



COFIDES 
Funding for your investment abroad

International Financing, Development and Non Financial Risks

HANDBOOK FOR COMPANIES FINANCED BY COFIDES

*Special thanks to the
Investment Fund for Developing Countries (IFU)
for allowing COFIDES to use its manual -
'Sustainable Investments. A CSR Handbook'
as the basis for this document.*

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INTRODUCTION

This Handbook has been designed for the companies that receive funding from COFIDES. Its main objective is to provide information regarding Companies' socio-environmental policy and the rationale underpinning its components and application. It updates the first edition published in 2014.

COFIDES favours private sector development, in Spain and internationally, through the financing of investments in which economic growth and profitability is compatible with the defence of natural and social environments.

This Handbook is intended as a practical document with a main section that consists of six chapters covering legal framework, human rights in the workplace, occupational health and safety, environment, anti-corruption and relations with the local community. Each part can be read independently. There is also a section about the effects that each project properly managed has on development and a third section which specifically looks at the concept of CSR and how it can be integrated into the management of a business. Lastly, there are two annexes that contain a list of the main international declarations and a summary of the Sustainable Development Goals that can help to reinforce this subject.

COFIDES is a development finance institution (DFI), founding member of the European Development Finance Institution (EDFI) Association and adheres to DFI international standards. COFIDES is a signatory of the DFI *Corporate Governance Approach Statement* (2007), the EDFI *Declaration of Principles of Responsible Financing* (2009), the IFD *Contribution to the creation of more and better jobs* (2013) as well as the *Memorandum on Harmonized Development Results of IFIs* (2013). COFIDES has also been a signatory of the United Nations Global Compact since 2005, a founding partner of the Global Compact Network Spain and was a member of its Executive Committee from 2008 to June 2016, all of which contributes to maintaining a proactive attitude and ongoing improvement in the integration of non-financial aspects in the management of the Company.

Current regulations require state-owned companies to prepare annual Sustainability Reports as well as Corporate Governance Reports, which means that COFIDES must gather, process and publish data related to social and environmental issues surrounding financed operations.

The implementation of business strategies that take societal expectations into account is key to the future of the company itself. In many cases, these expectations have already been integrated into international legal instruments.

The international agenda is gradually showing that companies' relationship with society will be measured largely through its contribution to the United Nations Sustainable Development Goals approved in 2015 and the adaptation to and mitigation of climate change, in consonance with the Paris Agreement signed in 2015. Companies will contribute to sustainable development by implementing corporate strategies that promote inclusive economic growth, social progress and environmental protection.

SOCIAL AND ENVIRONMENTAL ASPECTS

LEGAL FRAMEWORK



The management of environmental and social issues of any international investment project should take local regulations as well as international standards into account.

The *UN Global Compact* and the *OECD Guidelines for Multinational Enterprises* are the framework for financed companies which have always to respect the *Universal Declaration on Human Rights*, *ILO* and *UN Conventions* and other international standards referred to in this Handbook.

FORMALITIES

Identify and comply with local legislation

Companies set up abroad to develop COFIDES financed projects, hereinafter called project companies, must identify and comply with local legislation, even in countries where law enforcement mechanisms are underdeveloped. Among other, project companies must obtain the necessary permits and licenses to operate.

Apply international standards

Depending on the nature and relevance of the risks and impacts detected, COFIDES promotes the adoption of internationally accepted standards. The standards applied are determined on a project by project and case by case basis.

International standards include European regulations and recommendations, guidelines and standards set by organizations such as the United Nations (UN), the International Labour Organization (ILO), the Organization for Economic Cooperation and Development (OECD) and the International Finance Corporation (IFC) of the World Bank Group (WB).

Prepare an action plan if necessary

COFIDES is aware that the implementation of certain standards may require significant effort for companies. Because of this, it is imperative to establish requirements based on risks and impacts detected, to promote the adoption of these standards without adversely affecting the competitiveness of the companies financed.

This could lead to the development of an action plan in collaboration with the project company. This plan would establish a calendar of actions aimed at implementing appropriate social and environmental practices. The implementation term of the action plan will depend mainly on the nature and magnitude of risks and impacts detected.

Compliance with tax obligations

Project companies must comply with local legislation in every country where they operate.

Appropriate fiscal and budgetary policies enable the financing of public goods and services (schools, hospitals, infrastructures and social security), contributing to better opportunities for all and less inequality. Companies can highlight this contribution in their communication channels.

RECOMMENDATIONS

Stay abreast of regulations

Project companies must stay abreast of the latest best practices in the sector at local and international level, paying particular attention to those related to human rights and environmental protection. Implementation of a regulatory compliance management system is recommended.

Project companies can always rely on support and advice from COFIDES to carry out the action plan.

Environmental and social requirements are not only risk management tools but also offer opportunities to improve economic performance and stakeholder relations.

HUMAN RIGHTS IN THE WORKPLACE

Global Compact Principles 1, 2, 3, 4, 5 and 6



Companies must respect internationally recognised human rights when engaging in their activities. The potential impact of this depends mainly on the sector and the context of activities.

The *UN International Human Rights Charter* constitutes the basic point of reference in this respect. The *UN Guiding Principles on Business and Human Rights*, published in 2011, clarifies the responsibility of companies to respect and the duty of Governments to protect internationally recognised human rights. The *OECD Guidelines for Multinational Enterprises*, updated in 2011, includes a chapter on human rights aligned with the Guiding Principles. The *ILO Declaration on Fundamental Principles and Rights at Work* provides a framework for decent working conditions.

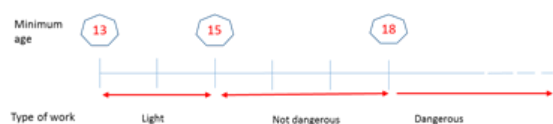
FORMALITIES

Establish appropriate policies and procedures

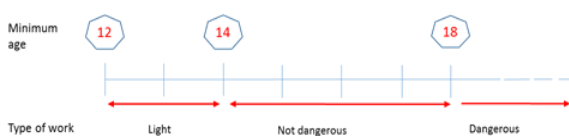
Project companies must identify potential negative impacts that their decisions and activities could have on human rights with a view to avoiding or mitigating them. The complexity of this process depends on the size of the company, the nature and context of its operations and the risk of serious human rights consequences. This analysis should take both the impact of its own activities and that of the value chain into account.

Contribute to the effective abolition of child labour

Children have the right to an education and should be protected from working until they have completed compulsory education. ILO standards set the general minimum working age which is flexible depending on the type of work.



The *ILO Convention on the minimum age* establishes that those countries with an insufficiently developed economy and educational system may adopt a transitional model:



COFIDES does not finance projects that involve exploitation and/or harmful forms of child labour (see *List of Exclusion*). Moreover, COFIDES requires compliance with *ILO Conventions 138 and 182 regarding child labour* and the *UN Convention on the Rights of the Child*. If a company becomes aware that it has hired workers below the minimum age

throughout the life of the project, it must immediately rectify the situation. Given that poverty and a lack of social services are the main causes of child labour, dismissal could be harmful and detrimental to workers below the minimum age. Instead, the company must make an effort to reinsert them in an education programme and help them in the transition from work back to education.

Not participating in or not being associated with forced labour

COFIDES does not finance projects that involve exploitation and/or harmful forms of forced labour (see *List of Exclusion*). Moreover, COFIDES requires compliance with *ILO Conventions 29 and 105 regarding forced labour*. Project companies must ensure that they do not use forced labour performed involuntarily or under threat of punishment. Project companies could be indirectly associated with forced labour through agencies or suppliers and therefore must ensure that they are not accomplices to this type of work and must refrain from collaborating with those who use forced labour or benefit from it in any way.

Ensure freedom of affiliation, collective bargaining and open communication channels

COFIDES requires compliance with *ILO Conventions 87 and 98 regarding freedom of affiliation, right to organise and collective bargaining*. Legislation in some countries denies freedom of affiliation and collective bargaining or only allows association with state controlled unions. In these circumstances, companies must also respect the rights of their workers to meet and must provide alternative measures such as open communication channels and negotiation tools between management and employees regarding labour issues. Also, the company must not terminate a labour contract or discriminate to those who participate in union activities.

Avoid discrimination

Project companies must ensure that their policies and practices promote equal opportunities and prevent discrimination. Discrimination may be based on ethnicity, gender, disability, sexual orientation, language, national or social origin, age, economic status, religion, political opinion or any other circumstance. COFIDES requires compliance with *ILO Convention 111 regarding discrimination in respect of employment and occupation*. Project companies must apply objective criteria when assessing training, experience and skills and use consistent procedures in all decisions that promote equal opportunity in terms of employment. Staff diversity can add value to the working environment.

Regarding discrimination in employment, there are specific international standards (ILO and UN Conventions) for certain groups. Depending on the type of project, COFIDES legal agreements include, where applicable, standards related to business policies concerning women, migrant workers and indigenous peoples. This section addresses those having to do with women and migrant workers. Indigenous peoples have a specific section because in addition to discrimination, there are other important topics such as the territory that must be taken into account.

Discrimination against women is particularly significant given that they account for over half of the population and no country has yet reached full gender equality. Women face discrimination in many areas of life, including the labour market, and are unable to exercise their rights on an equal footing with men, thereby making them more vulnerable or even resulting in social exclusion. There are international standards aimed at eliminating this discrimination. COFIDES requires compliance with *ILO Conventions 100 on equal remuneration* and *183 on maternity protection* (minimum of 14 weeks maternity leave) and with the *UN Convention on the Elimination of all Forms of Discrimination Against Women* and the Beijing Platform. Special mention should be made of COFIDES' Gender Policy which classifies financed projects into three categories depending on their contribution to the strengthening of gender issues.

Working conditions of migrant workers must be the same as those of nationals. COFIDES requires compliance with *ILO Convention 97*.

Set reasonable limits on working hours to leave time for rest and leisure

COFIDES requires compliance with *ILO Convention 1 and 30 concerning hours of work* as well as *Conventions 14 and 105 on weekly rest*. According to these Conventions, working hours should not exceed 48 per week, with some exceptions. All workers should have at least 24 consecutive hours of rest per week. The project company will make known the work schedule, rest days and hours by means of a visible notice. To deal with overtime, the ILO Helpdesk offers advice and information.

Provide a reasonable salary based on cost of living

Investment target countries often establish a minimum wage which is not updated. COFIDES encourages project companies to establish a salary, whether nominal or piece-rate, which at least meets the essential needs of workers and their families.

Workers are notified of their wage before they are employed and when any changes are made. Employers may not limit workers' freedom to dispose of their wages as they see fit or make deductions. In the event of bankruptcy, workers will be treated as secured creditors in relation with their wages. COFIDES requires compliance with *ILO Convention 95 concerning protection of wages*.

Ensure that all workers have an employment contract and understand its contents

COFIDES supports employment contracts that specify all terms, i.e. duties, salary, working hours, overtime, annual leave, rest periods, maternity /paternity leave, training, health and safety, insurance, social benefits and conditions of termination. The contract should be drafted in a language that workers know and understand.

Ensure adequate housing and living conditions for displaced workers

In cases where workers are displaced for the construction or operation of a project, COFIDES may require project companies to provide appropriate accommodation including basic facilities and services such as bedrooms, toilets, recreation areas, access to medical services, food and drinking water. If worker partners and/or families are also being accommodated, their safety and privacy should likewise be guaranteed.

As a reference standard, COFIDES uses the IFC and EBRD *Workers' accommodation: processes and standards* document.

Apply the security policies of the facilities that safeguard human rights of workers and third parties

In cases where the investment requires specialised security personnel to protect facilities, COFIDES may require project companies to design policies and procedures and to provide training to ensure that security officers safeguard the human rights of workers and third parties and to prevent abuse of authority and the use of force. Performance Standard 4 has a section on security personnel that can be used as a reference.

Respect rights of indigenous peoples

Project companies engaging in activities in an area where there are indigenous peoples or where such activities may impact them, must comply with *ILO Convention 169 on indigenous and tribal peoples*. Where there are indigenous workers, no discriminatory measures will be applied in terms of access to employment or working conditions.

It should also be taken into consideration that land and natural resource rights are crucial for indigenous peoples due to religious connotations linked to land, self-determination, identity and economic factors. Land is a key economic asset. Control and use of natural resources is more important than direct ownership of land. In fact, the demand for property arises from the need to secure access to these resources and it is important to resolve this issue by applying national law. It is also important to keep in mind that there are indigenous peoples living on every continent. Detailed information on how to manage these issues can be found in *ILO Convention 169, Performance Standard 7* and the *American Declaration on the Rights of Indigenous Peoples*.

RECOMMENDATIONS

Improve working conditions

Improvement in working conditions has an impact on staff motivation and productivity and therefore companies are encouraged to develop a human resources policy that envisages the gradual implementation of these issues while taking their specific characteristics into account. ILO standards recommend reducing working hours to 40 per week, providing sick leave and at least three weeks annual paid holiday. Project companies should also contemplate offering social benefits in addition to what is legally required (e.g. medical care, medical insurance, childcare service and transport).

Contribute to generating a public debate

Companies interact at different levels with the administrations of project host countries. Therefore, they have the right and duty to express their opinion on issues that affect their activity, their employees and surrounding communities.

OCCUPATIONAL HEALTH AND SAFETY



In general, companies must include health and safety issues in their management scheme. The rules for a healthy and safe working environment are addressed in the *Environmental, Health and Safety Guidelines* of the IFC. These standards provide the framework for companies to create safe and healthy working conditions and take the necessary precautions to protect employees from the occupational hazards to which they are exposed. COFIDES requires compliance with *ILO Convention 155 on occupational safety and health*.

FORMALITIES

Establish a safe and healthy work environment focused on prevention

Occupational health and safety activities should be aimed at effectively preventing and protecting employees in the workplace. When designing and implementing these measures, companies should take national and sectoral standards, and the degree of knowledge and awareness of local communities into account.

In certain projects, COFIDES may require Health and Safety Plans, Prevention of Occupational Risks Plans and/or Emergency Plans, as well as the appointment of a person responsible for dealing with these issues.

Provide employees with information and training on health and safety hazards at work

All employees must be made aware of the hazards to which they are exposed and must be trained to perform their tasks safely before starting work. This initial training should be complemented by periodic refresher courses. Training must be provided in a language which everybody can understand.

Provide access to and insist on the use of personal protection equipment

Project companies must provide workers with the necessary personal protection equipment free of charge. This equipment depends on the nature of the work but could include gloves, helmet, glasses, shoes, harnesses, etc. The adoption of collective protection measures should be prioritised over the use of personal protection equipment. Personal protection equipment shall be used when collective protection measures are insufficient to ensure safe working conditions.

Involve employees in safe working procedures

Workers must be involved in safe working procedures and, when deemed necessary by the company, through a health and safety committee that includes representatives from both management and relevant groups of employees. The committee shall be responsible for responding to health and safety complaints, controlling accident statistics and preventing recurrence. In cases where workers have reason to believe that a situation presents an imminent and serious danger to their life or health, employers cannot require workers to return to work until corrective measures have been taken.

Ensure that subcontracted personnel work in adequate conditions

COFIDES encourages project companies to take measures to ensure that subcontracted personnel and personnel under its direct supervision work under adequate health and safety conditions. In certain projects, COFIDES may require specific actions such as Suppliers Code or audits.

Register accidents and implement corrective measures

The risk of accidents must be eliminated. If this is not technically or economically viable, such risk must be minimised through technical and organisational measures and training. In the event of an incident with serious consequences for workers' health or physical integrity, project companies must conduct an investigation to establish its causes and must implement corrective measures to avoid repetition. It should also provide COFIDES with details about the incident and the measures adopted.

RECOMMENDATIONS

Set quantifiable goals

A health and safety plan should establish quantifiable objectives and be subjected to review at least once a year. Companies are specifically advised to keep a record of accidents that includes a description and cause. Accident reduction targets should be set and reviewed annually.

Ensure that the workplace is harassment free

Project companies should have mechanisms in place to prevent and, where appropriate, address all forms of harassment in the workplace.

ENVIRONMENT AND CLIMATE CHANGE

Global Compact Principles 7, 8 and 9



Environmental assessment should consider a wide variety of impacts (direct and indirect, local and global) on the natural environment. Benchmarks for assessing environmental issues can be found in *Performance Standards 1, 3 and 6, Environmental, Health and Safety Guidelines* and sectoral guides put out by the IFC, the *OECD Guidelines for Multinational enterprises* and international conventions on this matter (see Annex).

Included among its objectives, COFIDES attempts to promote investments that envisage adapting to and mitigating climate change, decreasing greenhouse gases, promoting energy efficiency and contributing to preserving environmental quality through the efficient use of resources.

FORMALITIES

Establish environmental procedures aimed at preventing pollution

The environmental activities of project companies should be aimed at preventing pollution, using cleaner technology to the extent possible and protecting the environment. They should also work to lower the likelihood of accidents through reasonable risk management and preventive measures. Activities undertaken must comply with the national and international standards of the sector (See Annex).

Ensure training and environmental awareness among employees

Employees must be trained to appropriately manage resources such as raw materials, water and energy as well as waste and to protect the environment within the scope of their duties. All employees must have access to work instructions and environmental information in a language that they understand so that they can properly perform their tasks.

Protect biological diversity

COFIDES does not finance projects that involve trade in wildlife and flora regulated under the *Convention on international trade in endangered species or wildlife and flora* (CITES), or those that imply the destruction of High Conservation Value Areas (see list of excluded activities and sectors). Project companies engaging in activities near critical natural habitats must conduct an Environmental Impact Study.

RECOMMENDATIONS

Concentrate efforts on sustainable production

Project companies should reduce the consumption of resources needed for their activities as much as possible (especially natural resources), opting for those that generate the least impact on the environment. Possible measures to achieve this objective include:

- use of renewable resources
- minimising waste generated
- reuse and recycling of waste
- substitution of hazardous substances
- use of best available technology

Any initiative aimed at maintaining the value of products, materials and resources in the economy as long as possible and minimizing waste, is beneficial for companies and the society as a whole.

Implement an environmental management system

An environmental management system helps to systematise and integrate environmental issues into company activities in addition to promoting environmental protection and pollution prevention. Moreover, such a system optimises resources and waste management and reduces negative impacts and the possibility of accidents, all of which can result in economic savings.

Focus on company's contribution to mitigate global warming

Project companies should take the necessary measures to control the amount of energy consumed by their processes and activities in order to reduce possible impacts on the climate. This can be accomplished by reducing fossil fuel consumption, applying best practices in the sector and aiming to become carbon neutral.

Companies may want to quantify the amount of greenhouse gases generated in the construction and operation phases of the project. The aim is to estimate the impact of the project on global warming.

ANTI-CORRUPTION

Global Compact Principle 10



Corruption and bribery are jointly recognised as one of the greatest challenges facing the world today. They are an important barrier to development and have a disproportionate impact on the most disadvantaged communities. The *OECD Convention on Combating Bribery of Foreign Public Officials*, also known as *the Anti-Bribery Convention*, and the *UN Convention against Corruption* require combating corruption and bribery.

COFIDES does not tolerate corruption. COFIDES incorporates a copy of the OECD Anti-Bribery Convention in all contracts together with a compliance clause.

In 2011, COFIDES, together with the Global Compact Network Spain, sponsored a Guide to combating corruption and promoting transparency. This Guide aims to make it easier for companies (especially SMEs) to understand the scope of corruption and the risks involved in managing their business.

FORMALITIES

Develop and adopt internal control programs and mechanisms

Based on the *OECD Anti-Bribery Convention* and the *OECD Guidelines for Multinational Enterprises*, COFIDES encourages project companies to create, communicate and maintain a culture of zero tolerance towards corruption within the organisation. Moreover, it is advisable to identify and evaluate the possible risks of becoming involved in corruption in any part of the company's operations and prepare a policy to guide all employees with external contacts. Said policy should include, inter alia, a ban on offering or accepting bribes or other forms of extortion in any part of a contract payment. This includes gifts, discounts, sponsorships, personal advantages and commissions.

Train employees in anti-corruption practices

Training for all employees on internal control policies and mechanisms is key in preventing corruption. Such training will raise employee awareness concerning the possible dilemmas that could arise and how to manage them.

Avoid facilitation payments

Facilitation payments are intended to ensure or expedite the successful completion of administrative procedures between the company and the government. Such payments are forbidden in most countries since they are considered to be a form of bribery. Project companies must always try to avoid these and train their employees on how to reject them.

RECOMMENDATIONS

Introduce anti-corruption mechanisms to partners, contractors and suppliers

Project companies should communicate their anti-corruption practices to key suppliers and other relevant partners. Companies should monitor their key partners and reserve the right to terminate relationships in the event that it is clearly proved that a partner has paid bribes.

Company activities have varying degrees of impact on the society and the environment of the places where they are located. A good relationship with the local community benefits both the community itself and the project company and to achieve this it is important to evaluate impact and establish proper communication. The *OECD Guidelines for Multinational Enterprises* as well as the *IFC Performance Standard No. 4 on Community Health and Safety*, constitute the reference framework for assessing impact on the local community as well as the latter's relationship with the company.

FORMALITIES

Assess impact on local communities, especially the most vulnerable

It is important, especially in international projects, for project companies to identify the potential impact that their activity may have on the local community and plan how to prevent or mitigate negative impacts and enhance positive ones, paying special attention to the way marginalized and vulnerable communities are affected (national or ethnic, religious and linguistic minorities, persons with disabilities, immigrant workers and indigenous populations).

Establish transparent communication and a spirit of consultation

Clear, complete and accessible information helps others to understand the company's activities, especially when the latter could have a significant effect on the environment, health and safety. This is also a good way to show the company's commitment to socially responsible practices. In certain projects it is also necessary to establish and maintain an ongoing relationship based on consultation and participation with the affected communities.

Do not engage in forced evictions and adequately compensate relocation

Forced evictions may only be undertaken by governments. However, it is recommended that companies collaborate with the administration so that evictions cause the least possible disruption in people's lives.

In cases of voluntary relocation, project companies must ensure free and informed consent by the local community affected by the project. An action plan must also be prepared, setting up the activities necessary for the affected community to obtain the same or better living conditions.

RECOMMENDATIONS

Help build capacity at local level

It is advisable to incorporate local staff as an important part of the workforce, including middle management, and ensure training to improve their level of qualification, all while ensuring equal opportunities for women and other vulnerable groups. Companies may also have a positive influence on the technological and managerial capabilities of their subsidiaries and subcontractors, ultimately contributing to raising the living standards of the local population.

Actively engage with the local community

Project companies should establish relations with the local community that contribute to creating a climate of trust. Activities such as the acquisition of local products and services, collaboration in educational programs, support of civil institutions and community networks that often invite private companies to get involved, as well as donations or voluntary work, also contribute to developing beneficial relationships between companies and the communities in which they operate.

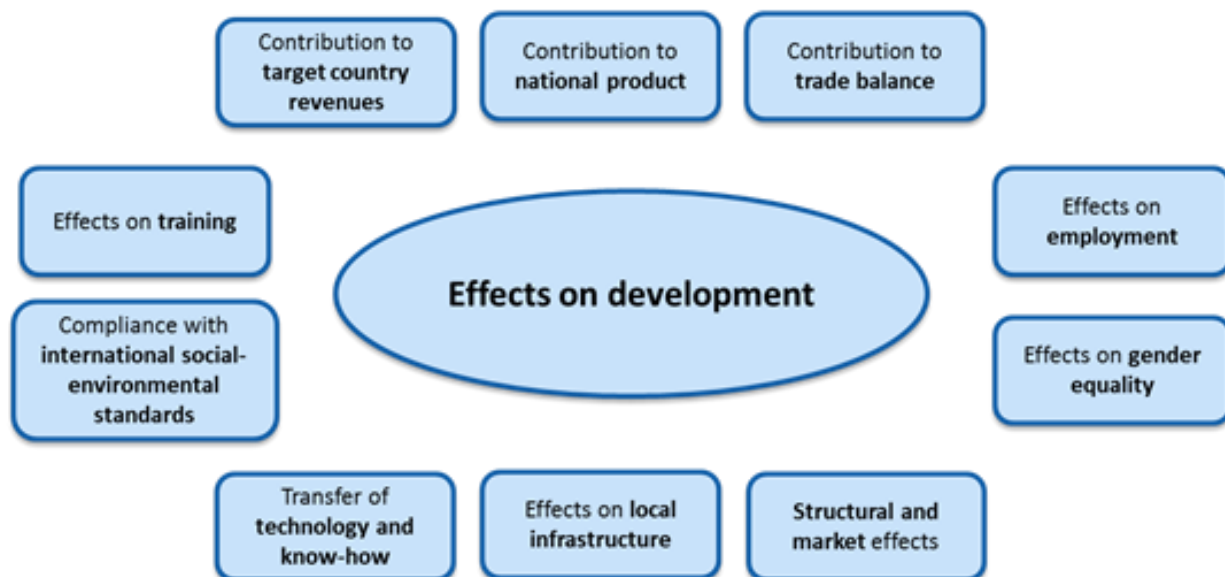
Improve public health conditions

Health is a human right and project companies should think about how to promote it among their employees. This can be done through access to medical services, vaccinations or promoting a healthy lifestyle.

In those regions where chronic diseases are a major issue, project companies should make an active contribution to keep these from spreading. Companies could offer training to employees to keep them from contracting diseases, consider offering regular health check-ups, ensure the availability of free contraceptive methods and organize information campaigns.

In some countries, domestic violence is a widespread problem and government support is insufficient. Companies that become aware that their workers are being subjected to this type of violence should put them in contact with victim assistance centres or similar initiatives that offer professional help.

EFFECTS ON DEVELOPMENT



COFIDES establishes alliances with the private sector to finance viable, sustainably managed and profitable projects abroad. Depending on their characteristics, these projects, will contribute to value creation and will help generate positive and lasting effects on the development of target countries while also indirectly contributing to the strengthening of the parent company.

COFIDES has joined the international initiatives called “Creating more and better jobs” and “Harmonized Development Indicators for the Private Sector”.

As the United Nations points out in the report “Investing in SDGs: Action Plan for Private Investment in SDGs” (UNCTAD, 2015), private investment is essential in order to achieve the new Sustainable Development Goals, heirs to the Millennium goals.

The aim of SDGs, building on the progress made under the MDGs, is to solve the biggest problems of the international population with a clear objective, the eradication of poverty, and they include a strong environmental component. While MDGs focused essentially on developing and emerging countries, development is now conceived as a universal concept.

COFIDES is aligned with this approach and evaluates the effects of the investments it finances, not only in developing and emerging countries but also in industrialized countries and even in the Spanish economy itself.

To assess these effects, COFIDES establishes an active dialogue with the beneficiaries of the financing. Since 2006, results are assessed in terms of the impact rating of the Operations (based on the GPR® tool of the German development finance institution, DEG), both prior to the financing of the project, (given the importance of knowing the potential effect on development from the very outset), as well as periodically once formalized. This analysis considers elements of the three pillars of sustainability: economic, environmental and social.

The Annual Sustainability Report includes more detailed aggregate information and quantitative results of this measurement exercise. COFIDES operates under the conviction that paying systematic and permanent attention not only to the financial aspects of projects but also to other aspects that strengthen their sustainability — environmental, social, corporate governance and

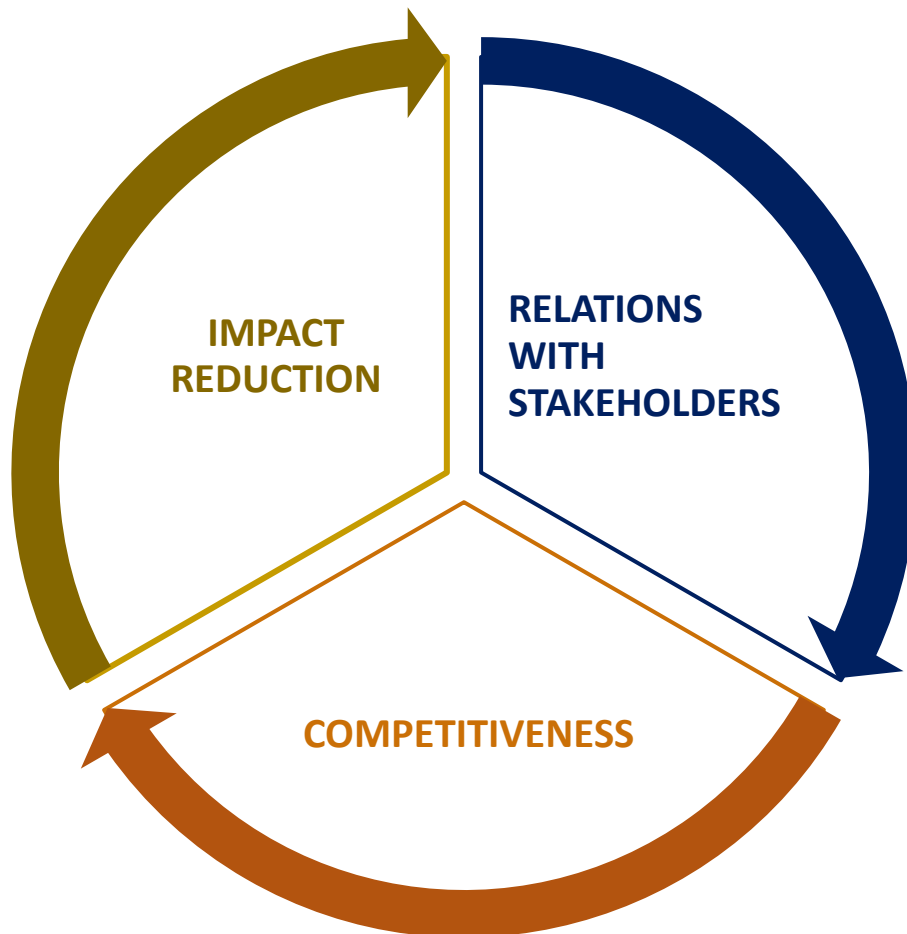
effects on development— contributes to integrating and consolidating these issues into the management of the projects it finances.

RECOMMENDATIONS

With a view to maximising the effects of their investments on development (especially their contribution to the SDGs), Spanish companies should focus on the quality of the data collected, adequate communication between parent company and subsidiary and the advantages of effectively communicating this information.

Once it has analysed the information requested from the companies, COFIDES makes the results of the project assessment available to them. This gives them an initial impression of the contribution they are making to the development of the investment target country. This is valuable information for investing companies in their dealings with various interlocutors, administrations and local communities as it increases their visibility and business competitiveness by enhancing their social acceptance.

CSR AS A MANAGEMENT SYSTEM



The concept of sustainable development in business activities is expressed as Corporate Social Responsibility (CSR), i.e. development that meets present needs without compromising the ability of future generations to meet theirs. The European Commission defines CSR as “companies taking responsibility for their impact on society” (renewed EU strategy for 2011-2014 on CSR). This involves the integration of issues such as human rights, labour relations, the environment and the fight against corruption in business strategy and activities. The idea is that companies need to be more than just economically viable; they must also be environmentally sustainable and socially responsible.

CSR is also considered a risk management tool covering all types of risk (typically the ‘non-financial’ sort). In this sense it differs from philanthropy or social action (charitable or other contributions) that have little or nothing to do with the actual business.

CSR arises in response to the concern of society itself regarding the increased power of companies resulting from economic globalization, as a mechanism that sets limits and increases the accountability of companies in this new scenario.

CSR ensures legitimacy and competitiveness

CSR is a strategic choice that contributes to providing long-term legitimacy as well as improving business competitiveness. The key lies fundamentally in the differential management of intangible assets: technological knowledge, human capital, customer, community and suppliers relations as well as reputation, all related to CSR management. The company positions itself as a socially responsible agent, differentiating itself from the competition and reinforcing its image in a positive way.

Meeting expectations adds value

Society’s expectations and its interest in a company are important strategic aspects. Rules regarding specific CSR issues and what is considered responsible behaviour evolve over time and society’s expectations are often more demanding than legal requirements. Therefore, companies should bear in mind that some issues may require an effort that goes beyond legal requirements if they want to be accepted and earn the respect of the societies and communities in which they operate.

Benefits that CSR brings to a company

Special attention should be given to the following:

- Improve risk management policy.
- Promote more informed decision-making.
- Improve relationships with stakeholders.
- Improve the perception of investors, owners and the financial community.
- Maximize the creation of shared value for shareholders, other stakeholders and society as a whole.
- Increase profits by rising above the competition.
- Increase the motivation, loyalty and commitment of employees and attract more qualified workers.
- Minimize accidents.
- Foster customer loyalty by meeting expectations.
- Reduce the risk of litigation and sanctions.
- Obtain savings associated with increased productivity and improved resource efficiency.
- Generate innovation.
- Find new business opportunities.
- Improve the image and reputation of the company and avoid negative publicity and boycotts.
- Put the company in a better position in tenders or to win public contracts.

Each company must adapt CSR to its own idiosyncrasies based on but not limited to aspects such as activity, resources and location.

PRACTICAL ASPECTS IN THE DEVELOPMENT OF A CSR POLICY

If one expects to create value and succeed, CSR policy must be integrated into the business strategy and already existing management procedures. Incorporation of the measures described in previous chapters will facilitate the sustainable development of the company by taking into account variables other than strictly economic ones.

Establish a structure to approve and implement decisions regarding CSR

The best way for the project company to develop its CSR policy is to establish a system that allows for the natural integration of social and environmental issues, together with economic issues, into decision-making. CSR can also be initiated through management systems, decision making processes and existing structures. It is important for companies to put a system or structure in place that corresponds to its size and sector and its economic, environmental, social, cultural and political context.

Include CSR activities in the organization

We recommend the following initiatives:

- Include CSR at the executive management level.
- Appoint a person to take charge.
- Identify and assess all relevant issues, both positive and negative, within the company and in its sphere of influence.
- Consider stakeholder expectations and requests.
- Implement a management system that includes relevant procedures and instructions commensurate with the size and complexity of CSR issues, or implement these in existing systems.
- Prepare an action plan with operational objectives that ensure constant improvement and monitor them.
- Prepare a report for the Board of Directors on performance, progress and results.

Supply chain

Even the most careful of companies with the best contracts and monitoring practices run the risk of establishing business relationships with others that fail to adhere to CSR practices. The project company could then become an accomplice to the activities of another organization by not reporting the failures. This risk can be minimized by identifying critical

partners along the entire value chain and not only those that are the closest or most visible.

The challenge is to strike an equitable and practical balance between the imperative of moving forward with the business and meeting ethical demands. There may be economic, political or cultural barriers that have prevented a partner from complying with good CSR practices. But if that partner is committed to improving critical issues, the project company can devise a way to help it.

Ending a business relationship is often not the best way to contribute to the overall goal of ensuring compliance with fundamental human rights, labour rights and reducing environmental impact. A much better alternative would be to continue cooperating and helping the supplier improve the situation. In cases where the project company does not believe that the supplier is committed or has the ability to improve, the best solution may be to end the relationship.

Transparent communication

Openly communicating about CSR has many advantages and positive implications:

- It increases the credibility of the company in the eyes of stakeholders and improves its image and hence its competitive strength, enabling the project company to attract and maintain customers, investors and employees.
- Companies known for transparent communication will often be better prepared to react when the media reveals that they are associated with a supplier or partner with critical CSR issues.
- Open dialogue is the best way to understand the wishes and expectations of stakeholders.

Visible external communication regarding CSR management will help focus on continuous improvement.

COFIDES communication on CSR

COFIDES joined the United Nations Global Compact in 2005. This means that since 2006 it has drawn up an annual report on the progress we have made in implementing the 10 principles. Since 2011, Sustainability Reports have been published on an annual basis pursuant to GRI standards. At COFIDES we believe that being transparent about our management and continuous improvement with external evaluation is the best basis for dialogue with the outside world.

CSR and SMEs

SMEs can integrate CSR policy through practical, simple and low-cost actions. Their small size, greater flexibility in terms of management and greater influence of senior management on company activities, provide good opportunities to integrate CSR initiatives into their strategy. Completing a self-assessment questionnaire that addresses the main areas of CSR is a good starting point because it identifies the issues that are already being addressed and those where improvement is needed.

The following considerations specific to SMEs could be added to what has already been said:

- Focus on the most significant issues and impacts at the beginning and then progressively address the other issues identified as relevant. The possible expenses incurred can be considered an investment considering the tangible and intangible benefits that the investment will produce over time.
- Showcase the actions that are already being carried which may include but are not limited to training plans, customer and employee satisfaction surveys and measures to strike a balance between work and family life. As CSR is a business management system, it helps organize, systematize, measure and monitor all these actions with the ultimate goal of continuous improvement.
- Management procedures and reports targeting stakeholders could be more flexible and informal.
- Act jointly, whenever possible, with similar organizations from the same sector instead of doing so individually in order to save resources and improve the ability to take action.
- Seek support from associations throughout the sector and government agencies.
- Take advantage of possible cooperation from larger organizations with greater capacity and experience in this area and that support the initiatives of SMEs as part of their own CSR policy.

ANNEXES

INTERNATIONAL CONVENTIONS AND DECLARATIONS

SUSTAINABLE DEVELOPMENT GOALS (SDGs)

INTERNATIONAL CONVENTIONS AND DECLARATIONS

Of general scope:

IFC (WORLD BANK): Performance Standards (PS)

PS1: Assessment and management of environmental and social risks and impacts

- (a) Identify funding proposal's environmental and social risks and impacts;
- (b) Adopt mitigation hierarchy: anticipate, avoid; minimize; compensate or offset;
- (c) Improve performance through an environmental and social management system;
- (d) Engagement with affected communities or other stakeholders throughout funding proposal cycle. This includes communications and grievance mechanisms.

PS2: Labour and working conditions

- (a) Fair treatment, non-discrimination, equal opportunity;
- (b) Good worker–management relationship;
- (c) Comply with national employment and labour laws;
- (d) Protect workers, in particular those in vulnerable categories;
- (e) Promote safety and health;
- (f) Avoid use of forced labour or child labour.

PS3: Resource efficiency and pollution prevention

- (a) Avoid, minimize or reduce project-related pollution;
- (b) More sustainable use of resources, including energy and water;
- (c) Reduced project-related greenhouse gas emissions.

PS4: Community health, safety and security

- (a) To anticipate and avoid adverse impacts on the health and safety of the affected community;
- (b) To safeguard personnel and property in accordance with relevant human rights principles.

PS5: Land acquisition and involuntary resettlement

- (a) Avoid/minimize adverse social and economic impacts from land acquisition or restrictions on land use:
 - i. Avoid/minimize displacement;
 - ii. Provide alternative project designs;
 - iii. Avoid forced eviction.
- (b) Improve or restore livelihoods and standards of living;
- (c) Improve living conditions among displaced persons by providing:
 - i. Adequate housing;
 - ii. Security of tenure.

PS6: Biodiversity conservation and sustainable management of living natural resources

- (a) Protection and conservation of biodiversity;
- (b) Maintenance of benefits from ecosystem services;
- (c) Promotion of sustainable management of living natural resources;
- (d) Integration of conservation needs and development priorities.

PS7: Indigenous people

- (a) Ensure full respect for indigenous peoples;
 - i. Human rights, dignity, aspirations;
 - ii. Livelihoods;
 - iii. Culture, knowledge, practices;
- (b) Avoid/minimize adverse impacts;
- (c) Sustainable and culturally appropriate development benefits and opportunities;
- (d) Free, prior and informed consent in certain circumstances.

PS8: Cultural heritage

- (a) Protection and preservation of cultural heritage;
- (b) Promotion of equitable sharing of cultural heritage benefits.

IFC (WORLD BANK): *Environmental, Health and Safety Guidelines*

OCDE: *Guidelines for Multinational Companies*

ILO: *Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy*

UN: *Global Compact*

Human Rights:

UN: *International Bill of Human Rights*: Universal Declaration of Human Rights (1948). International Covenant on Civil and Political Rights (1966) and the International Covenant on Economic, Social and Cultural Rights (1966)

UN: *Guiding Principles on Business and Human Rights: Implementation of the UN Framework “protect, respect and remedy”* (UN, 2011)

Spanish Government: *National Plan for Businesses and Human Rights* (2017)

European Commission: *Guide to human rights for SMEs*

IFC – World Bank: *Security Personnel* (Performance Standard 4)

Working conditions:

ILO: *Declaration on Fundamental Principles and Rights at Work*

ILO Conventions:

Core:

Convention 29 on Forced Labour (1930). 2014 Protocol. 2014 Recommendation

Convention 105 on the abolition of forced labour (1957)

Convention 87 on freedom of association and protection of the right to organise (1948)

Convention 98 on the right to organise and collective bargaining (1949)

Convention 100 on equal remuneration (1951)

Convention 111 on discrimination (employment and occupation) (1958)

Convention 138 on minimum age (1973)

Convention 182 on worst forms of child labour (1999)

Others:

Convention 1 on hours of work (industry) (1919) and 30 (commerce and offices) (1930)

Convention 14 on weekly rest (industry) (1921) and 106 (commerce and offices) (1957)

Convention 95 on protection of wages (1949)

Convention 97 on migration for employment (1949)

Convention 155 on occupational safety and health (1981)

Convention 169 on indigenous and tribal people (1989)

Convention 183 on maternity protection (2000)

UN Conventions:

Conventions on the Rights of the Child (1989)

Convention on the Elimination of all the forms of discrimination against women (CEDAW) (1979)

Environment:

Declaration of RIO+20 on environment and development (UN, 2012)

Paris Agreement on climate change (UN, 2015)

Montreal Protocol on substances that deplete the ozone layer (UNEP, UNDP, UNIDO, WORLD BANK, 1987)

Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal (UNEP, 1992)

Convention on biological diversity (UNEP, 1993)

Stockholm Convention on persistent organic pollutants (UNEP, 2004)

Rotterdam Convention on certain hazardous chemicals and pesticides in international trade (UNEP, FAO, 2004)

Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) (IUCN, 1973)

Anti-corruption:

UN Convention against corruption (2005)

OCDE: Convention on combating bribery of foreign public officials in international business transactions (2011)

CSR:

European Commission: EU Strategy renewed for 2011-2014 on corporate social responsibility

Spanish government: Spanish CSR Strategy

ISO 26000 Social Responsibility

SUSTAINABLE DEVELOPMENT GOALS (SDGs)

The 17 SDGs comprise 169 goals to be achieved by 2030. These goals are the essential core of the 2030 Agenda with five key themes: Planet, People, Prosperity, Peace and Partnership.

The UN Global Compact, Global Reporting Initiative and World Business Council for Sustainable Development have developed a tool, SDG Compass, that help companies to align their strategies with SDGs as well as manage and measure their contribution to them.

1. End poverty in all its forms everywhere.
2. End hunger, achieve food security and improved nutrition, and promote sustainable agriculture.
3. Ensure healthy lives and promote well-being for all at all ages.
4. Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.
5. Achieve gender equality and empower all women and girls
6. Ensure availability and sustainable management of water and sanitation for all.
7. Ensure access to affordable, reliable, sustainable, and modern energy for all.
8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.
9. Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation.
10. Reduce inequality within and among countries.
11. Make cities and human settlements inclusive, safe, resilient and sustainable.
12. Ensure sustainable consumption and production patterns.
13. Take urgent action to combat climate change and its impacts.
14. Conserve and sustainably use the oceans, seas and marine resources for sustainable development.
15. Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, halt and reverse land degradation and halt biodiversity loss.
16. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.
17. Strengthen the means of implementation and revitalize the global partnership for sustainable development.





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