

SUSTAINABLE INVESTMENTS

- A HANDBOOK FOR OUR PROJECT COMPANIES



**INVESTMENT FUND FOR
DEVELOPING COUNTRIES**

IFU HAS A DUAL PURPOSE

IFU is a state-owned development finance institution providing equity, loans and guarantees on commercial terms to the private sector in developing countries.

Our dual purpose is to generate measurable, beneficial development impact alongside a financial return, realising that long-term investment returns are a pre-requisite for creating continued development.

IFU'S SUSTAINABILITY POLICY IN SHORT

- We contribute to sustainable development in agreement with the Agenda 2030 and the UN Sustainable Development Goals.
- We carry out risk-based due diligence and initiate environmental, social and governance (ESG) assessments of projects together with our partners.
- We encourage project companies to work strategically and proactively with sustainability.
- We contribute to continued sustainability improvements through active ownership and dialogue with project companies.
- We monitor and regularly review the sustainability performance of projects.
- We cooperate with other development finance institutions to harmonise ESG requirements and procedures.
- We seek continuous dialogue with our stakeholders to be able to act proactively on stakeholder concerns.
- We provide transparent, accountable information about our sustainability activities.
- We address grievances in a manner that is fair, objective and constructive.



PREFACE

IFU's objective is to promote investments, which support sustainable development in developing countries in its three dimensions – economic, social and environmental – in a balanced and integrated manner and contribute to the realisation of the UN Sustainable Development Goals (SDGs). We acknowledge that eradicating poverty in all its forms and dimensions is an indispensable requirement for sustainable development. To achieve this, there must be promotion of sustainable, inclusive and equitable economic growth.

IFU is committed to ensuring that the projects in which we invest reduce sustainability risks and adverse impacts as well as generate development impacts. This may include creation of decent work opportunities, access to affordable and sustainable energy, reduction in greenhouse gas emissions, resilient infrastructure, local tax contribution, sustainable consumption and production, gender equality and health, community health and food security.

It is IFU's experience that high standards within sustainability are prerequisites for continuous positive returns and long-term business success and may provide business benefits like access to markets, reduced staff turnover, cost efficiencies in production and improved stakeholder relations.

Our sustainability requirements for direct investments in project companies are outlined in IFU's Sustainability Policy. In this handbook, we explain how the 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 requirements and recommendations are based on nearly two decades of experience with sustainability in developing countries and emerging markets. We hope that the handbook will inspire project companies to make sustainability efforts that generate measurable, beneficial development impact alongside a financial return.



Birgitte Bang Nielsen
Sustainability Director

Torben Huss
CEO

Rikke Carlsen
Sustainability Director

Andreas Brogaard Buhl
Head of Sustainability and
Corporate Governance

CONTENTS

1	INTRODUCTION	5
1.1	IFU's approach to sustainability	5
1.2	Stricter requirements for high-risk projects	6
1.3	Definitions used in the handbook	7
1.4	IFU's Sustainability Policy and tools	7
1.5	Sustainability Advisory Board	7
2	SUSTAINABILITY MANAGEMENT AND COMMUNICATION	9
2.1	Managing sustainability	10
2.1.1	Comply with host country legislation	10
2.1.2	Work towards international sustainability standards	10
2.1.3	Identify and assess all risks and impacts	10
2.1.4	Prepare an ESG action plan	11
2.1.5	Adopt a written sustainability policy	12
2.1.6	Assign responsibility for sustainability	12
2.1.7	Establish an Environmental and Social Management System	12
2.1.8	Establish corporate governance structures	13
2.1.9	Establish an emergency preparedness and response system	13
2.1.10	Ensure security personnel comply with international standards	14
2.1.11	Consider safety risks for the public	14
2.2	Communication and stakeholder dialogue	15
2.2.1	Prepare an annual sustainability report	15
2.2.2	Immediately report significant incidents	15
2.2.3	Ensure stakeholder access to information	15
2.2.4	Facilitate stakeholder dialogue	16
2.2.5	Promote sustainability issues in the supply chain	16
2.2.6	Ensure workers and other stakeholders can complain	17
2.2.7	Engage local communities on use of land	18
2.2.8	Ensure transparent and inclusive resettlement process	18
2.2.9	Consult stakeholders on impacts on cultural heritage	19
3	DECENT WORK, HEALTH AND SAFETY	21
3.1	Decent work	22
3.1.1	Provide employment contracts	22
3.1.2	Provide reasonable wages	22
3.1.3	Set reasonable limitations on working hours	22
3.1.4	Ensure adequate housing and living conditions	23
3.1.5	Comply with minimum age standards	23
3.1.6	Not participate in or be connected with forced labour	23
3.1.7	Prevent workplace harassment and avoid discrimination	23
3.1.8	Strengthen gender equality and empowerment of women	24
3.1.9	Respect workers' right to privacy	25
3.1.10	Ensure freedom of association and collective bargaining	25
3.1.11	Consider alternatives to retrenchment	25

3.2	Occupational health and safety	26
3.2.1	Prevent and protect workers against health and safety risks	26
3.2.2	Ensure workers are trained in handling health and safety risks	26
3.2.3	Provide and require the use of protective equipment	26
3.2.4	Establish a health and safety committee	26
3.2.5	Improve workers' health conditions	27
4	ENVIRONMENT, CLIMATE AND BIODIVERSITY	29
4.1	Environment, climate and biodiversity	30
4.1.1	Reduce emissions of greenhouse gases	30
4.1.2	Focus on sustainable resource consumption	30
4.1.3	Establish procedures to prevent pollution	30
4.1.4	Ensure adequate handling and disposal of waste from livestock	31
4.1.5	Minimise the use of hazardous substances	31
4.1.6	Raise environmental awareness among workers	32
4.1.7	Protect and conserve biodiversity and ecosystem services	32
4.1.8	Manage living natural resources in a sustainable manner	33
4.1.9	Avoid introducing alien species	33
5	ANIMAL WELFARE	35
5.1	Animal welfare	36
5.1.1	Uphold good management practice	36
5.1.2	Ensure proper physical conditions and animal feed	36
5.1.3	Ensure regular control visits by a veterinarian	36
5.1.4	Avoid preventive treatment with antibiotics	36
5.1.5	Ensure proper transport and slaughtering	37
6	ANTI-CORRUPTION AND BUSINESS ETHICS	39
6.1	Anti-corruption and business ethics	40
6.1.1	Commit to anti-corruption	40
6.1.2	Assess and manage corruption risks	40
6.1.3	Create an anti-corruption culture	40
6.1.4	Avoid facilitation payments	40
6.1.5	Inform business partners about anti-corruption commitment	41
6.1.6	Ensure fair competition	41
6.1.7	Comply with local tax regulation	41
6.1.8	Maintain good business standards	41
7	COMMUNITY DEVELOPMENT	43
7.1	Community development and consumer protection	44
7.1.1	Identify community needs	44
7.1.2	Create opportunities for youth	44
7.1.3	Contribute to improving community health	44
7.1.4	Ensure reliable products and fair marketing	45
ANNEX 1:	Overview of IFU's sustainability policy framework	46
ANNEX 2:	Overview of IFU's sustainability tools	47

1

INTRODUCTION

This handbook applies to all direct investments made by IFU and IFU managed funds. However, funds and financial institutions in which IFU invests may also use the handbook in their dialogue with their portfolio companies and clients.

The handbook explains and specifies IFU's sustainability requirements and expectations for project companies to manage risks and impacts related to environmental, social and governance (ESG) issues and business ethics as well as development impacts. It includes requirements that **must** be adhered to as well as recommendations that **may** be applied. Guidance is provided on how to identify ESG risks and impacts of project activities, and how to prevent, minimise and remedy adverse impacts through a proactive approach.

The handbook emphasizes some potential sustainability risks and impacts that require particular attention. Depending on project circumstances, other sustainability issues may be relevant as well. The project company must therefore continually assess whether other sustainability issues need to be addressed that have not been emphasised by IFU, so the company does not risk violating national legislation or international sustainability principles.

Although the main focus in the handbook is managing risks and adverse impacts, opportunities related to the business should also be explored. Identifying for instance climate-friendly green solutions and wider shared benefits for local communities are usually a part of the on-going business strategy.

1.1 IFU's approach to sustainability

IFU's sustainability policy and approach are based on internationally agreed UN, ILO and OECD conventions, declarations, agreements and principles for sustainable development.

We apply the UN Sustainable Development Goals (SDGs) as an overarching framework to shape, manage and communicate our contribution to sustainable development.

Furthermore, we take into account the effects of our investments on the goals expressed in the Rio Declaration on Environment and Development, the Paris Agreement on Climate Change and the UN Convention Against Corruption.

We follow the internationally recognised principles in the UN Global Compact, the UN Guiding Principles on Business and Human Rights (UNGPs) and the OECD Guidelines for Multinational Enterprises and responsible business conduct, and project companies must observe these principles in their work with human rights, labour rights, environment, anti-corruption and business ethics.

The implementation of the UNGPs entails avoiding and addressing all types of involvement in human rights abuses and acknowledging that all human rights are potentially relevant to a project's activities. All chapters in the handbook (except animal welfare) have elements related to human rights dimensions that a project company may face in the course of its operations.

We are committed to providing transparent, accountable information about IFU's sustainability activities and performance. Our Annual Report constitutes the mandatory Communication on Progress to the UN Global Compact on actions taken to support the Global Compact principles, as well as the corporate social responsibility reporting required by the Danish Financial Statements Act.

Our requirements for project companies to manage sustainability and prepare comprehensive sustainability reports are essential for IFU's ability to perform active ownership and provide transparent sustainability information.

1.2 Stricter requirements for high-risk projects

IFU categorises projects according to the potential sustainability impacts related to the project. The categorisation does not consider the ability of a project to manage these inherent risks, i.e. management systems and performance.

The term high-risk refers to:

- Potentially significant adverse social or environmental impacts that are diverse, irreversible or unprecedented (European Development Finance Institutions (EDFI) defined A projects).
- Specific features that can have significantly larger adverse social or environmental impacts (EDFI defined B+ project).

IFU requires high-risk projects to comply with the IFC Performance Standards and the related IFC Environmental, Health, & Safety (EHS) Guidelines. We wish to promote these standards and guidelines in all project companies, when relevant, and the requirements in this handbook are aligned with the IFC wording. The handbook highlights the issues, where IFU sets stricter requirements for high-risk projects both in relation to risk identification and performance.

1.3 Definitions used in the handbook

- **Sustainability** refers to environmental, social and governance (ESG) issues as well as business ethics and development impacts related to a project. Managing environmental and social impacts include human rights impacts and applying a rights-holders lens.
- **Corporate governance** refers to the structures and processes for the direction and control of companies. This includes decision-making and the way the company interacts with society (societal governance).
- **The project company** refers to the party responsible for implementing and/or operating the project that is being financed, or the recipient of the financing, depending on the project structure and type of financing. Project partners are all co-financing partners in a project.
- **Project** refers to a defined set of business activities that are being financed, including those where specific physical elements, aspects and facilities likely to generate risks and impacts have yet to be identified.

1.4 IFU's Sustainability Policy and tools

IFU's Sustainability Policy framework guides our efforts towards supporting global sustainable development. The Sustainability Policy is the overarching policy for the ESG issues, which in some areas is supplemented by thematic policies to elaborate on IFU's commitments in relation to major global sustainability issues and further explain how we approach the issue and implement responsible business conduct measures.

Annex 1 provides an overview of the Sustainability Policy framework and annex 2 lists IFU's tools developed to support the project companies in their sustainability efforts. The tools can either be downloaded from our website (www.ifu.dk) or obtained by contacting our Sustainability Unit: sustainability@ifu.dk.

IFU is always prepared to assist the project companies. This includes selecting the most appropriate tools among the many developed by business organisations, consultants and NGOs that focus on different aspects of sustainability work, e.g. establishing management systems and facilitating stakeholder dialogue.

1.5 Sustainability Advisory Board

IFU has a Sustainability Advisory Board with business and NGO representatives, where opportunities, dilemmas and risks within sustainability are regularly discussed.



STAKEHOLDER COMMUNICATION CRUCIAL TO SUSTAINABLE DEVELOPMENT

In the port of Callao, near Lima, Peru, APM Terminals and local authorities are working with 400 artisanal fishermen to resolve how the harbour space should be used to satisfy the need for calm waters, security, fish processing, transportation and gear storage for all. The stakeholder engagement process is much encouraged by IFU to ensure a lasting solution.

2

SUSTAINABILITY MANAGEMENT AND COMMUNICATION

IFU is committed to the global Corporate Governance Development Framework (CGDF). We believe that proper implementation of sustainability efforts requires a governance structure in its broadest sense, both internally (as corporate governance) and with regards to the way a company interacts with society (societal governance).

This entails that project companies work strategically with sustainability and formally anchor the activities in the business plan and daily practices through operating procedures at all relevant levels. These procedures must ensure that the companies identify, prevent and mitigate potential adverse sustainability impacts that they may cause or contribute to, or to which they are directly linked through their business relationships.

IFU is also committed to ensuring that local stakeholders affected by its investments are consulted on an informed and participatory basis that promotes inclusiveness. This is important to ensure the respect for human rights and can in addition strengthen the basis for sustaining development effects in terms of improved transfer of knowledge and technology as well as for developing local capabilities and capacities.

For the project company, a strategic and proactive approach to managing sustainability and stakeholder dialogue can strengthen stakeholder trust in a project, improve the company's reputation and access to markets, enhance cost efficiencies in production and be a driver for innovation – and thereby strengthen the company's competitiveness and ensure long-term legitimacy.

This chapter includes IFU's requirements in line with IFC Performance Standard (PS) 1 on Assessment and Management of Environmental and Social Risks; PS 4 on Community Health, Safety, and Security; PS 5 on Land Acquisition and Involuntary Resettlement; PS 7 on Indigenous Peoples and PS 8 on Cultural Heritage.

2.1 Managing sustainability

2.1.1 Comply with host country legislation

The project company must identify national legislation in the host country in which it operates and ensure compliance – even in countries where systematic enforcement of legislation is weak. Local legislation may sometimes be stricter than international standards.

The project company must obtain the necessary permits to operate from the relevant authorities and should have an on-going dialogue with the authorities about any unsettled issues raised by the authorities. The company should also have a systematic approach to ensuring that it is aware of current and new legislative requirements relevant to its activities, products and services.

2.1.2 Work towards international sustainability standards

The project company must work towards implementing international sustainability standards over time. When entering into an agreement with IFU, the company must describe the international standards that the project will comply with, and whether there are significant deviations between these standards and the actual performance of the project. For each project, international standards are defined as specifically and operationally as possible, taking into consideration the risks and opportunities specific to the individual business, its local context, size and resources.

International standards are based on UN, ILO and OECD conventions, declarations, agreements and principles. It is credible, globally or regionally recognised standards that encourage continuous improvements and transform internationally accepted principles into concrete practices that can be implemented by businesses.

High-risk projects must comply with the IFC Performance Standards and the related IFC Environmental, Health, & Safety (EHS) Guidelines. The IFC EHS Guidelines can also be applied by the less critical projects, but other international standards may also be relevant, such as ISO 14001, OHSAS 18001, SA 8000, HACCP 22000, the Rainforest Alliance, RSPO, FSC, MSC and Global G.A.P.

2.1.3 Identify and assess all risks and impacts

The project company must identify and assess potential and actual adverse risks and impacts on sustainability issues, including all human rights. The result of such an assessment should among other things be a list of significant issues to which the project has to take appropriate action to comply with the relevant international principles and standards. The list will vary in complexity with the size of the business, the risk of severe impacts and the nature and context of the operation. Furthermore, this process should be on-going as risks may change over time.

Impacts to be considered include:

- Impacts caused by a project's activities and facilities that are directly owned, operated or managed by the project (including by contractors), and impacts to which a project's activities contribute.
- Impacts by business relationships that are directly linked to the project's operations, products or services, e.g. primary supply chains.
- Impacts from associated facilities that are not funded by the project, but that would not have been constructed or expanded if the project did not exist, and without which the project would not be viable, e.g. roads, transmission lines, pipelines and utilities.
- Cumulative impacts on communities or resources directly impacted by the project, in addition to other existing or planned developments that impact the same communities or resources. E.g. incremental contribution of gaseous emissions to an air shed, reduction of water available in a watershed due to multiple withdrawals, additional traffic congestion and accidents due to increases in vehicular traffic, impacts on biodiversity or ecosystems upon which local communities' livelihoods are dependent.

Countries may have vastly different human rights conditions depending on government laws and religious or cultural practices, and the company should also consider if there are areas where the company may risk endorsing or benefiting from human rights abuses owing to government or societal practices.

In the appraisal process, IFU provides an ESG self-assessment tool to be used to determine to what extent a project company meets the most fundamental sustainability requirements. IFU recommends that the company continues to use this tool in its assessments (see annex 2).

During appraisal IFU conducts a pre-investment assessment of potential adverse impacts on human rights for relevant rightsholders. If risks of severe adverse human rights impacts are identified, and if these impacts are not mitigated already, IFU prepares a complementary assessment of the impacts. This will also provide the company with a list of human rights issues that need on-going attention.

In **high-risk projects**, companies must initiate an Environmental and Social Impact Assessment (ESIA) that follows national requirements and the internationally acknowledged methodology and practice appropriate for each project. During appraisal IFU initiates an Environmental and Social Due Diligence (ESDD) gap analysis of the ESIA against the IFC Performance Standards.

2.1.4 Prepare an ESG action plan

The project company must prepare an ESG action plan that describes the actions to be taken by the company to live up to IFU's Sustainability Policy and the relevant sustainability standards over time. For brown-field projects this includes actions to address and mitigate any deviations between the current practice and the sustainability standards. For greenfield projects it also includes the construction phase. Action points could include mitigation of the potential adverse human rights impacts as well as initiatives that would enhance development effects and improve the contribution to the SDGs.

The measures to be implemented and the time frame for each will depend on the specific issues identified and their characteristics. The purpose of an action plan is to mitigate significant sustainability risks to an acceptable level. Actions whose implementation can have a critical impact on people and the environment must be implemented immediately, e.g. lack of ventilation and personal protective equipment, incorrect handling of chemicals and hazardous waste or employment of underage workers. When relevant, affected people should be consulted.

IFU will support the company in preparing the action plan. The action plan must be approved by IFU and forms part of the loan and shareholders' agreement.

2.1.5 Adopt a written sustainability policy

The project company must adopt a written sustainability policy that should include its commitment to issues covered by the 10 principles of the UN Global Compact. The policy must be approved by the company's board of directors or similar governance body, made publicly available and communicated to all workers and relevant external stakeholders.

The policy should address the significant issues relevant for the project and aim at continuous improvement. The assessment of risks and impacts should be reviewed by management and be taken into account in the development of the sustainability policy. The company may also consider special focus areas, e.g. sector-specific, to be emphasized in the policy.

Management commitment to the sustainability policy is crucial if the workers are to take the policy and its objectives seriously and for the policy to become an effective management tool.

Further guidance can be found in IFU's guideline on preparing a sustainability policy (see annex 2).

2.1.6 Assign responsibility for sustainability

The project company must appoint a person with overall responsibility for sustainability at operational level, including the management of activities and resources and delegation of tasks. It must be a suitably trained person with appropriate knowledge of sustainability issues related to the project.

For **high-risk projects**, responsibilities for sustainability should be assigned at the board level to ensure that relevant sustainability issues are discussed regularly and get management attention.

2.1.7 Establish an Environmental and Social Management System

The project company must establish an Environmental and Social Management System (ESMS) to ensure continuous improvement and implement sustainability decisions relevant to the project's size and sector as well as the environmental, economic, cultural and social context in which the project operates.

The system should ensure that the project:

- Continually identifies and assesses all significant sustainability risks and impacts and sets sustainability objectives.
- Prepares action plans with operational activities to address any identified shortcomings in relation to sustainability issues and achieve the sustainability objectives.
- Conducts internal monitoring and audits to verify compliance and progress toward the objectives.
- Documents continuous improvement, e.g. via key performance indicators (KPIs).
- Records, investigates and remediates serious accidents or extraordinary impacts that occur.
- Enables workers to take part in relevant sustainability decisions and activities, and provides sustainability training.
- Encourages responsible behaviour by including sustainability objectives in incentive schemes to reward employees based on sustainability results.

The project company can choose to have its management system certified according to an internationally acknowledged standard such as e.g. ISO 14001, OHSAS 18001/ISO 45001, ISO 37001 and SA 8000, which provides stakeholders with an assurance that the company's sustainability efforts meet international standards.

2.1.8 Establish corporate governance structures

The project company must have in place a workable internal framework for its board of directors and management, internal controls, transparency and shareholder rights relevant to the project's size, industry and ownership pattern as well as the local business environment and relative sophistication of the private sector in the country in which the project company operates.

IFU has developed a Corporate Governance Policy and toolkit to help projects establish fit-for-purpose governance structures and practices (see annex 2). The toolkit revolves around a detailed questionnaire to identify the governance strengths and weaknesses and devise solutions to identified shortcomings. Where appropriate, these solutions could be included in the sustainability action plan.

One of the key elements of good corporate governance is to clarify the role and responsibilities of the board vis-à-vis management. IFU's Handbook on Board Work and Corporate Governance provides a short and easily understandable introduction to the role and purpose of the board of directors, and although it is written primarily for board members, it may be equally relevant for the management that will be ruled by the board (see annex 2).

2.1.9 Establish an emergency preparedness and response system

An emergency preparedness and response system must be established to respond to accidental and emergency situations associated with the project, including in the event of a fire. This is primarily relevant for industrial companies whose operations involve potentially toxic or dangerous substances or processes that could affect the environment and/or human health.

The system must comply with legal requirements and conform with the highest industry standards. The system should include the identification of the circumstances under which accidents and emergency situations may occur, the communities and individuals that may be impacted, appropriate response procedures and equipment to be taken, and which stakeholders need to be informed. Workers should be trained periodically to ensure effective response, and the emergency preparedness and response activities should be periodically reviewed and revised, as necessary, to reflect changing conditions.

2.1.10 Ensure security personnel comply with international standards

This issue is relevant for projects that have security arrangements involving private security guards or public security officials. The project company must ensure that its security guards, whether directly employed or contracted, behave in accordance with national law and international principles for law enforcement and the use of force. This includes preventing excessive use of force, abuse of power or other human rights abuses towards both workers and local communities.

The company must have a procedure defining the duties of security personnel, and all security personnel must receive training on rules of conduct based on international human rights standards for law enforcement and the use of force. The company must also have a procedure for recording and evaluating security-related incidents, including a mechanism for handling complaints from staff or local communities related to the conduct of security personnel.

When public security personnel are involved, including police or military, the project company should engage with the relevant authorities to ensure that such security functions are conducted in accordance with international human rights principles for law enforcement and the use of force.

2.1.11 Consider safety risks for the public

The project company must design, construct, operate and decommission the structural elements of the project taking into consideration safety risks to affected communities. Structural elements must be designed and constructed by competent professionals, and certified or approved by competent authorities or professionals. If new buildings will be accessed by members of the public, the company must consider incremental risks of the public's potential exposure to operational accidents and/or natural hazards. If the project operates moving equipment on public roads and other forms of infrastructure, the company must seek to avoid the occurrence of incidents and injuries to members of the public.

2.2 Communication and stakeholder dialogue

2.2.1 Prepare an annual sustainability report

IFU requires the project company to prepare an annual sustainability report that provides a status on sustainability issues and development impacts, including the implementation of the action plan and actions taken to address adverse impacts. The report must be discussed and approved by the project's board of directors or similar governance body. The annual sustainability report provides an opportunity for putting sustainability on the management's agenda and assessing if there is a need to adjust the strategy, intensify efforts or set new objectives.

The annual report must be submitted to IFU together with the annual financial report at the latest 3 months after end of fiscal year. The first report must cover the financial year in which disbursement took place.

IFU provides access to a digitalised questionnaire - template for annual sustainability report - which the company must use to fill in relevant information and prepare the report (see annex 2).

2.2.2 Immediately report significant incidents

Within 3 days of their occurrence, the project company must report to IFU significant incidents, which have, or could potentially have, material impacts on the company's operations, the welfare of employees, contractors or communities, or the environment, including:

- Fires or explosions
- Significant fuel/chemical spills
- Significant pollution discharges above limits of normal operation
- Major work-related injuries or fatalities
- Incidents significantly affecting the health of employees, contractors or communities
- Regulator enforcement actions/notices
- Major security breaches
- Strikes or employee unrest
- Incidents requiring operations to be substantially curtailed or shut down
- Significant community unrest or public relations incidents

The report must include a plan for corrective action and follow-up.

2.2.3 Ensure stakeholder access to information

The project company must be transparent and disclose relevant information about its business and performance in order to help affected communities and other stakeholders understand the risks, impacts and opportunities for the project communities.

Sustainability information regarding the project should be objective, meaningful and easily accessible and in a culturally appropriate local language(s) and format understandable to the affected communities and stakeholders.

In **high risk projects**, the project companies must provide stakeholders with access to relevant information. This includes the purpose, nature and scale of the project, any risks to and potential sustainability impacts on the communities and relevant mitigation measures as well as the envisaged stakeholder engagement process and the grievance mechanism.

2.2.4 Facilitate stakeholder dialogue

The project company should exercise a proactive and constructive dialogue with all stakeholders, including workers, customers, suppliers, the authorities and the community as well as shareholders and other investors. Stakeholder expectations are often higher than legal requirements, and dialogue with stakeholders may therefore provide valuable insight, which should be taken into consideration when sustainability activities are prioritised.

In **high-risk projects**, project companies must identify the affected communities and stakeholders that may be interested in their actions and enter into a dialogue that is scaled to the project's risks and impacts and development stage, and tailored to the interests of the stakeholders. The dialogue can include differentiated measures to allow the effective participation of those identified as disadvantaged or vulnerable.

Indigenous peoples are particularly vulnerable if their lands and resources are transformed, encroached upon or significantly degraded. Their languages, cultures, religions, spiritual beliefs and institutions may also come under threat. As a consequence, indigenous peoples may be more vulnerable to the adverse impacts associated with the project than nonindigenous communities. The company must therefore establish and maintain an on-going relationship based on Informed Consultation and Participation (ICP) with the indigenous peoples affected by a project throughout the project's lifecycle.

2.2.5 Promote sustainability issues in the supply chain

The project company must promote sustainability issues in interaction with its suppliers and business partners and require them to demonstrate due diligence in relation to potential and actual adverse impacts. The company should ensure that its procurement practices, such as prices, delivery times and internal incentive structures, encourage improved sustainability standards at suppliers and business partners.

The company's responsibility for adverse impacts in the supply chain cannot - in principle - be limited to a specific number of suppliers or a specific tier in the supply chain. However, in practice, the company should focus its attention and resources on the suppliers where the risks for violating basic sustainability issues are highest, and where the need to improve sustainability conditions and develop competences is greatest.

The company is recommended to prepare a code of conduct listing the sustainability principles and standards that the suppliers are expected to meet. The code of conduct should be an integral part of all business agreements, and it should be clearly stated that violating this code may affect the relationship with the supplier.

Even the most diligent project company with the best contractual arrangements and monitoring practices may be associated with a supplier violating basic sustainability principles. Even though the company does not contribute to these violations, it should still use its influence to remedy critical conditions that it has become aware of.

IFU's guideline on supply chain management provides recommendations for how project companies can work towards ensuring acceptable conditions in their supply chain. The guidelines describe how the company can prepare a code of conduct, identify and prioritise critical suppliers, as well as what the company can do, if it identifies critical issues in its supply chain (see annex 2).

2.2.6 Ensure workers and other stakeholders can complain

The project company should in general ensure open channels of communication between management and workers regarding work-related issues as well as external stakeholders who may be affected by the project activities.

The company must establish a grievance mechanism/procedure for receiving, processing and settling complaints by individuals and communities. The company must also provide 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 company must ensure access to remedy for the affected persons and/or notify the appropriate authorities.

A well-functioning grievance mechanism that provides a transparent, credible and fair process to all parties is an important management tool for projects where on-going risks and adverse impacts are anticipated. It sends a strong signal to workers as well as external stakeholders that they are taken seriously and gives people the satisfaction that their complaints have been heard, even if the outcome is less than optimal. It also helps build trust as part of the broader community relation activities and contributes to the overall success of the company's social performance. This may also benefit the project in case of accidents or violations that occur beyond its control.

IFU has a grievance mechanism through which external stakeholders can report alleged breaches of IFU's sustainability policy. IFU encourages project companies to resolve grievances locally, but individuals and communities affected by an IFU project can also use IFU's grievance mechanism in an effort to reach a solution.

IFU has a guideline that provides recommendation for how project companies can establish a well-functioning grievance mechanism (see annex 2).

2.2.7 Engage local communities on use of land

The project company should make every effort to respect land use rights of the local communities and train its workers and security guards to do the same. Through its acquisitions and operations, the company may negatively impact livelihoods or the access of local communities to resources. This includes burdens to the local food or water supply and activity obstructing access to hunting and fishing grounds.

For **high risk projects**, the project company must engage with affected groups (including women, tenants, settlers, minorities, indigenous peoples and other vulnerable groups) in and around its area of operations, prior to, during and after commencing activities that may negatively impact their access to resources or livelihoods to prevent, reduce and mitigate impacts. The company must also take steps to remedy the legitimate concerns of affected groups regarding any adverse impacts.

Where the project site contains cultural heritage or prevents access to previously accessible cultural heritage sites being used by, or that have been used by local communities within living memory for long-standing cultural purposes, the company must allow continued access to the site or provide an alternative access route.

2.2.8 Ensure transparent and inclusive resettlement process

In many countries, the management of land and property presents a legal challenge. Registration of ownership may be lacking or informal systems of ownership may exist alongside formal systems. Individuals, including indigenous peoples, who use or reside on land may lack proof of ownership or usage rights. Particularly in poor and rural areas, loss of land or property without adequate compensation may significantly harm the livelihoods of local communities, as well as cause negative environmental and social impacts in the area to which they have been displaced. Before acquiring or accessing land or property, the project company must investigate land ownership properly and seek users' and owners' free, prior and informed consent (FPIC).

Projects involving resettlement are often **high-risk projects**. Resettlement includes both physical displacement and economic displacement, which is the loss of assets or access to assets causing loss of livelihood as a result of project-related land acquisition and/or restrictions on land use.

Resettlement should be avoided where possible and, if unavoidable, should be minimised and adequate compensation given. Where resettlement is unavoidable, a resettlement action plan must be prepared stating who will be affected by the displacement, and how they will be compensated to help them restore or improve their standards of living or livelihoods, as appropriate. The company must ensure that the resettlement and compensation process is transparent and applied consistently to all persons affected, and that women's interests are factored into all aspects of resettlement planning and implementation.

Although involuntary resettlement can only be conducted by governments, it is often in the best interest of the company to seek to get involved in this process. The company should ensure that past users and owners have not been wrongfully removed, and that any expropriations by the authorities have been conducted in accordance with international law.

2.2.9 Consult stakeholders on impacts on cultural heritage

The project company should avoid significant adverse impacts on cultural heritage. Cultural heritage includes objects and sites having archaeological, historical, artistic or religious values, unique natural objects such as sacred groves, rocks, lakes and waterfalls, and cultural knowledge and practices of communities embodying traditional lifestyles.

Where adverse impacts to cultural heritage are unavoidable, the company should minimise these adverse impacts and implement restoration measures that ensure maintenance of the value and functionality of the cultural heritage in consultation with the appropriate stakeholders.

Where relevant, the company should have a procedure to be followed if previously unknown cultural heritage is encountered and should not disturb any chance find further until an assessment by a competent professional has been made.



FLOWER PRODUCTION WITH PROPER EDUCATION

Fynbloem in South Africa is conscious of the well-being of its staff. Equipment such as gumboots and ear and eye protection is provided. New staff is taught how to lift and correctly use their bodies, and staff working with chemicals is trained in the correct use. Fynbloem uses its internal newsletter to educate about sensitive issues like sexual harassment and health, including HIV prevention. A mobile clinic regularly visits the site to test for e.g. TB, HIV and diabetes.

3

DECENT WORK, HEALTH AND SAFETY

IFU is committed to supporting and promoting decent work, and all IFU's investments must adhere to core ILO conventions on child labour, forced labour, non-discrimination and freedom of association. Furthermore, IFU's requirements for decent jobs cover proper working conditions and terms of employment, collective dismissals, gender equality, privacy, occupational health and safety, grievance mechanisms and worker accommodation.

IFU's commitment to improving gender equality will help advance women as entrepreneurs, business leaders, employees and consumers and enhance their economic empowerment.

ILO conventions on occupational health and safety provide the framework for creating safe and healthy work facilities and taking the necessary precautions to protect the workers from work-related risks and predictable dangers in the workplace.

IFU expects the project companies to diligently support and respect all basic human rights, including the relevant ILO conventions on labour rights. For any business, the workforce is a valuable asset, and a good worker-management relationship is crucial for running a sound business. IFU recognizes that through a constructive worker-management relationship and by treating workers fairly, companies may obtain tangible benefits, such as enhancement of the efficiency and productivity of their operations. Furthermore, a healthy and safe working environment will minimise work-related accidents and thereby absenteeism, loss of skilled staff and costly early retirements.

This chapter includes IFU's requirements in line with IFC Performance Standard 2 on Labour and Working Conditions.

3.1 Decent work

3.1.1 Provide employment contracts

All workers at the project company must have an employment contract, as a minimum specifying the terms of employment, i.e. job description, wages, working hours, overtime, holidays, breaks, benefit plans and terms of termination. The contract must be in a language the workers can read, and the project company must make sure that the workers understand the contents of the contract. The company should consider making an employee handbook describing the rights and duties of workers.

The project company must ensure that migrant workers are engaged on comparable terms to non-migrant workers carrying out similar work, and that contractors provide workers operating within the project's premises with an official employment status in line with the company's standards.

According to ILO standards, workers should be granted at least three weeks of paid holiday leave per year. Part-time and short-term workers should be provided with paid holiday leave proportionate to the number of hours worked, at a rate equal to that of permanent full-time employees.

Workers must be entitled to paid sick leave in accordance with national law. If sick leave is not provided for in national law, the company should consult union or worker representatives to establish alternative means of protection in case of illness or injury. The company should also ensure that sick leave is not deducted from workers' vacation time.

Female workers should be entitled to at least fourteen weeks of paid maternity leave per child.

3.1.2 Provide reasonable wages

National minimum wages are often fixed by law, but may not have been adjusted for years. The project company must provide reasonable wages reflecting the costs of living and ensuring a decent standard of living. If piece-rate payment is used, reasonable wages should be obtainable within normal working hours. The company must pay wages at regular intervals and not take deductions for disciplinary measures or other deductions not authorised by national law. The wage to be paid for every hour of overtime should be 150% of the normal hourly wage. The company must ensure that part-time workers receive wages and benefits that are proportionate to those of full-time employees, and receive overtime compensation at a minimum of 125% of their hourly salary.

3.1.3 Set reasonable limitations on working hours

According to the ILO convention on hours of work, the workweek should be no longer than 48 hours with no more than 12 hours overtime per week. ILO recommends moving towards a 40-hour working week. Overtime must be voluntary, infrequent and remunerated at a premium rate above the normal rate. All workers must have at least 24 consecutive hours of rest per week. The project company must ensure that workers have no less than a 30-minute break for every four hours of work, and that workers are allowed to use toilet facilities whenever necessary and not just during designated breaks.

3.1.4 Ensure adequate housing and living conditions

In certain cases, e.g. involving migrant workers, the project company has the responsibility of ensuring adequate housing. Housing facilities should be safe and sanitary and meet basic needs. Basic needs include minimum space, access to privacy, supply of water, adequate sewage and garbage disposal system, appropriate protection against heat, cold, damp, noise, fire and disease-carrying animals, adequate sanitary and washing facilities, ventilation, cooking and storage facilities and natural and artificial lighting. IFU can provide guidance on housing upon request.

3.1.5 Comply with minimum age standards

Children have the basic right to education and must not be hired for full-time work until after having completed their compulsory education. ILO standards set the minimum age for admission to full-time employment at 15 years. Children aged 13 may perform light work as defined by the ILO as work for a few hours per day, not interfering with the health or development of the child and with the child's compulsory education. Workers below the age of 18 should not be engaged in hazardous work.

The project company must have a reliable procedure to check the age of young job candidates by requiring a birth certificate or other official form of identification. If the company becomes aware that it has hired underage workers, it must take immediate action to remedy the situation. Since poverty and lack of social services are the main causes of child labour, simply dismissing underage workers is not the solution. Instead, the company must make efforts to enrol the children in an educational programme and assist them in making the transition from work to school.

3.1.6 Not participate in or be connected with forced labour

The project company must work consistently to combat any kind of modern slavery in their business and supply chains. This includes ensuring that it does not use forced labour, which is performed involuntarily and under threat or penalty. Furthermore, the company must not cooperate with business partners that use forced labour or in any way benefit from the use of forced labour. The company must therefore ensure that it is not complicit in forced labour through job agencies, suppliers and other business partners.

The company must ensure that workers can give notice and leave employment within a reasonable length of time, and that it does not retain identity cards, passports, travel documents or other personal items without which workers cannot leave employment. All workers must be allowed to leave project premises during breaks and at the end of their shifts, and workers in project housing facilities may freely enter and exit their accommodation at any time. The company must also ensure that it does not require workers to pay recruitment fees or lodge money deposits.

3.1.7 Prevent workplace harassment and avoid discrimination

Workplace harassment encompasses assault, physical and sexual harassment or threats and workplace bullying and intimidation. To protect workers, the project company should inform workers of their obliga-

tions to refrain from violent, threatening or abusive conduct and train managers on how to identify and deal with instances of harassment in the workplace.

The workers should be allowed to report incidents of harassment to a grievance mechanism, and the company should investigate all complaints of workplace harassment and take appropriate preventative and disciplinary action.

The project company must also ensure that its policies and procedures prevent discrimination and promote equal opportunity. Discrimination can be based on gender, age, skin colour, race, caste, language, ethnic, national or social origin, economic or marital status, religion or creed, political beliefs, sexual orientation, mental or physical disability and health status (e.g. HIV or AIDS status), etc. The company must apply objective criteria when assessing education, experience and skills and use consistent procedures in all decisions concerning recruitment, promotion, remuneration, competency development and working conditions, e.g. respecting national and religious traditions.

The policies and procedures must respect women's rights and protect women against gender-based violence and reproductive inequities. In some regions, sexual harassment and domestic violence against women is a widespread problem, and government support is inadequate. If the company discovers that female workers are subjected to such violence, the company should assist them in establishing contact to centres for victims or similar initiatives offering professional assistance.

The project company should take reasonable steps to enable qualified persons with disabilities or health conditions to gain employment opportunities with the project, e.g. by providing wheel chair access, flexible working hours, longer breaks, etc.

3.1.8 Strengthen gender equality and empowerment of women

The project company is encouraged to address and demonstrate a commitment to empowerment of women. A precondition for gender equality is a workplace culture in which everyone's ideas are valued equally. The company can develop a supportive and inclusive workplace culture by creating awareness of the benefits of gender equality among workers and providing on-going training for managers and workers to raise awareness of the unconscious bias against women.

The company should support women's empowerment and career advancement by promoting education, training and professional development for women and by inclusion and retention of women in the company's talent pipeline. This will also allow the company to better capitalise on both female and male talent.

Equally important initiatives include providing flexibility at work to allow women to relieve the double burden of managing work and family demands concurrently and ensuring women's safety, health and rights in the workplace for women to be able to participate fully in the labour market.

The company could also consider adopting innovative approaches and services to circumvent gender-based constraints to participation and leadership, e.g. offering childcare.

The company should ensure that human resource data are available on a gender-disaggregated basis to monitor women's positions in the company and evaluate gender equality targets.

The IFU/Danish Family Planning Association publication "How to integrate employee health & gender equality in your business operations" provides inspiration for a strategic and systematic approach to gender equality (see annex 2).

3.1.9 Respect workers' right to privacy

The project company must only register information about workers, which is necessary in relation to their employment. Workers must be informed about the information registered, and this information must be available to the workers at all times. The information must be kept so that only relevant persons can access it. Workers should also be informed of any workplace monitoring, including cameras and internet or e-mail monitoring, and the specific purpose of the monitoring.

Health checks of workers can only be carried out within the framework of the law, and should only be carried out if they are directly relevant to the job in question and the overall health of the worker. If the health check is done in connection with recruitment, it should be apparent from the recruitment process that a health check will be carried out, and that it is the same for all candidates. The company must obtain prior written consent before gaining information from an individual with whom a worker has a privileged relationship, e.g. a former employer, doctor or lawyer.

3.1.10 Ensure freedom of association and collective bargaining

Workers must be allowed the freedom to form and/or join organisations of their choice to protect their interests and employment conditions. The project company must respect the workers' rights to bargain collectively. The company must not terminate workers or discriminate against them because they participate in trade union activities. In some countries, state law prevents freedom of association and collective bargaining, or only allows state-controlled unions. In these countries, the company has an obligation to respect the rights of workers to assemble independently and discuss work-related issues. Other forms of worker meetings and representation must be made available, to the extent permitted under national law.

3.1.11 Consider alternatives to retrenchment

Prior to implementing any collective dismissals, the project company should consider alternatives to retrenchment, which may include negotiated working-time reduction programmes, worker capacity building programmes, or long-term maintenance works during low production periods.

If the company cannot identify viable alternatives, a retrenchment plan should be developed and implemented to reduce the impacts of retrenchment on workers. The retrenchment plan should be based on the principle of non-discrimination and reflect the company's consultation with workers, their organizations, and, where appropriate, the authorities, and comply with collective bargaining agreements where they exist.

3.2 Occupational health and safety

3.2.1 Prevent and protect workers against health and safety risks

The occupational health and safety strategy of the project should aim at effectively preventing and protecting its workers against health and safety risks in the workplace. This includes substituting hazardous substances with less hazardous alternatives, where possible. Where relevant, the project company must take special health and safety precautions for pregnant women, workers with disabilities, night workers, young workers and other vulnerable groups.

The risk of accidents should be minimised by documenting accidents, and if possible include near misses, adapting processes to prevent recurrence and having an effective emergency plan. The procedures must comply with the national and international standards relevant for the sector in which the company operates.

The workplace must be maintained to ensure clean and comfortable conditions, including a suitable temperature, ventilation and lighting, suitable washing and sanitation areas appropriate for both genders, and safe drinking water and facilities for clean and sanitary food storage and eating.

3.2.2 Ensure workers are trained in handling health and safety risks

All workers must be trained for their individual tasks before they begin working. Work instructions and material safety data sheets must be provided in a language workers understand, so they can perform their tasks responsibly. Initial training must be followed up with regular health and safety training to ensure that the workers are fully up-to-date with health and safety risks.

3.2.3 Provide and require the use of protective equipment

If workers work with hazardous substances or processes, the project company must ensure that all the necessary personal protective equipment is provided at no cost to the workers, and that the equipment is used correctly. The equipment necessary depends on the nature of the work, but could include special clothing, gloves, helmets, glasses, shoes, safety straps, ropes, etc.

The company should ensure that the company is up-to-date on scientific and technological developments regarding health and safety risks and protective equipment.

3.2.4 Establish a health and safety committee

The best way to protect workers against accidents and reduce sick leave is to involve them in the health and safety work. The workers should be heard either directly or through safety representatives appointed by the various staff groups. The project company is recommended to set up a health and safety committee

with persons representing both management and the workers. The committee should handle complaints regarding health and safety, work with risk prevention, monitor accident statistics and take actions to prevent recurrence.

3.2.5 Improve workers' health conditions

The project company must consider how to promote health among its workers. Suggested initiatives include creating awareness through regular health talks at the workplace, where a trained health professional talks about various health topics such as pregnancy, sexually transmitted diseases, nutrition, hygiene, family planning and insect transmitted diseases. Awareness raising can also be done through peer education programmes, where a group of workers are trained in health topics and a part of their working hours allocated to interact with co-workers to share their knowledge about health.

Another relevant initiative would be providing access to health services by having an onsite clinic or having a health professional visit the company regularly. It is recommended that health services include family planning counselling and contraception, information and treatment of sexually transmitted infections, including HIV, and pregnancy. It may also include vaccinations and equipment to prevent diseases and epidemics, e.g. mosquito nets or water purification tablets. The company may also consider providing a company paid health insurance. The provided health services and insurance can cover both workers and their immediate dependents.

Such initiatives may result in fewer unplanned pregnancies, better nutritional practice and improved hygiene and thereby fewer sick days, lower turnover rates and higher productivity.

In regions where HIV prevalence is high (> 3% of adults aged 15-49), project companies are recommended to implement an HIV/AIDS policy as well as contribute actively to preventing the spread of HIV/AIDS, offer HIV/AIDS testing and prevent the stigmatizing effects of the disease. Companies could also consider offering antiretroviral treatment to infected workers.

The IFU/Danish Family Planning Association publication "How to integrate employee health & gender equality in your business operations" provides inspiration for a strategic and systematic approach to improving workers' health (see annex 2).



LARGE WIND PARK REDUCES NEED FOR FOSSIL FUEL

IFU has invested in Lake Turkana Wind Power, the largest wind park in Sub-Saharan Africa. Since third quarter 2018, the 310 MW wind park has produced power to the Kenyan distribution net equivalent to approximately 15 per cent of the total electricity production in the country. It has reduced the need for fossil fuel significantly and will lead to annual savings for the Kenyan society of around USD 120m.

4

ENVIRONMENT, CLIMATE AND BIODIVERSITY

IFU is committed to supporting and promoting a preventive and precautionary approach to environmental challenges in accordance with the Rio Declaration on Environment and Development. By continuously focusing on preventing and minimising adverse impacts on the environment and nature related to its investments, IFU works to ensure that local stakeholders are not exposed to unhealthy environments, and that they have access to and benefit from biodiversity and ecosystem services.

Furthermore, IFU is committed to ensuring that the management of its business and investments is in line with applicable international conventions, declarations and agreements related to climate change, including the UNFCCC Paris Declaration. By this commitment, we recognise that climate change is a short-term threat hampering poverty reduction and sustainable development in many parts of the developing world, affecting livelihoods, private sector development and economic growth.

IFU also recognises that protecting and conserving biodiversity, maintaining ecosystem services and sustainable management of natural resources are fundamental to sustainable development, and we strive to invest in sustainable and resilient agriculture and forestry. As biodiversity is seriously under threat in many places, special requirements for projects within a certain distance from legally protected areas may apply. Such areas may include forest reserves, water protection areas, national parks, bird sanctuaries and wetlands designated under the Ramsar Convention and UNESCO sites.

Increased economic activity and urbanization often generates increased levels of pollution to air, water and land and consumes finite resources in a manner that may harm people and the environment at the local, regional and global levels. As pollution prevention methods and cleaner technologies are available in most of the world, IFU expects project companies to adopt the best available technologies where financially and technically viable. This includes considering energy efficient and low carbon solutions.

Besides risk reduction, companies may benefit from preventive and precautionary environmental efforts in terms of improved operational efficiency and lower operating cost.

This chapter includes IFU's requirements in line with IFC Performance Standard (PS) 3 on Resource Efficiency and Pollution Prevention as well as PS 6 on Biodiversity Conservation and Sustainable Management of Living Natural Resources.

4.1 Environment, climate and biodiversity

4.1.1 Reduce emissions of greenhouse gases

The project company must take all necessary measures to ensure that the project is energy efficient, thereby reducing contributions to global warming to a minimum. The company should work towards a level in line with best practice within its sector or set a goal of becoming CO₂ neutral.

The company should implement technically and financially feasible and cost-effective options to reduce project-related greenhouse gas emissions during the design and operation of the project. These options may include adoption of renewable or low carbon energy sources, sustainable agricultural, forestry and livestock management practices and the reduction of fugitive emissions.

During appraisal, IFU will estimate the net carbon emissions and savings of the project. The CO₂ emissions are calculated as tonnes CO₂ equivalent (t CO₂e) during the projects lifetime. The estimation includes both the emissions from the activity and the emissions from the baseline scenario (the situation if the project was not financed).

For projects emitting more than 25,000 tonnes of CO₂ equivalent annually, the company is 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.

4.1.2 Focus on sustainable resource consumption

The project company should ensure sustainable consumption of natural resources, e.g. wood, water and fish. The company must have the necessary permits and comply with legal requirements regarding the cultivation, harvest, extraction and/or use of natural resources.

The company must seek to increase resource efficiency of its operations and should demonstrate efforts to substitute non-renewable resources with renewable resources. The company should reduce waste and losses in production, storage, transport and consumption and identify ways to enhance recycling and the productive use of waste and/or by-products. These actions will also benefit the project financially by reducing the costs of inputs.

The company could work with local and national public authorities as well as with international institutions to implement mitigation measures to maintain the value and functionality of natural resources on which the project is directly dependent for its operations.

4.1.3 Establish procedures to prevent pollution

The project company must take the necessary steps to avoid or minimize pollution of the surrounding environment and continually monitor its environmental performance. It must also mitigate the risk of ac-

idents through reasonable risk management and efficient precautionary measures. The company must ensure continuous improvements for significant environmental issues. When planning new investments in technology, the company should use the best available technology. The company must comply with the national and international standards relevant for the sector.

Depending on the project, pollution control measures could include:

- Wastewater treatment before discharge. If wastewater treatment takes place outside the company's premises, the company should be aware of the effectiveness of the treatment.
- Treatment of relevant pollutants before they are emitted to the atmosphere and minimizing levels of noise, odour, light and vibrations.
- Proper handling, storage and labelling of waste, especially hazardous waste. The company must use licensed contractors for the transport, treatment and disposal of hazardous waste.
- Identification of any soil and water contamination at the company's site or sites, assessment of the environmental impacts and remedy of any significant contamination.
- Identification of hazardous operations and assessment of the potential consequences on human health and the environment if an accident occurs. The company must have emergency procedures to respond to accidents, equipment and training programmes to prevent accidents, including carrying out emergency drills. If accidents occur the company must minimise the effects and promptly inform the community, authorities and other relevant stakeholders.

4.1.4 Ensure adequate handling and disposal of waste from livestock

Project companies with livestock operations must comply with EU requirements for handling and disposal of animal manure. This includes an adequate manure storage capacity considering the type and number of livestock and possibilities for disposal as well as disposal in an environmentally responsible manner, preferably by application to agricultural land. The project company must also comply with requirements for a sanitary protection zone and prepare a comprehensive waste management plan for disposal of all waste from the farm, including the storage and disposal of dead animals.

4.1.5 Minimise the use of hazardous substances

The project company must not use chemicals, which are covered by a ban or are being phased out as part of national or international agreements or conventions. The company should work diligently towards minimising the use of hazardous substances and – where possible – substitute such substances with less hazardous alternatives.

If hazardous substances are used, the company must ensure their safe storage, handling, production, use and disposal. All chemicals and other hazardous substances must be classified correctly and labelled in accordance with the UN system for classifying and labelling of chemicals. Finally, the company must keep up-to-date and comply with sector-specific regulation of hazardous substances.

Particularly with regard to the use of chemical pesticides, the company should always consider alternative pest control methods. When chemical pesticides are used, the company should select chemical pesticides

that are low in human toxicity, that are known to be effective against the target species, and that have minimal effects on non-target species and the environment.

4.1.6 Raise environmental awareness among workers

Workers must be trained to handle resources – raw materials, water and energy – properly and protect the environment in connection with their tasks. All workers must have access to work instructions and environmental information in a language they understand, for them to perform their tasks properly.

4.1.7 Protect and conserve biodiversity and ecosystem services

The project company must have the necessary permits to operate in or alter the natural environment, and comply with legal requirements. Project activities should be undertaken with a view to avoiding, minimising and mitigating environmental damage, and ensuring that no irreversible environmental damage takes place.

Natural habitats are areas composed of viable assemblages of plant and/or animal species of largely native origin, and/or where human activity has not essentially modified an area's primary ecological functions and species composition. Before implementing project activities in natural habitats, the company should consider other viable alternatives within the region for development of the project.

For projects located in natural habitats, the company should avoid impacts on biodiversity and ecosystem services, and when avoidance of impacts are not possible, the company should measure and minimize these impacts and restore biodiversity and maintain the value and functionality of ecosystem services, by developing a biodiversity management plan. Mitigation measures to achieve no net loss of biodiversity could include:

- Identification and protection of set asides
- Minimizing habitat fragmentation, e.g. by establishing biological corridors
- Restoring habitats during operations and/or after operations
- Implementing biodiversity offsets.

Ecosystem services include provisioning services like food, freshwater, timber, fibres, medicinal plants as well as regulating services like surface water purification, carbon storage and sequestration, climate regulation and protection from natural hazards. Furthermore, cultural services like natural areas that are sacred sites and areas of importance for recreation and aesthetic enjoyment and supporting services like soil formation, nutrient cycling, primary production are also defined as ecosystem services.

Projects in natural habitats may also require that mitigation measures are designed to achieve net gains of those biodiversity values for which the habitat was designated.

Critical habitats are areas with high biodiversity value, including habitat of significant importance to endangered species and threatened or unique ecosystems. IFU does not invest in projects involving the destruc-

tion of critical habitat, i.e. elimination or severe diminution of the integrity of a habitat or of the habitat's ability to maintain its role.

4.1.8 Manage living natural resources in a sustainable manner

Project companies engaged in primary production of living natural resources, including natural and plantation forestry, agriculture, animal husbandry, aquaculture, and fisheries, must, where feasible, locate land-based agribusiness and forestry projects on unforested land or land already converted.

The company must manage living natural resources in a sustainable manner, through the application of industry-specific good management practices according to globally, regionally, or nationally recognized standards, e.g. the Rainforest Alliance, RSPO, FSC, MSC and Global G.A.P.

4.1.9 Avoid introducing alien species

The project company should not intentionally introduce any alien species (not currently established in the region) unless this is carried out in accordance with the existing regulatory framework for such an introduction. All introductions of alien species must be subject to a risk assessment to determine the potential impacts.

The company should also implement measures to avoid the potential for accidental or unintended introductions, including the transportation of substrates and vectors (such as soil, ballast and plant materials) that may harbour alien species.

The company must follow EU regulation regarding GMO and clearly label products containing GMOs, including indicating if GMOs have been used in the production process.



'FIVE FREEDOMS' SET THE STANDARD AT SILVERLANDS

The chicken farms at Silverlands Tanzania follow the 'Five Freedoms' as set out by the World Organisation for Animal Health as well as Danish animal welfare regulations. 'Five Freedoms' describe the conditions animals should experience when under human control, namely 1) freedom from hunger, malnutrition and thirst, 2) freedom from fear and distress, 3) freedom from heat stress or physical discomfort, 4) freedom from pain, injury and disease, and 5) freedom to express normal patterns of behaviour.

5

ANIMAL WELFARE

IFU is committed to setting high animal welfare standards and using Danish rules and regulations as a comparative benchmark for (but not limited to) good management practice, physical environment, veterinary practice and the use of medicine, transport and slaughtering.

Guidance from the principles referred to as the Five Freedoms of Animal Welfare and the Terrestrial Animal Health Code of the World Organisation for Animal Health (OIE) is implemented in IFU's investment process. This means that animals (e.g. pigs, cattle, sheep and poultry) used in food production and for other commercial purposes and testing should be housed, fed, watered and looked after in consideration of their physiological and behavioural needs and protected against pain, suffering, fear, distress, injury or disease in the best possible manner.

We believe there is a business case for upholding animal welfare standards as it may increase productivity through reduced animal morbidity and mortality and open new markets where retailers and consumers are concerned with animal welfare.

5.1 Animal welfare

5.1.1 Uphold good management practice

The top management must be committed to protecting animal welfare and follow appropriate animal welfare codes such as the latest version of the Danish Veterinary Association's policy for the relevant type of livestock, which includes but is not limited to minimising animal mortality rates and illnesses.

5.1.2 Ensure proper physical conditions and animal feed

The project company must design and construct housing units that follow the Danish requirements and recommendations, as appropriate for each type of livestock. These requirements and recommendations include, but are not limited to, ensuring that animals are provided with:

- Sufficient space, comfortable resting areas and rummage material, if required
- Separate boxes or areas for new-borns as well as for sick animals
- An optimal indoor temperature
- A suitable quantity and quality of food, according to age, breed and gender.

5.1.3 Ensure regular control visits by a veterinarian

The project company must ensure that a qualified veterinarian supervises the animals and makes regular and frequent control visits. As a minimum these visits must include an inspection of all housing units and all medical preparations administered.

The veterinarian must also diagnose the animals and make treatment plans, if necessary. The use of medicine must be made on a solid professional basis and in conformity with legal requirements. Pain, injury and disease must be prevented, rapidly diagnosed and treated in an appropriate manner, and if treatment is not possible or has been shown to be ineffective, the animal must be put down in a quick and humane manner.

5.1.4 Avoid preventive treatment with antibiotics

Preventive (prophylactic) treatment with antibiotics must only address diagnosed diseases, and the project company must limit its use as much as possible. Prophylactic treatment with antibiotics must not be used to promote growth and secure improved productivity.

If the authorities of the host country require that special vaccinations are made, such requirements must be complied with, unless an exemption has been made by the relevant authority in the specific case.

IFU's guidelines concerning use of veterinary medicine explain how the project company can secure that use of medicine in a herd is made on a solid professional basis and in conformity with Danish rules (see annex 2).

5.1.5 Ensure proper transport and slaughtering

The handling and transportation of animals to for example slaughterhouses, markets or another farm must not cause stress, injury or unnecessary suffering. Transport time should be kept to a minimum, and the animals must have sufficient space, water, food and rest throughout the journey. The persons transporting animals should have the necessary qualifications and training.

Only humane and permitted methods should be used to stun or kill animals. Animals must be stunned before slaughtering by an appropriately qualified person.



SMART CAMPAIGN GUIDES MICROFINANCE STAFF TO PREVENT CORRUPTION

As a microfinance institution, Satin Creditcare in India adheres to the Client Protection Principles (Smart Campaign) to ensure maximum benefit to its clients and a fair and respectful treatment. This includes training Satin staff in customer interaction, prohibiting them from accepting bribes, gifts and food, making forceful seizures and visiting during inappropriate occasions.



ANTI-CORRUPTION AND BUSINESS ETHICS

IFU is committed to maintaining a zero-tolerance policy regarding corruption, including bribery, fraud and facilitation payment. The central instruments are the UN Convention against Corruption and the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, and both are incorporated in Danish law, which IFU is subject to.

We believe that high business ethics and a sound moral compass are prerequisites for investments to develop into healthy and sustainable businesses, and our commitments include ensuring fair competition and proper payment of taxes.

We recognise that corruption is one of the greatest barriers to sustainable development with a disproportionate impact on developing countries, and that combating corruption is a key element to poverty alleviation.

However, we acknowledge that it can be difficult for a company to change a corrupt environment alone, and we encourage project companies to initiate or join local or sector initiatives for the purpose of promoting a fair business environment and fighting corruption.

6.1 Anti-corruption and business ethics

6.1.1 Commit to anti-corruption

The project company must comply with any anti-corruption legislation in the country in which it operates and take a clear, written stand against corruption, e.g. as part of a sustainability policy or a stand-alone anti-corruption policy.

The company and its workers must not accept bribes in any form on any portion of a contract payment, including, but not limited to, special offers, sponsorships, personal advantages and kickbacks in the private sector. Similarly, the company and its workers must not offer undue advantages to customers, agents, suppliers, contractors, workers or government officials.

6.1.2 Assess and manage corruption risks

The project company must identify and assess the risk of becoming involved in corruption in all project operations and in relation to both the public and the private sector. The company must initiate the necessary preventive measures to counter the identified risks. This includes implementing adequate procedures and controls for managing corruption risks.

The company should monitor compliance and continuously identify strengths and weaknesses in the anti-corruption initiatives to remain effective and up-to-date in addressing risks. The company should conduct regular internal audits and request external auditors to maintain a critical eye and follow all alarms and irregularities. The company must respond immediately to any allegations of corruption, implementing corrective and preventive measures.

The board of directors should ask the project company for an annual evaluation of the risk of becoming involved in or associated with corruption.

6.1.3 Create an anti-corruption culture

The project company must communicate its commitment to anti-corruption to the entire organisation and provide clear instructions on how to avoid corruption.

In order to create and maintain an organisational culture that does not tolerate corruption, the company must train all relevant workers in how to avoid and deal with corruption on an on-going basis. Workers should be introduced to good business practices such as always sending two or more people to critical meetings to discourage bribery. Workers must also be introduced to dilemmas and how to handle them.

Information on disciplinary procedures for violations of anti-corruption policies must be available to workers.

6.1.4 Avoid facilitation payments

Facilitation payments are considered a form of bribery and are prohibited in most countries. Such payments are typically demanded by low-level or low-income government officials to secure or expedite a routine action or service to which the project company is entitled, e.g. getting a permit or connection to public utilities.

Experience shows that it is worthwhile doing everything possible to deny requests for facilitation payments. The project company must train workers to avoid facilitation payments. If exceptional circumstances make it unavoidable, workers must be instructed in how to handle the payment, e.g. by requesting a receipt and reporting the payment to the management. The company must also establish a procedure for recording any facilitation payments made.

6.1.5 Inform business partners about anti-corruption commitment

The project company must make its commitment to fighting corruption known to its major suppliers, contractors and other business partners. Using third parties does not exempt the company from its responsibility to fight corruption. The company must therefore ensure that agents, intermediaries and consultants acting on its behalf are not involved in corruption. The company must have the right to terminate a business partnership in the event that the partner is involved in corruption.

The company must ensure that payments to agents, intermediaries and consultants are in line with standard payments for other service providers of similar ranking. The company should only make payments by bank transfer in the country of the agent, intermediary and consultant and never to a third party without prior examination.

6.1.6 Ensure fair competition

Competition laws forbid all forms of written or oral agreements or concerted practices with competitors regarding prices, allocation of markets or customers, misuse of a dominant market position or other situations where free competition is obstructed or limited. The project company must not enter into any illegal agreement with a competitor, regardless of whether the agreement is written or oral, or whether it is an unspoken agreement, misuse a dominant position in a market and/or exchange sensitive business information (such as prices, price development, discounts, etc.) with a competitor or a representative of a competitor.

6.1.7 Comply with local tax regulation

The project company must at all times comply with local tax regulation and pay taxes where they have their economic activity. Taxes paid to host countries are an important element of the development effect of IFU's investments and enable the host countries to invest in infrastructure, e.g. schools, hospitals and roads.

6.1.8 Maintain good business standards

The project company must maintain normal, good and acceptable business standards in its business transactions with its shareholders, partners, managers, workers, affiliates or affiliates of such entities or persons, and keep transactions at arm's length. All capital must be of legal origin, and a proper, effective and efficient bookkeeping and accounting system must be in place, using an accounting system acceptable to IFU. The activities of the project must be in accordance with the law, including the law on competition and intellectual property rights.

Find more guidance on good business standards in IFU's Financial Handbook (see annex 2).



SOLAR PROJECT IN BRAZIL WITH FOCUS ON LOCAL DEVELOPMENT

In the state of Paraíba, Brazil, IFU has invested in a 90 MW solar project. It is located near a town with 10,000 inhabitants. As part of the stakeholder communication, community development activities have been initiated. The activities were planned to ensure commitment from the community and to create sustainable long-term benefits. They include provision of water wells, environmental awareness on protected animals and support to cultural activities.

7

COMMUNITY DEVELOPMENT

IFU is committed to contributing to the realisation of the UN Sustainable Development Goals (SDGs), and project companies should – besides creating jobs and income, improving corporate governance and sound environmental and social performance – contribute to development impacts in the local community.

Depending on the project size and sector, the company may have a huge impact and play an important role in the community. With this comes the responsibility to contribute to community development within the companies' capacity and considering their business strategy as well as to pay particular attention to vulnerable groups. Community development may in other words be crucial to achieve a social license to operate.

The company could contribute to community development by entering partnerships with stakeholders such as UN agencies, governments, civil society, and other non-business interests.

In line with the OECD Guidelines for Multinational Enterprises, IFU also calls on project companies to apply fair marketing and advertising practices and to ensure the reliability of the products that they provide.

7.1 Community development and consumer protection

7.1.1 Identify community needs

The project company is encouraged to participate in community networks and make partnerships that contribute to developing the local community. The company should ensure that its efforts are inclusive, transparent and meet community needs. As a first step, the company should therefore identify relevant community representatives and discuss the community needs.

The company could contribute to local economic growth by giving local business partners contracts and new market opportunities and by fostering entrepreneurship, which could enhance well-functioning markets and related infrastructure.

Community engagement could also include collaboration with local education institutions about educational activities and partnerships with local authorities on cultural, health and infrastructure development, e.g. ensuring access to social services and public utilities for all. Contributions can also be in the form of donations or voluntary work that benefits the local community.

7.1.2 Create opportunities for youth

In developing countries young people make up a large proportion of the population. Provided with the necessary skills and opportunities needed to reach their potential, young people can be a driving force for supporting development.

However, in many countries young people are unemployed. It is a great loss of human resources when young people cannot find work when they finish their education. The project company can contribute to engaging and empowering youth by providing adapted training, education and mentorship programmes to increase their productivity and/or access to decent jobs and entrepreneurship opportunities.

7.1.3 Contribute to improving community health

While acknowledging the public authorities' role in promoting the community health, IFU expects the project company to consider how it could contribute to improving community health, e.g. through support for public health campaigns.

Where specific diseases are endemic in communities, the company could consider exploring opportunities to improve environmental conditions that could help minimize their incidence. Another relevant initiative could be providing access to health services. The company could offer public access to an onsite clinic or provide a mobile health clinic that visits the community regularly. Likewise as for the workers, relevant health services include family planning counselling and contraception, information and treatment of sexually transmitted infections, including HIV, and pregnancy. It may also include vaccinations and equipment to prevent diseases and epidemics, e.g. mosquito nets or water purification tablets.

7.1.4 Ensure reliable products and fair marketing

This issue is relevant for projects producing or marketing products where product-related impacts on human rights, including health, life and privacy, may arise due to product use, product defects or side-effects, or incorrect use of the product.

The project company must provide written and visual warnings on all packaging or products about known health hazards associated with the product, including instructions for proper use in a language and form understandable to the users. If training, protective equipment or other measures are required for safe use of the product, the company must take steps to ensure that end-users are aware of such requirements. Where relevant, product stewardship procedures should be in place to prevent and monitor such improper use or misuse.

The company must be aware of and comply with national laws, international guidelines and industry standards regarding product manufacturing, design and marketing. The company should take measures to eliminate ingredients, designs, defects or side-effects that could harm or threaten human life and health during manufacturing, usage or disposal of the products.

The company must also take reasonable measures to ensure the security of personal data that they collect, store, process or disseminate.

Furthermore, the company should co-operate with public authorities to prevent and combat deceptive marketing practices including misleading advertising and commercial fraud. The company could also support efforts to promote consumer education in relation to their business activities in order to improve the ability of consumers to make informed decisions and promote sustainable consumption.

ANNEX 1: OVERVIEW OF IFU'S SUSTAINABILITY POLICY FRAMEWORK

IFU's Sustainability Policy is the main policy document and sets out IFU's commitments and obligations in relation to sustainability. IFU's commitments in relation to major global sustainability issues are elaborated on in underlying policies, which further explain IFU's approach and implementation.

IFU's sustainability requirements for direct investments are listed in annex A in the Sustainability Policy.

IFU does not finance activities on the exclusion list defined by the European Development Finance Institutions (EDFI). The exclusion list is included in annex E in the Sustainability Policy.

The policy also includes a list of international conventions, declarations and agreements that the policy is based on (annex G) and a list of international principles, guidelines and standards that IFU has signed, adopted or acceded to (annex H).

The Sustainability Policy can be downloaded from www.ifu.dk/en

IFU's SUSTAINABILITY POLICY, 2019



ANNEX 2: OVERVIEW OF IFU'S SUSTAINABILITY TOOLS

ESG self-assessment tool	IFU provides a link to company-specific self-assessment questionnaire
Guideline on preparing a sustainability policy	Can be downloaded from www.ifu.dk/en
Corporate Governance Policy	Can be downloaded from www.ifu.dk/en
IFU's corporate governance toolkit	IFU provides toolkit for companies
IFU's Handbook on Board Work and Corporate Governance	Can be downloaded from www.ifu.dk/en
Template for annual sustainability report	IFU provides a link to company specific-template
Guidelines on supply chain management	Can be downloaded from www.ifu.dk/en
Grievance mechanism (guidelines)	Can be downloaded from www.ifu.dk/en
How to integrate employee health & gender equality in your business operations	Can be downloaded from www.ifu.dk/en
Guidelines concerning use of veterinary medicine	Can be downloaded from www.ifu.dk/en
IFU's Financial Handbook	Can be downloaded from www.ifu.dk/en

Published: 2019

Editor: IFU's Sustainability Unit.

Cover photo: Berry picker at a United Exports' blueberry farm in South Africa. Photo: Alfred Lor.

Other photos: Ernst Tobisch, IFU, Lake Turkana Wind Power, Julia Wakeling - Silverstreet Capital.



IFU.DK



**INVESTMENT FUND FOR
DEVELOPING COUNTRIES**

IFU

Fredericiagade 27
1310 Copenhagen K - Denmark
Tel: +45 33 63 75 00
ifu@ifu.dk
CVR No. 23598612



IFU.DK