

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

Meeting in the Council for Development Policy 13 November 2019

Agenda item 3

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| 1. Overall purpose | For discussion and recommendation to the Minister |
| 2. Title: | Global Infrastructure Facility – Developing Climate Smart Infrastructure Projects |
| 3. Presentation for Programme Committee: | 10 October 2019 |

Global Infrastructure Facility – Developing Climate Smart Infrastructure Projects

Key results:

The contribution to the Global Infrastructure Facility (GIF), hosted by the World Bank, aims to deliver more than 200 activities mobilizing an estimated US\$130-US\$150 billion in infrastructure investments, including US\$80-100 billion financed by private sector investors.

Eligible investments will be Climate Smart projects that are low carbon-emitting, encourage energy and/or carbon efficiency in the provision of infrastructure services, and/or strengthen climate resilience. Priority will be given to Low Income and Lower Middle Income Countries and situations of Fragility, Conflict and Violence (FVC).

Justification for support:

- *Achieving the Sustainable Development Goals require annual investments in developing countries of around US\$2500 billion. Private capital is necessary to complement the US\$150 billion available in total official development assistance. While private capital is available, there is a shortage of investment projects where the risk-adjusted returns match the requirements of the investors.*
- *Denmark's strategy for development cooperation "The World 2030" highlights the importance of leveraging finance and investments through public-private partnerships*
- *The GIF will provide project preparation, appraisal, structuring and transaction support needed to bring well-structured infrastructure projects to market, as well as provide risk-mitigation instruments to address some of the main challenges in development of infrastructure projects, such counter-party risks for state-owned enterprises; foreign exchange risks for debt service; and refinancing risks following construction.*

Major risks and challenges:

- *Project development is a high-risk endeavour, and not all projects provided with preparation support will reach financial close. Some projects will fail to achieve financing for reasons not foreseen at the outset.*
- *The GIF is preparing to scale its operations by raising funds for Technical Advisory Services and Risk-mitigation Instruments. Denmark is preparing a contribution mainly to support the Risk-mitigation Instruments. Should the GIF do not secure sufficient funds for the Risk-mitigation Instruments, Denmark may reallocate its contribution to the Technical advisory Services.*

Strategic objectives:

Support for project development is still limited and far from systematic with funds fragmented across a large number of different facilities undertaking similar activities. By supporting and scaling the GIF, Denmark will contribute further consolidation of still limited but much needed project development support for climate smart investments in Low and Lower Middle Income Countries.

Justification for choice of partner:

According to an external Mid-Term Evaluation by Deloitte in 2018, the GIF differentiates itself from other project preparation facilities in scope and scale. GIF is unique in its use of cooperation with all Multilateral Development Banks. The GIF has a structural advantage in its scope and mandate to convene the fragmented market of project preparation facilities, as well as creating an environment that promotes and enables collaboration within and between the donor community and the private sector. With the new risk-mitigating financial instruments, the GIF will be better equipped to support project development all the way to the point where investors are ready to finance the project

Summary:

The Global Infrastructure Facility (GIF), hosted by the World Bank, aims to support development of infrastructure projects in developing countries that can attract financing from private investors. These projects will provide higher coverage, better quality services, lower cost and more climate smart infrastructure. The GIF will be able to support the development of infrastructure projects all the way from first concept to financial close, when construction of the project can begin, and ultimately the implementation of the business model. That is when the solar panels or the windmills finally begin to produce electricity and earn revenue for the project owners to repay their debts and make profit. Main donors considering contributions are Canada, Japan and the European Commission.

Budget:

Grant contribution to GIF	DKK 150.0 million
Total	DKK 150.0 million

File No.	2019-34375						
Country	Global – LICs/L-MICs						
Responsible Unit	BVB						
Sector	Infrastructure						
Partner	Global Infrastructure Facility						
<i>DKK mill.</i>	2019	2020	2021	2022	2023	Tot.	
Commitment	150					150	
Projected ann. disb.		150				150	
Duration	2020-2025						
Previous grants	0						
Finance Act code	§06.38.01.15.						
Head of unit	Ole Thonke						
Desk officer	Magnus Cedergren						
Financial officer	Marie Gro Svenstrup						

Relevant SDGs:

 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	

Project Document
Contribution to Global Infrastructure Facility
October 2019

Cover Page

Countries:	Focus on lower income and lower-middle income countries
Project title:	Global Infrastructure Facility/Developing Climate Smart Infrastructure Projects
Start-End-Date:	2020 – 2025 – pilot phase
Budget:	DKK 150 million – contribution to GIF
Oversight:	<p>The Global Infrastructure Facility (GIF), hosted by the World Bank, aims to support development of bankable infrastructure projects in developing countries in terms of higher coverage, better quality services, lower cost and more climate smart infrastructure. The GIF has developed a Downstream Financing Window (DFW) that will be complementary to its initial Upstream Transaction Advisory Window that was established in 2015. From project concept through to financial closing, the GIF thereby provides the design, appraisal, structuring, and risk-mitigation needed to bring bankable sustainable infrastructure programs and projects to market that attract private investment. The DFW will focus on addressing residual critical risk barriers that inhibit private sector financing of infrastructure investments.</p>
Main features:	<p>Although there are many different risk-mitigation instruments provided by different organizations in the market, there remain important risk mitigation gaps that hamper projects from accessing private finance. As such, the DFW aims to fill such gaps by making available patient, greater risk-taking capital, which will allow MDBs to avail risk mitigation products that would otherwise not be available. Based on a market assessment of existing instruments, the DFW will provide the following additional instruments:</p> <ul style="list-style-type: none">(1) a counterparty risk cover facility,(2) a foreign exchange liquidity facility, and(3) a contingent refinancing facility. <p>Initial capitalization of the DFW is targeted at US\$500 million. Like previously the Upstream Transaction Advisory Window, the DFW is proposed to have an initial pilot period of five years to prove concept with a mid-term review in the year three to assess the effectiveness of the facility and adjust its strategy accordingly. Main donors considering contributions are Canada, Japan and the European Commission.</p>

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Abbreviations

AC	Advisory Council (of the GIF)
ADB	Asian Development Bank
AfDB	African Development Bank
AIIB	Asian Infrastructure Investment Bank
AP	Advisory Partner (of the GIF)
CIP	Climate Investment Platform
CRCF	Counterparty Risk Cover Facility (of the GIF)
CRF	Contingent Refinancing Facility (of the GIF)
Danida	Danish International Development Assistance
DFI	Development Finance Institutions
DFW	Downstream Financing Window (of the GIF)
DKK	Danish Kroner
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EIB	European Investment Bank
FELF	Foreign Exchange Liquidity Facility (of the GIF)
FVC	Fragility, Conflict and Violence
GC	Governing Council (of the GIF)
GIF	Global Infrastructure Facility
IADB	Inter-American Development Bank
IFC	International Finance Corporate
IMF	International Monetary Fund
IsDB	Islamic Development Bank
LIC	Low Income Countries
L-MIC	Lower Middle Income Countries
MDB	Multilateral Development Bank
MFA	Ministry of Foreign Affairs of Denmark
MIC	Middle Income Countries
M&E	Monitoring and Evaluation
MU	Management Unit (of the GIF)
ODA	Official Development Assistance
PDA	Project Definition Activities
PPA	Power Purchase Agreement
PPF	Project Preparation Facilities
PPP	Public Private Partnership
PRA	Project Readiness Assessments
RFP	Request for Proposal
RFQ	Request for Quotation
SDG	Sustainable Development Goals
SOE	State-Owned Enterprises
TP	Technical Partners (of the GIF)
U-MIC	Upper middle Income Countries
UNDP	United Nations Development Programme
USD	United States Dollar
WB	World Bank

Currency	
1 USD	DKK 6.80
1 DKK	USD 0.15

1. Introduction

In 2015, the UN adopted the Addis Ababa Agenda for Action that underscores the importance of mobilizing additional private capital for investments to realize the SDGs. However, while the needs are clearly documented and substantial resources are available, there is still *a shortage of well-prepared projects where the balance of risks and returns is acceptable for private investors*.

This has been a well-known fact for many years, and donors and development finance institutions have established dedicated project preparation facilities to support early stage projects with funding and finance for feasibility studies, environmental impact assessments, legal services etc. to develop projects to the stage where banks and investors are willing to provide financing.

The Global Infrastructure Facility (GIF) was established in 2015 as a G20 initiative with US\$94 million in initial capital provided by Australia, Canada, China, Japan, Singapore, and the World Bank. The GIF is hosted at the World Bank in Washington, and it provides an open global platform that seeks to leverage the efforts of a wide range of institutions engaged in supporting infrastructure in developing countries with the participation of private infrastructure investors.

The Global Infrastructure Facility is also a strategic partner to the Climate Investment Platform, that is supported by Denmark and was announced during the Climate Summit of the Secretary General of the United Nations in September 2019¹.

The GIF provides project preparation, appraisal, structuring and transaction support needed to bring well-structured infrastructure projects to market (through an Upstream Transaction Advisory Window). While all these activities are necessary to develop a project, it will only be bankable when all involved financing institutions are ready to sign all agreements and contracts required to reach the financial close for the project. The definition of a bankable project is that a project is bankable only when the required financing is secured.

To reach financial close, the project needs to deliver an acceptable balance between risks and returns for the various financiers. In many cases, some residual risks are hard to overcome and therefore blocks the project from reaching financial close and the next crucial phase of the project, the construction phase.

With a new US\$500 million Downstream Financing Window, the GIF will provide a number of risk-mitigation instruments that will address specific bottlenecks in project development phase (rf. the below figure).

Upstream and Downstream in Project Lifecycle				
Project Development Phase		FINANCIAL CLOSE	Construction Phase	Operations Phase
Upstream (Early Stage) Market Assessment, Technical Feasibility, Social/Environmental Impact Assessments, Transaction Design	Downstream (Late Stage) Credit Enhancement, Risk-mitigation		Construction Management, Quality Assurance	Construction Completed, Implementation of business model
Low cost	Low cost		High cost	Medium cost
High risk	High risk		High risk	Low risk
Negative cash-flow	Negative cash-flow		Negative cash-flow	Positive cash-flow

¹ The Climate Investment Platform (CIP) is an inclusive partnership to facilitate integrated and streamlined services to developing countries and the private sector in order to promote accelerated, transformative and scaled-up low carbon climate investments and the realization of ambitious NDCs.

By integrating the existing Upstream and the new Downstream windows, the GIF is structuring a complementary facility that will be able to support the development of infrastructure projects all the way from first concept to financial close, when construction of the project can begin, and ultimately the implementation of the business model. That is when the solar panels or the windmills finally begin to produce electricity and earn revenue for the project owners to repay their debts and make profit.

2. Brief summary of issues to be addressed and institutional context

In order to increase private investment in sustainable infrastructure projects in developing countries, MFA has prepared support of DKK 150 million in 2019 to the Downstream Financing Window (DFW) of the Global Infrastructure Facility (GIF). Eligible projects will need to be Climate Smart, i.e. projects that are low carbon-emitting, encourage energy and/or carbon efficiency in the provision of infrastructure services, and/or strengthen climate resilience. Priority will be given to Low Income and Lower Middle Income Countries and situations of Fragility, Conflict and Violence (FVC), as FVCs are not necessarily in the poorest countries, like for example Lebanon and Jordan.

In anticipation of the end of its five-year pilot phase in 2020 when initial funding will have been depleted, the GIF launched a capital replenishment of its Upstream Transaction Advisory Window in October 2018 with the target of US\$200 million.

To complement its Upstream Transaction Advisory Window, the GIF has designed a new *Downstream Financing Window* (DFW), as was contemplated already at the GIF's inception in 2015. An initial financial plan to model the pilot stage of the DFW has been developed, based on the target of: (i) US\$ 500 million as the funding requirement, and (ii) supporting approximately 15 transactions during the 5-year pilot phase.

The GIF (Upstream & Downstream) aims to deliver more than 200 activities mobilizing an estimated US\$130-US\$150 billion in critical infrastructure investments, including US\$80-100 billion financed by private sector investors. Thereby the contribution to the GIF is well in line with the Denmark's strategy for development cooperation "The World 2030" that emphasises the importance of leveraging finance and investments through public-private partnerships. In addition to Denmark, Canada, Japan and the European Commission are expected to contribute to the new Downstream Financing Window of the GIF. Consultations with additional donors remain ongoing. The GIF expects that some contributions could be counted on for 2020 and some for 2021.

While the target capitalization for the DFW is US\$500 million, operations could be launched with a lesser amount or in phases based on various donor requirements, taking into account different budgetary cycles, and internal processes of different donors.

The DFW will provide supplementary risk capital and credit enhancement to developing country infrastructure. The DFW is not envisaged as a grant-making facility, but rather expects reflows from fees, interests and investment income in order to facilitate greater levels of private financing. Any repayments, interest payments or recovered funds received by DFW will be credited to the DFW Trust Fund to be used for new projects and expenses of DFW.

An in-depth market analysis across a wide range of existing instruments and providers, including MDBs and other development finance institutions along with the private sector has validated market demand for a niched risk mitigation facility. Although there are many different risk

mitigation instruments provided by different organizations in the market, *there remain important residual risk mitigation gaps* that hamper projects from accessing private finance.

The market analysis and following consultation concluded the following residual risks as essential impediments to infrastructure investments in developing countries:

- *counterparty credit risk* - such as state-owned enterprises (SOEs), is recognized as a major impediment to financing infrastructure projects
- *foreign exchange risks* - significant barrier, due to limited availability of long term local currency financing and mismatch between project revenues in local currency and debt service in foreign currency
- *refinancing risk* - difficulty of securing needed long dated debt financing due to regulatory constraints of financial institutions

The DFW aims to fill such gaps by making available patient, greater risk-taking capital, which will allow MDBs (accredited as Technical Partners of the GIF) to avail risk mitigation products that would otherwise not be available. The DFW instruments are designed to address these specific risks that are not otherwise covered but for which risk mitigation is needed to mobilize greater levels of private capital into developing countries. To that end, the GIF is launching the following three instruments through the DFW (for a more detailed description of the different instruments, see Annex 7):

- *Counterparty Risk Cover Facility (US\$ 150 million)* aims to help mitigate the payment risk of less-creditworthy state-owned enterprises (SOEs, e.g. utilities and off-takers), by providing risk coverage (such as guarantee) through Technical Partners (MDBs accredited by the GIF) for such SOEs without requiring a counter-guarantee from the government. Many developing countries provide infrastructure services to the public through SOEs. However these SOEs often do not have sufficient credit strength to serve as credible counterparties in a project financing. The CRCF may be used where the government has undertaken appropriate reforms with respect to tariffs or has taken other steps to improve the credit of the SOE, but where the market is not yet confident in the outcome of these reforms.
- *Foreign Exchange Liquidity Facility (US\$ 150 million)* aims to help manage the foreign exchange risk arising from the currency mismatch between project revenues based on local inflation indexed Power Purchase Agreements (PPAs) and hard currency debt service, through a standby liquidity (credit) facility. The US\$ denominated facility may be drawn upon shortfalls in project revenues due to depreciation of the host country's currency, which is sufficiently severe to cause a debt service default. Any amount drawn from the facility will be converted to a subordinated (junior) loan to the project, which, together with the interests thereon, are to be repaid to the DFW, before the equity owners but after senior lenders. Risk coverage may be provided by a credit line from a commercial bank that is guaranteed by the Technical Partner, which in turn is backed by a first loss guarantee commitment by the DFW.
- *Contingent Refinancing Facility (US\$ 200 million)* aims to help address the challenge of raising long-term commercial debt for infrastructure projects in developing countries. By providing a conditional refinancing option for short-term construction loans, the borrower may cover the early phase of the development without a strict repayment schedule. A typical tenor for this type of loan is 2-5 years where the balance of the loan will accumulate interest to be repaid at the end of the term. Once the project has displayed a track-record with an operating history, traditional banks will be more likely to come on board.

With the strong synergies between the GIF Upstream Window, the DFW shares the objective of GIF, as stated in the GIF Partnership Framework, for the GIF Upstream Window, to *increase private investment, in particular long-term finance, in developing country infrastructure projects*. GIF-supported infrastructure projects are expected to provide expanded and better infrastructure services – in terms of higher coverage of services, better quality services, lower cost, and/or more climate smart modes of service provisions. This will contribute to GIF’s overarching goals of poverty reduction and inclusive and sustainable growth in developing countries.

The DFW will also follow the core principles of GIF: (a) providing public goods; (b) mobilizing the private sector; (c) achieving value for money; (d) promoting sustainability and inclusiveness; (e) collaboration; and (f) achieving additionality.

3. Strategic considerations and justification

3.1 Relevance

The support to the GIF is in line with the strategic guidelines for Danish development cooperation which highlights the importance of leveraging finance and investments through public-private partnerships. Further, the strategy states that Denmark will catalyze partnerships between various public and private partners with a view to coupling the best knowledge, the most innovative ideas and financing and contributing to developing markets and promoting market-driven sustainable growth and employment. In partnerships, public and private resources such as knowledge and capital can obtain a greater effect than if they stand alone.

Although not financed by the Climate Envelope, the GIF is well aligned with these objectives by

- supporting development of financial incentive mechanisms
- promoting and financing incremental costs of investments in climate resilient infrastructure and mitigation technology deployment to encourage scale up
- improving access to finance through innovative market and risk mechanism
- developing effective and credible international financing frameworks

Leverage of private finance and innovation are seen as important objectives of the Climate Envelope where a willingness to take risks guides the prioritization of interventions in order to

- mitigate risks and create incentives for private actors to make climate relevant investments
- test and promote new instruments and practices generating valuable lessons learned
- supporting the development and maturation of climate projects in order to boost the global pipeline of finance-ready climate projects
- address gaps in the existing financial flows towards investment in climate activities.

According to an external Mid-Term Evaluation by Deloitte in 2018, GIF differentiates itself from other Project Preparation Facilities (PPFs) in scope and scale, with close to US\$100 million to support project support activities in developing countries globally, and deploying activities in countries ranging from low to upper-middle income. GIF is unique in its use of multiple Technical Partners (the MDBs) and support by technical staff, seeking to leverage and bring together the capabilities and resources of the entire ecosystem of MDBs. GIF is furthermore unique in its engagement of the private sector, explicitly leveraging its Advisory Partners in the design of its knowledge and project support activities.

These unique and defining characteristics underline the GIF’s structural advantages in its scope and mandate to convene the fragmented market of PPFs, as well as creating an environment that promotes and enables collaboration within and between the donor community and the private sector. The GIF also offers a blend of grant and reimbursable project support, with the reimbursement designed primarily to ensure government buy-in to projects and secondarily to

contribute partially to the sustainability of GIF. Finally, GIF's agile internal processes and technically proficient staff ensure a comparatively efficient timeline to mobilize project support funding and resources.

3.2 *Effectiveness*

The Mid-Term Evaluation provided an endorsement of the GIF's strategic relevance and operating model and despite the GIF's relatively short operational history compared to the extended incubation and maturation period necessary for rigorous infrastructure project preparation and delivery, the GIF has produced inspiring results.

Fundamentally, the GIF model is strategically relevant and it has managed to differentiate itself from other MDB PPFs. The GIF provides project funding and technical assistance to governments and projects in need by using the technical expertise of MDBs combined with input of the private sector to increase the pipeline of bankable projects. The GIF requires that all activities are implemented in accordance with the policies and procedures of its MDB Technical Partners (TP), including in respect of their social and environmental safeguards.

Formal partnerships with the substantive breadth and depth of both Technical Partners and private sector is the true differentiating value of GIF, and will be key to coordinating the fragmented ecosystem of donor and investor efforts. To this end, the GIF is a strategic partner to the UN-led Climate Investment Platform.

GIF has made significant progress since inception toward achieving targets with respect to deployment of project support activities. While taking longer than initially expected to be established and operationalized, the GIF's ramp-up period of approximately 12-18 months is in line with other World Bank trust fund initiatives. Within this time, GIF has established an appropriate governance structure, designed agile and efficient processes codified within its operational policies, recruited and built a highly skilled and responsive Management Unit (MU), and established relationships with Technical Partners and Advisory Partners (AP). The network of Advisory Partners has grown considerably, reflecting private sector interest for a Facility such as the GIF.

3.3 *Efficiency*

Moving forward, GIF will need to reconcile four key elements of its operating model to continue to meet, and scale, the portfolio and activity targets. These include (1) effective utilization of all of its Technical Partners; (2) staffing the GIF MU with sufficient resources given the multitude, complexity, and growth of project activities; (3) mobilization of subsequent funding in order to continue past the pilot period and support the Facility's long-term objectives; and (4) improved application of a results-based management approach.

3.4 *Impact*

As of August 2019, the GIF boasts a portfolio comprising 73 project-support activities, which are expected to mobilise US\$67 billion in total investment, including US\$45 billion in private investment.

GIF Results (as of August 31, 2019)



In its post-pilot period (FY2021-FY2027), the GIF aims to deliver more than 200 activities mobilizing an estimated US\$130-US\$150 billion in total investments, including US\$80-100 billion in private sector infrastructure investments.

3.5 Sustainability

a) Financial sustainability

Pricing of DFW instruments would be determined on a project-by-project basis, taking into consideration relevant factors, such as risks, project economics, commercial and financial terms and development impact. GIF MU will develop a pricing framework to guide the determination of pricing of DFW instruments. Generally, even where the fee charged by the Technical Partner is on a commercially-priced basis (e.g. IFC/MIGA), the DFW would offer less than their charge in order to ensure that the total financing cost would be acceptable to users and host governments. In all cases, the project will pay commitment fees and other charges to the DFW through the relevant Technical Partner through which DFW instruments are made available to projects.

b) Sustainable development

Resiliency in infrastructure planning and design is critical to mitigate the impacts of climate-related events such as flooding, sea level rise, and more frequent and severe extreme weather events. In addition to maintaining its “climate smart” eligibility requirement, GIF will integrate best and emerging practices to mainstream climate considerations into project preparation activities to minimize carbon contribution and to maximize climate resiliency of investments.

Infrastructure is recognized as both a key engine of economic growth and impactful to equitable growth. GIF will broaden its approach to equitable growth by incorporating considerations related to gender, low-income populations and other excluded groups across the infrastructure life cycle, including design, structuring, safeguarding, procurement and monitoring and evaluation to enhance equality of opportunity and benefits of infrastructure provision.

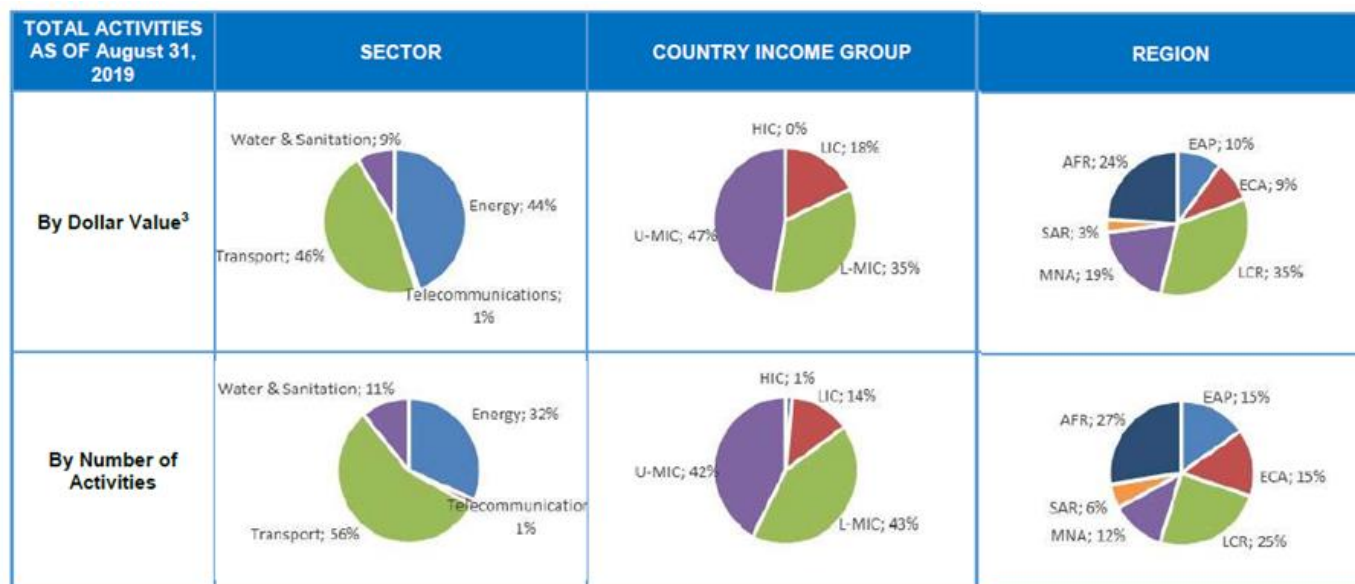
As the world’s population continues to urbanize, including across developing countries, national and local governments increasingly face challenges in meeting the needs of growing urban populations. In recognition of the link among sustainable urban living, reduced climate impact, improved welfare conditions, and economic and social outcomes, which highlights the need for more sustainable urban planning and the provision of public services, GIF will support urbanization/cities agendas to expand alignment with TP country program delivery.

GIF will expand work with sub-nationals and seek to incorporate social infrastructure in sector eligibility to better support holistic planning and design activities to maximize smooth transition to urbanization through effective transportation systems, reliable and low-carbon energy, safe and secure water networks, and efficient and scalable social infrastructure.

Weaker economic, financial and business environments with lesser adherence to rule of law raise real and/or perceived investment risks for the private sector, which is compounded by fragility and conflict. GIF will intensify efforts with LICs, L-MICs, and FCVs, which face disproportionately greater constraints in infrastructure planning, design, financial structuring and attracting private investment.

3.6 Focusing on Low/Lower Middle Income Countries and Climate Smart Investments

The GIF maintains a diversified portfolio of activities that are well-aligned with the various diversity targets provided for in the GIF's governing framework, including sub-sector diversity, regional diversity, and concentrations by country income grouping and fragile, conflict and vulnerable countries. This is illustrated in the figure below.



Denmark's contribution will have an agreed preference for investments in Low/Lower Middle Income Countries. The GIF will accommodate these preferences with the proposed expanded focus on low-carbon, climate-resilient infrastructure under the post-pilot strategy coupled with portfolio diversity requirements, which currently stipulate that a minimum of 50% of GIF activities to be in LICs/L-MICs, of which a minimum of 20% of activities should be in LICs

The current thinking of the GIF MU is to propose to DFW donors that DFW eligibility criteria include that all projects should meet climate-smart criteria to apply for GIF support. This should be strongly supported by Denmark. GIF will integrate best and emerging practices to mainstream climate considerations into project preparation activities to minimize carbon contribution and to maximize climate resiliency.

3.7 Consolidation of Project Preparation

Over the past two decades, the number of PPFs operating across the world has significantly increased, with many either housed in, or supported by, MDBs. While progress has been made towards bridging the infrastructure investment gap, there is still a long road ahead to meeting the goal of creating a robust pipeline of projects conducive for private sector participation on a transformative scale. The effectiveness and long-term impact of PPFs have been impeded by a number of factors including:

- Weak institutional frameworks, low levels of capacity, and low commitment to seeing the projects through to close by partner governments;
- Regional focus, limited collaboration and sharing of best practices, and/or lack of standardized project preparation process and quality;
- Limited to no recovery of funding distributions, while relying on one-off contributions from donors;
- Limited use of private sector expertise during project development; and

- Bureaucratic and lengthy processes of MDBs within which many PPFs are housed, affecting timely project delivery.

It is also important to characterize the efforts of the donor community as well intentioned yet uncoordinated, resulting in a fragmented market with an excessive number of these facilities all of which have been mandated with the same or similar objectives and are not incentivized to coordinate nor work together.

Support for project development is still limited and far from systematic with funds fragmented across a large number of different facilities undertaking similar activities. Funding for project preparation should be rationalized as well as increased. Donors should be encouraged to coordinate and consolidate current facilities and other means of providing financial support where this is appropriate. The objective of these changes would be to allow scale and quality of project preparation.

The GIF was founded and built to address some of these challenges in the PPF ecosystem. According to the Mid-Term Evaluation, the GIF differentiates itself from other PPFs in scope and scale, having close to US\$100 million to support project support activities in developing countries globally, and deploying activities in countries ranging from low to upper-middle income. By supporting and scaling the GIF, a strategic partner to the Climate Investment Platform, Denmark will contribute further consolidation of still limited but much needed project development support for climate smart investments in LICs/L-MICs.

3.8 *Early Catalytic Contribution*

A contribution from Denmark to the GIF Trust Fund for the Downstream Financing Window is expected to be relatively limited in size. The target size for the DFW Trust Fund is US\$500 million. According to the GIF, the fund will operational when approximately 50% of the target has been reached, i.e. around US\$250 million. A contribution from Denmark of DKK 150 million, approx. US\$22 million, would amount to close to 10% of the first close. By being an early contributor to the fund, the Danish contribution may be catalytic by encouraging other donors follow on. Japan, Canada and the European Commission have expressed interest in contributing to the GIF and the DFW.

1. **Theory of change and key assumptions**

The following constitutes a theory of change for how risk mitigation through the GIF will contribute to the ultimate goals of poverty reduction and inclusive and sustainable growth via development of bankable projects, mobilization of additional private capital and investments in critical infrastructure.



Substantial investments in infrastructure are needed in developing countries to achieve the SDGs, including job creation, sustainable growth and poverty reduction. Domestic public resources in developing countries are insufficient as well as available ODA. It is unlikely these resources will increase to cover the financing requirements. Private capital, domestic and international, is required to reduce the financing gap for increased infrastructure investments.

Given the enduring low-interest rate environment in OECD countries, private investors are increasingly looking for investment opportunities in developing countries. However, there is a shortage of ‘bankable’ infrastructure projects with acceptable risk-return balances ready for investments in the market.

Large infrastructure projects have extensive development periods and often require the completion of complex feasibility studies and expert transaction advice. Project development does not equate only to feasibility studies but encompasses a myriad of milestones (including pre-feasibility, feasibility, recruitment of project advisors, tendering process, contractual agreements, project commercial structuring, and equity/debt raising) that incrementally add to the bankability of a transaction and that finally bring a project to financial close.

The private sector has largely been cautious about getting involved during the critical early stages of project development due to high initial risks. This hesitancy highlights a paradox within infrastructure financing: while there is plenty of private sector interest in financing bankable projects, the available resources for project preparation are insufficient to advance the projects to a bankable state. Thus, the pipeline of bankable projects is meagre, and investment opportunities are limited.

Donor and DFIs have stepped in to fill this gap by making additional resources available for project development. By complementing technical advisory services with financial risk mitigation instruments (DFW), the GIF will be able to manage residual risks in project financing structures that are required to bring the projects to financial close and ready for implementation.

2. Project objective and summary of results frame

2.1 Primary Objective

The primary objective of the GIF is to “*increase private investment, particularly long-term finance, in complex infrastructure projects,*” and GIF activities are intended to contribute to the ultimate goals of poverty reduction and inclusive and sustainable growth via improved infrastructure in developing countries. The GIF will pursue this objective by supporting governments in bringing high-quality infrastructure projects to market that have been structured with a view to enable the participation of a large number of private-sector investors. The DFW also has a related, longer-term objective of *expanding the market for private infrastructure finance in developing countries* by helping to increase the number of structurally sound and bankable projects seeking finance and broadening the range of private investors that are willing to risk their capital in those projects. In addition to maintaining its “climate smart” eligibility requirement, GIF will integrate best and emerging practices to mainstream climate considerations into project preparation activities to minimize carbon contribution and to maximize climate resiliency of infrastructure investments.

2.2 Results Framework

The GIF has a well-developed Results Framework establishing the logical framework with indicators, targets and baselines for the activities of GIF (see Annex 3.). The results framework details the definition and measurement of the GIFs results with action, objective and goals translated into outputs, objectives and impacts.

The result framework is undergoing revision to incorporate the DFW into the overall results framework. The intention is to receive DFW donors/Governing Council approval in April 2020 with the launch of the DFW by July 1, 2020. To that end, the GIF will consult also with the Technical Partners (MDBs) to ensure alignment with their own corporate results frameworks. In that regard, the GIF's activities are based on a logical framework that links activities to specified objectives and ultimate goals as summarized below, and the result framework will be prepared on that basis. The logical framework will inform the measurement of DFW results in terms of outputs, outcomes and impacts.

Quantitative indicators provide hard evidence of progress, and enable aggregation of results measures. Qualitative descriptions of progress and results achieved through Activity Progress and Completion Reports will complement quantitative indicators. These reports will capture the quality of the GIF's project selection and preparation efforts, and track the effectiveness of those efforts through to project outcomes—including measures taken to ensure implementation of appropriate environmental and social standards such that the GIF-supported projects contribute to the facility's inclusiveness and sustainability goals.

Results Framework for the GIFs Upstream and Downstream Windows		
Outputs	Outcomes	Impact
<ol style="list-style-type: none"> 1. Collaboration platform created 2. Project preparation supported 3. Project bankability supported 	<ol style="list-style-type: none"> 1. Private investment mobilized, particularly long-term financing in complex infrastructure projects 2. Over the longer term, expanded market for private infrastructure finance 	<ol style="list-style-type: none"> 1. Infrastructure services improved, meaning <ul style="list-style-type: none"> • higher coverage • better quality • lower cost • more climate smart service provision 2. Inclusive and sustainable growth achieved. Poverty reduced

2.3 Outputs

The primary output under GIF's DFW is *Output 3. Project bankability supported*. This output is comprised of the various financial investment products that DFW will offer. In addition to collaboration platform created and project preparation supported, this output will directly contribute to the achievement of Outcome 1. Private Investment Mobilized. A number of transaction specific indicators will measure progress for this output.

2.4 Outcomes

Outcome 1. Private Investment Mobilized may be measured through the following primary indicators:

- (i) number of DFW-supported infrastructure projects that reach financial close,
- (ii) total investment (debt and equity) in DFW-supported projects,
- (iii) amount of private financing (debt and equity) mobilized by DFW-supported projects,
- (iv) number of long-term private investors or financiers financing DFW-supported projects, and
- (v) amount of financing mobilized from long-term private investors or financiers in DFW-supported projects.

2.5 Impact

Impacts of DFW include *Impact 1: Infrastructure Services Improved*, and *Impact 2: Poverty reduction, inclusive and sustainable growth*. Improvements to infrastructure services made by DFW-supported projects (Impact 1) will be measured by a combination of standard and non-standard indicators.

With respect to Impact 2, the DFW is not structured to monitor a long-term basis the extent to which DFW-supported projects contribute to its ultimate development goals. Instead, it will rely primarily on existing evidence and literature to support the link set out in the logical framework between improved infrastructure and these development impacts. This position is supported by tracking the effectiveness of the DFW's project selection in ensuring the inclusiveness and sustainability of the resulting infrastructure.

3. Inputs/budget

Prospective anchor donors for the DFW have been identified and consultations with additional donors remain ongoing. The GIF expects that some contributions could be counted on for 2020 and some for 2021, as another donor is working towards a possible contribution in CY2021 based on their budgetary cycle. The GIF is expecting contributions from the European Commission, Japan and Canada.

Target capitalization for the DFW is US\$500 million although operations could be launched with a lesser amount or in phases based on donor needs, taking into account different budgetary cycles, and internal processes of different donors interested in the DFW. A first close of the DFW is expected at US\$200-250 million (time and volume yet to be decided), when the fund will become operational.

The overall budget of the Danish commitment to the DFW is set to DKK 150 million as indicated below:

	DKK million	USD million
Denmark MFA Grant Contribution to the GIF	150	22
Target for capitalization of DFW		500

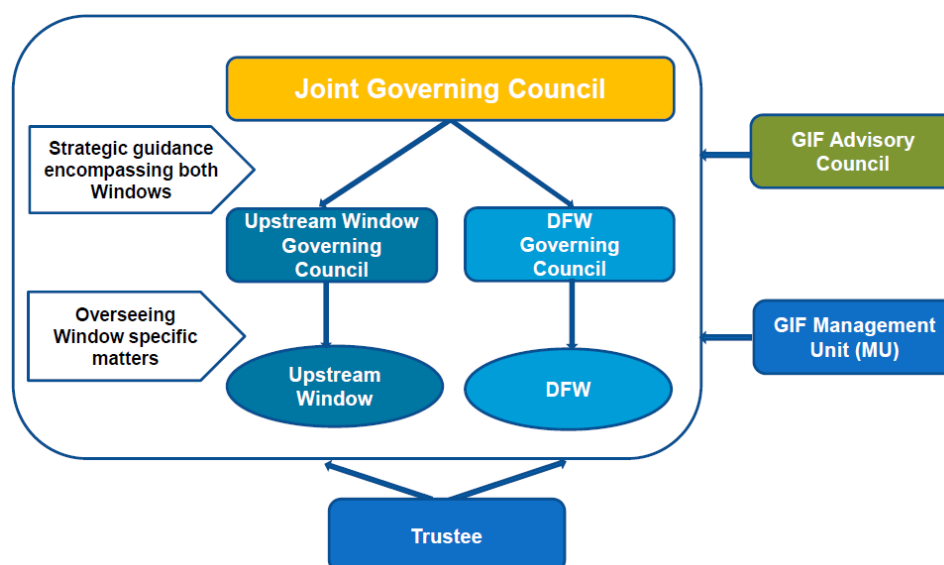
It is envisaged that the main part of Danish contribution will be allocated to the Downstream Financing Window, and the remaining part to the Upstream Technical Advisory Window. Should the DFW not reach the first close in time (yet to be decided) for the fund to begin operations, then the Danish contribution may be reallocated to the Upstream window. A detailed overview of the financial details for the DFW is provided in Annex 4.

4. Institutional and Management arrangement

The GIF activities are overseen by a Governing Council (GIF GC), consisting of representatives of donors (with a minimum contribution of US\$10 million), beneficiary countries and Technical Partners. The World Bank serves as a Management Unit (GIF MU), which provides secretariat services and technical support for day-to-day operations of the GIF. The World Bank also serves as Trustee of GIF Trust Fund. An Advisory Council (GIF AC), which is participated by donors, Technical Partners, beneficiary countries, private sector partners and development finance partners on a voluntary basis has been established.

Current funding for the Upstream Window comes from Australia, Canada, Japan, China and Singapore as well as from GIF Technical Partners, currently, World Bank, International Finance Corporation (IFC), Asian Development Bank (ADB), African Development Bank (AfDB), European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB), and Inter-American Development Bank (IADB).

The governance arrangements of the DFW will largely follow that of the Upstream Window. The DFW will be governed by the DFW Governing Council, which will provide strategic guidance and approve work plans and allocations of funds for projects under the DFW.



The DFW Governing Council will consist of up to eight representatives of the donors to the DFW as voting members. The DFW GC will be co-chaired by the World Bank. Up to four Technical Partners and four Beneficiary Countries will have observer status. In addition to the DFW Governing Council, and in order to maintain the synergies between the Upstream Window and the DFW at the strategic level, there will be a Joint Governing Council, which will include representatives of the donors to the Upstream Window and those to the DFW. Denmark (UM/BVB) is prepared to take a seat in the DFW GC, which will convene twice a year with at least one in-person meeting.

Key strategic issues for Denmark to pursue in the DFW Governing Council will be to:

- promote an increasing DFW focus on low and lower middle income countries, as well as situations of fragility, conflict and violence
- promote an increasing DFW focus on climate smart investments
- promote DFW contribution to innovation of risk-mitigation instruments among its Technical Partners
- promote inclusion of other entities (DFIs) to be eligible to join the DFW as Technical Partners
- promote Danish investors to engage in the Advisory Council

The GIF Management Unit within the World Bank will provide secretariat and technical support for day-to-day operations of the DFW. Further, the DFW will benefit from the GIF collaboration platform, including the GIF Advisory Council.

With respect to a trust fund structure to receive financial contributions to the DFW, it is proposed that the DFW will be established either as a separate trust fund administered by the World Bank as Trustee or as a separate window within the GIF Trust Fund already established for the GIF Upstream Window. It will be decided based on the final design of the DFW in consultation with the Trustee. The DFW will seek financial contributions from sovereign entities and other types of contributors acceptable to the World Bank. Donors to the DFW Trust Fund

will enter into a contribution agreement with the Trustee and make payments as set out in the contribution agreement.

The Trustee will enter into financial procedure agreements with Technical Partners, which set out, among others, the procedures for transfer of funds to and from Technical Partners. Funds transferred by the Trustee to Technical Partners are expected to be used and administered in accordance with their applicable policies and procedures, including procurement, financial management, disbursement and safeguards (environmental and social) policies, framework to prevent and combat fraud and corruption.

5. Financial Management, planning and reporting

The GIF MU will play a critical role in the selection of projects and the portfolio management. Similar to the Upstream Window, the DFW is expected to be staffed with experienced technical staff. The GIF MU is expected to be responsible for business development and origination together with Technical Partners, project selection and recommendation to the Governing Council, monitoring and facilitating deal structuring and closing with the Technical Partners and the borrowers.

Risk and portfolio management will be central to promote financial sustainability of the DFW by minimizing credit losses. As part of portfolio management, the DFW will put in place a robust risk and portfolio management methodology to monitor its portfolio. The GIF MU will monitor the portfolio based on reports provided by Technical Partners or projects, and based on the reported progress and results, the DFW may adjust its allocation or pricing strategy for future projects.

The Governing Council will meet twice a year with at least one meeting being an in-person meeting. The Management Unit will prepare progress reports for the Governing Council's review every six months.

The Results Framework of the GIF provides a plan for on-going assessment and evaluation of the facility. Independent evaluators will be commissioned by the GIF to conduct Facility Assessments: first toward the end of the Pilot Phase (2.5 years), and every 5 years thereafter, if extended. The purpose of these assessments will be to (i) review the effectiveness of GIF to date, including project and facility results, strategic relevance, and efficiency; and (ii) extract lessons learnt to allow for any necessary course correction.

In Facility Assessments, the following additional criteria will be introduced:

- Effectiveness in achieving outcome 1: A comprehensive assessment of the GIF's effectiveness in achieving its primary outcome of mobilization of private investment, based on results achieved for primary indicators compared to time bound targets; results achieved for other quantitative indicators; and qualitative reporting. Achievement of output 2, project level support, will be also reviewed in this context;
- Effectiveness in achieving outcome 2: An assessment of progress and the GIF's contribution towards an expansion in the market for private investment in developing country infrastructure, following a methodology to be established by the independent evaluator. Given the complexity of this type of analysis, it is not expected that this component will be measured in every facility assessment;
- Project relevance: Once GIF-supported projects reach operational maturity, a Facility Assessment should also validate the project selection criteria related to development impact, private capital mobilization, and thematic focus, against actual results; and
- Efficiency: How the cost of the GIF operation compares to the realized outcome.

- Impact: Changes in the infrastructure service provision emanating from the GIF-supported transactions.

6. Risk Management

6.1 *Project Failures*

In selecting the proposed projects for recommendation to the Governing Council, the GIF MU is expected to review quality elements of the projects. This will cover economic efficiency over the project lifecycle, resilience against natural disasters and other risks such as environmental and social considerations. This includes safety and women's economic empowerment, infrastructure governance, transparency, local economic and social contribution, commercial viability, transparency and sustainability of public finances for the host government.

Project development is still by definition a high-risk endeavour, and not all projects provided with preparation support will reach financial close. Some projects fail to achieve bankability for reasons that could not have been foreseen at the outset but are revealed by progressively deeper analyses undertaken during the preparation process. Rejected projects may also indicate a need to improve the PPF's operations or a need for stricter acceptance policies. All instances of accepted projects failing to reach bankability should be viewed as learning opportunities and used to update collective understanding of the market and PPFs' target rate for projects to proceed through to financing.

The GIF is a global collaboration platform that integrates a wide range of partners – donors, development finance institutions, partner governments, and infrastructure-related initiatives and associations together with input and ideas of private sector investors and lenders – leveraging both resources and knowledge to find solutions to complex infrastructure financing challenges that no single institution can achieve alone.

6.2 *Limited Funding*

Following its pilot phase, the GIF is preparing to scale its operations by raising funds for the Upstream Transaction Advisory Window in the range of US\$200 million and US\$500 million for the DFW. Prospective anchor donors for the DFW have been identified and consultations with additional donors remain ongoing. The GIF expects that some contributions could be counted on for 2020 and some for 2021, as another donor is working towards a possible contribution in CY2021 based on their budgetary cycle.

Denmark's contribution will be conditional on the GIF reaching a threshold of funds committed to the DFW yet to be decided. A reasonable threshold could be around US\$250 million, as the fund needs to reach some scale to be cost-efficient. If the threshold is not reached before a date yet to be decided, the contribution from Denmark would be reallocated to the Upstream Technical Advisory Window.

6.3 *Capacity Constraints*

The GIF Management Unit team are highly professional and experienced infrastructure specialists with expertise across sectors and geographies. At the same time, the people within the GIF MU are the Facility's scarcest resource. The GIF MU team is currently operating near full capacity, which may challenge their ability to scale the Facility's stated growth goals and outputs.

The GIF's upstream window is currently staffed by a team of approximately twenty professionals across senior and junior positions, including internal consultants, with administrative support under the GIF Head. The team is expected to expand in the Post-Pilot phase given the growing pipeline of prospective projects for GIF support. The GIF's Governing Council approves

staffing plans presented in a strategy and annual work plan on an annual basis, as part of the internal governance framework.

So far, the design and development of the DFW has been performed with existing GIF staffing. Since GIF staffing at the outset was designed with the DFW in mind, current GIF staff has applicable technical expertise to manage the DFW. However, in order to further expand a detailed staffing plans for the DFW would be presented to the Governing Council.

7. Exit strategy

The DFW is proposed to have the initial pilot period of five years. The DFW has developed an initial financial plan to model the pilot stage of the facility, based on the DFW's target of: (i) US\$500 million as the funding requirement, and (ii) supporting approximately 15 transactions during the 5-year pilot phase. By the end of the pilot stage, the initial financial plan estimates that the DFW exposure will reach its total capital contribution of US\$500 million (plus revenues from the facility) and will need to reduce the number of new annual transactions without increasing leverage or its capital. This is due to the need for long-term tenors in infrastructure financing, which will tie up the capital in the DFW.

Subject to satisfactory mid-term evaluation of the DFW, the GIF MU will work with the DFW Governing Council and other concerned parties to increase the leverage of the facility or attract new capital. This will allow the DFW to continue operations for the next 10-15 years. The GIF DFW will monitor the financial and operational status of the GIF DFW in order to decide whether and when to begin this process.

Should a satisfactory mid-term evaluation suggest continued operations of the DFW after the pilot phase, Denmark would have the following options:

- continue and/or extend the support to the DFW
- waive the rights of its share of the remaining balance and roll over such funds to the post-pilot phase
- re-allocate its share of the remaining balance to the Upstream Technical Advisory Window
- receive the pro-rata share of the remaining balance of the Trust Fund

The exit strategy is based on the assumption that the DFW will be successful and continue its operation. Denmark has then supported the creation of a new innovative facility for bridging project development and construction of climate smart and sustainable infrastructure investments in low and lower middle income countries. It is further assumed the facility will be able to continue its operations without active support from Denmark. It is therefore suggested that Denmark will contribute its share of the remaining balance to the DFW and waive its rights to those funds.

Should it be decided that the DFW be closed, it is proposed that Denmark's share of the remaining balance for the DFW is reallocated to the Upstream Technical Advisory Window. Only that such option is not feasible or reasonable at that point, should the remaining balance be returned to Denmark.

Annexes

Annex 1: Context analysis

1. Overall development challenges, opportunities and risks

Briefly summarise the key conclusions from the analyses consulted and their implications for the programme regarding each of the following points:

The 2015 vision for “billions to trillions” rested on the assumption that an abundance of commercially viable SDG-related investments was ready and waiting for profitable private investment. The job of development finance institutions (DFIs) was to clear away the market failures that stand between the projects and private investors. Reality looks very different. Finding “bankable” or “investable” projects is hard, particularly in low-income countries.

In order to unlock funding for infrastructure projects, financing institutions are looking for projects whose inherent risks have been mitigated. Project risks need to be allocated fairly, with the private sector covering most financial, technical, construction, and operational risks, and governments handling regulatory, foreign exchange, and political risks.

This requires project preparation. The nature of project preparation is that there is a binary outcome; either a project is bankable at the end of the project preparation or the project is not bankable. Therefore, the risk is binary and the general outcome is that one in every three projects reach financial close. Due to the risky nature of project preparation, investors tend to shy away from early stage investments.

DFI intermediation and mobilization are not working at scale because there is a piece missing in the financial architecture. The missing actors are investors that target investments at scale with sub-market risk-adjusted returns and high development impact. This gap in financial actors translates to persistent gaps in capital markets that neither DFIs nor private investors typically fill:

- Early stage finance for high-development-impact infrastructure.
- The highest risk (top of the capital stack) project tranches.
- Local currency products and services.

List the key documentation and sources used for the analysis:

- ODI, Clean energy Project Preparation Facilities, Mapping the Global Landscape (2018)
- NIRAS, Where are the Projects? Approaches and instruments to scale up the development of bankable investment projects, Report to Danida (2018)
- Deloitte, Mid-Term Evaluation, Global Infrastructure Facility (2018)
- Global Infrastructure Facility, Proposed Downstream Financing Window (2019)
- Global Infrastructure Facility, GIF Post-Pilot Strategy Discussion (2018)
- Global Infrastructure Facility, GIF Post-Pilot Strategy: Initial Proposal for Donor Consultation (2018)
- GIF Results Framework Progress Report (2018)

Are additional studies / analytic work needed? How and when will it be done?

-

2. Fragility, conflict, migration and resilience

Briefly summarise the key conclusions and implications for the programme of the analysis of the below points:

- Weaker economic, financial and business environments with lesser adherence to rule of law raise real and/or perceived investment risks for the private sector, which is compounded by fragility and conflict. GIF will intensify efforts with LICs, L-MICs, and FCVs, which face disproportionately greater constraints in infrastructure planning, design, financial structuring and attracting private investment.
-

List the key documentation and sources used for the analysis:

- Global Infrastructure Facility, GIF Post-Pilot Strategy: Initial Proposal for Donor Consultation (2018)

Are additional studies / analytic work needed? How and when will it be done?

-

3. Assessment of human rights situation (HRBA) and gender²

Briefly summarise the key conclusions and implications for the programme of the analysis of the below points:

Human Right Standards (international, regional and national legislation)

- The GIF requires that all activities are implemented in accordance with the policies and procedures of its MDB Technical Partners, including in respect of their social and environmental safeguards. The initial Technical Partners were selected based on consistency of their operating policies and procedures with those of the World Bank Group or comparable international standards. Accreditation of new Technical Partners will be based, among other considerations, on consistency with World Bank and IFC operational policies regarding procurement, financial management, as well as environmental and social aspects or comparable international standards.

Universal Periodic Review

- Technical Partners will monitor the performance of projects in accordance with their policies and procedures.

Identify key rights holders in the programme

Identify key duty bearers in the programme

Human Rights Principles

- One of the GIF's core principles is "promoting sustainability and inclusiveness: ensuring that projects adhere to best practice standards for social and environmental responsibility". As such, the GIF recognizes that sound operational policies—including, in particular, the management of environmental and social impacts and risks, and transparency in procurement—are critical to the success of infrastructure projects. Such policies help ensure that infrastructure investments support sustainable, inclusive development; while for investors, these are critical to manage reputational and legal risks as well as to ensure long-term sustainability of the underlying projects and associated investment.

Gender

- Infrastructure is recognized as both a key engine of economic growth and impactful to equitable growth. Building on the Gender Note approved by the GC in April 2018, GIF will broaden its

² The purpose of the analysis is to facilitate and strengthen the application of the Human Rights Based Approach, and integrate gender in Danish development cooperation. The analysis should identify the main human rights issues in respect of social and economic rights, cultural rights, and civil and political rights. Gender is an integral part of all three categories.

approach to equitable growth by incorporating considerations related to gender, low-income populations and other excluded groups across the infrastructure life cycle, including design, structuring, safeguarding, procurement and monitoring and evaluation to enhance equality of opportunity and benefits of infrastructure provision.
Youth -
List the key documentation and sources used for the analysis: - Global Infrastructure Facility, GIF Post-Pilot Strategy: Initial Proposal for Donor Consultation (2018)
Are additional studies / analytic work needed? How and when will it be done? -

4. Inclusive sustainable growth, climate change and environment -
Briefly summarise the key conclusions and implications for the programme of the analysis of the below points:
- Resiliency in infrastructure planning and design is critical to mitigate the impacts of climate-related events such as flooding, sea level rise, and more frequent and severe extreme weather events. In addition to maintaining its “climate smart” eligibility requirement, GIF will integrate best and emerging practices to mainstream climate considerations into project preparation activities to minimize carbon contribution and to maximize climate resiliency of infrastructure.
List the key documentation and sources used for the analysis: - Global Infrastructure Facility, GIF Post-Pilot Strategy: Initial Proposal for Donor Consultation (2018)
If this initial assessment shows that further work will be needed during the formulation phase, please list how and when will it be done? -

5. Capacity of public sector, public financial management and corruption
Briefly summarise the key conclusions and implications for the programme of the analysis of the below points:
- Partner governments often suffer from insufficient financial resources and internal technical capacity to prepare and structure complex infrastructure projects that attract commercial financing. These constraints continue to drive partner governments’ demand for quality, affordable and off-budget project preparation and structuring support.
- Effective relationship-building with government clients is essential for the fruitful completion of infrastructure projects, which require long-lasting engagements and collaboration. GIF will continue the more recent trend of being more proactive in supporting TPs to stimulate and convene discussion with partner governments, ensuring awareness of GIF support available
List the key documentation and sources used for the analysis: - Global Infrastructure Facility, GIF Post-Pilot Strategy: Initial Proposal for Donor Consultation (2018)
Are additional studies / analytic work needed? How and when will it be done? -

6. Matching with Danish strengths and interests, engaging Danish actors, seeking synergy

Briefly summarise the key conclusions and implications for the programme of the analysis of the below points:

- As a global collaboration platform, it integrates not only Funding Partners (donors), Technical Partners and Beneficiary Partners (partner governments), it incorporates voices directly from the private sector through its Advisory Partners. Among the GIF's 50 Advisory Partners are private providers of debt and equity interested in investing in infrastructure, including commercial banks, pension funds, insurance companies and sovereign wealth funds, together representing more than US\$13 trillion in assets under management. Other Advisory Partners include state development banks, finance associations, infrastructure quality and sustainability organizations, as well as infrastructure-related initiatives.
- IFU and Danish pension funds may join the GIF as Advisory Partners, which could provide channels for early intelligence for investment opportunities in infrastructure.

List the key documentation and sources used for the analysis:

- Global Infrastructure Facility, GIF Post-Pilot Strategy: Initial Proposal for Donor Consultation (2018)

Are additional studies / analytic work needed? How and when will it be done?

-

7. Stakeholder analysis

Briefly summarise the key conclusions and implications for the programme of the analysis of the below points:

- GIF will seek to expand the pool of TPs in order to ensure global reach and in accordance with the finalized accreditation framework.
- GIF will expand engagement with investor and financier APs as sounding boards for programs and projects in preparation to ensure bankability.
- GIF will expand relationships with PPFs hosted within Technical Partners to leverage co-financing and amplify impact.
- New relationships will be fostered with aligned initiatives through which TPs can act as intermediaries and collaboration will be sought with high-potential non-accredited partners.

List the key documentation and sources used for the analysis:

- Global Infrastructure Facility, GIF Post-Pilot Strategy: Initial Proposal for Donor Consultation (2018)

Are additional studies / analytic work needed? How and when will it be done?

-

Annex 2: Partners

1. Summary of stakeholder analysis

The Global Infrastructure Facility (GIF) is a partnership among governments, multilateral development banks, private sector investors, and financiers. It is designed to provide a new way to collaborate on preparing, structuring, and implementing complex projects that no single institution could handle on its own.

Unique among PPFs and although housed within the World Bank, the GIF provides equal-access funding to MDBs that serve as the GIF's Technical Partners. Currently, the ADB, AfDB, EBRD, EIB, IADB, IFC, and World Bank serve as Technical Partners. The AIIB and IsDB are anticipated to become Technical Partners after accreditation.

The GIF is furthermore distinctive through its engagement of the private sector by incorporating voices directly from the private sector through its Advisory Partners. Among the GIF's 50 Advisory Partners are private providers of debt and equity interested in investing in infrastructure, including commercial banks, pension funds, insurance companies and sovereign wealth funds.

2. Criteria for selecting programme partners

Technical Partners will submit to the GIF an application for support, which will be reviewed by the GIF MU before submission to the DFW Governing Council for approval.

The following criteria are proposed for use in assessing projects for DFW supports:

- Development impact
- Mobilization of private capital and commercial finance
- Viability, sustainability and value add
- Complementarity (and not substituting or crowding out others)
- No adverse selection (with regard to GIF's high risk-taking capital)
- Climate smart (target percentage to be set for DFW projects in the DFW portfolio that are climate smart)
- Promoting high quality infrastructure

3. Brief presentation of partners

Ref. above.

Annex 3: GIF Results Framework

		Global Infrastructure Facility
Development objective of the fund and immediate objective of capital contribution		Impact 1: Infrastructure Services Improved Impact 2: Poverty reduction, inclusive and sustainable growth Primary objective: Increase private investment, particularly long-term finance, in complex infrastructure project
Impact Indicators		Improvements to infrastructure services made by DFW-supported projects (Impact 1) will be measured by a combination of standard and non-standard indicators. With respect to Impact 2, the DFW is not structured to monitor a long-term basis the extent to which DFW-supported projects contribute to its ultimate development goals. Instead, it will rely primarily on existing evidence and literature to support the link set out in the logical framework between improved infrastructure and these development impacts. This position is supported by tracking the effectiveness of the DFW's project selection in ensuring the inclusiveness and sustainability of the resulting infrastructure.
Engagement Title of Fund		Same as above
Outcome indicator		Outcome 1. Private Investment Mobilized may be measures through the following primary indicators: (i) number of DFW-supported infrastructure projects that reach financial close, (ii) total investment (debt and equity) in DFW-supported projects, (iii) amount of private financing (debt and equity) mobilized by DFW-supported projects, (iv) number of long-term private investors or financiers financing DFW-supported projects, (v) amount of financing mobilized from long-term private investors or financiers in DFW-supported projects.
Baselines		Since GIF's support to a project typically spans to commercial and financial close of the transaction, the Technical Partners report baselines for the infrastructure service improvement indicators to enable the post-completion comparison and evaluation. The baselines are introduced in the project preparation support applications or, if the economic, commercial and financial estimates are not available at the application stage and will be obtained through the project structuring activities, the Technical Partners will introduce the baselines at the activity completion report as relevant to the nature of an individual GIF activity. Each individual GIF activity will establish the timeline for post-completion reporting and evaluation of the service-related indicators based on the nature of the activity, the relevance of the indicator, project and the asset operational maturity.
Year 2016-2018	Baseline	<p>In that regard, the GIF's activities are designed on the basis of a logical framework that links activities to specified objectives and ultimate goals as summarized below, and the result framework will be prepared on that basis. The logical framework will inform the measurement of DFW results in terms of outputs, outcomes and impacts. Below are the indicators used for the pilot phase of the GIF, where the performance in 2016-2018 may be used as baselines to measure further progress on those indicators. Additional may be included at a later stage.</p> <p>OUTPUT 1. COLLABORATION PLATFORM FUNCTIONING EFFECTIVELY</p> <p>PRIMARY INDICATORS</p> <p>7 Number of GIF Partners with signed agreements with GIF</p> <p>4 Number of Technical Partners that participated in Activity Implementation Teams</p> <p>12% % of GIF projects with non-World Bank Group Technical Partner participation</p> <p>2 Non-WBG TPs to be participating in three projects by end-FY 2020</p> <p>SECONDARY INDICATORS</p> <p>24% % of GIF Activities that received inputs from Advisory Partners</p> <p>12 Number of Advisory Partners that participated in GIF-supported market sounding activities</p> <p>50 Number of Advisory Partners that participated in GIF knowledge-sharing activities</p> <p>OUTPUT 2. PROJECT PREPARATION SUPPORT PROVIDED</p> <p>PRIMARY INDICATORS</p> <p>46 Number of GIF Project Support Activities initiated</p> <p>57% % of Technical Partners leading on GIF Project Support Activities</p> <p>SECONDARY INDICATORS</p> <p>25 Number of legal or regulatory recommendations made</p> <p>30 Number of institutional recommendations made</p>

	61	Number of due diligence activities conducted
	58	Number of project structuring recommendations made
	29	Number of market soundings conducted disaggregated by type of investors, such as institutional investors, project finance banks, etc. (Please see the description of the market soundings in the main report for disaggregation).
	11	Number of competitive procurements conducted
	7	Number of activities using standardization tools prepared by Technical Partners and Advisory Partners
	15	Number of E&S assessments conducted in accordance with Technical Partners' E&S standards
	19	Number of climate smart projects approved
	17	Number of trade-enabling projects approved
	3	Number of recommendations made that incorporate mainstreaming gender practices
	17%	% of GIF activities approved in fragile and conflict-affected states
		OUTCOME 1. PRIVATE INVESTMENT MOBILIZED
		PRIMARY INDICATORS
	2	Number of GIF-supported investment projects that reach commercial close
	0	Number of GIF-supported investment projects that reach financial close
		SECONDARY INDICATORS
	0	Total investment in GIF-supported projects (in US\$), disaggregated by source
	0	Amount of private financing mobilized (in US\$) by GIF-supported projects, disaggregated by source
	0	Number of institutional investors financing GIF-supported projects
	0	Financing mobilized from institutional investors (in US\$) in GIF-supported projects
		OUTCOME 2. MARKET FOR PRIVATE INFRASTRUCTURE FINANCE IN DEVELOPING COUNTRIES EXPANDED
	0	SECONDARY INDICATORS
	49%	Follow-on investments in projects in the country and sector for which GIF provided support and can be attributed to the GIF support
	351	% of GIF project preparation support activities that receive responses from investors through market soundings, RFQs, or RFPs
		Number of investors (e.g., private equity, institutional investors) responding to market soundings, RFQs, or RFPs supported by GIF project preparation activities

Annex 4: Budget details

Summary of DFW Financial Plan						
Number of Projects	<i>Year 1</i>	<i>Year 2</i>	<i>Year 3</i>	<i>Year 4</i>	<i>Year 5</i>	<i>Total</i>
FX Liquidity Facility	1	2	1	2	0	6
Counterparty Risk Facility	1	1	2	1	1	6
Contingent Refi Facility	0	1	1	1	0	3
Total Number of Projects	2	4	4	4	1	15
Exposure (<i>USD Million</i>)	<i>Year 1</i>	<i>Year 2</i>	<i>Year 3</i>	<i>Year 4</i>	<i>Year 5</i>	
DFW Total Exposure	50.9	195.4	339.9	484.5	509.9	
Technical Partner Exposure	17	65.1	113.3	161.5	170	
Income Statement (<i>USD Million</i>)	<i>Year 1</i>	<i>Year 2</i>	<i>Year 3</i>	<i>Year 4</i>	<i>Year 5</i>	<i>Total</i>
<i>Revenues</i>						
FX Liquidity Facility	0.22	0.65	0.86	1.3	1.3	4.32
Counterparty Risk Facility	0.38	0.76	1.53	1.91	2.29	6.87
Contingent Refinancing Facility	0	1.02	2.05	3.07	3.07	9.22
Investment Earnings	10.85	10.97	11.08	11.19	11.3	55.39
Total Revenue	11.45	13.4	15.52	17.47	17.96	75.80
<i>Expenses</i>						
	2.32%	1.46%	1.22%	1.04%	0.87%	
Credit Losses	1.18	2.85	4.14	5.02	4.43	17.62
GIF MU Administration Budget	3.49	3.89	4.31	4.76	4.98	21.44
Technical Partners Fees	0.56	1.3	1.44	1.59	0.76	5.66
Trustee Budget	0.45	0.46	0.47	0.48	0.49	2.35
Other Admin.	0.12	0.12	0.12	0.13	0.13	0.62
Total Expenses	5.8	8.62	10.48	11.98	10.79	47.69
Net Income	5.65	4.78	5.04	5.49	7.17	28.11
Available Capital - Opening Balance	500	505.65	510.43	515.47	520.96	

Annex 5: Preliminary Risk Management Matrix

Contextual risk

Risk factor	Likelihood	Impact	Risk response	Residual risk	Background to assessment
Possible global financial instability and economic slow-down	Possible	Medium	Potential projects may decline while demand for risk-mitigation by GIF/DFW may increase.	Minor	Financial turbulence and economic slow-down triggered by global political or financial crises.
Political and/or financial instability in some of the concerned countries challenging Foreign Direct Investments	Possible	Major	The investments are envisaged to be conducted in a number of different countries, and GIF will therefore not be heavily exposed to any single country.	Medium	During recent years, political and financial turbulence have taken place in many developing countries, particularly in the least developed countries and fragile states, including Africa.

Programmatic risk

Risk factor	Likelihood	Impact	Risk response	Residual risk	Background to assessment
Required funding not committed by donors	Possible	Major	Agreement to include wording on utilization of DK contribution being dependent on sufficient funding committed by other donors	Minor	Discussions have been held directly with some prospective donors.
Some supported projects do not reach bankability	Likely	Minor	All instances of accepted projects failing to reach bankability should be viewed as learning opportunities and used to update collective understanding of the market	Minor	Project development is by definition a high-risk endeavour, and not all projects provided with preparation support will reach financial close.

Institutional risk

Risk factor	Likelihood	Impact	Risk response	Residual risk	Background to assessment
The GIF MU team is currently operating near full capacity, which may challenge their ability to scale the Facility's stated growth goals and outputs.	Possible	Major	A detailed staffing plan will be presented to the GC in order to expand operations.	Minor	GIF staffing at the outset was designed with the DFW in mind, current GIF staff has applicable technical expertise to manage the DFW
Reputational risks due to violation of human rights, OSH, environmental standards etc.	Medium	Major	GIF and TPs has well-established sustainability policies and procedures which will ensure that sustainability issues are professionally addressed during investment preparation and operation	Minor	Various studies indicate that international and not least local companies often violate human rights, OSH, environmental standards etc.
Misuse, corruption and fraud by participating international and local partners	High	Medium	These risks can never be avoided, but TPs have developed strong monitoring and control procedures to mitigate the frequency and impact of these risks.	Minor	According to international business environment indexes, including the Transparency International Index, corruption, fraud and misuse of funds is widespread in the concerned countries.

Annex 6: Process Action Plan – Commitment to the GIF’s Downstream Financing Window

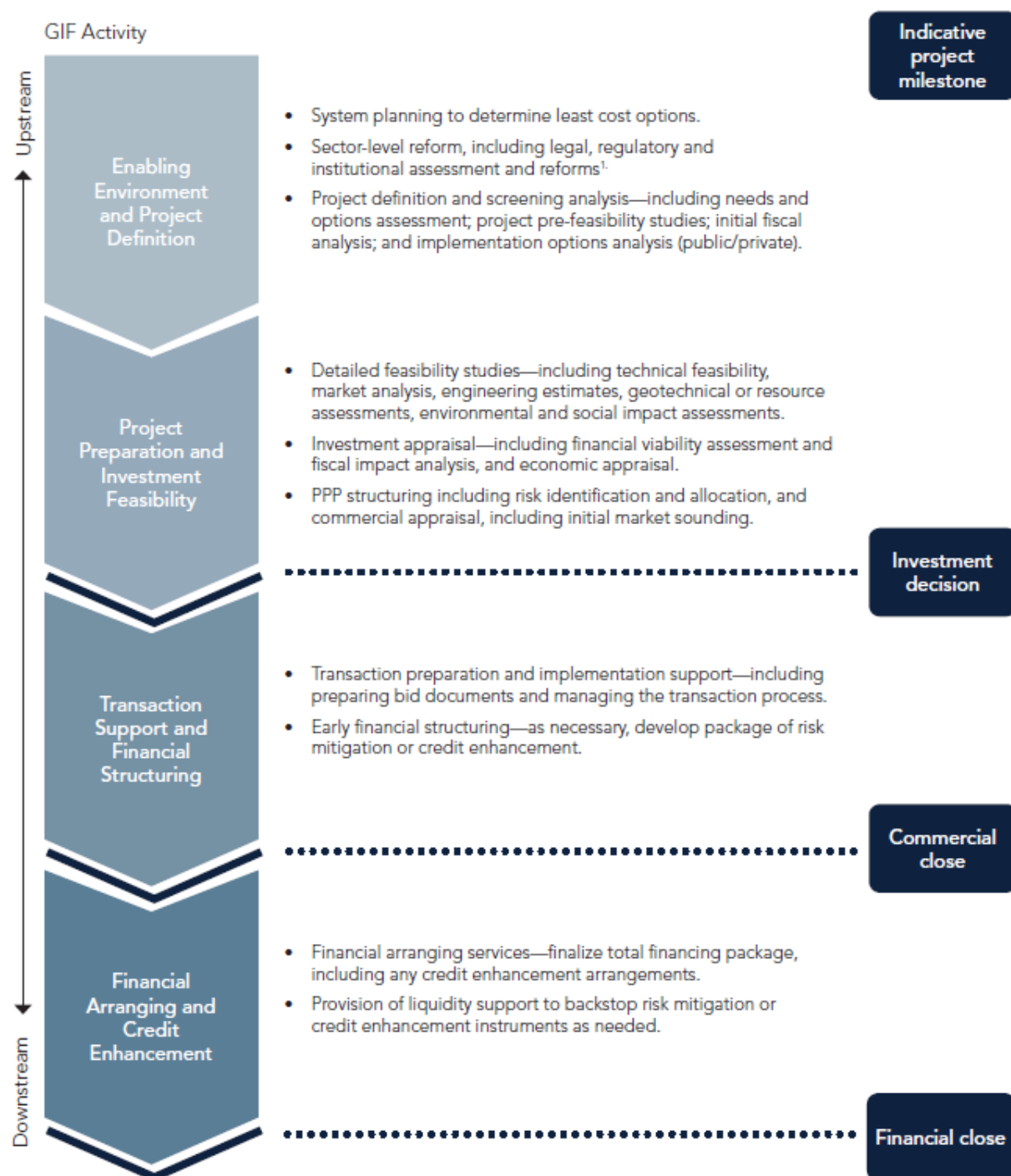
Time line	Activity	Documentation	Responsible
September 2019	Preparation of Concept Note	Concept Note	BVB
17 September	Concept Note forwarded to KFU	Concept Note	BVB
19 September – 3 October	Public hearing	Concept Note	KFU
10 October	Programme Committee meeting	Minutes of meeting	BVB
September - October	Preparation of project document	Programme Document	BVB
28 October	Programme Document and Appropriation Cover forwarded to KFU	Final Programme Document and Appropriation Cover	BVB
13 November	Council for Development Policy	Minutes of meeting	KFU
November	Presentation of project proposal to the Minister for Development Cooperation	Signature	KFU
November	Appropriation bill forwarded to UPR	Appropriation bill	BVB
Beginning of December	Appropriation bill presented to the Parliamentarian Finance Committee	Appropriation bill	APD
Beginning of December	Signing of agreement with Global Infrastructure Facility	Legally binding agreement	BVB and GIF
End of December	Disbursement of funds to the GIF Trust Fund	Receipt	BVB and GIF

Formulation and quality assurance

It is suggested that the commitment to GIF be exempted from the normal appraisal procedures. The main reason is that the responsible department (Sustainable Growth and Employment - BVB) has adequate capacity within the concerned thematic areas. However, BVB would like to establish a quality assurance team with specialists from Technical and Quality Support (KFU) and BVB in order to discuss key quality assurance issues connected with the formulation of the support. The team should meet as required during the preparation process. The issues to be discussed may include:

- The overall strategic approach and related development priorities including sustainability, the guarantee modalities, additionality etc.
- The results framework, results measurement and reporting according to international standards

Annex 7: The Risk Mitigation Instruments of the Downstream Financing Window

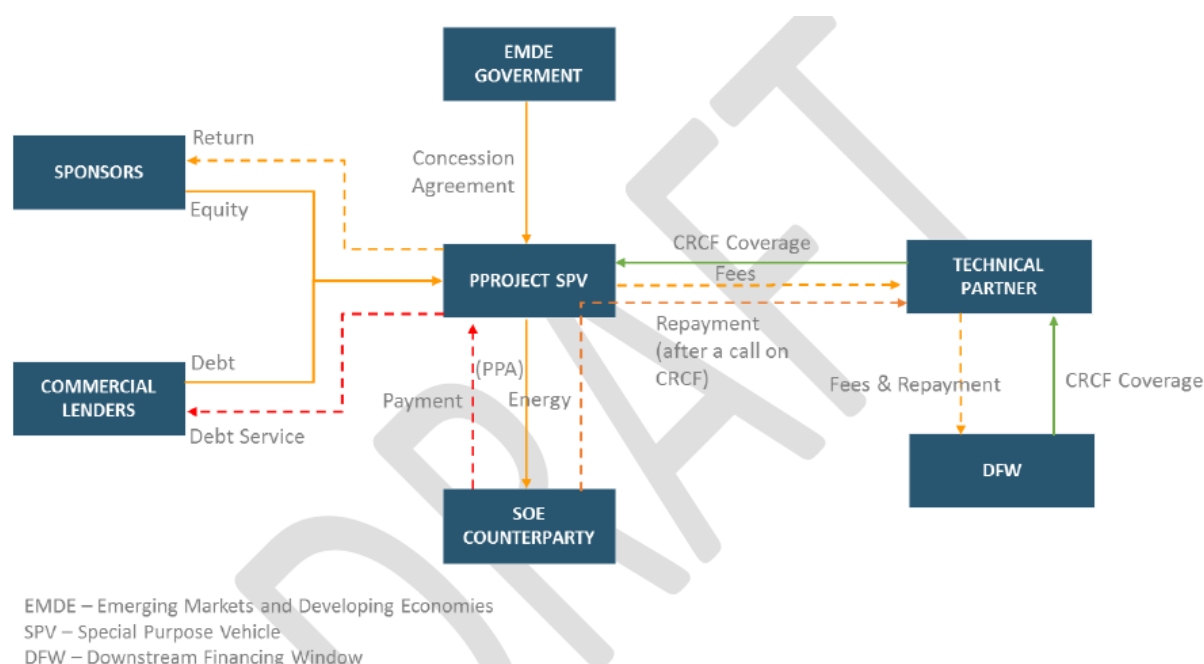


1. Foreign Exchange Liquidity Facility (FELF)

FELF aims to help manage the foreign exchange risk arising from the currency mismatch between project revenues based on local inflation indexed PPAs or concessions and hard currency debt service. It is designed to cover short-term impacts of nominal exchange rate fluctuations in debt service repayments, and it does so by providing an appropriately sized

liquidity facility to cover temporary cash flow shortfalls in the project resulting from exchange rate movements. It is based on the economic concept of purchasing power parity is reasonably accurate if taken over the medium-to-long run, which implies that real exchange rates exhibit substantially less volatility than nominal exchange rates. In other words, the project may face cash shortfalls to repay their debt due to the time lag between quick nominal exchange rate movements and slower adjustment of inflation-indexed tariff. This volatility can be managed by a liquidity facility to cover a temporally shock.

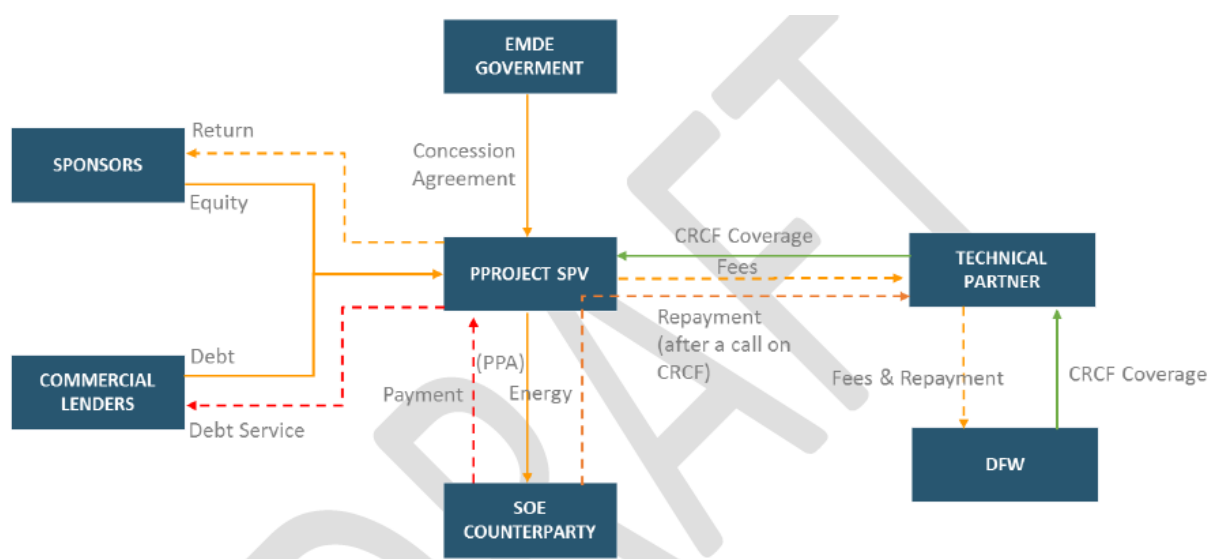
Specifically, the FELF offers a standby liquidity (credit) facility that will be made available through the Technical Partner to the project (e.g., for the project lenders or trustee of the project's bond issue). The US\$ denominated facility may be drawn upon shortfalls in project revenues due to depreciation of the host country's currency, which is sufficiently severe to cause a debt service default. Any amount drawn from the facility will be converted to a subordinated loan to the project, which, together with the interests thereon, are to be repaid to the DFW, before equity in the project's cash flow waterfall. While encouraging maximizing the local currency financing, the FELF will help the project address the financing gap with hard currency financing by offering the facility to help them manage the currency risks.



2. Counterparty Risk Cover Facility (CRCF)

The CRCF aims to help mitigate the payment risk of less-creditworthy state-owned enterprises (SOEs) (e.g., utilities and off-takers) 2, by providing risk coverage (such as guarantee) through Technical Partners for such SOEs, without requiring a counter-indemnity from the sovereign to DFW/Technical Partners on DFW-supported portion. This is against the backdrop that while many emerging markets and developing economies provide infrastructure services to the public through SOEs, these SOEs often do not have sufficient credit strength to serve as credible counterparties in a project financing. For example, the CRCF may be used where the government has undertaken appropriate reforms with respect to tariffs or has taken other steps to improve the credit of the SOE, but where the market is not yet confident in the outcome of these reforms.

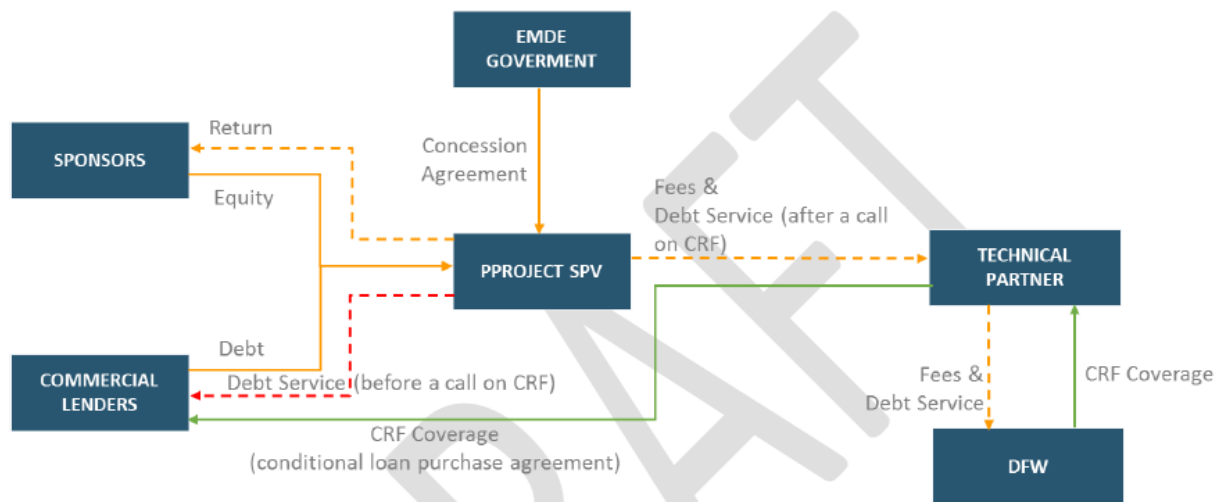
The CRCF through Technical Partner will provide a first loss cover over SOE's non-payment risk for a portion of the project's debt. The CRCF may be drawn to service the debt in case of cash flow shortfalls due to SOE's non-payment of its obligated revenue payments and other eligible payments (but excluding non-payment due to operational or underperformance reasons). The size of the CRCF coverage is anticipated to be up to the amount equal to 24 months of debt service. This CRCF offering will enable the Technical Partners to enhance its support to less-creditworthy SOEs. In case of a call on the guarantee, the Technical Partner will take actions to seek repayment in accordance with its policies and procedures.



3. Contingent Refinancing Facility (CRF)

The CRF aims to help address the challenge of raising long-term commercial debt for infrastructure projects in developing countries, by providing a conditional refinancing option for short-term construction or mini-perm loans. The CRF, through the relevant Technical Partner, will provide a refinancing (guarantee/put option) facility that may be called upon at a specified date (e.g., maturity) to refinance up to 100% of construction or mini-perm loan. It is proposed that the CRF may purchase the loan if the loan is not in default and has not breached its debt covenants (e.g., debt service coverage ratio). Hence, the CRF is likely to be called for purchase of the loan if the local bank market experiences a disruption that leads banks to seek greater liquidity by avoiding medium-term assets.

The outstanding amount of loan purchased by the CRF through Technical Partner will be repaid by the borrower to the CRF, together with interest thereon. Once called, the CRF and project may further refinance the loan later in the bank market or by institutional investors since the projects are supposed to have lower risk profile after one or two-year operating history, and in that case CRF will receive the corresponding share of the refinancing proceeds.



EMDE – Emerging Markets and Developing Economies
 SPV – Special Purpose Vehicle
 DFW – Downstream Financing Window

Annex 8: Quality Assurance checklist for appraisal of programmes and projects³

File number/F2 reference: 2019-34375

Programme/Project name: Contribution to Global Infrastructure Facility

Programme/Project period: 2020-2025

Budget: DKK 150 million

Presentation of quality assurance process: Management of the Global Infrastructure Facility (GIF) is by World Bank, providing Secretarial assistance and technical support to the GFI as well as acting as trustees for the funds. Procedures, financial management, and quality assurance is guided by World Bank rules and procedures. The proposed grant is a contribution to a second phase of the Facility. There has been no issues raised in related to quality of implementation, financial management, or internal control indicating insufficiencies in management of the first phase of the Facility. In light of the World Bank providing first-class management and quality control the Programme Committee (PC) approved a light appraisal/ quality assurance process; the process has been conducted with specialists from BVB and KFU who have provided input during the preparation process, including meeting to discuss the Concept Note prior to presentation to the PC. This short note serves as documentation for the QA process.

The documentation for the QA process is: the Concept Note of September 2019 and the draft Project Document of 17 October 2019.

☐ The design of the programme/project has been appraised by someone independent who has not been involved in the development of the programme/project.

Comments: Being a World Bank managed Facility, the Global Infrastructure Facility has been subject to WB approval process and hence it's not deemed necessary with a separate Danish appraisal of the design of the facility. As mentioned above, the Danish contribution has been subject to an internal QA process conducted by a group of specialists from BVB and KFU.

☐ The recommendations of the appraisal has been reflected upon in the final design of the programme/project.

Comments: Yes

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

Comments: Yes there is a good fit between the GFI – Downstream Window and Danish policies. Eligible projects for support will be Climate Smart projects; priority will be given to Low Income and Lower Middle Income Countries with a focus on fragile countries.

☐ The programme/project addresses relevant challenges and provides adequate responses.

Comments: Yes. GIF will intensify efforts in countries, which face disproportionately greater constraints in infrastructure planning, design, financial structuring and attracting private investment due to weaker economic,

³ This Quality Assurance Checklist should be used by the responsible MFA unit to document the quality assurance process of appropriations where TQS is not involved. The checklist does not replace an appraisal, but aims to help the responsible MFA unit ensure that key questions regarding the quality of the programme/project are asked and that the answers to these questions are properly documented and communicated to the approving authority.

financial and business environments with lesser adherence to rule of law; countries where investment risk for private sector is high or perceived high, which is compounded by fragility and conflict.

☐ Issues related to HRBA/Gender, Green Growth and Environment have been addressed sufficiently.

Comments: Yes. According to WB policies GIF requires that all activities are implemented in accordance with HRBA policies and procedures of the technical partners (MDBs), including in respect of their social and environmental safeguards.

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

Comments: Yes.

☐ The programme/project outcome(s) are found to be sustainable and is in line with the partner's development policies and strategies. Implementation modalities are well described and justified.

Comments: Yes.

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

Comments: Yes. However, it is noted that in a multi-donor trust fund it is not possible to attribute specific results to specific donor-input. Hence, Denmark will use the consolidated GFI (Upstream and Downstream) results frame for monitoring the progress. The sub-results frame for the Downstream window is still under development. GIF will consult also with the Technical Partners (MDBs) to ensure alignment with their corporate results frameworks. Denmark will give specific attention will be given to monitor progress in relation to fragile countries. By engaging early in the Facility-Downstream Window preparation Denmark is in a position to influence the process.

☐ The programme/project is found sound budget-wise.

Comments: Yes.

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

Comments: Yes.

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

Comments: Yes. The GIF Secretariat/World Bank handles the consultation process. Different donors have expressed interest; main donors are Canada, European Commission, and Japan.

☐ Key programme/project stakeholders have been identified, the choice of partner has been justified and criteria for selection have been documented.

Comments: Yes. A WB managed facility with the WB as trustee (i.e. a trust fund modality) seems an appropriate mechanism for the initiative anticipated to have a short life span.

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

Comments: Yes.

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

Comments: Yes.

☐ In conclusion, the programme/project can be recommended for approval: *Yes*

Date and signature of desk officer:_____

Birthe E Larsen, KFU

Date and signature of management:_____

Ole Thonke, BVB