

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

Meeting in the Council for Development Policy 26 September 2017

Agenda item 6

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|---|---|
| 1. Overall purpose | For discussion and recommendation to the Minister |
| 2. Title: | Danida Business Finance: Project Development Facility |
| 3. Presentation for Programme Committee: | 31 May 2017 |

DBF Project Development Facility

Key results:

- Formulation and preparation of infrastructure projects for possible financing under Danida Business Finance
- Build-up of a sizeable pipeline of sustainable infrastructure projects in developing countries.
- Local authorities capacitated in Life-cycle principles for infrastructure projects.

Justification for support.

- Lack of bankable project proposals is hampering infrastructure investment in developing countries.
- The Facility aims to ensure increased ownership from recipient governments.
- Sustainable infrastructure projects with a Life-cycle prospect using Danish technology and expertise.

How will we ensure results and monitor progress

- IFU will manage and monitor the Facility
- Qualified experts will provide Technical Assistance under a framework contract.
- The number of proposals for financing that meet the DBF quality requirements will document the success of the Facility.

Risk and challenges

- Challenge by recipient countries to participate in the costs of developing a sustainable project proposal based on the Life-cycle cost principles
- Too few Danish companies to participate in tenders originating from the Facility.
- Extensive dialogue with sector authorities and Danish companies will mitigate the risk and challenges.

File No.	2017-8006						
Country	DBF eligible countries – Annex 4						
Responsible Unit	VBE						
Sector	Infrastructure						
<i>Mill.</i>	2017	2018	2019	2020	2021	Tot.	
Commitment	50					50	
Projected ann. disb.		10	10	15	15	50	
Duration	4 years, 2018-2021						
Finance Act code.	06.38.01.14.						
Desk officer	Lars Friis-Jensen						
Financial officer	Hans-Henrik Christensen						

SDGs relevant for Programme:



Budget

DBP Project Development Facility	DKK million
<i>Feasibility studies etc.</i>	49
<i>Review</i>	1
Total	50

Strat. objective(s)	Thematic Objectives	List of Engagement/Partners
To contribute to socially, economically and environmentally sustainable infrastructure in developing countries	To enable authorities in developing countries to present sustainable Life-cycle cost infrastructure proposals for possible financing under Danida Business Finance	<ul style="list-style-type: none"> - Investment Fund for the Developing Countries - Sector authorities in developing countries -

Ministry of Foreign Affairs of Denmark

Danida

Programme Document

Danida Business Finance

Project Development Facility

September 2017

Ref. No.: 2017 – 8006

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1. INTRODUCTION

It has been decided to increase in allocations for Danida Business Finance in the coming years. In order to realize this it is necessary to advance the project pipeline. The purpose of the Project Development Facility is to enable authorities in developing countries to present sustainable Life-cycle cost infrastructure proposals for possible financing under Danida Business Finance. The Government has allocated DKK 50 million on the 2017 Finance Act to this end. The implementation of the Facility will be from 2018 to 2021.

The overall purpose of Danida Business Finance is to create framework conditions for sustainable economic growth and employment in developing countries, thereby contributing to promoting the Sustainable Development Goals. The immediate aim is to secure financing of larger, primarily public, infrastructure projects that cannot be financed under market conditions in developing countries.

The scheme follows OECD's rules for tied aid credits. The scheme has a tied and an untied part. The tied scheme can only finance Danish supplies, while the untied scheme can finance deliveries from OECD countries. The appropriations are used for payment of interest rate subsidies, cash contributions, technical assistance, etc.

Danida Business Finance offers concessional loans to infrastructure projects in developing countries with an income per capita below USD 4,035 and with a Danish representation or in combination with an IFU investment in countries below USD 4,035 (see country list in Annex 4). The projects must contribute to sustainable development in the recipient country in line with the UN Sustainable Development Goals (SDG). The budget for Danida Business Finance is DKK 250 million in 2017, which will generate sustainable infrastructure projects in developing countries with a total contract value of more than DKK 600 million. The annual budget for Danida Business Finance will increase to DKK 300 million in 2018 and to DKK 400 million from 2019. The Guiding Principles for Danida Business Finance is available on this [link](#).

2. STRATEGIC CONSIDERATIONS AND JUSTIFICATION

The investments required to achieve the Sustainable Development Goals (SDGs) are enormous. UNCTAD estimates that the total SDG investment needs in developing countries are in the order of USD 3.3 – 4.5 trillion per year, and projections based on the current public and private investment levels indicate a financing gap of USD 2.5 trillion annually. The main financing gaps are related to infrastructure (energy, transport, telecommunication, water and sanitation), climate, agribusiness and food security, health and education. Official Development Assistance (ODA), currently estimated at USD 132 billion, will only be able to cover a small part of this financing gap.

The World 2030, Denmark's Development policy and humanitarian strategy, lay down the framework for Denmark's development policy vision within four strategic guideposts and priorities.

Accordingly, Denmark will invest in inclusive, sustainable growth and development in the developing countries, focusing on energy, water, agriculture, food and other areas where Denmark has special knowledge, resources and interests. This will contribute to creating sustainable communities with economic freedom, opportunities and jobs – especially for the young people. It will also benefit Danish economy, trade and investments.

The strategy states that in order to ensure investments in sustainable infrastructure, Denmark will further develop and prioritize financing via Danida Business Finance for public purchasers in poor developing countries, including project development.

The strategy further states that Denmark will strengthen the Investment Fund for the Developing Countries (IFU) as the central Danish development investment institution. IFU and the investment funds managed by it, are able to mobilize large-scale private funding, including from pension funds, foundations and businesses with a view to investing in sustainable growth, decent employment and technology transfer for addressing e.g. the climate and environmental problems in difficult markets in the developing countries.

With this background, the Minister for Development Cooperation decided to move part of the operational responsibility for Danida Business Finance to IFU, while the strategic control and grant authority should remain in the Ministry of Foreign Affairs and with the Minister for Development Cooperation. The transfer to IFU took place in September 2017. The expectation is that the cooperation will be able to scale the total Danish investments to major infrastructure projects. A larger Danida Business Finance project volume will primarily benefit developing countries, but it also offers opportunities for Danish businesses to engage in infrastructure projects within, for example, energy and water in new markets.

It is estimated that there is a potential for synergy between IFU's investments and infrastructure projects funded through Danida Business Finance. IFU's investments will often depend on public infrastructure being in place, as was the case for the Lake Turkana wind project in Kenya where roads and transmission lines were needed to support the commercial investments. As IFU invests only in commercial operations, other (soft) financing, like Danida Business Finance, is required to provide funding for public infrastructure.

3. PRESENTATION OF PROGRAMME

3.1. Objectives

The objective of the DBF Project Development Facility is to enable authorities in developing countries to present sustainable Life-cycle¹ cost infrastructure proposals to the IFU for possible financing under Danida Business Finance. This Facility is a supplement to ongoing activities in preparation for Danida Business Finance projects.

The DBF Project Development Facility will contribute to social, economical and environmental sustainable infrastructure in developing countries. The Facility will contribute to achievement of the Sustainable Development Goals, and in particular Goal No. 9 Industry, innovation and infrastructure; Goal No. 6 Clean water and sanitation; Goal No. 7 Affordable and clean energy; and Goal No. 13 Climate action. Goal No. 5 Gender equality will be a part of individual interventions under the Facility.

The purpose of the Project Development Facility is to promote investments in large public infrastructure, which cannot be financed on commercial terms. The facility provides access to financing in developing countries in connection with the development of projects that will be financed by Danida Business Finance. Such projects may have difficulties in finding financing during the development phase due to limited public funds or because private investors consider it to be associated with high risk and low returns. By covering 75 percent of project development risk, the facility can help increase investment in infrastructure projects that are crucial for sustainable development in developing countries.

The outcomes of the Project Development Facility will be qualified applications for concessional loans under Danida Business Finance and thus leading to sustainable infrastructure in developing countries. The Life-cycle cost principle implies that preparation and implementation of projects will include financial, environmental and social aspects and thereby enhance the effect of the project and the Facility contributing to achieving the Sustainable Development Goals.

An additional outcome will be capacity development of sector authorities in developing countries in terms of formulation, preparation and implementation of sustainable infrastructure projects with a Life-cycle cost prospective.

Finally, the Facility will benefit the commercial competitive situation for Danish suppliers in the short term as a direct consequence of projects supported under this Facility, and in the long

¹ Wikipedia: Life-cycle cost refers to the total cost of ownership over the life of an asset. Also commonly referred to as "cradle to grave" or "womb to tomb" costs. Costs considered include the financial cost, which is relatively simple to calculate, and the environmental and social costs, which are more difficult to quantify and assign numerical values. Typical areas of expenditure which are included in calculating the whole-life cost include, planning, design, construction and acquisition, operations, maintenance, renewal and rehabilitation, depreciation and cost of finance and replacement or disposal.

term because of the adaption of the Life-cycle principle by sector authorities in developing countries. The latter will also benefit suppliers from other countries that adhere to the Life-cycle cost principle.

3.2. Theory of change and key assumptions for the Facility

The Theory of Change behind the Project Development Facility is that by providing funds for preparation of sustainable Life-cycle cycle cost infrastructure projects new projects financed with concessional loans will result in sustainable infrastructure, which would otherwise not, or not to the same extent and quality, have been initiated. The Project Development Facility will also result in increased capabilities of local authorities to apply the Life-cycle principles and it will promote and disseminate Danish technology and expertise.

Figure 1 below illustrates the Theory of Change for the Project Development Facility, where the three vertical boxes relate to the Facility. The following interventions of appraisal, approval and implementation of DBF projects are outside the scope of this Programme Document.

From interventions to outputs

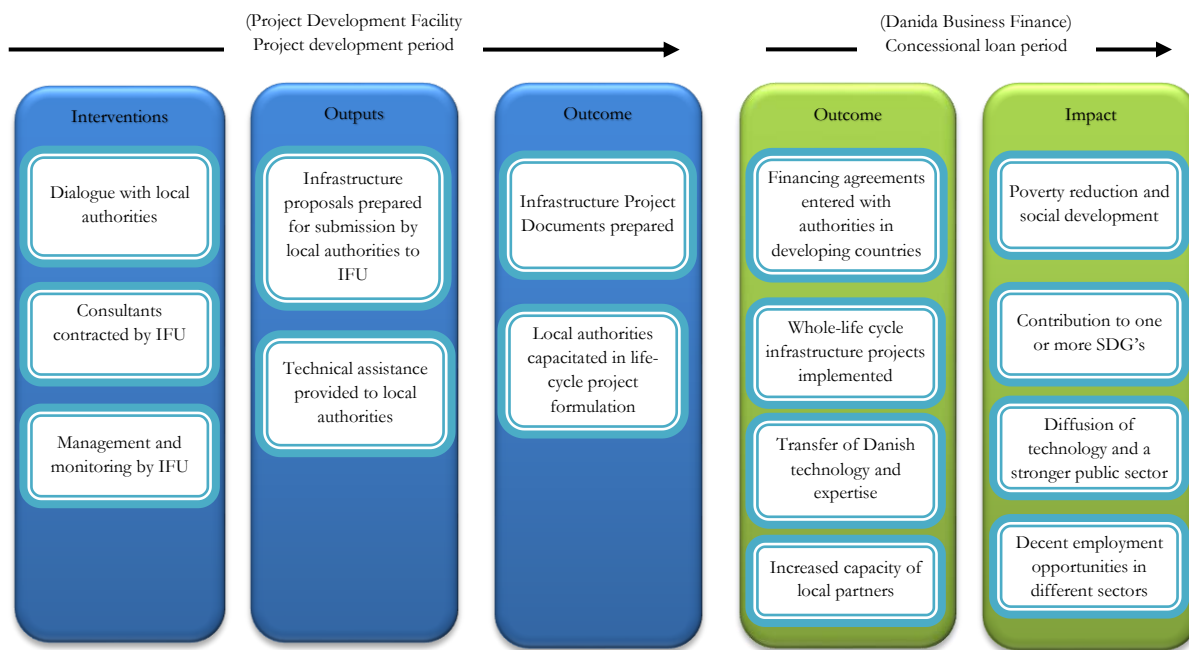
The starting point for a DBF project is usually an initial dialogue between an authority in a developing country on the one hand and one or more units, including relevant Danish representations, in the Foreign Service on the other hand. In the future, IFU will play a leading role in the initial dialogue with active participation of the Danish representations. The Facility will become a useful tool for the Embassies in their dialogue with the local authorities. The dialogue can arise as part of bilateral cooperation, such as a sector programme or because of the Partnering with Denmark cooperation. It may also be a project identified by a potential Danish supplier. Technical assistance will involve Danish competencies and knowledge and will build capacity with local authorities regarding the formulation of projects based on Life-cycle cost.

From outputs to outcomes at Facility level

Outputs from the Project Development Facility will enable IFU to prepare documentation required to present proposals for DBF funding to the Ministry of Foreign Affairs for approval. Danish technology will contribute to sustainable development and to promoting the Sustainable Development Goals. Outputs will also enable local authorities to formulate new infrastructure projects based on the Life-cycle principle.

Outcomes as a result of the Project Development Facility will be sustainable infrastructure projects with DBF financial support using Danish technology and expertise. Local authorities will gain experience in the preparation and implementation of sustainable infrastructure projects. The impact will contribute to Denmark's Development policy and humanitarian strategy.

Figure 1: ToC for the DBF Project Development Facility



The Theory of Change depends on a number of assumptions. The overall assumptions are that the political and economic context, globally and in DAC countries, remains relatively stable, and that the recipient countries are willing and capable of participating and contributing to the preparatory activities. The basic assumption is that it will be possible to identify a sufficient number of potential infrastructure projects that qualify for support under the Facility.

3.3. Justification

Relevance: It is widely recognized that the infrastructure investment deficit in developing countries is caused by the lack of bankable project proposals due to a range of obstacles such as undeveloped long-term infrastructure project pipelines as well as high development and transaction costs. This, together with the real and perceived risks of doing business in developing countries, is a constraint to the development of sustainable infrastructure project proposals.

Impact: The Project Development Facility will have a direct impact on the number and quality of project proposals submitted by authorities in developing countries to finance infrastructure projects. The Facility will also have an impact on the capacity and capability of involved local authorities to prepare and formulate sustainable Life-cycle cost infrastructure proposals.

The indirect impact of the Facility will be sustainable infrastructure projects that will have a positive impact on a number of the Sustainable Development Goals and in particular Goal No. 9 Industry, innovation and infrastructure; Goal No. 6 Clean water and sanitation; Goal No. 7 Affordable and clean energy; and Goal No. 13 Climate action. The Facility will also have an indirect impact on Goal 8 Decent work and economic growth and Goal 5 Gender equality.

Effectiveness: A number of factors will influence the effectiveness of the Project Development Facility, i.e. the extent to which the Facility will reach its overall and immediate objectives. The effectiveness of the immediate objective will, among other things, depend on the ability and willingness of sector authorities and finance ministries in the developing countries to present proposals to IFU. The effectiveness of the overall objective has a long-term perspective. It will depend on a successful implementation of infrastructure projects developed based on support from the Facility. The Summary of risk analysis and risk response and the Risk Matrix elaborates on the risks associated with the effectiveness of the Facility.

Efficiency: Management of the Project Development Facility will be the responsibility of the newly established Finance Team within the IFU organisation. The efficiency of the Project Development Facility will benefit from the vast knowledge and experience of DBF operations combine with IFU's experience across countries and sectors through their core investment businesses and Fund Management.

Sustainability: The sustainability of the Project Development Facility, hence the extent to which the benefits of the Facility will continue after the funding has ceased will be measured on the direct results as well as the indirect results. Sustainability is a key principle for Danida Business Finance and sustainability will, as such, be central to the preparation of infrastructure projects as well as to the implementation of projects. Furthermore, IFU has a strong focus on sustainability of their investments. Sustainability standards, including UN Guiding Principles for Business and Human Rights, as well as a number of other interrelated international sustainability standards are integrated in IFU investment procedures. The IFU standards will also apply to projects financed under Danida Business Finance.

3.4. Strategic considerations

Danida Business Finance has been operating since 1993 and has provided financing in the form of concessional loans to projects totaling almost 14 billion DKK in 29 countries across Africa, Asia and Latin America. Many Danish companies have gained access to developing markets with high-perceived risk or entry barriers by engaging in DBF projects. Some of these companies, including Danish consultancy firms, are now working on commercial terms in countries such as China, Vietnam and Egypt within the energy, water and agribusiness sector previously supported by DBF.

In addition to improving the infrastructure in developing countries, DBF has contributed to job creation (or preservation) in recipient countries as well as in Denmark. The DBF programme has strong support from organisations such as The Confederation of Danish Industries and the Danish Construction Association whose members are actively engaged in DBF projects. The current active project portfolio amounts to approximately DKK 4.5 billion and the project pipeline includes projects within water and sanitation, wind and transportation,

and including among others, a water treatment project in Bangladesh with an expected contract value of DKK 1.3 billion.

Life-cycle cost is a fundamental principle when requests for Danida Business Finance support to infrastructure investment projects are considered. Costs of operation during lifetime of a project are crucial for the sustainability of the investment, and make up tender criteria as important as quality and price of equipment. Low costs of operation require smart and innovative technical solutions, and Danish companies are strong competitors when the Life-cycle cost is included in the project design and tender criteria.

Furthermore, promoting social and environmental sustainability must be an integral part of the facility. Danish companies generally have high standards for sustainability. By promoting international principles for sustainability and responsible business conduct, it is possible to enhance business opportunities for Danish companies and profitable private sector growth opportunities in developing countries.

3.5. Integration of results and lessons learned from previous cooperation

The DBF Project Development Facility will replace the current Feasibility Study facility. Under the current facility, Danish suppliers can receive financial support to cover 75 percent of the expenses to conduct feasibility studies within a maximum of DKK 750,000. The facility has financed seven feasibility studies, but none of those has resulted in a project financed by Danida. The experience is that Danish companies promoted the studies without real ownership by the local authorities. The new facility will ensure that local authorities have full ownership of investment in project development, cf. section 3.6 below.

Danida approved in 2016, Danish co-financing of two comprehensive feasibility studies on a pilot basis in close cooperation with relevant water authorities and finance ministries: Thika and Githunguri Water and Sanitation Improvement Project in Kenya and Faisalabad Wastewater Treatment Plant in Pakistan. The expectation is that the studies will lead to concrete proposal for DBF financing, and they will serve as lessons learned for the new Facility.

3.6. Development engagements, modalities, and capacity building

The engagement partner is IFU who will be responsible for the implementation of the Project Development Facility. The terms and conditions for implementation are specified in an agreement between The Ministry of Foreign Affairs and IFU and a Development Engagement Document. The draft documents are available on request.

The beneficiaries will be authorities in countries covered by Danida Business Finance. These are countries with a BNI per capita below USD 4,035 with a Danish representation or in combination with IFU investments in countries BNI limit. The engagements under Project Development Facility will be in the form of agreements between IFU and local authorities concerning financial contributions to activities related to the preparation and formulation of an

application for financing of an infrastructure project under DBF. The agreement will include capacity building and technical assistance concerning Life-cycle projects.

The Facility will contribute with financial support to offset 75 percent of the cost of investigating and preparing project opportunities, and thereby reducing the risks associated with the development of non-commercial infrastructure projects. Local authorities will contribute to the remaining 25 percent of the cost in the forms of cash, personnel or other in kind contributions. The outputs of the Facility will be feasibility studies, analysis, pilot activities, etc., as well as capacity building of the local authorities.

Financial contribution under the Facility is based on a request from a local authority/ministry of finance to IFU for co-financing of the expenses for the preparation of a feasibility study and other preparatory activities relating to a potential infrastructure project. Upon IFU's approval of the request, IFU will contract consultancy services based on Terms of Reference prepared together with the local authority. The tender for consultancy services will normally be carried out under the DBF Framework Agreement covering Technical Assistance in relation to Danida Business Finance projects or under an individual tender for the assignment. Tendering by IFU is subject to Danish law.

The principles of procurement under Danida Business Finance are set forth in the Procurement Rules, March 2017. Accordingly, feasibility studies must include requirements regarding sustainability in order to improve resource efficiency and environmental protection. A checklist of sustainability considerations specific for the project must be elaborated. The project sustainability process shall be an overriding issue throughout the project development, implementation, and operation until decommissioning and include all relevant stakeholders. This will include life-cycle or Life-cycle cost calculations as a tool during all stages of the project. Based on choices made at the conceptual stage, specific design objectives and indicators for the project's components shall be reflected in the tender documents including the tender evaluation criteria.

Civil Society Organisations are relevant stakeholders as they can play an important role in the development of infrastructure projects. Civil society organisations are increasingly collaborating with businesses to promote sustainable private investments, and their participation in project development could therefore be included in the Terms of Reference for the provision of Technical Assistance for a specific project. Involvement of local communities will be part of the project preparation under any circumstances.

Capacity building to engagement partners is an important part of the Facility and is important for dissemination of the effects of the technical assistance provided under the Facility.

The requirement to observe Danida's zero tolerance towards corrupt, facilitating, fraudulent, collusive and coercive practices and the Ten Principles of the UN Global Compact applies for all parties involved in the project preparation, implementation and operation.

3.7. Results framework

The results framework and outcome indicators are outlined in Annex 1. It is expected that it will be possible for IFU to enter agreements with local authorities to prepare 8 to 12 projects for possible financing under DBF.

3.8. Risk assessment

The risk matrix in Annex 4 illustrates the risks related to the Project Development Facility engagement areas under the three risk areas (contextual, programmatic and institutional). The responsibility for monitoring and taking action on the risks as regards the Facility rests with IFU, and IFU will also be responsible for handling any operational risks which may occur during implementation of Facility. IFU will keep Danida updated on any development in the risk assessment.

Contextual risks relate to a possible new global financial crisis and/or economic slow-down, which is likely to have a negative impact on investments in infrastructure and especially investment in more risky markets. The contextual risks are unlikely at present.

Programmatic risks include lack of knowledge and interest by authorities in developing countries in the Project Development Facility as an opportunity for developing projects. IFU, in cooperation with embassies and through its own networks, will make targeted efforts to identify potential funding opportunities. There is also risk of delay in project development beyond the control of IFU. Mitigation of such risks requires close monitoring and swift management decisions, which the new set-up at IFU has the potential to deliver.

Risks at the institutional level are likely due to the lack of knowledge and experience with the Life-cycle principle. Impact is, however, minor due to the competence building that will be an integral part of the technical assistance to the authorities. Corruption, human rights violations, etc. are likely risk factors and the impact could be major. These risks are linked to the human rights index for the recipient country, and a close dialogue with the authorities will mitigate the impact.

4. OVERVIEW OF MANAGEMENT SET-UP

4.1. Organisation and management

IFU will manage the DBF Project Development Facility under an Agreement between the Ministry of Foreign Affairs and IFU. IFU will have the exclusive right to administer the DBF Project Development Facility as part of an Act No. 106 approved by the Finance Committee on 8 June 2017 concerning the transfer of the administration of Danida Business Finance to

IFU. It is noted that the Public Procurement Act does not apply to contracts awarded on the basis of an exclusive right, cf. Section 17 of the Act².

As mentioned above, the operational activities under Danida Business Finance was transferred to IFU on 1 September 2017. Locating the operational administration of DBF with IFU will strengthen the overall capacity to identify and develop projects in developing countries. It will also be possible to take advantage of IFU's financial expertise, knowledge, networks and monitoring systems, and to develop synergy between DBF concessional loans and IFU commercial investments. This could, for example, be transmission lines in connection with wind farms, access roads, etc.

The role of the Ministry of Foreign Affairs will be central at the strategic level, and the Embassies will play an important role in the identification of DBF projects. Approval of applications for financial support under Danida Business Finance to infrastructure projects follows Ministry of Foreign Affairs normal procedures. This includes presentation to the Programme Committee, Council for Development Policy, and final approval by the Minister for Development Cooperation.

4.2. Monitoring framework

Monitoring of activities under the Facility will follow established procedures for Danida Business Finance activities and will be adapted to comply with IFU's overall management procedures as part of the transfer of the operating responsibility from the Ministry of Foreign Affairs to IFU.

The Ministry of Foreign Affairs will monitor the progress of the Facility as part of establish procedures for the Ministry's oversight of IFU. This includes participation as observer at the IFU Board of Directors, regular meetings at management level and the annual meeting with the Minister for Development Cooperation. New internal management guidelines for DBF will be developed as part of the transfer of the administration to IFU.

The Ministry of Foreign Affairs will carry out a mid-term review at the end of 2019. The review will assess progress against targets established in the results framework, but will also make careful considerations to the pipeline as well as to the perspective for entering finance agreements under the DBF budget. The mid-term review will also assess the performance and results of the consultant engineers contracted to assist the local authorities with the preparation of project proposals and to build capacity with the local authorities. The mid-term review will also provide recommendations to possible strengthening of IFU's engagement and capacity in project development.

² Section 17. This Act shall not apply to public service contracts awarded by the contracting authority to another contracting authority or to a group of contracting authorities on the basis of an exclusive right under law or according to published administrative provisions which are compatible with the Treaty on the Functioning of the European Union

5. BUDGET AND FINANCIAL MANAGEMENT

The allocation of DKK 50 million on the Finance Act for 2017 will be committed to IFU and will be utilised over a four-year period to finance 8 to 12 projects.

	Danida	Recipient	Total
8 to12 finance proposals	49	12	61
Review	1	-	1
Total	50	12	62

The activities to be financed under the Facility are specified in the Framework Agreement presently being tendered and will include a wide range of technical assistance and other activities necessary for the formulation of a Danida Business Finance project. The activities will also include capacity building in the form of technical assistance to the local authorities in all aspects of the preparation, tendering, and monitoring of a sustainable infrastructure project. The cost of involvement of civil society organisations will be part of the contract with the consultants.

Contributions by local authorities could be cost coverage or through in kind contributions.

Allocation of funds from the Project Development budget will follow normal IFU financial management procedures. Transfer of funds from Danida to IFU will take place on a yearly basis based on estimated expenditures during the following twelve-month period. IFU will handle the funds according to IFU's rules and procedures for accounting, auditing, procurement, etc. An amount of DKK 1 million will be reserved for a review of the Facility.

Annexes

1. Results framework
2. Risk Management Matrix
3. Brief Description of IFU as Engagement Partner
4. List of countries
5. Checklist for appraisal

Documents available to the Council for Development Policy on request:

1. Agreement and Development engagement document (draft)

Annex 1: Results framework

The **objective** of the DBF Project Development Facility is to enable authorities in developing countries to present sustainable Life-cycle cost infrastructure proposals for possible financing under Danida Business Finance.

There are two outcomes linked to the immediate objective:

Outcome 1: Applications for DBF financial support to infrastructure projects in developing countries

Outcome 2: Local authorities capacitated in formulation of Life-cycle cycle projects.

IFU and Danida agree to measure progress of the Facility through a number of outcome and output indicators as outlined in the tables below. It should be noted that the time perspective in the result framework is not defined, i.e. 'as of completion of support' is not related to a specific year. That will depend on the time perspective for the different project proposals. The parties have however established yearly targets for entry into project development.

Engagement Title		Danida Business Finance Project Development Facility	
Outcome 1		Applications for DBF financial support to infrastructure projects in developing countries that have been prepared according to the Life-cycle principle	
Outcome indicator		Number and quality of proposals submitted by IFU to Danida for approval	
Baseline	Year	2018	Zero
Target	Year	2021 and beyond	The time perspective for proposals submitted to Danida will go beyond the four-year project period. The target at the end of the four-year period is that 8 to 12 infrastructure projects are in the process to be submitted to Danida for approval by the UPR.

Output 1		Approval of financial support to formulation and preparation of infrastructure projects for possible DBF financing	
Output indicator		Number of requests to develop project preparation received and contracts entered with Consultants for technical assistance to authorities in developing countries.	
Baseline	Year		Zero
Target	Year 1	2018	2 to 3 requests approved and Consultancy contracts entered
Target	Year 2	2019	2 to 3 requests approved and Consultancy contracts entered

Target	Year 3	2020	2 to 3 requests approved and Consultancy contracts entered
Target	Year 4	2021	2 to 3 requests approved and Consultancy contracts entered
Output 2		Infrastructure projects formulated and presented for possible DBF financing	
Output indicator		Number of project proposals presented by authorities in developing countries to IFU for financial support under DBF	
Baseline	Year		Zero
Target	Year 1	2018	[Intended situation after first year of implementation]
Target	Year 2	2019	[Intended situation after two years of implementation]
Target	Year 3	2020	[Intended situation after three years of implementation]
Target	Year 4	2021	[Intended situation when activity under the engagement ends]

Engagement Title		Danida Business Finance Project Development Facility	
Outcome 2		Local authorities capacitated in formulation of Life-cycle projects.	
Outcome indicator		Number of local authorities receiving technical assistance and training in Life-cycle project preparation and thus achieving the necessary skills.	
Baseline	Year	2018	Zero
Target	Year	2021 and beyond	The time perspective for technical assistance to local authorities will go beyond the four-year project period. The target at the end of the four-year period is that 8 to 12 local authorities are in the process of receiving technical assistance or that technical assistance is completed.

Output 1		Approval of financial support to formulation and preparation of infrastructure projects including technical assistance for possible DBF financing	
Output indicator		Number of requests to develop project preparation received and contracts entered with Consultants for technical assistance to authorities in developing countries.	
Baseline	Year		Zero

Target	Year 1	2018	2 to 3 requests approved and Consultancy contracts entered
Target	Year 2	2019	2 to 3 requests approved and Consultancy contracts entered
Target	Year 3	2020	2 to 3 requests approved and Consultancy contracts entered
Target	Year 4	2021	2 to 3 requests approved and Consultancy contracts entered
Output 2		Technical assistance and training completed	
Output indicator		Number of Consultancy contracts completed and technical assistance and training in Life-cycle documented.	
Baseline	Year		Zero
Target	Year	2021 and beyond	The time perspective for technical assistance to local authorities will go beyond the four-year project period. The target at the end of the four-year period is that 8 to 12 local authorities are in the process of receiving technical assistance or that technical assistance is completed.

Specific targets will be revised and adjusted based on the findings of the mid-term review of the Project Development Facility.

Annex 2

Risk Management Matrix for DBF Project Development Facility

Contextual risks

Risk Factor	Likelihood	Impact	Risk response	Background to assessment
A possible new global financial crisis will limit the ability and willingness of developing countries to invest in the preparation and financing of sustainable infrastructure project.	Unlikely	Major	The effects of a possible global financial crisis will be part of the assessment of project applications, and on the consequences for possible financing under DBF of the proposed project.	A global financial crisis will limit the interest of Danish companies to engage in public infrastructure projects, particularly in developing countries.
Political instability in individual recipient countries.	Unlikely	Major	Political stability in the recipient country will be part of the assessment of project applications, and on the consequences for possible financing under DBF of the proposed project.	Political instability in recipient countries will limit the interest of Danish companies to engage in infrastructure projects.

Programmatic risks (for country programmes/regional programmes filled out for each thematic programme)

Risk Factor	Likelihood	Impact	Risk response	Background to assessment
Resistance by the recipient country to participate in the costs of developing a sustainable project proposal based on the Life-cycle cost principles	Unlikely	Major	Allocation of resources to inform relevant authorities, including the Ministry of Finance, about the Life-cycle costs principles.	Dialogue about potential infrastructure projects with authorities in the recipient countries.
Lack of interest by Danish	Unlikely	Major	Early dialogue with potential Danish	Knowledge about the

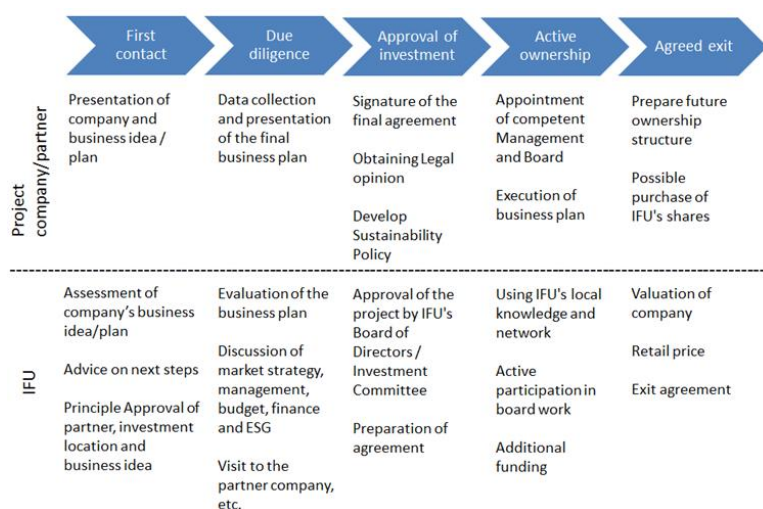
companies to participate in tenders originating from the Facility.			suppliers about possible interest in a particular potential infrastructure project.	Danish resource base and their strongholds.
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Institutional risks

Risk Factor	Likelihood	Impact	Risk response	Background to assessment
Local authorities unable to participate in the preparation of feasibility studies, etc. due to lack of knowledge and experience with the Life-cycle cost principle	Likely	Minor	Allocation of sufficient budget for technical assistance and training to key personnel with relevant public institutions and authorities.	Assessment of institutional capacity and technical capabilities of the relevant authorities at an early stage of the dialogue.
Corruption, human rights violations, etc.	Likely	Major	Close dialogue with recipient authorities about United Nations Guiding Principles on Business and Human Rights.	Human Rights index for the recipient country.

Annex 3: Brief Description of IFU as Engagement Partner

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



A five-step investment process

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

Sustainable policies

IFU's has a dedicated focus on sustainability, and the purpose of the policies is to create fair conditions for employees, safeguard the

environment and uphold basic human rights, etc. IFU is a signatory to the UN Global Compact and working on implementing the UN Guiding Principles on Business and Human Rights across our portfolio.

One access – six funds

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

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

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

Statutory framework

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

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

Annex 3: List of eligible countries

Danida Business Finance is available in the following countries:

Low Income Countries < USD 1,025		Lower Middle Income Countries < USD 4,035	
Afghanistan	Niger	Bangladesh	Myanmar
Burkina Faso	Somalia	Egypt	Nigeria
Ethiopia	Tanzania	Ghana	Pakistan
Mali	Uganda	India	Palestine
Mozambique		Indonesia	Philippines
		Kenya	Ukraine
		Morocco	Vietnam

DBF (the tied scheme) is also available in Low Income Countries and Lower Middle Income Countries without a Danish representation, if the project supports an IFU investment. Investments in countries without a Danish representation are limited to 25 percent of total DBF financial support to ensure that DBF funding continues to focus on countries of strategic interest for Denmark, i.e. countries with a Danish representation.

Annex 5 Checklist for appraisal

Quality Assurance checklist for appraisal of programmes and projects above DKK 10 million³

File number/F2 reference: 2017-8006
Programme/Project name: Danida Business Finance Project Development Facility
Programme/Project period: 2018 - 2021
Budget: DKK 50 million

Presentation of quality assurance process:

Due to the nature of the Facility, consisting of 8 to 12 individual projects and because of the low complexity of the Facility it was approved by the Programme Committee at their meeting on 31 May 2017 that the Department for Growth and Employment (VBE) Development Specialist carries out the appraisal of the DBF Project Development Facility programme document.

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

Comments:

The VBE Development Specialist has not been involved in the development of the programme.

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

Comments:

The DBF Project Development Facility complies with the Strategy for development cooperation and humanitarian action, The World 2030, and in particular, the strategic aim concerning inclusive, sustainable growth and development. The programme has been developed in accordance with Danida Aid Management Guidelines.

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

Comments:

The programme addresses the infrastructure investment deficit in developing countries caused by the lack of bankable and sustainable project proposals. The Project Development Facility is considered a relevant and useful instrument to generate relevant, sustainable and bankable project proposals, and at the same time, local authorities will be capacitated in developing infrastructure projects according to the life-cycle principle.

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

³ 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:

The Programme Committee requested that more consideration should be given to ensure that not all activities were taking place in only the more developed countries. The Programme Committee noted that the required local contribution could be a challenge in not least fragile states thereby being an additional argument to focus more on developed countries. The challenge need further consideration in the preparation of the programme document.

The Appraisal notes that the selection of potential projects for support under the Project Development facility is guided by the principles for project selection as specified in the guiding principles for Danida Business Finance. This includes limitation to countries with a GNI per capita below USD 4,035 and with a Danish representation. The appraisal further notes that the existing DBF pipeline consists of several projects in least developed countries and some in fragile states. This trend is expected to continue after the introduction of the Project Development Facility.

The Programme Committee stressed the importance of not only working with the local authorities but also engaging the civil society when their expertise would be relevant and important for the success of the activity. The appraisal notes that the Programme Document recognises that Civil Society Organisations are relevant stakeholders as they can play an important role in the development of infrastructure projects. Civil society organisations are increasingly collaborating with businesses to promote sustainable private investments, and their participation in project development could e.g. be included in formulating Terms of Reference for the provision of consultancy for the preparation of the projects.. Involvement of local communities will be part of the project preparation under any circumstances.

The Programme Committee found it necessary to also include indicators related to the capacity building efforts in the overall result framework. The appraisal notes that Capacity building has been included as an outcome in the Results Framework. Indicators much be developed for each individual intervention.

- ❑ 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:

The outcome of the Project Development Facility consist of project proposals, which in itself will not be sustainable. However, the project proposals will result in new sustainable infrastructure in developing countries in line with national policies. Furthermore, as the Facility will focus on Life Cycle Cost the project proposals will be more sustainable in terms of project scope and design than if the project development/feasibility study is carried out without the support of the Project Development Facility.

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

Comments:

The results framework is found adequate at programme level. It is recognised that results and indicators will be integrated in the Terms of Reference for each tender for consultancy assistance to prepare project proposals.

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

Comments:

The Facility will support 8 to 12 project preparation activities, which is equal to an average of DKK 5 million for one project. This is considered a realistic budget assumption considering that most of the projects are expected to be relatively requiring to prepare due to their size and complexity. It is noted that each project will be subject to tender according to Danish law.

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

Comments:

The time schedule is considered to be realistic

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

Comments:

It has not been relevant to consult other donors, but coordination with other donors in relation to the preparation of the specific projects will be assured according to requirements.

- ❑ The Danida guidelines on contracts and tender procedures have been followed.

Comments:

Tender procedures will follow Danish law.

- ❑ 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:

IFU is considered to have the capacity required for managing and reporting.

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

Comments:

The risk matrix addresses relevant factors and responses.

- ❑ 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: 08-09-2017 Jørn Olesen, Chief Advisor, VBE

Date and signature of management: 11-09-2017 Ole Thonke, Head of Department VBE