

**Ministry of Foreign Affairs – (Department for Green Diplomacy and Climate)**

**Meeting in the Council for Development Policy on 22 September 2022**

Agenda Item No. 5

- 1. Overall purpose:** *For discussion and recommendation to the Minister*
  
- 2. Title:** Support to the Investment Fund for Developing Countries (IFU): India Climate Investment Initiative 2022-2025
  
- 3. Presentation for Programme Committee:** 28 June 2022
  
- 4. Previous Danish support presented to UPR:** No

# India Climate Finance Initiative (ICFI)

## Key results:

- IFU will invest in 2-3 projects that will contribute to the green transition (reduction in GHG emission) and counter climate change in India, e.g. installation of renewable energy or energy efficient wastewater treatment. IFU's ESG standards will apply to ensure that jobs created are decent.
- The Danish Embassy will use IFU's investments as a lever to strengthen policy dialogue with Indian authorities and strategic stakeholders thereby contributing to more favourable conditions for the green transition.
- IFU and the Danish Embassy will strengthen their collaboration within the area of climate change and green transition and jointly build an interesting portfolio of green investment projects based on joint priorities.

## Justification for support:






- Fully in line with targeted Indo-Danish collaboration under the Green Strategic Partnership, the significant climate and finance ambitions in "The World We Share," and IFU's priorities and strategy.
- India experiences a finance gap for green transition and unleashing private capital is essential. This project feeds into IFU's overall target in India that could mobilise investments up to DKK 5 bn. This specific contribution will mobilise up to an expected DKK 200 million in private capital investments on top of other DFI investments.
- IFU has well-developed portfolio and pipeline of climate investment projects in India, and the Danish Embassy has expertise within the green thematic areas (SSC, TC). With the deployment of an Investment Advisor at the Danish embassy, there are opportunities for ensuring even better synergies between the work of IFU and the Danish Embassy for the benefit of India's green transition.

## Major risks and challenges:

- COVID-19 pandemic has slowed down the world economy including the Indian economy, potentially limiting the appetite for investments and hence companies' ability to grow and create jobs.
- Political challenging environment and challenging framework conditions for green transition. In line with the adaptive approach, IFU will be flexible in planning and implementation, in order to respond adequately to changes and potential risks.

File No.	2022-2650					
Country	India					
Responsible Unit	GDK					
Sector	Private sector development, renewable energy, agriculture, water etc.					
Partner	Investment Fund for Developing Countries (IFU)					
	DKK million	2022	2023	2024	2025	Total
Commitment	100	100	0			200
Projected disbursement	100	99.75	0.25			200
Duration	2022-2025					
Previous grants	Other commitments to IFU but none directly linked to this commitment					
Finance Act code	§06.38.01.11					
Head of unit	Karin Poulsen					
Desk officer	Maiken Desirée Rasmussen					
Reviewed by CFO	Rasmus Tvorup					

## Relevant SDGs

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

## Objectives

Support green transition and sustainable development in India, and contribute to the fulfilment of the India-Denmark Green Strategic Partnership.

## Environment and climate targeting - Principal objective (100%); Significant objective (50%)

	Climate adaptation	Climate mitigation	Biodiversity	Other green/environment
Indicate 0, 50% or 100%	100%*	100%*	0	0
Total green budget (Mill. DKK)	0-50**	150-200**	0	0

\*All investments will have climate as principal objective. \*\*Up to 1 of the total of 2-3 investments will target climate adaptation, and the other 1-2 investments will target climate mitigation.

## Justification for choice of partner:

It is important to strengthen IFU's opportunities to invest more in green transition and climate change in line with the Danish strategy for development cooperation, and Denmark's Green Strategic Partnership with India. With more flexible terms, this commitment will allow IFU to increase investments in relevant projects that would otherwise not be realised. Further, the commitment will stimulate closer cooperation between IFU and the Danish Embassy in engaging in policy dialogue and building an impactful pipeline of new climate investment projects.

## Summary:

MFA makes investment capital available to IFU that will enable IFU to invest in climate projects in India such, as renewable energy, energy efficiency and potentially in adaptation. A more flexible concessionality profile of the funds will allow IFU to be more innovative and consider investments that might not be possible with the current IFU instruments. It is expected that IFU will mobilise private finance with a factor 1:1. With a small TA budget, IFU will engage in close cooperation with the Investment Advisor at the Danish Embassy to identify investment projects that align to both IFU's priorities and Danish Embassy priorities in terms of policy dialogue. The partners will jointly explore opportunities for improvement of framework conditions, which can further enhance the impact of all IFU's green and climate related investment projects.

## Budget (engagement as defined in FMI):

Engagement 1 – Capital contribution to IFU	DKK 198 million
Engagement 2 – Technical Assistance	DKK 1.75 million
Stocktaking/Review	DKK 0.25 million
<b>Total</b>	<b>DKK 200 million</b>

# **India Climate Finance Initiative (ICFI)**

**Submission to Council for Development Policy**

**5 September 2022**

**F2 No.: 2022-2650**

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## Abbreviations

BC	Binding Commitment
CAPEX	Capital Expenditure
CIP	Clearance in Principle
DDD	Doing Development Differently
DKK	Danish Krone
ESG	Environmental, Social and Governance
GDK	Department for Green Diplomacy and Climate
GDP	Gross Domestic Product
GFF	Green Future Fund
GHG	Greenhouse gas
HIPSO	Harmonised Indicators for Private Sector Operation
HRHI	High Risk High Impact
IFU	Investment Fund for Development Countries
ICFI	India Climate Finance Initiative
IPR	Intellectual Property Rights
MFA	Danish Ministry of Foreign Affairs
NDC	Nationally Determined Contribution
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
PDP	Project Development Programme
SDG	Sustainable Development Goal
SSC	Strategic Sector Cooperation
USD	United States Dollars

## 1. Introduction

The present project document outlines the background, rationale and justification, objectives and management arrangements for development cooperation concerning the India Climate Finance Initiative (2022-2025) as agreed between the parties: The Investment Fund for Developing Countries (IFU) and the Ministry of Foreign Affairs of Denmark (MFA). The MFA has written and agreed procedures for capital contributions to IFU and this Initiative follows these procedures. The total project amount is DKK 200 million.

The project contributes to the implementation of several objectives under Denmark's Development Policy Strategy, The World We Share, as well as the Danish government's long term global strategy for climate action. The project will support green transition and mobilisation of climate finance in India.

## 2. Context, strategic considerations, rationale and justification

### 2.1. The Denmark-India Green Strategic Partnership

In 2020, Denmark and India formalised the bilateral Green Strategic Partnership. The purpose of the partnership is to expand, and significantly strengthen, the bilateral relationship and cooperation between India and Denmark. The Partnership is further elaborated in an accompanying Joint Action Plan covering 2021-2026.<sup>1</sup> The Action Plan includes overall ambitions and detailed steps related to the Partnership. These include creation of an enabling environment based on technical dialogue and sharing of best practices; mobilisation of Danish, Indian and international finance for investments; mapping of additional (Danish) financing opportunities for introduction of green technologies in India, etc. At the 2021 United Nations Climate Change Conference (COP26), India's Prime Minister Shri Narendra Modi clearly stated his commitment to the climate agenda by setting clear and ambitious goals related to particularly emission levels and energy sources.

In support of the India-Denmark Green Strategic Partnership, the Danish government in May 2022 announced the India Climate Finance Initiative (ICFI) – an earmarked capital contribution of DKK 200 million to the Investment Fund for Developing Countries (IFU) in support of investments in green transition. The capital contribution will contribute to an overall ambitious IFU finance target of investing DKK 730 million over two years in green transition in India. The ambition is that the investments under this initiative will mobilise additional private investments of up to DKK 200 million corresponding to a leverage factor 1 (cf. section 2.7).

### 2.2. India's climate related challenges

India has become the world's third-highest greenhouse gas (GHG) emitter and is expected to become the world's third largest energy consumer by 2030. According to IRENA almost half of India's energy supply came from heavily emitting coal power in 2021. Only 22 pct. came from renewables of which the vast majority was biomass. To alleviate these challenges, investment in climate mitigation is crucial.

The Covid-19 pandemic has had significant negative impact on the Indian economy. In 2020, the gross domestic product (GDP) growth rate plunged to -7.3%, whereas pre-pandemic growth rates in the previous decades were steadily rising with 7-8% per year. Today, the Indian economy is returning to pre-pandemic growth rates, and India could become an upper middle-income country within the next

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<sup>1</sup> [Green Strategic Partnership \(um.dk\) and related Action Plan](#)

decade. Rapid economic growth comes with both challenges and opportunities. India has a population of 1.3 billion people and a growing middle class. Data from the Organisation for Economic Co-operation and Development (OECD) shows that 75% of the Indian population is exposed to harmful levels of air pollution and less than 50% of the population has access to safely managed drinking water.

Like in the rest of the world, climate change is heavily impacting India. Dry seasons are expanding, monsoons are increasing in intensity and clean water is already scarce. Two-thirds of India's 718 districts are affected by extreme water depletion, and the current lack of planning for water safety and security is a major concern<sup>2</sup>. Agriculture is vital for India and its footprint is visible in every corner of the country. About 49% of the labour force works in the agricultural sector, which uses 61% of the country's land and 90% of its water<sup>3</sup>. Multiple constraints are evident, including wide regional disparities in agricultural yields, a degraded resource base (soil fertility, surface water quantity and quality), and depleted groundwater resources. These strains are aggravated by climate shocks, as 55% of the agricultural production base is subject to volatile monsoon events. Agro-climatic models suggest that rising temperatures and lower rainfall at the end of the growing season are likely to cause heavy losses in the production of most cereals. To be sustainable, the efficiency and productivity of Indian agriculture needs to improve, and the sector needs to transition from its traditional food security orientation (with a cereal or calorie focus) to a modern food system that is resilient to climate change<sup>4</sup>.

India's cities will soon be home to 600 million people, nearly twice the population of the United States packed into a fraction of the area. India's big cities are changing very fast in terms of demography, income, governance, physical expansion and infrastructure development, but are performing below their potential. The access to and quality of all basic services in Indian cities, while better than in rural areas, are below comparators and global norms. On average about 25% of households in cities have access to piped water and despite water being a scarce resource, 40-50% of the water in city pipes is lost due to leakages and bad management. Informally, housed residents and those living beyond municipal boundaries often risk missing out on services. There is also an acute shortage of housing in India's cities, particularly for low-income groups<sup>5</sup>. Poor planning and urban management increase risks from environmental hazards and natural disasters, especially those emanating from climate change. Most cities are exposed to multiple hazards: A study of 144 Indian cities finds that 120 are at risk from flooding, 52 from landslides, and 40 from earthquakes. Recent research suggests that droughts too, have impacts on cities, even if these are less visible and occur through harder to comprehend channels such as health, power supply, and firm productivity<sup>6</sup>. India is one of the most unequal countries in the world<sup>7</sup>. Climate change effects are super-imposed on already existing vulnerabilities of the poor. Investments in climate adaptation are therefore crucial, and especially the poorer parts of the population feel the impact of such investments.

The OECD has projected that the global financing gap of reaching the Sustainable Development Goals (SDG) and the Paris Agreement could increase to USD 4.2 trillion due to the impact of the Covid-19 pandemic. In comparison, official development assistance (ODA) in 2021 amounted to USD 179

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<sup>2</sup> <https://www.unicef.org/india/what-we-do/water-sanitation-hygiene>

<sup>3</sup> [World Bank, India: Systematic Country Diagnostic, 2018](#)

<sup>4</sup> [World Bank, India: Systematic Country Diagnostic, 2018](#)

<sup>5</sup> [World Bank, India: Systematic Country Diagnostic, 2018](#)

<sup>6</sup> [World Bank, India: Systematic Country Diagnostic, 2018](#)

<sup>7</sup> [World Inequality report, 2022](#)

billion<sup>8</sup>, which constitutes 4.2% of the identified gap<sup>9</sup>. A corresponding finance gap can be found in India where the financing requirements to sustain India's growth acceleration are enormous. India's Nationally Determined Contribution (NDC) estimates that the country will require USD 2.5 trillion from 2015 to 2030, or roughly USD 170 billion per year for climate action alone<sup>10</sup>. In comparison, a recent study, which was mapping green finance flows (public as well as private) in India, identified investments at a total of USD 17 billion for FY 2017 and USD 21 billion for FY 2018<sup>11</sup>. The finance gap is significant and there is an urgent need to promote private investments in order to accelerate the sustainable green transition of India and create decent jobs.

### 2.3. Danish policy priorities

The ICFI is aligned with the high climate and finance ambitions of the Danish Government as expressed in the Danish Government's long-term strategy for global climate action "A Green and Sustainable World", and the Danish Development Strategy "The World We Share". The Initiative supports in particular SDG 7: Affordable and Clean Energy; SDG 11: Sustainable Cities; SDG 13: Climate Action; and SDG 17: Partnerships, and potentially SDG 6: Clean Water and Sanitation. Through the ICFI, IFU will engage in climate financing of the private sector in India with a focus on both climate mitigation and climate adaptation in line with IFU's Climate Policy.

In terms of climate mitigation, investments could be in renewable energy or in energy efficiency e.g. in buildings or industrial manufacturing, where the stakeholders are not able to mobilise funding on fully commercial terms. In terms of climate adaptation, investments could be in climate smart/resilient food production, improved food systems, storage of food, micro finance for small scale farmers etc. Investment projects that could contribute to both mitigation and adaptation include those in water, e.g. cleaning of wastewater or water efficiency. For an organisation as IFU, investments in climate adaptation can be more challenging compared to those in mitigation, as they tend to involve mainly public sector actors, a larger number of stakeholders, have a lower return and be more risky. The ICFI could allow IFU to test approaches to develop investments in climate adaptation projects and over time build a stronger pipeline in close cooperation with the Danish Embassy facilitated by the Investment Advisor.

The thematic focus of the ICFI will contribute to the Danish Government's target of ensuring that 30% of development assistance under §6.3 of the finance act is green by 2023<sup>12</sup>. While all investments will have a commercial focus and return, all projects will also pursue solid development outcomes that address climate change and promote sustainable development. Furthermore, a derived effect of the investment projects is local job creation in different scales both during project implementation and expectedly also in the long-term.

Denmark's Strategy for Development Cooperation "The World We Share" includes an objective to "increase mobilisation of finance and promote green Danish solutions within climate, nature and the environment", thereby also engaging relevant Danish companies and promoting Danish commercial

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<sup>8</sup> OECD 2022: ODA Levels in 2021- Preliminary data

<sup>9</sup> OECD-UNDP Closing the SDG Financing Gap in the COVID-19 era, 2021

<sup>10</sup> Landscape of green finance in India, Climate Policy Initiative, 2020

<sup>11</sup> Landscape of green finance in India, Climate Policy Initiative, 2020

<sup>12</sup> At least 30% of spending under §6.3 should be green (climate nature and environment) split in 25% for climate and 5% for environment and biodiversity. At least 60% of spending for climate should be allocated for climate adaptation.



interests even if the finance is untied. ICFI feeds directly into this agenda, and IFU can play a key role in this respect.

## 2.4. Danish engagements in India

As the Green Strategic Partnership and related Joint Action Plan between Denmark and India outlines, Denmark is expanding its engagements in India. The Embassy of Denmark in India already works within a range of technical areas, which are relevant to the ICFI. Strategic Sector Cooperation (SSC) projects within the areas of Energy, Environment (Water), Urban Development, and Intellectual Property Rights (IPR) are in operation; and the Trade Council at the Embassy of Denmark in India prioritises the Food & Agriculture, Green Energy, Healthcare & Life Science, Information Technology, Transport, Infrastructure & Defence, and Water & Environment sectors.

To further strengthen the coherence between policy work to improve framework conditions and tangible investments, the MFA has recently deployed an Investment Advisor at the Danish Embassy in New Delhi. The Investment Advisor will work to promote increased private investment in sustainable economic growth and green transition. More specifically, the Investment Advisor will engage in dialogue with relevant authorities and stakeholders with two main tasks: 1) Identification of framework conditions that constrain international investments, and 2) identification of projects with maturation potential for investment within the framework of the SSC<sup>13</sup>. The Investment Advisor is considered to hold an important strategic position in terms of realisation of the ICFI and will as such play a key role also to fulfil the India-Denmark Joint Action Plan.

Further, the G7 led Just Energy Transition Partnership (JETP) platform currently covers South Africa, Vietnam, India, Indonesia and Senegal. Denmark plans to contribute to the JETP in South Africa, Vietnam and Indonesia, and will be able to propose ICFI as an initiative that supports India's JETP.

An overview of current bilaterally funded activities can be found in Table 1.

**Table 1: Overview of current Danish development finance, including ODA, to green projects in India**

<p><b>IFU Financing</b>  DKK 913 million active portfolio (DKK 581 million equity and DKK 332 million loans)  DKK 785 million green pipeline</p>
<p><b>Strategic Sector Cooperation</b>  Approximately DKK 116 million for engagements in Energy, Environment (Water), IPR, and Urban Development. Linked to the SSC an investment Advisor has been employed in 2022 to promote private investment in sustainable economic growth and the green transition.</p>
<p><b>Energy partnership</b>  The India-Denmark Energy Partnership (INDEP) is a 5-year programme running from 2020-2025, The program is implemented as a collaboration between the Danish Energy Agency and the Indian Ministry of New and Renewable Energy and the Indian Ministry of Power as well as their relevant institutions in India.</p>
<p><b>Bilateral water project</b>  DKK 42 million for UNOPS and the "Urban Living Lab"</p>
<p><b>Multilateral projects targeting India</b>  Approximately DKK 62 million for amongst other renewable energy, energy optimisation, phasing out coal.</p>
<p><b>Business instruments</b></p>

<sup>13</sup> Investeringsrådgiver formålsbeskrivelse

India is an eligible country for Danida business instruments such as the Danida Green Business Partnership (DGBP), the Danida Innovation and Business Explorer (DIBE) and Danida Sustainable Infrastructure Finance (DSIF). Currently, no projects are approved in India.

Source: Danish Ministry of Foreign Affairs

## 2.5. The Investment Fund for Developing Countries (IFU)

The objective of IFU is to promote investments, which support sustainable development in developing countries and contribute to the realisation of the SDGs. Table 2 presents the two overall impact priorities, to which all IFU projects must contribute. Under this initiative the “Building a green economy” is the focus area for all projects.

**Table 2: IFU Impact Priorities**

<b>Building a green economy</b>	<b>Building a just and inclusive economy</b>
By supporting businesses that create decent jobs and mitigate or adapt pressures from climate change, change production and consumption patterns, or provide other environmental services and benefits.	By supporting businesses that create decent jobs and provide access to essential services, goods and solutions, including to underserved groups such as women, youth and smallholders.

Source: IFU Investment Strategy 2021-2024

IFU has significantly increased its focus on green transition and climate change over the years. A new Climate Policy was approved by IFU’s Board in April 2022. Guided by this new Policy, IFU will further strengthen its efforts to contribute to the stabilisation of GHG concentrations in the atmosphere by financing projects that avoid or reduce GHG emissions or increase sequestration (climate mitigation). Furthermore, IFU will continue to invest in building resilience of societies towards the effects of global warming and reduce vulnerability for countries and populations in its areas of operation (climate adaptation). The Climate Policy will set the direction for the identification and selection of all investment projects. It includes the following targets:

1. Achieving net-zero portfolio emissions by 2040 at the latest: IFU will continuously report on the current GHG emissions in the portfolio and present an outlook for the future, with a road-map towards its target of net-zero by 2040.
2. Decreasing 3-year rolling average of carbon intensity measured at sector level.
3. Having minimum 50% of all new direct investment volume contracted between 2022-2024 qualifying as climate finance.
4. Screening of all new investment opportunities against ‘do no significant harm on climate’.

While IFU has strengthened its climate focus, IFU, through the second impact priority ‘a just and inclusive economy’, also has a strong focus on contributing to the poverty reduction and reducing inequalities. In IFU’s internal system, investments will typically have one of the priorities as the primary priority and the other as secondary priority. It is, however, a complicated analysis to make and there can be trade-offs between the two priorities which need to be considered before entering into an investment. Mitigation efforts can lead to a further increase in poverty and inequality, thereby undermining progress towards the SDGs and vice-versa. IFU has set up its assessment systems to ensure that the projects invested in will not jeopardise the progress towards the SDGs. Cf. also Section 2.7.

IFU will play the leading role in the implementation of the ICFI in terms of identifying, screening and investing into relevant projects. IFU currently has 14 active investments in India, amounting to a total

commitment of DKK 913 million. IFU has an office in India, a regional office in Singapore, and has invested in more than 100 projects in India over the years, leading to total investments of DKK 21.9 billion (including capital from other sources). India is one of 22 core countries in IFU's Investment Strategy.

IFU has a range of available investment instruments with distinctive characteristics that can be applied depending on the nature of the investment. IFU currently has a green pipeline of almost DKK 6 billion in India under the SDG Fund and the Green Future Fund (GFF) (total investments, i.e. IFU investments and what is expected to be contributed by other investors). IFU estimates that it could invest the targeted DKK 730 million over two years in India if funding was available. As such, this initiative is a relevant contribution to IFU's efforts in India where IFU currently has a pipeline of 10 potential investments.<sup>14</sup>

In an effort to further grow its pipeline, IFU is testing opportunities for engaging in project development processes at an early stage, and act as risk sharing partner in the preparation of bankable investment projects. Related to this, IFU manages the Project Development Programme (PDP), funded by the Danish MFA to address the shortage of mature bankable investment projects in developing countries<sup>15</sup>.

In 2019, IFU's Board approved a new gender equality policy. IFU believes that opportunities exist to create value in companies and communities by integrating gender equality in company leadership and corporate culture, business practices, workplace policies and health initiatives to strengthen empowerment of employees. Accordingly, IFU applies a "gender lens" to decision-making related to its investment processes and to demonstrate that investing with a gender lens can reap business returns in addition to social returns. In line with this, gender equality is an integrated part of IFU's project screening and scoring processes, and IFU has defined targets for its overall portfolio. Moreover, the Gender Strategy seeks to expand the number of investments that qualify for the 2X Challenge launched by development finance institutions (DFIs) to advance opportunities for women<sup>16</sup>.

## 2.6. Justification

**Relevance:** At COP26 in November 2021, India's President Modi announced a target of reducing the carbon intensity of the Indian economy with 45% by 2030, aiming to achieve 50% of total energy requirements from renewable sources. For India's climate change action to succeed, material progress must be made across multiple sectors. Significant capital expenditure (CAPEX) will be necessary if concrete progress is to be made. The Indian government estimates investment needs of up to USD 250 billion from 2023 to 2030 in 'Green CAPEX' — technology enabling clean energy transition.<sup>17</sup>

The India Climate Finance Initiative is highly relevant to the overall ambitions of the Governments of India and Denmark to promote investments in green transition and counter climate change, as well as for the promotion of Indo-Danish collaboration under the Green Strategic Partnership. The initiative is well-aligned with Denmark's ambition to mobilise climate finance from public and private sources.

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<sup>14</sup> One investment within the IFU focus area "Healthy Foods & Healthy Lives," six investments within "Energy, Water & Waste," two investments within "Financial Inclusion," and one investment within "Transformational Businesses" (see Annex 3 for further information).

<sup>15</sup> There has been one PDP initiative in India which however, did not materialise.

<sup>16</sup> The 2X Challenge was launched at the G7 Summit 2018 as a bold commitment to inspire DFIs/IFIs and the broader private sector to invest in the world's women. A target was set to collectively mobilize \$15 billion by 2021-2022.

<sup>17</sup> <https://blogs.worldbank.org/ppps/green-capex-tightrope-walk-india>

**Coherence:** The Green Strategic Partnership builds on a whole-of-government approach involving a range of sectors and authorities in both countries. At multiple levels, numerous cooperation agreements and other ongoing joint activities have been initiated, of which the ICFI is only one. Therefore, synergies between ICFI and other bilateral initiatives will be explored systematically when assessing the individual potential investment cases. As mentioned, the Danish Embassy in India has a range of relevant engagements. Further strengthening of the dialogue and cooperation between IFU and the Danish Embassy will contribute to a stronger, greener and more coherent Danish portfolio of engagements in India. IFU can benefit from the Danish Embassy's network and sector knowledge and the Danish Embassy, especially the Sector Counsellors and the Investment Advisor, can use IFU investments as leverage e.g. to initiate discussions about strengthening relevant framework conditions in the area of green transition and specifically climate investments based on concrete investment cases.

**Effectiveness:** The ICFI will have a high level of effectiveness, as IFU already has an existing pipeline of green investments in India. The pipeline is projected to expand over the coming years, but might require a more flexible and or/innovative approach to kick off. The project at hand with a strong focus on climate mitigation and adaptation is, therefore, a unique opportunity to combine IFU's presence in the Indian market and strong focus on commercially viable impact investments with the Danish Embassy's portfolio of interventions that strengthen regulatory framework conditions and promote Danish interests – political as well as commercial. IFU's strategic focus, presence and network in India is important in the efforts to mobilise funding from other sources, either DFIs or the private sector, for the investments. Mobilisation of additional private capital is key for this Initiative to contribute effectively to the green transition in India where the investment needs are massive. With the more risk-willing capital of the ICFI, it is expected that IFU could be able to mobilise funding from new sources as well as from known cooperation partners.

**Efficiency:** MFA expects the India Climate Finance Initiative to have a high level of efficiency as it will be fully aligned with IFU's existing systems and procedures related to project identification, screening, management, and reporting. IFU and MFA have agreed on a well-tested approach to manage MFA capital contributions to IFU, and the ICFI will be fully aligned with this. Given IFU's typical equity participation in an investment, the capital contribution of DKK 200 million will finance a few larger projects to reduce transaction costs – 2-3 investments are foreseen.

**Impact:** IFU, as an impact investor, has well-developed procedures to ensure the highest possible impact of investment projects, while maintaining the principle of investing in commercially viable projects only. The development results will be obtained within different thematic areas depending on the nature of the individual investments, e.g. increase the share of renewable energy in India, increase energy efficiency in India's distribution net, or secure more clean water to the Indian population. The investment projects will also support economic and social development in India by creating decent jobs for both men and women, inter alia by application of high ESG standards. Over time, the impact of the projects will help reduce the negative impact of climate change on the Indian population and environment; it can improve agricultural practices and ensure climate resilient food security and safety in rural Indian areas. Beyond the individual investments, the ICFI will also contribute to the fulfilment of the Green Strategic Partnership, the related Action Plan and strengthening the long-term relations between Denmark and India through the engagement in policy dialogue at different levels.

**Sustainability:** Sustainability of IFU's investments are expected to be high, both in terms of value sustainability and financial sustainability. IFU will typically exit from an investment after five to ten years upon commercial operation. The reflow of invested capital (loans and equity) will together with dividends, be added to IFU's equity, for IFU to reinvest in new projects. IFU does not currently have a formal policy that defines how IFU should act when exiting from its investments, but in practice IFU has a range of procedures to ensure that exit from an equity investment takes place in a responsible manner. These include awareness of who IFU is selling to – to avoid selling to e.g. a sanctioned entity; ensuring that all relevant taxes related to the sale consideration are paid and all required compliances are fulfilled; and on a case-by-case basis, where relevant, obtain commitments from buyers to conduct operations in line with IFU's ESG requirements. IFU is actively considering to develop an exit policy, which amongst other will require IFU to conduct an Integrity Due Diligence on the buyer.

**Additionality:** IFU has a range of well-established financing instruments, such as the SDG Fund, the GFF, and IFU-equity investments (sometimes referred to as "IFU Classic"), which each have distinctive characteristics. Compared to the existing instruments, the additionality of the India Climate Finance Initiative consists of four elements: 1) additional investment capital to fill the financing gap which the market cannot meet on its own at the needed pace, 2) value additionality to the investments and the investment companies by application of IFU's high ESG standards and bringing in IFU's network, 3) flexibility for IFU to be more innovative in its investments, which increases the potential of undertaking investments that may not otherwise have been possible using the current instruments (especially climate adaptation projects), and 4) stronger coherence with the work and portfolio of the Danish Embassy and IFU in India.

## 2.7. Strategic considerations

**Concessional<sup>18</sup>:** The capital contribution of DKK 200 million will, as a point of departure, have a different risk profile to that of existing IFU instruments. The additionality of the India Climate Finance Initiative is such that it will enable IFU to be more innovative/flexible to unleash impactful investments within climate. Parameters where flexibility could be built into the investment include, amongst others, longer-than-usual loan tenures (overall duration, grace periods etc.), a mix of financing instruments (equity, debt, mezzanine, etc.), lower-than-usual expectations to mobilisation, lower-than-usual return requirements, smaller than usual ticket, more flexibility in the choice of partners, and higher-than-usual risk profile. These innovative variations will be captured and discussed in the submissions to the IFU Investment Committee (Gate 1, Clearance in Principle (CIP), and Binding Commitment (BC)).

**Mobilisation and leverage:** Considering the massive need for climate investments in India, the DKK 200 million only represent a fraction of the investments needed. However, this Initiative will contribute to strengthening the cooperation between IFU, the Danish Investment Advisor, other staff at the Danish Embassy and relevant Indian stakeholders to identify relevant projects, and potentially mature projects. With networks and solid understanding of the context, IFU can act as first-mover and mobilise other investors, public as well as private, interested in the same type of projects that might not have entered into the investments without IFU's commitment. Overall, the activities under this Initiative will enable IFU to build a stronger climate portfolio and mobilise others.

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<sup>18</sup> A concessional loan is a loan made on more favourable terms than the borrower could obtain in the commercial market.

The capital contribution will feed into IFU's target of investing DKK 730 million in India in the coming years. Globally, IFU's investments had a leverage factor across funds of 6.2 in 2020.<sup>19</sup> Assuming IFU can maintain a similar overall leverage factor in its investments in India, the DKK 730 million could lead to total investments of around DKK 5 billion.

The DKK 5 billion would include investments from a range of investors – public (e.g. DFIs) as well as private. Mobilising investments from other DFIs implies mobilising capital that already has a development mandate. To fill the financing gap requires mobilisation of private capital, i.e. capital with the additionality that it does not already have this development mandate. For ICFI, the financial additionality will be measured by how much private finance IFU can mobilise, i.e. the total private finance mobilised in the investments over the period (2023-2025) that could be attributed to IFU<sup>20</sup>. It is expected that IFU would mobilise up to the same amount in private finance in the investments, i.e. a leverage factor of up to 1. For comparison, IFU has in the period 2018-21 had a leverage factor of 0.9 related to private finance.

While it is highly relevant to consider mobilisation and leverage, it is important to acknowledge that the relationship between mobilisation, leverage factors, impact and attribution is very complex. All investments will differ in nature and there will be trade-offs. As an example, it is complicated to compare a) investments with solid and direct impact on reducing inequality that may mobilise less private capital with b) investments that mobilise significant private capital but which may have a more indirect impact on poverty reduction. As the implementation partner, IFU is continuously strengthening its systems and procedures to capture these trade-offs and, from a portfolio perspective, be able to include a range of diverse projects. IFU will ensure to capture this type of considerations in a transparent manner in its internal project documentation.

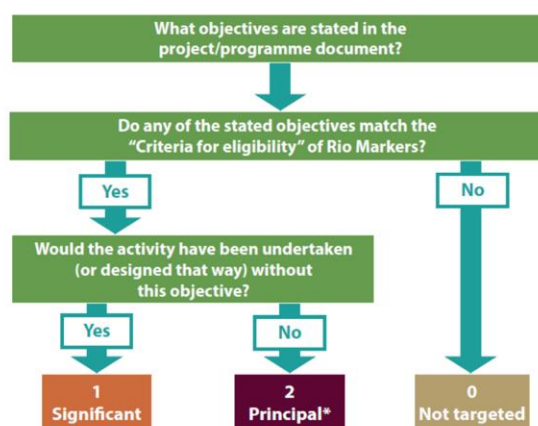
**Climate investment projects:** All investments approved under this Initiative will be climate related, and at least 1 of the 2-3 investment projects must have climate adaptation as its principal objective. This ensures that ICFI contributes to fulfilling the Danish Government's target that 25% of the development assistance budget should be climate related. As such, the entire ICFI will be in line with the Rio Markers definition for having climate adaptation or mitigation as principal objective. This definition and methodology is applied by MFA. Figure 1 below outlines the standard assessment and scoring methodology as defined by OECD.

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<sup>19</sup> IFU Annual report, 2020, p. 13. This is defined as total financing except IFUs financing divided by IFUs financing.

<sup>20</sup> It is defined as total private finance divided by all official flow finance (i.e. with public finance with a development mandate, e.g. DFIs) in accordance with OECD's definition.

Figure 1: Decision tree for scoring an activity (programme, project) against the Rio markers



IFU’s internal procedures and systems will ensure that this is adhered to in relation to each individual investment. In practical terms, IFU applies its climate policy to all its investments, which among others use the European Union Taxonomy in its screening for green projects. All projects are screened in terms of 1) Will the investment do no significant harm to the environment? and 2) Will the investment have positive impact in any of the Green Economy areas? Two of these areas are climate mitigation

#### IFU framework for climate investments

IFU’s climate policy recognises that a significant contribution to climate change mitigation and/or adaptation can involve the following categories of climate finance:

- All adaptation projects, i.e. investments that reduce vulnerability to climate impacts and build resilience towards the effects of global warming (e.g. extreme weather, droughts, raising sea levels etc.).
- Negative or very-low-emission activities, which result in negative, zero or very low GHG emissions, e.g. carbon sequestration in biomass and soils, and most forms of renewable energy.
- Enabling activities, which are instrumental in enabling other activities to make a substantial contribution to climate change mitigation, e.g. manufacturing of very-low emission technologies.
- Transitional activities, which are still part of GHG-emissive systems, but are important for and contribute to the transition to a climate-neutral economy, e.g. energy efficiency improvements in manufacturing or climate-smart agriculture. Transitional activities will count as climate finance if the solution:
  - Can accelerate the green transition and does not lead to hydrocarbon lock-in AND
  - Does not have an economically and technical feasible lower emitting alternative AND
  - Meets the EU taxonomy technical screening criteria OR ▪ If not covered by the EU taxonomy, is at least 20 per cent lower emitting than the most likely alternative (greenfield) or what is being replaced or upgraded (brownfield) AND has an emissions intensity significantly lower than the sector average or performs in the top quartile compared to the rest of the sector.

Source: IFU

and adaptation. The box below presents which categories of climate finance IFU operates with.

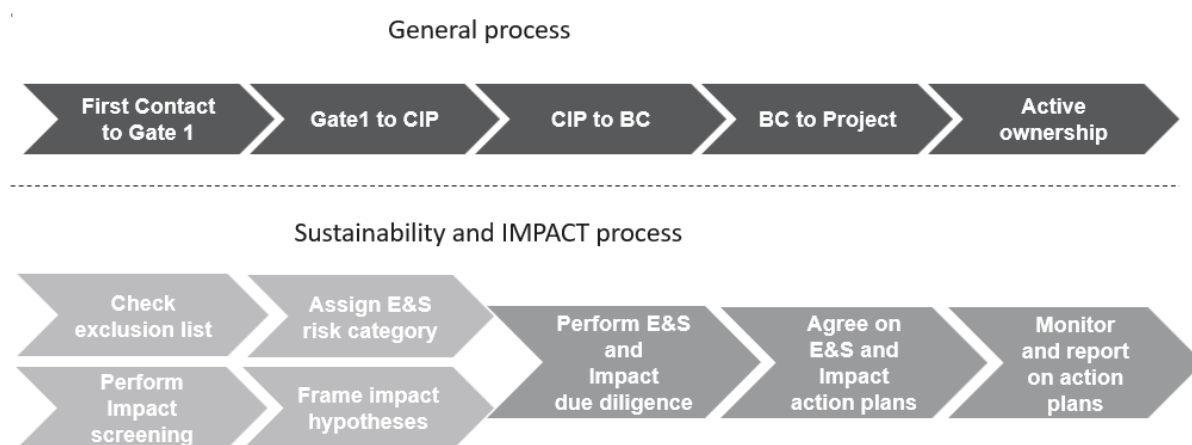
The MFA, the Danish Embassy, IFU, and the Indian Government share thematic priorities, including renewable energy and energy efficiency, water and wastewater, climate-smart agriculture and sustainable food production. The following serves as examples of thematic areas of climate investment projects that could be relevant for both India, IFU and the Danish Embassy:

- Climate mitigation:
  - a. Renewable energy (e.g. installation, repowering, transmission, solar solutions, clean cooking)
  - b. Energy & resource efficiency (e.g. buildings or industrial manufacturing)

- c. Clean transport systems
- Climate adaptation:
  - a. Food security and food safety (e.g. storage of food climate smart agriculture etc.)
  - b. (Micro-) financing for small scale farmers to investments in climate smart technologies making them more resilient to effects of droughts, rising sea levels etc
- Mitigation/adaptation projects:
  - a. Water efficiency (e.g. water saving technologies, water conservation)
  - b. Energy efficient cleaning of wastewater (industrial and/or household level)
  - c. Stronger and more resilient water supply and sanitation systems in climate affected areas

**Leaving no one behind:** India is one of the world’s most unequal countries, both in terms of economy and social cohesion. This combined with a considerable elite capture of policy-making, increases risks that mitigation efforts can lead to a further increase in poverty and inequality, thereby undermining progress towards the SDGs. While the ambition of this Initiative is to support India in meeting its Paris Agreement commitments, efforts should be made to ensure that it happens in such a way that progress towards the SDGs is not jeopardized. Besides the apparent climate related results, IFU must qualify potential investments under ICFI in terms of their direct and indirect bearing on gender equality, poverty reduction, job creation and providing access to affordable clean energy also for the poorer segments of society. IFU has developed a system for actively working with ensuring maximum impact of projects from project identification stage to project closure and exit. Figure 2 shows how this develops from impact screening over formulation of impact action plans to active reporting and follow-up.

**Figure 2: Integrating sustainability and impact into the investment and transaction process**



Two of the areas IFU assesses in this process are ‘reduced inequality and improved access to basic needs’, and ‘decent work and inclusive economic growth, incl. youth and women economic empowerment’. As such, IFU has a strong focus on social aspects of each investment. While investments in climate mitigation projects largely are expected to influence the poorer segments of the population indirectly, climate adaptation projects are expected to have the potential to be focused more directly towards the poorer and more rural population. Like in other developing countries, it is the poorer segments of the population, who are especially vulnerable in terms of access to energy, clean water, and exposure to pollution, cf. section 2.2. above. Through application of its sustainability and impact framework, IFU will ensure that climate adaptation and mitigation in the projects invested in under ICFI are not treated as stand-alone issues, but rather as challenges in the context of reduced poverty and inequality in the Indian society.



**Synergies between IFU and the Embassy of Denmark in India:** The Green Strategic Partnership identifies the importance of regulatory framework conditions in supporting public and private green investments. IFU’s interest lies within the specific commercially viable and bankable investments, whereas other Danish stakeholders will often have either a wider and more long-term focus on strengthening framework conditions, or a narrower focus on Danish commercial interests. The India Climate Finance Initiative will contribute to building mutual understanding and synergies, between IFU and the Danish Embassy, where IFU can use the partnership and the engagements of the Embassy as political leverage for its project specific needs. The funded projects will benefit if framework conditions are strengthened as a result of policy dialogue facilitated by the Danish Embassy. The Embassy can in turn drive the policy agenda and dialogue with relevant Indian authorities and other Indian stakeholders on topics of relevance for IFU’s investments based on concrete experience drawn from IFU’s investments. The Embassy will also work on relevant projects in the same thematic areas but with longer lead-time in parallel to the concrete projects IFU is developing.

**Strategic position of the Investment Advisor:**

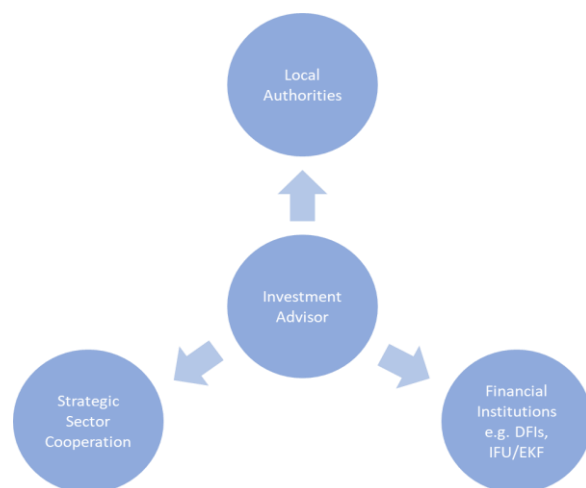
The Investment Advisor at the Danish Embassy will be a key liaison to IFU. Figure 3 illustrates how the Investment Advisor is strategically placed and can play a facilitative role between IFU, the Danish Embassy, in particular the TC and the SSC, and relevant Indian authorities and stakeholders. Further, the investment advisor will work on bridging development priorities and Danish commercial interest.

**Building a viable investment portfolio:** IFU will be overall responsible for the identification and approval of investment projects, including potential project maturing. Furthermore, the ICFI will allocate a small, flexible technical assistance (TA) budget to initiate targeted

activities that can facilitate policy dialogue, align efforts to strengthen framework conditions, and help identify relevant climate investment projects. The budget will be managed by IFU but initiatives will be taken in close coordination and with input from the Embassy and the Danish Investment Advisor. The budget can be spent on studies and related travel, technical analytical work, training, etc. As mentioned, IFU has limited experience with climate adaptation projects, and it is therefore expected that the additionality of the TA budget amongst other will be to support the building of this more challenging pipeline of climate adaptation initiatives.

Through the collaboration around the TA funds, the Danish Embassy and the Investment Advisor will provide inputs to building an investment pipeline which both fulfils IFU’s investment criteria, and is aligned with the Danish priorities. It will be important for IFU, the Embassy and the Investment Advisor to enter into regular and structured deliberations, e.g. on a quarterly basis, in order to ensure synergy as opposed to overlap between their mandates and initiatives. The three parties will upon project start elaborate a detailed plan for how the TA budget can be used, and this plan should feature in the quarterly meetings. It is important to underscore that the budget will not replace IFU’s project identification and preparation processes, but rather be used to prepare the ground for IFU’s

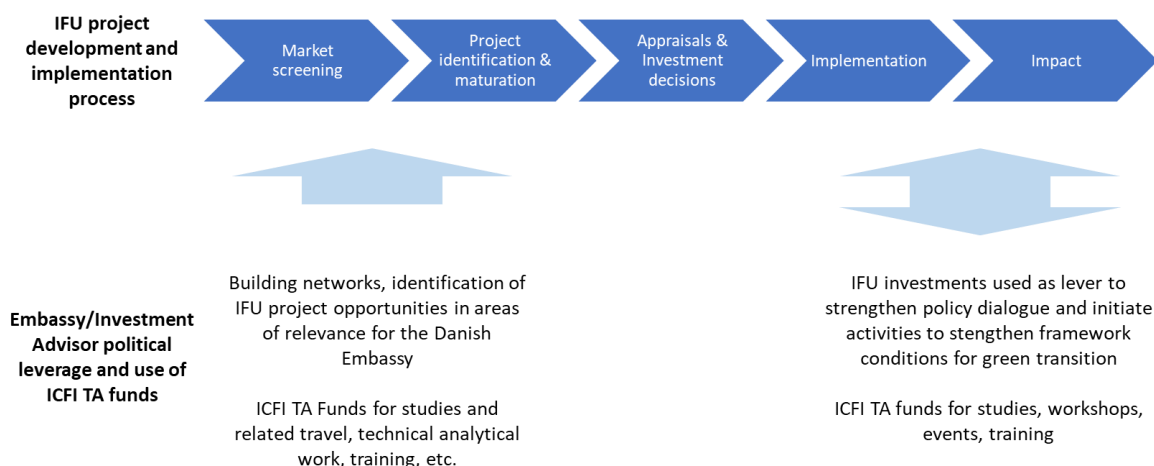
**Figure 3: Investment Advisor’s facilitative role**



Source: *Investeringsrådgivere – formålsbeskrivelse. MFA*

engagement, e.g. additional studies. With the innovative approach and slightly higher risk profile of ICFI funds, IFU could, in specific cases, engage at an earlier stage as compared to traditional IFU projects. Figure 4 shows IFU’s investment process and the strategic cooperation with the Embassy in this Initiative.

**Figure 4: Building a viable investment portfolio under the India Climate Finance Initiative**



**Danish strongholds:** IFU’s investment decisions will be based on IFU’s standard criteria for commercial viability and impact. IFU investments are no longer tied to Danish companies nor Danish interests and, as such, these will not constitute the main driving force for decisions. However, Danish companies and authorities have multiple strongholds within technologies for green transition and climate solutions, and the Indian context offers many interesting opportunities for Danish companies. The ICFI is expected to involve multiple stakeholders, such as the Trade Council at the Danish Embassy, who can pro-actively facilitate relevant linkages to Danish commercial interests. Furthermore, in relation to preparatory work, IFU and the Danish Embassy could, as relevant, consult Danish civil society organisations active in India as they can contribute with local knowledge, information about target groups, expertise on gender equality and poverty reduction etc.

**Responsible Business Conduct/Environmental, Social and Governance (ESG) Requirements:** IFU has a strong focus on sustainability of its investments considering the triple bottom line of people, planet and profit. Careful preparation and monitoring shall ensure that the investments will have a strong focus on impact and responsibility, i.e. that they will achieve social, environmental and governance targets besides ensuring a satisfactory financial return. In accordance with its sustainability policy, IFU will apply international sustainability standards, including the International Finance Cooperation performance standards<sup>21</sup> and the United Nations Guiding Principles for Business and Human Rights<sup>22</sup>.

**Doing Development Differently (DDD):** DDD was introduced by MFA in 2020 across its instruments. DDD comprises two main strands to strengthen the relevance and effectiveness of Danish development cooperation, including reinforcing a holistic approach, and introducing an adaptive implementation approach with an increased emphasis on learning. The India Climate Finance Initiative will focus on ensuring a holistic approach to tackling the identified financing gap, which will draw on, and reinforce, the priorities of the different stakeholders – Danish as well as Indian. The

<sup>21</sup> [https://www.ifc.org/wps/wcm/connect/Topics\\_Ext\\_Content/IFC\\_External\\_Corporate\\_Site/Sustainability-At-IFC/Policies-Standards/Performance-Standards](https://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Sustainability-At-IFC/Policies-Standards/Performance-Standards)

<sup>22</sup> [https://www.ohchr.org/sites/default/files/documents/publications/guidingprinciplesbusinessshr\\_en.pdf](https://www.ohchr.org/sites/default/files/documents/publications/guidingprinciplesbusinessshr_en.pdf)

implementation of the ICFI takes place in a rapidly changing context. It is, among others, an opportunity to gain important learnings on 1) how to strengthen coherence between IFU's portfolio and the other activities of Danish Embassies and 2) how to strategically engage with and make use of the placement of an Investment Advisor, which is a new initiative. This learning can be applied in Indonesia and South Africa where two other Investment advisors are placed as well as in other countries, which might benefit from investment advisors in the future.

### 3. Project Objective

With this Initiative, the MFA provides DKK 200 million to climate investment projects in India as part of an effort to contribute to the Green Strategic Partnership between Denmark and India. As a Danish impact investor, IFU is engaged as the key partner to realise the ICFI.

**The overall objective of the India Climate Finance Initiative:** Support green transition and sustainable development in India and contribute to the fulfilment of the India-Denmark Green Strategic Partnership.

Through investments and TA activities, the ICFI will contribute to closing the climate investment financing gap in India and pave the way for even more investments in the country beyond the programme period. The project comprises two key elements, which translate into two outputs:

1. MFA makes investment capital available to IFU, which enables IFU to invest in climate projects in India. A more flexible concessionality profile of the funds will allow IFU to be more innovative and consider investments that might not be possible with the current IFU instruments. It is expected that IFU will be able to mobilise other sources of funding including private finance.
2. With a small TA budget managed by IFU, IFU will engage in close cooperation with the Investment Advisor and the Danish Embassy on building a pipeline of potential IFU investment projects taking into consideration possible alignment with the portfolio of engagements at the Danish Embassy. The three parties will pay special attention to climate adaptation projects and help analyse this field in light of identifying relevant areas for commercially viable investments. The budget will thereby contribute to building a greener IFU investment portfolio in India. At the same time, the Danish Embassy, the Investment Advisor, and IFU will explore opportunities for improvement of framework conditions in relevant areas for IFU's investments, which can further enhance the impact of the investment projects.

### 4. Theory of Change and key assumptions

The individual investment projects will contribute to the acceleration of India's green transition through e.g. installation of more renewable energy, wastewater treatment, improved resilience through climate smart agriculture, etc. Application of IFUs impact screening and sustainability tools including high ESG standards will ensure that jobs created by the investment projects will be decent, and that due analysis is made of how to maximise social impact of the projects including reducing inequalities. As such, all projects will contribute to IFU's two impact areas – building a green economy and building an inclusive and just economy. However, the India Climate Finance Initiative is 'climate funding' and the principal objective of the investment projects will be climate related (see above). Therefore, the main emphasis of investment projects will be on the first IFU impact area even though due considerations will in all investment projects be made to the principle of leaving no one behind.

Especially climate adaptation projects are expected to have a closer link directly to the individual level and could be within the fields of climate-smart agriculture, access to finance for farmers etc. As such

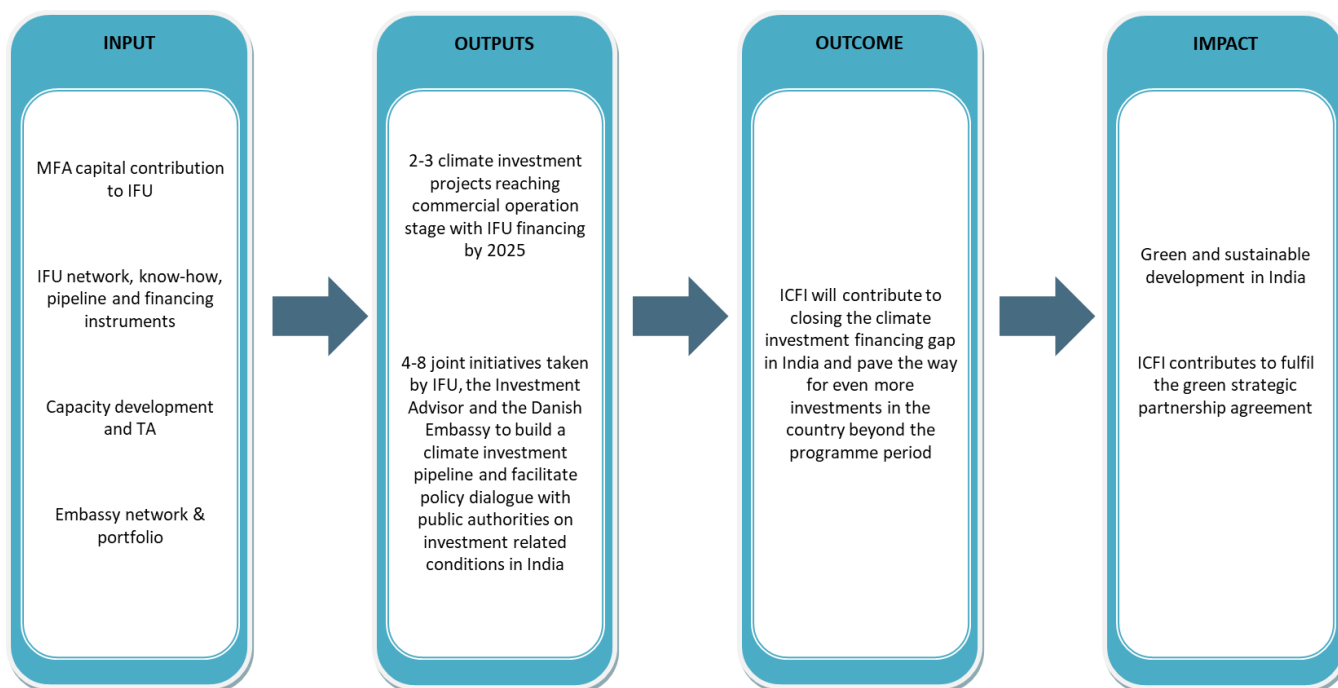
climate adaptation projects could contribute to resilience and less vulnerability, potentially higher yields, food safety, and food security. This will in turn have an impact on income opportunities, and thus contribute to poverty reduction and reduce inequalities in the Indian society.

Climate mitigation projects such as instalment of renewable energy and energy efficiency may not directly target the poorest part of the population but will contribute to a greener India and also to more people overall getting access to clean energy, stabilisation of harmful emission which will indirectly contribute to improve the well-being of the population including the poorer segments. This is possible to deduce as IFU in all climate mitigation projects will pay due consideration to the potential risk that some projects might exacerbate inequalities. IFU's due diligence procedures and sustainability policy will be applied in all investments. The concrete investments will contribute to closing the financing gap in India and leverage DKK 200 million from private investors.

The Danish Embassy will use the investments made by IFU as a lever to strengthen policy dialogue with Indian authorities and strategic stakeholders within relevant thematic areas and sectors thereby contributing to the creation of more favourable conditions for the green transition in India and the investment areas. The Investment Advisor will be the central figure in this task and will be responsible for both the close coordination with IFU to ensure the relevance of the policy dialogue as well as internally at the Embassy to ensure the relevance for the broader Danish portfolio and especially the SSC projects. The SSC and Investment Advisor can in their policy dialogue with Indian authorities at different levels make reference to concrete investment cases – both those that are successful and running and those that are challenging for IFU and others to enter into, among other, due to framework conditions.

All in all, the ICFI will contribute to IFU and the Danish Embassy strengthening their collaboration within the area of green transition and jointly build an interesting pipeline of investment projects which will be in line with the priorities of both MFA, IFU, the Danish Embassy and the Indian Government. As such, the Initiative will pave the way for more investments in climate adaptation and mitigation in India. In order to build the pipeline, the Investment Advisor will share opportunities for projects of relevance at different maturation levels, facilitate contacts and engage in close dialogue, and IFU will engage in activities to screen and assess projects, which IFU find to match its priorities, and could potentially apply the PDP facility. The intervention logic of the India Climate Finance Initiative is presented in Figure 5.

**Figure 5: Intervention logic of the India Climate Finance Initiative**



The theory of change for the India Climate Finance Initiative is:

**If...**

- The MFA contributes capital to IFU to finance 2-3 climate projects in India (up to 1 within climate adaptation);
- IFU and the Embassy of Denmark initiates analytical work, study tours, workshops etc. within areas relevant to the investment project pipeline/portfolio and especially climate adaptation;
- IFU mobilise additional finance from Danish, Indian, or international sources for the selected projects including private finance;
- IFU and the Embassy of Denmark use their expertise, network and political leverage in India to enter into discussions on improvement of the enabling environment in India, and to develop a portfolio of relevant, mature and in turn bankable climate investment projects.

**Then...** (contingent on the projects selected for funding)

- Greenhouse gas emissions will be avoided and/or reduced;
- Renewable energy will be generated and energy efficiency promoted; AND/OR
- Local population will gain access to decent jobs and strengthen resilience through investments in climate smart and resilient agriculture;
- The Embassy of Denmark in India will be able to use the investments as a lever to strengthen policy dialogue with relevant thematic areas and sectors in India;
- The Danish Embassy and IFU will strengthen their cooperation within the green thematic areas and develop a long-term portfolio of mature green investment projects including both climate mitigation and climate adaptation projects;
- Opportunities for advancing Danish commercial interests will emerge.

**Because...**

- A more flexible concessionality profile of the funds will allow IFU to be more innovative and consider investments that might not be possible in the same pace or current form with the current IFU instruments;
- The Embassy will contribute to the early identification of potential investment projects aligned to the current portfolio of engagements (mainly SSC and Energy partnerships);

- The Investment Advisor, with the support of IFU, can facilitate work that can help clarify which type of climate mitigation and especially climate adaptation investment projects are most relevant and feasible for IFU and other investors to enter into;
- IFU will engage in feasibility studies and potentially in maturation of relevant projects also for a future greener pipeline e.g. by applying the PDP facility or similar;
- The Investment Advisor will facilitate access, through the political leverage anchored in the Green Strategic Partnership and the Embassy, to undertake dialogue and technical advisory support between relevant Danish and Indian authorities. The dialogue will focus on the improvement of framework conditions for investments, and the achievement of a comprehensive, coherent and cost-effective approach to creating an enabling environment for green SSC and Energy Partnerships in India.

#### Ultimately...

- This will contribute to closing the climate investment financing gap in India and pave the way for even more investments in the country beyond the programme period, thereby supporting green transition and sustainable development in India, and contributing to the fulfilment of the India-Denmark Green Strategic Partnership.

## 5. Summary of Results Framework

<b>Project Title</b>	<b>India Climate Finance Initiative</b>
Project Objective	Support green transition and sustainable development in India and contribute to the fulfilment of the India-Denmark Green Strategic Partnership
Outcome 1	ICFI will contribute to closing the climate investment financing gap in India and pave the way for even more investments in the country beyond the programme period
Output 1	2-3 climate investment projects reach commercial operation stage with IFU financing
Output 2	Joint initiatives taken by IFU, the Investment Advisor and the Danish Embassy (studies, seminars, events, etc.) to build a climate investment pipeline and facilitate policy dialogue with public authorities on investment related conditions in India

See Annex 3 for details on indicators and targets related to the impact, outcome, and outputs.

## 6. Inputs/budget

**Table 3: Budget**

Activity	2022	2023	2024	2025	Total (million DKK)
Capital Contribution	99.5	98.5	0	0	198
Technical Assistance	0.5	1.25*	0	0	1.75
Stocktaking/Review	0	0	0,25	0	0.25
<b>Total</b>	<b>100</b>	<b>99.75</b>	<b>0.25</b>	<b>0</b>	<b>200</b>

\*For simplicity, two tranches are foreseen to be disbursed to IFU in 2022 and 2023 respectively. The funds allocated for the TA budget may also be used in 2024 and 2025.

MFA will transfer the funds to IFU in two tranches respectively in 2022 and 2023, and IFU is expected to have committed the full amount before the end of 2025. IFU will remain engaged in the individual investments in line with agreed timelines (typically 5-10 years). Once the funds are successfully

invested, MFA will close this appropriation<sup>23</sup>. Reflow of funds from the investments will be an integrated part of IFU's capital and business activities, in line with IFU's investment mandate. Follow-up activities are foreseen beyond 2025 to consolidate the expanded cooperation.

## 7. Institutional and Management arrangement

### 7.1. Governance set-up

IFU is an independent government-owned fund offering advisory services and risk capital to companies that wish to do business in developing countries and emerging markets. IFU and IFU managed funds, have co-invested directly in 1,300 companies in 100 countries across the world. Committed investments in these companies total DKK 209 billion of which IFU has contributed DKK 23 billion. IFU works on a commercial basis grounded in the logic that business investment is a long-term solution to economic improvement and thus development. The procedures and governance set-up for MFA capital contributions to IFU are well established.<sup>24</sup> The India Climate Finance Initiative investments will be integrated into IFU's governance structure and managed according to IFU policies and procedures, as well as the priorities outlined in this document.

To support the work of the Investment Advisor, a Green Investment Advisory Board was established in 2021, which serves as a sounding board related to the advisor's work and arising opportunities. This can be an important input to the identification of opportunities in India and the development of concrete proposals for working with framework conditions. The ICFI is also expected to benefit from the work undertaken with and by the Green Investment Advisory Board.

When deciding on the concrete investment projects to enter into, the ICFI will adopt the practice from the High Risk – High Impact (HRHI) facility, where IFU informs the MFA of concrete investment proposals prior to IFU CIP approval. Similarly, MFA, IFU and the Embassy will have a continuous dialogue on the application of the TA funding based on the plan that is developed at the beginning of the project. This will take place concurrently with the before-mentioned check-in points. Considering the strong MFA attention to possible synergies with planned and ongoing MFA development programmes and instruments in India, this practice ensures a transparent discussion with MFA early in the process. In this way, key issues can be addressed upfront, such as the type of investment, additionality, concessionality, development outcomes, result measurement, sustainability, risk, and rate of return. On top of this, the Investment Advisor will have close ongoing deliberations with IFU and will establish a regular and structured way of engaging with IFU on this initiative and the portfolio in general in line with his/her mandate.

### 7.2. Monitoring and Evaluation

IFU's impact management system is fully integrated into IFU's investment cycle and involves a number of steps from initial project screening to exit. All initial investment opportunities are screened using IFU's project screening tool introduced in 2020, which ensures alignment with IFU's investment strategy, including the impact criteria for green transition and for just and inclusive growth.

During the due diligence process, projects are assessed for their potential positive and negative contribution to the SDGs, and how IFU can enhance development effects, for instance by strengthening ESG requirements or by providing technical assistance to the company. This is also an

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<sup>23</sup> In line with guidance in "Vejledning for håndtering af kapitalindskud fra Udenrigsministeriet til IFU".

<sup>24</sup> IBID



option for IFU to e.g. seek a stronger focus on reaching marginalised groups and as such enhance the impact of investments on reducing inequality. The investee company will elaborate a results framework with specific indicators, baseline values, and targets as an integrated part of the investment agreement and the investee's reporting obligations. Through its active ownership, IFU supports the investees in identifying options for improving their sustainability performance. The projects are required to report progress on impact targets annually. Specific documentation on progress and performance of the individual investments including the rationale for the investments, the rationale for the applied concessionality, development outcomes, sustainability etc. should be readily available for MFA.

IFU is currently in the process of developing a new IT system; a project approved by the board in December 2021 running until the end of 2025. The new system among others focuses on impact measurement and management, aligned with IFU's investment strategy, and with a view to improving data quality and reporting on impact in the coming years.

## 8. Financial Management

### 8.1. Financial Management

Financial reporting on the India Climate Finance Initiative will be integrated into IFU's overall financial reporting to the MFA. The ICFI will also be integrated into the overall monitoring and coordination of MFA funded IFU projects, including quarterly meetings between MFA and IFU Management. Furthermore, MFA participates as observer in the IFU Board.

### 8.2. Planning and Reporting

The investments under the ICFI will be part of the overall IFU portfolio, and IFU will report on ICFI investments in its annual report. At present IFU reports on five areas of impact; financial capital, intellectual capital, human capital, social capital and natural capital. IFU reports on the performance of the full portfolio on a few results, including greenhouse gas emissions, direct and indirect employment, while the remainder indicators are project specific. As seen in the 2021 annual report, some indicators are still under development. One area is climate adaptation, where the MFA is also in the process of consolidating reporting standards. As mentioned above, climate adaptation is an area where it can be challenging for IFU to identify bankable investment projects especially for the SDG fund and GFF. The ICFI will help IFU expand its engagement in climate adaptation projects due to the flexibility of the funding. There will therefore be a close dialogue between IFU, MFA and the Embassy on this topic related to knowledge exchange and learning and how to build strong investment cases also for climate adaptation projects including establishment of indicators.

This appropriation will run from date of signature until December 2025 when all funds are expected to be committed by IFU. It is important for a project of this kind to accept that even though the funds will have been transferred and invested by 2025, the results will have a considerable time lag, as the investment projects will typically run over a longer period. IFU's M&E system will monitor implementation of the investment projects and the results hereof until the projects are closed.

As mentioned above, one of the results of IFU's investments will be leveraging of additional capital, both public and private. To assess additionality, it is relevant to consider financial additionality over the total period in which IFU is invested in a company. This would include additional private finance invested in the company until and including IFU's exit. IFU expects to invest in relative early stage of



a company's life where risks are higher, help develop and scale the business and exit the investment after 5-10 years by selling IFU's shares, ideally to private investors. Thus, in terms of results measurement, the actual final leverage factor, both in total and in terms of private funding specifically, will only be measurable upon exit by IFU, which is well beyond the programme period.

The engagement of the Investment Advisor and the collaboration between IFU, the Danish Embassy and the Investment Advisor, will be reported on as part of the ongoing dialogue between MFA, the Embassy and IFU. The learning from directly facilitating this type of collaboration through a project of this nature will be fed back into MFA and be applied in other similar contexts. A stocktaking exercise/review is foreseen to be carried out by mid 2024 to track progress of the initiative and capture learning especially related to the ambitions to strengthen collaboration between the Embassy and IFU, but also experiences from developing and maturing climate adaptation projects.

## 9. Risk Management

IFU will monitor and respond to developments in contextual, environmental, programmatic, and institutional risks in close dialogue with the MFA's Department for Green Diplomacy and other project partners, as relevant.

IFU has a well-developed risk management system, and the individual investments projects will be assessed according to IFU's risk management principles and be subject to thorough due diligence (appraisal). The process includes screening projects for development impact and eligibility, preliminary clearance by IFU Vice Presidents (Gate 1), CIP in IFU's Investment Committee and Board, and a final approval, Binding Commitment, in IFU's Investment Committee and Board. The due diligence draws on in-house expertise and external consultants to assess opportunities and relevant risks related to policies and regulations, market potential, financials, governance and compliance, environmental, social and human rights risks etc. Adequate measures will be taken to manage and mitigate the risks. IFU will normally be an active owner with board representation and monitor financial and impact performance.

The main risks identified at this point are:

- Political challenging environment and challenging framework conditions for green transition. Risk response: Close dialogue with IFU, the Danish Embassy and relevant Indian authorities.
- Covid-19 pandemic health measures limiting project implementation. Slow projected Gross Domestic Product growth recovery after Covid-19 may affect the business environment and hence companies' ability to grow and create jobs. Risk response: the funding will have more flexibility in terms of risk profile, and thus be more 'patient'.
- Potential global financial recession triggered by the Russian aggression in Ukraine, current increasing world commodity prices and increased inflation rates. Risk response: the funding will have more flexibility in terms of risk profile, and thus be more 'patient'.
- Political complexity in the region. Risk response: make use of both IFU's and the Danish Embassy's in-depth knowledge of India to avoid investments in too risky regions.
- Lack of bankable projects especially within climate adaptation. Risk response: The Investment Advisor will jointly with IFU analyse this specific field (e.g. through engagement of technical assistance) to identify the most relevant opportunities for India that can also attract interest from other investors.

Annex 4 includes a detailed Risk Management Framework. In line with the adaptive approach, IFU will be flexible in planning and implementation, in order to respond adequately to changes and potential risks.

## Annex 1: Context Analysis

### 1. Overall Development Challenges, Opportunities and Risks

**Summarise key conclusions from the analyses and implications for the strategic frameworks/programs/projects regarding each of the following points:**

- **General development challenges including poverty, equality/inequality, national development plans/poverty reduction strategy, humanitarian assessment.**

India is facing a multitude of development challenges within a range of areas such as poverty, inequality, sustainable jobs, air pollution, access to clean water and climate degradation. Improving these conditions, especially within the field of climate is of importance, not just to India, but to the entire world. With a population of approximately 1.3 billion people and a rapidly growing middleclass it is instrumental that India avoids some of the environmental development traps.

India has a challenge to overcome in terms of both social and economic inequality. In 2019 the top 1% held 51.5% of the wealth, whereas the bottom 60% population held just 4.8% of the national wealth.<sup>25</sup> Social inequality is closely tied to economic inequality, but also to the caste system which is still predominant in Indian culture and which is a source of social inequality. Like in the rest of the developing world, climate change is heavily impacting India. Dry seasons are expanding, monsoons are increasing in intensity and clean water is already a scarce and coveted resource for many households.

Most of these challenges have been present for decades but climate change has impacted negatively and the challenges are becoming more challenging and more widespread. According to the World Bank, both foreign direct investments (FDI) and fundamental change in policy is required to cope with the challenges.<sup>26</sup>

Especially investments in water are going to be crucial going forward. India is among the most water-stressed countries in the world and in 2018 it was estimated that about 90% of the available water is used for agriculture.<sup>27</sup> Further, it is predicted that water scarcity will become an even greater challenge in coming decades as urbanization continues and the middle-class will grow.

Another development challenge that is a result of the growing middleclass and rising urbanization, is transportation. As the density of the cities increase, so does the demand for goods, food, water and efficient means of transportation. Providing India with a green alternative to fossil based transport is instrumental if India is going to succeed with the green transition.

- **Development in key economic indicators; GDP, economic growth, employment, domestic resource mobilization, etc. The diversity of the economy.**

All data from world-bank.org covering 2021:

GDP (USD): 3.17 trillion

GDP growth rate: 8.9% (Projected GDP growth rate for 2022 7.4%)

Inflation rate: 5.1%

Government debt as proportion of GDP: 50.3%

FDI inflow percent of GDP: 2.4%

Employment rate (15+): 43%

Unemployment rate: 6%

<sup>25</sup> Public good or Private Wealth? (Oxfam, 2019)

<sup>26</sup> INDIA: SYSTEMATIC COUNTRY DIAGNOSTIC Realizing the promise of prosperity (World Bank, 2018) <https://openknowledge.worldbank.org/handle/10986/29879>:

<sup>27</sup> INDIA: SYSTEMATIC COUNTRY DIAGNOSTIC Realizing the promise of prosperity (World Bank, 2018) <https://openknowledge.worldbank.org/handle/10986/29879>:

Summary: India's economy is growing. Latest projections indicate a slowdown in terms of GDP growth which could have negative impact on the economy overall. According to data from the World Bank, four of the major states (Kerala, Punjab, Rajasthan and West Bengal) in India are facing high levels of debt. The informal labour sector in India is very large. The ~50% employees unaccounted for by the data from the World Bank corresponded with a 2019 survey from the International Monetary Fund which estimates that roughly 50% of the Indian economy is linked to the informal sector.<sup>28</sup>

- **Demographic trends, government debt as a proportion of GDP**

All data from world-bank.org, August 2022:

Total population: 1.39 billion

Population growth: 1% (declining trend since 1982)

Life expectancy at birth: 70 (rising trend)

Summary: The demographic trend suggests that the population is still increasing, but less rapidly than in previous decades. According to ILO: "India has the largest youth population in the world; around 66 per cent of the total population (more than 808 million) is below the age of 35."<sup>29</sup> This constitutes a challenge as unemployment is, also according to ILO, three times more likely amongst youth as compared to adults.

- **Status and progress in relation to SDGs, in particular those that are special priorities for Denmark.**

Focus on the intended SDG's related to this initiative:

SDG 6: Water scarcity is a severe challenge in India. Most of India's fresh water supply comes from the Himalayas. The global rise in temperatures results in shrinking glaciers which means that the fundament for India's water supply is evaporating. This, in combination with extended dry seasons and extreme weather makes the inflow to rivers unsteady and unpredictable. Further, the industrial sector in India consumes a large proportion of the water supply contributing to water-stress on a household level.

SDG 7: India is projected to become one of the world's top consumers of energy according to the UN and the vast majority of India's energy still comes from coal and oil.<sup>30</sup> There is therefore an immediate need to convert to sustainable and clean energy solutions to this rise in energy demand. India's government has launched a series of initiatives aimed at addressing this challenge. The National Solar Mission is one example – generally solar power is the cornerstone of India's energy plan, but investments in wind, hydro and biogas also play a pivotal role.

SDG 11: Touched upon above. There is a need to increase access to the formal labour market to address challenges regarding youth unemployment hence stabilizing local communities. Cities in India are very polluted, and climate mitigation initiatives to prevent further pollution by addressing India's GHG emissions are essential.

SDG 13: Following the rising GDP growth and population growth India's GHG emissions are also rising. India has pledged to reduce their GHG emissions with 33-35% associated with each unit of economic output – referred to as "emission intensity". The emission intensity is a common way of describing how effective a country's energy sector is.

Summary: India is to some extent at least at policy level working to address many of the development challenges they are facing. Heavy investments and also more work on policy and regulation are however still needed.

<sup>28</sup> <https://www.imf.org/-/media/Files/Conferences/2019/7th-statistics-forum/session-ii-murthy.ashx>

<sup>29</sup> [https://www.ilo.org/newdelhi/info/WCMS\\_175936/lang--en/index.htm](https://www.ilo.org/newdelhi/info/WCMS_175936/lang--en/index.htm)

<sup>30</sup> <https://www.economicsandpeace.org/wp-content/uploads/2022/06/GPI-2022-web.pdf>

- **State of democracy; what is the most important political and democratic trends in the specific context incl. regime persistence, political inclusiveness and government accountability**

Narendra Modi is the current Prime Minister of India and has won the past two elections. The next general election will held in or before May 2024. Modi is a controversial figure and his party 'Bharatiya Janata Party' (BJP) has often been associated with radicalization though enforcement of the caste system, provoking religious tensions and populism.<sup>31 32</sup> By V-dem, which is a research project determining the different varieties of democracy, India has, under Modi, been listed as an autocracy and is compared with countries such as Hungary, Brazil and Turkey. This means that human rights and liberal freedoms are under severe pressure in India.<sup>33</sup> Modi has, however, expressed on various occasions that climate change is a high priority to his government and ambitious plans has been initiated during his time as PM.

**List the key documentation and sources used for the analysis:** See Annex 6

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

## 2. Political Economy and Stakeholder Analysis

**Summarise key conclusions from the analyses and implications for the strategic frameworks/programs/projects regarding each of the following points:**

- Are there stable politics in the country with the low risk of regime breakdown and opportunities for ordered political transition?
- Identify social, political, economic and institutional factors affecting the dynamics and possibilities for change;
- Is extraction of rents an issue? How are rents extracted (distortion funds, creation of monopolies, public tenders, land allocation...)? To what extent are rents influencing sustainable development. Are rent seeking practices relevant to the issue/problem at hand? And has it increased or decreased over the last decades?
- What is the governance regime in the country at national, regional and local levels? And what are the implications for democratic development?
- Identify medium-term dynamics of change including incentives and capacities of agents operating within particular institutional domains (i.e. policy processes);
- Assess the legitimacy of a given political process;
- What are the barriers for women and minority to entering and participating in the political arena and in influencing decisions and address inequity and the distribution of power and social and economic resources?

India's political landscape is complex but relatively stable. There is a low risk of regime breakdown. It should be noted that there is a general election planned during the implementation period of the India Climate Finance Initiative (to be held before May 2024) pr. This might represent a minor risk in terms of delays/ shift in political priority. There are a number of factors linked to the political climate in India indicate social and political unrest. These are predominantly driven by cultural, ethnic and religious tensions. These should have little influence on this investment as climate change is considered a threat by a majority of the population.<sup>34</sup> India's democracy is based on a federal government structure with both a central government and state governments. Aligning a project with both national- and state policy might make implementation run smoother.

### Stakeholder Analysis

<sup>31</sup> <https://www.institutmontaigne.org/en/blog/power-play-indias-shifting-political-landscape>

<sup>32</sup> <https://bti-project.org/en/reports/country-report/IND>

<sup>33</sup> [https://v-dem.net/media/publications/dr\\_2022.pdf](https://v-dem.net/media/publications/dr_2022.pdf)

<sup>34</sup> <https://www.pewresearch.org/global/2015/11/05/1-concern-about-climate-change-and-its-consequences/>

- Who are the key stakeholders that may be interested in or affected by the project/program including donors, and what are their main interests, capacity and contributions?
- Who are the most powerful and important stakeholders and what are their main interests, capacity and contributions? Who are likely to hinder the program? What is the gender balance and dynamics within the most important stakeholders? Who stands to gain and who stands to lose from the envisaged project/program?
- Local leaders commitment and ownership when promoting relevant reforms?
- Which stakeholders must in some way be kept in the attention by the project/program to ensure their continued support and/or diminish their resistance?
- What are potential strategies (approaches, methods etc.) for engaging key stakeholders?

**The main stakeholders and their interests are:**

National government:

Promote the green transition in India.

Attract investments to India to accelerate the green transition in India

Raise awareness of climate change and the initiatives which are addressing the negative effects of climate change.

State governments:

Provide permits, and consider legislations and policies which might ease implementation of the projects.

Contribute with local knowledge and technical expertise.

Investee:

Project implementation / planning

Communication with IFU / other stakeholders

Live up to contractual obligations

Local population:

Decent job creation

Local perception of project

Primary off taker of 'products'

IFU:

Engage in commercially viable investments

Promote the green transition in India.

Promote a mutually beneficial investment climate between Denmark and India.

Promote decent job creation in India.

Danish Embassy in India:

Promote green transition in India

Engagement of Danish companies with technical expertise in green transition in investment projects

Closer cooperation between especially SSC and the Investment Advisor with IFU

Implementation of the India-Denmark Green Strategic Partnership Agreement

Sources of climate finance:

A study of green finance flows in India (2017-2018) demonstrated a split between domestic sources of funding which contributed 90% of the green funds and international sources of funding which contributed

10%. Of the domestic sources, private investors contributed the largest share (63% in 2016-17 and 51% in 2017-18). Nearly all the funds were directed towards renewable energy development. Public finance was disbursed either by the central government's line ministries and state departments (37%) or by dedicated public sector undertakings (PSUs) (63%). The bulk of public finance was directed towards the power generation sector (70%) followed by energy efficiency and power transmission (20%), and sustainable transportation (10%). The majority of International bilateral funds went into the sustainable transportation sector, as loans for infrastructure development of metro rail projects. Multilateral funds were mainly targeted at the development of solar parks and rooftop projects (Source: Landscape of green finance in India, Climate Policy Initiative, 2020). Key sources of climate finance include:

1. **Foreign DFIs** – IFC, ADB, AIIB, DFC, DEG, Proparco, FMO, Norfund, BII
2. **Domestic development banks and public / public backed investors** – SBI, HDFC, IDBI, SIDBI, IREDA, NIIF
3. **Foreign Pension Funds** – Adia, CDPQ, CPPIB, OMERS
4. **Foreign impact investors** – responsAbility, Triodos,
5. **Foreign Banks** – Standard Chartered, DBS, SMBC,
6. **PE Funds** – Warburg, Blackrock, Keppel, Actis, Eversource, Isquared,
7. **Domestic Debt funds** – Tata Cleantech, L&T Infra, Aseem Infra, Kotak,

**List key documentation and sources used for the analysis:** See Annex 6

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

### 3. Fragility, Conflict and Resilience

**Summarise key conclusions from the analyses and implications for programs/projects regarding each of the following points:**

- Situation with regards to peace and fragility based on the FRAAT.
- Key drivers of conflict and fragility, protection and resilience, organised transnational crime and illicit money flows;
- Highlight how conflict and fragility affect inclusive private sector development and women and youth;
- Relevant issues for pursuing the Women Peace and Security (WPS) agenda (the '1325' agenda)
- Identify on-going stabilisation/development and resilience efforts and entry points and the potential for establishing partnerships and alliances with national, regional and other international partners in order to maximise effects of the engagements.
- Relevant issues and considerations related to radicalisation and violent extremism
- Issues and concerns of relevance to Danish interest in the area of security and migration.
- Considerations regarding the humanitarian situation, migration, refugee and displacement issues, including the need to integrate humanitarian-development linkages and long term strategies.

In the 2022 version of The Fund for Peace's "Fragile State Index"<sup>35</sup> India is rated as the 69<sup>th</sup> most fragile country in the world. The index weigh indicators within areas such as cohesion, economy, political situation and social. Based on the index data, India is considered as a 'warning country'. This analysis is backed by IEP<sup>36</sup> who conclude that a weaker economy and increases in political instability are determining factors.

<sup>35</sup> <https://fragilestatesindex.org/wp-content/uploads/2022/07/22-FSI-Report-Final.pdf>

<sup>36</sup> <https://www.economicsandpeace.org/wp-content/uploads/2022/06/GPI-2022-web.pdf>



Peace and fragility are closely linked to economic deprivation and resources grabbing. With this in mind, the India Climate Finance Initiative has potential to contribute to a positive development in India related to fragility, conflict and resilience by promoting economic prosperity and promote SDG relevant private sector engagement in the green transition.

The border region between India and Pakistan is the most unstable area of India.

The Key drivers of potential conflict in India are identified as: Economic deprivation, unemployment, lack of critical infrastructure, lack of access to clean water, cultural, ethnic and religious differences. Several of these issue are what the India Climate Finance Initiative will seek to address.

**List the key documentation and sources used for the analysis:** See Annex 6

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

#### 4. Human Rights, Gender, Youth and applying a Human Rights Based Approach

**Summarise key conclusions from the analyses and implications for the strategic frameworks/programs/projects regarding each of the following points:**

- **Human Right Standards (international, regional and national legislation)**

According to Amnesty International, human rights are being continuously challenged in India.<sup>37</sup> These oppressions are especially targeted critics of the authorities and are conducted both online and offline.

The justice system has also been criticised for undermining the right to fair trails and delayed hearings in cases involving system-critics and human rights defenders.<sup>38</sup>

The caste system is commonly used to discriminate against lower ranking castes and other minorities.<sup>39</sup> This view challenged by a 2021 article from Pew Research Center who argue that “82% of Indians say they have not personally faced discrimination based on their caste”<sup>40</sup>

According to India’s own National Human Rights Commission, there were ~104.000 reported human rights complaints in 2021. Out of these 38.2% came from the Uttar Pradesh region (UP).<sup>41</sup> It is worth noting that UP is also the most populous state in India, but even when taking this into consideration UP is still overrepresented in the Human Rights violations statistics. This might be worth taking into consideration when deciding where to invest.

- **Assessment of the most important recommendations from Universal Periodic Review (UPR) relevant for thematic programmes/projects and from any treaty bodies, special procedures, INGOs, Human rights institutions etc. that require follow up by partners in the program.**

The progress and performance of the investments should be monitored and evaluated on a regular basis.

- **Human Rights Based Approach (HRBA) Principles**

All IFU investments will be subject to a stringent due diligence process, which will ensure that the investment projects adhere to the principle of good corporate governance, comply with the principle of good business conduct etc. IFU will apply sustainability standards, including UN guiding principles for business and human rights, in accordance with its new sustainability policy.

#### **Gender**

- **Identify key challenges and opportunities for gender equality.**

<sup>37</sup> <https://www.amnesty.org/en/location/asia-and-the-pacific/south-asia/india/report-india/>

<sup>38</sup> Ibid.

<sup>39</sup> Ibid.

<sup>40</sup> <https://www.pewresearch.org/religion/2021/06/29/attitudes-about-caste/>

<sup>41</sup> <https://nhrc.nic.in/>



- Identify assessments on gender, such as CEDAW-reporting, SDG National Action Plans, UPR, and other relevant gender analysis.
- Identify social and gender norms that drive inequality at all levels (policy and systems, institutional and societal, community, family, inter-personal, individual) with particular attention to underlying power structures and meta-norms.
- Consider social and behaviour change strategies as a tool to address social and gender norms identified in the analysis.

In the 2019 (most recent) version of UNDP's Gender Inequality Index (GII) India rank 131 out of 189 countries. Especially female access to secondary education is a challenge – just 27.7% are receiving secondary education.

#### **Youth**

- Identify key challenges and opportunities for meaningful engagement of youth following the principle of programming not only for, but also with youth.
- Identify opportunities/constraints for addressing youth issues.

Youth unemployment is a major concern in India. India has the largest youth population in the world; around 66 per cent of the total population (more than 808 million) is below the age of 35. It is however also an opportunity as changes are often driven by the young generation. The investment projects will generate both direct and indirect jobs, which are expected to be for both highly educated people but also for skilled workers.

**List the key documentation and sources used for the analysis:** See Annex 6

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

## **5. Inclusive sustainable growth, climate change and environment**

**Summarise key conclusions from the analyses and implications for the strategic frameworks/programs/projects regarding each of the following points:**

- Assess the overall risks and challenges to inclusive sustainable growth and development from the impact of climate change and environmental degradation;
- Assess the status of policies and strategies in the national/regional/local level to ensure that development is inclusive and sustainable, avoid harmful environmental and social impacts and respond to climate change;
- Assess the political will and the institutional and human capacity to implement these policies and strategies.

According to a 2016 IFC report India and the South Asian region as a whole is *“particularly vulnerable to climate change because of its large population and vast low-altitude agricultural and economic activities.”*<sup>42</sup> Further the report emphasizes that *“Rapid urbanization is placing significant demands on infrastructure, driving the need for power, transport, water, waste management, and sustainable cities.”* This call for investments in new and innovative technologies which can contribute to the green transition, adaptation of sustainable water resource management and environmentally friendly infrastructure.

India is currently the world's third largest GHG emitter and currently the vast majority of its energy comes from coal and oil. If India does not successfully transition towards a greener energy sector, it might have international implications on the climate.

**At the latest Climate summit in Glasgow (CoP26) PM Modi presented an ambitious plan:**

India will get its non-fossil energy capacity to 500 gigawatt by 2030

<sup>42</sup> [https://www.ifc.org/wps/wcm/connect/59260145-ec2e-40de-97e6-3aa78b82b3c9/3503-IFC-Climate\\_Investment\\_Opportunity-Report-Dec-FINAL.pdf?MOD=AJPERES&CVID=IBLd6Xq](https://www.ifc.org/wps/wcm/connect/59260145-ec2e-40de-97e6-3aa78b82b3c9/3503-IFC-Climate_Investment_Opportunity-Report-Dec-FINAL.pdf?MOD=AJPERES&CVID=IBLd6Xq)

India will meet 50 per cent of its energy requirements till 2030 with renewable energy  
 India will reduce its projected carbon emission by one billion tonnes by 2030  
 India will reduce the carbon intensity of its economy by 45 per cent by 2030  
 India will achieve net zero by 2070

These goals are very ambitious. Even if India does not fully achieve the scope of the goals sends a clear message that India is serious about their green transition and fight against climate change. Due to India's population size and a growing middleclass with increased purchasing power, it is instrumental that not only India's government, but India's population is engaged in the green transition and fight against climate change.

Modernising India's energy sector is going to be crucial to reach their climate targets. India's goal of reaching a non-fossil energy capacity to 500 gigawatts by 2030, is largely going to be driven forward by solar power. In the 2021 flagship report from the International Energy Agency (IEA) it is stated that currently 4% of India's energy mix comes from solar power, but with the current policies this number will rise to low 30%. This is primarily due to the cost-competitiveness of solar as opposed to coal which currently account for close to 70% of India's energy mix.<sup>43</sup>

According to IEA an estimated 660.000 million people use firewood as their primary cooking fuel.<sup>44</sup> This number imply two important points. 1) Half of India's population is still deeply dependent on solid biomass, which inevitably release tangible amounts of Co2 into the atmosphere while simultaneously polluting India's cities. 2) that the electric grid and supply is still unreliable in some areas.

Other topics that might be taken into consideration:

There is a growing trend towards urbanization. Building climate smart and resilient will be important for India's green transition.

A result of India's growing middleclass and the urbanization is an increase in number of trucks and cars on the roads. Promoting a greener transportation sector

- **Identify opportunities for mainstreaming support to inclusive green growth and transformation to a low-carbon and climate resilient economies in the programs/projects.**

It is a focal point that all investments under the programme should promote inclusive green growth and transformation to a low-carbon and climate resilient economies

- **Identify potential risk and negative impacts related to environment and climate change from the proposed programs/projects and consider how these may be mitigated in the design of the program/projects.**

Investments made under this initiative should all contribute to a positive development of the green transition in India. While some investments might have immediate impact, others might increase in impact over time. These factors should be considered before making a decision on which companies should receive investments.

- **Identify if EIA (Environmental impact assessment) or similar should be carried, including legal requirements in partner countries/organizations.**

IFU will apply its project screening and assessment tools for each investment including potential need for EIA.

- **Consider rights and access to key natural resources: land, water, energy, food and agriculture, including impacts on employment for youth, women and indigenous peoples, etc.**

<sup>43</sup> <https://www.iea.org/reports/india-energy-outlook-2021>

<sup>44</sup> Ibid.

The companies eligible for investment should be able to demonstrate through e.g., CSR/ESG reporting that they have considered rights and access to key natural resources.

- Consider the impact of climate change on gender equality including the disproportionate impact on women's and girl's rights as well as the positive role women can play as agents of change and in mitigating the impacts of climate change.

Companies that are invested in under this initiative should be able to demonstrate that they are inclusive towards woman and youth by reflecting, monitoring and reporting on responsible business conduct / UN global compact guidelines.

**List the key documentation and sources used for the analysis:** See Annex 6

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

## 6. Capacity of public sector, public financial management and corruption

**Summarise key conclusions and implications for the country strategic frameworks/ programs /projects:**

- Capacity of the public sector for policy making, implementation of policies, enforcement of regulations and effective service delivery.
- Quality and capacity of PFM in general and at sector level, including budget credibility, comprehensiveness and transparency as well as control and external scrutiny/audit in all phases of the budget process.
- Participation of citizens/CSOs in monitoring public budgets and corruption;
- The corruption situation and relevant anti-corruption measures and reforms.
- Considerations on gender responsive and/or transformative budgeting and financing

India's ranking on Transparency international's Corruption Perception Index (CPI) has been stagnant for the past decade. Currently India ranks 85 out of 180 countries on the CPI which is internationally recognized as the leading tool to measure corruption.<sup>45</sup> In their 2021 CPI report Transparency International call India a particularly worrying case in the Asian region.<sup>46</sup> This is based on a decline in democratic status, fundamental freedoms, discrimination against minorities, lack in freedom of speech.<sup>47</sup>

It is worth noting that the electoral process is generally regarded as fair and free and that both state- and local governments are democratically elected.

**List the key documentation and sources used for the analysis:** See Annex 6

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

## 7. Matching with Danish strengths and interests, engaging Danish actors and seeking synergies

**Summarise key conclusions and implications for the country strategic frameworks/ programs /projects:**

- Identify areas/sectors where we have the most at stake – interests and values.

The objective of the India Climate Finance Initiative is to support green transition and sustainable development in India and contribute to the fulfilment of the India-Denmark Green Strategic Partnership. The specific sectors where investment will take place will not be known before IFU has made screening and assessment of potential investment projects. Potential areas for investments are:

<sup>45</sup> <https://www.transparency.org/en/cpi/2021/index/ind>

<sup>46</sup> <https://www.transparency.org/en/news/cpi-2021-for-asia-pacific-grand-corruption-holding-back-progress>

<sup>47</sup> <https://freedomhouse.org/country/india/freedom-world/2021>

<p>Climate mitigation:  Renewable energy  Energy efficiency (e.g. buildings or industrial manufacturing)  Clean transport systems</p> <p>Climate adaptation:  Food security and food safety (e.g. storage of food climate smart agriculture etc.)  (Micro-) financing for small scale farmers to investments in climate smart technologies making them more resilient to effects of droughts, rising sea levels etc</p> <p>Mitigation/adaptation projects:  Water efficiency (e.g. water saving technologies, water conservation)  Cleaning of wastewater (industrial and/or household level)  Stronger and more resilient water supply and sanitation systems</p>
<ul style="list-style-type: none"> <li>• <b>Identify where we can have influence through strategic use of positions of strengths, expertise and experiences.</b></li> </ul>
<p>Denmark is one of the world leaders within the area of renewable energy. Especially within wind energy Danish expertise can contribute to the green transition but also within water efficiency, energy efficiency in buildings etc.</p> <p>Denmark is also a global leader within waste management and reuse.</p> <p>By promoting investments in sectors where Danish competencies and expertise are globally recognized, the India Climate Finance Initiative can contribute to promoting Danish export and expansion in India.</p>
<ul style="list-style-type: none"> <li>• <b>Identify where Denmark can play a role through active partnerships for a common aim/agenda or where is there a need for Denmark to take lead in pushing an agenda forward.</b></li> </ul>
<p>For this project, Denmark, i.e. IFU and the Danish Embassy, will be front runners for pushing for some of the more challenging climate mitigation and adaptation investment projects.</p>
<ul style="list-style-type: none"> <li>• <b>Mapping of Danish foreign policy engagement, commercial engagement, trade relations and investment, Danish local and central authorities, civil society organizations, IFU and academia. Identify concrete opportunities for synergies.</b></li> </ul>
<p>In 2020 Denmark and India agreed to a strategic green partnership. The India Climate Finance Initiative is part of this strategic partnership.</p> <p>Some of the objectives of the initial joint statement for the partnership was:  “accelerating sustainable economies and societies.”<sup>48</sup>  “Joint Working Groups on Renewable Energy, Urban Development, Environment, Agriculture”<sup>49</sup>  “to advance political cooperation, expand economic relations and green growth, create jobs and strengthen cooperation on addressing global challenges and opportunities”<sup>50</sup></p> <p>All of the above mentioned priorities can be addressed through the India Climate Finance Initiative, if prioritized.</p>
<ul style="list-style-type: none"> <li>• <b>Assessment of the donor landscape and coordination, and opportunities for Denmark to deliver results through partners including through multilaterals and EU.</b></li> </ul>
<ul style="list-style-type: none"> <li>- A number of DFIs could be potential investment partners to IFU. IFU will assess potential for collaboration and co-investment on a case by case basis</li> </ul>
<p><b>List the key documentation and sources used for the analysis:</b> See Annex 6  <b>Are additional studies/analytic work needed? How and when will it be done?</b> N/A</p>

<sup>48</sup> <https://www.regeringen.dk/nyheder/2020/danmark-og-indien-indgaar-groent-strategisk-partnerskab/>

<sup>49</sup> Ibid.

<sup>50</sup> Ibid.

## Annex 2: Partner Assessment

### 1. Brief presentation of partners

IFU was established in 1967 and has to date invested in 1,325 companies in more than 100 countries in Africa, Asia, Latin America and parts of Europe. Committed investments total DKK 235 billion, of which IFU has contributed DKK 26 billion. IFU is an independent government-owned fund offering risk capital to companies in developing countries and emerging markets. IFU is fund manager of a number of other investment funds, including the Danish SDG Investment Fund.

IFU investments have helped to create and preserve close to one million jobs in the host countries, and IFU has contributed to the establishment of more than 2,000 megawatts renewable energy. In addition, IFU's presence has resulted in transfer of knowledge and technology, the employees have received training, economic activity has been accelerated and a source of income through e.g. taxes has been created for the host countries.

All IFU investments must support the green transition and contribute to poverty alleviation and reduced inequality. Furthermore, IFU has a strong focus on the project companies' corporate social responsibility to ensure, among other things, that employees are given proper working conditions and that a project company's production is socially and environmentally sustainable. IFU offers risk capital and advice to companies that want to invest in commercial investment activities in developing countries. IFU has built up a strong experience with investments in developing countries including low-income countries, and IFU has the required capacity and networks to develop and implement the new instrument.

### 2. Summary of partner capacity assessment

No additional stakeholder analyses have been conducted due to the fact that IFU is a well-established organization, and the planned commitment to the new instrument will only to a minor extent effect IFU's current governance procedures and business activities.

### 3. Summary of key partner features

<b>Name of Partner</b>	<b>Core business</b> <i>What is the main business, interest and goal of the partner?</i>	<b>Importance</b> <i>How important is the project/programme for the partner's activity-level (Low, medium high)?</i>	<b>Influence</b> <i>How much influence does the partner have over the projectprogramme (low, medium, high)?</i>	<b>Contribution</b> <i>What will be the partner's main contribution?</i>	<b>Capacity</b> <i>What are the main issues emerging from the assessment of the partner's capacity?</i>	<b>Exit strategy</b> <i>What is the strategy for exiting the partnership?</i>
IFU	IFU invests in financially viable companies, contributing to the	Low. IFU has an active portfolio under management of DKK	High. IFU will decide which projects to invest in.	IFU will cover all costs related to identifying, maturing, approving	Strength: Solid well tested systems for identifying and managing investment	Capital and dividends from successful investments will become part of IFU

	<i>green transition as well as economic and social development.</i>	<i>12.6 billion by the end of 2021.  Project can be important to further strengthen IFU's engagement in India</i>	<i>For this project it is agreed that IFU will inform MFA on investment decisions prior to IFU clearance in principle.</i>	<i>and implementing the investments.</i>	<i>projects. Strong regional presence with offices in Singapore and India.  Weaknesses: Limited experience in identifying green projects sought for with this appropriation.</i>	<i>equity and re-invested in new projects.</i>
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### Overview of IFU's engagement in India

#### Current and past IFU investments in India

<b>Projects</b>	<b>Number of Investments</b>	<b>IFU contracted participation (million DKK)</b>	<b>Total projected investment (million DKK)</b>
Active	14	913.5	11,515
Closed	86	1,023	10,395
<b>Total</b>	<b>100</b>	<b>1,604</b>	<b>21,910</b>

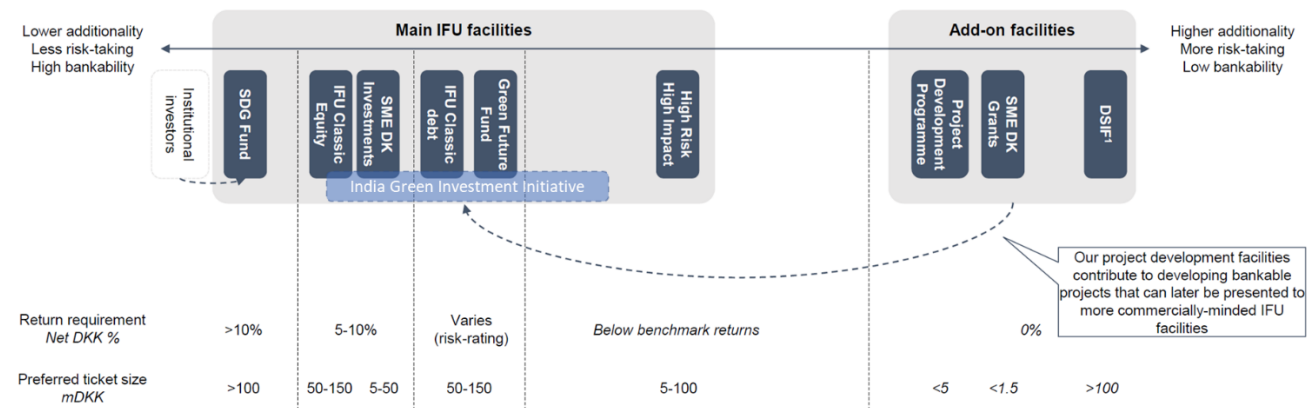
Source: IFU Website

#### IFU pipeline of potential investments in India

<b>Project</b>	<b>IFU focus area</b>	<b>Projected IFU investment (million DKK)</b>
Sourcing of organic products	Healthy foods and healthy lives	199
Post-Consumer PET waste recycling	Energy, water and waste	107
Off-grid energy	Energy, water and waste	140
Solar energy and green technology	Energy, water and waste	Not agreed
Waste management and recycling	Energy, water and waste	125
Wind power and green technology	Energy, water and waste	7
Renewable energy based on biomass	Energy, water and waste	130
Green transportation	Transformational businesses	170

Fintech impact investment	Financial inclusion	110
SME impact investment	Financial inclusion	280
<b>Total</b>		<b>1,268</b>

## Overview of IFU instruments



## Annex 3: Detailed results framework

<b>Project Title</b>	<b>India Climate Finance Initiative</b>
Project Objective	Support green transition and sustainable development in India and contribute to the fulfilment of the India-Denmark Green Strategic Partnership.
Impact Indicators	<p><b>Impact attributed to the 2-3 realised investments</b></p> <ul style="list-style-type: none"> <li>India on a pathway to a green economy: The impact indicators will depend on the specific investment projects to be determined and be based primarily on IFU's impact priority "building a green economy" (cf. table 2), and contribute to SDGs 6, 7, 11, 13 and 17, e.g. avoided/reduced GHG emission, installed capacity of renewable energy, wastewater treated (m3), number of direct jobs sub-divided into female and youth, etc.</li> </ul> <p><b>Impact on the green strategic partnership agreement</b></p> <ul style="list-style-type: none"> <li>Indo-Danish policy dialogue linked to climate investments has contributed to creating an enabling environment to accelerate the green transition in India</li> </ul>

<b>Outcome</b>	<b>ICFI will contribute to closing the climate investment financing gap in India and pave the way for even more investments in the country beyond the programme period</b>	
Outcome indicators	<ul style="list-style-type: none"> <li>Private finance mobilised for ICFI financed climate investment projects in India from 2022-2025</li> <li>New potential (pipeline) climate investments projects identified</li> </ul>	
Baseline	2022	<ul style="list-style-type: none"> <li>DKK 0 million</li> <li>NA</li> </ul>
Target	2025	<ul style="list-style-type: none"> <li>DKK 200 million (leverage factor 1)</li> <li>8 climate investment projects (mitigation and potentially adaptation)*</li> </ul>

\* contingent upon capital availability and India exposure limits for SDG Fund

<b>Output 1</b>	<b>Climate investment projects reach commercial operation stage with IFU financing</b>	
Output 1 indicator	<ul style="list-style-type: none"> <li>Number of climate adaptation and mitigation investment projects</li> </ul>	
Baseline	2022	<ul style="list-style-type: none"> <li>NA</li> </ul>
Target	2025	<ul style="list-style-type: none"> <li>1-2 climate mitigation projects and up to 1 climate adaptation project</li> </ul>

<b>Output 2</b>	<b>Joint initiatives taken by IFU, the Investment Advisor and the Danish Embassy (studies, seminars, events, etc.) to build a climate investment pipeline and facilitate policy dialogue with public authorities on investment related conditions in India</b>	
Output 2 indicators	<ul style="list-style-type: none"> <li>Number of initiatives taken to facilitate learning on climate adaptation investment projects in India and building of an investment pipeline within climate adaptation and mitigation</li> <li>Number of initiatives taken to pro-actively leverage investments to improve the framework conditions</li> </ul>	
Baseline	2022	<ul style="list-style-type: none"> <li>NA</li> <li>NA</li> </ul>



Target	2025	<ul style="list-style-type: none"><li>• 2-4 initiatives</li><li>• 2-4 initiatives</li></ul>
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## Annex 4: Risk Management

### Contextual risks

Risk Factor	Likelihood*	Impact**	Risk response	Residual risk	Background to assessment
<b>Political</b>					
Political challenging environment and challenging framework conditions for green transition and risk of political capture which may undermine the programme	Likely	Major	Close dialogue with IFU, the Danish Embassy and relevant Indian authorities to address issues	Minor	Successful green transition means introduction of new technologies and approaches. It is likely that local or national framework conditions will need to be adjusted to allow projects to succeed. As such political ownership and commitment is key for realising green investment projects.
Change in Danish government leading to de-prioritisation of the Danish-Indo Green Strategic Partnership	Very unlikely	Minor	IFU/MFA political dialogue on strategic priorities.	Minor	A shift in the political landscape might trigger a different political direction for the partnership with India. However, climate change is a hot political topic and the current Danish opposition is likely to continue commitments to the Paris Agreement.
Diplomatic relations between Denmark and India become constrained	Unlikely	Major	Continuous and open dialogue between Danish and Indian authorities	Minor	The Indo-Danish relationship has significantly improved in the recent years with reciprocal visits by state leaders and signing of collaboration agreements as the Green Strategic Partnership agreement.
Political complexity in the region	Likely	Major	Make use of both IFU's and the Danish Embassy's in-depth knowledge of India to avoid investments in too risky regions.	Minor	Some regions of India are more complex than others in terms of providing framework conditions for investments. Important to understand contextual setting.

Covid-19 pandemic limiting project implementation	Likely	Major	IFU measures established during the global 2020/21 pandemic to enable operation will be applied to the situation. Funding will have more flexibility in terms of risk profile, and thus be more 'patient'.	Minor	India have had several full-scale countrywide covid-19 lockdowns. Currently 67.8% of India's population is fully vaccinated. From experience a significant part of the needed meetings can be covered on-line. Furthermore, IFU has presence in India should borders be affected.
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<b>Economic</b>					
Global financial recession as a result of Russia's invasion of Ukraine. This could have negative impact on the investment climate.	Likely	Major	Risk-willing capital will become even more in demand. IFU flexibility in terms of concessionality may become even more important.	Minor	The global economy is slowing down as a result of the war. Commodity prices are rising. Increasing oil & gas prices can drive green transformation.
Spike in inflation forcing interest rates up making access to capital harder	Likely	Major	Risk-willing capital will become even more in demand. IFU flexibility in terms of concessionality may become even more important.	Minor	Globally interest rates have already been raised as a response to increasing inflation.
<b>Societal</b>					
Spike in ethnic, cultural or religious violence	Likely in certain regions	Major	India is a large country and regional understanding is required. These aspects are covered in IFU project level risk screening	Minor	Ethnic, cultural and religious tensions have been increasing in the past years. Some regions might be affected whereas others will not be. IFU risk screening tools will identify these risks but unlikely that risk can be fully mitigated.
<b>Environment</b>					
Failure to invest in climate technologies adapted to the challenges faced	Unlikely	Minor	Project owners will have carried out solid feasibility studies. IFU has solid screening systems and due diligence procedures in place.	Minor	As IFU is only a minority investor and not providing grants, the project owners can be expected to have done proper preparatory work.
<b>Security</b>					
Escalating security situation in Taiwan affecting the stability in south-east Asia	Likely	Minor	Externality that will be monitored in overall IFU project level risk screening	Minor	It is uncertain how the security situation around Taiwan will evolve. In a worst-case scenario the whole region of south-east Asia might be affected by an escalation – although India works to not take side.

### Programmatic risks

Risk Factor	Likelihood	Impact	Risk response	Residual risk	Background to assessment
Commercial failure of individual investments	Unlikely	Major	IFU risk screening and ability to build capacity building into projects. Close follow up by IFU India and Singapore.	Minor	IFU has a well-developed risk management system designed to mitigate risks during the preparation, implementation and operation of the investments. However, there is always risk involved when investing in emerging market.
Inability of IFU to attract relevant enterprises	Unlikely	Major	IFU is aware of the importance of maintaining a solid pipeline of investments projects, and efforts to develop a satisfactory pipeline are ongoing.	Minor	Overall, there is a shortage of bankable investment projects in developing countries. Project is based on well tested concepts and networks.
Lack of bankable projects especially within climate adaptation	Likely	Major	IFU will jointly with the Investment Advisor analyse this specific field (e.g. through engagement of technical assistance) to identify the most relevant opportunities for India that can also attract interest from other investors. TA budget available.	Minor	Climate adaptation projects can be more complex to identify and mature.

### Institutional risks

Risk Factor	Likelihood	Impact	Risk response	Residual risk	Background to assessment
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Lack of awareness towards responsible business conduct amongst project partners	Likely	Major	IFU will make initial responsible business conduct screenings of companies that receive investments under this initiative and follow up on these. The projects will be required to monitor and report on responsible business conduct / UN global compact guidelines.	Minor	The India Climate Finance Initiative and IFU aims at promoting decent job creation. Investments made under the India Climate Finance Initiative should contribute to this agenda.
Reputational risks due to violation of human rights, OSH, environmental standards etc.	Unlikely	Major	IFU has well-established sustainability policies and procedures which will ensure that sustainability issues are professionally addressed during investment preparation and operation	Minor	Various studies indicate that international and not least local companies often violate human rights, OSH, environmental standards etc.
Misuse, corruption and fraud by participating international and local partners	Likely	Major	These risks can never be avoided, but IFU has developed a number of monitoring and control procedures to mitigate the frequency and impact of these	Minor	IFU has significant experience with investing in these types of projects and long-standing track record in India.

**\*Likelihood:** Very unlikely, Unlikely, Likely, Almost certain **\*\*Impact:** Insignificant, Minor, Major, Significant

## Annex 5: Budget Details

<b>Activity</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>Total (million DKK)</b>
Output 1 - Capital Contribution	99.5	98.5	0	0	198
Output 2 - Technical Assistance	0.5	1.25*	0	0	1.75
Stocktaking/Review	0	0	0,25	0	0.25
<b>Total</b>	<b>100</b>	<b>99.75</b>	<b>0.25</b>	<b>0</b>	<b>200</b>

IFU will cover all costs related to staff engaged in the project as well as all other operational costs of activating the IFU systems and involving IFU offices in Singapore and India including e.g. travel, accommodation and office costs.

## Annex 6: List of supplementary materials

#	Document / Material	Source
1	Public good or Private Wealth? (Oxfam, 2019)	<a href="https://www.oxfam.org/en/research/public-good-or-private-wealth">https://www.oxfam.org/en/research/public-good-or-private-wealth</a>
2	India: Systematic Country Diagnostic Realizing the promise of prosperity (World Bank, 2018)	<a href="https://openknowledge.worldbank.org/handle/10986/29879">https://openknowledge.worldbank.org/handle/10986/29879</a> :
3	Decent Work for Youth in India (International Labour Organization, accessed August 9, 2022)	<a href="https://www.ilo.org/newdelhi/info/WCMS_175936/lang--en/index.htm">https://www.ilo.org/newdelhi/info/WCMS_175936/lang--en/index.htm</a>
4	Global Peace Index 2022 (Institute for Economics & Peace, 2022)	<a href="https://www.economicsandpeace.org/wp-content/uploads/2022/06/GPI-2022-web.pdf">https://www.economicsandpeace.org/wp-content/uploads/2022/06/GPI-2022-web.pdf</a>
5	Power Play: India's Shifting Political Landscape (Institut Montaigne, accessed August 9, 2022)	<a href="https://www.institutmontaigne.org/en/blog/power-play-indias-shifting-political-landscape">https://www.institutmontaigne.org/en/blog/power-play-indias-shifting-political-landscape</a>
6	BertelsmannStiftung Transformation Index (BTI) (Accessed August 9, 2022)	<a href="https://bti-project.org/en/reports/country-report/IND">https://bti-project.org/en/reports/country-report/IND</a>
7	Democracy Report 2022: Autocratization Changing Nature? (V-Dem Institute, 2022)	<a href="https://v-dem.net/media/publications/dr_2022.pdf">https://v-dem.net/media/publications/dr_2022.pdf</a>
8	Concern about Climate Change and Its Consequences (Pew Research Center, 2015)	<a href="https://www.pewresearch.org/global/2015/11/05/1-concern-about-climate-change-and-its-consequences/">https://www.pewresearch.org/global/2015/11/05/1-concern-about-climate-change-and-its-consequences/</a>
9	Fragile State Index Annual Report 2022 (Fund For Peace, 2022)	<a href="https://fragilestatesindex.org/wp-content/uploads/2022/07/22-FSI-Report-Final.pdf">https://fragilestatesindex.org/wp-content/uploads/2022/07/22-FSI-Report-Final.pdf</a>
10	Amnesty International Report India 2022 (Amnesty International, 2022)	<a href="https://www.amnesty.org/en/location/asia-and-the-pacific/south-asia/india/report-india/">https://www.amnesty.org/en/location/asia-and-the-pacific/south-asia/india/report-india/</a>
11	Attitudes about caste (Pew Research Center, 2021)	<a href="https://www.pewresearch.org/religion/2021/06/29/attitudes-about-caste/">https://www.pewresearch.org/religion/2021/06/29/attitudes-about-caste/</a>
12	National Human Rights Commission, India (Accessed August 9, 2022)	<a href="https://nhrc.nic.in/">https://nhrc.nic.in/</a>
13	Climate Investment Opportunities in Emerging Markets (International Finance Corporation, 2016)	<a href="https://www.ifc.org/wps/wcm/connect/59260145-ec2e-40de-97e6-3aa78b82b3c9/3503-IFC-Climate_Investment_Opportunity-Report-Dec-FINAL.pdf?MOD=AJPERES&amp;CVID=IBLd6Xq">https://www.ifc.org/wps/wcm/connect/59260145-ec2e-40de-97e6-3aa78b82b3c9/3503-IFC-Climate_Investment_Opportunity-Report-Dec-FINAL.pdf?MOD=AJPERES&amp;CVID=IBLd6Xq</a>
14	India Energy Outlook 2021 (International Energy Agency, 2021)	<a href="https://www.iea.org/reports/india-energy-outlook-2021">https://www.iea.org/reports/india-energy-outlook-2021</a>



15	Corruption Perceptions Index (CPI) 2021 (Transparency International, accessed August 9, 2022)	<a href="https://www.transparency.org/en/cpi/2021/index/ind">https://www.transparency.org/en/cpi/2021/index/ind</a>
16	CPI 2021: For Asia Pacific: Grand Corruption and Lack of Freedoms Holding Back Progress (Transparency International, accessed August 9, 2022)	<a href="https://www.transparency.org/en/news/cpi-2021-for-asia-pacific-grand-corruption-holding-back-progress">https://www.transparency.org/en/news/cpi-2021-for-asia-pacific-grand-corruption-holding-back-progress</a>
17	Country Report: India (Freedom House, 2021 - Accessed August 9, 2022)	<a href="https://freedomhouse.org/country/india/freedom-world/2021">https://freedomhouse.org/country/india/freedom-world/2021</a>
18	Green Strategic Partnership (Danish Ministry of Foreign - Accessed August 9, 2022)	<a href="https://indien.um.dk/en/denmark-in-india/green-strategic-partnership">https://indien.um.dk/en/denmark-in-india/green-strategic-partnership</a>
19	Strengthening sustainable WASH programming (UNICEF, 2022)	<a href="https://www.unicef.org/india/what-we-do/water-sanitation-hygiene">https://www.unicef.org/india/what-we-do/water-sanitation-hygiene</a>
20	India: Systematic Country Diagnostic Realizing the promise of prosperity (World Bank, 2018)	<a href="https://openknowledge.worldbank.org/handle/10986/29879">https://openknowledge.worldbank.org/handle/10986/29879</a> :
21	Green CAPEX: A tightrope walk for India (World Bank Blogs, 2022)	<a href="https://blogs.worldbank.org/ppps/green-capex-tightrope-walk-india">https://blogs.worldbank.org/ppps/green-capex-tightrope-walk-india</a>
22	ODA Levels in 2021- Preliminary data (OECD, 2021)	<a href="https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/ODA-2021-summary.pdf">https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/ODA-2021-summary.pdf</a>
23	Closing the SDG Financing Gap in the COVID-19 era. (OECD, 2021)	<a href="https://www.oecd.org/dev/OECD-UNDP-Scoping-Note-Closing-SDG-Financing-Gap-COVID-19-era.pdf">https://www.oecd.org/dev/OECD-UNDP-Scoping-Note-Closing-SDG-Financing-Gap-COVID-19-era.pdf</a>
24	IFU Annual Report (IFU, 2020)	<a href="https://www.ifu.dk/wp-content/uploads/2021/04/IFU_AR_2020_SAMLET.pdf">https://www.ifu.dk/wp-content/uploads/2021/04/IFU_AR_2020_SAMLET.pdf</a>
25	IFU Annual Report (IFU, 2021)	<a href="https://www.ifu.dk/wp-content/uploads/2022/05/IFU_AR_2021_280421.pdf">https://www.ifu.dk/wp-content/uploads/2022/05/IFU_AR_2021_280421.pdf</a>

## Annex 7: Plan for communication of results

Results of the India Climate Finance Initiative will be communicated as part of IFUs standard communication. The progress in the Initiative will also form part of the results reporting of MFA.

## Annex 8: Process Action Plan

Deadlines	Action/product	Responsible	Comment/status
<b>Formulation, quality assurance and approval</b>			
June 2, 2022	Presentation to the Programme Committee forwarded to ELK	GDK (Josephine/Maiken)	Draft TOR for appraisal, revised draft PAP and Draft Program Document and associated partner documentation
June 28, 2022	Meeting in Danida Programme Committee	ELK/GDK	List of received responses from the consultation
June 28- August 15, 2022	Address comments from Programme Committee in programme documents	Consultant	
August 15-31, 2022	Quality assurance: Appraisal	ELK/Lasse	An independent view must be safeguarded during appraisal
September 5, 2022	Programme Document, including Appropriation Cover Note and Presentation to the Programme Committee forwarded to ELK	GDK (Maiken)	Summary conclusions from the Programme Committee taken into account
September 22, 2022	Presentation to the Council for Development Policy	GDK/ELK	
End September	Address comments from Council for Development Policy in programme documents	Consultant	
End September/Beginning October	Presentation of project proposal to the Minister for Development Cooperation	ELK submits the proposed project/programme together with the minutes	After Council for Development Policy meeting
<b>Initial actions following the Minister's approval</b>			
December 2022	ELK facilitates that grant proposals are published on Danida Transparency after the Minister's approval	ELK	
December 1, 2022	Document for Finance Committee (Aktstykke) finalised & Presentation to the Parliamentary Finance Committee	GDK/ELK	Legal basis for commitment
Mid-December	Sign agreement with IFU	GDK + IFU	
After agreement(s) are signed	Register commitment(s) in MFA's financial systems within the planned quarter	GDK (Maiken)	
Mid-December	Disbursement of funds to IFU	GDK (Maiken)	

## Annex 9 Summary of appraisal recommendations

<b>Title of Programme/Project</b>	<b>India Climate Finance Initiative (ICFI)</b>
<b>File number/F2 reference</b>	2022-2650
<b>Appraisal report date</b>	21/8 2022
<b>Council for Development Policy meeting date</b>	22/9 2022
<b>Summary of possible recommendations not followed</b> <b>(to be filled in by the responsible unit)</b>  All recommendations have been adhered to and integrated in the revised project document.	
<b>Overall conclusion of the appraisal</b>  The overall conclusion of the appraisal is that the proposed programme/project is recommended for approval with adjustments taking the recommendations of this report into consideration.	
<b>Recommendations by the appraisal team</b>	<b>Follow up by the responsible unit</b>
<b>Programme Documentation</b>	
1) The programme period should be changed to 2022-2025 and a stocktaking/review should be carried out by mid-2024.	Project period has been extended to 2022-2025.  Stocktaking/review has been included in section 8.2 Planning & Reporting as well as in the budget.
<b>Policy and strategy frameworks</b>	
2) Section 2.2 should be elaborated to include an analysis of how the impacts of climate change are linked to the vulnerability of poorer communities in India.	Section 2.2 has been expanded to further capture these dimensions. This analysis is furthermore linked to section 2.5 and the strategic consideration "leave no one behind" in section 2.7.

<p>3) Section 2.6 should be elaborated to include</p> <ul style="list-style-type: none"> <li>i) mobilization of private capital as an important effectiveness criterion, ii) a more detailed explanation of the impact of the ICFI in India, iii) considerations on how to ensure sustainability upon exit of IFU, and iv) value additionality in the form of higher ESG standards that IFU usually brings to investment projects.</li> </ul>	<ul style="list-style-type: none"> <li>i) Mobilisation of private capital is now included in the effectiveness section in 2.6.</li> <li>ii) Impact section in 2.6 has been elaborated to more explicitly highlighting the impact of ICFI in India.</li> <li>iii) IFU considerations on sustainability in exit have been included.</li> <li>iv) Section on sustainability strengthened to capture both value sustainability and financial sustainability.</li> </ul>
<p>4) In section 2.7, the mobilization figures of ICFI should be deconstructed to include projected mobilization of private capital vs. capital from other development institutions (such as DFIs), as this will allow a proper calculation of the leverage factor on private capital mobilization. At the same time, the section should highlight the dilemmas of using mobilization and leverage as success indicators.</p>	<p>Mobilisation section is now presenting the overall IFU leverage factor, but has the main focus on the mobilisation of private capital.</p> <p>Section on dilemmas has been included.</p>
<p>5) Section 2.7 should include the strategic considerations and internal procedures that are undertaken and used by IFU in term of complying with the “leaving no-one behind” agenda.</p>	<p>The strategic consideration on “leaving-no-one behind” has been strengthened and IFU procedures referred to more explicitly. Graphic has been inserted.</p>
<p>6) The TA budget should be allocated to IFU as the implementing partner who is ultimately responsible for reporting on and accounting for the use of the ICFI appropriation. A detailed plan for the use of the TA budget should be elaborated at the start of the programme by IFU jointly with the Danish Embassy and the Investment Advisor in order to align expectations and tap synergies to the maximum extent possible.</p>	<p>TA-Budget has been shifted to IFU as implementing partner.</p> <p>Focus on collaboration and synergies between IFU and the Danish Embassy is emphasized and work stream on developing a joint detailed plan included.</p>
<p><b>Theory of change, objectives, results framework, project design</b></p>	

<p>7) The results framework should be revised to include one outcome related to mobilization of climate finance and three outputs related to number of climate projects financed, number of pipeline projects identified, and activities to facilitate policy dialogue with public authorities in India. The intervention logic and the project objective (section 3) should be revised accordingly.</p>	<p>The results framework and the intervention logic in Section 3 and Annex 3 have been revised along the principles outlined in the appraisal report.</p> <p>The outcome level has been revised to one outcome with focus on mobilisation of climate finance and paving the way for even more investments beyond the programme period.</p> <p>To strengthen the project logic, the appraisal's proposed output on number of pipeline projects identified has been included as an outcome indicator as opposed to a stand-alone output. The other two outputs as proposed by the Appraisal have been included.</p>
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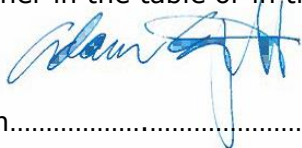
I hereby confirm that the appraisal team has identified the above-mentioned issues and provided the corresponding recommendations as stated above to be addressed properly in the follow-up to the appraisal.

Signed in Copenhagen on the 21 August 2022

*Lasse Møller*

Appraisal Team leader/ELK representative

I hereby confirm that the responsible unit has undertaken the follow-up activities as stated above. In cases where appraisal recommendations have not been accepted, reasons for this are given either in the table or in the notes enclosed.



Signed in.....on the...5 September 2022.....

Head of Unit/Embassy