



Governance Code

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Preamble IDH Governance Code

IDH and good governance

Since it was founded in September 2011 IDH has aimed to adhere to high standards of good practices and transparency in governance and reporting as we are fully aware of our obligation as publicly funded and government mandated change agent to do so. This document adds a new chapter on this journey where it aims to clarify the governance structures and processes beyond our articles of association and regulations.

This Governance Code has been formalized by the IDH Executive Board on March 27, 2014, and approved by the IDH Supervisory Board supported by the Audit Committee.

The background of the design and structure of the IDH Governance Code

References to other codes

The current Dutch Governance Code, as established by the Committee “Tabaksblad” in 2003 and updated by the Committee “Frijns” in 2008, entered into force in 2009. On December 30, 2004, the legislator designated the Dutch Corporate Governance Code as a code of conduct to which listed companies should refer in their annual report in which they should indicate to what extent they have complied with the principles and best practice provisions of the Dutch Corporate Governance Code (the “comply or explain principle”).

The Code good governance (“Code goed bestuur” a.k.a. Code Wijffels”) as published in the year 2005 created awareness of corporate governance within non-profit organizations in the Netherlands. The Code Wijffels was converted into a quality norm for non-profit organizations in 2007.

More recently in September 2013, the “Advisory Committee Proper Governance” (“Halsema”) gave recommendations to the semi-public sector on which themes should be in a governance code, there not being a governance code for this specific sector. These recommended themes include social responsibilities, daily management, supervision, nomination and conflicts of interest.

A governance code for IDH

IDH is neither a listed company nor does it fit the profile of a typical non-profit organization, therefore the governance codes above were not the governance codes or the quality norm we could comply to. However because good governance is very important to IDH, we felt the need to develop a governance code of our own, whilst staying aligned with the principles and structure of the above mentioned governance codes.

The IDH Governance Code contains principles, which can be seen as general principles of good governance. In its annual report, IDH will report on how the principles of the IDH Governance Code have been observed in practice as well as

report on all changes in the governance of IDH.

Comply or explain

The principles mentioned above have been elaborated on in specific provisions in this IDH Governance Code. In line with the existing codes mentioned before we have used the principle 'comply or explain'. IDH has to live up to these provisions. However in certain exceptional situations deviations can be legitimate or even desirable. If IDH deviates from any part of the IDH Governance Code, this will be explained in the annual report.

Effective date

The IDH Governance Code will enter into force from May 23, 2014. The IDH Governance Code will be subject to an annual review and will be renewed when necessary, after Supervisory Board approval.

Principles and Practice

Executive Board Representation

Principle

The Executive Board is responsible for the management of IDH, which means that the Executive Board is responsible for the realization of IDH's objectives, the strategy, the finance and the overall policy. The management by the Executive Board is under supervision of the Supervisory Board. The Executive Board primarily serves the interests of IDH pertaining to IDH's public duties and will balance the interests of all parties involved when formulating policy. The Executive Board is accountable to the Supervisory Board and will consult and inform the Supervisory Board as far as is necessary for them to perform their duties and as outlined in the Articles of Association and regulations.

The members of the Executive Board understand their responsibilities, public roles and that they should act as role models and in that light will not perform or omit any acts that will damage IDH's reputation. The Executive Board will comply with the prevailing laws and regulations and ensure that the required rules are established and will act in accordance with these rules.

Practice

- A. IDH will be represented by the Executive Board. Each Board member is authorized to represent IDH independently in compliance with the Authorization Scheme, which is included in the internal control framework.
- B. The Executive Board will discuss its own performance and division of tasks on a regular base and annually with the Chairman of the Supervisory Board.

Legal status, Composition & Requirements

Principle

The Supervisory Board will determine the scope of the Executive Board - after having received advice from the Executive Board. The Supervisory Board will define a profile for the Executive Board describing the qualities required of the members. When drawing up the profile, the Supervisory Board will take account of the nature of IDH, its activities, the allocation of responsibilities and the expertise required of the members of the Executive Board.

Practice

- A. Based on a proposal made by the Executive Board, the Supervisory Board will draw up profiles for the individual members of the Executive Board. The Supervisory Board will consult regularly with the Executive Board, but in any event when a vacancy arises, during which consultation the profiles will be reviewed to determine whether they are

still adequate, after which they may be amended, if necessary.

- B. The Supervisory Board will determine the number of members of the Executive Board, which are at least two natural persons. The members of the Executive Board will be appointed by the Supervisory Board for an indefinite period of time. They may also be suspended or removed from office by the Supervisory Board with a majority of two-thirds of the votes casts at a meeting of the Supervisory Board at which at least two-thirds of the members are present or represented.
- C. If the Executive Board fails to provide a proposal for a profile within a reasonable period of time, the Supervisory Board has the authority to define or amend the above profile(s). The Supervisory Board will subsequently submit the defined or amended profile(s) to the Board.
- D. The structure and level of the remuneration of the members of the Executive Board will be in line with advise of the Remunerations Committee and the nature of IDH and similar organizations, and will be in accordance with any legal requirements or subsidy requirements, such as respecting the prevailing salary standard, currently as applicable to a director-general (MSFII norm) at the Dutch Government.

Conflict of interest

Principle

The members of the Executive Board will avoid every form of or apparent conflict of interest that may adversely affect their performance.

Practice

- A. Ancillary positions will be reported for formal approval to the chairman of the Supervisory Board. Any ancillary positions will be published in the annual report of IDH.
- B. All members of the Executive Board will ensure that no conflict will arise between their personal interests and the interests of IDH. Any apparent conflict of interests between IDH and the members of the Executive Board itself will be avoided.
- C. Members of the Executive Board will not derive any personal benefit from transactions or other acts that they perform on behalf of IDH. Board members will also not provide or offer any improper advantages to individuals with whom they have carried out transactions on IDH's behalf.
- D. Our principles of integrity are included in the IDH Code of Conduct.

Supervisory Board

Duties and procedures

Principle

The Supervisory Board is charged with supervising the policy of the Executive Board, IDH's general business framework and/or IDH's performance. The Supervisory Board will intervene, where necessary, and will provide (strategic) advice to the Executive Board. In performing its duties the Supervisory Board will be guided by the interests of IDH and in doing so will weigh the interests of the stakeholders involved in IDH. The Supervisory Board is responsible for the quality of its own performance.

Practice

- A. As a rule the Supervisory Board will hold meetings in the presence of the Executive Board. The Supervisory Board may convene without the presence of the Executive Board.
- B. The Supervisory Board will hold three meetings a year or as often as desired or necessary to enable the Supervisory Board to perform its duties properly.
- C. The Supervisory Board will periodically discuss performance of IDH with the Executive Board. The Supervisory Board will consult with the Executive Board at least once a year on strategy, general policy and financial performance. This includes the budget, the financial statements and the accounting system and related internal controls maintained by the Executive Board.

Expertise, Composition and Independence

Principle

The Supervisory Board will ensure that the composition of the Supervisory Board is balanced in line with the objectives of IDH and with due observance of Articles 15.2 and 15.3 of the Articles of Association. The duties and areas of responsibility may be divided among the Supervisory Board members. The Supervisory Board has been composed in such a way that its members have the ability to function independently of each other, the Executive Board and any part interests as proper supervisors and advisers.

Practice

- A. The members of the Supervisory Board receive no remuneration for their function.
- B. When recruiting new members, the Supervisory Board will also search for candidates outside its own network. The Remuneration and Nominations Committee will interview the eligible candidates with engagement of the chairman of the Executive Board and will advise the

- Supervisory Board on the candidate proposed to be appointed.
- C. Members of the Supervisory Board are appointed for a period of four years. A Supervisory Board member may be reappointed for another period of four years, but may not be reappointed more than once.
 - D. The Supervisory Board will draw up a phased retirement schedule.
 - E. The Supervisory Board members who are due to resign in accordance with the retirement schedule will be eligible for reappointment. Prior to reappointment, the Supervisory Board will evaluate the performance of the member seeking reappointment. The Supervisory Board will review the relevant member's performance as well as the latest profile. The Supervisory Board will also consider whether replacement is appropriate.
 - F. The Supervisory Board will ensure that it self-evaluates its own performance each year, both internally and in respect of the Executive Board. The results of the evaluation and consequent agreements will be set out in writing in the Supervisory Board's annual report.

Role of the chair of the supervisory board

Principle

The chairman of the Supervisory Board is responsible for ensuring that the Supervisory Board and its relevant committees perform their duties satisfactorily. In addition, the chairman of the Supervisory Board will act as the main point of contact for the other Supervisory Board members and the chairman of the Executive Board. The chairman of the Supervisory Board may decide that another Supervisory Board member should accompany him.

Practice

The chairman of the Supervisory Board will conduct annual performance, appraisal or evaluation interviews with the chairman of the Executive Board, if desired together with another Supervisory Board member. The chairman of the Executive Board will conduct annual performance, appraisal or evaluation interviews with the other members of the Executive Board together with the Chairman of the Supervisory Board. The chairman of the Supervisory Board will share the outcome of these interviews with the other Supervisory Board members. At least once a year the Supervisory Board will discuss the performance of the Executive Board (with the Executive Board only present upon request). The Supervisory Board will include in their statements in the annual report comments on the performance of the Executive Board.

Conflict of interest

Principle

Any conflict of interest should be avoided.

Practice

A Supervisory Board member's performance is characterized by integrity and an independent approach. If a Supervisory Board member anticipates any relevant change in employment or apparent incompatibility of office or another conflicting interest with IDH, the relevant member will inform the chairman of the Supervisory Board thereof. In the event of an isolated case of incompatibility of office for which a temporary solution can be found, the relevant Supervisory Board member will cooperate. If a fundamental incompatibility of office applies, the relevant member will either ensure that this is terminated or will step back from all or part of his Supervisory Board role. The chairman of the Supervisory Board will inform the Supervisory Board of his findings in all cases. If the conflict of interests relates to the chairman of the Supervisory Board, the longest-serving Supervisory Board member, not being the chairman of the Supervisory Board, will act as his replacement.

Composition and duties of the 3 committees

Principle

The Supervisory Board has an Audit, Remuneration and Nominations and an Impact Committee. The Supervisory Board may establish other committees which will be assigned a specific task by the Supervisory Board.

Practice

Audit Committee

Composition

- A. The Supervisory Board, whilst retaining its responsibility, will establish an Audit Committee consisting of at least two members.
- B. The Audit Committee will convene at least twice a year and furthermore as often as the Committee deems necessary.
- C. The Supervisory Board will appoint the Audit Committee from among its members on the understanding that at least one member has acquired the relevant financial knowledge and experience.
- D. The Supervisory Board will appoint one of the members referred to in the second section of this article as Audit Committee chairman.
- E. The position of Audit Committee chairman is incompatible with that of Supervisory Board chairman.

Duties

- A. The Audit Committee provides the Supervisory Board with both solicited and unsolicited advice on the legality and validity of IDH's financial management, policy and the activities carried out by IDH.

- B. The Audit Committee assesses the functioning of the internal planning and control system, including the structure and effectiveness of internal accountability within the organization;
- C. provides advice on the appointment of the external auditor;
- D. reviews the draft financial statements;
- E. discusses the results of the audit of the financial statements with the external auditor;
- F. checks whether the external auditor's recommendations have been executed and complied with;
- G. reviews the interim financial reports;
- H. assesses the risks and the effectiveness of the treasury policy pursued;
- I. performs other supervisory activities at the Supervisory Board's request.

Remuneration and Nominations Committee

Composition

- A. The Supervisory Board, whilst retaining its responsibility, has established a Remuneration and Nominations Committee from among its members in preparation and for the purpose of implementing the decision on the remuneration and nomination of members of the Executive Board.
- B. The Remuneration and Nominations Committee will consist of two members. Only members of the Supervisory Board may sit on the Remuneration and Nominations Committee. The chairman of the Supervisory Board will also act as the chairman of the Remuneration and Nominations Committee, while another Supervisory Board member will sit on the Committee.
- C. The Remuneration and Nominations Committee may only exercise the powers assigned or delegated to it by the Supervisory Board. The Committee may never exercise any powers that exceed the powers that the executives - the Supervisory Board and Executive Board combined - may exercise as a whole.
- D. Remuneration will be annually decided by the Remunerations and Nominations Committee following the performance evaluation by the chairman of the Supervisory Board and a benchmarking report on remuneration of comparable functions.

Duties

The Remuneration and Nominations Committee is tasked with the following:

- A. in the event the position of the chairman of the Executive Board becomes vacant, making proposals to the Supervisory Board on the selection criteria and appointments procedure for the recruitment and selection of the chairman of the Executive Board;
- B. submitting to the Supervisory Board a list of candidates eligible for the position of chairman of the Executive Board in close cooperation with representatives of the remaining Executive Board;

- C. providing advice on long-term succession planning for the Executive Board;
- D. informing the Supervisory Board about the above activities and decisions.

Impact Committee

Composition

- A. The Supervisory Board, whilst retaining its responsibility, will establish an Impact Committee consisting of at least three members.
- B. The Impact Committee consists of one or more Supervisory Board members and external experts. The members of the Impact Committee possess the relevant knowledge and experience of impact/impact measurement.
- C. The Impact Committee will appoint one of the members referred to in the second section of this article as Impact Committee chairman.
- D. The position of the Impact Committee chairman is incompatible with that of Supervisory Board chairman.

Duties

- A. The Impact Committee provides the Supervisory Board with both solicited and unsolicited advice on measuring and communicating the social and environmental impact of the activities it has performed at the various links in the production chain. The Committee will focus specifically on the intended and achieved benefits of IDH's supply chain programs for the first links in that chain, such as small-scale farmers and producers.
- B. The impact Committee reviews IDH's internal reports regarding the impact of its supply chain programs;
- C. assesses the impact of the supply chain programs;
- D. advises on the methodology to be used when measuring and communicating the impact;
- E. advises on possible changes in the set-up of the supply chain programs in order to improve the impact of these programs.

Donors

Principle

IDH and the IDH programs are funded by different kinds of donors varying from institutional donors to donors/contributors to a specific project. Institutional donors are funding a large scope of IDH's work, including overhead costs. Whether or not an individual donor will be characterized as an institutional donor depends on the specific agreements and arrangements made with each donor. Therefore, the extent of the involvement of new donors in IDH's policy making will be determined on a case-by-case basis, depending on the specific arrangements. Engagement with new *institutional* donors will be communicated to and discussed with the existing institutional donors by the Executive Board.

Good governance requires the participation of institutional donors in policy making. They may provide their vision and experiences and suggest changes to develop IDH's policy further. The Executive Board engages institutional donors in policy making, provides insight in the realization of its objectives and communicates this with all institutional donors.

Practice

- A. The Executive Board is responsible for policy making and the implementation of the policy.
- B. The Executive Board will report to the Supervisory Board on its policy making and seek advice from the expertise of the Supervisory Board.
- C. Twice a year a donor committee meeting is organized by IDH in cooperation with the institutional donors. Objectives of these meetings are:
 - to share policy and program information
 - to establish a platform for ongoing policy dialogue between IDH management and donors
 - to provide input and comments on (high level version of) the Annual Plan and Annual ReportDonors are via these meetings invited to provide sector and country insights and other substantive inputs, provide guidance on the direction of the annual plan and share their priority areas.
- D. The Executive Board reports on the engagement of donors in a separate paragraph in the annual report. The annual report indicates which donors are involved, the manner in which the involvement of these donors in IDH has evolved and the corresponding changes in IDH's general policy resulting from the dialogue between IDH and its donors.
- E. After the recommendation by the audit committee of the annual plan and the annual report and the approval by the Supervisory Board, these documents will be sent to IDH's institutional donors for final approval.

Risk Management and Control Systems

Risk Management

Principle

The Executive Board of IDH is responsible for the internal control systems and risk management and manages strategic, financial and operational risks and limits the impact of these risks through mitigating measures.

Practice

IDH implemented a **Risk Management Framework**. The Risk Management Framework defines procedures and accountabilities. The IDH Risk Management Framework consists of a risk management process that classifies risks in the four categories below, describes the risk, the impact of the risk, the chance that it occurs, and the mitigation measures that are taken to address the risk.

A. *External risks*

This category comprises risks that originate from external stakeholders such as the government or NGOs. They are related to cooperation with others within the framework of our public private partnership and are often of a reputational nature. Other types of risks in this category can originate from political circumstances in the countries that we work in, or from political disasters.

Example: International donors move disproportionately away from cash crops to food crops following international food security models.

Mitigating measure: Increased donor outreach and mobilizing support from expert on the development benefit of ongoing supporting for cash crops.

B. *Programmatic risks*

These risks are related to the commodity programs that IDH manages, they are related to the core of what IDH delivers and are related to the delivery of output, outcome and impact and other obligations that IDH has (contractually) committed itself to. Important in this perspective is the risk that our private partners do not make the expected and/or agreed progress with their compliance to the OECD guidelines for Multinational Enterprises, the Global Compact principles or other frameworks. Stakeholders expect IDH and other NGOs that work with private entities to monitor their compliance with such criteria.

Example: IDH program partners could behave in a manner that restricts competition.

Mitigating measures: In the contracts between IDH and its partners, both parties agree that they will not engage in any behavior that restricts competition and sign on acknowledgement of the content of IDH's Competition Compliance Policy.

C. *Organizational risks*

Organizational risks can be of an operational nature (think of the ICT architecture, work and office space, facility management), are related to the management of people (the most important asset of IDH), to leadership and to strategic vision of

the management.

Example: IDH staff in quantity and quality not up to the job.

Mitigating measure: Ongoing selection to have the “best” people, getting the best out of them with coaching leadership and protecting the current situation that all feel that IDH is a “great place to work”.

D. *Finance, Planning and Control risks*

This category deals with financial and control risks, such as the effective preparation of management information, transparency in reporting, etc.

Example: Resources in operations for legal and financial control are not sufficient to monitor exploding amount of contracts, audit.

Mitigating measure: Increase staffing in operations and create flexible temporary capacity options for peak workload.

The above mentioned risks will be addressed in monthly reports to the Executive Board, Program Reviews, the Partner Assessment and in the annual report.

In the monthly (financial) reports there is a paragraph called: “**Risks and Notifications**”, which contains the most important financial, legal and operational risks in relation to the existing and future programs and projects.

To know and understand ICSR risks affecting the programs of IDH a **Partner Assessment** is executed on a quarterly basis as described in the Social responsibility chapter.

Quarterly, there are **Program Reviews** in which the Program Directors, Program Managers and Operations team (e.g. finance and legal) are involved. Everybody in IDH is welcome to join the Program Reviews to share their knowledge and experiences by discussing the key performance indicators, opportunities and risks concerning progress, partners and finance. Before each Program Review, the responsible program managers prepare a program risk assessment to discuss during the meeting.

Internal control systems

Principle

The Executive Board is responsible for the design, implementation and the operationalization of the internal control systems and the risk management. This includes, but is not limited to, policy making, processes, responsibilities en influencing the behavior and other aspects of the organization that enables the organization to realize its objectives and to prevent, as well as prematurely signal, potential errors, losses, fraud or violation of laws and regulation.

Adequate and effective risk management do not offer absolute guarantee to realize the objectives of an organization, neither can it fully prevent essential

errors, losses, fraud or prevent de violation of laws and regulation.

Practice

Throughout the reporting year IDH analyzes and evaluates the scope of the internal control environment as well as the exposed risks.

The most important elements of these systems are:

- A. Documented Administrative Organization and Internal Control Framework
- B. Monthly analysis of the legal and financial risks and bi-annually the strategic risks to the Executive Board
- C. Monthly (financial) reporting to the Executive Board
- D. Procurement and tendering procedures

External auditor

Principle

The external auditor is appointed by the Supervisory Board. To increase transparency and to avoid conflicts of interest, IDH performs a formal review process with the external auditor every 3 years. If after review it is decided that a new external auditor is required a tender procedure for the selection of the external auditor will be initiated. The separation of advising and accounting services together with potential conflicts of interest are important selection criteria. The Executive Board will report on the outcome of the formal review and the outcome of the tender procedure to the Supervisory Board. In addition, the Executive Board asks the Supervisory Board for a decision.

Practice

The external auditor attends the meetings with the Audit Committee in which the Management Letter of the external auditor is discussed. The Audit Committee reports on this meeting to the Supervisory Board. The external auditor attends the Supervisory Board meeting in which the financial statements of the organization are discussed and in which is decided on the approval of these financial statements by the Supervisory Board. The external auditor can be requested to elaborate on the findings from the audit, its audit opinion and the fair presentation of the financial statements of IDH by the Supervisory Board.

External reporting

The financial statements of IDH and the report of the Executive Board are prepared in accordance with the Guidelines for annual reporting 640 'Not for profit organizations' of the Dutch Accounting Standards Board.

Accountability and transparency

Principle

IDH provides clear communication regarding its goals and results with its stakeholders.

Practice

- A. Twice a year IDH publishes a progress report on the IDH website in the form of barometers which show progress on important Key Performance Indicators.
- B. In the annual report there is next to KPI progress a narrative report on the progress in the IDH programs with regard to the goals, including a specification on deviations. The annual report includes the aggregated financial statements of IDH including the accounting principles.
- C. Public procurement for the purpose of serving IDH will be published on the IDH website. Relevant stakeholders and partners will be notified.
- D. IDH informs the civil society at least once a year in a meeting, organized in the MVO Platform, regarding the progress made in the IDH programs and shares and discusses dilemma's, strategies and results.
- E. IDH shares impact results, best practices and lessons learned through public announcements together with stakeholders involved.

Social responsibility

Principle

As a foundation, endorsed by the public and private sector, IDH operates in a transparent manner, where trust and reliability are key to our way of doing business. IDH expects that private partners which join our programs adhere our mission of sustainable trade and production and IDH's International Social Responsibility policy.

Practice

An International Corporate Social Responsibility (ICSR) policy framework has been developed which entered into effect January 1, 2013.¹ IDH's theory of change is that engagement and improvement trajectories are effective strategies to realize sustainable supply chains. Therefore, engagement with private sector partners is an integral part of the IDH programs. IDH uses a stepwise process from scoping of programs to formalizing partnerships with private sector partners in the programs. In addition, ICSR monitoring is integrated in the implementation phase of IDH programs. On a quarterly basis an ICSR partner assessment is executed for all contracted private partners using the IDH ICSR tool. The objective is to know and understand ICSR risks affecting the programs and to design mitigation measures

¹ See <http://www.idhsustainabletrade.com/how-we-work>

when appropriate. In the contracts between IDH and implementing partners, both parties sign on cooperation in a manner that is compatible with the ICSR policy of IDH.

Sources

The principles set out in the IDH Governance Code are detailed in the following internal procedures and documentation:

IDH Authorization Scheme

IDH Risk Management Framework

IDH Competition Compliance Policy

International Corporate Social Responsibility policy IDH

Rules governing the audit committee of the Supervisory Board

Articles of Association Stichting IDH Sustainable Trade Initiative

Regulations Executive Board

IDH Code of Conduct

Regulations Supervisory Board

Rules governing the impact committee of the Supervisory Board

Rules governing the remuneration and nomination committee of the Supervisory Board