: Labour and Working Conditions	
PS3: Resource Efficiency and Pollution Prevention	
PS4: Community Health, Safety, and Security	
PS5: Land Acquisition and Involuntary Resettlement	**PS2-8** describe potential environmental and social risks and impacts that require particular attention and that may apply depending on project circumstances and the identified environmental and social impacts and risks. These standards establish objectives and requirements to avoid, minimise, and where residual impacts remain, to compensate for risks and impacts to workers, affected communities and the environment. They address a number of crosscutting topics such as climate change, gender, human rights and water.
PS6: Biodiversity Conservation and Sustainable Management of Living Natural Resources	
PS7: Indigenous Peoples	
PS8: Cultural Heritage	

IFU uses its leverage to initiate improvement of the sustainability and impact performance of the project. However, IFU is usually a minority shareholder and thus does not have the opportunity to exercise management control. IFU's investment professionals have the overall responsibility for ensuring that the sustainability and impact requirements are met, and typically they participate in the board of directors of the direct investments. In 2020, IFU was board member or observer in 73 per cent of the total direct investment portfolio. IFU's Sustainability and Impact Unit assists the investment professionals and provides them with tools and training.

Projects are required to prepare an annual sustainability report to be discussed and approved by its board of directors. The report serves as an important tool for the annual stocktaking of the project's sustainability performance and development impacts. The annual reports must be submitted to IFU and are essential for IFU's ability to perform active ownership and provide transparent sustainability information about its investments.

Furthermore, projects are required to report progress on impact targets annually. The impact reporting reflects the combined results of the project, including IFU's investments, requirements and advice provided as part of the investment.

In 2020, 83 of 89 direct investments required to report submitted a sustainability report to IFU. Two of the

Broom, cold stores, Chile.

remaining projects have reported in a not applicable format, whereas four projects are in distress and have not prepared a report in this reporting period. On top of the 89 projects, 11 new projects are not required to report yet.

IFU has invested in ten financial institutions. Five of these have submitted a sustainability report to IFU in 2020. The remaining are four new investments not yet required to report, whereas one is in default.

Out of 51 fund investments, 39 submitted a sustainability report in 2020. Five are new fund investments not yet required to report, three have been exempted from reporting, and four did not report in the reporting period.

Providing tools and training for projects

IFU has a variety of tools to support the projects in their sustainability efforts. These include a Sustainable Investments Handbook that explains how IFU's sustainability requirements should be interpreted and can be implemented to ensure that sustainability is an integrated part of the strategic and daily operation of a company. The handbook applies to all direct investments, but funds and financial institutions may also use the handbook in their dialogue with their portfolio companies and clients. IFU also has a Sustainability Facility for IFU companies to promote sustainability aspects. In 2020, the Sustainability Facility supported two projects on gender equality and nine projects on Covid-19 protection. Read about IFU's Covid-19 grants on page 26.

EXTERNAL STAKEHOLDERS CAN REPORT ALLEGED BREACHES THROUGH IFU'S GRIEVANCE MECHANISM

Resolving grievances regarding investments

IFU has a grievance mechanism through which external stakeholders can report alleged breaches of IFU's Sustainability Policy. This includes grievances from individuals and communities affected by an IFU project.

Grievance reports will be received through a web portal established in collaboration with an external provider, who will assist IFU in administrating the reports. IFU will investigate the grievances and seek to resolve any breaches of IFU's policy. Measures may include third-party investigations, negotiated settlements, contractual remedies and considering the future relationship with the breaching parties. Furthermore, IFU will whenever justified use its leverage to seek to ensure access to remedy for affected individuals and communities and/or notify the appropriate authorities.

In 2020, IFU received one report regarding its investments. The report concerned workplace-related offences.

Stakeholder engagement and international cooperation

IFU participates in several fora to keep up to date with stakeholder expectations and the international developments within sustainability and responsible business conduct. IFU is a member of European Development Finance Institutions (EDFI), UN Global Compact Network Denmark, Transparency International Denmark, The Tax Dialogue, the Danish Ethical Trading Initiative (DIEH), Concito and the DFI Gender Finance Collaborative.

In 2019, IFU signed IFC's Operating Principles for Impact Management. These principles provide a piece of the framework to IFU's overall impact management ambition and will become subject to regular independent verification. In July 2020, IFU submitted its annual first disclosure statement on the status of implementing the OPIM, which is published on IFU's website and IFC's OPIM site.

Several elements of IFU's overall sustainability and impact approach are still under development and will continuously be elaborated in order to improve our contribution to the SDGs. Besides engaging in the collaboration and harmonisation efforts in EDFI, IFU in 2020 also became a member of the Global Impact Investment Network (GIIN), which established a range of standards within impact management and measurement. The GIIN forum provides opportunities for exchange and learning with private sector impact investors.

In addition, IFU has its own Sustainability Advisory Board with members appointed in their personal capacity, each representing issues of particular importance to IFU. The advisory board meets regularly to discuss and advise on key issues. ▪

IMPACT CREATION WITHIN INVESTMENTS

In the following, IFU's approach to become a best-in-class impact investor is further explained, and key results in 2020 within IFU's impact priority areas are presented. Focus is on the investments' contribution to improving equality and supporting the green transition through creating decent jobs and skills development, financial inclusion of underserved groups, promoting human rights and empowerment of women as well as climate mitigation and adaptation efforts and biodiversity protection.

IFU'S INVESTMENTS CONTRIBUTE TO

GOOD, BETTER AND DECENT JOBS

The absence of a welfare system in developing countries leaves little option for being unemployed for a large part of the population. Rather, the poor find themselves in precarious jobs with poor and insecure working conditions in sectors with low productivity. Underemployment is widespread in most developing countries, and 55 per cent of the working population in Africa earns less than 3 USD per day and falls into the category of working poor. It means that their wages are not enough to provide a decent life for a family.

On the African continent, more than 80 per cent of the workforce is earning its income in the informal economy. Growing the formal sector is a precondition for the workforce to move to better and more decent jobs and an important strategy towards overall economic and social development. Moving into formal employment not only benefits the individual and the family, but also benefits society, notably in the form of enhanced human capital.

Commitments and approach

IFU is committed to support growth of businesses in the formal sector in developing countries and to contribute to securing decent jobs.

When IFU invests, existing jobs are sustained, and new jobs are created. But the new employees do not necessarily come from unemployment. It is essential to IFU not only to contribute to creating new jobs, but to create better jobs. The purpose of job creation is to replace informal, unstable jobs that pay poorly with formal, stable jobs that pay well.

Indirect employment effects

IFU does not have reliable data on the employment effects outside the project company, for instance in the supply chain or the effect induced in the economy from employees spending their salaries.

Most likely, the direct employment and income opportunities provided by IFU's project companies only constitute a small part of the total job effects in the economy. However, measuring these effects is highly complex. IFU's sister organisations in Britain (CDC), the Netherlands (FMO) and France (PROPARCO) have developed a Joint Impact Model that provides an estimate of the indirect employment effects. The estimates are modelled with a so-called input-output model for each project company based on its annual turnover. and includes an estimation of the induced effects, supply chain effects and power enabling effects, which are employment effects stemming from increased power supply from energy projects.

IFU is currently testing the model in order to obtain an overall estimate of the indirect employment effects of its portfolio. Preliminary results indicate that 20 of the 23 companies IFU undertook direct investments in during 2018 and 2019 supported annually more than 4,000 jobs in the supply chain and more than 3,500 jobs through the induced effects in the economy. In comparison, the 20 companies reported 4,452 direct jobs in 2020. The three companies not included in the calculation are renewable energy projects under construction. Moreover, the power enabling employment effects of energy projects have not been included. This supports that a significant number of indirect jobs are created outside the project companies.

AVK, water supply, Southern Africa.

IFU ensures that jobs in project companies live up to international labour standards. This means that all workers must have an employment contract specifying the terms of employment, including reasonable wages and working hours, and migrant workers must have adequate housing and living conditions. IFU's requirements for decent work also include occupational health and safety initiatives that effectively prevent and protect workers against health and safety risks in the workplace. Furthermore, projects must respect workers' right to privacy, freedom of association and collective bargaining, and promote equal opportunities and prevent discrimination.

IT IS ESSENTIAL TO IFU NOT ONLY TO CONTRIBUTE TO CREATING NEW JOBS, BUT TO CREATE BETTER JOBS

In many of IFU's potential investments, employment conditions can be improved. And if IFU decides to invest, IFU and the project company agree on an action plan on what measures to take in order to ensure that the project company not only respects domestic legal requirements but bring the company up to international standards.

Results and outlook

In 2020, close to 280,000 people were employed in the projects included in IFU's active portfolio. Almost 137,000 are employed in Asia and more than 74,000 in Africa. In addition, almost 68,000 people are employed in companies in Latin America, Europe and in the global companies.

In 2020, 72 per cent of the direct investments reported that they pay workers more than the national minimum wage, 23 per cent pay the national minimum wage, whereas five per cent have not reported pay levels. IFU finds these numbers satisfactory. However, only 71 per cent of the direct investments stated that they pay overtime. These numbers are in the lower range of the acceptable, and IFU will explore this further.

In 2020, 71 per cent of the direct investments reported that they had taken initiatives to promote equal opportunities and prevent discrimination. The most common initiative implemented by 61 per cent of the project companies is a non-discrimination policy that ensures unbiased and transparent criteria for hiring, wages, promotion, training, discipline, retirement and termination. However, only 45 per cent of the companies ensure that their hiring managers receive training in the non-discrimination policy. IFU will therefore strengthen the dialogue with the project companies to encourage them to implement a non-discrimination policy as well as associated training programmes.

Non-discrimination measures taken to prevent and address harassment and exploitation in regard to women are accounted for on page 18.

In 2020, 37 per cent of the direct investments reported that they had had accidents involving workers. The total number of accidents were 292. One of these accidents was fatal and happened when the employee was driving home from work. Although the number of accidents is lower than the 380 accidents in 2019, every accident is one too many, and IFU closely follows up on each project company's initiatives to reduce the number of accidents and ensures that all project companies have the necessary precautionary measures in place relevant for the sector in question. 89 per cent of the project companies reported that they have safety procedures in place, and 93 per cent conduct safety training of the employees. Only 67 per cent of the project companies conduct fire drills, and 79 per cent provide personal protective equipment. Although IFU sees improvements, these number are still not satisfactory, since the majority of the direct investments are manufacturing companies. IFU will step up the efforts to follow up on action plans to ensure compliance. ▸

IFU'S INVESTMENTS CONTRIBUTE TO

IMPROVING SKILLS DEVELOPMENT

Productive companies need well qualified employees, and this is a constraining factor in many developing countries. The existing vocational education and training is inadequate and, in many countries, not well enough aligned to the requirements of the private sector. In African countries alone, 12 million young people join the labour market each year, and providing education and training for this new generation is one of the major development challenges.

Not only could more skilled labour enable better employment and income, it could also facilitate the growth of key sectors of the economy where competences are badly needed. One of the major issues is a lack of formal certification of competences for people who have received training through apprenticeship or through other forms of training in the private sector. This makes it difficult for employees to provide documentation to new employers when they move on in their career.

Commitments and approach

IFU considers skills development as an important area for impact creation and encourages project companies to engage and empower youth by providing jobs, training and mentorship programmes.

IFU project companies undertake training of employees through on-the-job training or through more structured courses or training events. Further qualification of the workforce contributes to productivity and enhanced competitiveness of the company. However, this training often takes place in an informal way that does not provide the employees with a qualification certificate that increases his or her employability in the future outside the company. As part of its effort in impact creation, IFU focuses on improving skills development and its value both for the company and for the employee. Most often the focus will be on skills development for company employees, but in some sectors, it could also be training of people outside the company. This could include for instance training of supply chain actors, e.g. small-scale farmers supplying to an agribusiness company or training of clients in microfinance.

Results and outlook

Young people are especially challenged in finding decent jobs in the formal economy, especially in Africa. In 2019, the share of employees below 25 years of age in the project companies was 20 per cent.

IFU is in the process of assessing its experience with skills development in order to strengthen this impact area further as an aspect of the impact creation of future investments. The study has a focus on Africa and includes ten cases selected from IFU project companies in the financial sector, renewable energy, health and hospitality. Amongst other things this could include promoting a closer cooperation between project companies and relevant vocational training institutes. Through this focus IFU wants to contribute to including more young people in the labour market.

TRAINING YOUNG PEOPLE IN THE HOSPITALITY SECTOR

IFU is supporting a training programme in Asilia Africa, that gives 70 young Africans the opportunity to use the standstill in the tourism sector caused by Covid-19 to upgrade and diversify their qualifications, giving them better job and career opportunities when things return to normal. Moreover, the training will have a positive impact on the company's productivity and quality.

Asilia Africa operates a number of lodges in Kenya and Tanzania, and the programme offers tailormade training within several vocational professions, such as waiter, chef, safari guide, manager and service employee. The programme combines theoretical and practical learning directly on the job by using a few of the company's safari lodges for imitating a fully operational lodge with all job functions. The training takes place over the course of a month and will be followed by a three to six months mentoring programme providing the participants with further training within their job area. The training programme is certified by internationally recognised training institutions within the hospitality and safari guiding sector, and all participants will receive a diploma to verify that they have completed a professional training course.

INVESTMENT IN BANK WITH CLEAR SOCIAL MISSION

In Bolivia, only 55 per cent of the poorest 40 per cent of the population have access to a bank account. Many businesses rely on informal financing, especially female-owned businesses, of which only 19 per cent have bank loans.

Through the Danish SDG Investment Fund, IFU in 2020 invested DKK 195.3m in BancoSol which has a clear social mission of serving low-income groups, rural people and small and micro enterprises in the productive sectors. 48 per cent of BancoSol's clients are women, and 13 per cent are rural clients, and thus the investment is in line with IFU's impact priorities by providing essential services to underserved groups such as women and smallholders. With more than 1.1 million depositors and 270,000 microloan clients, BancoSol has sizeable effect on poverty reduction, incomes and the Bolivian national economy.

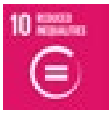
By developing new digital products, BancoSol is deepening financial services without turning to exorbitant interest rates. BancoSol has a financial education programme, which provides financial training to tens of thousands of people each year. All new clients receive a welcome folder with important information allowing them to know the benefits and risks that they assume when accessing a loan, and BancoSol also provides tutorial videos on the bank's services and channels, such as how to use different tools, the ATMs and the BancoSol App.

Emerging microentrepreneur clients are offered technical training in business planning and entrepreneurship, and BancoSol visits clients at markets, universities, neighbourhood councils and institutions of the different cities, giving face-to-face lectures on financial consumer rights and obligations.

With 3,000 employees, of whom 50 per cent are women, BancoSol is a large employer. The bank has comprehensive human resource policies and procedures in place. These include a great extent of job security, staff induction programmes, comfortable and suitable work environment, and scheduled vacations. The policies also ensure gender equality in the promotion to senior management and in the bank's talent development programme. As an example, all female officers in leading positions have received professional coaching in exercising conscious leadership effectively within their work, family and personal environment.

Furthermore, BancoSol supports employee health and has conducted awareness campaigns for early prevention of possible diseases with information, advice and care for various diseases.

IFU'S INVESTMENTS CONTRIBUTE TO



FINANCIAL INCLUSION OF UNDERSERVED GROUPS

According to the World Bank, more than a quarter of the world's population was living on less than USD 3.20 per day in 2015, and nearly half of the population was living on less than USD 5.50. Although many developing countries experience economic growth, vulnerable groups such as indigenous people and smallholders are often left behind. Furthermore, women and youth have in general less access to assets and services which could propel them out of poverty. And we have not yet seen what the Covid-19 crisis has done to these numbers. In addition to the threat to public health, the economic and social disruption caused by the pandemic threatens the long-term livelihoods and wellbeing of millions.

Financial inclusion is a key to reducing poverty and inequalities, but in most developing countries, access to financial services is sporadic. This is not least the case in rural areas, and it hampers the ability for people to invest in and grow their business. According to the IMF, only 37 per cent of women in Sub-Saharan Africa have a bank account, compared with 48 per cent of men. Furthermore, only 21 per cent of companies in Sub-Saharan Africa have a line of credit.

Commitments and approach

Financial inclusion is a focus area in IFUs new investment strategy, and IFU is committed to support essential financial service provision to underserved populations and small and micro companies, thereby helping to build markets and create opportunities.

IFU is financing local banks in developing countries, supporting them in targeting small and micro companies, which can develop and grow their business through loan financing. Investing in banks enables IFU to better reach the local business community compared to direct investments in individual companies.

Furthermore, IFU is integrating a gender lens to its investments in financial inclusion to contribute to redress power imbalances and give women better options for managing their own lives and becoming financially independent. ▸

IFU'S INVESTMENTS CONTRIBUTE TO

Results and outlook

At year-end 2020, IFU had an active portfolio of seven microfinance funds and five microfinance institutions (MFIs) in Africa, Asia and Latin America. IFU's total contracted investments in these projects exceed DKK 900m. In 2020, IFU made new investments for more than DKK 216m in two microfinance institutions.

IFU's investments in microfinance institutions were serving a total of 13.5 million clients in 2020, of whom 84 per cent are women.

Going forward, IFU will support financial and microfinance institutions in measuring the social impact at client level and in improving the reporting on social impact results both related to decent jobs for their own employees and improved livelihood of their clients.

EMPOWERMENT OF WOMEN IN THE WORKPLACE

Gender inequalities are still deep-rooted in many societies where IFU invests. Women lack of access to decent work and face occupational segregation and gender wage gaps. In many places, they have limited access to leadership positions and career development and health care and are victims of violence and discrimination.

Gender inequality is not only a pressing moral and social issue but also a critical economic challenge. If women could use their full potential in the global economy, the world could add USD 12 trillion to global growth.

Commitments and approach

IFU is committed to apply a gender lens when making decisions in its investment process and to contribute to unlocking business opportunities for female entrepreneurs and advance women as business leaders, employees and consumers. IFU firmly believes that opportunities exist to create value in companies and communities by integrating gender equality in company leadership and corporate culture as well as in workplace policies and health initiatives.

IFU is in the process of integrating gender equality issues into the impact screening and due diligence. This means that Women Economic Empowerment (WEE) opportunities like equal pay, gender equality in management and board work, leadership training, leave/return procedures and improved health at the workplace and gender-inclusive community engagements become a part of the impact discussions with project partners and that specific targets for gender equality are included in the impact creation plan.

In 2020, IFU finalised the Gender Equality Scorecard (GES) tool developed to support projects in identifying gender equality gaps and impact opportunities. The scorecard is structured around six issues related to equal pay, workforce participation, leadership, benefits and professional development, women-powered value chains and workplace environment. Workplace environment includes initiatives that improve women's health and sexual and reproductive health. Due to the coronavirus pandemic the roll-out of the tool was delayed, and internal training of investment professional is postponed to 2021.

IFU takes part in the 2X Challenge launched by development finance institutions (DFIs) of the G7 countries in 2018. The aim is to advance opportunities for women through enterprise support, leadership and career progression, quality employment and products, as well as services that enhance women's economic participation. Thirteen DFIs have joined, and together by far reached the first target to achieve a total of USD 3bn in commitments to finance project with an intentional gender equality focus by the end of 2020.

IFU encourages projects to go public with their gender equality policy and activities, and handles the registration under the 2X Challenge. In total, IFU has registered five projects equivalent to approximately DKK 100m invested.

Results and outlook

In 2020, a third of the project companies were owned by one or more women. 18 per cent of the projects

The Paris Development Banks statement on Gender Equality and Women's Empowerment

In November 2020, IFU participated in the first ever Global Summit for Public Development Banks (PDBs) of the world. At this summit, it was acknowledged that progress towards gender equality has yet been far too slow. The participants expressed their deepest concerns that women and girls, particularly in developing countries, are disproportionally impacted by the economic and social consequences of the Covid-19 crisis and it was recognized that they are at the core of the fight against the pandemic as key players of the economic and social recovery. All participants signed The Paris Development Banks statement on Gender Equality and Women's Empowerment and thereby committed themselves to work together on different goals and outcomes, to present collectively some concrete results during the Generation Equality Forum in 2021.

GENDER EQUALITY CAN JUMP-START CLIMATE ACTION

Women suffer disproportionately from the adverse effects of climate change. That is because women are more likely to live in poverty than men, have less access to basic human rights like the ability to freely move and acquire land, and face systematic violence that escalates during periods of instability.

By the same token, gender equality and women's leadership can jump-start climate action and climate smart solutions, to build environmental sustainability and resilience. By applying an integrated gender and climate lens to investment decisions, IFU seeks to unlock huge untapped opportunities. Widely regarded as one of the least gender diverse parts of the economy, the energy sector needs to shift the dial by drawing on all talents to deliver more innovative and inclusive solutions for clean energy transitions all over the world.

To showcase the energy sector, the clearest opportunities lie in expanding renewable energy access that responds to the gender differentiated needs of women, their households, businesses, and communities; but a gender lens may also be applied to large-scale climate mitigation projects such as wind farms as well, increasing opportunities for women's employment and innovation.

Through the Danish SDG Investment Fund, IFU has invested DKK 170m in JCM Power, a Canadian independent power producer building and operating renewable energy projects in developing countries in Africa, Asia and Latin America. The aim is to install 800 megawatt solar and wind power. So far, JCM Power has developed wind projects in Pakistan and solar projects in Malawi, and a solar project in Nicaragua is underway.

Women's empowerment is a core impact objective for JCM Power, and all projects must have a Gender Equality Management Plan in place within 12 months of financial close.

JCM Power provides a toolkit on how to increase the employment of women. Measures may include:

- Promote gender equality in hiring and review of hiring requirements to detect criteria that potentially exclude women.
- Include women in training activities to carry out construction, operation and maintenance work that does not require specific qualifications.
- Improve working environment, e.g. create bathrooms, lactation rooms or other exclusive facilities for women in construction areas and make uniforms available in sizes appropriate for women, including pregnant women. Also promote an environment free from sexual harassment.

JCM Power is a signatory to the UN Women's Economics Principles and the project is considering to register under the 2X Challenge.

IFU TAKES PART IN THE 2X CHALLENGE TO ADVANCE OPPORTUNITIES FOR WOMEN

have reported that the share of women in senior management is more than 40 per cent. However, in half of the projects, the share of women in leading positions is less than ten per cent. Half of the companies have reported that they have taken initiatives to advance women in the workforce. The most common initiatives are gender wage equity, fair career advancement and flexible work arrangements. IFU expects the new investment strategy to improve this gender balance, and going forward IFU continues to seek to foster opportunities for leadership empowerment of women. Initiatives include the roll-out of the Gender Equality Scorecard (GES) tool.

A constant focus area is encouraging projects to address and promote health and reproductive health for all employees. This includes providing flexibility at work for women to relieve the double burden of managing work and family demands concurrently and ensuring women's health in the workplace.

In 2020, 73 per cent of the direct investments have reported that they have taken initiatives to promote health and reproductive health, and 58 per cent stated that they respect all genders' rights to time off for medical care. The most common initiatives taken by half of the project companies include offering health insurance for employees and providing health check-ups. IFU acknowledges that 20 per cent of the companies provide male workers with parental leave and will work to ensure that male workers use this possibility. Furthermore, IFU will focus on access to maternal health and flexible working hours for young mothers returning to work. ▸

Another important focus area is gender-based violence and harassment (GBVH) that have a range of negative impacts on the health and wellbeing of individuals and their families. GBVH covers sexual, physical, psychological and economic abuse and is rooted in gender inequality and unequal power, which can leave especially women and girls vulnerable to violence and harassment and prevent them from reporting it.

In fact, reports from projects to IFU on GBVH cases can be counted on one hand, and in the future IFU will strongly encourage projects to have clear policies on GBVH in relevant local languages and ensure that the message is communicated already at recruitment and repeated at relevant occasions. Projects are required to have a grievance mechanism in place, and IFU also strongly encourages projects to raise awareness that the grievance mechanism can be used for reporting misconduct.

IFU'S INVESTMENTS CONTRIBUTE TO

STRENGTHENED HUMAN RIGHTS DUE DILIGENCE

Sustainable development and human rights of all must be realised in a mutually reinforcing manner. The 2030 Agenda is explicitly grounded in human rights, and the pledge to leave no one behind reflects the fundamental human rights principles of non-discrimination and equality. Implementing the SDGs therefore implicitly promotes human rights, and vice versa, and the SDGs can in some ways be seen as a way of operationalising human rights commitments.

Commitments and approach

As a state-owned institution IFU has a special responsibility and duty to protect human rights as described in the International Bill of Human Rights. IFU considers respect for human rights to be a minimum standard applied in all its operations, and expects its employees and its projects to actively encourage those involved in their business activities to adopt the same or similar standards.

In 2019, IFU strengthened its human rights due diligence process for direct investments. First step is a pre-investment screening of potential adverse impacts on human rights for relevant rightsholders related to the project. The assessment takes into account country and project risks like projects in fragile states, projects in countries with no guarantee of workers' rights, projects in countries with high risk of corruption and projects involving a number of risk aspects such as land take, use of migrant workers, location in water scarce areas or handling of personal data, etc.

If this screening shows that there is a risk of severe adverse human rights impacts, the next step is to assess to what extent these impacts are covered by the IFC Performance Standards. To support the assessment, IFU has mapped the link between the IFC Performance Standards and the human rights and developed a human rights due diligence matrix. The result is either additional mitigation measures to those included to comply with the IFC Performance Standards or a separate full human rights impact assessment of the potential severe adverse impacts.

IFU continuously works to improve the assessment of human rights impacts throughout the investment period. In 2020, IFU expanded its annual questionnaire for collecting performance data in all direct investments with additional questions about grievances received from both workers and local communities; management of privacy data; and management of supply chain in order to assess potential impacts on human rights in the supply chains.

IFU shares knowledge and best practices with other EDFIs on approaches to assess the investments' impacts on human rights. IFU in 2020 supported an initiative to develop a common EDFI guidance on assessing the human rights impact of both direct and indirect investments. When the guidance is available, IFU will review its current due diligence process and ensure alignment with the EDFI approach.

Results and outlook

In 2020, IFU screened all ten potential direct investments for potential adverse impacts on human rights. The screenings identified risks of severe impacts in all investments and thus, the human rights due diligence matrix was used for a more comprehensive assessment of all investments. These assessments showed that the majority of the potential adverse impacts on human rights were already managed in the environmental and social action plans prepared to ensure compliance with IFC Performance Standards, and that no investments required an additional full human rights impact assessment.

However, additional mitigation measures were included in the environmental and social action plans for five of the ten investments, IFU signed in 2020. These measures ensure implementation of environmental and social management system, e.g. the right organisational set-up and available resources at the project companies. Other additional measures are protection of human rights in the supply chain, and protection of right to privacy, especially in relation to management of privacy data for healthcare facilities. ▸

The link between IFC Performance Standards and human rights

As IFU and its investments work towards compliance with the IFC Performance Standards, IFU has mapped the link between the eight performance standards (PS1 – P8) and human rights.

Most relevant for IFU within PS1 (Assessment and Management of Environmental and Social Risks and Impacts) is the right to life as aspects of emergency preparedness and response. Other relevant rights covered by PS1 are the right to non-discrimination and the right to public participation related to stakeholder engagement and access to grievance mechanism.

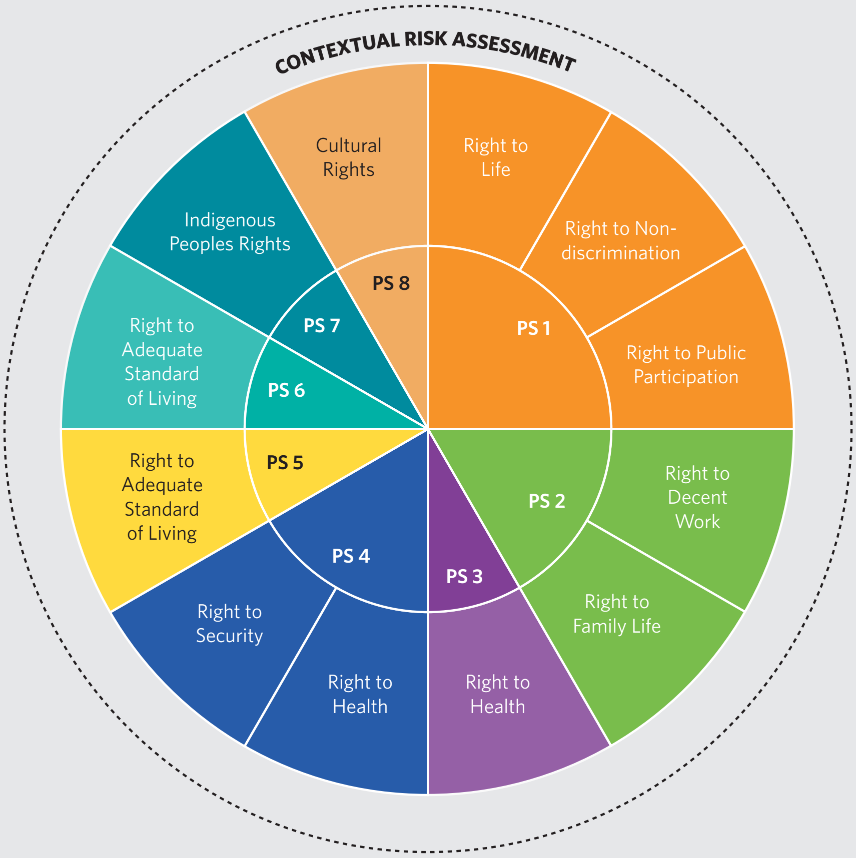
The right to decent work covers all human rights related to working conditions, e.g. right to work, right to enjoy just and favourable conditions of work, right to form and join trade unions and the right to strike as well as avoiding child labour and forced labour etc., which are all covered by PS2 (Labour and Working Conditions).

Rights covered by PS4 (Community Health, Safety and Security) include the right to health and the right to security. For PS5 (Land Acquisition and Involuntary Resettlement) the right to adequate standard of living is of most relevance to IFU projects.

Environmental impacts under PS3 (Resource Efficiency and Pollution Prevention) and PS6 (Biodiversity Conservation and Sustainable Management of Living Natural Resources) only lead to human rights impacts when affecting the right-holders, through impacts on the right to health (PS4) and the right to adequate standards of living (PS5). In the figure, these indirect impacts are indicated with shaded colours. Impacts on biodiversity that do not affect the livelihood or other ecosystem services of communities do not necessarily translate into a human rights impact. This could be the case for e.g. impacts on birds and bats from wind farms.

PS7 (Indigenous People) and PS8 (Cultural Heritage) are covered by indigenous people's rights and cultural rights, respectively.

While most of the human rights are an integral part of IFC PS, two specific human rights risks are not covered sufficiently. One is human rights risks in the supply chain, which needs specific attention related to impacts on all human rights. The other is right to privacy that is particularly relevant for companies handling significant amounts of personal data, such as private banking, microfinance, health providers and Information and Communication Technology (ICT). The right to privacy also relates to companies' surveillance, workers personal information kept by the company and personal information of community member collected by the company in relation to e.g. land acquisition and resettlement. By using the human rights due diligence matrix, IFU ensures additional mitigation measures within these issues, if needed.



IFU'S INVESTMENTS CONTRIBUTE TO

THE PATHWAY TOWARDS NET ZERO EMISSIONS

2019 was the second warmest year on record and the end of the warmest decade. In addition, with a global average temperature of 1.1°C above estimated pre-industrial levels, the global community is far off track to meet the 1.5 °C target called for in the Paris Agreement.

Many developing countries are the ones facing the most severe consequences of climate change, affecting livelihoods, private sector development and economic growth. At the same time, access to water and affordable and clean energy are big challenges for both people and businesses. In Sub-Saharan Africa alone, around 50 per cent on average do not have access to electricity, and 40 per cent of businesses report that access to energy is a major operational constraint. Consequently, the need for investments supporting the green transition including transformational changes to lower greenhouse gas emissions and renewable energy in developing countries is high.

Commitments and approach

IFU is committed to contribute to the transformational changes that the 1.5 °C target of the Paris Agreement entails over the coming years, and make its investment flows consistent with a pathway towards zero greenhouse gas (GHG) emissions and climate-resilient development.

IFU WILL ENSURE THAT ITS PORTFOLIO ACHIEVE NET ZERO EMISSIONS BY 2050 AT THE LATEST

IFU will no longer make new investments in fossil fuel-based power production to the grid, but can in a transition period until 2023 invest in transitional hybrid technologies e.g. gas in combination with renewables for power production, if strong development impact criteria are met. Aligned with the Paris Agreement such criteria could be that the investment is in a low-income country, and it is in accordance with the country's national long-term energy plans, and that it meets an acute energy need or secures broader access to energy.

In November 2020, the European Development Finance Institutions (EDFIs) announced that all member institutions will align all new financing decisions with the objectives of the Paris Agreement by 2022 and will ensure that their portfolios achieve net zero emissions by 2050 at the latest. This is in line with the commitment in IFU's Climate Policy.

Furthermore, EDFIs will make climate-related financial disclosures in line with high international standards, specifically adopting the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and embed climate action and climate risk management at every level of its institutions.

Working with the TCFD recommendations requires comprehensive analysis of climate issues, and IFU will develop and continue improving its approach and practices in the coming years. In the following, IFU's approach to climate action is structured around the four thematic areas in the TCFD recommendations.

1. Governance

IFU's Board of Directors adopted the Climate Policy in 2019 and oversees the implementation of the policy including approval of planned revisions of the Policy. A revision is planned before 2023 to broaden the scope of the Climate Policy, as the policy currently focuses on energy.

IFU's climate commitments and initiative are also discussed with IFU's Sustainability Advisory Board. Climate-related risks and opportunities are covered across various functions in IFU. This ranges from financial and investment teams preparing due diligence and business plans to dedicated sustainability teams advising on definitions, policy and position statements, and monitoring and reporting performance.

2. Strategy

Climate action is a key factor in IFU's new investment strategy and an impact priority. IFU recognises the importance of integrating climate change into its operations, from early screening of an investment opportunity throughout the active ownership to exit. Included in IFU's screening tool is EDFI's exclusion list, which in 2020 has been under revision to exclude more high emissions activities. In the preparation of investments, IFU assesses the potential climate impacts of its investments by calculating the absolute GHG emissions they cause and by identifying climate change resilient technologies and adaptation measures to be put in place as part of the investment. Furthermore, IFU estimates the avoided emissions from investing in renewable energy or the reduced emissions from investing in energy efficiency actions.

IFU also acknowledges the need and responsibility for considering and assessing broader climate-related issues, as climate change may affect clients vulnerable to the material consequences of and the transition to a low-carbon economy. Moreover, climate actions are not only about climate risks but also a way to ensure environmentally sustainable economic activities and a pathway to a green transition.

3. Risk management

There is an increasing understanding that changes in climate, like rising temperatures and changes in precipitation patterns affect economic output and productivity, and that extreme weather events can lead to

Queen Tarim Flowers, Turkey.

IFU HAS FOR THE FIRST TIME CALCULATED THE CLIMATE FOOTPRINT OF ITS OUTSTANDING PORTFOLIO

damage, operational downtime and lost production for fixed assets. Moreover, there are growing political initiatives to reduce GHG emissions especially from high emitting activities to ensure alignment with the Paris Agreement. Therefore, there is an increasing focus amongst investors to assess risks of climate changes, both physical risks caused by extreme weather and transitions risks that could lead to financial losses through stranded assets, reducing valuations of equity investments and decreasing fundraising opportunities due to reputation risks.

IFU has in 2020 increased its focus on how climate change can impact IFU's investments, and has started to discuss how to improve adaptation and resilience with its clients. Currently, IFU is developing a due diligence tool for assessing these risks of climate change (physical and transition) and identify measures to be included in the Environmental and Social Action plan as well as relevant monitoring parameters.

As an example, IFU has required one investment in a renewable energy platform investing in solar and wind energy projects to establish an approach for assessing their physical risks of climate change. IFU plans to share the learnings from this investment in IFU's other renewable energy investments, as these are especially vulnerable for the physical climate changes.

IFU will continue to improve the quantification of risks, but raising the questions and having a dialogue with the clients on the risks related to climate change creates a general awareness and allows IFU to manage the risks together with the clients.

4. Metrics and targets

During appraisal, IFU estimates the absolute carbon emissions and avoided emissions due to investment in renewable energy projects. The estimations are calculated by an independent consultant. Projects emitting more than 25,000 tonnes of CO_2 equivalent annually are required to monitor and report on emissions to IFU. The information on emissions will be used to discuss how to reduce the emissions in terms of choice of technology, introduction of mitigation measures, etc.

All projects are required to take all necessary measures to ensure that the project is energy efficient, thereby reducing contributions to global warming to a minimum. The project should over time work towards a level in line with best practice within its sector or set a goal of reducing its GHG emissions.

Results and outlook

In recent years, IFU has increased its investments in wind and solar projects in several developing countries like Brazil, Ukraine, Egypt, Nigeria and Mongolia.

In 2020, IFU contracted two new climate investments; one wind project in Brazil with three sites of a total capacity of 94 MW and one investment in a solar company in West Africa with secured funding up to 100MW, assisting corporate and industrial businesses in solving the energy challenges by offering turnkey solar power solutions that can reduce cost and are more reliable and cleaner.

In Africa, the current lack of credit-worthy purchasers of power act as a brake on private sector investment in energy projects. In 2020, IFU has also invested in Africa GreenCo that via its operating entity GreenCo Power Services Limited acts as an intermediary between Independent Power Producers (IPPs), public utility companies and large corporate off-takers. The concept is based on the company being a well-capitalised off-taker buying power from IPPs and selling it on to African utilities, large private companies or through the Southern African Power Pool (SAPP), where power can be traded across countries connected to a common grid.

In total, IFU's current portfolio includes renewable energy projects with an overall capacity of 1,950 megawatts distributed on 775 megawatts in wind power, 575 megawatts in solar power and 600 megawatts hydropower. In total, the portfolio generated 6,215 GWh renewable energy in 2020 (including 1,860 from hydro power). This corresponds to 2.14 million tCO_2e emission avoided in 2020.

IFU's two new climate investments are expected to represent GHG avoidance of approximately 200,000 tCO_2e per year. ▸

IFU's climate footprint

IFU has for the first time calculated the climate footprint of its outstanding portfolio, meaning accounting for the total absolute emission estimated, and assessing them at a fixed point in time, in line with the financial accounting period.

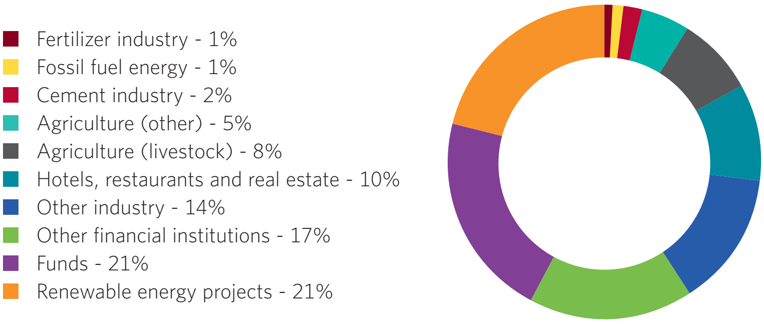
The calculation is based on the methodology described in the PCAF Global GHG Accounting Standard. However, the methodology applied included considerations that are specific to IFU, and expand on the PCAF standard, in order to allow for a full assessment of IFU's portfolio. A full methodology paper is available on IFU's website.

The emissions calculated are related to the Scope 1, 2 and 3 emissions of companies and projects in which IFU is investing. The financed emissions are defined in alignment with the "follow the money" principle, meaning that the money from loans and investments should be followed as far as possible to understand and account for the climate impact in the real economy.

Furthermore, in order to avoid double-counting, the footprint results account for attribution, in accordance with the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard. The attribution factor is defined so that GHG emissions from loans and investments are allocated to the reporting financial institutions based on the proportional share of lending or investment in the borrower or investee. The attribution factor is then multiplied with the emissions of the company or project.

IFU plans to repeat the calculation of the climate footprint every year in order to measure how IFU's portfolio is performing on GHG over time and allowing IFU to track the journey to net-zero emissions in 2050. IFU will also consider how to use the results of the footprinting exercise and the detailed underlying information for future investment decisions.

Volume (IFU's outstanding)



The figure shows how IFU's total investments are distributed between sectors, based on the information included in the carbon footprint calculation. The results show that 21 per cent of IFU's total investment is in renewable energy, 21 per cent in funds and 17 per cent in financial institutions, whereas only one per cent is in cement plants and one per cent in fossil fuel energy plants.

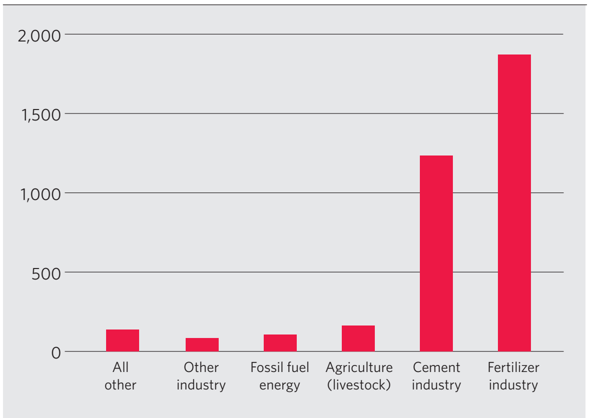
Emissions attributed

Sector (level II)	tCO_2e/year
Agriculture (other)	2,299
Fossil fuel energy*	7,026
Hotels, restaurants and real estate	14,289
Renewable energy projects	20,846
Other financial institutions	31,621
Funds	41,677
Other industry	57,479
Agriculture (livestock)	68,252
Fertilizer industry	72,730
Cement industry	136,538
Total	**452,778**

*The emissions from the four fossil fuel energy plants are based on actual generated energy, which is low due to a low utilization of the plants' capacities.

The figure shows the emission footprint per sector from IFU's portfolio. IFU's total portfolio GHG footprint is close to 453,000 tCO_2e in 2020. All emissions presented are attributed to IFU's share of the investment.

Emissions intensity by sector (tCO_2e/mDKK)



The figure shows the emission intensity per sector per invested mDKK. Highest emission intensities are seen in the cement and fertilizer industry.

ENVIRONMENTAL AND SOCIAL IMPACTS OF WIND FARMS

In the north-eastern Brazilian state of Pernambuco, European Energy is about to build three new wind farms of 94 megawatts in total. The project has become a reality after financing secured with a USD 21m loan from the part of Denmark's Green Future Fund managed by IFU. The project was developed by a Brazilian developer Eólica Tecnoligia and Nordic Power Partners, a development company owned jointly by European Energy and the Danish Climate Investment Fund, which is managed by IFU and partly financed by Danish pension funds.

The three wind farms, Ouro Branco I & II and Quatro Ventos, are using Vestas wind turbines and are expected to become operational end of 2022. Pernambuco is one of poorest regions in Brazil, with a high unemployment rate and low economic activities. One of the wind farms is located in an area which is suffering from drought with limited access to water.

During the development of the project, IFU has assessed the potential environmental and social impact of the wind farms both during construction and operation of the wind farms.

The main development impact of the wind farms is generation of renewable energy. The wind farms are expected to generate close to 420 GWh a year and reduce carbon emissions by more than 2.2 million tons over the 20-year lifetime of the project. The wind farm will also create local jobs, especially during construction of the wind farms, and workers at the sites will gain skills which could be of use for other wind farm projects. Furthermore, the land lease agreement will generate an attractive income for the landowners, in an area with limited income sources.

When operating an onshore wind farm, the main environmental concern is potential impacts on biodiversity, especially on birds and bats, due to risks of collision with the turbines. To assess potential impacts, a baseline study of birds and bats migration was carried out by an international consultant together with a local consultant who was trained in international requirements for birds and bats impacts. A biodiversity management plan including a plan for monitoring of birds and bats, has been included in the action plan.

A key negative social impact for a wind farm is in relation to use of land for the turbines and potential associated facilities such as transmission lines, access road and substation. All land lease agreement with the landowners of the sites for the turbines have been settled.

An early design proposal for location of one of the transmission lines was close to the Xukuru territory (indigenous groups), but it has been changed to avoid potential impact on their land. Stakeholder engagement activities have been conducted, and more engagement activities are planned going forward also with the Xukuru group to assess how they can benefit from the wind farm. All stakeholder engagement activities with the Xukuru group will be managed in close collaboration with the authorities.

There are also potential negative social impacts related to the workforce, both at the contractor and the subcontractors, especially risks when working in height. The action plan includes a plan for occupation, health and safety at the site for both contractor and subcontractors as well as a HR policy and HR procedures to ensure compliance with core labour rights.

Finally, the community may experience inconveniences during construction of the wind farms like noise and dust as well as widening of roads for transporting of blades and towers to site. To avoid or reduce the impact on the community, a community health and safety programme and a traffic management plan are included in the action plan. Another action is establishment of a grievance mechanism which will enable the workers and the community to raise a claim.

IFU'S INVESTMENTS CONTRIBUTE TO

PROTECTING BIODIVERSITY

Species extinction, which threatens sustainable development and compromises global heritage, is driven primarily through habitat loss from unsustainable agriculture, harvest and trade; deforestation; and invasive alien species. Globally, the species extinction risk has worsened by about 10 per cent over the past three decades and from 2000 to 2020, forest areas in Latin America, Sub-Saharan Africa and Southeast Asia significantly decreased driven by land conversion to agriculture.

Commitments and approach

IFU is committed to continuously focusing on preventing and minimising adverse impacts on the environment and nature related to its investments and ensuring that local stakeholders are not exposed to unhealthy environments, and that they have access to and benefit from biodiversity and ecosystem services.

During appraisal, IFU uses a risk screening tool on biodiversity (IBAT) to identify potential impacts on biodiversity and help IFU incorporate biodiversity considerations into the project planning. Based on the geographical location of a potential project, IBAT can provide up-to-date information on potential impact on key biodiversity areas and critical habitats within or close to a project boundary, including critically endangered or endangered species. IBAT draws information from a number of IUCN's Knowledge Products: IUCN Red List of Threatened Species, Key Biodiversity Areas (priority sites for conservation) and Protected Planet/ The World Database on Protected Areas.

IFU HAVE CREATED A SPECIFIC SUSTAINABILITY FACILITY COVID-19 GRANT TO SUPPORT PROJECTS

IFU uses the screening results to inform the decision of the location of the project and to scope the due diligence, if the screening reveals that a special focus on biodiversity is required. IFU involves biodiversity experts in the due diligence, if special competences are needed.

If there is risk of adverse impacts on biodiversity, IFU requires the project to operate in accordance with IFC Performance Standards 6 on Biodiversity Conservation and Sustainable Management of Living Resources. As a matter of priority, the project should seek to avoid impacts on biodiversity and ecosystem services. When avoidance of the impacts is not possible, measures to minimise impacts and restore the biodiversity and ecosystem services should be implemented, through a biodiversity management plan that also includes monitoring measures. A biodiversity offset plan may also be required under special circumstances.

The increasing demand for renewable energy has raised the concern how wind farms and solar plants impact biodiversity and ecosystem services, not only during construction and operation of the plants but also in connection with the use of minerals and metals for the renewable energy technologies. IFU always conducts an assessment of potential impacts on biodiversity for wind farms and solar plants, including adverse impacts on birds and bats due to risks of collision with wind turbines or transmission lines and impacts on biodiversity in the land used for turbines and solar plants. The assessment will be based on collection of baseline information, often through two seasons. And if adverse impacts cannot be avoided, a biodiversity plan to minimise the impacts will be developed. This could include lockdown of selected wind turbines during migration periods or offsetting of biodiversity from the land footprint area in an area nearby.

Results and outlook

In 2020, IFU conducted assessments of potential impacts on biodiversity in two renewable energy projects. At a wind farm project in Brazil, the assessment of impacts on birds and bats included a baseline study of migration, and the result was that no mitigation actions were needed apart from monitoring of collision of birds and bats (see case on page 25). The design of a solar plant in India included early consideration of installations of diverters on the transmission line to avoid potential collision of birds.

COVID-19 GRANTS FOR PROJECTS

The corona pandemic has profoundly affected people and their health, workers and their job stability, and the world economy as a whole. It has led to limitations and slow growth in the economy, thus decreasing job safety and security. Many companies are struggling to survive, and Covid-19 precautions and equipment constitute large expenses.

To support project companies, IFU has created a specific Sustainability Facility Covid-19 Grant where they can apply for a grant to cover part of their expenses for protective equipment and other precautionary measures. This allows the companies to maintain operations in a safe and secure manner, thereby increasing job stability for the employees and to some extent sustaining economic growth.

Throughout 2020, a total of DKK 3.6m has been granted to nine project companies in different sectors, including hospital, education and transport. The grants have proven to be an efficient way of relatively quickly being able to give financial support during a period where time and funds are of the essence in regards to safety and health of people. ▪

SUPPORTING COMMUNITY PROGRAMME IN BRAZIL

Nordic Power Partners (NPP), a development company owned jointly by European Energy and the Danish Climate Investment Fund, is involved in a solar project in Brazil, Coremas I-III. The project is located in Coremas in the north eastern state of Paraiba and consists of three plants of 90 MW in total. Two plants are up and running, but the third is under construction and has experienced a set-back due to Covid-19 related restrictions. At the peak of construction, 500+ workers are employed on site, making Coremas one of the biggest employers in the area.

The pandemic has hit Brazil hard, which has led the health care system to be extremely stretched. In May 2020, the Mayor of Coremas requested NPP to provide assistance in purchasing protective equipment for the local population in a period of emergency. NPP received a Covid-19 grant from IFU and established a programme for purchasing and distribution of personal protective equipment such as masks, facial and eye protection, gloves, sanitiser and soap. The programme has contributed to limiting the spread of Covid-19 in the community.

BOLSTERING ECONOMIC STABILITY IN EASTERN AND SOUTHERN AFRICA

TDB is a development bank which operates in Eastern and Southern Africa and plays a key role in promoting trade and infrastructure development. The pandemic has led to a reduction in business activity, a sharp drop in trade, and a disruption of regional and global supply chains and distribution networks.

Therefore, TDB has, with support from a IFU Covid-19 grant, launched a Covid-19 Emergency Response Programme, which aims to bolster economic stability in the short-term, and further growth and prosperity in both the medium and longer-term in the region. Interventions include provision of essential medical equipment as well as deliberate efforts to secure the livelihoods for local suppliers especially SMEs and women. The programme is expected to support a large and diversified group of individuals, who have been largely affected by the pandemic in either a physical or financial way.

RE-OPENING THE AL QUESIR HOTEL IN EGYPT

IFU has been a shareholder in Al Quesir Hotel Co. in Egypt since the opening in 2000. Due to the pandemic, the hotel was forced to close down in March 2020. The Egyptian government listed specific Covid-19 protective equipment and precautionary measures that were required by hotels in order to maintain operations.

A Covid-19 grant given by IFU in July covered the purchase of protective equipment like sanitiser, gloves and masks as well as training of all hotel staff in necessary Covid-19 precautions to protect both staff and guests. The grant allowed the hotel to reopen and has reduced the need for layoffs.

COMMITMENTS IN SUPPORT OF THE SDGs AND KEY FIGURES

This overview summarises IFU's policy commitments and impact priorities in support of the SDG agenda and the SDG targets that IFU's investments contribute to the achievement of. Listed are also key figures for the development impacts in 2020. These figures are either aggregated to portfolio level based on data reported by project companies or the result of analysis of the performance of the portfolio. IFU will continue to set up more commitments, align the performance indicators with the SDG targets and improve the data collection to strengthen the reporting on the development impact of IFU's investments. This includes more performance analysis within IFUs impact priority areas.

SDG	IFU commitments and priorities	SDG targets relevant to IFU	Key figures 2020
1 NO POVERTY	Prioritising investments furthering financial inclusion. Especially promoting quality financial services to women, including female entrepreneurs.	**1.1** Eradicate extreme poverty. **1.4** Ensure that all men and women have equal rights to economic resources, including microfinance.	• More than DKK 216 million invested in microfinance institutions in 2020. • Total active microfinance portfolio exceeds DKK 900 million in 2020. • 13.5 million microfinance clients served. • 84% of microfinance loans granted to female clients.
2 ZERO HUNGER	Prioritising agri-business investments with clear link to small-scale farmers. Enhancing sustainable and climate smart agriculture and protecting biodiversity.	**2.3** Double the agricultural productivity and incomes of small-scale food producers. **2.4** Ensure sustainable food production systems and implement resilient agricultural practices.	• 25 projects supporting more than 43,000 small-scale farmers, mainly as direct suppliers in 2020. • 275,000 small-scale farmers benefitting through one fund investment.
3 GOOD HEALTH AND WELL-BEING	Prioritising investments providing enhanced access to health services. Supporting companies to demonstrate a commitment to healthy lives, including issues related to women's health and sexual and reproductive health.	**3.7** Ensure universal access to sexual and reproductive health-care services. **3.8** Achieve universal health coverage.	• DKK 360 million invested in two healthcare projects. • 73% of direct investments have taken initiatives to promote health and reproductive health activities.
4 QUALITY EDUCATION	Supporting skills development, especially for young people in Africa.	**4.3** Ensure equal access to affordable and quality technical, vocational and tertiary education. **4.4** Substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills.	• 20% of employees in direct investments are below the age of 25 (2019 figure). Indicators under development.
5 GENDER EQUALITY	Supporting companies to address and demonstrate a commitment to empowerment of women related to e.g. leadership, pay equity, workplace benefits, workforce participation and workplace environment.	**5.1** End all forms of discrimination against all women and girls. **5.5** Ensure women's full and effective participation and equal opportunities for leadership.	• 23% female employees in direct investments (2019 figure). • 18% of direct investments have more than 40% women in senior management.
6 CLEAN WATER AND SANITATION	Investments in the water sector fall under IFU's investments in climate adaptation (see SDG 7).	**6.1** Achieve universal and equitable access to safe and affordable drinking water for all.	Indicators under development.
7 AFFORDABLE AND CLEAN ENERGY	Promoting renewable energy investments and investments on greener technologies as part of supporting the green transition. Specifically, increasing the share of climate-relevant projects like renewable energy, energy efficiency and climate adaptation to at least 40 per cent of IFU's portfolio by 2030.	**7.1** Ensure universal access to affordable, reliable and modern energy services. **7.2** Increase the share of renewable energy efficiency. **7.3** Double the global rate of improvement in energy efficiency	• A total capacity of 1,950 MW for renewable energy investments of which 792 MW is from new investments contracted (including 604 MW hydropower). • A total of 6,215 GWh produced in all renewable energy investments in operation.

8	Supporting and promoting decent work, covering working conditions and terms of employment, collective dismissals, gender equality, privacy, occupational health and safety, grievance mechanisms and worker accommodation.	**8.2** Achieve higher levels of economic productivity through diversification, technological upgrading and innovation. **8.5** Achieve full and productive employment and decent work for all. **8.8** Protect labour rights and promote safe and secure working environments.	• 277,177 direct employees in total in all investments • 72% of direct investments pay more than the national minimum wage and 71% pay overtime. • 71% of direct investments have taken initiatives to promote equal opportunities and prevent discrimination. • 37% of direct investments had accidents involving workers. • 292 accidents in total of which one accident was fatal.
9	Overall contribution to industrialisation and infrastructure development, but these are not focus areas.	**9.2** Promote inclusive and sustainable industrialization and significantly raise industry's share of employment and gross domestic product.	No new direct investments in manufacturing outside the agriculture sector.
10	Promoting economic inclusion of poor people by extending access to services and goods to underserved populations. Respecting that all human beings are equally entitled to human rights without discrimination.	**10.2** Empower and promote the social, economic and political inclusion of all. **10.b** Encourage official development assistance foreign direct investment to states where the need is greatest, including least developed countries and African countries.	• 45% of investments were allocated to the poorest countries in Africa.
11	No specific commitment	**11.1** Ensure access for all to adequate, safe and affordable housing.	No suitable indicator yet.
12	Supporting and promoting a preventive and precautionary approach to environmental challenges. Ensuring that local stakeholders are not exposed to unhealthy environments, and that they have access to and benefit from biodiversity and ecosystem services.	**12.2** Achieve the sustainable management and efficient use of natural resources. **12.3** Reduce food losses along production and supply chains. **12.4** Achieve the environmentally sound management of chemicals and all wastes and significantly reduce their release to air, water and soil. **12.5** Reduce waste generation through prevention, reduction, recycling and reuse.	• 71% of direct investments have an environmental management plan in place to manage and monitor the environmental performance.
13	Adopting an investment approach that is aligned with the objective of the Paris Agreement.	**13.a** Mobilise capital to address the needs of developing countries in the context of meaningful mitigation actions.	• A total of 2.14 million tCO_2e avoided emissions based on 6,215 GWh renewable energy produced.
14	No specific commitment	Not applicable yet	No suitable indicator yet.
15	Striving to protect biodiversity and invest in sustainable and resilient agriculture and forestry.	**15.2** Promote the implementation of sustainable management of forests. **15.5** Take action to reduce the degradation of natural habitats and halt the loss of biodiversity.	No suitable indicators yet.
16	Maintaining a zero-tolerance policy regarding corruption, including bribery, fraud and facilitation payment as well as avoiding money laundering.	**16.5** Reduce corruption and bribery in all their forms.	• 64% of direct investments have an anti-corruption policy. • 89% of funds and 100% of financial institutions have a written stand against corruption.
17	Ensuring proper payment of taxes to host countries.	**17.1** Strengthen domestic resource mobilization to improve domestic capacity for tax and other revenue collection. **17.17** Encourage and promote effective public, public-private and civil society partnerships.	• DKK 3.5 billion reported in corporate taxes from 147 investments.* • Corporate tax per continent (in DKK '000) Africa 1,975,548 Europe 19,768 Asia 1,013,939 Global 322,154 Latin America 145,794 **Total 3,477,203**

* Tax information regarding 18 projects under establishment, 21 inactive projects, four PDP projects and two projects where reporting is missing/unavailable has been excluded.

SUSTAINABILITY MANAGEMENT IN PROJECTS

THE SUSTAINABILITY POLICY OFFERS CLEAR EVIDENCE OF THE PROJECT'S SUSTAINABILITY COMMITMENT

IFU encourages all projects to work strategically with sustainability and formally anchor the activities in the business plans and daily practices. Since 2015, projects have been required to adopt a written sustainability policy and establish an Environmental and Social Management System (ESMS). The requirements must be met within a reasonable timeframe and are thus not an entry condition for funding. As IFU contracts tens of projects each year, there will always be new projects that do not meet the requirements yet, but are in the process of implementing them.

Policy commitments

IFU views the sustainability policy as a key performance indicator that states the level of sustainability ambition and offers clear evidence of the project's sustainability commitment. 77 per cent of the direct investments have reported that they have a written sustainability policy, while 12 per cent are in the process of preparing one. The remaining 11 per cent without a policy are projects contracted before 2015. However, IFU finds it very satisfactory that the majority of projects contracted before 2015 voluntarily have adopted a sustainability policy.

Likewise, it is very satisfactory that all the reporting funds and financial institutions have a policy or investment code, which includes sustainability commitments.

Two out of the five reporting financial institutions are microfinance institutions (MFIs) that have endorsed the Client Protection Principles. This is a IFU requirement to ensure prudent, transparent and respectful treatment of clients. It includes appropriate product design and delivery, prevention of over-indebtedness, transparency, responsible pricing, fair and respectful treatment of clients, privacy of client data and mechanisms for complaint resolution.

IFU is maintaining a zero-tolerance policy regarding corruption, including bribery, fraud and facilitation payment, and all projects must take a clear, written stand against corruption. While 90 per cent of the funds and all financial institutions have a written stand against corruption, only 64 per cent of the direct investments have an anti-corruption policy. This is not satisfactory, and going forward, IFU will work to ensure that all projects have an anti-corruption policy

Sustainability performance of IFU projects

Share of projects with	Direct investments[1)]	Funds[2)]	Financial institutions[3)]
Written sustainability policy	77 %	100 %	100 %
Written stand against corruption	63 %	89 %	100 %
Environmental and Social Management System	51 %	87 %	100 %
Dedicated person responsible for sustainability	81%	92 %	100 %
Grievance mechanism for external stakeholders	45 %	82 %	100 %

1) 40 out of the 83 direct investments that have submitted a report in 2020 are contracted after 2015
2) 25 out of the 38 funds that have submitted a report in 2020 are contracted after 2015
3) All five financial institutions that have submitted a report in 2020 are contracted after 2015

and make their anti-corruption commitment known to business partners. Furthermore, IFU will encourage projects to include a clause on anti-corruption in contracts with business partners.

Processes in place
The management system ensures that the project continually identifies and assesses all significant sustainability risks and impacts, addresses any identified shortcomings in relation to sustainability issues and ensures continuous improvement of the sustainability performance.

THE MANAGEMENT SYSTEM ENSURES CONTINUOUS IMPROVEMENT OF THE PROJECT'S SUSTAINABILITY PERFORMANCE

For direct investments, the management system is an indicator of the projects' ability to manage their specific adverse impacts. 51 per cent of the direct investments have an Environmental and Social Management System, and 23 per cent are in the process of implementing one. As many new projects are greenfield investments, the establishment of the management system awaits the company/facilities becoming operational. The remaining 26 per cent without a management system are projects contracted before 2015. Again, it is very satisfactory that half of the projects contracted before 2015 have voluntarily implemented a management system.

When investing in funds or financial institutions, IFU focuses on the funds' or institutions' ability to employ a management system that effectively addresses sustainability risks related to their portfolio companies and clients. 85 per cent of the funds have an Environmental and Social Management System, while this goes for all of the financial institutions.

All projects contracted after 2015 are required to appoint a person with the overall responsibility for sustainability at operational level and ensure that the person is suitably trained and have appropriate knowledge of sustainability issues related to the project. 81 per cent of the direct investments have a dedicated person responsible for sustainability, while this applies to 90 per cent of the funds and all the financial institutions. 95 per cent of the funds fulfil IFU's requirement to contractually bind their portfolio companies to comply with the policy or investment code, assess ESG aspects of all new investments and monitor the sustainability performance of the portfolio companies to ensure continuous improvements.

Financial institutions engaged in high-risk project finance are also required to contractually bind clients to comply with minimum requirements that depend on an assessment of E&S risks and to implement an E&S tracking Management Information System (MIS) to monitor the high-risk projects. This is only the case for one of the five financial institutions.

The requirements for managing sustainability in direct investments include promoting sustainability issues in interaction with suppliers and business partners. IFU recommends direct investments to prepare a code of conduct listing the sustainability principles and standards that the suppliers are expected to meet. In 2020, 43 per cent of the direct investments have reported that they have taken initiatives to promote, demand and monitor ESG requirements on suppliers. The most common initiative is to include ESG issues in the business contract with suppliers. Going forward, IFU will work to ensure that projects use their leverage to promote sustainable supply chains.

Although the sustainability management of the projects is considered satisfactory, IFU will strengthen its efforts to make the sustainability requirements explicit and its support for projects that do not meet the sustainability requirements through active ownership.

Grievance mechanism
Since 2019, projects have been required to establish a grievance mechanism for receiving, processing and settling complaints by individuals and communities. This includes providing clear and easily accessible information on how complaints can be submitted, what kind of complaints can be reported, and how complaints are processed and resolved. Furthermore, the projects must ensure access to remedy for the affected persons and/or notify the appropriate authorities.

45 per cent of the direct investments have a grievance mechanism for external stakeholders. In 2020, 11 per cent of the project companies have reported that they have received complains. Grievance mechanisms are in place in 79 per cent of funds and all the financial institutions. This is expected to increase in the coming years as IFU contracts new projects where this is a requirement. ▪

IFU'S STAFF AND PREMISES

THE SUSTAINABILITY IMPACTS OF IFU'S OWN ACTIVITIES ARE SMALL COMPARED TO THE IMPACTS OF IFU'S INVESTMENTS

The sustainability impacts of IFU's own activities are small compared to the impacts of IFU's investments and thereby less material.

IFU staff comes from diverse backgrounds, but all share the same mission – the aim of building green, just and inclusive societies as well as supporting the SDGs. Whether working in one of the corporate functions or in the investment activity, IFU recruits, retains and develops the very best people available to build an organisation reflective of society and the regions in which IFU invests. IFU believes that diversity brings strength to the organisation.

Headquartered in Copenhagen, with regional presence in Asia, Africa, Latin America and Europe, IFU works across geographies, and all jobs in IFU offer the opportunity to work and deliver results in a global context.

During 2020, the average staff amounted to 92 full-time employees (FTE). 82 per cent of the staff was employed in Copenhagen and 18 per cent across Africa, Asia, Latin America and Eastern Europe. Twenty-one different nationalities are represented among IFU's employees. The average age of IFU's employees is 46 years, and the average seniority is eight years*. There is a 56/44 percentage split between male and female employees.

Gender composition

IFU's policy and objectives for the gender composition of the board and leadership positions in IFU follow the guidelines of the Danish Business Authority, Section 11 (2) of the Danish Gender Equality Act and Section 99 b of the Danish Financial Statements Act.

IFU's board of directors consists of up to ten members and is appointed by the minister for development cooperation. To have a balanced composition on the board of directors, the objective is to have representation of at least one third of each gender. Currently, the board consists of six members and one observer (observers are not included as per the guidelines from the Danish Business Authority). Five are male (83 per cent), and one is female (17 per cent).

Employee turnover*	4.9%
Retention (five years of seniority or more)*	42.2%
New people on-boarded*	14

* Excluding students and others on hourly wage.

The objective for the gender composition of leadership positions at IFU is the same as the above. IFU did not meet the objective in 2020, given a 27/73 per cent female/male split end of 2020. It is IFU's policy to increase the share of the under-represented gender in leadership positions.

Anchoring of the new investment strategy

Working from home became the new normal in IFU during the Covid-19 pandemic, as it was in many of IFU's project companies and partners around the world. A new investment strategy, and the revision of tools and approaches in sustainability and impact management, required close, albeit virtual, collaboration and staff development during the year. This has been addressed through numerous staff development seminars over the year where investment professionals have had the opportunity to get to know, discuss and practice new tools and approaches over the various virtual platforms. The multidisciplinary team established around each investment opportunity also allows for peer learning and exchange on IFU's transformed impact and sustainability agenda.

Environment, health and safety

IFU strives to continuously limit energy consumption on IFU's premises, apply energy-efficient solutions, minimise water consumption and increase recycling of waste. IFU also includes environmental considerations in purchasing of goods and services. Furthermore, environmental as well as health and safety considerations are reflected in the terms and conditions of contractors working at IFU's premises. IFU has a joint management and employee committee that discusses work-related issues, including health and safety. IFU also conducts workplace assessments (APV) on a regular basis. ▪

REPORTING PRINCIPLES

This report covers the relevant and significant sustainability issues and development impact creation for the financial year 1 January 2020 to 31 December 2020. It gives IFU's stakeholders an overview of IFU's performance in these areas, complementing our Annual Report.

The report focuses on IFU's investments which account for IFU's significant sustainability impacts. The impacts of IFU's own activities are considered to be small in comparison, and only a few key figures on IFU's staff and premises are included in the report.

The report is based on sustainability reports submitted to IFU in 2020. Out of the 192 projects in IFU's portfolio 138 projects were required to submit a report. The remaining 54 projects are either new projects or inactive projects. In total, 83 direct investments, 39 funds and five financial institutions have submitted a report in 2020 together with the annual financial reports after the end of the financial year. This is 92 per cent of the projects required to report in this reporting period. The remaining eight per cent are projects in distress that have not prepared a report or projects that have reported in a not applicable format.

The direct investments are obliged to use an online reporting template with fixed questions and answer options e.g. standardised tick boxes. This template was introduced in 2019 to align the sustainability reports and enable aggregation of more data.

However, procedures for gathering data in the projects will always be of varying quality, and IFU will continue to adjust the indicators and questions in the template to improve the answers and the data accuracy.

Funds use an IFU Word template to submit their annual sustainability reports to IFU. Funds are also allowed to use a template provided by another investment partner when co-financing with other EDFIs occurs. This makes direct comparison of data more difficult.

As the projects have different financial years, the reported performance data cover different reporting periods within 2019-2020. Thus, the aggregated data represent a snapshot of the portfolio's overall performance, but not the exact performance in 2020.

As IFU continuously contracts new projects and exits terminated projects, the composition of the portfolio varies from year to year, and for most performance indicators the portfolio performance is thus not directly comparable.

Additional analysis of the performance of the portfolio on specific issues like greenhouse gas emissions are also included in the report.

INVESTMENT FUND FOR DEVELOPING COUNTRIES

Cover photo from Yavoriv Solar in Ukraine. Other photos by Ernst Tobisch and IFU investment companies.

IFU

Fredericiagade 27
1310 Copenhagen K
Denmark

+45 33 63 75 00
ifu@ifu.dk
www.ifu.dk

CVR no 23598612