Ministry of Foreign Affairs - VBE
F2 reference: 2017-5051

Meeting in the Council for Development Policy 28 March 2017
Agenda item 5

1. Overall purpose	For discussion and recommendation to the Minister
2. Title:	Strategic Partnership Agreement between the International Finance Corporate and Denmark
3. Presentation for Programme Committee:	23 February 2017

Strategic Partnership Agreement between IFC and Denmark

Key results:

- Development and scaling of innovative business models and new technological solutions that address climate change through the market, leading to, among others, improved access to services and reduction in greenhouse gas emissions;
- More SMEs run successful businesses and create jobs in FCS markets due to support provided by local fund managers under the SME Ventures programme.

Justification for support.

- Mobilisation of private capital and know-how at scale as well as innovation are necessary to achieve the SDGs and an important part of the Danish strategy "The World 2030" and IFC's strategy, "IFC 3.0".
- Risk willing seed money is necessary to pre-market projects and initiatives (innovation) as these are costly and risky activities.
- Working with IFC is an opportunity to achieve scale.

How will we ensure results and monitor progress

- IFC will report annually on progress. Annual meetings will review the partnership and agree necessary adjustments.
- MFA plans to undertake a mid-term review in 2018.
- At the end of the partnership, IFC will undertake an evaluation.

Risk and challenges

- Global financial instability and economic slow-down, which can make companies and investors hesitant to invest in innovative projects and FCS markets. IFC will work with a range of potential companies and investors, public and private, and help to create conditions that are conducive for investments even in challenging environments to mitigate the risk.
- Some projects may not succeed. Business innovation is per definition more risky, but when successful can generate higher impact. Selection committee will discuss projects in-depth. This is a calculated risk.

File No.	2017-5051					
Country	Global					
Responsible Unit	VBE					
Sector	Business Innovation related to **climate change** and **small and medium-sized enterprises** in fragile and conflict affected situations.					
	2017	**2018**	**2019**	**2020**	**2021**	Tot.
Commitment	20 mio	20 mio	20 mio			60 mio
Projected ann. Disb.	20 mio	20 mio	20 mio			60 mio
Duration	2017-2019					
DK national budget account code	§06.38.01.12					
Desk officer	Marie Wibe					
Financial officer	Hans-Henrik Christensen					

SDGs relevant for Programme

1 No Poverty	2 No Hunger	3 Good Health	4 Quality Education	5 Gender Equality	6 Clean Water, Sanitation
7 Clean Energy	8 Good Jobs, Economic Growth	9 Innovation, Infrastructure	10 Reduced Inequality	11 Sustainable Cities, Communities	12 Responsible Consumption
13 Protect Planet	14 Life below Water	15 Life on Land	16 Peace & Justice	17 Partnerships for Goals	

Budget

Support to IFC Advisory Services	
Indicative budget of the Business Innovation Trust Fund:*	*Mio.*
Staff costs (35%)	*21,0*
Consultants and contractural services (43%)	*25,8*
Travel expenses (12%)	*7,2*
Other costs (overhead, workshops, equipment, etc.) (10%)	*6,0*
** Costs may vary significantly from project to project.*	
Programme Support	**60**
Total	**60**

Strat. objective(s)

1) to catalyze and scale-up the private sector's contribution to the SDGs through innovative business to address climate change, and supporting first-of-kind projects in fragile and conflict situations, and 2) to forge a stronger collaboration between the IFC and Denmark.

Thematic Objectives

Business innovation to address climate changes and SME projects in fragile and conflict affected situations.

Non-funded activities: Collaboration on impact measurement, outreach to private sector actors in Denmark, incl. the Investment Fund for Developing Countries, etc.

List of Engagement/Partners

- International Finance Corporation
- Private sector partners and other donors are expected to participate/contribute in projects supported under the present agreement with IFC's Advisory Services.

Ministry of Foreign Affairs of Denmark **Danida**

Programme Document

Strategic Partnership Agreement

between

the Ministry of Foreign Affairs of Denmark

and

the International Finance Corporation 2017-2019

16 March 2017

File No.: 2017-5051

Cover Page

Countries:	Global, with an expected 50 per cent in IDA/FCS countries	
Project Title:	MFA-IFC Strategic Partnership Agreement	
Start-End Date:	2017-2019	
Budget:	Danida:	DKK 60 million

Main features of the Strategic Partnership Agreement:

- The objective of the partnership is to catalyze and scale-up the private sector's contribution to the United Nations Sustainable Development Goals by supporting innovative and potentially game-changing business models and new technological solutions to address climate changes, and by supporting first-of-a kind projects in markets in fragile and conflict-affected situations (FCS) to establish new models of investment and transform markets. As well, the partnership sets out to forge a stronger collaboration on strategic priority areas of mutual interest to the partners.
- A trust fund on business innovation will be established to support projects across IFC's Advisory Services, which fulfil the criteria of the partnership.
- Denmark and IFC will collaborate around strategic issues to promote their joint agenda as it relates to areas such as thought leadership, developing best practices and HR questions. Partners will employ a targeted approach to communications, knowledge sharing and outreach, including to the Danish private sector and investor communities.

Indhold

List of abbreviations

CSR	Corporate Social Responsibility
DFI	Development Finance Institution
DKK	Danish krone
DMDP	Danida Market Development Partnerships
FCS	Fragile and conflict-affected situations
IDA	International Development Associations
IDH	The Sustainable Trading Initiative
IFC	International Finance Corporation
IFU	Investment Fund for Developing Countries
IGGTF	Inclusive Green Growth Trust Fund
FCS	Fragile and Conflict Situations
GHG	Green House Gasses
GPs	Guiding Principles
MFA	Ministry of Foreign Affairs of Denmark
MIGA	Multilateral Investment Guarantee Agency
MoU	Memorandum of Understanding
ODA	Official Development Assistance
PPP	Public-Private Partnership
SDGs	Sustainable Development Goals
SDIP	Sustainable Development Investment Partnership
SMEs	Small and medium-sized enterprises
UN	United Nations
USD	United States Dollars

1. INTRODUCTION

The present Project Document details the objectives, content and management arrangements for the Strategic Partnership Agreement ("the partnership") between the International Finance Corporation (IFC) and the Government of Denmark, represented by the Ministry of Foreign Affairs of Denmark (MFA). The partnership replaces a 2010 Memorandum of Understanding between the organizations, and complements the MFA's strategy for cooperation with the World Bank Group. The partnership proposal addresses the implementation of Denmark's strategy for development policy and humanitarian action, "The World 2030", particularly in relation to inclusive and sustainable growth and development, including spurring innovation, partnerships and private investment. The partnership covers years 2017-2019 with a yearly budget allocation of DKK 20 million subject to annual approval in the Finance Act. The 2017 budget allocation is included in the 2017 Finance Act.

Parties

The partnership is a reciprocal collaboration between the IFC and the MFA. Whereas IFC will be responsible for managing activities supported financially by Denmark, both parties have a responsibility for pursuing non-financial components of the partnership.

Documentation

"The Documentation" refers to the present programme document.

Appraisal and quality assurance

Appraisal and quality assurance of the partnership have been conducted by the Growth and Employment department with input from the Technical Quality Support department in the preparation process.

2. CONTEXT – THE PRIVATE SECTOR AND THE SDGs

2.1 Background

To implement the United Nations Sustainable Development Goals (SDGs) will require innovation, collaboration across sectors and massive investments. The 2015 Addis Ababa conference on financing for development pointed to the important catalytic role of official development assistance (ODA) to mobilize private capital, investment and knowhow required to meet the SDGs. For their part, business have a strategic interest in contributing to the achievement of the SDGs. They understand that it is not enough to concern themselves with short-term profits because social unrest, climate change, natural disasters and economic disparity can damage long-term prosperity. Companies are already taking action to transform their business models and tap into new markets, but much more is needed to stimulate innovation and transformative solutions geared towards the sense of urgency and ambitions outlined in the SDGs and the Paris Climate Agreement.

Innovative business models, when based on international principles for corporate sustainability and matched with needs on the ground, can bring development gains at unprecedented levels. First, innovation in business models and new technological solutions hold the promise of tackling persistent development challenges, often through decentralized solutions that may be disruptive to the status quo service delivery with greater efficiency and effectiveness. Second, business innovation plays a central role in creating new markets and economic growth, as markets respond to underserved needs, including the most fundamental development challenges, and offer a better way of meeting demands.

Competitive markets that respond to demands are central to the sustainability of development gains and advancing inclusive economic opportunities, including for women, youth and disadvantaged groups. Small and medium-sized enterprises (SMEs) are important vehicles for economic growth in developing countries; they drive most job creation, and bring essential goods and services to the underserved. But SMEs, especially in FCS markets, need support and access to finance to fulfil their role as growth-vehicles and job creators.

2.2 Key experience with IFC Advisory Services of relevance for the partnership

The partnership replaces a 2010 MoU between the MFA and IFC, which focused on private sector development in thematic priority areas "Environment and Climate" and "Gender equality" and with a regional focus in Sub-Saharan Africa and Fragile States. Funds were also given to enhance IFC's work in the area of Corporate Social Responsibility (CSR). Total amount allocated to IFC under the 2010 MoU amounts to approx. $22 million[1]. The 2010-2016 partnership delivered convincing results in several areas. The results achieved through the Inclusive Green Growth Trust Fund (IGGTF) were among the most notable and helped advance core aspects of the MoU. This approx. $10 million Trust Fund supported close to 50 advisory projects, out of which 75% took place in IDA countries or have been umbrella projects with IDA components. Projects took place in the areas of:

1) Clean and Resource Efficient Growth - utilizing clean technology and innovation to promote low carbon economic development and efficient resource use;
2) Resilient Growth – supporting growth that is capable of withstanding shocks (including climatic events) without permanent impacts on local communities; and
3) Inclusive Growth - enabling private sector delivery of basic energy and water services to the underserved, and engaging women in the economy

Projects supported under the IGGTF[2] enabled over 7 million people to obtain improved access to energy and water (mainly clean, safe, affordable off-grid solar services), with an expectation that 28 million will gain access over the life of the projects. This has been particularly beneficial for women and children, who are most exposed to the considerable health dangers of using the more unsafe alternative of kerosene lamps or candles. Additionally, women are important distributors of off-grid solar products. Projects also reduced GHG emissions by more than 9 million Metric Tons/Year, and helped to catalyse over $5 billion in private sector investment by innovating new business products and models. This is over 3 times the aspirational target of $1.45 billion.

Knowledge management: The success IFC had in translating pilot projects into mainstream "business as usual" and scalable models through replication was possible only by integrating knowledge management into its pilot activities to ensure that learning from these pilots becomes part of the DNA of the organization and this knowledge is transferred into the markets IFC seeks to transform.

Leverage of funding: The funds from the IGGTF have seeded and supported advisory projects that are expected to cost almost $90 million. Denmark contributed close to $11 million, other donors have contributed around $49 million to date to the same projects (through other trust funds). In addition, IFC has contributed a further $3.2 million and IFC clients are directly contributing USD 2.5 million in fees to support implementation of the IFC advisory program. Some of these projects still need additional funding to cover the full implementation costs, and hence USD 26

[1] In this period, IFC also received grants from Embassies/Missions amounting to USD 4,3 million.
[2] Projects received funding from other sources too. Results listed below appear in IFC's project monitoring.

million are still being sought. Each $1 of funding is expected to leverage around USD 7 dollars in other funding**.** This ratio is expected to exceed 1:10 once all selected projects are fully financed[3].

The IFC is committed to building on lessons from the IGGTF and deepen its work on innovation as critical underpinning of the visions set out in IFC 3.0., but they have at the same time indicated the following issues:

a) Matching development needs on the ground with innovative, development relevant solutions can be a cumbersome and costly process. ODA plays a critical role to enable these efforts;
b) Considering the broad scope of the Business Innovation Trust Fund, the scope of the activities supported under the partnership must be specified to ensure a more focused application of funds which in turn leads to a more manageable administration process (allocation, TF management, reporting).

The financial components of the partnership accommodates the funding issue under a). The issues described under b) have been addressed with a focus on climate change and first-of-kind projects in FCS markets (SME Ventures), as reflected in the project selection criteria.

3. PRESENTATION OF PROGRAMME

3.1 Objectives and targets

The overall objective of the partnership is to:
Catalyze and scale-up the private sector's contribution to the United Nations Sustainable Development Goals by supporting innovative and potentially game-changing business models and new technological solutions to address climate changes, and by supporting first-of-a kind projects in FCS markets to establish new models of investment and transform markets. As well, the partnership sets out to forge a stronger collaboration on strategic priority areas of mutual interest to the partners.

Based on the above, the partnership consists of two components:
1. Business Innovation – Advisory Services (financial support)
2. Collaboration around strategic issues (non-financial)

Component 1 – Business Innovation:

The financial contribution will be earmarked a new Trust Fund on Business Innovation under IFC's Advisory Services, which will support projects and initiatives across Advisory Services that best fulfil the partnership's objective and project selection criteria.

Business innovation to address **climate change** will focus on sectors such as energy, agribusiness and manufacturing services where the potential to address climate change is high: *The Energy industry* is one of the prime drivers of growth globally. Not only does it employ significant numbers in the generation, transmission and distribution of energy; but also, it is an input in almost all goods and services in the economy. Demand for energy continues to grow rapidly in developing countries, especially Sub-Saharan Africa where demand for energy is expected to grow 8 per cent per year in the next 25 years. At the same time, access to reliable and affordable energy/electricity remains a bottleneck for companies to grow their businesses and households to improve their livelihood. *In Manufacturing*, new business models and technologies that advance productivity and resource efficiency (i.e. use of water and energy, including use of

[3] Information as of 31 December 2015

captive renewables and distributed generation, circular economy etc.) can play an important role in addressing climate change. Finally, *agriculture*, one of the most affected sectors by climate change. Approx. 25 per cent of all GHG emission is estimated to originate from agriculture and land use. Climate smart agriculture is critical for both climate mitigation and adaptation, and can have a real impact on the SDGs.

In **FCS**, focus will be to support fast growing SMEs, with a specific focus on the SME Ventures programme that enable first-of-kind projects in these markets. SMEs are a main source of employment, yet access to finance remains a major constraints. There is a large need in frontier markets for risk capital—forms of funding that involve a higher risk tolerance than bank loans and have longer tenure —for firms with growth potential, which is impeded by extremely scarce access to financing, limited business/operational skills and limited access to expertise.

Support to knowledge management to enable the uptake of new technologies and/or replication of innovative approaches across IFC and by the private sector forms an integrated part of the component.

Under these headlines, the strategic partnership focuses on following elements, where climate projects will count for 2/3 and FCS projects 1/3 (subject to change):

1. In **Energy**, advancing energy generation, access, delivery and efficiency by supporting energy innovations, new technologies and business models, and financing that supports these innovations.
2. In **Agriculture**, advancing access to finance among smallholder farmers through support for new agrifinance and risk management products as well as supporting climate smart agriculture.
3. In **Manufacturing**, advancing the sustainability of value chains, including by mobilizing private sector investment in innovations that advance productivity and resource efficiency (i.e. use of water and energy and recycling) to address climate change.
4. In **FCS**, support fast growing SMEs in fragile markets, with a specific focus on helping scale up IFC's SME Ventures program. This includes macro and ecosystem development to support first-movers, build capacity of fund managers, and scale-up and build capacity of SMEs.

Project selection:
An indicative 50 per cent of <u>projects related to climate</u> will be selected based on the following set of overarching criteria:

- Projects targeting business innovation and new technological technologies which can demonstrate:
    - ✓ additionality, link to the SDGs and climate targets;
    - ✓ Have the potential to be game-changing and disruptive to status quo and offer effective solutions and potential of scale to address climate change through the market;
    - ✓ Are not yet available in the emerging market targeted;
    - ✓ alignment with international principles for corporate sustainability based on IFC's Performance Standards.

Remaining funding to climate projects will be allocated to replication and scaling of projects using tested solutions, i.e. projects that have been successful in facilitating the adoption of innovative business models and technological solutions in one market to other markets. This split allow to both test new ways of doing business and to scale and advance to markets technologies and products with demonstrated results.

In line with the above, corporate sustainability will be an integrated condition of any activity supported under the partnership. The activities' potential for contributing to sustainable development will be carefully assessed, monitored and reported. IFC has developed a comprehensive Sustainability Framework, which guides internal processes and projects under advisory services through IFC's eight Performance Standards on Environmental and Social Sustainability. Cross-cutting topics such as human rights, climate and gender are addressed across multiple Performance Standards. Further details on the results framework, indicators, sustainability approach, communication and reporting are provided in sections 3.5, 4.2 and 4.3.

Component 2 – Strategic Collaboration:
The strategic collaboration focuses on areas of mutual importance to the partners and seeks to enhance collaboration more systematically. The component does not involve financial support and will not form part of the results framework. Follow-up will take place during partners' annual meetings.

Previous collaboration between the partners have addressed elements similar to those listed in this component, but on an ad-hoc basis. The present partnership seeks to enhance and streamline efforts to get greater impact. An action plan for the component will be developed on an annual basis. Synergies with ongoing initiatives will be sought in order to maximise efficiency and reduce constraints on partners' capacity.

<u>Development impact</u>: Contribute to strengthening IFC's focus on development impact and additionality of investments, and build knowledge and best practices to be disseminated in relevant fora, including among staff. *Inter alia*, this can include contributions to policy development, exchanges of best practices based on projects supported under component 1 and participation in relevant events.

<u>Public private partnerships</u>: Partners will build knowledge on effective engagement modalities (when are partnerships the most efficient means to the end). This includes engaging in strategic discussions relating to the new initiative to replace 3GF with continued engagement of IFC in specific partnerships of the new initiative. This also includes exploring synergies where both partners have a strategic interest, e.g. the Sustainable Trading Initiative and Sustainable Development Investment Partnership (SDIP).

<u>Thought leadership and policy engagement</u>: Partners are committed to enhancing synergies between development finance institutions and the UN by bringing into the UN learnings from IFC and vice versa, with focus on, *inter alia,* mobilisation, development impact/modalities and FCS. Where relevant, partners will pursue joint efforts in this regard.

<u>Outreach to private sector actors in Denmark</u>: Make concerted efforts to crowd in more Danish companies and investors in IFC's investment, where Danish actors have comparative advantages, and explore synergies with the Investment Fund for Developing Countries (IFU) and other Danida Business Instruments. This entails targeted outreach efforts as well as hosting outreach event(s) in Denmark.

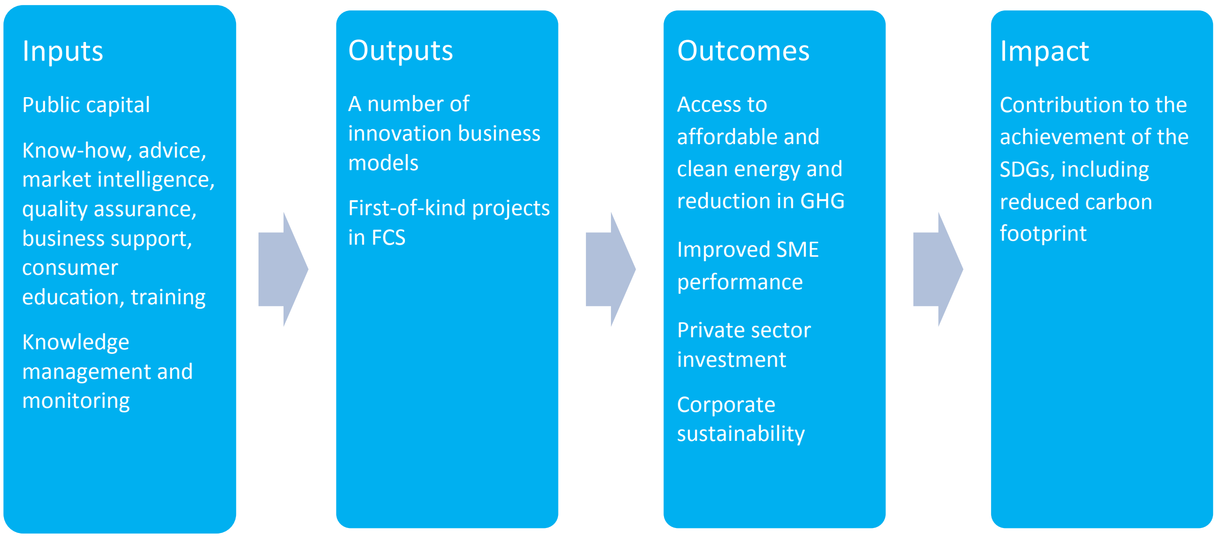
<u>Strategic communications</u>: Scale-up communications around joint achievements and activities. Emphasis will be on communicating results, sharing examples and best practices as well as undertaking outreach activities to relevant stakeholders, etc. This includes project specific

interventions as well as communication efforts to enhance other objectives of the partnership's non-financial component. Where appropriate, the IFC will acknowledge Denmark's contribution in references made by the IFC with respect to the projects supported by Denmark. This may include IFC publications, speeches, press releases or other similar publications.

Human resources: Identify opportunities for secondments and facilitate the exchange of human resource knowledge. Secondments may also serve as critical underpinnings of above-mentioned elements of the non-financial component.

3.2 Theory of change

At the overall level, the Theory of Change behind the partnership's component on business innovation can be described as follows: New sustainable solutions and market transformations are needed to successfully implement the SDGs and address climate changes. Business as usual will not suffice. ODA can underpin efforts to match development needs with innovative business models and technological solutions, and speed up proof of concept, where projects are commercially marginal but where the potential development impact is great. Successful projects can lead to crowding-in funding from other sources, public and private, and thereby have a catalytic impact that further adds to the development impact and job creation. For FCS, innovation[4] spans first-of-kind projects, new models of investment and sector-wide collaboration to transform markets, where ODA plays a critical role to support SME's to unleash their potential for contributing to economic growth and sustainable development.



3.3 Justification

Relevance: The proposed partnership is fully in line with Denmark's strategy for Development Cooperation and Humanitarian Action, particularly with regards to the promotion of inclusive and sustainable growth. The partnership is also coherent with the international development policy agenda concerning partnerships with the private sector to implement the SDGs, including by leveraging private sector knowhow and technology to help identify more sustainable solutions to development challenges. This can be done by providing seed money to projects and initiatives pre-market. These are costly and risky activities, and donor funding for such activities is essential.

[4] This may include projects that in other countries would not be defined "innovative" but in FCS are innovative and market-creating.

Efficiency: The efficiency of the trust fund is envisaged to be high as it is based on existing institutional structures and procedures regarding trust fund management with the caveat that too many funding proposals at each application round becomes costly and inefficient. The project selection criteria and the thematic prioritisation mitigate this risk.

Effectiveness: The effectiveness of activities supported under the partnership is expected to be relatively high, although there is an actual risk some projects may take time to develop into mature market-making activities, or not mature at all (business innovation). IFC has a track record of mobilising private finance, which is crucial for scaling and enhancing development impact. Furthermore, IFC is well positioned to forge more sustainable markets through its focus on sustainability.

Impact: The activities supported under the trust fund are expected to contribute to the achievement of several SDGs. The most significant impacts are envisaged to include access to affordable and clean energy, reduction of greenhouse gas emission and job creation.

Sustainability: The application of IFC's Performance Standards during screening, design, management and implementation of projects is expected to ensure high environmental and social sustainability. The Performance Standards are based on a due diligence approach, which includes assessment, management and monitoring, and rely on the similar mitigation hierarchies as the Guiding Principles (avoid, mitigate, compensate). See section 3.1.

3.4 Strategic considerations

Rational of selecting IFC as partner: IFC, as a member of the World Bank Group, is the largest global development institution focused exclusively on private sector development. It plays an important role in influencing the course of private sector development and acts as vector for broader replication in private sector markets.

IFC has built extensive experience, developed core competences, and established a global footprint through the implementation of its successive business models: IFC 1.0 and 2.0. Building on this experience, and in the pursuit of a new architecture for development finance, IFC proposes a new business model: IFC 3.0. This business model proposes to tackle more difficult development challenges by creating markets and mobilizing the billions to trillions needed to implement the SDGs.

With IFC 3.0., IFC will partner consistently and systematically with the World Bank Group to create a common strategic outlook, which generates private sector solutions wherever possible. Solutions that maximise the crowding-in of private capital will be prioritized in order to minimise the public debt burden on clients. Where private sector solutions are not feasible due to perceived risks or market failures, public resources will be applied to address those failures through reform to strengthen sector governance and the enabling environment. Where risks remain high, priority will be given to concessional and public resources to reduce risks through guarantees and risk sharing instruments. Finally, where market solutions are not possible through sector reform and risk mitigation, ODA and public resources will be applied. IFC 3.0 intends to apply a cascade approach; moving countries and sectors along a continuum from public to private finance – a function of sector economics, policies, institutions and investments. With IFC 3.0., IFC can become a more significant partner to Denmark in the pursuit of market-driven growth in developing countries.

Create Markets	Mobilize Private Investors
• Focus on correcting for market failures, **creating new markets** or strengthening them where needed. • Lead the development community in the **adoption of a new aid architecture** through a "cascade" approach to maximize mobilization of the private sector (billions to trillions). • Promote **private sector development in IDA** countries and boost local capital market development. • Partner with sister organizations in the WBG and others to develop **sector-specific development strategies**, from diagnostics to implementation. • **Scale up Advisory Services** at the firm and market level as well as at the country and sector level to build capacity, especially in IDA/FCS. • **Leverage WB, IMF and others** for regulatory reforms.	• Scale up platforms such as MCPP and develop instruments to **mobilize funding from private investors,** particularly institutional ones. • **Utilize blended finance** to de-risk and mobilize more private capital. • Invest **sufficient own account** to ensure "skin in the game". • Bring **standardization and wholesale** approaches to increase scale and efficiencies, and **innovate**, including through warehousing, to de-risk projects and diversify the investor base. • **Harmonize approaches** across Multilateral Development Banks (MDBs) on the cascade, blending and mobilization to prevent "billions to millions". • Use **IDA's Private Sector Window** to de-risk investments and boost private sector investment in Low Income Countries.

Timing: The renewal of a partnership agreement with IFC comes at an opportune time where MFA recently launched its new development strategy and where IFC is developing its new advisory services strategy. Denmark can be an important source of funding[5] and a partner who can support the advancement of IFC's 3.0 visions, and thereby leverage its own priorities.

Thematic scope: The effects of a changing climate are becoming apparent as immediate impacts are now impeding development, threatening food security in the poorest countries and a cause of migration. With dynamic energy markets driven by technological advances, and the emergence of new economic powers in the middle-income countries, greenhouse gas emissions are at a key inflection point. The opportunity – and need – for engaging the private sector in developing countries to affect a shift to sustainable economic development is immense. The thematic scope of component 1 will build on experiences from the IGGTP, but will be broader as it covers several sectors that are crucial for addressing climate changes and also covers a component specifically targeting SMEs. The thematic scope is aligned with priorities of Denmark and the World Bank Group with a view to identify possibilities for leveraging IFC's expertise and comparative advantage.

Eligible countries: The scope of the agreement is global (DAC eligible countries to receive ODA) with the expectation that over 50 percent of the activities will be carried out in IDA countries/FCS, which are especially predominant in Africa

Synergies with Danida Business Instruments, incl. IFU: Danida's Partner Platform[6] supports the enabling environment and projects from identification and early stage phases through to the scaling of bankable projects. The objective of the partnership aligns with the objective of Danida's Partner Platform to create inclusive and sustainable economic growth and employment in developing countries. Selected sectors also align well with sectors where Danish businesses can demonstrate comparative advantages. Projects supported under the business innovation trust fund can be of relevance for DMDP and IFU's Funds in the longer term (esp. relevant for SME projects funded under SME Ventures). There is ongoing work to develop a joint results

[5] Denmark is a long-time shareholder in the IFC

[6] Core instruments include: Partnering with Denmark, 3GF (P4G), Danida Business Delegations, Danida Business Explorer, IFU SME Facility, Danida Business Finance, IFU Project Development Facility, Danida Market Development Partnerships and various funds under the Investment Fund for Developing Countries (IFU). These instruments are in addition to bilateral support through country programmes, etc.

framework for Danida Business Instruments and IFU. The possibility of linking indicators from the partnership will be further explored as the framework evolves. Strengthened collaboration is an integral part of the second component of the partnership (see section 3.1).

3.5 Results framework

IFC uses a set of standard indicators to monitor project progress on a periodic basis. At the end of each project, self-evaluations are conducted to assess project achievements and identify lessons that can be used to improve future operations.

See annex 4 for the partnership's results framework and annexes 4b and 4c for complementary results frameworks at project level.

3.6 Risk assessment

Projects and investments in developing countries are generally associated with a relatively high perceived and real risk, which is also a reality faced by IFC. As well, focusing on upstream and midstream activities, such as business innovation, is by its nature more risky than implementing tested and proven solutions. Success is less certain and may take longer than normal to materialize. However, the potential impact is very high.

IFC has a set of well-developed risk policies and guidelines to minimise the overall risks in its project portfolio. IFC Advisory Services projects are governed by IFC Advisory Services policies and procedures which: (1) describe the approval process for projects from the beginning to the end of the Project Cycle; (2) outline the roles and responsibilities of key project staff; and (3) define key requirements throughout the project cycle.

Below is a review of some of the generic risks associate with projects in developing countries. Please refer to annex 3 for a project specific risk matrix.

Political and Enabling Environment risks: IFC implements its work in many low-income countries and fragile states where the political and investment climate can be unpredictable. This can result in changes to program design and targets. IFC has teams working in the regions carefully scope and adapt interventions to minimize this risk.

Client Commitment risks: IFC depends on the commitment of client companies and partners to implement its work. In some instances, companies are not able to commit resources to implement recommendations during the initial stages of pilot development and before benefits are proven. To mitigate this risk, IFC will reach out to companies in priority geographies and industries, and support their involvement by reducing their perception of risk.

Environmental and Social risks: In the past, investments in certain sectors (e.g. palm oil) have been on hold while IFC and the World Bank developed a strategic framework for re-engagement. There is always the risk that such moratoria will occur in other sectors that IFC operates in, and this could impact on the activities of the program. The mitigation for such risks will often lie in the adoption of voluntary standards consistent with IFC's performance standards, so the work undertaken via the program forms part of IFC's risk mitigation for being engaged in these risky sectors

4. OVERVIEW OF MANAGEMENT SET-UP

4.1 Legal and governance structure

Legal structure
The "Business Innovation Trust Fund" is not a separate legal entity but rather a facility or program of IFC administrated by IFC's Cross Cutting Advisory Solutions. The partnership is directed by an administration agreement, which together with its annex, sets out conditions for usage of funds, disbursement and deposits of funds, general provisions, duration and termination, acknowledgements and other provisions.

Denmark is currently the only contributor to the Business Innovation Trust Fund. Projects supported by the trust fund will in most cases receive complementary funding by other trust funds, supported by other donors.

Governance structure and implementation capacity
The "Development Partner Relations" unit under the IFC Vice President for Blended Finance and Partnerships is responsible for managing the partnership; including ensuring selected projects fulfil the criteria of the agreement, and all other aspects relating to the administration of the agreement. A selection committee established by IFC informs the selection of projects.

IFC has excellent capacity to implement projects under the partnership. Since projects will be identified across IFC's advisory services, the risk of lack of capacity is mitigated, alongside risks of unspent funds in the trust fund.

Accountability and transparency
Activities under advisory services are encompassed by IFC's Access to Information Policy. For each advisory services project, IFC discloses relevant project information, environmental and social implications, and expected development impact. Advisory services projects are disclosed following project approval.

4.2 Corporate Sustainability

IFC Sustainability Framework:
IFC's Sustainability Framework articulates the organization's commitment to sustainable development, and is an integral part of IFC's approach to risk management. The Sustainability Framework comprises IFC's Policy and Performance Standards on Environmental and Social Sustainability, and IFC's Access to Information Policy. IFC's approach of assessing and managing the environmental and social risks and impacts of its investment operations, including IFC procedural and substantive requirement placed on its clients through the Performance Standards, is broadly convergent[7] with the Guiding Principles on Business and Human Rights, and their emphasis on due diligence.

[7] Based on a review by the IFC to identify convergences in IFC's approach to human rights using the IFC's Sustainability Framework and the Guiding Principles on Business and Human Rights. Only Guiding Principles relating to the corporate responsibility to respect (GPs 11 to 24), and those regarding non-state and non-judicial grievance mechanisms that are directed at business level (GPs 29-31) were part of the review: https://www.ifc.org/wps/wcm/connect/c3dedb0049c51e71886d99da80c2ddf3/UNGPsandIFC-SF-DRAFT.pdf?MOD=AJPERES.

4.3 Monitoring, reporting and communication

Monitoring and reporting:

On an annual basis, IFC will report on progress in terms of outputs and outcomes of projects supported under the business innovation trust fund. The contents of the reports will be consistent with the IFC's accounting system. In addition, IFC will report on the partnership's results framework, complemented by IFC results frameworks on climate and SME Ventures as relevant in light of selected projects. Finally, IFC will provide an overview of selected projects, including a short justification for their approval with an explanation of how projects fulfilled the selection criteria.

Annual meetings between the IFC and MFA will be held to review partnership pipeline and progress, to review the effectiveness of the partnership in general and make adjustments. Annual reports as outlined above will be prepared as of June-end of each year, starting from 2018 and to MFA ahead of the meeting. Meetings will also be used to make a work plan for component 2 for the year ahead. Finally, MFA plans to conduct a mid-term review in 2018.

At the end of the partnership, IFC will provide a final report.

Communication:

Communication is an integrated element of the partnerships' strategic component. See section 3.1 for details.

5. BUDGET AND FINANCIAL MANAGEMENT

5.1 Budget

The grant to IFC is secured via the Finance Act §06.38.01.12 and subject to annual approval of the Finance Act. The indicative DKK 60 million budget for the 2017-2019 commitment to the IFC will be allocated according to the project selection on a competitive basis. The competitive basis will mitigate the risks of funds sitting unspent in a trust fund. See section 3.1. for more information on budget allocation to thematic areas.

Indicative* budget allocation across projects:

Expense	*Million DKK*
Staff costs (35%)	21,0
Consultants and Contractual services (43%)	25,8
Travel expenses (12%)	7,2
Other (equipment, workshops, overheads, etc.) (10%)	6,0
Total	60,0

* *Costs may vary significantly from project to project.*

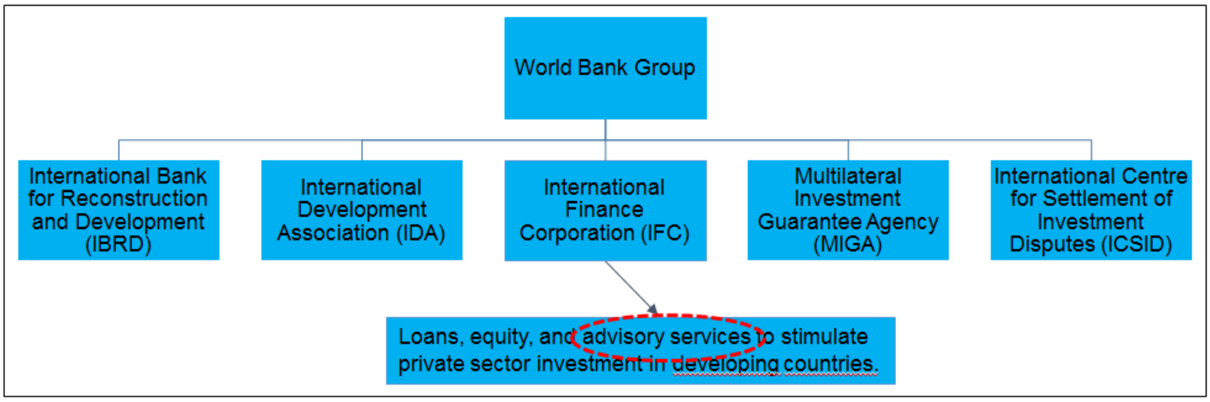
5.2 Financial management

IFC will utilize funds provided by Denmark in accordance with IFC's standard policies and procedures and in accordance with the terms and conditions set forth in the Administration Agreement between IFC and Denmark.

Annex 1: Brief Description of IFC as Engagement Partner
IFC, a member of the World Bank Group, helps developing countries achieve sustainable growth by financing private sector investment, mobilizing capital in international financial markets, and providing advisory services to business and governments. IFC's mission is to reduce poverty, improve living conditions, and promote sustainable and comprehensible development in the developing world.

IFC has leveraged about $2.6 billion in capital from member governments to deliver more than $245 billion in financing for development. Each dollar of IFC capital thus leads to about $20 of total project financing, including co-financing from other investors.

<u>IFC Advisory Services:</u>
IFC's advisory services works on the firm and market level to unlock investment opportunities and strengthen clients' performance and development impact. IFC's advisory portfolio includes more than 700 advisory projects in about 100 countries, valued at $1.3 billion.



Annex 2: Overview of partnership components

Innovation	Non-financial collaboration
Strengthen IFC's work in the area of **business innovation** to address climate change with a focus on sectors such as energy, agribusiness and manufacturing services. These sectors are essential for achieving goals around climate change and adaptation, jobs and competitiveness, and promoting prosperity that is truly shared, including opening up economic opportunities for SMEs and women. Support activities will be at both the firm level and sector level. It will provide direct support to **first-of-a kind projects** in specific markets, including support to first-movers that establish new models of investment, as well as sector-wide collaboration to mobilise investment and transform markets. These interventions are underpinned by knowledge management activities to support replication across target markets. Geographically, it is expected that over 50 percent of the activities will be carried out in **IDA/FCS**, which are especially predominant in Africa.	**Development impact - IFC 3.0:** Contribute to strengthening IFC's focus on development impact and additionality of investments, and build knowledge and best practices to be disseminated in relevant fora, including among staff. **Public-Private Partnership:** Build knowledge on effective engagement modalities (when are partnerships the most efficient means to the end). MFA-IFC will also continue to engage in strategic discussions relating to the new initiative to replace 3GF, including continued engagement of IFC in specific partnerships of the new initiative, and explore synergies where both partners have a strategic interest, e.g. the Sustainable Trading Initiative, where IFC is a partner and MFA a donor as well as SDIP. **Trough leadership and policy-engagement:** Enhance synergies between development finance institutions and the UN by bringing into the UN learnings from IFC and vice versa, with focus on, *inter alia,* mobilisation, development impact/modalities and FCS. **Outreach to private sector actors in Denmark:** Make concerted efforts to include more Danish companies and investors in the IFC portfolio, and explore synergies with Danida Business Instruments and IFU. **Human resources:** Identify opportunities for secondments and facilitate the exchange of human resource knowledge. **Strategic communications:** Scale-up strategic communications around joint achievements and activities.

Annex 3: Results Framework (component 1: Business Innovation)

<table>
<tr><td colspan="2">Thematic Title of Partnership</td><td>Strategic Partnership Agreement</td></tr>
<tr><td colspan="2">Development objective of partnership</td><td>Catalyze and scale-up the private sector's contribution to the United Nations Sustainable Development Goals by supporting innovative and potentially game-changing business models and new technological solutions to address climate changes, and by supporting first-of-a kind projects in FCS markets to establish new models of investment and transform markets. As well, the partnership sets out to forge a stronger collaboration on strategic priority areas of mutual interest to the partners.</td></tr>
<tr><td colspan="2">Impact Indicators</td><td>The impact of the partnership's component on business innovation be determined on the basis of the individual projects. The impact indicators will differ based on whether the project relates to climate changes or building markets in FCS. They can include number employment generation, reduction in greenhouse gas emission, number of people with access to improved services, and mobilisation of private capital.</td></tr>
<tr><td colspan="2">Immediate objective</td><td>The partnership's component on business innovation</td></tr>
<tr><td colspan="2">Engagement Title of Partnership</td><td>Same as the Thematic Title of the Fund: Strategic Partnership Agreement</td></tr>
<tr><td>Baseline</td><td>Year</td><td>When a new project is initiated, the baseline on the indicators selected by the IFC will be prepared. This will be followed-up with annual reporting for selected indicators as well as forming part of the IFC evaluation at the end of the partnership.</td></tr>
<tr><td>Targets and outcome indicators</td><td>Year

2019

2022</td><td>The targets of the partnership are based on recorded or estimated outcome of IFC past projects and/or aligned with the immediate objective listed above.

<u>IFC-MFA Partnership level:</u>

Innovative business models and new technological solutions facilitated and/or brought to scale. Indicator: 50% of implemented projects are successful (based on SMART objectives formulated at project initiation)

More markets get access to new technology: Indicator: 5 markets with new technological solutions as a result of an IFC project

First-of-kind projects facilitated in FCS: Indicator: Investee with SME classification at time of Acquisition: 50%

<u>IFC Programme level:</u>

Mobilize private sector investment to developing countries: Indicator: over $1 billion*

Total reduction in greenhouse gas emission (CO_2 equivalent): Indicator: 5 million MT/year*

Number of people with access to improved energy services: Indicator: 10 million*</td></tr>
</table>

* Results not attributable to Danish funding only.

Annex 3b: IFC Results Framework – Climate Innovation

Focus Area	**Indicator**
Energy and water access projects that transform markets to accelerate uptake of technologies and business models which provide modern energy and water services for people with inadequate or limited access	**# of people receiving access to improved services** (access to energy) (estimated number of individuals receiving clean energy as a direct result of the project; appropriate multipliers are used to extrapolate individuals from number of households)
Renewable energy projects that address barriers to adoption of renewable energy technology, including piloting advanced technologies which transform the power grid (into a smart grid) such as energy storage, advanced electronics, smart meters, etc.	**GHG emissions expected to be reduced** (metric tons/year) (measures GHG avoided in metric tons of CO2 equivalent per year, as compared to the GHG that would have been emitted under a business as usual scenario; the indicator is applicable for energy efficiency and cleaner production, improved forest management, reduced waste, recycling and renewable technologies)
Energy and water efficiency projects that promote scaled up investment in measures to reduce commercial, public, and residential energy and water usage	**Water use expected to be avoided** (cubic meters/year) (annual water savings that IFC's clients and/or sub-borrowers expect to achieve due to IFC's project, as compared to the water that would have been consumed under a business-as-usual scenario. The indicator counts the additional cubic meters/year of installed capacity since the last reporting period, stating explicit calculation assumptions)
Distributed solar market development & financing projects that address the technical risks and financing barriers preventing the scale up of distributed solar and rooftop solar to take off in the commercial, industrial and residential sectors	**Value of financing facilitated** (investment or financing that the client mobilized as a result of the advisory services provided)
Supporting financial institutions (banks, MFIs, NBFIs) in improving access to agrifinance, trade & commodity finance for MSME for sustainable energy-related investments and through risk-management products.	**GHG emissions expected to be reduced** (metric tons/year) (measures GHG avoided in metric tons of CO2 equivalent per year, as compared to the GHG that would have been emitted under a business as usual scenario; the indicator is applicable for energy efficiency and cleaner production, improved forest management, reduced waste, recycling and renewable technologies) **Value of sustainable energy finance** (SEF) **loans disbursed** (US$) **Number of sustainable energy finance** (SEF) **loans disbursed** (Measures supply of SEF credit during a given period: number and value of loans represent a flow figure to measure the increase in access to finance for SEF. **Number of new financial products launched** (new SEF products that were launched/rolled out by IFC clients)
Climate smart agriculture projects (including production, trade, and processing of agriculture commodities) that improve supply chain productivity.	**Number of farmers** adopting better inputs and/or climate-smart agri technologies/practices **Value of financing facilitated** (investment or financing that farmers access in climate-smart inputs and/or technology as a results of the advisory services provided)

Annex 3c: IFC Results Framework – SME Ventures

Focus Area	Indicator
Macro and Ecosystem Development	Reformed and well nurtured frontier markets for private equity regulatory leading practices **First Mover:** Creating markets for new entrants; more fund managers have willingness to enter challenging/frontier markets. Mobilizing $230m investments in 7 funds where IFC contributed $70m in 14 countries (9 FCS and 5 IDA Countries). **Ecosystem Development/Enhancement:*** Assessing regulatory ecosystem readiness for Alternative Assets regulatory reform through engaging with concerned government bodies (Capital Market Authorities, Central Banks, Ministries of Investment) **Legitimize Fund Management Operations:*** Optimized time and cost to establish on/off shore new funds for countries of operations
Fund Managers Capacity Building	**Fund Managers Capacity Building:** Growing Fund Manager Local Capacity. This will be captured through number of workshops, training events, seminars, conferences attended by these Fund managers and their teams. **Portfolio Value Creation and Returns:** competent Fund Managers' teams articulating TA plans for portfolio SMEs supporting achievement of IRR 0-5% to LPs **Portfolio Performance:** Majority (i.e., 50%) of portfolio companies with positive Sales/EBITDA growth **Demonstration effect:** $70m of IFC/SME Ventures investments has paved way for other investors and funds; allowing IFC to further grow the fund industry and attract capital into these markets of approximately $230m in 7 funds **Support Fund Managers*** for any unforeseen FCS emergency response (e.g., Ebola in Sierra Leone and Liberia)
Scaling up SME and Building	**Job creation** (critical for fragile/post-conflict/IDA): average 1,800 direct + indirect jobs/fund **Gender:** currently within current 5 funds ~20% women-owned SMEs; ~20% female direct employment

* Will be captured at time of programme evaluation, planned FY20/21

Annex 4: Results Framework

Contextual risks

Risk Factor	Likelihood	Background to assessment of likelihood	Impact	Background to assessment to potential impact	Risk response	Combined residual risk
Possible global financial instability and economic slow-down	Almost certain	A certain financial turbulence and economic slow-down trigged by a global or financial crisis.	Major	Companies likely to become hesitant to engage in innovative projects and in FCS markets. It may become more difficult to crowd-in private investment.	IFC will work with a range of potential companies and investors, public and private, and help to create conditions that are conducive for investments even in challenging environments.	Significant
Political and/or financial instability in individual countries resulting in an unpredictable investment climate	Almost certain	During recent years political and financial turbulence have taken place in many developing countries.	Major	Companies likely to become hesitant to engage in innovative projects and in FCS markets. It may become more difficult to crowd-in private investment.	IFC will work with a range of potential companies and investors, public and private, and help to create conditions that are conducive for investments even in challenging environments.	Significant

Programmatic risks

Risk Factor	Likelihood	Background to assessment of likelihood	Impact	Background to assessment to potential impact	Risk response	Combined residual risk
Lack of interest and/or capability by IFC staff to present proposals that meet the project selection criteria	Unlikely	IFC has a good track record in the area and an existing pipeline to tap into the trust fund.	Major	A lack of qualified project proposals would impede development results.	The sectoral and thematic scope is sufficient large to mitigate the risk.	Minor
Lack of interest/or capacity by MFA and IFC staff to implement activities relating to the strategic collaboration (non-financial component)	Likely	The partnership's collaboration on strategic issues sets an ambitious agenda.	Major	Constrained resources and many other priority tasks in both organizations would impede staff to pursue the partnership's strategic collaboration.	Partners will agree on an annual plan of action to identify concrete action points under each item.	Minor
Projects fail to take off.	Likely	Innovation entails uncertainty and risks.	Major	There is a risk some projects may not proceed from their initial stages. This is a calculated risk.	The project selection committee will make a thorough assessment of project applications.	Significant
Limited Funding	Likely	There is a risk that sufficient funds may not be crowded in alongside Danish funds.	Major	Lack of funding would delay or impede the project development/implementation.	IFC will work with existing key development partners to mobilize complementary resources.	Minor

Institutional risks

Risk Factor	Likelihood	Background to assessment of likelihood	Impact	Background to assessment to potential impact	Risk response	Combined residual risk
Violation of human rights and environmental standards	Likely	Human rights violations and minimum environmental standards are widespread in many developing and FCS markets.	Major	Human rights violations and breach of environmental standards would contradict and undermine the objectives of the partnership.	Projects will be based on international standards on human rights, including IFC's performance standards.	Minor
Misuse, corruption and fraud by participating partners	Likely	Misuse, corruption and fraud is widespread in many developing and FCS markets.	Major	Misuse, corruption and fraud would contradict and undermine the objectives of the partnership.	IFC has implemented a system aimed at combating fraud and corruption discovered in IFC projects.	Minor

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

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

File number/F2 reference: 2017-5051

Programme/Project name: Strategic Partnership Agreement between the International Finance Corporation and the Ministry of Foreign Affairs of Denmark

Programme/Project period: 2017-2019

Budget: DKK 60 million

Presentation of quality assurance process:
The Strategic Partnership Agreement with IFC was exempted from the normal appraisal procedures. The main reason is that the responsible department (Growth and Employment - VBE) has good technical capacity within the area of the support. Appraisal and quality assurance of the Partnership has thus been conducted by VBE with input from the Technical Quality Support department in the preparation process.

X The programme/project complies with Danida policies and Aid Management Guidelines.
Comments:

X The programme/project addresses relevant challenges and provides adequate response.
Comments:

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

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

X The results framework, indicators and monitoring framework of the programme/project provide an adequate basis for monitoring results and outcome.
Comments: An integral part of monitoring will be annual meetings between IFC and MFA, which will include a discussion on selected projects to build knowledge around "business innovation"; what works and what doesn't.

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

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

Comments:

X The programme/project is found realistic in its time-schedule.
Comments:

❑ Other donors involved in the same programme/project have been consulted, and possible harmonised common procedures for funding and monitoring have been explored.
Comments: N/A

❑ The Danida guidelines on contracts and tender procedures have been followed.
Comments: N/A

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

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

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

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

Date and signature of desk officer: 16/3/2017 Marie Wibe

Date and signature of management: 16/3/2017 Morten Elkjær