Ministry of Foreign Affairs – (Department for Growth and Employment, VBE)

Meeting in the Council for Development Policy 5 September 2017
Agenda item 2

1. Overall purpose	For discussion and recommendation to the Minister
2. Title:	SDG Investment Fund
3. Presentation for Programme Committee:	15 December 2016

SDG Investment Fund

Key results

- Establishment of DKK 6 billion SDG investment fund of which 50% is provided by private institutional investors. The Fund is envisaged to promote investments of at least DKK 30 billion.
- Creation of decent jobs - 30,000 direct and 30,000 – 60,000 indirect jobs
- Comprehensive production of renewable energy and related reduction in greenhouse gas emission
- Considerable annual tax contributions from the investment projects
- Transfer of modern technology
- Compliance with international standards for responsible business conduct and documentation of sustainability as a business opportunity

Justification for support

- The SDG investment fund is fully in line with the Danish and international development policy agenda concerning the promotion of PPP arrangements that can catalyse mobilisation of private capital, knowhow and technology and hereby promote development in DAC countries and generate market opportunities for Danish and international investors
- High effectiveness. The state's capital contribution is envisaged to generate additional and sustainable investments of at least DKK 30 billion in developing countries
- Significant development impact in terms of employment generation, reduction of greenhouse gas emission, food production, infrastructure availability, tax contribution etc.
- High economic, social and environmental sustainability based on international standards for responsible business conduct

How will we ensure results and monitor progress

- IFU will be fund manager. IFU has a solid track record on investment in developing countries in cooperation with Danish and international investors and companies
- IFU has a well-developed M&E system ensuring that the development effects of the investments can be measured and reported in relation to the SDGs
- A mid-term review of progress and performance will be conducted about 2 years after the Fund has been launched

Risk and challenges

- Investments in developing countries are associated with relatively high risks, not least for medium and long-term investments
- IFU has a set of well-developed risk management procedures to minimise the overall risks

File No.	2017-24634					
Country	DAC countries					
Responsible Unit	VBE					
Sector	Sustainable energy, industry, food, infrastructure etc.					
Mill. DKK	**2017**	**2018**	**2019**	**2020**	**2021**	Tot.
Commitment	100					100
State guarantee	800					800
Projected ann. Disb.	100					100
Duration	Investment period 4 years. Exit period 8 – 10 years.					
Finance Act code.	§06.38.01					
Desk officer	Jørn Olesen					
Financial officer	Hans-Henrik Christensen					

SDGs particularly relevant for SDG investment fund

No Poverty	No Hunger	Good Health, Wellbeing	Quality Education	Gender Equality	Clean Water, Sanitation
Affordable Clean Energy	Decent Jobs, Econ. Growth	Industry, Innovation, Infrastructure	Reduced Inequalities	Sustainable Cities, Communities	Responsible Consumption & Production
Climate Action	Life below Water	Life on Land	Peace & Justice, strong Inst.	Partnerships for Goals	

Budget (DKK million)

SDG investment Fund	
Investment capital	100
State guarantee to IFU (Statens Genudlån)	800
Total	**100**

Strat. objective(s)	Thematic Objectives	List of Engagement/Partners
Contribute to the achievement of the SDGs in developing countries through the mobilisation of private capital, technology and knowhow	Contribute to the achievement of the SDGs in developing countries by enhancing development relevant, inclusive and sustainable investments in affordable and clean energy, climate, industry, food and other SDG key areas through the mobilisation of Danish and foreign public and private capital, technology and knowhow based on international standards for responsible business conduct	- IFU - Private institutional investors and companies

Ministry of Foreign Affairs of Denmark **Danida**

Project Document

SDG Investment Fund

15 August, 2017

File No.: 2017-24634

Cover Page

Countries:	Countries on OECD's DAC list of development aid recipients[1].
Project Title:	SDG Investment Fund
Start-End Date:	2018 - 2031 (investment period 2018-2021)
Budget:	Danida:
	- Grants DKK 100 million
	- State guarantee DKK 800 million[2]
	IFU DKK 2,100 million[3]
	Institutional and private Investors (indicative): DKK 3,000 million
	Total funding: (indicative) DKK 6,000 million)
Fund manager:	IFU

Main features of SDG Investment Fund:

- The objective of the SDG Investment Fund is to contribute to the achievement of the SDGs in developing countries by enhancing development relevant, inclusive and sustainable investments in affordable and clean energy, climate, industry, food and agribusiness, water and sanitation and other SDG key areas through the mobilization of Danish and foreign public and private capital, technology and knowhow based on international standards for responsible business conduct.
- Investments in projects, which in addition to strong business cases, have strong development effects such as decent job creation, access to affordable and sustainable energy, reduction in greenhouse gas emission, local tax contribution, innovation, technology transfer and knowhow, responsible business conduct etc. It is envisaged that the SDG Investment Fund in total will generate investments of an estimated DKK 30 billion.
- The success of the Fund will be measured using indicators as: Mobilisation of private capital, number of direct and indirect jobs created, total reduction in greenhouse gas emission, total local tax contribution, financial performance, additionality, sustainability etc.

[1] At least 50% of Danida's and IFU's contributions will be made in host countries with a GNI per capita below 80% of the upper limit for Lower Middle Income Countries (LMIC), according to the World Bank's classification.
[2] State guarantee for IFU to mobilise debt financing from the Central Bank (Statens Genudlån)
[3] This amount include a 2017 Finance Act allocation of DKK 200 million for general equity contribution to IFU (approved earlier in 2017)

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List of abbreviations

DAC	Development Assistance Committee
DAF	Danish Agribusiness Investment Fund
DBF	Danida Business Finance
DFI	Development Finance Institution
DKK	Danish Kroner
ESG	Environmental, Social, Governance
FMO	The Dutch DFI
GNI	Gross National Income
IFU	Investment Fund for Developing Countries
IRR	Internal Rate of Return
KFU	Technical and Quality Support department of the Ministry of Foreign Affairs
KfW	Kreditanstalt für Wiederafbau (the German development bank)
DCIF	Danish Climate Investment Fund
LDC	Least Developed Countries
MoFA	Ministry of Foreign Affairs of Denmark
LMIC	Lower Middle Income Countries
ODA	Overseas Development Assistance
OECD	Organisation for Economic Cooperation and Development
PPP	Public Private Partnership
SDG	Sustainable Development Goals
SME	Small and Medium Enterprise
TQS	Technical Quality Support department of the Ministry of Foreign Affairs
VBE	Growth and Employment department of the Ministry of Foreign Affairs
UN	United Nations
UNCTAD	United Nations conference on Trade and Development
UNFCCC	United Nations Framework Convention on Climate Change
UNGP	United Nations Guiding Principles on Human Rights and Business
USD	United States Dollars
WB	World Bank

1. INTRODUCTION

The present Project Document details the objectives, content and management arrangements for the development cooperation concerning the Sustainable Development Goals (SDG) Investment Fund as agreed between parties specified below. In June 2016 the Danish Government decided to establish a new Public-Private-Partnership (PPP) investment fund, to be managed by the Investment Fund for Developing Countries (IFU), which shall contribute to the mobilization of private capital for the financing of investments in support of SDGs in developing countries. The Ministry of Foreign Affairs' (MoFA) allocation for the proposed fund (DKK 100 mio.), and the complementary support to the strategy for IFU (DKK 200 mio.), are included in the 2017 Finance Act. The proposal supports the implementation of Denmark's strategy for development cooperation and humanitarian action, "the World 2030", particularly in relation to the promotion of inclusive and sustainable growth and development, including the promotion of blended finance through PPPs and the strengthening of IFU.

Parties

The SDG Investment Fund (Fund) will be managed by IFU, which will provide a significant part of the state's capital contribution. The private capital for the Fund will mainly be provided by Danish institutional investors that together with IFU will participate in SDG related impact investments in developing countries.

Documentation

"The Documentation" refers to the present Project Document and the existing regulatory and strategic framework for IFU's mandate and activities.

Appraisal/quality assurance

Appraisal/quality assurance of the investment fund proposal has been conducted by the Growth and Employment (VBE) department and the Technical Quality Support department (TQS) as an integrated part of the preparation process. The appraisal process is documented through the standard template for appraisal of grants above DKK 10 mio.

2. CONTEXT OF THE SDG FUND

2.1 Background

The investments required to achieving the SDGs in developing countries are enormous. UNCTAD estimates that the total SDG investment needs in developing countries are in the order of USD 3.3 – 4.5 trillion per year, and projections based on the current public and private investment levels indicate a financing gap of USD 2.5 trillion annually. The main financing gaps are related to infrastructure (energy, transport, telecommunication, water and sanitation) climate, agribusiness and food security, health and education. Official Development Assistance (ODA), currently estimated at USD 132 billion, will only be able to cover a small part of this financing gap. International organisations and forums like OECD, World Economic Forum and the 2015 Addis Ababa conference on financing for development, have therefore emphasised that donors strongly need to expand the use of PPP based blended finance instruments, which can reduce the risk of private investors and hereby contribute to the mobilisation of substantial private capital, technology and knowhow for sustainable and inclusive impact investment in developing countries.[4]

[4] OECD and World Economic Forum define blended finance as: "The strategic use of development finance and philanthropic funds to mobilise private capital flows to emerging and frontier markets". OECD and World

The above SDG funding gap is first of all due to the fact that a very significant part of the required development investments cannot attract private funding because the perceived or actual risk is too high relative to the expected return. However, such investments would often be suitable for PPP and blended finance arrangements where donors and public stakeholders contribute with diplomacy, risk coverage etc., in order to facilitate that private investors can obtain a more predictable and acceptable return on their part of the impact investment. Donors therefore need to focus more on how to catalyse development by means of various blending mechanism that can promote the mobilisation of institutional investors and private companies and hereby generate additional impact investments. Private investors and companies in Denmark and abroad are to an increasing extent transitioning to responsible investment, because sustainable business strategies can improve market and business opportunities, reputation, profitability etc. Various studies have also confirmed the existence of huge market opportunities in relation to the achievement of the SDGs in developing countries, e.g. in relation to food and agribusiness, cities, energy, industry, health and welfare, and the prospects of mobilising private capital and developing commercial business models for a significant part of these markets are therefore better than ever.

2.2 Key experience with blended finance of relevance for design

The Ministry of Foreign Affairs of Denmark (MoFA) has in recent years expanded its blended finance activities through various commercially based investment funds with a thematic (energy, climate, agribusiness, SME), or a regional/national scope. These blended finance arrangements are partly established together with IFU and Danish institutional investors, and partly together with other donors, Development Finance Institutions (DFI) and private investors. The preliminary lessons learned from these blended finance arrangements have been positive, not least the blended finance arrangements with IFU and Danish institutional investors which have generated promising development results, international recognition, and a solid and mutual understanding and confidence between the involved parties. The Danish institutional investors are committed to further develop and expand the blended finance arrangements, but they have at the same time indicated the following issues:

a) The size of future investment funds should be substantially scaled-up (preferable by a factor 4 – 5), as well as the individual investment projects, in order to better exploit market opportunities and reduce transaction costs;
b) The thematic scope of future investment funds should be considerably broader than the Danish Climate Investment Fund (DCIF) and the Danish Agribusiness Investment Fund (DAF) in order to ensure larger investment flexibility, a larger investment portfolio and better risk diversification.

The preliminary lessons learned further indicate that the following issues need to be considered:

c) The fund should preferably have access to a broader mix of complementary financial products, such as various loans and risk guarantee products, in order to better address relevant investment opportunities and requirements.
d) IFU should strengthen documentation and communication on additionality and its compliance with international sustainability standards (Environmental, Social and Governance standards).
e) The fund should have access to a strong pipeline of bankable investment projects, and there is a need to strengthen Danish and international project development capacity.

Economic Forum: Redesigning Development Finance Initiatives, Blended Finance Vol 1: A primer for Development Finance and Philanthropic Funders, September 2015.

The issues described under a), b), c) and d) have been addressed in the Development Engagement Document. Point e) has in 2016 been addressed through an appropriation to IFU for the implementation of a commercially based project development programme.

3. PRESENTATION OF PROGRAMME

3.1 Objectives and targets

The overall objective of the Fund is to:

Contribute to the achievement of the SDGs in developing countries by enhancing development relevant, inclusive and sustainable investments in affordable and clean energy, climate, industry, food and agribusiness, water and sanitation, gender and other SDG key areas through the mobilisation of Danish and foreign public and private capital, technology and knowhow based on international standards for responsible business conduct.

The Fund will be based on a PPP which will promote the mobilisation of substantial private capital for impact investment in developing countries. The SDG fund is expected to have a size of DKK 5-6 billion of which institutional investors are expected to contribute 50%. The capital will be invested over a 4 year period. The investments of the funds will promote the mobilisation of additional private capital from other sources by an estimated factor 7 meaning that the Fund and IFU in total will promote investments of, cautiously estimated to, DKK 30 billion. The key results of the Fund will be the financing, implementation and management of about 50 to 60 SDG relevant and sustainable investment projects in developing countries. The investment projects of the Fund will be assessed and monitored in terms of both financial return and expected development outcomes, and the expected development outcomes will be a key guiding principle for the Fund's investment activities.

The Fund will significantly contribute to the achievement of several of the SDGs through the implementation of substantial investments that would otherwise not take place or only at a much smaller scale and pace. The indicated outcomes of the fund, which are estimated on the basis of historic IFU records from a large number of investments, include: Total mobilisation of DKK 30 billion of private capital, the creation of about 30,000 direct decent jobs for women and men and an additional 30,000-60,000 indirect jobs[5,6], a comprehensive installation of renewable energy measured in MW, a comprehensive reduction of greenhouse gas emission from sustainable energy investments based on a conservative estimate of about 250 DKK or USD 36 per tons CO_2 equivalent during the lifetime of the investment, considerable annual tax contribution from investment projects to public authorities, transfer of modern technology, innovation and knowhow, and compliance with international standards for responsible business conduct.

Responsible business conduct is an integral part of the 2030 Agenda for Sustainable Development and necessary in order to achieve the SDGs. As such promoting responsible business conduct will be an integrated part of the Fund's investments and development outcomes. The Fund's contribution to responsible business conduct will be assessed, monitored and reported as part of the Fund's results framework and development outcomes in accordance with IFU policies and procedures. IFU has implemented or is implementing a number of sustainability policies, procedures and standards including the UN Global Compact, the UN Guiding Principles on Business and Human Rights (UNGP), and other relevant international standards for investments and business activities in developing countries such as the IFC Performance Standards. IFU reports its implementation of responsible business conduct as part

[5] Direct job effect is estimated by historic IFU data from 1995 to 2015. The target reflects that a large part of the fund is expected to be invested in sustainable energy projects where number of staff typically is limited after the construction period.

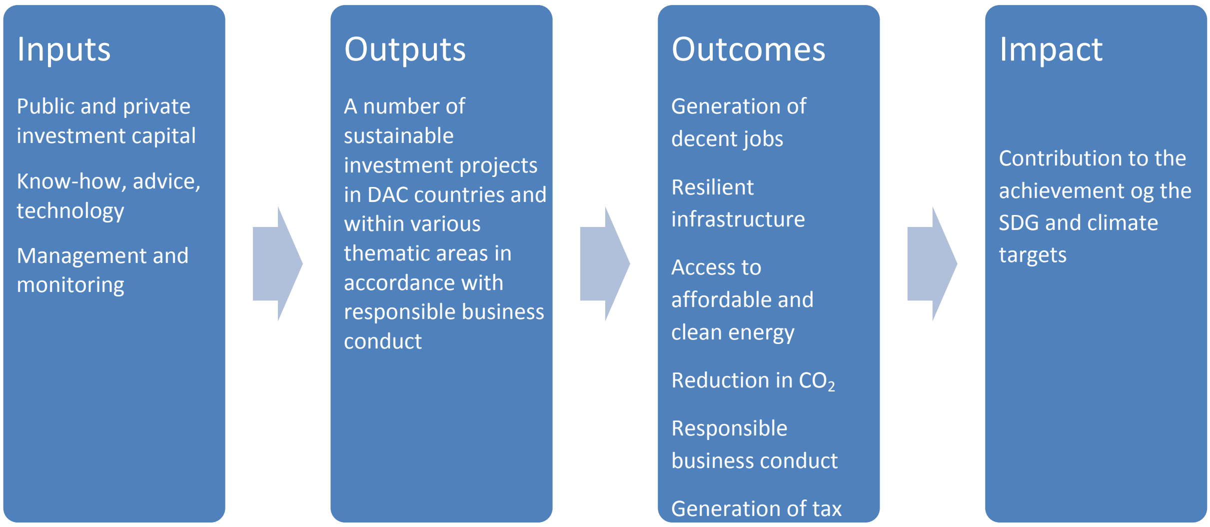
[6] According to UN research, every direct job creates 1-2 additional jobs in for example local supply chains or service companies

of its sustainability reporting in the financial annual report. The sustainability agenda is an integrated part of IFU's business activities. IFU has a sustainability advisory board composed of external stakeholders within environment, human rights, development and company policies.

Further details on the results framework, indicators, sustainability approach, communication and reporting, and IFU's Development Impact Model are provided in section 3.5 and in Annex 2.

3.2 Theory of change

At the overall level the Theory of Change behind the Fund can be described as follows: The achievement of the SDGs in developing countries is challenged by a huge financing gap which cannot be covered by ODA combined with existing adverse environmental and social impacts of unsustainable business practices. Donors therefore need to facilitate the involvement of sustainable private investment, based on responsible business practices, through various forms of risk coverage initiatives that can reduce the actual or perceived risks and hereby ensure that the private investors can obtain a more predictable and acceptable return. **If** donors and DFIs, including Danida and IFU, expand the use of PPP-based blended finance engagements which can reduce the risk of private investments in the SDGs, **then** it will be possible to contribute to the achievement of the SDGs through mobilisation of substantial private capital, technology and knowhow for inclusive and sustainable impact investment in developing countries.



The theory of change is based on a number of assumptions including that: a) the political and economic context globally and in DAC countries remains relatively stable, b) the institutional investors and private companies are committed to participate with capital, technology, knowhow and responsible business conduct, c) it is possible to establish a satisfactory balance between development objectives and commercial objectives in relation to the investments, and d) the Fund will have access to a satisfactory pipeline of bankable projects.

3.3 Justification

Relevance: The proposed Fund is fully in line with Denmark's new strategy for development policy and humanitarian action ("The World 2030"), particularly with regards to the promotion of inclusive and sustainable growth through PPP arrangements. The proposal is also fully in line with the international development policy agenda concerning the promotion of PPP based financing arrangements that can catalyse the mobilisation of private capital, technology and knowhow for inclusive and sustainable investments in SDG sectors in developing countries. This should be done through the use of innovative financing instruments, including guarantees, which can catalyse private sector participation. Investments in developing countries are still associated with major risks due to a challenging business environment caused by various factors such as an inadequate regulatory framework, corruption, inadequate infrastructure, inefficient market systems, shortage of skilled labour and inadequate protection of social and environmental standards etc. Private investors therefore normally consider the perceived or real risk too high relative to the expected return. PPP based blended finance initiatives can in this respect mitigate these risks and catalyse additional SDG investments without distorting well-functioning markets.

Efficiency: The Fund is envisaged to be highly efficient as it to a large extent is based on existing institutional structures and procedures, financial instruments etc. (ref. sections 3.3. and 4.1). The expected increased size of the Fund and the individual investment projects compared to especially DAF, are envisaged to contribute to reduced transaction costs and hereby higher efficiency.

Effectiveness: The effectiveness of the fund is envisaged to be high and have a high impact as state's equity contributions is expected to generate investments in the developing countries of around DKK 30 billion. Furthermore, the fund will deliver additionality contributing to the implementation of comprehensive sustainable investments that would otherwise not be realized. The increased involvement of the private sector is also envisaged to promote the development of new commercial business models which can catalyse the development further.

Impact: As stated in section 3.1 and 3.5 the investments of the Fund will significantly contribute to the achievement of several of the SDGs in particular goals 1, 2, 5, 7, 8, 9, 12 and 17. The most significant outcomes are envisaged to be in relation to food production (SDG 2), affordable and clean energy (SDG 7), decent job creation (SDG 8), responsible consumption and production (SDG 12) and mobilisation of private capital (SDG 17)

Sustainability: IFU will have strong focus on the sustainability of the investments. The application of sustainability standards, including UN guiding principles for business on human rights (UNGP), as well as a number of other interrelated international sustainability standards during screening, design, implementation and management of investment projects is envisaged to ensure high social, environmental and financial sustainability, which will in itself be counted as part of the Fund's development outcome. IFU and the participating investors and companies will further contribute to a more general promotion of the sustainability agenda in the countries where the investments are conducted.

3.4 Strategic considerations

Rationale for selecting IFU as partner: IFU is an optimal choice as Fund manager and it has a long and solid track record for investments in developing countries. IFU is also at the forefront of the international sustainability agenda and has already established solid investment cooperation with Danish institutional investors, e.g. in relation to DCIF and DAF, and the gained experience is very valuable for ensuring a satisfactory design and operation of the Fund.

Capital contribution of the Danish state: The capital invested by the Danish state will be given as an earmarked capital to IFU for the purpose of investing in the SDG fund and should be considered as development capital assets that are envisaged to generate a return. The accumulated capital will, once the fund has exited from its investments, return to IFU and will be reinvested in new IFU activities. It would be difficult for the Danish state and IFU to provide the required capital share for the Fund from MoFA's development budget and IFU's own capital base. The capital contribution of the Danish state/IFU is therefore partly based on a state guarantee which will allow IFU to access DKK 800 million in loan capital from the Central Bank (Statens Genudlån).

Financial products: The majority of the Fund's capital is expected to be used for equity investments. Equity capital is strongly needed in most investment projects, and equity capital is fundamental for the mobilisation of additional capital, including loan capital, from other sources. The remaining capital of the Fund will be used for loan capital investments including mezzanine loans with a relatively high risk exposure and senior loans. IFU will also explore opportunities to access relevant commercial and political risk guarantee products in relation to the Fund's investments.

Thematic scope: The thematic scope of the Fund will be much broader than DCIF and DAF in order to ensure access to a larger investment environment, larger investment flexibility, better risk diversification and comprehensive impact across a broad range of SDGs. However, certain targets for the portfolio distribution by thematic/sectoral area have been elaborated (ref. Annex 2) indicating that most of the capital is expected to be invested in climate/sustainable energy, industry, agriculture and food, infrastructure, financial sector and water. It is acknowledged that the SDGs are interdependent, and that an SDG fund in principle should be able to support all the SDGs. However, the commercial structure of the Fund is particularly suitable for investments in economic and environmental SDGs within a short to medium term perspective, but IFU will seek to explore business opportunities that can promote sustainable and commercial investments in other sectors for instance the social sector.

Project pipeline: Access to a strong pipeline of bankable projects is fundamental for the success of the Fund. There is a general shortage of bankable investments in developing countries, and these challenges need to be addressed. IFU has generally been successful in maintaining a solid pipeline, but efforts will be made to strengthen its internal project development capacity, strengthen cooperation with international and local project developers, and sharing lessons learned with other DFIs etc. It is too early to assess the results of the new commercially based project development instrument, which was launched in the middle of 2016, but preliminary experience is positive.

Lifetime of the fund: Private equity funds are typically working with illiquid investments, and the funds are therefore close-ended to secure the exit of the investors. When the fund is fully invested after a 4 year investment period, a successor fund will be established with new commitments from private investors, and it is the intention to repeat this system onwards to create a succession of SDG funds. The set-up of successive funds will facilitate entrance and exit of the institutional investors compared with a larger fund with a much longer investment horizon. It is also envisaged to reduce transaction costs related to the establishment of new funds.

Eligible investors: A "must win battle" for the Fund is to attract sufficient capital from institutional investors on the right terms. IFU's historical strong collaboration with the Danish business community enables IFU to catalyse investments to developing countries in particular from Danish enterprises and institutional investors. IFU's strategy is therefore to target Danish institutional investors in two financial closings. The first closing with a smaller number of institutional investors deemed to be most receptive to an offering like this, and subsequently to all Danish institutional investors on the same terms as in the first closing. The first closing is expected to take place early 2018. It is envisaged that the majority of the private investors will constitute Danish institutional investors where IFU's catalytic effect is expected to be greater, but international investors will be considered over time, especially for successor funds to the Fund.

Mandate: IFU's mandate has become untied with effect from 1st January 2017. The fund's mandate will also be untied but the investment strategy targets IFU's core competencies of investing together with Danish companies and interests in the developing countries. The untied mandate will open up for new international cooperation and investment opportunities.

Eligible countries: The Fund can according to IFU's mandate invest in countries that are registered on the OECD/DAC list of ODA recipients. However, at least 50% of IFU's investments must be made in countries with a GNI per capita below the 80% of the upper limit of Lower Middle Income Countries (LMIC)[7] measured at a 3 year moving average. This means, based on the proposed fund structure, that 25% of the fund's investments must be made in LMICs and the

[7] Currently countries with a GNI per capita of less than USD 3,228 (80% of the upper limit of LMIC

Least Developed Countries (LDCs) ref. section 4.1. Included in LDC are more fragile states and part of the investments are expected in such countries. IFU has since 2014 made investments in several LDCs (Mozambique, Tanzania, Uganda, Kenya, Mali and Zambia).

Leverage: A key purpose of PPP based impact investment funds is to use donor funds as leverage for the mobilisation of private capital, technologies and knowhow. There will be no clear defined targets for the leverage factor which depends on the type of investments, country context, commercial risk issues etc. However, the leverage factor will be measured, and it is expected to be around 7 based on IFU's historic observations. A leverage factor of 7 can be considered as relatively high in blended finance, and one of the reasons is that the majority of the Fund investments will be equity investments.

Additionality: Additionality will be assessed in qualitative terms in order to ensure that the Fund generates SDG related investments and outcomes that would otherwise not have been achieved or achieved in a much less ambitious way, ref. section 3.5 and annex 2. The additionality assessments will focus on[8]: a) financial additionality ensuring that investments are made that otherwise cannot obtain full financing from commercial investors; and b) value additionality which refers to the unique role of a public sector stakeholders in e.g. improving the development impact of an investment, gender equality by influencing the design, improving management performance through board participation, or through the incorporation of standards for responsible business conduct, environmental, social and governance sustainability etc.

Sustainability and responsible business conduct: Responsible business is a key development outcome for the Fund and IFU is internationally at the forefront among DFIs in complying with international standards on sustainability and responsible business conduct as defined in OECD's recent publication applicable to institutional investors[9] . The fund should contribute to the enforcement of this position for IFU and the participating investors and companies. This is considered as an opportunity and win-win situation for all parties as it can promote the development of new promising business partnerships and market opportunities.

3.5 Results framework

In an effort to better capture development effects of its investments and improve its ability to report on the new SDGs IFU has upgraded its previous Success Criteria Model operated by IFU for the last twelve years to a new more comprehensive Development Impact Model (DIM). All projects receiving a binding commitment in 2016 has been entered into the new DIM and the system is fully operational from the beginning of 2017. A description of the model is available in appendix 2.

This new system for monitoring of development impact consists of a total number of 38 indicators, which are measured across the investment portfolio. The indicators are categorised into general development indicators and three types of more strategic indicators. Some of the development indicators are general such as employees and tax contribution and some of them are sector specific related to climate change mitigation, renewable energy, agri-business and micro-finance with several gender specific indicators. The indicator definitions used for the DIM are in general mainly standard indicator definitions used among the group of European Development Finance Institutions (EDFI), drawing on the SDG indicators.

The strategic indicators are divided into three groups related to additionality, catalytic effect and project sustainability. Financial additionality will be qualitatively evaluated for each investment by

[8] OECD/DAC: Peer learning: Lessons from DAC members of effectively engaging the private sector in development cooperation. October 2016.

[9] OECD (2017), Responsible business conduct for institutional investors: Key considerations for due diligence under the OECD Guidelines for Multinational Enterprises

assessing why the private sector is not willing to undertake the project on its own. Value additionality includes elements like training provided, technology transfer, IFU board membership etc. Indicators for catalytic effect are related to financial leverage and 3rd party investors. Finally, project sustainability is measured on environmental, social and governance scores as well as risk ratings and IRR. The Results Framework for the SDG fund and a complete overview of the DIM indicators are presented in Annex 2.

A rating methodology will be applied in the DIM with three basic outcomes Exceed, Meet and Below. The rating will be assigned according to predefined units and thresholds according to IFU's expectations. Each indicator group will also be assigned a group rating Exceed, Meet and Below, and finally the project will be assigned an overall project headline rating going from critical over poor, fair and good to excellent according to some general criteria. The DIM system is operated from inside IFU's project database ODIN and most information will be entered in connection with the initial analysis. The DIM will work in an integrated way so that key figures are sent into relevant templates for IFU decision making. The database will enable compilation of project specific reports as well as data extraction across projects on specified indicators.

Ex-ante targets and Ex-post observations and comparisons
The ex-ante targets are the expected outputs/outcomes of the investment project. In some cases the numbers reported here turns out to be either over- or underestimated compared to the actual performance when the investment project set into motion. The ex-ante numbers are used for the decision making at Binding Commitment stage. The ex-post numbers will be recorded in connection with the Final Evaluation Report (FER) to be filed at the end of the investment project. The Final Evaluation Report will make comparisons and analyse on differences between the ex-ante and ex-post values.

Annual monitoring
The annual monitoring will capture the actual numbers for a given year. The annual DIM monitoring sheet will be completed in connection with the annual sustainability reporting sheet and numbers filed in IFU's ODIN database. The annual monitoring will capture a possible initial high employment during construction and establishment followed by a lower number of staff in the operational phase of a given project.

As IFU gain more experience with its new Development Impact Model it will be possible to benchmark the individual investments against others and to gain specific sector knowledge about effectiveness and efficiency of each investment type in terms of development outcomes and impacts.

Other information
From 2016 and onwards it is expected that IFU's contributions to the 17 Sustainable Development Goals are measured using the OECD principles for policy markers i.e. "Principal" or "Significant" contributions. This procedure will enable an assessment of contributions by assigning coefficients 100 to "Principal" and 50% for "Significant" in agreement with the policy marker methodology. Direct and indirect contributions to the SDG's are also measured as an integral part of IFU's Development Impact Model (see results framework Annex 2).

3.6 Risk assessment

Investments in developing countries are generally associated with a relatively high perceived and real risk, not least for medium- and long-term investments, which are expected to constitute the majority of the portfolio under the Fund. Political and economic conditions may be turbulent. A risk management matrix is presented in Annex 4. The matrix presents the main contextual, programmatic and institutional risks in relation to the Fund. However, it has to be emphasised that the risk management matrix at this stage only provides a very generic presentation of the various risk factors. The specific risks and the measures to manage these risks can only be assessed in relation to the specific investment projects and the related country and business context.

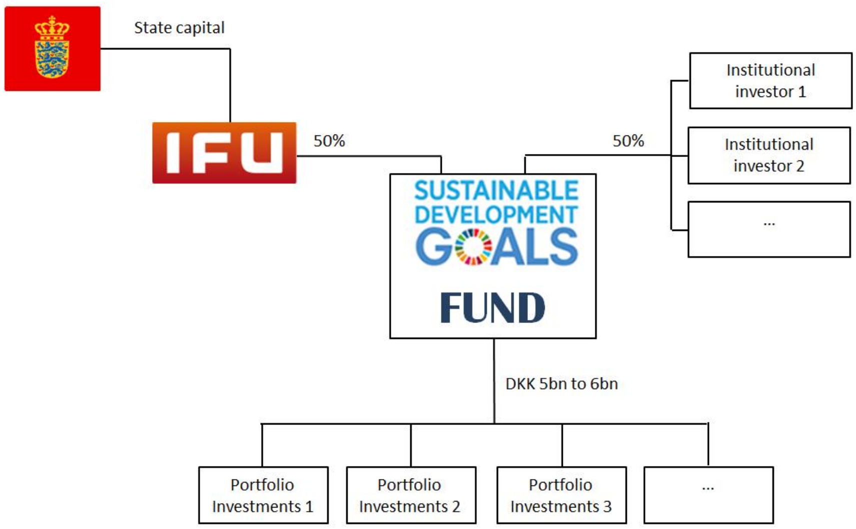
IFU has a set of well-developed risk policies and guidelines to minimise the overall risks in its project portfolio. These policies include guidelines for appraisal of commercial risk, for project, partner and country risk exposure as well as guidelines for managing direct financial risks and risks related to irresponsible business practices. It is envisaged that the broad geographical and thematic SDG approach with investments across regions, sectors and subsectors will diverse and mitigate the risks related to investments under the Fund. As mentioned in section 3.4 it is further being considered whether the Fund could have access to a set of commercial and political risk guarantee products in order to mitigate the private investors risk exposure. The commercial risk guarantees could include various guarantees in relation to participating exporters and financial institutions. Political risk insurance may include civil unrest, war, expropriation, foreign currency restrictions and possible breach of contract, e.g. in relation to Power-Purchasing-Agreements.

Financial losses on the investment portfolio are unlikely based on IFU's past experience. The calculation of profit and loss will be based on the entire Fund portfolio and finally calculated at the completion/close of the fund.

4. OVERVIEW OF MANAGEMENT SET-UP

4.1 Legal, capital and governance structure

It envisaged that the SDG fund will be structured with a 50/50 ownership between IFU and the institutional investors. The 50/50 split secures best possible alignment between IFU and the institutional investors. The state's participation will be invested through IFU.



The exact model will be developed and agreed in dialogue with the institutional investors and other structures may be considered.

Legal structure: The legal structure of the SDG fund will be based on the one already known from DCIF and DAF. A Danish limited partnership (kommanditselskab) with a general partner (komplementar) and the investors as limited partners (kommanditister). This form of entity ensures both that the investors are not subject to double taxation (the limited partnership is tax transparent, so the investors are taxed as if they had made the investments directly) and that their liability is limited to the amount invested in the fund.

Capital structure: The SDG fund's capital will consist of capital commitments from the investors that can be called successively as investments are made. The SDG fund will invest the committed capital during a 4 year investment period. After this period, the SDG fund will over the next 10 years gradually exit the investments. All cash received by the SDG fund will be distributed to the investors as it is received by the SDG fund. The overall performance of the SDG fund can only be finally calculated when the fund is fully exited and all cash has been returned to the investors. To finance IFU's share new capital will be required for IFU although a majority of the funding from the state/IFU are provided from IFU's current resources. The remaining funding of IFU will be a mix of equity contribution from the state and debt financing. The debt allocation will be supported by a state guarantee.

Preference return model: Based on the model in DCIF and DAF, part of the state contribution will provide a preference return for the private investor's contributions. The model is structured so profit from the investments are unevenly distributed between part of the state's contribution and private investors. This means that institutional investors will have some protection on the downside and receive returns before the state´s contribution up to a given percentage financial net return against an upside, i.e. a proportionally higher share of the profits to the state/IFU above this given return. The model is illustrated in annex 3.

Governance structure, incl. implementation capacity, the sustainability agenda, accountability etc:

MoFA is the parent ministry/"owner" of IFU. The Minister for Development Cooperation approves IFU's statutes ("rules and guidelines for running the business of IFU"). Furthermore, the Minister appoints the Board, including the chairman and deputy-chairman, the observer from MFA and the chief executive officer of IFU. Finally, the Minister has approved a dividend policy for IFU. IFU is thus considered to be a state-owned company, and MFA's monitoring is based on "Statens Ejerskabspolitik (April 2015)"/"Ownership Policy". This implies the following monitoring structure:

- "Annual General Assembly"-meeting between the Minister, IFU's chairman and CEO. The agenda focuses on the annual report of IFU and MFA's strategy for IFU.
- MFA's observer to the Board, who has access to all documents, participates actively in the Board and reports to the Minister.
- MFA-IFU High Level Coordination-meetings are held minimum 2 times a year. The agenda focuses on strategy, results, development impact, cooperation between IFU-MFA etc.
- On-going dialogue between employees from MFA and IFU.
- Rigsrevisionen supervises IFU's activities. IFU's accounts are audited by a state authorized public accountant through an agreement between Rigsrevisor (the Auditor General) and the Minister.

IFU will be fund manager of the SDG fund. It is envisaged that the investments in the SDG fund will be approved by IFU's board of directors after pre-screening in IFU's internal investment committee. Institutional investors will be invited to participate on IFU's board of directors. IFU has a sustainability advisory board composed of external experts, and IFU has in recent years expanded its cooperation with civil society organisations.

IFU has the required technical, financial and managerial capacity to manage the Fund. IFU has a long and solid track record on investments in developing countries, and it has established a solid cooperation with Danish and international companies and investors. IFU is continuously assessing its need to expand its staff capacities within the various thematic areas including results measurements and the sustainability agenda.

4.2 Monitoring, reporting and communication

All investments made will be obliged to follow IFU's reporting structure for investments on environmental, social and governance aspects and financial performance. As each investee company has its own board this will supervise the local management and operation of the company including sustainability issues. In investments with a significant shareholding IFU will demand the right to nominate a member of the board of the local partner company. This will ensure that the performance of IFU's investment projects will be monitored closely on a continuous basis. Furthermore financial reports will be audited by authorized auditors.

IFU staff will continuously assess the progress and status of the project portfolio both in terms of value of the investment and associated risk levels. Investments will be subject to write up or write down adjustments. Each year the local partner company will submit an annual sustainability report which will includes developments of major environmental, social and governance aspects of the operation of the local partner company, including implementation of agreed Environmental, Social, Governance (ESG) action plans.

IFU reports development results and work on sustainability as part of the annual financial report. IFU is also committed to the UN Global compact and reports accordingly. IFU will also include reporting on its due diligence process as well as the development and implementation of ESG action plans for new projects.

IFU will be reporting performance and results of the SDG fund according to the requirements under the Danish Financial Statements Act (Årsregnskabsloven). This includes additional information on corporate social responsibility including human rights and on gender in connection with the operations of the fund (Section 99a on Corporate Social Responsibility and section 99b on Gender).

IFU is open and transparent about its investment and the investment portfolio. An updated list of investment projects can be found at IFU's homepage including information about the country, name of local investment partner, the activity/product, the Danish partner and invested amounts. Information about the consolidated taxes paid by all the investee companies is published annually and IFU's tax policy for investments can be found on IFU's webpage.

Overall IFU's monitoring and reporting procedures are important instruments to continuously generate lessons learned which can be used internally and in a broader context.

Mid-term review

MoFA will conduct a mid-term review of the progress and performance about 2 years after the Fund has been launched. A budget amount of DKK 500,000 of the Danida contribution will be reserved for the review.

External communication about the Sustainable Development Goals

By establishing a fund that specifically has the fulfilment of the 2030 Agenda for Sustainable Development IFU will have a particularly strong platform for communication about the SDG's and how the private sector is contributing to mobilise capital, new technology and know-how to address the challenges.

IFU will seize this opportunity by demonstrating how the capital of its investors are brought to new markets and creating new business models and commercial activities through responsible and impact oriented investments in developing countries.

Since 2016 IFU's new investments has been registered with SDG policy markers using the same methodology as applied by OECD/DAC for the so called Rio-markers.

This means that each investment can contribute to one principal or three significant SDG's. This methodology will provide IFU with an indication of which of the SDG's are mostly supported through private investments and which are not so often supported.

Since IFU through the DIM and through its financial reporting is already measuring quantitatively direct contributions to some of the SDG's for instance SDG 8 Decent work and economic growth the policy marker system will be used to capture supplementary qualitative contributions not necessarily captured by the DIM.

The SDG registrations will also be used for reference to identify interesting projects for communication purposes in relation to specific SDG's.

5. BUDGET AND FINANCIAL MANAGEMENT

5.1 Budget

Institutional investors are expected to contribute with DKK 3 billion, which will be matched by the state/IFU. The majority of the funding from the state/IFU are provided from IFU's current resources and the remaining capital is envisaged to be a mix of equity contributions and debt financing. The 2017 Finance act proposal allocates DKK 100 million for equity directly to the fund and DKK 200 million (already committed) for general equity contribution to IFU. Possible additional allocations may be considered. In addition to these contributions, debt financing supported by state guarantees will be provided.

The indicative budget for commitment to the Fund may be as indicated below (DKK million):

	Total
Danida contribution to SDG fund	100
Additional IFU debt finance based on state guarantees (Statens Genudlån)	800
IFU resources	2,100[10]
Total financing of state capital	3,000
Institutional investors	3,000
Grand total	6,000

The Fund is envisaged to be launched at the beginning of 2018. The funding will be needed successively over the investment period and the capital will be drawn from the investors when capital is needed in the fund.

The indicative investments budget may be as indicated below (DKK million):

[10] This amount includes a 2017 Finance Act allocation of DKK 200 million for general equity contribution to IFU (approved earlier in 2017)

	2018	2019	2020	2021	Additional finance in later periods	**Total**
Annual investments SDG fund	750	1,075	1,275	1,650	500	**5,250**

To avoid any conflict of interests with future funds, around DKK 500 million will be reserved for additional financing for the fund's investments in later periods. The remaining part of the capital will be used for administrative costs in the form of a market based management fee and other costs. The majority of these costs will be spent during the fund's investment period (2018-2021). The exit period is expected to be 8-10 years.

5.2 Financial management and risks

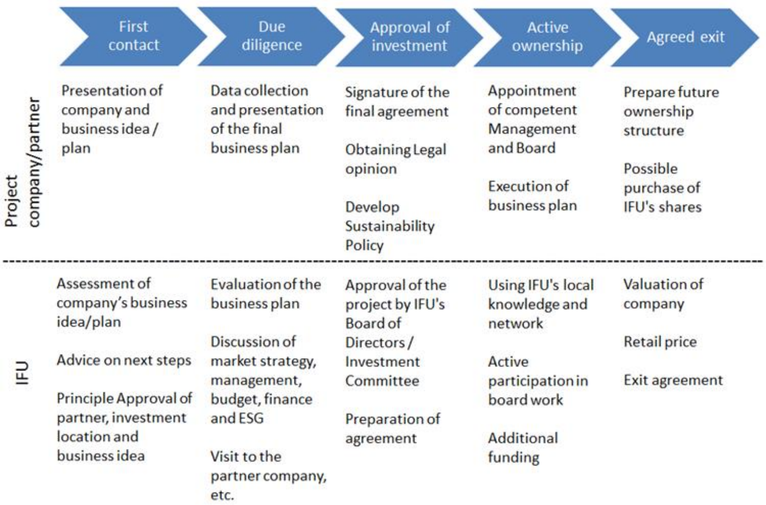
To ensure that IFU is able to match the institutional investor's contribution the state will provide a general state guarantee for IFU to mobilise debt financing (Statens Genudlån). The framework of the state guarantee will be presented to the Parliamentary Finance Committee for approval and the specific conditions and procedures of the guarantee will be specified in a standardised agreement between IFU, MoFA, the Central Bank and the Ministry of Finance.

Funds will be disbursed from Danida to IFU in the fourth quarter of 2017, and it is expected that a binding agreement for the establishment of the SDG investment fund with private investors will be signed in December 2017 or early 2018. Funds will be handled according to IFU's rules and procedures. The accounting procedures follow IFU's rules and procedures for accounting and auditing etc. Specific regular reporting will be made on the status and performance of the guaranteed loan according to procedures stated in the agreement between IFU, MoFA, the Central Bank and the Ministry of Finance.

The probability that the guarantee suffers a loss is considered to be very small. IFU has extensive experience in investing in developing countries. IFU's investments are spread among a number of countries and sectors, and the individual investments will follow IFU risk management principles. The calculation of profit and loss will be based on the entire Fund portfolio and finally calculated at the completion/close of the fund. This portfolio approach will reduce the risk of losses. IFU has a solid track record for investments in developing countries based on a diversified portfolio of around 200 investments. Average gross returns for the last five years have been 12.3 % on share capital investments and 3.6 % on loans. Weighted average gross return is 9 %. If there is a risk of losses on the guarantee, the MoFA will immediately be informed so that any necessary action can be taken. If a loss on the guarantee is realised, the loss will be offset in the budget for development aid.

Annex 1: Brief Description of IFU as Engagement Partner

IFU – Investment Fund for Developing Countries offers risk capital and advice to companies wanting to set up business in developing countries and emerging markets. Investments are made on commercial terms in the form of share capital, loans and guarantees. The purpose is to promote economic and social development in the investment countries.



A five-step investment process

In every investment, IFU strives to engage with the partners in finding the most optimal solutions securing that project companies are economically viable and sustainable, hence being able to create an ongoing positive impact. For that purpose and in order to make a proper due diligence as well as giving professional advice during operation, IFU has set up a five-step investment process. More information on the process is available on the website www.ifu.dk.

Sustainable policies

IFU's has a dedicated focus on sustainability, and the purpose of the policies is to create fair conditions for employees, safeguard the environment and uphold basic human rights, etc. IFU is a signatory to the UN Global Compact and working on implementing the UN Guiding Principles on Business and Human Rights across our portfolio.

One access – six funds

IFU acts as fund manager for a number of investment funds based on public and private capital: the Danish Climate Investment Fund, the Danish Agribusiness Fund, IFU Investment Partners, the Investment Fund for Central and Eastern Europe, the Arab Investment Fund and the Ukraine Investment Facility.

Over time, IFU and IFU managed funds have invested in more than 1,200 projects covering more than 100 different countries in Africa, Asia, Latin America and Europe. The total expected investment in these projects is DKK 178bn, with IFU and IFU managed funds contributing DKK 19bn.

This makes IFU the most experienced Danish investor in developing countries and emerging markets.

Statutory framework

IFU was established by the Danish State in 1967 and is governed by the Danish Act on International Development Cooperation. The fund is self-financing, and its revenues are comprised of income from interest, dividends and capital gains.

As per 2016, total capital under management by IFU was 6.1bn. Capital under management is comprised by IFU's equity of DKK 3bn, IØ's and AIF's equity of DKK 0.4bn and committed capital in DCIF, DAF, IIP and UFA of DKK 2.6bn.

Annex 2: Results Framework

Thematic Title of Fund		SDG Investment Fund
Development objective of Fund		*Contribute to the achievement of the Sustainable Development Goals in developing countries by enhancing relevant, inclusive and sustainable investments in affordable and clean energy, climate, industry, food and agribusiness, water and sanitation, and other SDG key areas through the mobilisation of Danish and foreign public and private capital, technology and know-how based on international standards for responsible business conduct.*
Impact Indicators		The impact of Fund will be determined on the basis of the individual investment projects which will be implemented across countries and sectors. The impact indicators will include employment generation, reduction in greenhouse gas emission, the total mobilisation of additional investment capital for developing countries and the specific mobilisation of capital for climate investments, sustainability and financial performance.
Engagement Title of Fund		Same as the Thematic Title of the Fund: SDG Investment Fund
Outcome indicator		Generation of direct and indirect jobs, reduction in greenhouse gas emission, the total mobilisation of additional investment capital for developing countries and specific mobilisation of capital for climate investments, sustainability initiatives and financial performance
Baseline	Year	*When a new investment project is initiated, an ex-ante baseline based on the indicators selected by the Fund/IFU will be prepared. This will be followed-up with annual reporting for selected indicators as well as an ex-post assessment at exit. A Final Evaluation Report will be prepared for each project.*
Target	Year 2030	*The targets of the SDG Fund are based on recorded or estimated outcome of IFU past and ongoing portfolio of investment projects*[11][12][13][14][5] *Targets of the SDG Fund* **Mobilisation of capital:** DKK 5-6 billion by the Danish state/IFU (50%) and Danish institutional investors (50%). Total capital mobilisation, including capital from other private sources, is estimated at DKK 30 billion **Indicative thematic breakdown of investment portfolio:** Climate/sustainable energy: 30 to 40 %; industry: 10 to 20%; water & sanitation: 0 to 10%; agriculture and food: 10 to 20%; infrastructure 20 to 30% and financial sector 10% to 20%[15]. **Expected total number of decent jobs created:** 8000 direct jobs per one billion DKK invested, out of which at least 35% will be women and 10% will be youth[16]. 8.000-16.000 indirect jobs[17]. **Total reduction in greenhouse gas emission (CO_2 equivalent):** 250 DKK per tons CO2

[11] Historic (1995-2015) average generation of direct and indirect full time job per invested DKK 1 million by IFU or IFU managed funds (all sectors): Direct jobs: 8.8, indirect jobs: 15.4.

[12] Historic (2014-2015) recorded/estimated lifetime average greenhouse gas mitigation (CO_2 equivalent) per invested DKK 1 million in climate/sustainable energy: 4124 tons CO_2 eq/invested DKK million by DCIF (NB few projects).

[13] IFU has a solid track record for investments in developing countries based on a diversified portfolio of around 200 investments. Average gross returns for the last five years have been 12.3 % on share capital investments and 3.6 % on loans. Weighted average gross return is 9 %.

[14] Historic (2012-2015) recorded leverage factor for private capital on IFU investments: Factor 7x

[16] Historic data (2013-2015) of average percentage of female employees is 37% and youth employment is 7%. By direct job is meant full time equivalent jobs created in an enterprise/project due to the Fund's investment.

[17] By indirect job is meant jobs created in related enterprises, e.g. upstream or downstream a concerned value chain. Empiric data indicates that indirect jobs are expected to be generated at least at a factor 1-2 but this is highly variable according to country and sector.

		equivalent invested in climate projects /energy production **Tax contribution:** Total local tax contribution (corporate tax) payments to government / public authorities from investment projects recorded annually during each financial year. **IRR:** The Fund's investments are expected on average to achieve an IRR of not less than 8-12% (gross). **Leverage:** Total mobilisation of additional private financial resources for developing countries is expected to be up to 15 times the state's contribution: For example if the state invest DKK one billion this will be matched by an investment of DKK one billion from institutional investors through the SDG fund. These two billion will be invested into portfolio investments where another 14 billion is expected to be mobilised from other private investors. **Additionality:** Additionality will be assessed according to IFU Development Impact Model. Financial additionality and value additionality will be assessed in general terms but cannot be calculated. International organisations including OECD are currently discussing additionality definitions, and IFU will consider the outcome of this work. **Responsible business conduct:** Sustainability policies (as defined in the IFU's Sustainability Policy) implemented in accordance with international standards for responsible business conducts in Fund investment projects[18]. This target includes sustainability scores and a due diligence process indicator in form of the development and implementation of ESG action plans for investment projects. Collection of data for additional indicators to be used for internal management and monitoring will follow the Development Impact Model (DIM). It is the expectations that all projects funded by the SDG fund will be marked with one principal SDG goal contributions and up to three significant SDG goal contributions using the OECD/DAC Rio policy marker methodology here applied in the context of the 17 Sustainable Development Goals.

Methodology and standards for result measurement and reporting

IFU's Development Impact Model has been developed taking the experience harnessed in the International Finance Institutions harmonized approach HIPSO into account:

HIPSO is a joint impact measurement system initiated by major International Finance Institutions (IFI's). In 2013, 25 IFIs signed a memorandum to ease the reporting burden on shared private sector clients and facilitate learning from each other. Together, these organizations created a harmonized set of 27 core indicators named Harmonized Indicators for Private Sector Operations (HIPSO) for 12 different sectors. The full memorandum and results indicators are available for download on the HIPSO website. Fifteen of the 27 core indicators are aligned to IRIS of the Global Impact Investing Network. The governance and evolution of the 27 indicators remains with the IFI Working Group.

As with other indicators, it is important to state that interpretation of these metrics must be complemented with an analysis of the context in which a company is evolving, and can change over time. Stand-alone numbers cannot by themselves indicate positive or negative social value, or necessarily be compared across companies or products.

IFU's Development Impact Model methodology

The DIM model will be operated by IFU's investment officers through the ODIN database user interface. The DIM model will rely on manual entry of some data into ODIN and automatically import baseline information calculated on other indicators. The DIM model will also include automatic rating of indicators based on the empirical thresholds and automatic rating of indicator group and project based algorithms. The DIM will work in an integrated way so that key figures are sent into relevant templates for IFU decision making. The database will enable

[18] OECD (2017), Responsible business conduct for institutional investors: Key considerations for due diligence under the OECD Guidelines for Multinational Enterprises

compilation of project specific reports as well as data extraction across projects on specified indicators. The DIM model will work through data collection at three distinct stages Ex-ante, Ex-post and annual monitoring:

DIM Overview Development Outcome Indicators :

Development outcomes	
1 General outcomes (tracked for all Investments)	1.1 Direct employees
	1.2 Female direct employees
	1.3 Youth direct employees
	1.4 Unskilled direct employees
	1.5 Tax contribution
2 Sector-specific outcomes	**2.1 Climate** (only tracked for applicable investments)
	2.1.1 Mitigated CO2 emissions during project lifetime
	2.2 Energy (only tracked for applicable investments)
	2.2.1 Installed energy capacity
	2.2.2 Annual energy produced
	2.2.3 Installed energy capacity (renewable energy sources only)
	2.2.4 Annual energy produced (renewable energy sources only)
	2.3 Agribusiness (only tracked for applicable investments)
	2.3.1 Annual turnover
	2.3.2 Cultivated land
	2.3.3 Cultivated land - livestock projects
	2.3.4 Smallholder farmer inclusion aspects
	2.3.5 Smallholders supported
	2.4 Microfinance (only tracked for applicable investments)
	2.3.1 Leverage ratio
	2.3.2 Average loan size
	2.3.3 Loans to females

DIM Overview of Strategic Indicators

IFU strategic indicators and ratings	
3 Additionality	3.1 Greenfield investment
	3.2 Host country income group
	3.3 Host country income level is below 80% of UMIC level
	3.4 World class technology
	3.5 Employee training
	3.6 IFU's contribution to project development
	3.7 IFU is member of company board
4 Catalytic effect	4.1 Leverage ratio (IFU to other investors)
	4.2 IFU's participation important for obtaining 3rd party financing
	4.3 Funding from SME facility
5 Project sustainability	5.1 Project IRR
	5.2 IFU IRR
	5.3 Risk rating
	5.4 Equity balance ratio
	5.5 Environmental & social risk categorisation
	5.6 Environmental & social score
	5.7 Corporate governance level
	5.8 Management quality and competence
	5.9 Funding from Danida Training Fund (environmental and social)

Ex-ante targets and Ex-post observations and comparisons

The ex-ante targets are the expected outputs/outcomes of the investment project. In some cases the numbers reported here turns out to be either optimistic or underestimate what is really going on when the investment project set into motion. The ex-ante numbers are used for the decision making at Binding Commitment stage. The ex-post numbers will be recorded in connection with the Final Evaluation Report (FER) to be filed at the end of the investment project.

Annual monitoring

The annual monitoring will capture the actual numbers for a given year. The annual DIM monitoring sheet will be filled-in connection with the annual sustainability reporting sheet and numbers filed in the IFU's ODIN database. The annual monitoring will capture an initial high employment during construction and establishment followed by a lower number of staff in the operational phase of a given project.

All projects receiving a binding commitment in 2016 will be entered into the DIM and the system is expected to be fully operational from January 2017 thus replacing the former Success Criteria Model (SCM) operated by IFU for the last twelve years.

Indicator on climate

In order to ensure the capture of climate effects from activities of the SDG fund all projects will be assessed for their CO_2 emission. This mean that all projects will be subject to initial screening and if climate effects are found to be substantial (both positive/negative effects) the full assessment methodology used in the DCIF will be applied. Projects subject to full assessment will typically be those with a high energy consumption/production.

Reduction of CO_2-eq is measured as mitigated CO_2-eq emissions during a project lifetime per invested DKK one million by the fund. Savings in CO2-eq. emissions is defined in relation to a baseline scenario. The baseline scenario may either reflect the case without the project or the most likely alternative scenario. The mitigated CO_2 emissions is a measure of IFU's contribution to SDG 9: Industry, Innovation and Infrastructure and SDG 13: Climate Action. The source of information for this indicator is received from calculations by an independent consultancy. The consultant assesses the net GHG emissions by firstly identifying the primary service offering achieved by the project and identifying what the baseline candidate would be (in other words, what the situation would be if the project were not financed). The carbon impact of the operations and supply chain of both the project and baseline scenarios are assessed using the consultant's proprietary environmentally extended input-output (EEIO) model supplemented with life cycle assessment (LCA) data as appropriate. Primary data is taken from the project where possible. Where relevant and material to impacts, use phase may also be assessed – for example if the project is funding production of equipment (such as wind turbines or solar panels). Using this approach, operational activities such as use of electricity, combustion of fuel and manufacture of equipment used within the project is calculated in terms of GHG emissions, in tCO2e. A net impact is determined by comparing the project to the baseline candidate impacts, over the lifetime of the project.

Indicator on employment

Employment is defined as jobs that are in accordance with international standards for decent work as defined under relevant standards of the International Labour Organization and in line with SDG 8 (Decent Work and Economic Growth).

Direct employment is an indicator of the number of people that benefit directly from the project's activities. It is tracked to confirm that the expected direct employment after investment is realised. It is tracked as number of employees (as per local definition) working for the project company at the end of the reporting period. This includes directly hired individuals and individuals hired through third party agencies as long as those individuals provide on-site services related to the operations of the project company or the project. Also, this includes work by seasonal, contractual and part time employees (excluding construction workers). Direct employment is a measure of IFU's contribution to SDG 1: No Poverty and SDG 8: Decent Work and Economic Growth. Documentation for employees is received once a year from the project company.

Female employment is an indicator of the number of women that benefit directly from the project's activities. It is tracked to confirm that the expected direct female employment after investment is realised. It is tracked as the number of female employees working for the project company at the end of the reporting period. Documentation for female employees is received once a year from the project company. Female direct employment is a measure of IFU's contribution to SDG 5: Gender Equality.

Youth employment is an indicator of the number of young people that benefit directly from the project's activities. It is tracked to confirm that the expected direct youth employment after investment is realised. Number of youth (defined as under 25 years) employees working for the project company at the end of the reporting period. Documentation for youth employees is received once a year from the project company.

Unskilled employment is an indicator of the number of unskilled people that benefit directly from the project's activities. It is tracked to confirm that the expected direct employment of unskilled labour after investment is realised. It is tracked as number of unskilled employees working for the project company at the end of the reporting period. Unskilled workers are defined as those carrying out work involving simple operation that requires little or no skill, experience or education level higher than primary education on the job. Unskilled employment is a measure of IFU's contribution to SDG 1: No Poverty, SDG 8: Decent Work and Economic Growth and SDG 10: Reduced Inequalities.

The employment indicator used is aligned with the HIPSO terminology.

Indicator on responsible business conduct

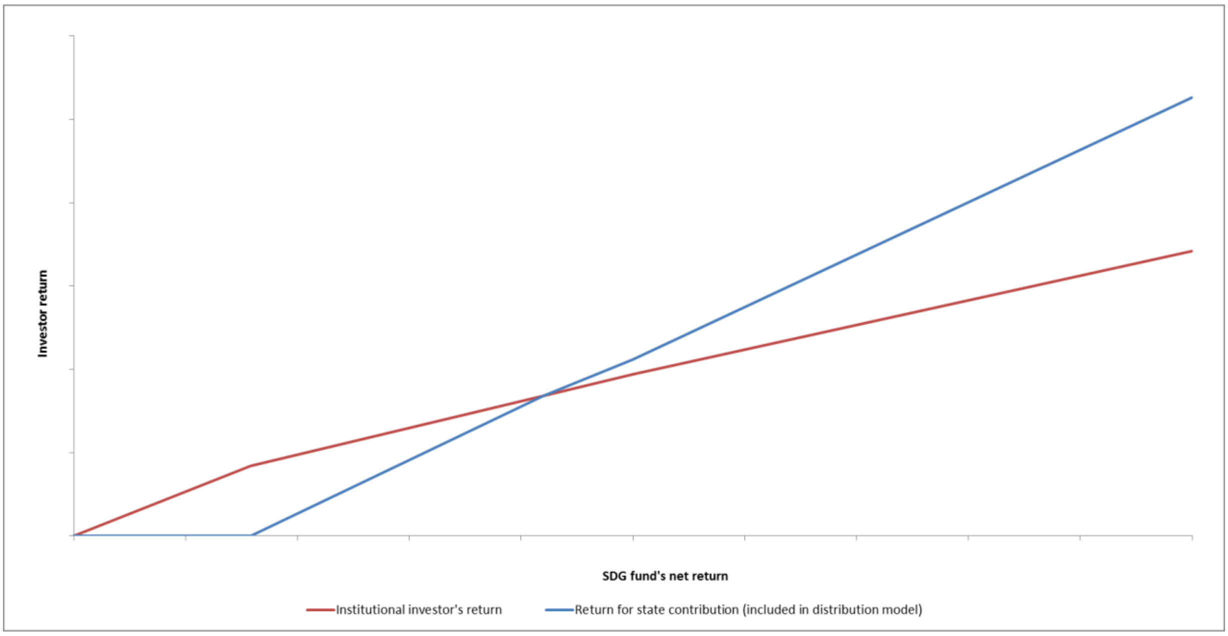
Responsible business conduct is defined as business conduct that is in line with the principles of the UN Global Compact as well as the OECD Guidelines for Multinational Enterprises, including Responsible business conduct for institutional investors and the UN Guiding Principles on Business and Human Rights, as well as where relevant, the IFC Performance Standards and World Bank's Environmental, Health and Safety guidelines.

Indicator on additional financial resources mobilised

Based on the historical leverage ratio a realistic estimate for future resource mobilisation can be calculated. Leverage is the ratio of the states and IFU's investment to total investment. It is tracked to confirm that the expected catalytic role after investment is realised. Total financial resources mobilised is a direct measure of IFU's contribution to SDG 17: Partnership for the Goals.

The financial resources mobilised indicator is aligned with HIPSO terminology.

Annex 3: Preference return model



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Annex 4: Risk Management Matrix

Contextual risks

Risk Factor	Likelihood	Background to assessment of likelihood	Impact	Background to assessment to potential impact	Risk response	Combined residual risk
Possible global financial instability and economic slow-down.	Possible	A certain financial turbulence and economic slow-down triggered by a global political or financial crises.	Major	A global economic slowdown may limit Danish companies' ability and willingness to invest in ventures in developing countries. This was also the case during the global financial crises.	A thorough involvement of IFU in the preparation and implementation of the investment portfolio. IFU has extensive experience with assessment and mitigation of risk parameters when investing in developing countries.	Minor
Political and/or financial instability in individual countries limiting Foreign Direct Investments.	Likely	During recent years political and financial turbulence have taken place in many developing countries.	Major	Political or financial turbulence in a country could have a major negative impact on the Fund's investments.	The Fund will have broad geographical coverage and therefore not be heavily exposed to any single countries. IFU will try to mitigate consequences concerning ongoing projects, whereas new investments will only be made if sufficient risk mitigation is in place.	Minor

Programmatic risks

Risk Factor	Likelihood	Background to assessment of likelihood	Impact	Background to assessment to potential impact	Risk response	Combined residual risk
Lack of interest and/or capability by Danish investors and enterprises to invest in developing countries.	Possible	Danish enterprises may be reluctant towards investing in developing countries, particularly in certain low-income and/or high-risk countries	Major	If Danish investors and enterprises loose interest or capability to invest in developing countries it could be difficult for IFU to achieve the targets of the Fund.	A broad geographical and thematic approach will limit the risk. Assistance in project preparation from IFU and additionality during implementation will provide better chances for success and sustainability. In addition IFU is no longer tied to Danish interests and can therefore also cooperate with foreign investors.	Minor
Commercial failure of	Likely	Unless investments are	Major	Commercial failure of investments will	IFU has established risk management	Minor

individual investments.		carefully appraised they can easily lead to commercial failure.		mean that the concerned partner enterprise, investors and IFU will have high probability for losses.	procedures, comprehensive appraisal procedures and experience for mitigating the risks detected prior to investments.	
Unsatisfactory balance between development objectives and commercial objectives	Possible	The private investors are likely to have a relatively strong focus on the return of the investments.	Major	A too strong focus on commercial objectives and financial return among the private investors, could make it difficult for IFU to fully achieve the development objectives of the fund.	IFU has established a good cooperation with the private investors. IFU will continuously seek to ensure a strong pipeline of suitable projects that can fulfil both development objectives and commercial objectives.	Minor
Shortage of bankable investment projects	Possible	It is broadly recognized by international development finance institutions, that there is a serious shortage of bankable investment projects in developing countries.	Major	A shortage of bankable projects could make it difficult for IFU to maintain an adequate project pipeline which could reduce the quality of the portfolio of investment projects and/or delay the Fund's investment activities.	IFU is aware of the importance of maintaining a solid pipeline of investment projects, and efforts are made to develop a solid project pipeline. IFU is further developing a network of project developers in relation to climate investment and other thematic areas. Danida funds have also been allocated to IFU to promote project development on a commercial basis.	Minor

Institutional Risks

Risk Factor	Likelihood	Background to assessment of likelihood	Impact	Background to assessment to potential impact	Risk response	Combined residual risk
Violation of human rights, OSH and environmental standards	Likely	Various studies indicate that international and not least local enterprises often violate human rights, OSH and environmental standards.	Major	Any possible violation of such standards in a specific investment project can have serious global consequences for the Fund and its investors in the form of reputational damage that may be requiring to solve.	IFU has signed up to the UN Global Compact principles and IFU has comprehensive policies in place which commits the investments to responsible conduct in relation to labour rights, environment and anti-corruption in accordance with Global Compact principles and UN's Guiding Principles on Business and Human Rights.	
Misuse, corruption and fraud by participating Danish and/or local partners	Likely	According to International Transparency Index, corruption is widespread	Major	Implementation of investment projects could be seriously damaged if funds are mismanaged, and it will undermine efforts by local authorities and donors	Ref. above.	Minor

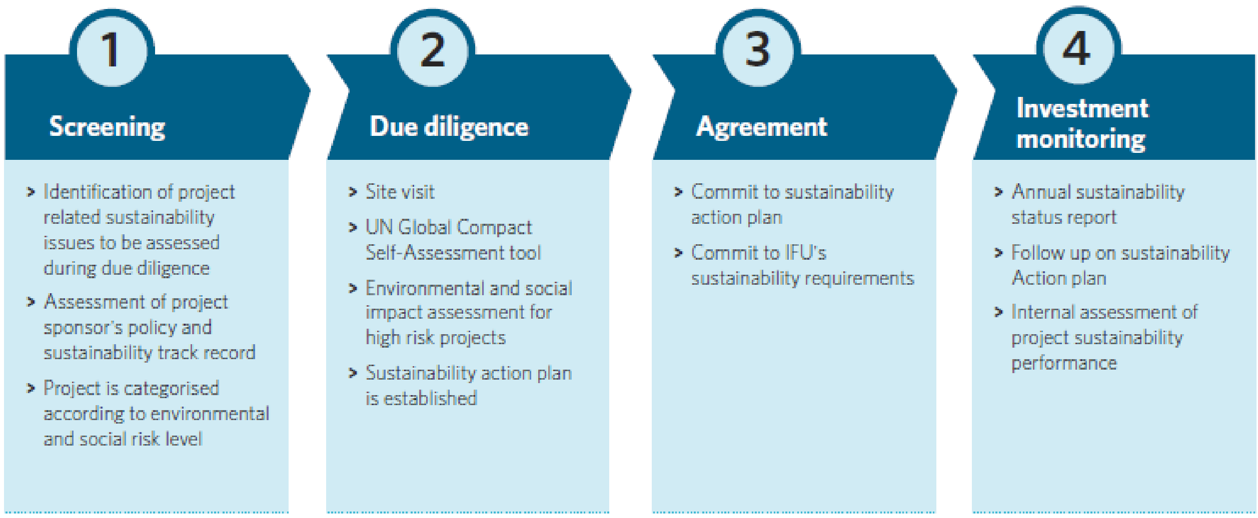
		in most developing countries		to combat corruption		
It may be difficult to attract investments from institutional investors	Possible	Investors may be reluctant to invest in developing countries	Major	Private investors may find that the design and performance of this type of PPP-based funds are inadequately tested.	Danish and international experience indicate that institutional investors and private companies to an increasing extent are committed to investing developing countries. Feedback from the investors indicates that they seek larger funds and larger investment projects.	Minor

Annex 5: Sustainability assessment in the investment process and communication

In developing countries, companies have a greater responsibility in upholding proper sustainability standards by securing e.g. sound jobs, high environmental standards and community engagement.

Being an investor IFU is signatory to the UN Global Compact and has set up an investment process to identify and solve sustainability issues that need to be addressed in relation to it investment projects. The process consists of four phases; screening, due diligence, agreement and investment monitoring. In every investment, IFU and the company engage in an environmental, social and governance screening of relevant challenges and issues regarding a number of areas concerning the environment, occupational health and safety as well as human rights and corporate governance.

IFU has developed several tools for this process which are aligned to specific international standards and fully integrated into IFU contractual documents ensuring follow-up and leverage to secure compliance of the investment partner company.



The starting point is that project companies must comply with national legislation in the country in which they operate and that they have to work towards implementing relevant international standards. If gaps are identified in the screening process, a written action plan will be required describing the measures that need to be implemented within an agreed time frame. Moreover, when entering into an investment agreement, IFUrequires project companies to:

- Adopt a written sustainability policy
- Appoint a person with overall responsibility for sustainability
- Establish a system to ensure continuous improvements
- Promote sustainability to partners and suppliers
- Prepare an annual sustainability report

IFU has extensive experience in creating sustainable businesses and shares this knowledge with its partners on an ongoing basis. Moreover, IFU has launched a sustainability handbook, organises regional seminars on the subject and are able to provide economic support for training of local employees in handling sustainability issues

Checklist for appraisal of programmes and projects above DKK 10 million[1]

The checklist is signed by the appraising desk officer and management of the MFA unit and attached to the grant documents. Comments and reservations, if any, may be added below each issue.

File number/F2 reference: 2016-13097

Programme/Project name: SDG Investment Fund (under the Investment Fund for Developing Countries - IFU)

Programme/Project period: 2018 - 2031 (investment period 2018-2021)

Budget: DKK 100 (contribution to the SDG Fund) + DKK 200 million (general equity contribution to IFU approved earlier 2017)

Presentation of quality assurance process:
Appraisal/quality assurance of the investment fund proposal has been conducted by the Growth and Employment (VBE) department and the Technical Quality Support department (TQS) as an integrated part of the preparation process. This has been considered an appropriate QA process as the VBE department has adequate technical capacity within the scope of the project, including an in-depth knowledge of the implementing partner, IFU. TQS has assisted in a number of meetings with IFU during the QA process and held meetings with VBE desk officer for discussion of draft versions of the documentation. A number of key issues and concerns, among others related to the issue of social and environmental safeguards and responsible business conduct, have been addressed during this process.

During the preparation process IFU has been assisted by the Danish Institute for Human Rights in the development of indicators and application of human rights standards in the Fund. Key issues addressed during the appraisal process were among others related to IFU sustainability and additionality; fund set-up including institutional and management issues.

The appraisal process is documented through the completion of the below appraisal check-list by TQS. The appraisal process has concluded that the appropriation is ready for presentation to the Council for Development Policy without any further reservations.

☒ **The programme/project complies with Danida policies and Aid Management Guidelines.**

Comments: The SDG Fund addresses Denmark's strategy for development policy and humanitarian action, "the World 2030" at the general level in relation to inclusive and sustainable growth and development, including innovative finance, climate, and the promotion of partnerships

[1] This format may be used to document the quality assurance process of appropriations above DKK 10 million, where a full appraisal is not undertaken as endorsed by TQS (appropriation from DKK 10 up to 37 million), or the Programme Committee (appropriations above DKK 37).

with the private sector. The strategy emphasizes that Denmark will strengthen IFU as the central Danish development investment institution. IFU and the IFU-managed investment funds are regarded as key instruments in mobilising large-scale private funding, including from pension funds, foundations and businesses with a view to investing in sustainable growth, decent employment and technology transfer for addressing e.g. climate and environmental problems in difficult markets in developing countries.

Furthermore, the presentation of the Fund in the project document complies with Danida Aid Management guidelines.

☒ The programme/project addresses relevant challenges and provides adequate response.

Comments:
The SDG Fund is found to be an innovative instrument that will enable the mobilisation of substantial additional resources through a blended finance arrangement, thereby securing leverage of private capital that would otherwise not be available for the proposed type of investments in developing countries. This approach and the emphasis on contributing to achievement of the SDG's through investments with a strong focus on development additionality is found to be relevant as it contributes to the mobilisation of resources additional to traditional ODA which are needed for achieving the SDGs.
Through the contribution from IFU and funds from institutional and private investors it is expected – based on previous experiences - that an investment capacity of DKK 5-6 billion will be raised, which will mobilise additional private capital by an estimated factor 7, thus producing a total volume of investments of DKK 30 billion.

☒ Comments from the Danida Programme Committee have been addressed (if applicable).

Comments:
The PC noted that it is a challenging task to measure in particular the number of indirect jobs created, and that it is important to set realistic targets. The figures presented in relation to both direct and indirect jobs created are based on IFU's previous experience as well as other international data. On this background the figures are found to be realistic.

In addition to the listed quantitative indicators the PC requested for more qualitative indicators to be included, reflecting e.g. outcomes related to sustainable business conduct and other development related issues. The document has now included a more explicit explanation of how IFU works on the development of a range of indicators and how these will be monitored through the application of its 'Development Impact Model' (DIM). In addition to the specific indicators, IFU is pro-actively promoting the UN Guiding Principles on Business and Human Rights and the UN Global Compact as well as other international standards for responsible business conduct as reflected in the overall objective of the Fund.

With regard to the request from the PC for a clearer description of which of the SDG's the Fund would most likely be targeting, the Project Document has now highlighted these. However, it is at the same time recognised that the SDGs are interlinked and that the precise level of contributions to specific SDG's may prove difficult to ascertain. Furthermore, the composition of the investment portfolio will only be known at a later stage.

The issue of aiming at investing at least an amount equivalent to the Danish Governments contribution to the Fund in least developed countries including fragile states has been addressed and should monitored.

☒ **The programme/project outcome is found to be sustainable and is in line with the national development policies and/or in line with relevant thematic strategies.**

Comments: Based on the previous track record of IFU it is found that the sustainability of outcomes is assured. As indicated above, the outcomes are found to be in line with Danish thematic priorities as presented in "The World 2030". Moreover, the strong focus on sustainability and responsible business conduct would contribute to overall sustainability, which will among others be monitored through the newly established "Development Impact Model" (DIM) as well as through the Sustainability Advisory Board of IFU. With regard to national policies, IFU abides to national legislation in relation to its investments.

☒ **The results framework, indicators and monitoring framework of the programme/project provide an adequate basis for monitoring results and outcome.**

Comments: The results framework and its indicators are at the overall level found to be adequate. IFU has (as mentioned above) developed a comprehensive monitoring system, which follows a number of key quantitative indicators (number of jobs generated, capital mobilised, CO2 emission reduction, tax contribution etc.) as well as qualitative indicators, among others related to responsible business conduct. The methodology and standards for results measurement and monitoring build on internationally acknowledged and harmonised standards. IFU's existing monitoring system is currently being strengthened through the "Development Impact Model" (DIM), which will reinforce the monitoring of specific development related impacts.

In addition, IFU will monitor the contribution of the fund towards achieving the SDGs, through the application of SDG policy markers (along the approach for Rio-markers) which allows for each investment to indicate the degree to which it contributes to the SDGs (one principal or three significant).

In order to assess the achievement of results and outcomes of the SDG Fund it could be considered to undertake a number of case studies related to selected investments as a supplement to the general monitoring conducted by IFU.

☒ **The programme/project is found sound budget-wise.**

Comments: Based on previous experiences (among others from the IFU agriculture and climate funds the allocation of DKK 100 million for equity directly to the Fund and DKK 200 million for general equity contribution to IFU combined with state guaranteed debt financing seems to be fully justified in terms of providing the basis for leveraging external funding.

☒ **The programme/project is found realistic in its time-schedule.**

Comments: The investment period runs from 2018-21, after which there will be a gradual exit from the investments over a ten-year period. This is found to be a realistic time frame.

☒ **Other donors involved in the same programme/project have been consulted, and possible harmonised common procedures for funding and monitoring have been explored.**

Comments: IFU is a member of the network of European Development Finance Institutions (EDFI) where joint approaches for DFI's are discussed. Furthermore, IFU is supporting the "Harmonized Indicators for Private Sector Operations" (HIPSO) which is a joint impact measurement system initiated by major International Finance Institutions (IFI's). IFU is thus among the 25 International Finance Institutions (IFIs) that signed a memorandum to ease the reporting burden on shared private sector clients and facilitate learning from each other.

☒ **The Danida guidelines on contracts and tender procedures have been followed.**

Comments: No particular issues are raised regarding contracts and tender procedures.

☒ **The executing partner(s) is/are found to have the capacity to properly manage and report on the funds for the programme/project and lines of management responsibility are clear.**

Comments: The rationale for selecting IFU as the Fund manager is well justified. IFU has a long and solid track record for investments in developing countries and it has made progress in advancing the international sustainability agenda. IFU has solid investment cooperation experiences with Danish institutional investors, which are sufficiently robust for ensuring a satisfactory management and operation of the Fund. The organisational set-up of IFU is found to have the adequate capacities, also in the future expansion of the volume of activities. As raised by some of the external partners during the hearing process of the programme concept note, IFU may need to expand its in-house capacities in terms of staff with competencies within the area of responsible business conduct. This should be monitored by the Ministry of Foreign Affairs through its observer status on the IFU board as well as through the regular meetings between the MFA and IFU.

IFU has established a sustainability advisory board composed of external stakeholders within environment, human rights, development and company policies, which meets regularly to exchange with IFU on these issues.

☒ **Risks involved have been considered and risk management integrated in the programme/project document.**

Comments: Key risks presented are relevant and mitigating measures are found to be adequate.

☒ **In conclusion, the programme/project can be recommended for approval:** yes

- Issues related the HRBA/Gender have been considered adequately
- Issues related to Green Growth have been considered
- Environmental risks are addressed by adequate safeguards when relevant

Date and signature of desk officer:___28.06.2017__Hanne Carus, TQS________________
Date and signature of management:__16.08.2017__Morten Elkjær____________________