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

**Meeting in the Council for Development Policy on 10 October 2024**
Agenda Item No. 3

| | |
|---|---|
| **1. Overall purpose:** | *For discussion and recommendation to the Minister* |
| **2. Title:** | Danida Sustainable Infrastructure Finance (DSIF) reform 2.0 |
| **3. Amount:** | DKK 2800 million (2024-2030) |
| **4. Presentation for Programme Committee:** | 7 May 2024 |
| **5. Previous Danish support presented to UPR:** | This is the first presentation to UPR of a consolidated DSIF programme (DSIF 2.0). Previously, specific DSIF project appropriations were tabled to UPR. |

# Danida Sustainable Infrastructure Finance (DSIF)

**Key results:**

- Successful reform of DSIF building on three strategic pillars: a) IFU's access to the State on-lending facility; and b) Untying of DSIF from Danish commercial interest, c) Full integration of DSIF into IFU
- DKK 2.8 billion grant and DKK 5.4 billion in loans supporting public infrastructure investments with a total budget of minimum DKK 8.2 billion.
- Projected 14.6 million people benefitting from improved access to clean energy, water or wastewater services
- IFU has successfully engaged in public infrastructure investment projects through strategic partnerships with other leading financial institutions and involvement of the Danish Embassies.

**Justification for support:**

DSIF will constitute an important instrument for IFU to fulfil its mandate and be an integral part of the IFU reform process. Continuation of the annual contribution of DKK 400 million from earlier years will capitalise DSIF and unleash investments in public good infrastructure that has the potential to reach a large number of beneficiaries including vulnerable, marginalised, and poor segments of the population. The addition of DSIF to IFU's toolbox will increase the ability of IFU to fulfil its objective to build greener, more just and inclusive economies.

**Major risks and challenges:**

Contextual:

- Macroeconomic downturn across emerging markets; Political unrest, conflicts and wars.

Programmatic:

- International bidders for the untied projects do not provide state-of the art equipment and international best practices in terms of knowhow; Limited capacity of IFU/DSIF to set-up and manage a well-functioning results measurement system that is able to capture development impact.

Reputational (incl. organisational):

- Competitiveness and risk willingness of Danish companies to bid for DSIF projects. Ability of DSIF in IFU to continue to involve Danish companies. Capacity of IFU to fully integrate DSIF and institute procedures to effectively utilize the instrument.

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|---|---|---|---|---|---|---|---|---|
| **File No.** | 360: 24/28344 | | | | | | | |
| **Country** | Global | | | | | | | |
| **Responsible Unit** | KLIMA | | | | | | | |
| **Sector** | Climate, decent jobs, economic growth | | | | | | | |
| **Partner** | Investment Fund for Developing Countries (IFU) | | | | | | | |
| *DKK million* | **2024** | **2025** | **2026** | **2027** | **2028** | **2029** | **2030** | **Total** |
| **Commitment** | 400 | 300 | 450 | 450 | 400 | 400 | 400 | 2,800 |
| **Projected disbursement** | 400 | 300 | 450 | 450 | 400 | 400 | 400 | 2,800 |
| **Duration** | November 2024 – 2030 | | | | | | | |
| **Previous grants** | Annual commitments of DKK 400 million | | | | | | | |
| **Finance Act code** | §06.38.01.13 | | | | | | | |
| **Head of unit** | Karin Poulsen | | | | | | | |
| **Desk officer** | Henrik Vistisen | | | | | | | |
| **CFO** | Jacob Strange-Thomsen | | | | | | | |

**Relevant SDGs**


**Objective**

The overall objective of DSIF is to promote investments which support sustainable development and realisation of the SDGs in developing countries and global climate goals by building a just & inclusive and green economy. DSIF will align with IFU's overall targets, which are defined in the Ownership Document i.e. 50% of investments in climate; 50% of investments in Africa and 30% of investments in poor and fragile countries.

**Environment and climate targeting**

| | Climate adaptation | Climate mitigation | Biodiversity | Other green/environment |
|---|---|---|---|---|
| **Indicate 50% or 100%** | No target. ~~w~~will be tracked. | 50% | | 100% |

**Justification for choice of partner:**

IFU will be responsible for the administrative, operational and strategic management including investment decisions of DSIF. IFU has since 2017 had the administrative responsibility for DSIF and hosted the DSIF secretariat. IFU as the Danish Development Finance Institution has solid technical capacity to take on this role including undertaking quality assurance of and technical guidance to investment projects.

**Summary:**

The funding will cover a seven-year period from 2024-2030 with a total contribution of DKK 2.8 billion. The reform of DSIF rests on three strategic pillars: 1) that IFU assumes the role as lender of record, 2) untying DSIF from a commitment to only use Danish contractors; and 3) a full operational and strategic integration of DSIF into IFU. The reform of DSIF is an integral element of the Danish Government's decision in 2023 to reform IFU. DSIF will become IFU's public infrastructure instrument complementing IFU's other financing instruments. IFU will continue to strategically engage Danish companies and Danish contractors will continue to be well positioned to compete for IFU's DSIF projects.

**Budget (DKK million):**

| | |
|---|---|
| Engagement 1 – DSIF 2024-2030 (7 * DKK 400m.) | 2,800.00 |
| **Total** | **2,800.00** |

# Danida Sustainable Infrastructure Finance (DSIF)

# 2024-2030

# DKK 2.8 billion

# Programme Document

# September 2024

360: 24/28344

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## Abbreviations

| | |
|---|---|
| AMG | Aid Management Guidelines |
| BC | Binding Commitment |
| CIP | Clearance in Principle |
| CSDDD | Corporate Sustainability Due Diligence Directive |
| CSRD | Corporate Sustainability Reporting Directive |
| DFI | Development Finance Institution |
| DGF | Development Guarantee Facility |
| DKK | Danish Krone |
| DSIF | Danida Sustainable Infrastructure Finance |
| EIFO | Export and Investment Fund of Denmark |
| ESG | Environmental, Social and Governance |
| FCAS | Fragility and Conflict-Affected States |
| GDK/KLIMA | Department for Green Diplomacy and Climate |
| GERF | Global Europe Results Framework |
| GHG | Greenhouse gas |
| HIPSO | Harmonised Indicators for Private Sector Operation |
| ICT | Information and Communication Technology |
| IFU | Investment Fund for Development Countries |
| JETP | Just Energy Transition Partnership |
| LDC | Least Developed Countries |
| LMIC | Lower Middle Income Countries |
| MFA | Danish Ministry of Foreign Affairs |
| NEFCO | Nordic Environment Finance Corporation |
| O&M | Operation and Maintenance |
| ODA | Official Development Assistance |
| OECD | Organisation for Economic Co-operation and Development |
| PAP | Process Action Plan |
| PDF | Project Development Facility |
| PDP | Project Development Programme |
| PPP | Public Private Partnership |
| SDG | Sustainable Development Goal |
| SFDD | Sustainable Finance Disclosure Regulation |
| SSC | Strategic Sector Cooperation |
| TA | Technical Assistance |
| ToC | Theory of Change |
| ToR | Terms of Reference |
| UMIC | Upper Middle Income Countries |
| UN | United Nations |
| UPR | Council for Development Policy (Udviklingspolitisk Råd) |
| USD | United States Dollars |

# 1 Introduction

This programme document outlines the background, rationale, justification, objectives and management arrangements for the reform of Danida Sustainable Infrastructure Finance (DSIF). It is described in the programme document how a reform of DSIF rests on three strategic pillars: 1) that IFU from 2024 can operate as lender of record and provide loans on behalf of DSIF, 2) untying DSIF from only investing with Danish partners, and 3) a full strategic and operational integration of DSIF into the Investment Fund for Developing Countries (IFU). The reform of DSIF is an integral element of the Danish Government's decision in 2023 to reform IFU[1]. The vision is that a fully integrated DSIF will become IFU's public infrastructure instrument, which will complement IFU's other financing instruments as agreed between the parties, the Ministry of Foreign Affairs of Denmark (MFA) and IFU.

Historically, DSIF has been tied to Danish commercial stakeholders. With the reform, DSIF will continue to work with Danish commercial stakeholders, but will also be able to work with a broader range of international companies and partners. Preparing for this reform, untying has been discussed with Danish commercial stakeholders who petitioned that DSIF should maintain a) high standards in respect of technology, sustainability and quality and b) also develop smaller projects. These approaches should lead to a larger number of smaller, high-quality projects which will increase the chances for Danish companies to win DSIF contracts. IFU will continue to engage Danish business organizations to ensure Danish companies are aware of, and explore commercial opportunities under DSIF.

IFU will henceforth be responsible for the administrative, operational and strategic management including investment decisions of DSIF. This document covers a seven-year period from 2024-2030 and an annual contribution from MFA to DSIF of DKK 400 million totalling up to DKK 2.8 billion, which IFU will apply for loan subsidy and financing different forms of technical assistance and capacity building. The annual budget allocation is a continuation of the past disbursement level[2]. Through DSIF, IFU will support much needed infrastructure in poor and fragile countries, including Least Developed Countries (LDCs), low-income countries (LIC), the poorer lower-middle income countries (LMICs) and in relevant cases also in upper-middle income countries (UMICs) by providing concessional finance packages in combination with loans up to an expected DKK 5.4 billion to public stakeholders, financed via an on-lending facility in the Central Bank. The core offering to poorer countries is the provision of finance for investments, which are challenging for this group of countries to obtain on non-concessional terms. The concessionality will depend on the specific need and poverty profile of the country and can consist of loans with lower interest rates or longer tenure, technical assistance (TA), and grants.

An evaluation of DSIF in 2022 spurred the need for considering how to change DSIF's ways of delivering on its core mandate. The present programme document is the first of its kind for DSIF that sets overall strategic targets for and hence guides and commits DSIF in its engagement and portfolio development over a multiyear period. This comes at a time when the MFA has decided on important reform steps inside of IFU including considerations on how the full integration of DSIF into IFU can deliver better on Denmark's development and climate priorities in line with relevant strategies and priorities including IFU's Ownership Document.

DSIF will be the public sector infrastructure investment facility of IFU while working towards the same overall objective as the rest of the organisation. With the IFU reform as backdrop, the **objective** of the reformed DSIF is thus aligned with IFU's objective and will be to "Promote investments, which support

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[1] ØU-sag "Reform af Investeringsfonden for udviklingslande", 8 September 2023

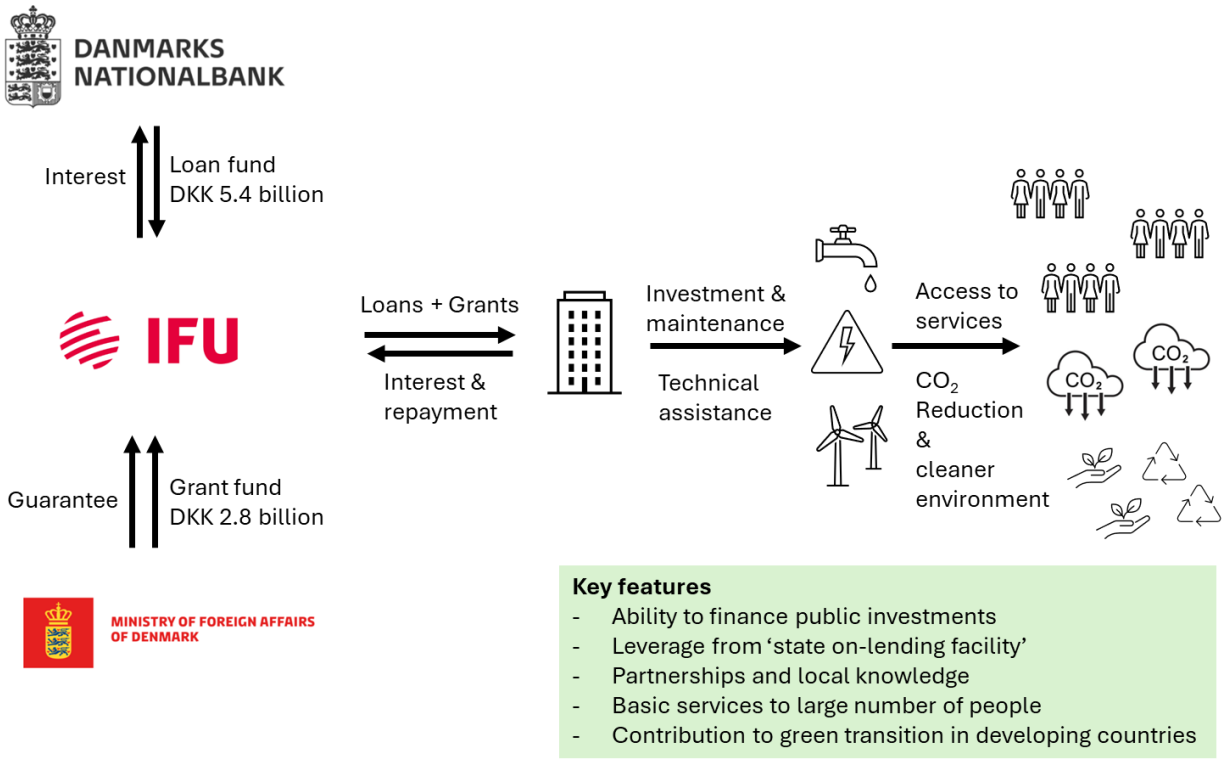
[2] DSIF budget allocated between DKK 200 and 350 million annually between 2013 and 2018. From 2019 to 2024 the budget allocated was between DKK 400 and 500 million annually. Source: Regeringens udviklingspolitiske prioriteter 2014 to 2024.

sustainable development in developing countries and realisation of the SDGs and global climate goals by building a just & inclusive economy and green economy".

With the reform of DSIF, DSIF goes from being an institution under IFU administration to an IFU financing instrument complementing IFU's financing toolbox, allowing IFU to invest in public infrastructure projects, complementing IFU's classic investments in commercial projects. As such, DSIF allows IFU to engage in impactful investment projects but with public clients, reaching beneficiaries in large scale.

Figure 1 below illustrates the key elements of the DSIF funding instrument.

**Figure 1: DSIF 2024-2030 – an overview**




# 2 Context, strategic considerations, rationale and justification

## 2.1 Poor access to infrastructure exacerbates poverty

Infrastructure is not an end in itself; it is a means to deliver essential services to the population. From this perspective public infrastructure investments are essential for development and poverty reduction in developing countries. From power-generation facilities to water and sanitation networks, infrastructure is the basis for the ability to access services that enable society to function and economies to thrive. This makes infrastructure an important element of the global efforts to meet the Sustainable Development Goals (SDGs). SDG 9 explicitly refers to building resilient infrastructure, but all SDGs are, one way or the other, underpinned by infrastructure development. Infrastructure investments, whether in new facilities/connections or in rehabilitation of existing ones, provides an opportunity to focus on green transition through selection of climate friendly solutions with long life-cycles for a cleaner environment and improved climate resilience.

Infrastructure and services that relate to e.g. power/electricity, water and sanitation services, and wastewater treatment are considered public goods, as they are essential for any functioning society and help meet the basic needs of the population. Especially when it comes to serving the poor parts of the population that do not have the means to pay for services, public infrastructure investments are essential.

Poor access to infrastructure significantly exacerbates poverty in developing countries as it restricts economic growth, limits access to essential services, and aggravates social inequalities. Box 1 presents generic examples of how improved access to infrastructure can contribute to poverty alleviation. Please see Annex 1 for more contextual details including link between poverty and lack of basic infrastructure.

**Box 1: Examples of linkages between improved access to infrastructure and poverty alleviation**

- **Water and sanitation:** Access to water and sanitation infrastructure will lead to improved hygiene and health conditions. Waterborne diseases prevalence is reduced, as is the time spent collecting water, often by women and children, which frees time available for education and income-generating activities.
- **Energy:** With access to electricity, households and businesses are enabled to use modern appliances, which affects educational activities (e.g., studying after dark), and stimulates industrial growth, all contributing to reduced poverty.
- **Agriculture:** Adequate irrigation, storage, and transport infrastructure affects positively agricultural productivity. Adequate infrastructure contributes to increasing yields, reducing crop losses, lower costs, and as such impact food security and incomes for those reliant on agriculture.
- **Economic opportunities:** E.g. transportation infrastructure can facilitate access to markets allowing farmers and small businesses to sell their products which generates income and reduces poverty.
- **Social inequality:** Improved infrastructure holds the potential to reach marginalised groups that are disproportionately affected. This contributes to strengthening social equality, as these groups face additional barriers in accessing education, healthcare, and economic opportunities, further entrenching poverty.
- **Lowering costs of services:** When infrastructure is lacking, individuals often have to pay more for basic services like water and energy through alternative means. These higher costs strain household budgets, leaving less available for other essential needs, thereby perpetuating poverty. Investing in infrastructure can contribute to overcoming the challenges.

In recent decades, many developing countries have witnessed rapid urbanization and population growth. This demographic shift has placed immense pressure on public infrastructure, particularly in essential sectors such as water and energy. The challenges related to public infrastructure investments are multifaceted and complex especially in the poorest countries. Despite efforts from donors, international organisations, and also the need from national governments to address the issues, the demand for these essential services often exceeds the available supply, and problems persist in both densely populated areas of larger cities and in the scarcely populated rural areas. The challenges are exacerbated by factors such as inadequate funding, high risk profiles, poor maintenance, rapid population growth, climate change impacts, low technical capacity, and institutional weaknesses.

Water scarcity and poor water quality are persistent problems, which lead to health risks, economic losses, and social instability. Inadequate access to clean water and sanitation facilities disproportionately affects the poorer segments of the populations, including women and children.

*" To unlock investment at scale … requires a shift from a do-it-alone approach to co-creation of investment opportunities and tackling obstacles with the combined involvement of countries, the private sector and development finance institutions."*

*High-Level Expert Group on Climate Finance, A climate finance framework, November 2023*

The impacts of climate change on access to clean water are profound and may further aggravate this situation. Rising temperatures lead to unpredictable rainfall, rising sea levels, and more frequent extreme weather events like floods and droughts. By 2050, climate impacts, primarily caused by water-related

hazards, could impose an annual cost of USD 50 billion on African nations[3], driven by insufficient funding to climate change adaptation. The lack of reliable energy infrastructure hampers economic growth and impedes efforts to achieve the SDGs. In 2021, 645 million people in sub-Saharan Africa were living without access to electricity, indicating a pressing need for major investments in this sector[4]. At a global level, the current energy system is a major driver of global warming, accounting for about 75% of total greenhouse gas (GHG) emissions[5]. In turn, the energy systems are vulnerable to climate change e.g. when unpredictable rainfall impact production of electricity from hydro power facilities.

## 2.2 Bottlenecks constraining public infrastructure investments in developing countries

As illustrated in section 2.1 poor access to public infrastructure services is closely interlinked with poverty and, as such, there is a need to significantly expand investments in public infrastructure. Yet, the pace with which investments are made, remains slow in developing countries. The bottlenecks that constrain investments in public infrastructure are multiple including financing, institutional and technical factors – which are also impacted by the legal and regulatory framework and political economy they are implemented in. These factors are briefly presented below and further elaborated in Annex 1.

**Financing gap:** The non-commercial projects that are viable have a hard time to reach financial close, since the state-owned enterprises/public sector entities are often not able to secure the relevant funding. Africa faces an estimated infrastructure financing gap of USD 100 billion annually. The water sector experiences the most substantial gap, ranging from USD 49 to 59 billion[6]. Attracting and mobilizing financing for infrastructure projects remains a major hurdle. Limited financial resources, coupled with high levels of public debt in many African countries, constrain the ability of governments to invest in infrastructure development.

Some of the main reasons that finance does not easily flow towards public infrastructure investments are constrained public budgets, considerable public debt and low credit ratings. Public infrastructure is typically capital intensive, long-lived and with high sunk costs. This calls for a high initial investment followed by a long pay-back period. Long tenor finance on affordable terms, which fits the specific needs of e.g. the water sector is often unavailable.

Additionally, the perceived risks associated with investing in developing countries and the energy and water sectors deter private sector participation, further exacerbating the funding gap. Commercial investors favour projects with short-term horizons, seeking faster returns.

**Institutional capacity gap:** Infrastructure investments are complex and involve a large number of stakeholders with differing interests and agendas. The capacity of the institutions (national governments, local/regional governments, utilities etc.) responsible for initiating, maturing and managing infrastructure investments is often constrained. Delivering quality and inclusive public infrastructure investment requires understanding the investment needs of many stakeholders and engaging them in the investment cycle, and building trust amongst the different stakeholders (e.g. citizens, businesses, not-for-profits, etc.).

The **regulatory framework and political economy** either support or challenge the use of funding or financing. They also influence access to suitable financial markets (for accessing loans and bonds) for infrastructure investments, which is an important basis for mobilizing funding and realizing sustainable

[3] Dalberg study, 2023
[4] Dalberg study, 2023
[5] International Energy Agency - Iea.org
[6] Dalberg study, 2023

investments. Examples of constraining regulatory frameworks include non-conducive environment for Public Private Partnerships (PPP) e.g. constraining purchase agreements and ability to crowd in private capital, and government defined water and electricity selling rates which undermine the business cases of the projects.

The political economy, and with this shifting political priorities, can constitute a risk for the planning of long-term infrastructure investment projects as there can be disruptions in government priorities, which changes projects' direction and potentially make it less relevant for the broader public and less viable from a sustainability perspective.

**Technical capacity:** For those projects, which do get implemented, many are not operated sustainably due to lack of funding and skills for long term operation and management (O&M). This calls for efficient deployment of scarce concessional capital and for skills development.

**Project development:** As a fundamental premise for investments into large infrastructure projects is the availability in the market of investment ready (or bankable) projects. 80% of African infrastructure projects fail to reach bankability[7] and as a result there is a shortage of projects with solid development impact – both green- and brownfield investments. Insufficient financial resources are dedicated to developing strong feasibility studies, analysing market prospects and developing viable business plans, which results in many projects not materialising.

## 2.3 Danish support to public infrastructure investments

The Danish Government has since 1993 supported development and implementation of large public infrastructure projects, typically water, energy and transport projects, in some of the least developed countries and underserved regions including Mozambique, Pakistan, Bangladesh and Uganda, through DSIF[8]. From the outset, the predecessor to DSIF – the Mixed Credit programme – was set-up up as a tied aid business instrument structured similarly to commercially oriented export credits tied to Danish contractors. While political/strategic priorities have changed over the years, the core elements of the instrument have to a large extent remained unchanged.

DSIF helps prepare, develop and negotiate the infrastructure project, and facilitates the agreement between the relevant national government and the Danish banks that ultimately provide the loan to the governments. Besides facilitation of the loan, grant funding through DSIF (the grant element) has typically been used to subsidise interest rates and to technical assistance. The supported projects have had a significant Danish involvement, using Danish turnkey contractors and Danish technical experts and engineers. In the investment projects supported by DSIF, poverty reduction and climate resilience are at the core of the projects' objectives. This is ensured through active involvement by DSIF in project planning and preparation.

In 2017, the MFA decided to let the Danish Development Finance Institution (DFI), IFU, take over administrative responsibility for DSIF, and the DSIF team in MFA relocated to IFU's offices. Responsibility for strategic decisions including approval and quality assurance of individual projects, however, remained within MFA.

Compared to IFU's other investment projects, DSIF projects have a very long preparation period (up to seven years), and also a very long implementation period (total of 10+ years). DSIF currently has a portfolio of 17 projects, where all grants have been paid out and with a total outstanding engagement (loans) of DKK 2.345 billion. DSIF has steered towards an overall target that 2/3 of its loan portfolio should

[7] Dalberg study, 2023

[8] DSIF was established in 1993 under the name Danida Mixed Credit. It was renamed Danida Business Finance in 2011 and Danida Sustainable Infrastructure Finance in 2020.

**Box 2: Poverty focus in the Thika and Githunguri Water Supply and Sanitation Project**

The Thika and Githunguri Water Supply and Sanitation project amounts to DKK 1,126 million, which is financed by Government of Kenya and a loan from DSIF with a 35% subsidy element. Apart from the subsidy, Danish support also includes a cash grant for design and institutional development (technical assistance and twinning with Danish water companies) and the total appropriation amounts to DKK 486 million. The project will construct new water supply and sewerage treatment plants to serve the needs of rapidly growing populations in Thika town and Githunguri. The project will provide clean and affordable water to 250,000 people and connect about 126,000 people to piped sewerage. In addition, the project will contribute to climate adaptation in Kenya from an energy efficient design, as well as production and use of renewable energy (biogas and hydropower).

be in Africa – in line with Danish development priorities. Box 2 includes a recent example from a DSIF project under preparation in Kenya and its focus on poverty.

## 2.4 IFU reform process and policy directions

In September 2023, the Danish Government's Economic Committee approved a reform of IFU and the vision for IFU towards 2030. The decision to reform DSIF is one element of the overall reform of IFU, which sets out to more than double the capital under management by IFU from 15.6 billion to DKK 36.2 billion by 2030. The reform comprises five tracks: a) increased capital contributions from MFA, b) access to loans from the Danish State on-lending facility, c) a new SDG fund, d) a reformed DSIF with access to on-lending capital and e) revision of IFU dividend policies. The reform sets out to deliver on concrete tasks in The World We Share (the Danish development policy from 2021) such as climate action, inclusive economic growth, employment creation, gender equality and increased access to basic services for poor households. The reform also underpins the Danish Government's policy framework ("Ansvar for Danmark"/Responsibility for Denmark) the Danish foreign policy, and the Danish Government's policies for climate and the environment. Most recently, the Danish Government's Africa Strategy (2024) has an explicit focus on the large need for investments on the African continent. IFU's ambitions in this respect are high, and so are DSIF's. With its strong focus on Africa, DSIF, as well as IFU at large, will contribute to the realisation of the Danish Africa Strategy.

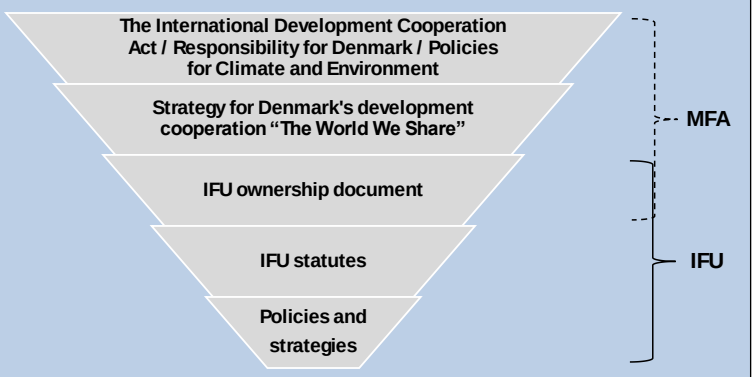
*IFU's path towards 2030*

IFU's ambition is to become a leading impact investor and increase its ability to deliver on central Danish priorities in relation to climate finance, support to Africa, poor countries and Fragility and Conflict-Affected States (FCASs). This is fully aligned with MFA priorities, which are spelled out in the MFA ownership document of IFU (see below). Figure 2 provides an overview of the strategic and policy framework governing IFU.

In private sector investments, IFU operates in four priority sectors (green energy and infrastructure, health care, sustainable food systems and financing services) with the aim to contribute to IFU's two overarching impact objectives: 1) building a green economy and 2) building a just and inclusive economy.

IFU has gone through a significant shift in terms of strategic focus over the past years. From a narrow focus on investing with Danish businesses in developing countries, IFU is since 2017 untied and focuses on its mandate as impact investor with international investment partners. Since IFU became untied, MFA has granted IFU a range of new investment instruments to broaden its development mandate and scale up activities. IFU underwent an external evaluation published in 2019. With the evaluation as backdrop, IFU has since 2020 had a stronger focus on development impact – both creation of impact and measuring the development effects of its investments. This includes development of theories of change, establishment of baselines, and conducting ex-post impact/results studies of individual investments. IFU's strategy plan for 2024-2026 outlines priorities and the initiatives necessary for IFU to meet the reform expectations. The following sections outline some of the key traits in the reform process of relevance to DSIF.

**Figure 2: Framework governing IFU (and hence DSIF )**




*The Ownership Document*

In August 2023, the Minister for Development Cooperation and Climate Policy approved a new Ownership Document for IFU. The purpose is to strengthen the strategic direction for the Ministry's ownership of IFU in line with the mandate of the organisation. The Ownership Document serves as the framework guiding the ongoing reform of IFU, and also stipulates that DSIF must continue to target the development and provision of sustainable public infrastructure in developing countries with a significant social return financed through concessional loans. The Ownership Document also refers to the strategic and operational integration of DSIF into IFU as part of the strengthening of IFU in the coming years. This implies that DSIF will act under the mandate of the Ownership Document and contributing to IFU fulfilling its obligations in the document.

**Box 3: The Ownership Document – main headlines of relevance to DSIF**

**Additionality**

- IFU must ensure that its investments are additional both financially and developmentally while also ensuring high standards for ESG (environment, social and governance) and human rights.
- IFU must document additionality of all its engagements in line with relevant OECD standards.

**Climate investments:**

- IFU must significantly increase its level of investments in climate and green transition.
- IFU must contribute to the ambition that risk-willing public capital is used to mobilise additional private funds.
- IFU's climate policy must reflect the government's priorities on climate including the need to also attract private investments to climate adaptation as well as broader priorities within environment and biodiversity.

**Investments in poor and fragile countries – especially in Africa**

- IFU must increase its level of investments in the poorest, most fragile and least developed countries in the World. Furthermore, IFU must increase its level of investments with high levels of development impact.

**Project Development**

- IFU must allocate dedicated resources to ensure a continued engagement in project development within the framework of the Danish policy priorities for development.
- IFU must systematically gather experiences from project development activities and strengthen its system to follow up on monitoring and evaluation.
- IFU must develop a strategy including implementation targets from 2024 for development and maturation of bankable projects.

**Ukraine**

- In close collaboration with the Government's fund for Ukraine, IFU should take on a central role in the rebuilding of Ukraine, when the situation allows. This includes mobilization of private capital and investments in public infrastructure via DSIF.

**Financial targets**

- In line with international standards for development finance, IFU must contribute to the Danish policy priorities for development, attract private investors and not crowd out private actors from the market.

**Portfolio targets**

- At least 50% of investments should be climate investments.
- At least 50% of the investments should be in Africa.
- At least 30% of investments should be in countries with a GNI of maximum 50% of the LMIC limit or in FCAS.

*IFU access to on-lending facility*

The IFU reform paves the way for a new source of financing, which significantly changes IFU's modus operandi. IFU will be accessing loan capital from a State on-lending facility (Statens Genudlån)[9] via the Danish Central Bank. Through this facility, IFU is able to benefit from the Danish AAA rating and access cheap loan capital and guarantees. IFU already has systems, procedures and experience with drawing from the on-lending facility to its engagements in the SDG Fund (DKK 800 million) and the green loan facility (DKK 1 billion). As part of the overall IFU reform the on-lending facility is being expanded with additional DKK 7.5 billion for green loans and an additional DKK 800 million for SDG Fund II.

*OneIFU*

At the heart of the reform process is the creation of "*OneIFU*"- a move away from a multiplicity of facilities and funding lines based on MFA grants that serve narrowly defined purposes. The vision is that IFU will draw on its range of different instruments and design the most optimal loan/investment package depending on what the need is in the respective projects. Instead of a facility, which IFU manages on behalf of MFA, DSIF will become IFU's public sector financing instrument inside IFU's toolbox alongside IFU's other instruments (IFU Classic, SDG Fund, green loans, development guarantees, and IFU Impact Ventures). Even though investments with public partners are fundamentally different from investments in private companies, the basic principles are the same and the investment projects will be assessed in the same manner albeit with different criteria.

*New partnerships*

Since the untying from Danish companies, IFU has over the last 6-7 years gained experience building new investment partnerships and developing new investment instruments, e.g. the Guarantee Facility. IFU will continue this path and apply this experience to DSIF as well.

## 2.5 DSIF – experiences, results and lessons learned

The backdrop for the decision to reform DSIF is the 2022 evaluation of DSIF covering 2001-2019. The evaluation has provided valuable lessons learned to the current reform process, and the findings and key conclusions feed into the design of the reformed DSIF. These lessons learned revolve around DSIF's mandate, tied aid modality, project identification and pipeline development, organisation and resources, impact of DSIF projects, monitoring of results, governance, financing and OECD financing rules. DSIF has not previously had one overarching programme document governing its mandate and operations. DSIF has operated based on guiding principles, mandates etc., with project documents developed for each individual investment presented for approval by the Council for Development Policy (UPR). The

[9] The State of Denmark provides on-lending and state guarantees to a number of state-owned companies (SOE). The loans are transferred from the State of Denmark to the SOEs and the increase in financing requirement of the State of Denmark is covered by state bonds being issued. The SOEs will service the loans on conditions corresponding to the conditions of the state bonds. As such the AAA rating of the State of Denmark translates into improved lending conditions for the SOEs. The majority of on-lending and guarantees are offered to SOEs engaged in large scale infrastructure projects.

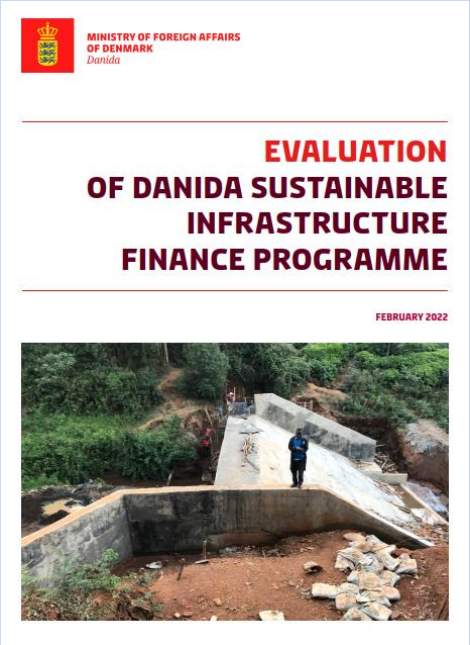
establishment of this programme document and the outline of objective, results framework, theory of change etc. thus is a new way of thinking of DSIF and constitute a new modus operandi.

*Mandate*
The 2022 evaluation found that overall, DSIF had fulfilled its mandate and complied with Danida policies. DSIF has adapted to shifting MFA sectoral priorities e.g. by moving towards green infrastructure, most notably within renewable energy, water, and sanitation. However, the shift of direction happens with some time lag due to the long-term nature of DSIF projects.

*Tied-aid modality*
The evaluation found that the tied-aid model makes it difficult for DSIF to align with Danish strategic country frameworks in partner countries and also limits development effectiveness and flexibility. An important implication of DSIF's tied-aid modality is that DSIF only in a few cases has been able to engage in partnerships with other DFIs and financial stakeholders, as these have had limited interest in co-funding projects tied to Danish companies. This has provoked a modus operandum where DSIF has had to develop, mature, and implement its projects as sole implementer, which in turn constitutes a considerable draw on DSIF resources and increases the risks for DSIF.

**Box 4: DSIF Evaluation 2022**

MFA commissioned an Evaluation of DSIF covering 2001-2019, which was finalised and published in 2022. Some of the main findings of the evaluation relates to un-tying of DSIF from Danish companies; strengthening of the poverty orientation in projects; need for an improved ability to measure and document results and additionality; and general considerations about the integration of DSIF in IFU's setup.




The evaluation was carried out by Particip.

*Project identification and pipeline development*
The tied-aid modality means that DSIF has benefitted from being able to draw on the Danish companies and their high standards when activating Danish knowhow and technology. The downside is that DSIF has been limited to developing projects in sectors and geographic locations where Danish contractors have been interested in bidding for the contract. This has meant that geography, scope and type of projects that DSIF has entered into, has prevailed over impact and effectiveness of DSIF in general. This challenge has been further aggravated by the increasing size of DSIF projects (see below), which has had the consequence that only two Danish contractors have been capable and willing to bid for such contracts during the past years (beyond wind projects).

To facilitate the preparation of DSIF projects and strengthen the DSIF project pipeline, MFA established a Project Development Facility (PDF) for the period 2017-2021. MFA allocated DKK 50 million for the PDF under the 2017 Finance Act to be managed by IFU. In 2022, a review of the PDF found that the PDF has enabled DSIF to engage more pro-actively in the identification, screening and maturation of projects, and that the PDF has had a significant value added to the functioning of the DSIF. Based on the positive review another 50 million was allocated to the PDF from 2022-2025.

The PDF provides a budget that DSIF can use to fund studies, assessments, TA and other relevant preparatory work and as such it enables DSIF to engage more pro-actively in the identification, screening and maturation of projects. The flexible use of the PDF funds has been positive and key experience include:

- Early-stage project development activities, e.g. factfinding, pre-studies etc. have helped DSIF qualify investment proposals before engaging in large scale feasibility studies. In particular, the

PDF facility has allowed the DSIF team to engage with Danish commercial stakeholders in the early stages of project development. Early-stage engagement will also be relevant going forward, where DSIF can also work with local partners with factfinding and pre-studies to attract other financing partners.

- Good feasibility studies are often lacking, and well-prepared feasibility studies can attract other financing partners. The PDF funds will be relevant for DSIF, also in the future, in terms of attracting and working with co-financing partners. DSIF's role in developing the projects with focus on sustainability, poverty etc. will be an important value-added/additionality that DSIF can bring to co-financing partnerships with e.g. local/regional development finance institutions.
- Today, DSIF allocates PDF funds to project development and technical assistance and capacity building at project level. With the new DSIF, DSIF can also engage with local partners and finance partners/intermediaries on capacity development at more sectoral or thematic levels, e.g. a focus on water in Kenya or South Africa with a view to increase outreach to more projects.

What is lacking in the market for both private and public investments are 'bankable' projects, i.e. projects that has been prepared to a degree where either private or public investors see the business case in engaging. It is an important part of the additionality of DSIF that DSIF is able to actively engage in project development including financing of feasibility studies, provision of TA etc.

*Organisation & resources*

During the past 10 years, DSIF has added 12 new projects to its portfolio amounting to approximately DKK 7.5 billion (not all projects have reached implementation stage yet, cf. below). The DSIF team responsible for preparing and implementing these projects, and continuously build a new pipeline, is a secretariat consisting of currently (August 2024) seven staff members. The complexity of the projects and the role DSIF assumes as sole project owner, means that the DSIF team spreads its resources thinly.

One consequence of this has been that DSIF has needed to optimize its use of resources and has thus been concentrating on fewer and larger investments based on a logic that the draw on staff resources for a larger project is not proportionally larger compared to a smaller project[10]. However, a downside of this shift is that DSIF currently only approves around one project per year, and as such DSIF now operates in a small number of countries, which reduces its geographic reach and furthermore, it concentrates the risk if an approved project should go wrong. This risk is further exacerbated by the fact that DSIF normally does not work in partnership with other financial stakeholders due to its tied aid modality, which means that DSIF spends unproportionally many resources to manage expectations with public partners, and to work on finding good solutions to challenging projects – risks and tasks that are not shared with others. The Danish Embassies do play an important role in this respect.

It takes long time and many resources to mature a project. With its focus on few large projects, DSIF has a thin pipeline. This makes the setup vulnerable if DSIF for some reason can no longer proceed with a pipeline project as planned. One example is a project in Mali, where DSIF had spent significant human resources over 3-4 years (including COVID delays) and DKK 3.3 million on a feasibility study. However, the coup d'état and the deteriorating political situation in Mali forced DSIF to discontinue a considerable investment incl. co-financing with other partners.

*Impact of DSIF projects*

DSIF has in the past 10 years presented 12 new projects to UPR for approval, totalling DKK 7.5 billion in contract size, of which DKK 4 billion are grants and the rest is the loan principal. Of these 12 projects, eight have started implementation – all in the water and energy sector. The total budget of the eight projects amounts to DKK 3 billion, of which DSIF has committed total grants worth DKK 1.4 billion.

[10] Average project size from 2001-2009 was DKK 96 million, Average project size from 2010-19 was DKK 454 million and the five projects approved from 2016-19 averaged almost DKK 1 billion.

DSIF expects that these eight projects will give 3.9 million people access to clean water or energy, treat wastewater from 1.4 million people and reduce $CO_2$ emissions with more than 300,000 tonnes per year (cf. table 1). Of the DKK 3 billion, 54% of the investments are in Africa, 4% in Asia, 14% in Eastern Europe (Ukraine) and 28% in Latin America. Two of the projects are in LDCs (58% of the grant budget) and six in LMICs (42% of the grant budget)[11]. The expected outreach from the current project portfolio demonstrates the opportunities tied to investing in public infrastructure.

**Table 1: Presentation of DSIF portfolio and expected impact**

| No. of projects in the past 10 years | DSIF Grant (DKK) | No. of people with access to water/energy | No. of people with access to waste-water treatment | Tonnes of CO2 equivalent reduction /year |
|---|---|---|---|---|
| 5 in water sector | 541,300,000 | 720,000 | 1,395,000 | 4,770 t $CO_2$ / year |
| 3 in energy sector | 870,000,000 | 3,239,000 | NA | 328,990 t $CO_2$ / year |
| **Total 8 projects** | **1,411,300,000** | **3,959,000** | **1,395,000** | **333,760 t $CO_2$ / year** |

The ongoing portfolio means that during the period where DSIF is transitioning, it will be necessary to draw a line between DSIF "legacy projects" and the new DSIF projects: Three of the four projects approved by the UPR are at an advanced stage in preparation and will be included under the new DSIF budget (this appropriation). The final project (Wakiso West Water & Sanitation, Uganda) is still under negotiation and is therefore not considered in this document. Table 2 below presents these three "legacy projects" and their expected impact on the funding available under the new DSIF on-lending scheme via the Central Bank.

**Table 2: Three mature DSIF projects under final stages of preparation – 'legacy projects'**

| Project | DSIF Grant / Loan (DKK mio) | No. of people with access to water/energy | No. of people with access to waste-water treatment | Tonnes of CO2 equivalent reduction /year*** |
|---|---|---|---|---|
| Thika and Githungury Water Kenya | Grant 486<br>Loan DKK 564* | 230,000 | 126,000 | TBD |
| Faisalabad Wastewater Pakistan | Grant 436<br>Loan DKK 755 * | | 765,000 | TBD |
| Saidabad III Bangladesh | Grant 684<br>Loan 1,550 | 7,000,000** | | |
| **Total 3 projects** | **Grant 1,606<br>Loans<br>1,550 - DSIF<br>1,319 - Danske Bank** | **7,230,000** | **891,000** | **TBD** |

* The loans for these projects are financed via Danske Bank and will thus not draw on the on-lending facility
**Of the 7,000,000 people more than 1,000,000 live in low-income communities
*** CO2 reduction has not yet been calculated for the legacy projects

*Monitoring of results*

Despite the numbers presented in Table 2, the evaluation challenged DSIF to evidence its contribution to the important mandate to deliver on the poverty reduction agenda. The 2022 evaluation found that DSIF has focused too narrowly on the output level and has made inadequate efforts to define and quantify development outcome objectives and, more importantly, track achievements. The evaluation found that in the older projects the intervention logics are often generic and too simplistic. Although clients are legally obliged to provide outcome indicator information for five years post-completion this is not happening. Despite provisions for DSIF to engage 'outcome consultants' these have not been utilised until recently, and DSIF results frameworks have not consistently been sufficiently linked to a ToC approach (ex-ante), nor reported against agreed indicators (ex-post). Consequently, DSIF could very well have

[11] Zambia was an LDC at the time of the investment but is now in the process of graduating to LMIC status. Ukraine has in 2024 been upgraded from LMIC country to UMIC

contributed to poverty reduction through access to infrastructure services for poor people and people living in low-income communities. However, DSIF has been challenged in documenting these types of results. Since 2023, DSIF has engaged external assistance to help work with how to strengthen DSIF's results management system, so this reform is already ongoing, cf. section 7.4. With the full integration in IFU, DSIF will also benefit from the process IFU itself has undergone since 2020 after the 2019 evaluation with strengthening and much better systematising of its results management- and monitoring system.

*Governance*
Although IFU took over the administrative responsibility for DSIF in IFU, MFA has maintained strategic responsibilities of DSIF e.g. in terms of approval mechanisms, where DSIF projects follow normal MFA approval procedures and are thus on an individual basis presented for comments in the MFA Programme Committee and for approval in UPR. The 2022 evaluation found that the approval mechanisms established in 2017 created overlap and duplication between IFU and MFA at key stages during the project cycle, resulting in additional workload for DSIF staff and longer processing times as documents had to be prepared and presented to both MFA and IFU. Thus, the dilemma is that while DSIF has 'moved away' from MFA, it has not been truly integrated into IFU. As an example, DSIF has not fully benefitted from IFU's support functions such as the legal and the sustainability teams and hence not benefitted from using this core expertise in its preparation and implementation of projects. Furthermore, IFU's systems, structures, human resources and procedures have so far not fitted 100% with DSIF's procedures and focus, as public sector investments are different from private sector investments.

With the administrative relocation to IFU in 2017, MFA and IFU expected that IFU could help DSIF strengthen its linkages to the private sector. This has, nevertheless, only partially materialised, and the evaluation of DSIF points to an incompatibility between DSIF's tied aid public sector operations and IFU's private sector mandate that makes project-level collaboration difficult. This is a concern that needs to be proactively handled for the successful full integration of DSIF in IFU.

*Financing*
The current DSIF implementation model implies that a Danish commercial bank is lender of record on DSIF's infrastructure loans, and the Export and Investment Fund of Denmark (EIFO) guarantees the loan (cf. figure in Annex 2). DSIF has provided grants to cover interest rates, potential subsidy of element to the loan principal, costs related to the guarantee, and technical assistance. From the outset, it was the ambition that multiple Danish banks should be involved in the loans. However, the reality today is that only Danske Bank is willing to provide the DSIF loans. This is a vulnerable set-up if Danske Bank should decide to a) withdraw entirely, b) not be willing/able to invest in certain geographic locations, c) increase prices, and/or d) accept low degree of flexibility in the loan package. The implication of only working with one bank is also a lack of competition and high costs.

*OECD financing rules*
The current DSIF tied aid financing scheme requires DSIF to have a minimum grant element of 35%[12] attached to each investment to live up to OECD minimum requirements for tied aid[13]. This requirement has reduced the flexibility to put together the most optimal loan package. Furthermore, the in-part transition of the DSIF organisation to IFU, while maintaining decision-making authority in the MFA, caused challenges related to how and when to report the DSIF grants to the OECD DAC system.

[12] 50% for LDCs and 35% for other developing countries (DAC registered ODA recipients)
[13] The OECD requirements are stipulated in the Arrangement on Officially Supported Export Credits with the purpose of creating a level playing field to encourage competition among exporters based on quality and prices of goods and services exported rather than on the most favourable officially supported export credits.

*Summing up*

The purpose of the reformed DSIF remains the same as the current DSIF: to contribute to addressing the need for access to public infrastructure especially for the poorest and underserved parts of the population in developing countries. With the evaluation as backdrop, it is an important ambition for the reformed DSIF to overcome the challenges identified. With the aim to work towards OneIFU and a continued contribution to addressing the public infrastructure needs in developing countries the Danish Minister for Development Policy and Global Climate Policy approved in December 2023 to undertake a reform of the objective, rationale and implementation modality of DSIF, working along **three strategic pillars** to maximize impact of the instrument. These have also been approved by IFU's Board:

- **IFU as lender of record:** IFU will include DSIF in its partnership with the Danish on-lending facility (Statens Genudlån) and take over lending responsibilities from the commercial bank, which reduces costs and increases flexibility. (Cf. section 2.6.3)
- **Shift from tied to untied aid:** DSIF will no longer be tied to Danish companies, ensuring that DSIF with the same total grant amount can invest in more projects and in partnership with others. (Cf. section 2.6.4)
- **Full strategic and operational integration of DSIF into IFU:** Organisationally DSIF will be fully transferred to IFU, including the mandate to approve new projects, lessening the double work and benefitting more from IFUs systems and capacity. (Cf. section 2.6.5)

## 2.6 Strategic considerations

The three strategic pillars provide a range of opportunities that IFU within this appropriation will work to translate into improved efficiency and stronger development impact. On top of these, the two overall Danish policy principles of ensuring impact & poverty reduction as well as a focus on climate change & green transition are also strategic considerations, which underpin the design of DSIF.

### 2.6.1 Stronger focus on development impact – reaching the poorest

Public infrastructure investments are in many cases providing public goods within areas and sectors e.g. water and energy where it is hard to develop investment projects based on private commercial funding. The reformed DSIF will be more flexible and take a differentiated approach to unleash investments in public infrastructure that has the potential to reach a large number of beneficiaries including poor and underserved parts of the population. Besides reaching individuals with public services, DSIF investments will also be spurring local economic development by facilitating access to much needed infrastructure services for commercial actors of different sizes in the geographical project area. Such effects might be challenging to measure, but DSIF must ex-ante establish theories of change of its investments to also cover this level. As such the addition of DSIF to IFU's toolbox will increase the ability of IFU to fulfil its impact objectives to building a greener, and a more just and inclusive economy.

*Geographic focus*

In the long term, DSIF will maintain the current target that 2/3 of the loan portfolio should be in Africa and 1/3 in the rest of the World. Thus, the target for projects in Africa is higher than the overall IFU target of 50% in Africa (cf. section 2.4). Table 3 shows DSIF commitments to allocate 80% of the new grant allocations under this appropriation to projects in Africa and 90% of the grants in poor and fragile countries.

**Table 3: share of new grants allocations to Africa and LMIC50s/FCASs**

| | Africa | Poor and fragile* |
|---|---|---|
| **New Grants/subsidies** | 75% of grant | 80% of grant |
| **Lending** | 66% of loan amount | 65% of loan amount |

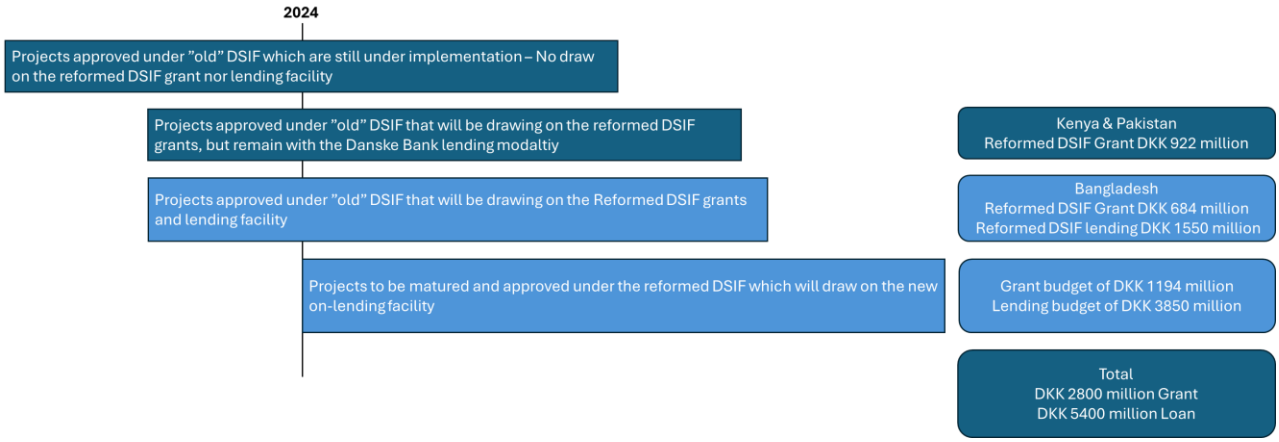
*An implication of this split is that a maximum of 25% of the overall grant can go to FCASs outside Africa.

Poor countries in IFU terms encompass countries with a GNI lower than USD 2,258 (50% of the upper LMIC threshold for the 2025 fiscal year which is regulated annually). DSIF adheres to this definition but also includes all LDC countries in case they do not fall under the GNI limit. This group of countries naturally also includes the poorest low-income countries including countries where DSIF already engages or have previously been engaging, e.g. Uganda, Ethiopia, Zambia. In respect of fragile countries, DSIF and IFU draw on the World Bank list of Fragile and Conflict-affected Situations.

DSIF projects will have an even stronger poverty focus than IFU's commercial investments with a high share of grants being allocated to the poorest and fragile and conflict-affected countries, as expressed in table 3.

The targets in Table 3 should be considered in the light of the three legacy projects that have already been approved by UPR but are to be funded under this DSIF appropriation (DKK 1.6 billion of the 2.8 billion). Two of these projects are in Asia and hence the targets will apply for the new projects that are to be developed, matured and funded by the remaining budget (DKK 1.2 billion). The results framework as presented in section 5 and in Annex 3 caters for this differentiation between legacy projects and new projects. The gradual shift from the 'old' to the reformed DSIF is illustrated in Figure 3 below.

**Figure 3: Gradual shifts in DSIF - funding of legacy projects**




The untying of DSIF changes the subsidy rules (cf. 2.6.4 below) and allows DSIF to decide strategically on how to apply its subsidy element, e.g. granting a higher degree of concessionality in poor or FCAS countries and lower concessionality in the higher LMICs and UMICs. For projects in LMICs, UMICs and in Asia, the main DSIF instruments will be loans with more limited grant elements. Drawing on the government on-lending facility (see section 2.6.3 below), IFU will as lender of record be able to provide loans with longer tenures and interests below market rates, which will reduce the need for interest rate subsidies. This underlines the strong poverty orientation of the grant element specifically and of DSIF in general.

DSIF is thus well aligned to the requirements in IFU's Ownership Document that at least 30% of investments should be in countries with an income level of maximum 50% of the LMIC level (LMIC50) and FCASs[14]. DSIF must concentrate its activity in LDCs, LICs, poorer LMICs and FCASs but may also cater to MFA priorities set out in the Ownership Document, such as the Just Energy Transition Partnership[15] (JETP) and Global Gateway deliverables. Furthermore, opportunities for complementarity with

[14] The targets defined in the ownership document are tied to the IFU own capital invested.
[15] Essentially, **JETP** is a financing mechanism. In partnerships, wealthier nations fund coal-dependent developing nations to support the countries' own paths to phase-out coal and transition towards clean energy while addressing the social consequences hereof. JTEP countries

bilateral programmes and Strategic Sector Cooperation (SSC) programmes (e.g. in water, energy and food SSCs), will also drive geographic priorities.

Within the targeted countries, DSIF must work to ensure that the project locations will also include underserved regions, and within the regions there will be a strong focus on poor and underserved target groups in the conceptualisation and design phases of the projects. This is possible as DSIF enters into dialogue with relevant authorities at early stage, and it is furthermore helped along by the close cooperation with the Danish representations in the target countries. In order to also be able to document these types of results, DSIF (or partners) must undertake surveys and also in feasibility studies establish the target groups in the geographical areas in order to establish the situation ex-ante and ex-post and will also apply this data in its engagement and negotiations with the loan taker. When working with large-scale infrastructure projects, the connectivity/connections etc. will naturally also reach population segments that are not necessarily among the poor, and who might be underserved currently in terms of public connectivity but who have the financial means to connect via private service providers. These will not be among the primary target group in terms of deciding on project locations but will also benefit from the connectivity if they live in an area with many poor and underserved. Annex 2 includes a note on how DSIF works with ensuring a strong poverty reduction focus in its projects from maturation through implementation.

*Sector focus*

DSIF will in its engagements align to the four IFU priority areas (green energy and infrastructure, health care, sustainable food systems and financing services). Historically, DSIF has had large engagements in the green energy and infrastructure sector especially through its water and energy sector investments. Investments in the sustainable foods systems (agriculture) hold significant potential to contribute to poverty reduction and climate adaptation. However, the relevant investments in the sustainable food systems are often private and more commercial and hence more relevant for other IFU instruments. IFU/DSIF will explore a) if the design of future water and energy infrastructure projects can be done in a manner where they will also underpin agricultural production and processing; and b) if it is possible to invest in sustainable public infrastructure (e.g. dams for irrigation or similar) that can contribute to boosting agricultural productivity, climate adaptation or open up markets, cf. also section 2.6.2.

*Opportunities for reaching the poorest*

A key driver of the reform of DSIF is to give DSIF new and more flexible opportunities for targeting the poorer and underserved countries and segments of the population. Examples include a) the untying of DSIF allows DSIF to partner with new partners also in fragile settings. It is unlikely that DSIF would engage in a project in e.g. Somalia on its own, but the reform allows DSIF to partner up with new partners already present and operating in fragile states as e.g. Somalia, which will also help mitigating and spreading concentration risks; b) DSIF is not tied to technologies and geographies of interest for Danish companies, but can more directly pursue projects, which are driven by demand; c) DSIF could choose to engage with sub-sovereign stakeholders, which could allow projects to have a stronger outreach in rural areas with smaller ticket sizes. All in all, the reform holds opportunities for DSIF to build up a portfolio of projects that is more flexible, better adapted to needs, and more impactful vis-à-vis the poor (c.f. section 4 below, and Annex 2). DSIF has already initiated the work of actively building this new pipeline with new types of projects and with new partners. This will be a core focus area to continue with immediately after the approval of the reform. In this respect DSIF will be able to draw on IFU's network amongst DFIs, institutional investors, and others.

include South Africa, India, Indonesia, Vietnam, and Senegal. **The Global Gateway** is the EU's contribution to narrowing the global investment gap worldwide. Between 2021 and 2027, Team Europe will mobilise up to €300 billion of investments for sustainable and high-quality projects, taking into account the needs of partner countries and ensuring lasting benefits for local communities.

### 2.6.2 Green transition and climate

Climate resilience and energy efficiency are cross-cutting focus areas in all DSIF projects along the project cycle – in identification, feasibility, project design, tender evaluation criteria, operation and management. An aim is hence, that DSIF's projects related to providing clean drinking water are as climate friendly as possible. There is an ongoing discussion in IFU (and in MFA) on how both drinking water and wastewater projects can be categorised as 'green', or even in some cases as climate adaptation projects. This will influence the categorisation of the DSIF portfolio. The principles and the system for climate adaptation categorisation will be anchored in IFU and is an issue which will be agreed at a strategic level in the interfaces between IFU and MFA, cf. section 7.

IFU has increased its focus on green transition and climate change over the years. In 2023, 75% of IFU's new direct investments were classified as climate finance (IFU own capital). IFU thereby met its annual target of 50% for climate investments[16]. Guided by its Climate Policy from 2022, IFU is continuously strengthening 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 continues 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). Climate adaptation projects in general has a strong link to poverty reduction. Exactly how the new opportunities from the DSIF reform will translate into a portfolio of tangible projects which include focus on adaptation, is yet to be seen, and no explicit target has been set for climate adaptation at this stage.

**Box 5: IFU climate policy targets**

IFU's Climate Policy sets the direction for the identification and selection of all investment projects. Targets are:

1. Achieving net-zero portfolio emissions by 2040 at the latest: IFU will continuously report on the current greenhouse gas emissions in the portfolio and present an outlook for the future, with a roadmap 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 impact (mitigation) and risk (adaptation)

IFU has developed tools and systems which screen for and report on climate financing including application of the EU Taxonomy. For the commercial part of IFU, investments in climate adaptation can be more challenging compared to those in climate mitigation, as they tend to involve mainly public sector actors, a larger number of stakeholders, have a lower return and be riskier. In that respect, DSIF offers complementarity, as DSIF has a strong portfolio of water projects, which have been challenging to realise with the commercial IFU instruments. Access to clean water is a global challenge that is accelerated by climate change, and as such, water projects can have a strong climate adaptation dimension. DSIF will continue to focus on water and wastewater infrastructure, which potentially can contribute to IFU's portfolio of climate adaptation projects in line with Danish policy priorities.

### 2.6.3 New strategic Pillar 1: IFU as lender of record

*Drawing on the State on-lending Facility*

DSIF can access a window of up to DKK 5.4 billion up until 2030 from the Danish government on-lending facility. This new financing modality will lower the cost of financing[17] and within the framework provided by the government on-lending facility increase DSIF flexibility e.g. to extend loan tenure and differentiate concessionality depending on the recipient country and partners involved. DSIF will have

[16] IFU's largest sector of investment is green energy and infrastructure with a total outstanding investment volume of DKK 3.3 billion. The green energy projects have installed and commissioned close to 2,800 megawatts of renewable energy in developing countries. Annual production was more than 5,000 GWh that led to avoided greenhouse gas emissions of 3.5 million tonnes.

[17] DSIF calculations shows that the expected saving will be DKK 389 million in the period on the interest rate on the loan, not considering differences in fees nor in market fluctuations.

improved opportunities for putting together a relevant and tailored loan package. In the poorest partner countries, the additionality of DSIF is largely tied to providing access to finance for the investments, which is very challenging for this group of countries to obtain on non-concessional terms. The financial additionality will thus be significant. The loans to these countries will have a large grant element. In any investments in the higher LMICs and UMICs, the grant element will be smaller, but the value additionality will in both groups of countries be significant exactly through the strategic application of the grant element to TA. DSIF will tailor its offerings to the recipient and hereby maximise the impact and additionality of its engagements.

It will be IFU's responsibility to manage liquidity and interest rate risks related to the use of state on-lending in accordance with IFU's financial policy as set by IFU's Board. MFA will continue to cover losses incurred when loans default. A legal agreement covering this aspect is currently (September 2024) being drawn up. Operationally the shift to IFU as lender of record also comes with an expectation that IFU's capital is more patient than that of a commercial bank, and so IFU will be in position to restructure a loan in default rather than calling the loan. Regardless of this advantage, the shift to IFU as lender will require establishment of principles, by which the MFA has assurances that IFU will manage its DSIF lending activity with the right balance of financial prudence and risk appetite. Annex 2 provides an overview of the new DSIF lending structure compared to the current set-up.

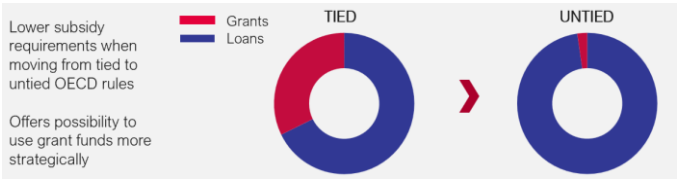
*DSIF operational costs and sustainability*
An important implication of the introduction of this new loan modality is that it will allow IFU to build in a fee in its interest to cover the DSIF operational costs, which MFA up until now have financed via an administration agreement with IFU. The MFA and IFU will jointly design a modality for phasing out the MFA cost coverage for DSIF administration, as IFU builds up its DSIF loan portfolio (cf. section 6).

### 2.6.4 New strategic Pillar 2: From tied to un-tied aid

The un-tying of DSIF represents a significant strategic shift, compared to the current DSIF set-up. With the shift come several opportunities for improving the efficiency, effectiveness and ultimately the impact of DSIF.

*A flexible financing modality*
The shift from a tied to an untied modality reduces the subsidy requirements to live up to OECD rules. As such the grant amount needed to reach the required subsidy level is smaller. This gives DSIF greater flexibility to adapt the grant element to the needs of the partners and include a variety of support elements to maximise the impact of the projects.

**Figure 4: Tied vs. untied project financing**




In some projects, the borrower will have the capacity to cover a larger proportion of the loan with a smaller grant element compared to current practice, cf. illustration in figure 4. In poorer countries and regions, DSIF may choose to maintain a high grant element, but overall, the mobilisation factor will be higher, and DSIF will thus have more resources to strengthen outreach and engage in a larger number of projects with the same ODA funding frame available. Depending on the success in developing the new portfolio with lower grant elements, it may be that the limiting factor ends up being the state on-lending window of DKK 5.4 billion rather than the DKK 400 million/year in grant elements.

*New partnerships*
The un-tied modality will open up for new ways for DSIF to engage in strategic partnerships with other DFIs and financial stakeholders in projects with joint project financing- and ownership. This among other opens up for synergies in terms of administration, due diligence burden sharing, learning, and financing.

This allows DSIF to step into different capital structures, and it allows to invest in projects with a smaller ticket size, which in turn allows DSIF to spread risk across several projects. With this new flexibility, DSIF will be better positioned to engage in projects of relevance for the bilateral programmes as well as the SSC engagements (see Box 6). In some cases, it will be the Embassy or the SSC advisors that through their close dialogue with government authorities identify project opportunities that DSIF can engage in. IFU must in the coming years apply an adaptive learning approach to the operationalization of DSIF and the opportunities that the un-tied modality offers.

*Engaging Danish commercial stakeholders*

One of the advantages in the tied version of DSIF has been a 'guarantee' that the projects applied high quality Danish knowhow and technology. In the world market, Danish technology is known for being more expensive than e.g. Asian technology but also to have lower life cycle costs due to higher quality, lower maintenance costs and better warrantees. Although DSIF will be untied it remains a priority to seek ways in which to position Danish commercial interests also in line with the ambition to strengthen partnerships with the Danish private sector in the partner countries. One concrete way is to include sustainability and life cycle considerations in the project designs in order to ensure that DSIF projects continue to deliver high quality technology and equipment.

**Box 6: Danish Partnership Countries – Water and Energy**

**Countries with water SSC partnerships:**
Morocco, Ghana, Kenya, Ethiopia, South Africa, Ukraine, India, China, Thailand and Indonesia

**Countries with energy SSC partnerships:**
Colombia, Brazil, Morocco, Egypt, Kenya, Turkey and China

**Countries with DEPP and DETI partnerships**
Mexico, South Africa, Ethiopia, Algeria, Ukraine, Pakistan, India, Indonesia, Vietnam, China

In the above countries Danish Embassies have dedicated staff with experience and in some countries up to 10 years of network. It is an ambition for the Danish MYNSAM to be able to link policy work with tangible investments.

IFU has signed up to a palette of international standards for investments and responsible business and works actively to live up to the newest EU directives including Corporate Sustainability Reporting Directive (CSRD), Sustainable Finance Disclosure Regulation (SFDD), and Corporate Sustainability Due Diligence Directive (CSDDD). In the past years, IFU has built a solid framework for assessing new partners before investing in these to ensure that international sustainability standards are upheld. For commercial projects, it is a pre-condition for IFU that partners live up to these standards or are actively working to align. IFU has experience from the commercial projects and projects funded under the guarantee facility that it is indeed possible to insist on high standards in project design – even if IFU is only providing a part of the overall investment package. It is an important workstream to translate these experiences to DSIF and ensure that the framework of IFU standards is operationalised in the context of public infrastructure investments or that relevant standards for public infrastructure investments are included in the IFU framework. With high standards, the projects will have higher impact, and it is more likely that opportunities for Danish commercial stakeholders will emerge.

When working in partnerships with others, this will be a key additionality of DSIF involvement already from the project development phase. In a more flexible DSIF and when entering into partnerships with others as a co-financer, DSIF's ticket size will go down, and administrative and management costs are shared. This will also make contract sizes more manageable for Danish companies that generally have struggled to bid for the very large contracts, which DSIF currently offers. While strongly encouraging Danish companies to identify pathways to get involved in the DSIF investments, it will, however, be up to Danish commercial stakeholders to maintain their relevance to DSIF, the same way as to IFU commercial investments.

The ability to engage in joint projects with a range of different stakeholders also comprises EIFO, which is financing Danish companies with loans and guarantees. Even after untying, continued engagement with Danish companies remain a priority for DSIF. Therefore, when relevant, DSIF will be pursuing

joint DSIF/EIFO projects, enabling Danish companies to participate actively in the DSIF investment projects which will also contribute to impact and project sustainability. DSIF will develop this partnership modality further. All in all, IFU envisages that Danish companies will continue bidding for DSIF funded contracts when relevant.

### 2.6.5 New strategic Pillar 3: Full strategic and operational integration of DSIF into IFU

The integration of DSIF into IFU began in 2017 with the physical relocation of MFA staff to IFU and IFU taking over the administrative responsibility. The full integration will have a bearing on governance and management from MFA ownership modality to a new modality where DSIF decision making is integrated into IFU's own decision-making procedures. DSIF will evolve from being an autonomous entity with its own status within IFU, to become one of multiple instruments in the OneIFU toolbox.

The strategic and operational integration of DSIF into IFU will have a number of implications on the governance of DSIF at multiple levels, cf. table 4.

**Table 4: IFU Governance levels**

| Level | Key governance modalities relevant to DSIF |
|---|---|
| MFA overall ownership | - DSIF will be fully integrated in MFA oversight of IFU and IFU instruments.<br>- The Council for Development Policy will no longer approve individual DSIF projects but follow DSIF in the annual consultation.<br>- Yearly meetings between IFU and the Minister for Foreign Affairs. |
| Board | - IFU Board will be fully responsible for the assessment and approval of DSIF investments.<br>- MFA is represented as observer in the Board of IFU.<br>- State Secretary for Development Policy holds semi-annual meetings with IFU Board chairmanship. |
| IFU management | - IFU management takes complete strategic ownership of DSIF.<br>- IFU's investments committee is responsible for assessing DSIF investments through the gating system.<br>- DSIF is included in IFU systems and procedures.<br>- MFA quarterly meeting with IFU management.<br>- MFA representative in the Investment Committee when DSIF projects are being discussed along with external public infrastructure investment expertise as needed. |
| Day-to-day | - Senior Vice President in IFU with responsibility for DSIF.<br>- Full strategic and operational integration of DSIF into IFU.<br>- The DSIF team draws on IFU management and IFU support structures. |

*IFU assessment and approval mechanisms*

DSIF will be fully integrated into IFU's project assessment and approval mechanisms. As such, the future DSIF projects will go through IFU's investment decision process: First Gate, Clearance in Principle (CIP) and Binding Commitment (BC) similar to all other IFU projects. IFU's Investment Committee, under the overall responsibility of IFU management and Board of Directors, will be responsible for approving DSIF projects. The IC will be complemented with new capacities, see below. It will be necessary to adjust the Ownership Document to reflect the above (cf. section 7 on governance).

There are important differences between the considerations related to extending concessional loans to sovereign/sub-sovereign borrowers and IFU's commercial investments in enterprises in the private sector, which have to be reflected in the approval process. Consequently, the strategic and operational integration of DSIF in IFU's investment process requires that IFU adjusts its systems and procedures in terms of templates, timelines and criteria to cater for the particularities of DSIF projects. This will be a priority immediately after the reform is approved. IFU must also ensure that the expertise is present in the investment committee to assess and guide these projects. Cf. section 7.3.

*IFU results measurement systems*

As a response to the 2022 evaluation of DSIF, IFU has a significant and important task ahead to further improve the results measurement system pertaining to DSIF. DSIF will align to the standards for IFU results measurement, which includes requirements to project partners' regular reporting (typically quarterly) on the progress in implementation. Furthermore, DSIF will benefit from the systems and procedures established as well as the M&E technical inputs from the sustainability team. Following the 2019

Evaluation of IFU, IFU has been on a journey in terms of establishing a stronger results management system and not only reporting on job creation, taxes paid and return on investment, but also on the actual impact that IFU's investments have on people, communities and countries. IFU has through the last five years undergone a process and through e.g. establishment of ex-ante ToCs, a stronger and clearer gating system, more structured indicator- and target establishment been able to move to become a true impact investor. IFU's sustainability team will take ownership of the process of developing, improving and integrating DSIF's results management system.

IFU is currently reporting on both output, outcome and impact level of its investments. While DSIF will do the same, the different logics as well as different time spans in the projects requires alignment between the DSIF system and IFU's systems. This work has already been initiated, and e.g. for the Saidabad III project the DSIF team and the IFU sustainability team revisited the results framework to ensure that a solid results framework and baseline was in place as basis for monitoring and evaluating. Further maturing this work will be a key focus area in the early stages of DSIF.

*IFU project organisation and policy framework*
DSIF will be a key priority of IFU who will ensure that DSIF continues to have a management team with sufficient capacity to operate – sufficiency both in terms of manpower (quantity) as well as skills set (quality). For instance, it could be relevant to appoint a deputy in support of the Senior Vice President function for DSIF within IFU. The DSIF team must have the right capacity, but just as important, that the other parts of IFU's organization such as support functions, Investment Committee, Management, and Board are knowledgeable and equipped to engage, support, guide and approve future DSIF projects. This is not a given, due to the different nature of DSIF projects, but IFU will commit to ensure the capacity is in place from early on in the reform process.

IFU has a set of well-developed policies including an investment policy, climate policy, gender policy, and anti-corruption policy. With a full strategic and operational integration of DSIF into IFU, it will be part of the approval process to ensure that the DSIF projects live up to these polices, and the DSIF team will report internally on its compliance (see IFU policies in Annex 2).

## 2.7 Justification

*Relevance*
Preparatory studies confirm that there is a large public infrastructure-financing gap, and as such, the focus of DSIF remains highly relevant and complementary to IFU's more commercially oriented instruments. DSIF will align with IFU's thematic priorities and continue to focus on the water and energy sectors, where the need of investments is significant and opportunities for a financial instrument targeting the public sector and with strong poverty orientation is particularly relevant. With these priorities, DSIF must reach poor and underserved segments of the population, which underpins Danish policies and priorities as well as needs in the partner countries.

*Coherence*
DSIF enables IFU to target a broader range of projects. An un-tied mandate enhances DSIF's possibility to partner and co-invest with other DFIs and financial stakeholders. Furthermore, a more flexible and responsive DSIF with a shorter project preparation timeline provides better possibility to engage in opportunities identified in the bilateral country frameworks including SSC, and as such ensure stronger relevance and coherence between DSIF and the portfolios of the Danish Embassies. To succeed with this agenda, dialogue and engagement with the Danish Embassies is essential.

*Effectiveness*
The reformed DSIF will have a high level of effectiveness, as it builds on the foundation of DSIF's already existing portfolio of projects and pipeline. As such, DSIF will benefit from experience with and

expertise in the opportunities and challenges that are linked to investing in public infrastructure Compared to the current DSIF funding model, which by its ties to Danish companies becomes rigid, among others, due to the lack of possibility to enter into partnerships with others, the reformed DSIF will be in much better shape to design a package (combining loans, grants, TA), which suits the needs and demands of the partners in the individual projects. This flexibility of DSIF gives DSIF and hence IFU an 'edge' or added value compared to other DFIs which may in turn help improve development effectiveness. Transactions costs will be lowered in terms of project identification, development, due diligence and implementation administration when partnering with others, which also contributes to greater effectiveness.

*Efficiency*
DSIF will be fully integrated into IFU, which will replace the current system, where approval of DSIF projects have to go through both the IFU approval mechanisms as well as the MFA approval mechanisms. This will strengthen efficiency in administration and save time to avoid double reporting and overlapping approval procedures. Furthermore, the new set-up creates clarity about the ownership and responsibility of DSIF and strengthens strategic alignment. DSIF will be fully integrated in IFU's ICT systems and be able to draw on IFU support functions, which will further strengthen efficiency. Access to the state on-lending facility and hence the avoidance of a commercial bank as intermediary will also increase efficiency.

*Impact*
DSIF public infrastructure projects have a considerable potential to deliver essential basic services as e.g. water and energy to a large number of people, including poor and underserved segments of the population. The new modalities and tools included under the reformed DSIF increase the possibilities to engage in public infrastructure services at scale. DSIF will be able to engage in partnerships with DFIs and financial stakeholders already operating in challenging contexts, e.g. FCAS. As such, DSIF will be able to also engage in projects in contexts, which have proven challenging in the current DSIF implementation modality, e.g. due to the lack of interest from Danish companies.

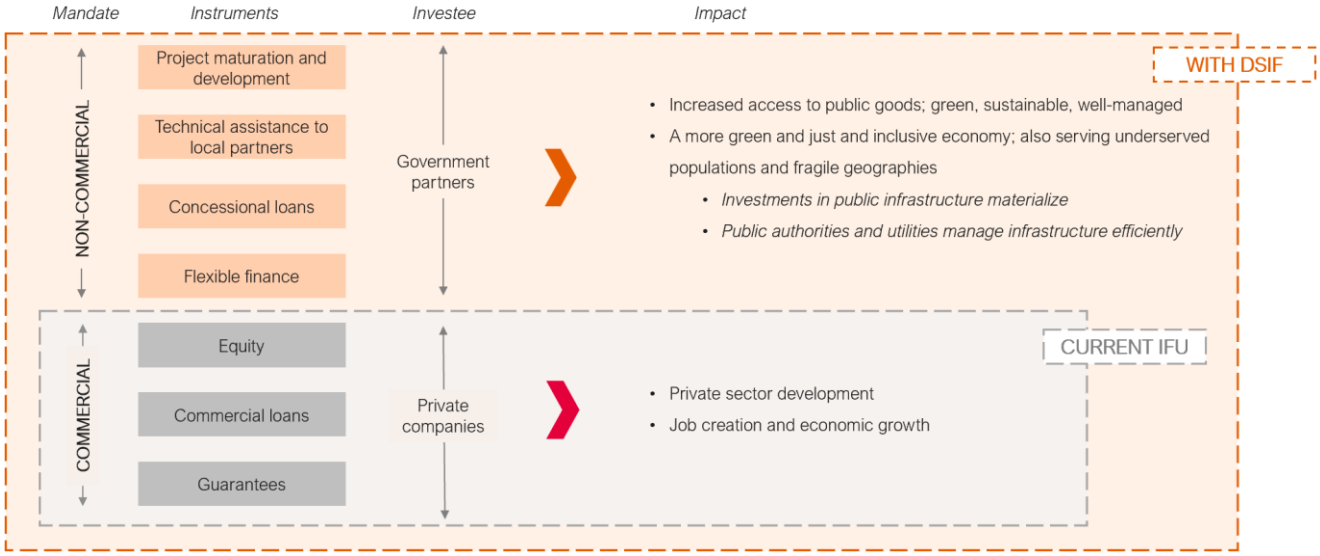
IFU, as an impact investor, has well-developed procedures to work towards achieving the highest possible impact of investment projects. DSIF will achieve development results within different thematic areas depending on the nature of the individual investments, e.g. increase the share of renewable energy, increase energy efficiency or secure more clean water to the population. Over time, the impact of the projects will help reduce the negative impact of climate change on the population and environment. Access to clean water is increasingly a key part of climate change adaptation strategies and holds the potential to reduce diseases, and in rural areas to improve agricultural productivity and thereby ensure climate resilient food security and safety. Annex 2 provides an overview of the IFU investment process and the criteria against which IFU assesses and scores potential projects to ensure the desired impact from its investments. It also includes a note on how DSIF works with poverty focus in its investment project cycle.

*Sustainability*
DSIF projects must comply with IFU standards on sustainability and ESG as outlined in IFU's applicable policies. By placing the DSIF lending facility within IFU, IFU will be able to claim a margin on the DSIF loans, which will cover the operational costs of the DSIF team within IFU. Not only does this allow to replace the current administrative grant from MFA. It will also strengthen IFU's ownership over DSIF providing a long-term sustainable solution. However, given the nature of concessional finance, IFU will continue to depend on the MFA capital contribution for financing the of grants and TA of DSIF projects. The experience of the DSIF programme combined with the ability to put together more flexible loan packages adapted to the need and demand of partners, and IFU's extensive and flexible toolbox, will ensure stronger project level sustainability.

*Additionality*

Figure 5 below suggests ways in which DSIF complements the commercial focus of the traditional IFU investments. With full integration of DSIF, IFU will be able to invest in public sector non-commercial projects, which have the potential to unleash public infrastructure investments, which at scale can reach the poor and underserved parts of the populations. This constitutes a strong element of development additionality of DSIF. This is fully in line with IFU's impact objectives.

**Figure 5: Complementarity of DSIF to IFU**




IFU has a range of well-established financing instruments, such as the SDG Fund, the Green Future Fund, and IFU-equity investments (sometimes referred to as "IFU Classic"), which all focus on investments in private companies. Compared to the existing instruments, the additionality of DSIF consists of five elements:

- Additional investment capital to fill public financing gap which the market cannot meet on its own at the needed pace (financial additionality),
- Value additionality to the investments by application of IFU's high ESG standards and life cycle cost considerations to be included in project design and financing,
- Development additionality with a strong focus on serving poor and underserved parts of the population in the targeted countries – geographical and demographic areas that are often not prioritised by private sector capital,
- Additionality vis-à-vis other DFIs and financial stakeholders with the flexibility related to financing of project development activities, and
- Stronger coherence with the work and portfolio of the Danish Embassies and IFU offices.

# 3 Programme Objective

The overall objective of DSIF is to *promote investments which support sustainable development and realisation of the SDGs in developing countries and global climate goals by building a just & inclusive and green economy*. The coherence of this objective with the overall objective of IFU is important, as DSIF will underpin IFU as the institutional 'home' of DSIF, and in line with the OneIFU thinking.

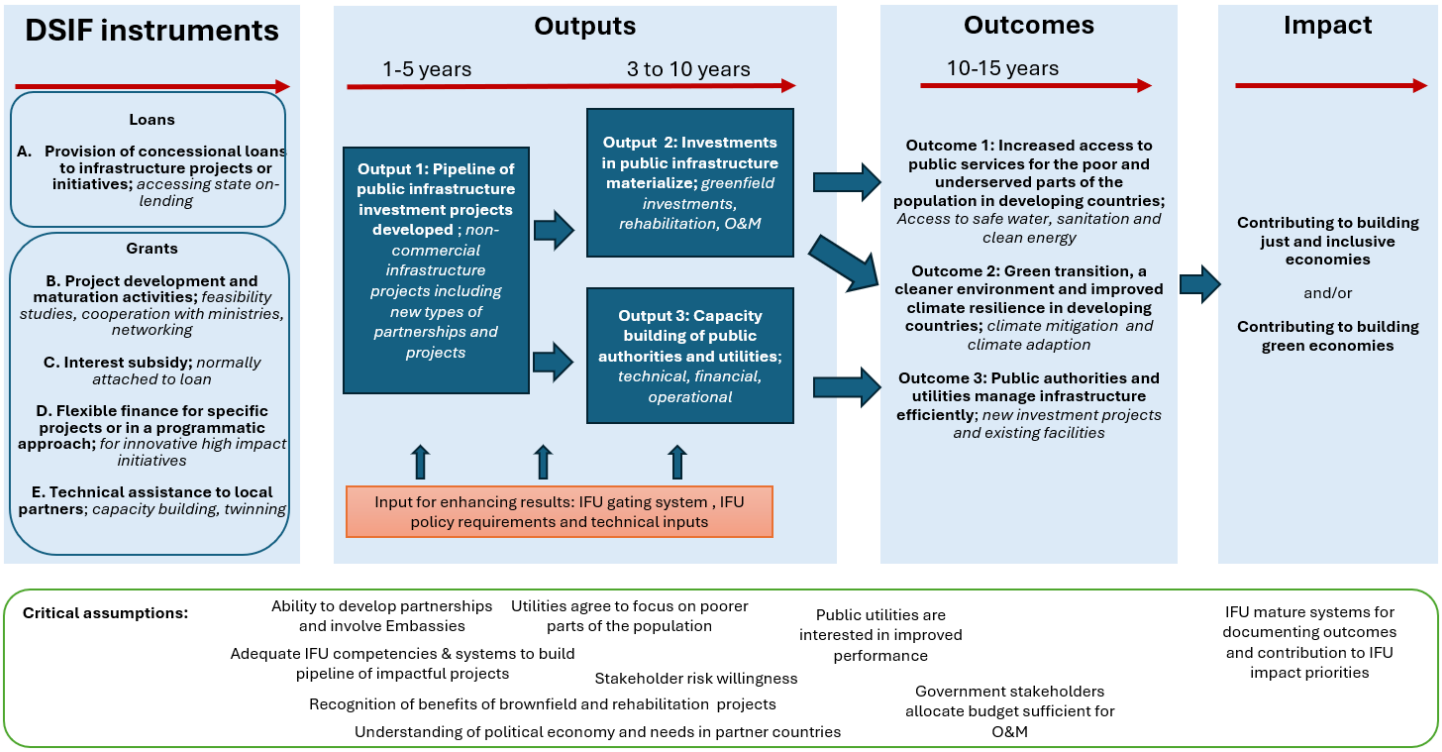
DSIF will have a strong focus on safe water, wastewater and clean energy projects, on least developed countries and fragile states, and a special focus on Africa, in line with Danish policy priorities. DSIF will become an important instrument for IFU to contribute to fulfilling the Danish policy priorities and to deliver on its mandate.

# 4 Theory of Change and key assumptions

The rethinking and reorganisation of DSIF aims to increase access to public goods in a sustainable manner in underserved areas with a considerable share of poor people by establishing a broader and more flexible financing 'toolbox' for IFU. The implication of the three strategic pillars that underpin the reform of DSIF is that DSIF will have an expanded number of instruments and approaches that can be put into use in a flexible manner to increase impact and assist IFU to deliver on its mandate and overall objective. Figure 6 illustrates the overall theory of change of future DSIF engagements. The DSIF instruments (A-E in figure 6) and their links to three distinct outputs and three outcomes are explained below.

## 4.1 Overall theory of change

**Figure 6: Schematic overview of the DSIF Theory of Change**




Overall, DSIF has two main funding channels: loans and grants. Towards 2030, the DSIF lending window via the state on-lending facility is up to 5.4 billion DKK (A in Figure 6 above), and the MFA subsidy totals, 7 x DKK 400 million, up to DKK 2.8 billion (B-E in figure 6 above).

The overall theory of change for DSIF is that if DSIF, alone or in partnership with others is able to develop and mature a pipeline of investment ready public infrastructure projects (output 1), then DSIF can enter into loan agreements with the relevant public sector project owners and provide loans in order for the investment projects to materialise (output 2). If successfully implemented, each of these infrastructure investment projects will lead to two outcomes, namely increased access to public services for the poor and underserved (outcome 1), and with its focus on green and climate friendly technologies and solutions, the same investments will also lead to green transition, a cleaner environment and improved climate resilience (outcome 2).

If DSIF also builds the capacity of the relevant public authorities and utilities that manages the infrastructure utilities (output 3), and this knowledge is applied and the utilities receive the needed public

funding for operation and maintenance, then the public authorities and utilities will manage the infrastructure more efficiently (outcome 3). Outcome 3 is linked to outcomes 1 and 2 in the sense that the more efficiently the utilities manage the infrastructure, the better services they can offer to the poor and underserved, and the more they can reduce their impact on the environment and the climate.

All in all, this will contribute to building more just and inclusive economies as well as more green economies in line with IFU impact priorities and Danish development policies and strategies. This ToC is unfolded in the following sections.

## 4.2 DSIF instruments – the toolbox and the outputs that are produced

DSIF will in its approach be flexible and apply its instruments in a manner, which ensures relevance, coherence, effectiveness, efficiency, impact, and sustainability of its portfolio, whether that being loans or the different types of grants. The application of the different instruments and the design of each initiative/project, depend on a number of parameters such as country, sector, previous knowledge, network, partnerships etc. attached to the individual engagement. Application of the different tools will lead to three outputs, which have different time perspectives as indicated in figure 6. These are:

- Output 1: Pipeline of public infrastructure investment projects developed
- Output 2: Investments in public infrastructure materialize
- Output 3: Capacity building of public authorities and utilities

### 4.2.1 Output 1: Pipeline of public infrastructure investment projects developed

The lack of access to basic services and essential infrastructure for the poor and underserved segments of the population is the main problem that DSIF addresses. A first challenge is the lack of investment ready projects (also referred to as 'bankable'). DSIF will draw on the positive experience from the PDF[18], which has allowed DSIF to take a pro-active role in project development and maturation. The reformed DSIF will be able to engage in partnerships with other DFIs and financial stakeholders to identify relevant investment projects and contribute to maturing these until investment ready. Naturally, the projects will be of different levels of maturity and DSIF's contribution will vary from project to project. In some cases, DSIF will co-invest in projects already matured by others with limited project preparation costs. In other cases, the DSIF engagement can be more significant.

By applying the existing capacity, knowledge and network of DSIF and that of IFU more broadly, DSIF will through application of **B: Project development and maturation activities** continue to fund project preparatory work such as project screenings, feasibility studies, preparation of tender documents, setting up results measurement systems etc. DSIF is dependent on strong ownership and capacity of local partners and authorities responsible for the implementation and subsequent operation and management of the facilities. DSIF has good experience using PDF funds to activities building the capacity of the local authorities and utilities. Examples of steps taken to improve capacity include study tours, workshops, training organized by the contractor and, in the latest projects, involvement of Danish utilities and authorities. Under the reformed DSIF, these activities can be broader in scope and geography than previously, as DSIF will no longer be limited by Danish commercial interests. This is likely to bring new opportunities that align with both the overall Danish policy priorities and with IFU's objectives. This is also an important element of the additionality of DSIF.

### 4.2.2 Output 2: Investments in public infrastructure materialize

When the investment project is developed and negotiated - a process that can take from one to five years depending on the maturity of the engagement – DSIF issues a loan to the public authority in question,

[18] As mentioned above, the PDF facility runs until 2025. Once the funds under the current PDF have been exhausted, the resources for project development and maturation activities will be drawn from this appropriation.

typically a line ministry. The loan is granted through **A: Provision of concessional loans**, which is the cornerstone in DSIF's toolbox. Access to the Danish government on-lending facility enables IFU to provide concessional loans for projects which cannot obtain financing on market terms. DSIF loans has historically included various levels of **C: Interest subsidy**, which would be funded through the grant element. The concessionality will depend on the specific need and poverty profile of the country and can consist of loans with lower interest rates or longer tenure, technical assistance (TA), and grants. The extent to which DSIF will subsidise interest rates is expected to be lowered with the untying of DSIF. This means that a larger share of the total grant element can be applied for other purposes, and in general that DSIF will have the opportunity to engage in more projects with the same level of funding from MFA.

The investments in public infrastructure can take different forms. They can be greenfield investments, where DSIF will typically have been engaged in the project development and maturation phase. This is a long process, where DSIF will activate its network and partnerships in countries, liaise with the Danish Embassies, and will apply a mix of loan and grant capital. In other instances, partner countries need to improve or expand already existing infrastructure, which may not be well maintained and costly to operate – or maybe out of function. In such circumstances, the flexibility of DSIF will allow DSIF to engage in rehabilitation projects, where the need for loans might be considerably smaller, but where TA support elements are necessary and strategic. It will require that there is an appetite for rehabilitation as opposed to the often more prestigious building new. A third type of public infrastructure investment project would be operations and maintenance (O&M) projects, where addressing capacity gaps is the main driver for the support, and where DSIF with its flexible funding instruments, knowledge and networks is well positioned to enter into partnerships and support O&M capacity, also applying **E: Technical assistance to local partners**, cf. below.

Hence depending on the investment project in question DSIF can apply its toolbox strategically and with flexibility as described here:

In the reformed DSIF, it is an explicit ambition that DSIF will engage in partnerships with other stakeholders and through this will be able to engage also in countries where it would be challenging to engage alone including in FCAS. One example is Ukraine, where DSIF has financed critical infrastructure projects both before and during the war through a partnership with the Nordic Green Bank, NEFCO. In 2022-24, DSIF provided investment and TA grants to vital infrastructure projects financed by NEFCO and EBRD, which has allowed the stalled projects to resume. Another example is provided in Box 7. Loan and grant financing through selected partners may allow DSIF to also have impact in hard-to-reach countries.

Another ambition of the reform is to allow DSIF flexibility to combine concessional loans with **D: Flexible finance for specific projects or in a programmatic approach** to develop financial packages well suited to the context and to the particular needs of the project partner to create impact. Examples of new ways of packaging financing are provided in the three sections below i) programmatic approaches, ii) engagement in public private partnerships and iii) innovative financing models:

*i) Programmatic approaches*

The need for access to infrastructure in rural and remote areas in DSIF target countries is significant, but not only in the form of the large-scale investments. The needs are also in smaller scale, such as last-mile connectivity energy- or water supply facilities, where the costs for DSIF to engage on its own would be too high. With its untied mandate, DSIF will be able to provide more programmatic finance (e.g. set up a financing programme which targets a number of smaller infrastructure utilities in remote areas).

This can be in the form of intermediary financing with/in strategically selected partners, for example national or regional development finance institutions, which in turn on-lends or invests in smaller projects within the same sphere as DSIF, but which would be too small, too risky, in too fragile a context etc. for

DSIF to enter into directly. By developing partnerships and providing finance through such institutions, DSIF can potentially have even broader impact and reach other more hard-to-reach target groups in more remote areas. This type of more flexible funding with a programmatic approach could include grants for TA, special studies etc. coupled with a concessional loan to the specific public partner.

**Box 7: Programmatic approach through finance intermediary**

DSIF is currently exploring an opportunity, together with Water SSC at the Danish Embassy in Nairobi, to partner up with Water Sector Trust Fund (WSTF) in Kenya. The WSTF is a Kenyan State Corporation under the Ministry of Water, Sanitation and Irrigation, with the mandate to provide conditional and unconditional grants to the Counties and to assist in financing the development of and management of water and sanitation services in the marginalised and underserved areas.

WSTF has a results-based investment program, where they leverage and subsidise loans from local financing institutions. DSIF is considering providing funding for WSTF that can be on-lent through local commercial banks to county/municipal water utilities for investment in water infrastructure. This can be supported with TA funds for selected engagements, e.g. preparation of viable project proposals. It could also be considered to include support through IFU guarantee facility to leverage more loans from commercial banks. Denmark is also providing support for WSTF through its bilateral portfolio.

*ii) Partnering in Public-Private Partnerships*

Financing for public infrastructure projects often take place in Public-Private Partnerships (PPPs). This in order to spread the risk and mobilise other sources of finance. DSIF has historically been challenged by the tied aid modality in entering into these partnerships, as other private actors would not necessarily be interested in tying the Danish funded loan to Danish contractors. DSIF can now participate in PPPs by supporting the public partner of the PPPs. DSIF's contribution with concessional loans can help mobilise other sources of public, private and institutional capital (see example in Box 8).

**Box 8: Public Private Partnership (PPP) – an example of a mobilization of private capital**

DSIF is currently exploring an opportunity to join Invest International and other partners in the financing of a waste to energy project to be tendered as a PPP. The city of Johannesburg is not able to finance the project on its balance sheet and does not have the expertise to operate the project. The PPP will have a duration of 20 years after which the ownership and operation will be transferred back to the city. The project will be tendered to the private sector based on agreed performance indicators including the return on capital invested that the private partner expects to be interested to join the tender process.

To make the project both affordable for the citizens and to meet the private investors return requirement the assumption is that financing of the investment beside an equity investment (estimated at 15%) will include a mix of grants (25%), concessional loans (25%) and commercial loans (35%). DSIF will potentially join with concessional debt and Invest International (NL) and the City of Johannesburg with grants. 1 DKK of concessional debt will mobilize 3 DKK of additional financing of which 2 DKK is private financing.

In this example, in the OneIFU approach, IFU would assess the project and consider which IFU instrument is the best fit for the project. If the investment is feasible with commercial equity or debt, then concessional finance from DSIF will not be utilised.

DSIF expects the PPP modality to be most relevant in LMICs and UMICs with more developed economies. The key contribution of DSIF will be risk-willing capital at a cost below market rates, i.e. a concessional loan. Combined with strategic TA inputs, DSIF can become a catalyst for PPP projects to take off and the engagement can thus have strong additionality.

*iii) Innovative financing*

With a broader and untied mandate, DSIF can support relevant partners and initiatives that can have a high impact in new and innovative ways, either in its own right or tied to other investments and partnerships that DSIF is already engaged in.

**Box 9: Results-based approaches**

In the reformed DSIF, IFU will also test results-based approaches where the grant elements in the projects are paid out subject to agreed performance criteria. Under this modality DSIF will also be able to incentivise partners to target e.g. gender equality or solutions with high climate impact.

Non-revenue water is an example of an area where results based approached could prove to be highly relevant.

This could be incentive-driven/results-based grants to partners subject to fulfilment of agreed targets (see example in box 9). The aim with this modality is to further boost the development results in targeted sectors in target countries, and to mobilise additional funding for infrastructure projects from other sources. Such initiatives could typically be identified in collaboration with the Danish Embassies in the country or with other strategic partners. It does assume good knowledge of the political economy, needs and interest in partner countries.

### 4.2.3 Output 3: Capacity building of public authorities and utilities

Besides the lack of finance in itself to public infrastructure projects, another challenge is the low capacity in the institutional structures that should run, manage, and maintain the investments/facilities, which are established under output 2. The capacity gaps can be technical, organisational, or commercial, which in themselves reduce investors' willingness to engage. To improve capacity in relevant sectors and with relevant partners in the countries, DSIF may apply **E: Technical assistance to local partners** with the aim to ensure that the infrastructure in which DSIF and others engage run in a sustainable manner. Efforts can include direct capacity building of public authorities and utilities, twinning arrangements between relevant Danish authorities and utilities and their relevant local counterpart, or other relevant TA engagements. By building financial, technical and/or operational capacity on a need's basis, DSIF will contribute to more efficient management of public infrastructure, which have either been established through DSIF financing or financed through other sources, i.e. contribute to output 3.

**Box 10: Twinning arrangements**

In several projects, DSIF has succeeded in engaging Danish utilities such as Fjernvarme Fyn (Ukraine) and Århus Vand (Ghana) to engage in projects based on their significant operational experience.

These partnerships have proven beneficial and will build on these experiences to expand twinning arrangements in future projects.

Cutting across the three outputs and across the five instruments that DSIF apply, is the input that IFU delivers to the process as an institution. These input relates to technical inputs, quality assurance, network, guidance, ESG requirements etc. all which helps refine the investment projects and improve their potential development impact. It is thus an important assumption that IFU will maintain its high standards and keep a continued focus on developing tools, policies and in-house technical capabilities to ensure this.

## 4.3 Expected results – outcome and impact level

Each investment project will lead to two different types of results at outcome level. At the core is **outcome 1: Increased access to public services for the poor and underserved parts of the population in developing countries.** This is the raison d'etre of DSIF, that the infrastructure investments must increase the access of especially the poor and underserved to the needed services within energy, water, wastewater treatment and sanitation. Other types of services through other types of infrastructure projects might also be produced depending on what pipeline IFU is able to build and what opportunities arise. The access to safe water, sanitation and clean energy will have an immediate positive impact on people's lives, e.g. through saving time for collection of water (water projects), reduced health risks (wastewater treatment and sanitation), and better education (longer study hours with electricity), especially when it is the previously unconnected/unserved that are reached.

In order for the access to have even more positive influence on people's lives and a poverty reducing effect (impact level), it is important that the people who get access are also able to use and apply this access strategically. In that way, the investment will underpin local economic development with potential of creating derived effects for a number of smaller and medium-sized businesses. People can set up shops also operating at night (electricity projects); women (that are typically responsible for fetching water) use their extra free time to start engaging in income-generating activities; access to water are used for smart irrigation systems on agricultural land for better yield and with a view to climate adaptation; modern appliances are used for better productive efficiency and safety in industrial areas etc. All of this will contribute to building more just and inclusive economies (impact level). These are just some examples which will depend on the specific geographical, demographical and institutional context of the investment projects. Reference is also made to section 4.4. on key assumptions.

Due to the nature of the investment projects, and also due to the policies and strategies that govern both IFU and DSIF, e.g. use of green and energy saving technologies, high ESG standards, IFU climate targets etc., all investments will contribute to **outcome 2: Green transition, a cleaner environment and improved climate resilience in developing countries.** With green(er) technologies $CO_2$ emissions will be avoided or reduced, the share of renewable energy in the grid will increase, and the quality of the environment and resource management is also expected to improve e.g. due to improved wastewater treatment and better sanitary facilities. Ultimately this will contribute to building greener economies (impact level).

As previously explained, DSIF projects are long-term in nature – up to 15 years or more from idea to full implementation, deployment and operation. During this time span, DSIF will have engaged extensively with the public authorities and utilities responsible for the facilities that are being established. Capacity building elements of different kinds (output 3) of the public partners in question are an important part of this engagement and the long-term partnerships that are built. These technical assistance and capacity development efforts must lead to **outcome 3: public authorities and utilities manage infrastructure efficiently**. The partnerships can both be with the public utility responsible for O&M and also be other institutions and organisations (technical, funding etc.) that operate in the same space. This will contribute to better financial and operational performance of the utilities and hence greater efficiency, and better provision of services.

Summing up, DSIF projects, diverse in nature, will through flexible and innovative application of the entire toolbox and through entering into strategic partnerships with other DFIs and financial stakeholders, contribute to IFU's overall impact areas of building more just & inclusive and also greener economies.

## 4.4 Key assumptions

In order to be able to apply the most relevant tools and move from output, through outcome to impact level for DSIF, the following assumptions need to hold true:

- National governments in targeted countries are willing to take loans to invest in public infrastructure.
- IFU is able to develop strategic partnerships with organisations, institutions, other funders to co-invest in public infrastructure.
- Partners (public and private) are risk-willing and prioritise to also be able to serve more rural, fragile, or poor areas of the country/segments of the population.
- Agreements made are at a strategic level where short-term political interests will not negatively impact previously made long-term strategic decisions on infrastructure investments.
- Investment ready greenfield projects can be developed within a reasonable time frame.
- Governments and public utilities see the benefits in rehabilitation projects (brownfield) and are willing to invest also in O&M.

- Capacity development efforts at institutional and personal level lead to more efficient and effective management of public utilities, which ensures long-term successes.
- People who access improved services will use this in their productive lives which will lead to improved economic development and have a poverty reducing effect.
- IFU manages to refine its systems to cater for the specifics of long-term investment projects with public partners with a strong focus on development impact.
- The DSIF team in IFU possesses the right qualifications and competencies to strengthen projects' poverty reduction and broader development impact. The team also has solid local knowledge to develop, co-create and steer the projects.
- IFU develops its internal capacity at strategically selected management and operational levels to provide the right guidance to DSIF projects in its gating system.
- Grant funding of DKK 2.8bn from 2024-30 is allocated to IFU for DSIF investments.

# 5 Summary of results framework

| Programme Title | **Danida Sustainable Infrastructure Finance 2024-2030** | | | |
|---|---|---|---|---|
| Programme Objective | Promote investments which support sustainable development in developing countries and realisation of the SDGs and global climate goals by building a just & inclusive economy and green economy (IFU mission and impact priorities) | | | |
| Indicators and targets | **DSIF contribution to priorities defined in IFU Ownership Document** | | | |
| | **Indicator** | **IFU overall** | **DSIF legacy projects** | **DSIF new projects** |
| | Volume of loans categorised as 'climate' | 50% | TBC | 50% |
| | Volume of loans in Africa | 50% | 20% | 66% |
| | Volume of loans in poor and fragile countries | 30% | 54% | 65% |
| | | | | |

| **Outcome 1** | | **Increased access to public services for the poor and underserved parts of the population in developing countries (safe water, sanitation and clean energy)** | |
|---|---|---|---|
| Outcome indicator 1.1 | | Number of people benefiting from access to public services with a focus on safe water, sanitation, and clean energy | |
| Measure on: | | a) People with access to improved drinking water source (variation of Global Europe Results Framework - GERF 2.38)<br>b) People with access to improved sanitation facility (variation of GERF 2.38)<br>c) People with access to electricity (a) new access, (b) improved access (GERF 2.3)<br>d) People with access to … (other than a-c depending on type of investment)<br><br>** All indicators will be disaggregated into number of people with access that lives below the nationally defined poverty line. Will be established on country basis.* | |
| Baseline | Year | 2024 | NA |
| Target | Year | 2030 | 14.6 million, hereof minimum 30% living below the national poverty line |
| Outcome indicator 1.2 | | Infrastructure facilities constructed or rehabilitated and in operation serving the targeted population | |
| Measure on: | | a) New or rehabilitated water supply systems or water access points installed in target areas<br>b) Sanitation facilities (toilets, latrines, septic tanks) constructed in target areas<br>c) Clean energy infrastructure projects completed (e.g., microgrids, solar farms, wind farms)<br>d) …. (other 'facilities' than a-c constructed depending on type of investment) | |
| Baseline | Year | 2024 | NA |
| Target | Year | 2030 | 10 |

| **Outcome 2** | **Green transition, a cleaner environment and improved climate resilience in developing countries (climate mitigation and climate adaptation)** |
|---|---|

| | | | |
|---|---|---|---|
| Outcome indicator 2.1 | | Reduction in GHG emissions | |
| Measure on: | | a) Greenhouse Gas (GHG) emissions avoided (tonnes CO2eq) (variation of GERF 2.7)<br>b) Total absolute GHG emissions (in tCO2e) from Scopes 1, 2 and 3 | |
| Baseline | Year | 2024 | NA |
| Target | Year | 2030 | TBD (targets will be set at project level) |
| Outcome indicator 2.2 | | Improvement in environmental quality and resource management | |
| Measure on: | | a) Renewable energy generation capacity installed (MW) (Variation of GERF 2.4)<br>b) Renewable energy generated (HIPSO) (GwH)<br>c) Quantity of pollutants reduced or eliminated (e.g., tons of waste prevented from entering the environment)<br>d) Wastewater treated to appropriate standards<br>e) Water consumption (HIPSO) (M3)<br>f) …. (other than a-e, depending on type of investment) | |
| Baseline | Year | 2024 | NA |
| Target | Year | 2030 | TBD (targets will be set at project level) |

| | | | |
|---|---|---|---|
| **Outcome 3** | | **Public authorities and utilities manage infrastructure efficiently (new investment projects and existing facilities)** | |
| Outcome indicator 3.1 | | Financial and operational performance of utilities | |
| Measure on: | | a) Reduction in energy consumption per Unit of Output<br>b) Level of non-revenue water<br>c) Budget performance<br>d) Downtime<br>Etc. | |
| Baseline | Year | 2024 | NA |
| Target | Year | 2030 | Utilities document improved financial and operational performance (specific targets will be set at project level) |

See annex 3 for detailed Results Framework for DSIF 2024-2030. It is important to underline, that due to the long-term nature of the DSIF investments (preparation and implementation phases), the results at outcome level of the investments which will be approved in the 2024-2030 period will mostly not occur until well after 2030. At the stage of project deployment/initiation, DSIF and partners will however have set targets for the expected results of the infrastructure investment. In this way it is important to differentiate between expected results and the realized results which might be up to 15 years from first engagement. In cases where DSIF based on its untied mandate enters into partnerships with other DFIs and financial stakeholders and funds smaller and mature projects, results might occur also at outcome level by 2030. But it is challenging at this point to make an estimate as to what extent that will be. The targets set for 2030 should thus be considered at portfolio level and as the *expected targets* when the investment projects are constructed and in operation. Further, targets are based on an expected grant allocation in the period 2024-30 of DKK 2.8bn.

The target for number of poor people which will be reached (defined as people living below the national poverty line) will be defined ex-ante through feasibility studies, surveys etc. related to each individual investment. Due to the different nature of the investment projects, it is not possible to define a target beforehand, but as also outlined in Annex 2, DSIF works actively to maximise the poverty reducing effects of its investments and applies number of poor people reached as a key selection criterium.

The Results Framework does not show details about the principles by which IFU will apply the grant, which have an impact on the development results of the DSIF projects. With reference to table 3 in section 2.6.1 above, DSIF will apply a principle of differentiating the grant element in a way where the poorest and most fragile countries/context will receive a relatively larger share of grant compared to the loan size. This will help derisk the investments for IFU and the partners with whom they engage and ensure that the funding through DSIF has the greatest possible impact on poverty reduction.

There is outstanding work for IFU to ensure that the results management system of DSIF fits well with IFU along the OneIFU line of thinking. This workstream will be embedded in IFU's sustainability team which has also worked intensively the past years on adjusting IFU's own results management system to cater for improved impact analysis both ex-ante and ex-post investments e.g. through development of project specific ToCs and a more refined indicator system. A thorough review of DSIF's revised results management system is therefore expected at an early stage of the reform process.

# 6 Inputs/budget

The table below shows the budget for DSIF for the 2024-2030 period. It is divided into outcomes and also includes costs of reviews and management support. In the outcome-based budget, the budget for outcome 1 and 2 has been merged, as the same individual investments will produce outcomes at both outcome 1 and outcome 2 level – as the theory of change above explains.

| Activity | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | Total (mio. DKK) |
|---|---|---|---|---|---|---|---|---|
| Outcome 1 – Increased access to public services for the poor and underserved parts of the population in developing countries* | 340 | 239,5 | 394,5 | 399 | 360 | 359 | 360 | **2,452** |
| Outcome 2 - Green transition, a cleaner environment and improved climate resilience in developing countries | | | | | | | | |
| Outcome 3 – Public authorities and utilities manage infrastructure efficiently | 40 | 40 | 40 | 40 | 40 | 40 | 40 | **280** |
| **Sub-total directly in support of outcomes** | **380** | **279,5** | **434,5** | **439** | **400** | **399** | **400** | **2,732** |
| Reviews and TA to MFA's mgt. of DSIF | | 0,5 | 0,5 | 1 | | 1 | | **3** |
| Grant support to IFU's management and administration of DSIF*** | 20 | 20 | 15 | 10 | 0 | 0 | 0 | **65** |
| **Total including administration** | **400** | **300**** | **450** | **450** | **400** | **400** | **400** | **2,800** |
| DSIF management and administration *(covered by IFU and margin applied on loans)* *** | 0 | 5 | 10 | 15 | 25 | 25 | 25 | **105** |

** From 2026 the budget includes estimated DKK 15 million annually for a continuation of the PDF (see below)*

*** The total budget of DKK 2.8 billion is based on an average of DKK 400 million annually. In practice this number will differ. For FFL2025 a budget of DKK 300 million is allocated. The assumption is that the annual budgets in some years will be higher than DKK 400 million.*

**** Estimates. The fee inflow will depend on the pace with which the loans will materialise and hence the income from the margin.*

MFA has allocated between DKK 300 million and 500 million to DSIF since 2017. The budget of up to DKK 2.8 billion for a seven-year period (DKK 400 million annually) is thus a continuation of the current level of commitment to DSIF. The Council for Development Policy has already approved three DSIF projects with a total grant element of DKK 1.6 billion, where the grant element is part of the appropriation covered by this programme document as the projects have not yet been initiated. The preparation of the projects is at an advanced stage, e.g. the tender procedure for the Saidabad III project is ongoing to be finalised in the second half of 2024.

Although infrastructure investments are complex and delays are common, DSIF will, with the three projects already approved, have a liquidity need, which absorbs the annual budget for the first three years. Table 5 below provides an overview of the disbursements DSIF expects to carry out to the three projects between 2024-2028. The table also includes pipeline projects.

**Table 5: Projected DSIF disbursements (dkk)****

| | | | | | |
|---|---|---|---|---|---|
| **Legacy projects** | | | | | |
| **Project name** | **2024** | **2025** | **2026** | **2027** | **2028** |
| Thika & Githunguri, Kenya | 2,000,000 | 205,000,000 | 100,000,000 | | |
| Saidabad III, Bangladesh | 4,000,000 | 102,600,000 | 342,000,000 | 171,000,000 | 68,400,000 |
| Faisalabad, Pakistan | 274,000,000 | 70,000,000 | | | |
| **Pipeline projects** | | | | | |
| **Project name** | **2024** | **2025** | **2026** | **2027** | **2028** |
| Wakiso West WTP, Uganda | | 10,000,000 | 200,000,000 | 200,000,000 | 200,000,000 |
| Lahore WWT, Pakistan | | | | 46,900,000 | 100,500,000 |
| Aveyime WTP, Ghana | | | 105,660,000 | 111,840,000 | 60,800,000 |
| Water Sector Trust Fund, Kenya | | | | | |
| DBSA, South Africa | | 3,000,000 | | | |
| Ukraine* | 100,000,000 | | | | |
| **Administration** | 20,000,000 | 20,000,000 | 15,000,000 | 10,000,000 | |
| **Total projected disbursement** | **400,000,000** | **410,600,000** | **762,660,000** | **539,740,000** | **429,700,000** |

**An additional commitment of DKK 100 million to Ukraine projects has been allocated in 2024. ** The projection is a reflection of necessary over-programming. Annual disbursements will be DKK 400 million on average.*

The ODA financed budget for subsidy and TA of up to DKK 2.8 billion under this appropriation is complemented by IFU's access to the government on-lending facility of up to DKK 5.4 billion. As such, the total combined loan and grant budget for DSIF allocated for the period 2024 to 2030 amounts to DKK 8.2 billion. Depending on performance, the level of the on-lending facility will be revisited.

In the current set-up, MFA subsidises (as part of the annual contribution of DKK 400 million) IFU's administration of DSIF with an annual budget of approximately DKK 15 million[19]. As the number of projects DSIF will manage is expected to increase with the increased flexibility, DSIF plans to expand its secretariat with two additional staff in 2024 and an additional two staff in 2025 (see also section 7.3.2). The increase in staff from seven to 11 staff, incl. additional resources in support functions, combined with inflation over a seven-year period is the basis for the increase in the DSIF administration costs.

DSIF's new lending business model will allow IFU to charge a margin on the loans, which will in time make the operation of DSIF cost neutral. The MFA administration grant will therefore be provided on a degressive basis until 2027 after which the cost of administrating DSIF will be covered by the lending margin, cf. table 4. Should the income from the lending margin exceed the costs, the income will be included in the IFU capital base. If the income from the lending margin is insufficient, IFU will cover the variance. The MFA will monitor this closely.

DSIF project development activities are currently benefitting from a separate PDF appropriation of DKK 50 million (2022-2025) i.e. an average budget of DKK 12.5 million annually. Once this appropriation is exhausted project preparation costs will be funded under outcome 1 and 2. IFU expects that the level of expenses will increase to an average of DKK 15 million as DSIF will engage in maturing a larger number of projects. However, DSIF will cooperate with other DFIs and financial stakeholders on a cost-sharing basis. DSIF will have the flexibility to apply the outcome-based budget for project development and maturation activities as need be and will report on this as part of its annual report.

[19] DSIF Administration costs (F2 ref. 2018-33732). Most recent agreement signed in December 2023 and runs up until December 2025. A total of DKK 67 million has been disbursed since 2017 and the most recent disbursement being DKK 15.2 million for 2023.

# 7 Institutional and management arrangement

## 7.1 IFU governance set-up and MFA oversight

DSIF will be strategically and operationally integrated in IFU and MFA oversight of DSIF will be through the already established channels for dialogue and oversight with IFU as described in the ownership document (see section 2.4). The current DSIF steering committee will discontinue[20] and DSIF matters integrated into the agenda of the coordination and oversight mechanisms that the Ownership Document establishes. A well-established structure ensures close and continuous dialogue between MFA and IFU on the progress, results and strategic direction of IFU. Table 6 provides an overview of the structure for the dialogue.

**Table 6: a structured dialogue between IFU and MFA**

| Coordination Forum | Frequency |
|---|---|
| Meeting the Minister for Foreign Affairs | Yearly |
| Presentation to the Council for Development Policy | Yearly |
| Coordination meetings - IFU Chairmanship and State Secretary for Development Policy | Bi-annually |
| Coordination meetings between IFU management and KLIMA management | Quarterly |
| IFU Board meeting with representative from KLIMA as observer | Quarterly |
| MFA representative in Investment committee (Guarantees and DSIF) | Ad-hoc basis |
| Day-to-day coordination | Ad-hoc basis |

*MFA Ownership*
MFA and IFU will organise yearly meetings between IFU and the Minister for Foreign Affairs with point of departure in the ownership document. Furthermore, IFU will appear before UPR annually to account for progress in the reform of IFU and provide updates on results achieved based on an update of the results framework. In its annual consultations with the UPR, IFU will report on results for the year, relevant changes in context, critical assumptions and risks, and explain potential delays in results together with planned remedial action. The annual consultations will also focus on key issues such as organisational change, impact measurement, communication, and system developments in IFU. The progress on implementing DSIF will be included in IFU's reporting to UPR.

At a more operational level, bi-annual meetings are set-up between the State Secretary for Development Policy and the IFU Chairmanship as well as quarterly meetings between the IFU management and the head of the KLIMA Department in MFA.

*IFU board*
Going forward IFU's Board will have full ownership of DSIF alongside other IFU instruments and be fully responsible for the assessment and approval of DSIF investments. MFA is represented as observer in the Board of IFU – currently by the Head of the KLIMA Department. The MFA will also have a seat on IFU's Investment Committee, when it assesses DSIF projects. It will further be explored how to ensure that the Investment Committee has sufficient capacity to assess public infrastructure investment projects, and one option is to complement with external expertise in public infrastructure investments. An expertise that might be internalised in time.

*IFU management*
IFU management will take complete strategic ownership of DSIF and ensure that DSIF is fully included in IFU systems and procedures including the ICT systems, which are currently being upgraded. IFU Management will update MFA in the quarterly meetings, covering both financial and other relevant reporting. In the first years of launching the reformed DSIF, DSIF will be a fixed item on the agenda to

[20] The current governance set-up is based on bi-annual meetings in the DSIF steering committee which comprises IFU Management and the Management of MFA's KLIMA office. In the steering committee the strategic framework for DSIF is agreed.

ensure that the reform of DSIF happens in smooth manner and that IFU pay attention to and address some of the critical points which comes out of the evaluation, and which this document covers under strategic considerations.

*Day-to-day management*
IFU has appointed a Senior Vice President responsible for the DSIF instrument. Currently, the DSIF team consists of seven staff of which one works out of Kenya. With the full strategic and operational integration of DSIF into IFU, the DSIF team will be able to draw on IFU management and IFU support structures to a much larger degree than previously. The MFA has tasked IFU to revise its project administration and support capabilities and ensure that the right level of capacity also within the specific area of DSIF (public investments and strong development impact and poverty reduction focus) is available. IFU and the MFA have jointly defined profiles for additional staff and recruitment process will be initiated by IFU soon after approval (c.f. Annex 2).

## 7.2 Reporting

DSIF will be included in the IFU annual report and in relevant sustainability, impact and portfolio reports, which IFU publishes on a regular basis. Furthermore, the progress of DSIF must be included in the progress reporting at the various level of dialogue between MFA and IFU.

MFA will carry out the following reviews of DSIF:

- A technical review in first half of 2025 to assess the full development of- and integration of the DSIF results measurement system in IFU
- An inception review in first half of 2026 to assess the progress in integrating DSIF into IFU and developing systems, procedures and organisational capacity suitable for an efficient implementation of DSIF
- A midterm review in 2027 according to Danida Aid Management Guidelines which will be specifically mandated to suggest adjustment of funding levels based on performance including appropriate poverty targeting and evidencing hereof. Another core focus of the MTR will be assessment of the extent to which DSIF has been able to forge new partnerships as intended
- Budget is also allocated in 2029 for a technical review or study to prepare for the time after 2030

## 7.3 IFU governance and institutional capacity

### 7.3.1 IFU gating system

A consequence of the strategic and operational integration of DSIF into IFU is that future DSIF projects become part of the IFU investment decision and approval process: First Gate, Clearance in Principle (CIP) and Binding Commitment (BC) (see Annex 2 for details). At each step of the gating process, the investment committee and, at relevant steps, the Board will provide technical assessment and advice, which constitute an important internal quality control and advisory forum for the investment projects. These procedures will replace the standard Danida approval and quality assurance process with presentation to the Programme Committee, Appraisal and approval by UPR. IFU must assess each individual investment 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 the Investment Management Team (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. (See Annex 2 for information on the IFU assessment and approval mechanisms).

As described in section 2.6.5, IFU must prioritise the following when initiating the work to integrate DSIF into IFU in full: a) development of procedures, templates, timelines and assessment criteria that are specifically adapted to the nature of DSIF public investments. This process will be inspired by similar experience from DGF; b) ensuring sufficient capacity in the Investment Committee (IC) to assess and provide input to DSIF projects. When relevant, IFU will attach external expertise in public infrastructure investments to the IC, and it is expected that IFU will in time internalise this expertise.

When assessing DGF projects, the IC includes an MFA appointed representative who reviews proposals for CIP and BC. The mandate inter alia is to ensure alignment with overall MFA priorities and strategies. For DSIF projects, MFA will also appoint a representative for the IC. Based on experience from the DGF, it is important that MFA and IFU agree on a clear set of ToR for the representative.

### 7.3.2 IFU & DSIF capacity to deliver

Towards 2030, IFU will more than double its annual investment budgets and introduce and expand a range of new instruments to the IFU toolbox as e.g. the on-lending facility, IFU Impact Ventures and DSIF. To deliver on the ambition, while maintaining its rigorous investment decision process, high standards for ESG, and creating significant and measurable impact, IFU needs to strengthen its capacities to create results at greater scale.

In February 2024, IFU's board of directors approved a new strategic plan for 2024 to 2026, which will set IFU on the path to strengthen its capacities and expand the organisation. The strategic plan defines four key areas of strengthening:

1) Organisation, values & culture
2) Communications
3) Data & technology
4) Governance, risk and compliance.

Each of these four areas, identifies gaps to be closed and presents detailed plans with specific initiatives to set the direction.

**Strengthening specialized values and culture**, revolves around growing IFU as an organization. Specifically, IFU must double the number of employees towards 2030 from its current ~110 Full Time Employees (FTEs) to 185-225 FTEs. With DSIF, new workstreams as e.g. the loan facility and results-based approaches need to be put in place and managed with proper systems, procedures and tools. This will require specialized skills set and draw on resources which, if not available in-house, will need to be sourced.

For each DSIF project a project team will be established drawing on competencies across the IFU organization. If it is an energy project, specific competencies will be included as will resources from the sustainability team and legal team. This is a well-tested approach that has worked well in IFU that will now also be applied for DSIF. Furthermore, DSIF will be included in the programme for young professionals. Young IFU professionals rotate across the departments and DSIF will now also host young professionals and over time a stronger understanding of the particularities of DSIF will be built in the organization.

IFU will improve its **external communication** efforts to create greater awareness of IFU both domestically and in IFU's markets. Proactive communication and increased engagement in public debate must strengthen IFU's profile and improve awareness around IFU's activities and how they create impact. A clearer position will also aid requirement and awareness among potential investment partners.

IFU's work to strengthen **data and technology** is framed by new requirements to the collection and reporting on impact and other non-financial data and a need to increase efficiency. Several new IT systems are planned for, with a new system to support IFU's investment process already under implementation. IFU created a new central operations unit in 2023, which will boost capacity by centralising selected tasks in the investment process. DSIF systems will be integrated into the new IFU ICT systems.

**Governance, risk and compliance** are of growing importance, as IFU expands its lending activity using on-lending and begin managing DSIF's lending. This will demand improved risk assessment and monitoring capabilities. IFU is strengthening its risk management framework and policies, expanding risk assessment capacity and risk and compliance functions. This will allow IFU to maintain high standards for risk management while activity levels increase.

The strategic plan and its initiatives will be implemented in the period 2024 to 2026. IFU's executive management are responsible for the execution of the plan and will report progress continuously to IFU's board of directors.

## 7.4 Monitoring and evaluation

As mentioned above, one of the key findings of the 2022 DSIF Evaluation was a need for DSIF to strengthen its results management system, and monitoring and documentation efforts. Especially progress monitoring and documentation of outcomes and impact was considered sub-standard. Consequently, in 2023 DSIF embarked on a process to strengthen its results monitoring and management systems, both at project and at portfolio level. The DSIF projects in Kenya has been used as pilot to inform both levels. Based on work by DSIF at head office and project level during 2023-2024, this has resulted in lessons on opportunities and challenges for DSIF project and portfolio level results progress monitoring, including clarifying the scope in practice for alignment with national partners and IFU systems. It has also led to development and discussion of first concepts, approaches and formats for results monitoring, including the ToC approach, some of which are being tested in practice and others still under consideration. This work will form the basis for continued efforts of IFU to strengthen and also align DSIFs approach to that of IFU. Apart from results documentation, the strengthened system will also be used for better learning across the organisation.

*Investment / project level*
At the level of individual investments, IFU will monitor outputs, outcome and impact by tracking key performance indicators according to a project specific results framework. All investments provide regular financial reporting and annual reporting on results.

During the preparation phase, DSIF establishes a Theory of Change for each investment project, which is used to develop the impact results framework, with indicators and targets mutually agreed with the project partner. Complimentary to IFU's standard portfolio and sectoral indicators, IFU can add relevant project-specific indicators to the DSIF projects to monitor the social and environmental performance of the investment. To the extent possible, DSIF will rely on national partners' data collection for tracking outcome and impact of projects. However, experience shows that it can be challenging to retrieve the specific data needed for the DSIF investments, and DSIF will therefore, when needed, continue to work with results/impact monitoring consultants that both help establish the specific targets ex-ante and also report on these ex-post the investment, including the use of surveys. When entering into partnerships with others, the stakeholders will discuss on a case by case basis how the reporting will take place. In any case, the public partner will be responsible for data collection and sharing of data at the level of each investment. IFU tracks performance on ESG-related issues annually across its portfolio of lenders.

During the investment period, the Theory of Change also helps to map the linkages between the intended changes, and the KPIs, which DSIF will track in its results framework. This can be a useful tool to understand why the expected performance on the impact targets may not be achieved. Finally, the Theory

of Change helps build common understanding within IFU on why IFU is considering the specific project for DSIF investment, as well as to communicate that story to other stakeholders.

Another aspect of the individual investment is the monitoring of use of grant funds. DSIF's application of the grant element is critical in relation to a) ensuring that DSIF lives up to the DAC requirements, and b) to ensure that DSIF has access to the commitments from MFA when needed (cf. section 8 below on financial management). Both forecasts and reporting at this level are thus needed for proper management of the grant funds.

*Portfolio level*
At portfolio level, IFU collates and analyses data to assess performance against organisational objectives and develop annual reports on impact performance. This will be the same case for DSIF where portfolio level targets are established. See Annex 3. As mentioned, it needs however to be acknowledged that a proportion of the results at outcome level from this 2024-2030 period will most likely not be able to be reported on until much later. Additionally, IFU uses this information to inform quarterly or half-yearly status meetings on progress and the financial and sustainability performance of infrastructure investments. IFU also collects lessons learned during the lifetime of investments, and the Board receives exit evaluations for information and discussion to secure learning from the experiences. With the full integration of the reformed DSIF into IFU, this will also be applicable to DSIF projects.

IFU's Investment and Impact Model takes a general approach showing how providing capital and advice in developing countries can create impact. This goes for both public and private investments. IFU's activities cover a broad spectrum (global geographical coverage, different sectors, varying risk levels and multiple instruments) and nature and scope of the individual investment opportunity will determine what type of change can be expected. For example, a DSIF loan supporting green transition in Pakistan will not strive to achieve the same change as an equity investment supporting smallholder farmers in Somalia.

IFU is a signatory to the Operating Principles for Impact Management. In 2021, IFU engaged BlueMark - a leading provider of verification services in the impact investing market - to independently assess and verify IFU's impact management system and processes. This verification concludes that IFU has well-established impact objectives, has integrated impact considerations throughout its investment process, and has a clear process for assessing each investment's expected impact. On the basis of this system, IFU is able for its private investment portfolio to report on the return of investment as well as developmental or climate change indicators (including decent work, employment creation, gender equality, reduced $CO_2$ emissions etc.) at the level of investees and subsequently present data for the entire portfolio of IFU investments.

# 8 Financial Management

Financial reporting on DSIF follows IFU's overall financial reporting to MFA, reflecting the use of the funds. In addition, IFU Management will update the MFA through quarterly meetings, covering both financial and other relevant reporting (see also section 7 on management arrangements). Furthermore, the MFA receives reporting on pipeline, investments and exits as well as timely financial reporting.

The MFA contribution will be disbursed to IFU bi-annually. The disbursement will be based on a) financial accounts from the preceding period[21]; b) disbursement and liquidity need projections for the coming period and c) guidance in the strategic dialogue process. As such, the disbursement to DSIF will follow standard good principles for management of grants.

Furthermore, the full integration of DSIF into IFU has the implication that DSIF will now have to prepare DAC reporting to be submitted to the MFA. MFA and IFU will jointly agree on the content of

[21] Accounts to be audited annually. DSIF is audited as part of the overall audit of IFU.

the reporting. An important consideration is that MFA can only report DSIF contributions to OECD DAC once IFU has disbursed these to DSIF project partners. MFA and IFU need to further strengthen budgeting and financial management to ensure that the commitment in the MFA system is one-to-one with actual spending by the end of the year.

## 8.1 MFA oversight

Beyond the regular oversight mechanisms, MFA carries out on a regular basis financial monitoring visits (tilsynsbesøg) to go through and assess systems and procedures established. The MFA plans a financial monitoring visit of IFU for the second half of 2024. Central to the integration of DSIF into IFU is the MFA oversight and management, which will shift from the individual DSIF project to a portfolio consideration at programme-level, based on the already existing structures for dialogue established between MFA and IFU as per the Ownership Document.

## 8.2 State on-lending facility

The loan facility of DKK 5.4 billion will follow the procedures established for the loan facility established under the green future fund.

## 8.3 Fraud, anti-corruption and ethical behaviour

IFU has a solid anti-corruption policy and a newly established Business Integrity function to operationalise its policies in its investments. IFU has passed and been approved by the EU's Pillar Assessment consisting of a comprehensive analysis of the business procedures, purchase and control procedures and financial instruments. Anti-corruption is a standard aspect of the CIP format. Upon suspicion or awareness of specific cases of corruption involving staff members and/or implementing partners in programmes and projects, IFU is obliged to immediately notify MFA in accordance with MFA's Anti-Corruption Policy ("Zero tolerance")[22]. No offer, payment, consideration or benefit of any kind, which could be regarded as an illegal or corrupt practice, shall be made, promised, sought or accepted – neither directly nor indirectly – as an inducement or reward in relation to activities funded under this agreement, including tendering, award or execution of contracts.

IFU and investees directly or indirectly receiving MFA grants must abide by local laws as well as by applicable international instruments, including the UN Convention on the Rights of the Child and International Labour Organisation Conventions. Further, all participating partners must have an approved ethical codex, covering, among others, stipulations against sexual abuse.

# 9 Risk Management

Risks related to this appropriation exist at different levels:

- IFU risk management system
- Exposure of MFA in case of loan defaults
- Corrupt practices
- Strategic pillar 1: the access to state on-lending and not being tied to a commercial bank,
- Strategic pillar 2: the un-tying of DSIF from Danish companies and interests,
- Strategic pillar 3: the transfer of the full responsibility for DSIF from MFA to IFU.

[22] IFU is obliged to notify in case of material adverse change i.e. the occurrence of any event or change of circumstances, which might seriously impair a project's performance or bring about reputational costs to IFU or the MFA

## 9.1 Risks related to the individual investments

*IFU risk management system:*

In relation to the risks related to the individual investments, IFU has an elaborate system for risk management. The risk categories in IFU's system relate to financial and non-financial risks, business risks, operational risks and reputational risks. The current IFU strategy period has identified a number of gaps in the risk management system that IFU will address. For each IFU instruments, IFU has a separate risks management framework. DSIF will therefore also have its own risk management framework, which is based on the profile of DSIF partners and loans.

*Exposure of MFA in case of loan defaults*

DSIF provides loans to public entities and until now sovereign debt only. The set-up and the risk profile when DSIF provides loans to a country is very different from providing loans to commercial entities that more easily can go bankrupt. Nonetheless, guarantees have historically been necessary for the loans to materialise. In the current DSIF set-up, EIFO guarantees the loan from the Danish Commercial bank, which in turn the Danish development aid budget backs. Similar to the arrangement with EIFO, the Danish development aid will ultimately cover IFU's credit risk. This risk is important to acknowledge.

2023 ended with growing concerns over unsustainable debt in developing countries, notably the danger of a debt crisis in the poorest economies, which are being challenged by destabilizing economic shocks. According to the IMF Debt Sustainability Analyses, as of 30 November 2023, 10 countries are in debt distress, 26 are at high risk, 26 are at moderate risk, and 7 are at low risk. The G20, together with the Paris Club, set a Common Framework for the restructuring of debt in debt distress and high-distress countries in 2020. So far four countries have requested a debt treatment under this framework, being Chad, Ethiopia, Zambia and Ghana. This has implications for DSIF as DSIF has projects in Zambia, Ghana and Ethiopia. Zambia and Ghana are classified as "in distress" and Ethiopia as "high risk of debt distress". The outstanding portfolio in Ghana and Zambia amounts to DKK 456 million and in Ethiopia the outstanding loan is DKK 874 million. The ambition to invest in poor and fragile countries comes with a price and there is a risk. However, there are also mitigating factors:

- The 2022 evaluation of DSIF found that from a historic perspective there had been no losses on the EIFO portfolio recorded but does refer to the sovereign debt crisis in Zambia as a concern.
- The 2022 evaluation raises the need to put in place a portfolio perspective to risk management. The reformed DSIF is a response to this finding in the sense that DSIF will have a larger number of smaller projects and, as such, DSIF will be able to initiate a portfolio approach to risk.
- It is unlikely that there would be a one-off claim for the full amount of a DSIF loan. In the current system a country failing to pay an instalment would lead the commercial bank to claim the instalment from EIFO, who will subsequently claim reimbursement from the MFA budget on the instalment only and not on the full amount. In the new system IFU would ultimately claim reimbursement, but the expectation is that IFU will be more patient and flexible to restructure loans as compared to the commercial bank in the current system.

Before operationalising the DSIF loan financing via IFU, it is necessary that IFU and MFA enter into a loan/guarantee agreement that spells out the conditions under which IFU must manage its new mandate. This agreement will be finalised prior to disbursement of funds to IFU.

*Corrupt practices*

A general and cross-cutting risk in all IFU investments is accusations of any fraudulent, corrupt behaviour or not operating in line with e.g. labour standards or tax policies. This can be damaging to IFU as a reputable impact investor and also damaging to the MFA. IFU takes this risk very seriously and performs significant checks on the investees and the management team to minimise the risk of any such behaviour.

IFU has also recently strengthened its capacity and established a specific anti-bribery and corruption function, which specifically screens all investments for any related risk indicators.

In DSIF projects, IFU will engage closely with the partners they invest in throughout the project development phase as well as in the investment phase. By being engaged at this level helps mitigate the risk as IFU is better able to discover any inappropriate behaviours at an early stage. Accusations of fraud, corruption and other illicit or irresponsible behaviour is widespread in markets where DSIF will engage, and difficult to avoid. IFU has policies and procedures to ensure that measures are in place not only to mitigate the risk, but also to investigate allegations and follow-up according to international best practice. The MFA is aware that investments in fragile and conflict afflicted countries, including Ukraine, increases risk exposure.

## 9.2 Risks related to the three strategic pillars

As for the second level of risks related to the three strategic pillars, the following are the main risks and concerns and considerations on how to mitigate them.

*Access to on-lending*

With a reformed DSIF, IFU will be able to draw on the state on-lending facility and provide loans. From the SDG Fund and the Green Loans Facility, IFU has working relations with the Danish Central Bank including well established procedures. However, while IFU through DSIF has a good understanding of the loan packages provided by Danske Bank to clients, IFU has not in its own right been providing loans to public sector entities and has limited experience in partnering with the public sector. The operational capacity of IFU to handle the lending operation is a risk that needs follow-up.

*Untying of DSIF*

DSIF projects will no longer require Danish commercial contracts. But it is the intention that DSIF will continue to underpin political, technical and commercial spheres of Danish economic diplomacy, including ways of promoting high quality Danish solutions and technology. DSIF will among others do this by ensuring that tender material include detailed technical specifications and requirements related to securing best available technology and life cycle costing. The considerations on high technical specifications and requirements for consideration of life cycle costs will help mitigate this risk as will ongoing dialogue and coordination between MFA, IFU and the Danish industry organisations.

*IFU strategic and operational responsibility for DSIF*

DSIF has been an important instrument in Danish Development Assistance for more than 30 years. With full strategic and operational integration in IFU, DSIF will move further away from direct MFA oversight and influence. During the last 10 years, IFU has seen many changes, which IFU has managed in close cooperation with MFA (SDG fund, guarantee instrument, untying from Danish interest, new results measurement systems etc.). DSIF will be included in the established forums for discussion and strategic development. DSIF investments are different types of investments from the commercial investments that IFU normally engages in. As such there is a need to continuously develop the institutional capacity and ensure that the DSIF team, the support functions (e.g. sustainability & legal teams), Management and Board have the right technical skills to be able to provide the right level of feedback and critical support to ensure the success of the programme. This risk can be mitigated by a continuous assessment of the combined capacity at the different levels in IFU's organization and make sure to fill potential gaps.

Annex 4 includes a risk management matrix with further details on the different risks identified.

# Danida Sustainable Infrastructure Finance (DSIF)

# 2024-2030

# Annexes

# Programme Document

# September 2024

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# Annex 1: Context Analysis

## Introduction

This Annex will further elaborate on the overall context for DSIF infrastructure investments. It will focus on the following:

- The link between poverty and access to infrastructure services
- Climate change and poverty
- Fragility, conflict and resilience
- The bottlenecks constraining public structure investments in developing countries

DSIF will operate in a range of different countries and invest in infrastructure projects that differ significantly in nature. Each project will be adapted to the particular needs, challenges and context in the individual country. The 'context analysis' in this Annex will therefore due to the nature of the DSIF programme be on a rather overall level in order to set the scene.

**The link between poverty and lack of access to infrastructure services**
Poor access to infrastructure significantly exacerbates poverty in developing countries. Basic infrastructure services such as energy, clean water, sanitation, and wastewater treatment is essential for a functioning society and serves as the foundation for economic growth, social well-being and a clean environment. When these services are inadequate or unavailable, the consequences are severe, particularly for the most vulnerable populations. This section explores the intricate relationship between poverty and the lack of access to these critical services, illustrating how infrastructure deficits perpetuate poverty and hinder sustainable development.

***Electricity*** powers lighting, telephone, fans, radio, television and modern communication. Clean and safe cooking and heating can improve health and productivity. Those who don't have access to reliable and affordable energy sources are said to be "energy poor" as their well-being is negatively affected by a low energy consumption, use of dirty or polluting fuels, and excessive time spent collecting fuel to meet basic needs. Globally, 91% of the population had access to electricity in 2020, leaving 733 million people unserved. Close to 80% of the global population without access to electricity live in Africa[23]. Energy poverty reduces productivity, limits opportunities for education and constrains access to essential services like healthcare and clean water.

Access to reliable and affordable energy is a cornerstone of economic development. Higher levels of GDP are correlated with greater electricity use, access, reliability, and affordability. Electricity is a key factor of production and reliable access has potential to increase productivity in companies and enhance job creation and income opportunities. In the agriculture sector and amongst SMEs these developments are particular important as these serve as key sources of income for the poorest segments of the population in many countries.

Another negative impact of lack of access to energy is that it impedes educational opportunities. Without electricity, students are unable to study after dark, and schools lack the necessary resources to support effective learning environments. This perpetuates a cycle of poverty, as the lack of education limits future job prospects and economic mobility. In rural areas, where energy infrastructure is often underdeveloped, the lack of electricity forces families to rely on traditional biomass for cooking, which poses significant health risks due to indoor air pollution. Furthermore, energy access is crucial for powering healthcare

[23] UN Policy brief. "Addressing energy's interlinkages with other SDGs", 2022

facilities. Reliable electricity is needed to operate medical equipment, store vaccines, and maintain essential services. In regions without adequate energy infrastructure, healthcare facilities often struggle to provide even basic care, leading to higher mortality rates and poorer health outcomes, particularly among the poor.

***Water.*** Approximately 319 million people in sub-Saharan Africa do not have access to improved reliable drinking water sources[24]. This not only poses significant health risks but also perpetuates a cycle of poverty and inequality. Water scarcity and poor water quality are major challenges that contribute directly to poverty. Inadequate access to clean water leads to a number of problems, including waterborne diseases, poor hygiene, and limited agricultural productivity. These issues disproportionately affect the poorest segments of the population, who often have no choice but to rely on contaminated water sources.

The economic impact of inadequate water access is profound. Lack of access to water disproportionately affects women and girls, who often bear the responsibility of collecting water for their families, a task that can consume valuable time and energy, limiting their opportunities for education and economic empowerment. This time-consuming task prevents them from engaging in productive activities such as attending school or working, thus reinforcing the cycle of poverty. Additionally, the lack of water for irrigation severely limits agricultural productivity, which is a primary source of income for many rural families. The impacts of climate change exacerbate water scarcity, as changing weather patterns lead to more frequent droughts and floods. These events further strain already limited water resources, making it even more difficult for poor communities to access clean water. The resulting economic losses are significant, with reduced agricultural yields, increased health care costs due to waterborne diseases, and lower overall productivity.

***Sanitation*** is another critical infrastructure element that is closely linked to poverty. Access to adequate sanitation facilities is essential for maintaining public health and preventing the spread of diseases. Today, 1.7 billion people still lack even basic sanitation services. Among those, 580 million shared improved sanitation facilities with other households, counted as "limited" services and 616 million used "unimproved" facilities. The data reveal pronounced disparities, with two thirds of people who still lacked even basic services lived in rural areas. Nearly half of them lived in sub-Saharan Africa[25].

Poor sanitation leads to the contamination of water sources, the spread of diseases such as cholera and diarrhea, and a generally unhealthy living environment. The lack of proper sanitation disproportionately affects the poor, who often live in densely populated areas with inadequate infrastructure. In these communities, open defecation and the improper disposal of waste are common, leading to widespread environmental contamination and increased health risks. These conditions not only harm individual health but also have broader economic implications, as sick individuals are unable to work, children miss school, and healthcare costs rise.

Investments in sanitation infrastructure are crucial for breaking the cycle of poverty. Improved sanitation facilities reduce the incidence of disease, enhance the quality of life, and free up resources that would otherwise be spent on healthcare. Moreover, proper sanitation is essential for gender equality, as women and girls are disproportionately affected by the lack of privacy and safety in areas without adequate facilities.

***Wastewater treatment*** is an often-overlooked aspect of infrastructure that plays a critical role in poverty reduction. Proper wastewater management prevents the contamination of water sources, protects ecosystems, and ensures the availability of clean water for various uses. In many developing countries, however, wastewater treatment infrastructure is inadequate or non-existent, leading to severe environmental

[24] https://blogs.worldbank.org/en/africacan/celebrating-water-day--why-access-to-clean-water-is-vital-for-af
[25] https://data.unicef.org/topic/water-and-sanitation/sanitation/

and health problems. Only 8 per cent of the wastewater produced low-income countries received adequate treatment in 2012[26]. When wastewater is not properly treated, it pollutes rivers, lakes, and oceans, destroying aquatic life and contaminating drinking water sources. This environmental degradation has direct economic consequences, particularly for poor communities that rely on natural resources for their livelihoods. For instance, polluted water bodies reduce fish populations, affecting the food security and income of communities that depend on fishing.

Furthermore, the lack of wastewater treatment exacerbates health problems, as untreated sewage can spread diseases such as hepatitis, typhoid, and cholera. These health risks are particularly acute in densely populated urban areas, where the lack of infrastructure leads to the uncontrolled discharge of wastewater into the environment. Addressing these issues requires significant investments in wastewater treatment facilities, along with the implementation of policies that promote sustainable water management practices.

**Climate change and poverty**

The climate crisis is closely related to poverty. Least developed countries carry the burden disproportionately compared to high-income countries. While the world's poorest countries only account for a very small portion of global greenhouse gas emissions - a major contributor to the climate crisis - the consequences hereof including extreme weather patterns, natural hazards and food and water shortages are among the factors that severely threaten the lives of poor people.

There are thus close linkages between the Paris Agreement's climate objectives and poverty reduction. The triple threat of natural resources degradation, pollution and biodiversity loss negatively impact poor people's livelihood and reduce their resilience to climate change. The poorer people are, the harder it is to recover from failed harvests, destroyed homes, and health crises. It has been estimated that by 2030, climate change could push more than 120 million more people into poverty.[27] Thus, working with climate change adaptation is a high priority in developing countries.

The Climate Policy Initiative (CPI) makes annual reports on the status of climate financing. According to the report for 2023 there has been a steady increase in climate finance since 2011. The total amount of climate finance has increased from 364 billion to 1.26 trillion in 2023[28].

Despite this increase, there is still a huge gap between the available climate financing and the needs. The assessment of needs however depends on a range of different methodologies, and CPI estimates that there are more than 30 different taxonomies and more than 200 frameworks for assessing climate needs across their sample of 40 countries. The NDCs play an important role but suffer from not being updated and therefore becoming increasingly detached from real climate finance needs over time. For this reason, the assessment as to how climate finance meet actual needs is not possible to make in precise terms. The expected climate finance needed amounts to somewhere between 6 to 12 trillion USD, depending on the scenario applied for the climate crisis and the method applied for calculating climate finance needs. Moreover, the longer it takes to mobilise climate financing, the more severe the damages and the higher the costs for the climate action to be taken. The CPI builds on cost scenarios that show that the costs would be possible to bear if commitments were made now as opposed to later, where costs would become almost insurmountable[29].

**Fragility, conflict and resilience**

DSIF has an explicit aim of targeting fragile countries. In many cases there are overlap between these categories. Several countries and regions in Africa are characterised by fragility and conflict. Infrastructure

[26] World Water Development Report (World Water Assessment Programme 2017)
[27] https://www.actionaid.org.uk/our-work/emergencies-disasters-humanitarian-response/climate-change-and-poverty
[28] CPI: "The Global Landscape of Climate Finance 2023", November 2023
[29] CPI: "The Global Landscape of Climate Finance 2023", November 2023

investments are relevant in these countries for building resilience and putting economies on a sustainable development path. Building trust, security, and strong institutions is critical to helping fragile and conflict affected countries advance and gain stability. Rather than binary distinctions between e.g., stability and instability or conflict and peace, many countries or regions will be more appropriately described by degrees of intensity on a continuum along different dimensions of e.g., fragility and conflict. The list below is an updated overview from the World Bank of which countries are categorised as FCAS.

**World Bank list of Fragile and Conflict-affected Situations (2024)**

| CONFLICT | INSTITUTIONAL AND SOCIAL FRAGILITY |
|---|---|
| Afghanistan | Burundi |
| Burkina Faso | Chad |
| Cameroon | Comoros |
| Central African Republic Congo, | Congo, |
| Democratic Republic of Ethiopia | Republic of Eritrea |
| Iraq | Guinea-Bissau |
| Mali | Haiti |
| Mozambique | Kiribati |
| Myanmar | Kosovo |
| Niger | Lebanon |
| Nigeria | Libya |
| Somalia | Marshall Islands |
| South Sudan | Micronesia, |
| Sudan | Federated States of Papua New Guinea |
| Syrian Arab Republic | São Tomé and Príncipe |
| Ukraine | Solomon Islands |
| West Bank and Gaza (territory) | Timor-Leste |
| Yemen, Republic of | Tuvalu |
| | Venezuela, |
| | Zimbabwe |

Source: World Bank - Classification of Fragile and Conflict-Affected Situations (worldbank.org)

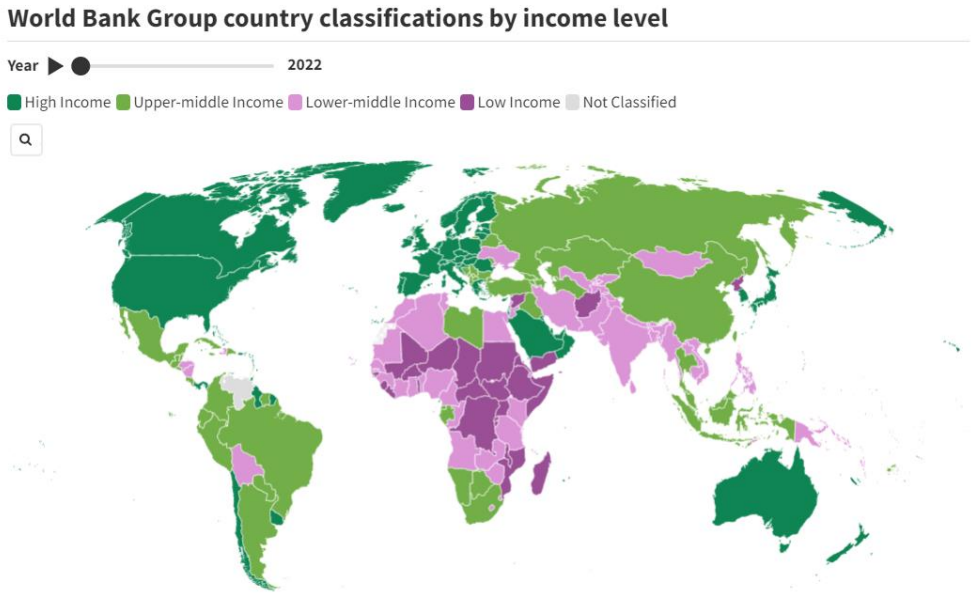
Another priority of DSIF is to target some of the poorest countries and also to have an explicit focus on Africa. As the map below shows there is a significant overlap between these two categories of countries.

In the World Bank terminology, countries with less than $1,035 GNI per capita are classified as low-income countries (LIC), those with between $1,036 and $4,085 as lower middle-income countries (LMIC), those with between $4,086 and $12,615 as upper middle-income countries (UMIC), and those with incomes of more than $12,615 as high-income countries (HIC):

**Categories of countries by GNI and country classification map:**

| GNI (USD) | Less than 1,035 | 1,036-4,085 | 4,086-12,615 | More than 12,615 |
|---|---|---|---|---|
| Category | LIC | LMIC | UMIC | HIC |

The location of the different categories of countries is illustrated in the figure below:




**Bottlenecks constraining public infrastructure investments in developing countries**
Access to public infrastructure is crucial for economic growth and poverty reduction in developing countries. However, the rate at which infrastructure investments are materialising remains sluggish, hampered by a series of persistent bottlenecks. The bottlenecks that constrain public infrastructure investments in developing countries are multifaceted and deeply interconnected. The **financing gap** remains one of the most significant challenges, exacerbated by global economic uncertainties and the underdevelopment of local capital markets. The **institutional capacity gap** further complicates the ability of governments to effectively plan, implement, and manage infrastructure projects, while **regulatory and political economy challenges** create additional barriers to investment. Finally, the **technical capacity gap** hinders the ability of developing countries to design and manage complex infrastructure projects, leading to inefficiencies and sustainability challenges.

Addressing these bottlenecks will require a coordinated and comprehensive approach that leverages both public and private sector resources, enhances institutional and technical capacity, and creates a regulatory environment that supports long-term infrastructure development. Only by overcoming these challenges can developing countries achieve the level of infrastructure investment needed to drive sustainable economic growth and improve the quality of life for their citizens.

***Financing Gap.*** One of the most significant barriers to public infrastructure investment is the pervasive financing gap. Public infrastructure projects, especially those that do not generate immediate commercial returns, too often find it difficult to secure the necessary funding to reach financial closure. This challenge is exacerbated in regions where state-owned enterprises and public sector entities lack the financial capacity or creditworthiness to secure adequate funding. Africa faces an estimated infrastructure financing gap of USD 100 billion annually. The water sector experiences the most substantial gap, ranging from USD 49 to 59 billion[30].

The financial challenge is compounded by the capital-intensive nature of infrastructure projects. These projects often involve significant upfront costs, long payback periods, and high sunk costs, making them less attractive to private investors who typically seek quicker returns on investment. The financial landscape in many developing countries is further strained by high levels of public debt and low credit ratings,

[30] Dalberg study, 2023

which restrict these countries' ability to access long-term financing on favourable terms. The high cost of borrowing, combined with currency volatility, adds another layer of complexity to securing financing for infrastructure projects. Additionally, the underdevelopment of local capital markets in many developing countries limits the ability of stakeholders raise funds domestically. This lack of financial infrastructure forces these countries to rely on external borrowing, which is often expensive and subject to exchange rate risks. For sectors like water and sanitation, which are critical for public welfare but often viewed as less profitable, the availability of affordable long-term financing is particularly problematic.

Despite efforts to innovate within the financing space, the adoption of mechanisms such as blended finance has been slow. Blended finance, which combines public and private sector resources to mitigate risks and attract private investment, offers a potential solution to the financing gap. However, the complexity of structuring these deals and the limited capacity within governments to manage such arrangements have hindered their widespread adoption. DFIs and multilateral development banks have increasingly played a role in bridging the financing gap by providing long-term, concessional financing and risk mitigation instruments. However, their efforts have not been sufficient to close the gap, indicating the need for more coordinated strategies to mobilize alternative sources of finance.

The ***institutional capacity*** to plan, execute, and manage infrastructure projects is another significant bottleneck in many developing countries. Infrastructure projects are complex and require the coordination of multiple stakeholders, including government agencies, private investors, and local communities. However, the institutions responsible for overseeing these projects often lack the necessary resources and expertise to manage them effectively.

In many developing countries, institutional frameworks are weak, characterized by poor governance, lack of transparency, and inadequate enforcement of contracts. These weaknesses undermine confidence and lead to inefficiencies, delays, and cost overruns in infrastructure projects. Additionally, high staff turnover and shifting political priorities can disrupt the continuity of projects, further complicating the implementation process.

Local governments, in particular, face significant challenges in managing infrastructure projects. Decentralization has transferred many responsibilities for infrastructure development to local authorities, but these bodies often lack the financial resources and technical expertise to effectively carry out their duties. The capacity gap at the local level is especially problematic in the context of PPPs. While PPPs are promoted as a means of leveraging private sector expertise and resources, their success depends heavily on the existence of a strong institutional framework and the capacity of the public sector to manage these partnerships effectively.

Moreover, the lack of coordination between different levels of government and between various government agencies creates additional challenges. Infrastructure projects often require the involvement of multiple stakeholders, including national, regional, and local governments, as well as private sector actors. However, the lack of clear roles and responsibilities, coupled with poor communication and coordination, often leads to delays and increased costs. This is particularly evident in the planning and permitting stages of infrastructure projects, where bureaucratic hurdles and regulatory inconsistencies can significantly slow down progress.

The institutional capacity gap also extends to the maintenance and operation of infrastructure projects. Even when projects are successfully implemented, many are not operated sustainably due to a lack of funding and technical skills for long-term operation and management. This underscores the need for capacity building, not only in the planning and implementation phases but also in the operation and maintenance phases of infrastructure projects. Without a focus on sustainability, many infrastructure projects risk becoming liabilities rather than assets over time. This is also why this is a key focus in DSIF projects.

The ***regulatory environment and the broader political economy*** within which infrastructure projects are implemented also play a crucial role in shaping their success or failure. Regulatory frameworks that are overly complex, inconsistent, or poorly enforced can create significant barriers to investment. In many developing countries, regulatory frameworks are not necessarily fully conducive to the needs of modern infrastructure development. This includes challenges such as restrictive procurement processes, unclear land acquisition laws, and cumbersome environmental regulations.

Furthermore, the political economy of infrastructure development can be characterized by shifting priorities and short-termism. Political leaders may prioritize projects that deliver quick, visible results over those that are more complex and require longer timelines. This can lead to a focus on less critical infrastructure projects at the expense of those that are essential for long-term economic development. Additionally, changes in government can result in abrupt shifts in infrastructure policy, leading to the abandonment or re-prioritization of ongoing projects.

Corruption and rent-seeking behaviour are also significant concerns in the political economy of infrastructure development. In many developing countries, infrastructure projects are seen as opportunities for political patronage, with contracts awarded based on political connections rather than merit. This not only leads to inefficiencies and cost overruns but also undermines the quality and sustainability of infrastructure projects. Corruption can also deter private investment, as investors are unwilling to engage in environments where they perceive a high risk of losing their investment to corrupt practices.

The regulatory challenges are further compounded by the lack of coherence between different regulatory frameworks at the national and local levels. This is particularly problematic in countries with decentralized governance systems, where local authorities may have different regulations and standards than those set at the national level. This lack of coherence can create confusion and delays, as investors and developers must navigate multiple regulatory environments to get projects approved and implemented.

Additionally, the regulatory framework for PPPs is often underdeveloped in many developing countries. While PPPs have the potential to bring in much-needed private sector investment and expertise, their success depends on the existence of clear and enforceable contracts, as well as a regulatory environment that supports private sector involvement. However, in many cases, the regulatory frameworks for PPPs are either non-existent or poorly developed, leading to uncertainty and risk for private investors.

The ***technical capacity*** to design, implement, and manage infrastructure projects is another critical bottleneck in developing countries. Infrastructure projects are technically complex and require specialized knowledge and skills across a range of disciplines, including engineering, finance, project management, and environmental science. However, in many developing countries, there is a significant shortage of skilled professionals with the expertise needed to manage these projects effectively.

This shortage of technical capacity is particularly acute in the planning and design phases of infrastructure projects. There is a need for external assistance to carry out thorough feasibility studies, environmental impact assessments, and risk analyses, all of which are essential for ensuring that projects are viable and sustainable. Without this expertise, projects are more likely to face delays, cost overruns, and other challenges during implementation.

The low level of technical capacity also affects the ability of governments to effectively negotiate and manage contracts with private sector partners. This is particularly important in the context of PPPs, where governments need to ensure that contracts are structured in a way that aligns the interests of the public and private sectors. However, without the necessary technical expertise, governments may be at a disadvantage in negotiations, leading to contracts that do not adequately protect public interests.

Moreover, the technical capacity gap extends to the operation and maintenance of infrastructure projects. Even when projects are successfully implemented, they often face challenges in the operational phase

due to a lack of technical skills and resources. This is particularly problematic for complex infrastructure systems, such as water supply and sanitation, energy, and transportation, which require ongoing maintenance and management to function effectively.

Capacity building is therefore essential for addressing the technical capacity gap in developing countries. This includes not only training and education programs for professionals in the infrastructure sector but also the development of institutional frameworks that support the ongoing development of technical skills. International cooperation and knowledge transfer can also play a critical role in building technical capacity, particularly in the areas of project planning, design, and management.

# Annex 2: Partner Assessment

| Name of Partner | Core business<br><br>*What is the main business, interest and goal of the partner?* | Importance<br><br>*How important is the project/programme for the partner's activity-level (Low, medium high)?* | Influence<br><br>*How much influence does the partner have over the project/programme (low, medium, high)?* | Contribution<br><br>*What will be the partner's main contribution?* | Capacity<br><br>*What are the main issues emerging from the assessment of the partner's capacity?* | Exit strategy<br><br>*What is the strategy for exiting the partnership?* |
|---|---|---|---|---|---|---|
| IFU | Impact investment<br>Climate investment | The programme is key for the reform of DSIF which will become an important IFU instrument enabling IFU to also to engage in public infrastructure | High. The reformed DSIF comprise a range of new tools and opportunities that will strengthen the ability of IFU/DSIF to identify and invest in solid projects. | Network, systems and knowledge base to identify, mature and manage infrastructure projects that significantly contribute to Green Economies and Just and Inclusive Economies | The DSIF reform is very ambitious and requires expansion of IFU organization both in quantity (number of staff) but also in quality (new skills required) | Exit strategy will be in place for the individual investments.<br><br>DSIF will continue to be dependent on inflow of grant funds to continue operation. |

**Summary of partner capacity assessment**
Initially, when MFA planned the reform of DSIF, three different scenarios were considered for the future of DSIF. One option was that MFA could take back the administration of DSIF as it was prior to 2017, another to channel funding for sustainable infrastructure though IFIs like the African and Asian development banks. The third option was to integrate DSIF fully into IFU which was approved by the Minister for Development in December 2023.

Therefore, the choice of partner was to a large extent given when the DSIF programme formulation process was initiated and the stakeholder analysis has been less focused identifying and vetting IFU as a partner, but more related to what MFA could expect from IFU and what guidance, oversight and resources would be required to enable IFU to administer DSIF efficiently.

The following sections will present IFU and DSIF:

- Overall introduction to IFU and DSIF
- IFU investment processes
- DSIF On-lending facility
- DSIF: poverty orientation and institutional capacity building
- Overview of DSIF legacy projects
- DSIF capacity

## Overall introduction to IFU and DSIF

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. In 2017, IFU assumed administrative responsibility for the ***Danida Sustainable Infrastructure Finance*** facility (DSIF) from the MFA and will, going forward, take full operational responsibility for DSIF. Key DSIF partners, besides the governments in the countries of operation, include the local utilities undertaking the actual investments, Danish and International advisors, and EPC contractors.

The Danish Government has since 1993 through DSIF supported the financing of public infrastructure projects, typically in water, energy, and transportation, in some of the least developed countries. DSIF supports the development and preparation of public infrastructure projects by offering technical assistance and concessional financing through loans and grants. The Ministry of Finance in the country or regional development banks are the typical counterparts. DSIF projects typically have a long preparation period (up to seven years) and long implementation period (total of 10+ years). DSIF currently has a portfolio of 17 projects where all grants have been paid out but with a total outstanding engagement (loans) of DKK 2.35 billion.

Public infrastructure investments are essential for development and poverty reduction in developing countries. From transportation systems to power-generation facilities and water and sanitation networks, infrastructure is the basis for the ability to access services that enable societies to function and economies to thrive. This makes infrastructure an important element of the global efforts to meet the Sustainable Development Goals (SDGs). While SDG 9 explicitly refers to building resilient infrastructure, all SDGs are, in one way or another, underpinned by infrastructure development. Especially when it comes to serving the poorest parts of the population that do not have the means to pay for services, public infrastructure investments are essential.

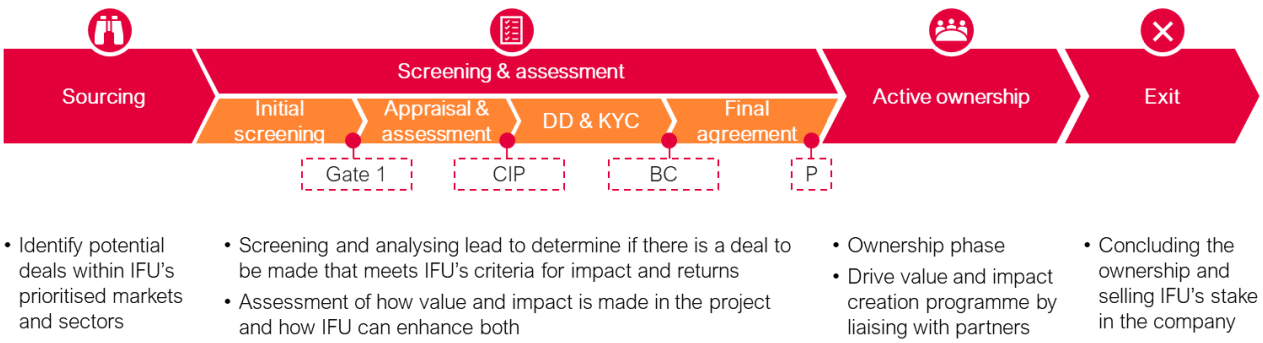
## IFU investment processes

An implication of the full integration of DSIF into IFU is that DSIF projects will no longer be developed, matured and approved following MFA procedures and templates. With the reform, DSIF will be fully integrated into the IFU gating system which is the IFU framework for approving projects. The gating system is presented in the Figure A below. IFUs system and models for assessing projects are in the process of being adjusted to cater for the particularities of DSIF investments where stakeholders are public entities. Tables A, B and C below present the current framework that has been developed for IFU's commercial investments and which will be adjusted to also cover DSIF.

***IFU's classic gating process*** starts with sourcing and identification of investment opportunities, over active ownership, to the exit from investments. Before an investment is made, IFU does a thorough assessment of its potential to create impact, its viability and sustainability. During the assessment process, the investment has to pass through a number of approval gates. Here IFU's management and board review and approve or reject the investments based on the analysis and assessment made by IFU's investment professionals in the deal team. During the different steps important comments and technical input is provided (quality assurance).

The investment opportunity must meet a number of criteria to be considered. These include significant contribution to IFU's impact priorities, alignment with IFU's sustainability policies and the international standards IFU subscribe to, agreement to implement IFU's required ESG standards, and commercial viability.

**Figure A: IFU's investment process**



The traditional commercial IFU investment opportunities are assessed through financial analysis and modelling with an aim to ensure that investment will aid to growing a company with a long-term presence, generate an acceptable return for IFU, acceptable ESG standards and creating development impact. The tools and analysis methods are presented in table A and B below.

**Table A: ESG and impact through the investment process (commercial projects)**

| Process step | E&S | Governance | Impact |
|---|---|---|---|
| To gate 1 | - Screening against IFU's exclusion list of activities IFU will not invest it*<br>- | - Initial screening to check for recorded governance issues | - Initial screening to verify contribution to at least one of IFU's two impact priorities |
| To CIP | - Preliminary Human Rights assessment | - CPI screening<br>- Expanded search for recorded issues<br>- Review of investee company/organisation's anti-bribery and corruption (ABC) policies | - Formulation of impact hypothesis and theory of change for how company creates impact and contribute to SDGs<br>- Assessment of investment's additionality<br>- |
| TO BC | - Full Human rights due diligence<br>- Assessment of negative impact | - Assessment of anti-corruption<br>- Assessment of corporate governance | - Validation of impact creation hypothesis and theory of change through impact due diligence<br>- Initial results framework<br>- Assessment of GHG emissions<br>- Assessment of gender policy |
| To ownership | - Formulation of E&S action plan (ESAP), which investee company must commit to | - Formulation of anti-corruption and corporate governance action plan (CGAP), which investee company must commit to | - Formulation of impact creation plan incl. results framework, which the investee company must commit to |
| To exit | - Execution of ESAP by company incl. reporting to IFU<br>- Annual reporting on E&S data through ASR | - Execution of CGAP by company incl. reporting to IFU<br>- Annual reporting on ABC and governance data through ASR | - Reporting and monitoring of impact creation according to plan and results framework<br>- Impact study and evaluation at exit |

IFU's Impact Screening tool assesses investments across IFU's two main impact priorities: "Building a Green Economy" (climate impact) and "Building a Just & Inclusive Economy" (social impact). It covers the following areas to assess whether an investment should be prioritised:

**Table B: IFU Impact Screening Tool**

| Area | Comment |
|---|---|
| General criteria | |
| **Investment type** | Whether IFU is investing in an existing project, or setting up something new |
| **Sector** | Alignment with IFU sector strategy |
| **Sector transformational potential** | Potential for the investment to fundamentally change the sector it is in |
| **Geography** | Alignment with IFU geographical strategy |
| **EDFI Exclusion List**[6] | Any activities on the EDFI Exclusion List will make an investment ineligible |
| **Commercial investment considerations** | Instrument, direct or intermediated investment, ticket size, expected return and certainty of exit are considered in the screening |
| **Strategic Alignment** | |
| **Use of funds** | Whether IFU's investment will provide new capital to the company, or buy existing shares |
| **IFU experience** | IFU's track record in the sector |
| Building a Green Economy | |
| **"Do no significant harm"** | Requires the investment professional to confirm that the investment will "Do no significant harm" as defined by the EU Taxonomy – hard requirement for all investments |
| **Climate change mitigation** | Whether the investment meets the EU Taxonomy criteria (sector-specific where available) |
| **Climate change adaptation** | Whether the investment meets the EU Taxonomy criteria (sector-specific where available) |
| **Sustainable protection of water and marine resources** | Whether the investment meets the EU Taxonomy criteria |
| **Transition to a circular economy** | Whether the investment meets the EU Taxonomy criteria |
| **Pollution prevention and control** | Whether the investment meets the EU Taxonomy criteria |
| **Protection and restoration of biodiversity and ecosystems** | Whether the investment meets the EU Taxonomy criteria |
| Building a Just & Inclusive Economy | |
| **Investment in Least Developed Country** | Whether a majority of the investment will go to a Least Developed Country |
| **Bottom-of-the-pyramid focus** | Whether the investment will increase incomes for the bottom 40% income segment in the country / region |
| **Unserved / underserved populations** | Whether the investment will provide access to goods/services for which access is currently not available or limited? |
| **Gender lens investment** | Whether the investment meets any of the 2X Challenge criteria (see above) – further requires intentionality in the company to work with gender equality, e.g. through an action plan |
| Job creation (secondary impact area) | |
| **Decent Work criteria** | Whether the employment conditions of the investment are aligned with ILO criteria for Decent Work |
| **Job creation propensity** | The number of jobs expected to be created per million DKK invested |
| **Type of jobs created** | Whether jobs created are: i) local, ii) permanent; iii) skilled, iv) available to youths |

IFU's investee partners must subscribe to several IFU policies to qualify as an investment. These are in addition to the commitment to execution a number of activities through the ESAP, CGAP, impact creation plan and results framework. The policies are outlined and described in table C below.

**Table C: Core IFU policies**

| Policy | Description |
|---|---|
| Sustainability policy | The policy sets out IFU's commitment to invest into good Environmental, Social and Governance (ESG) practices, as well as supporting green and/or just and inclusive impact. The Sustainability Policy is the overarching policy for ESG and impact, which is supplemented by specific underlying thematic policies, including: Climate policy, Human rights policy, Animal welfare policy, Gender equity policy and Corporate governance policy |
| Tax policy | IFU is committed to a responsible tax practice according to the following three principles 1) Pay taxes in developing countries; 2) Use holding companies responsibly and 3) Be transparent |
| Anti-corruption policy | IFU is committed to maintaining a zero-tolerance policy regarding corruption – including bribery, fraud and facilitation payments – in line with the UN Convention against Corruption and the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. |
| Anti-money laundering and anti-terrorist financing | IFU's policy on anti-money laundering and terrorist financing contains IFU's identification, consideration and assessment of relevant risks related to money laundering and terrorist financing as well as IFU's overall approach and requirements to the procedures and controls related to money laundering and terrorist financing risks. |
| Sanctions screening guidelines | Ensure compliance with international sanctions regimes, mitigate reputational and financial risks and prevent engagement with entities or individuals involved in prohibited activities or on sanctions lists. These guidelines facilitate thorough identification and screening procedures and partner assessments to identify potential sanctions related risks. |
| Insider information policy | Safeguards against possible abuse of insider information and ensures that IFU has a high level of credibility as an organisation where insider trading does not occur. It protects IFU's employees and board representatives from potential criminal liability. |
| Whistle-blower policy | This policy provides the requirements and channels for which potential breaches of IFU's policies or relevant regulation can be reported, investigated and sanctioned through a confidential and anonymous process. The policy protects both IFU's employees and investee company stakeholders, and it ensures a coherent and thorough investigation and processing of complaints. |

As mentioned these processes and tools apply to IFU's commercial investments and forms a solid basis for adjustment to DSIF projects which are different in nature and with other types of partners, but which still will be following high quality standards, risk assessments etc.

## Applicable international frameworks for sustainability

### International principles, guidelines and standards that IFU has signed, adopted or acceded to

- IFC Performance Standards (IFC, 2012)
- World Bank Group General and Sector-specific Environmental Health and Safety Guidelines
- UN Guiding Principles on Business and Human Rights (UN, 2011)
- ILO Declaration on Fundamental Principles and Rights at Work (ILO, 1998)
- UN Principles for Responsible Investment (UN-PRI, 2005)
- UN Global Compact's 10 Principles (UNGC, 1999)
- OECD Guidelines on Multinational Enterprises (OECD, 2011)

- OECD Responsible Business Conduct for Institutional Investors (OECD, 2017)
- OECD Due Diligence Guidance for Responsible Business Conduct (OECD, 2018)
- EDFI Principles for Responsible Financing (EDFI, 2009)
- Equator Principles (EPA, 2013)
- G20/OECD Principles of Corporate Governance (OECD, 2015)
- DFI Corporate Governance Development Framework (CGDF, 2011)
- SMART Campaign Client Protection Principles
- UN Food and Agriculture Organization's Principles for Responsible Investment in Agriculture and Food Systems (FAO, 2014)
- 2X Challenge on Gender (2X Global, 2018)
- Operating Principles for Impact Management (OPIM, 2019)
- OECD-UNDP Impact Standards for Financing Sustainable Development (OECD, 2021)

**International conventions, declarations and agreements that IFU's policies are based on**

**Agenda 2030 Development**

- UN Sustainable Development Goals (UN 2015)
- UNFCCC Paris Declaration (UN 2015)
- UN Addis Ababa Action Agenda for Development Finance (UN 2015)

**Human rights:**

- International Bill of Human Rights (IBHR) covering The Universal Declaration of Human Rights (UN, 1948), including the International Covenant on Civil and Political Rights (UN, 1966) and the International Covenant on Economic,
- Social and Cultural Rights (UN, 1966)
- UN Guiding Principles on Business and Human Rights (2011)
- UN Declaration on the Rights of Indigenous Peoples – UNDRIP (UN, 2007)

**Labour rights:**

- ILO Convention 29 on Forced Labour (ILO, 1930)
- ILO Convention 105 on the Abolition of Forced Labour (ILO, 1957)
- ILO Convention 87 on Freedom of Association and Protection of the Rights to Organize (ILO, 1948)
- ILO Convention 98 on the Right to Organize and Collective Bargaining (ILO, 1949)
- ILO Convention 100 on Equal Remuneration (ILO, 1951)
- ILO Convention 111 on Discrimination (Employment and Occupation) (ILO, 1958)
- ILO Convention 138 on Minimum Age (ILO, 1973)
- ILO Convention 182 on the Worst Forms of Child Labour (ILO, 1999)

**Environment and climate:**

- Rio Declaration on Environment and Development (UN, 1992)
- Montreal Protocol on Substances that Deplete the Ozone Layer (UNEP, 1999)
- Stockholm Convention on Persistent Organic Pollutants (POPs) (UNEP, 2004)
- The Rotterdam Convention/PIC Convention on Certain Hazardous Chemicals in International Trade (UNEP, FAO, 2004)

- UN Convention on Biological Diversity (UNEP, 1993)
- Kyoto Protocol to the UN Framework Convention on Climate Change (UN, 1997)
- Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and Their Disposal (UNEP, 1992)
- CITES Convention on International Trade in Endangered Species of Wild Fauna and Flora (UNEP, 1975)

**Gender equality and sexual and reproductive health and rights:**

- The Convention on the Elimination of all Forms of Discrimination Against Women (CEDAW) (UN,1979)
- CEDAW's Optional Protocol (UN, 1999)
- Beijing Declaration and Platform for Action (PFA) (UN, 1995)
- Convention on preventing and combating violence against women and domestic violence (Istanbul Convention) (2014)
- Cairo Declaration on Population and Development (UN, 1994)

**Anti-Corruption:**

- UN Convention Against Corruption (UN, 2010)
- Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (OECD, 1997)

**Tax:**

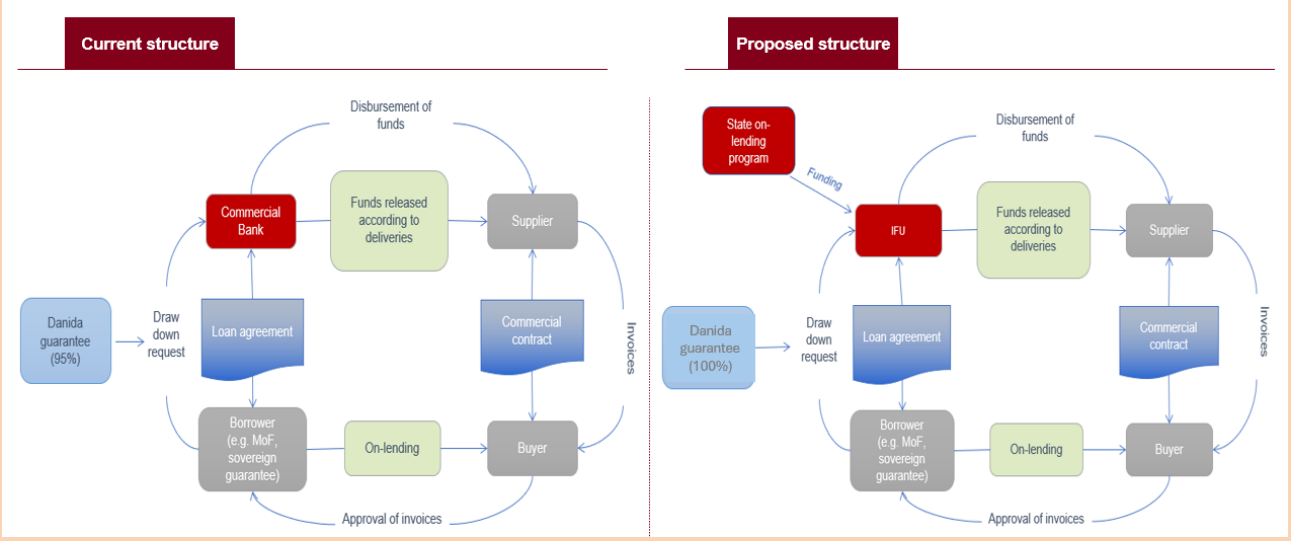
- OECD's Global Forum on Transparency and Exchange of Information for Tax Purposes (OECD, 2009)
- EU list of non-cooperative tax jurisdictions (EU, 2017)

## DSIF On-lending Facility

The IFU reform paves the way for a new source of financing, which significantly changes IFU's modus operandi. IFU will be accessing loan capital from a State on-lending facility (Statens Genudlån) via the Danish Central Bank. The State of Denmark provides on-lending and state guarantees to a number of state-owned companies (SOE). The loans are transferred from the State of Denmark to the SOEs and the increase in financing requirement of the State of Denmark is covered by state bonds being issued. The SOEs will service the loans on conditions corresponding to the conditions of the state bonds. As such the AAA rating of the State of Denmark translates into improved lending conditions for the SOEs. The majority of on-lending and guarantees are offered to SOEs engaged in large scale infrastructure projects.

Through this facility, IFU is able to benefit from the Danish AAA rating and access cheap loan capital and guarantees.

IFU will include DSIF in its partnership with the Danish on-lending facility (Statens Genudlån) and take over lending responsibilities from the commercial bank, which reduces costs and increases flexibility. The figure below presents the envisaged change in structure for DSIF on-lending.



## Poverty orientation and institutional capacity building in DSIF projects

This section outlines how DSIF explicitly works to ensure that the overarching goals of poverty reduction and climate resilience can be the drivers of project preparation and implementation. Key issues that need to be addressed are outlined in each project phase – elaborating and maintaining focus on the overall goals throughout the project cycle is critical to a successful project. The note has been developed by the DSIF team and exemplifies from Kenya projects.

The overall purpose of a DSIF project is to contribute to poverty reduction and climate adaptation – thus, project impact on poverty and climate must lie at the heart of all projects co-financed by DSIF. As DSIF provides support to infrastructure utilities, the objectives are to increase the utility's delivery of services to low-income areas and to enhance the utility's climate resilience. It is noted that all DSIF-funded projects are intended to support the relevant utility, i.e. to deliver services to all people and industries in the project area, not only to the poor. This is not necessarily a contradiction to the overarching goal of poverty reduction – **but only IF**:

i. the project delivers services to low-income areas under responsibility of the utility. It is often technically difficult and financially unattractive for the utility to deliver services to these areas – but the project must ensure service delivery to all areas under responsibility of the utility, including low-income areas; and
ii. the project area is selected to reach lower income groups (based on socio-economic analyses), i.e. the recipient utility serves not only high-income groups in the country

Often public infrastructure projects – whether prepared by other donor partners, DFIs, public or private institutions – have not been fully developed to be 'bankable'. Thus, projects are often found lacking in terms of:

- socio-economic analyses, clarity on the theory of change and expected impact on poverty and climate, and analyses of how to manage associated risks;
- results monitoring and coherence with country systems;
- organisational analyses and institutional assessments, and preparation of capacity building initiatives; and
- technical and financial assessments.

Thorough project preparation is essential for project success – thus, considerable investments in project development must be anticipated by DSIF, also when co-financing with other international partners.

### I. Identification phase

The project identification phase should lead to the following outputs:

1) Agreement on project scope with authorities and any other financing partners. The agreement should be based on analyses of the socio-economic context and poverty reduction strategies for the country/sector, assessments of the administrative set-up and regulatory framework for the sector, and results monitoring systems for the country/sector:
   - Focus, location and overall cost estimate of the project (including cost of loan to recipient
   - Identification of all project elements, including construction of infrastructure, detailed design and supervision, support for institutional capacity building, support for results monitoring and management (including TA and twinning with Danish utilities), and support for project monitoring

2) Key aspects of project identification:
   - Context: how many poor (country poverty rates, poverty definitions), where are the poor (country and sector socio-economic profile), how do you deliver services in the poor areas, and key national strategies and policies to reduce poverty (e.g. water tariffs that are cross subsidized across income levels)
   - Summary of theory of change & expected results (poverty, climate):
     Example: new water and waste treatment plants will serve xx thousand currently lacking clean drinking water and sanitation facilities. Elaboration of how this leads to better health and income opportunities for the poor, and how it reduces pollution and contributes to climate resilience (adaptation)

**1. KENYA - FOCUS ON POVERTY REDUCTION**

Poor areas are difficult to access and supply of services require focus and determination form the water service providers. In Kenya the water tariffs are cross subsidized to ensure that the poor citizens can afford to buy clean and treated water, which is safe to drink. However, in many poor areas where water has not been supplied before, often get water from a "water mafia" selling water at prices which are easily 5-10 times higher than the official rate. Thus, when new systems are built – the water utility companies has an important task to ensure that the "water mafia" is demobilized, involved in the way forward and offered new opportunities. This is difficult task and require commitment and intensive efforts by the social works from the water company. This is one of the focus areas for the TA/twinning program.

Lessons learnt in Kenya underscores that it is critical to:

- Engage the water utility companies throughout the design process
- Identify the poor areas through the water utility companies
- Start TA/twinning early with specific focus on the poor in slum (low-income) areas
- Ensure that all stakeholders are consulted and involved in the planning and design process, including representatives from the poor communities
- Use delegated management to manage services in the poor communities.

   - Summary of sector framework: what is the broader policy and administrative context for the project (external to project, i.e. government policy)? What are the policy opportunities and constraints for the project (organizational set-up, regulatory framework; key sector plans and policies)?
   - Organizational analysis of recipient (e.g. water utility) and preliminary assessment of institutional capacity (technical, financial, human resources, management)
   - Broad technical and social assessment of delivering services to poor areas, noting that typically these areas are not prioritized (low investments, low maintenance), since tariffs are low (limited income) and costs are often high. BUT: servicing low-income areas is a legal responsibility of the utility.

Example of issues to explore: Why is water utility not delivering sufficient water to poor areas? Are there water pipes, are they maintained? How much more is needed to meet minimum government standards and at what cost? Who is providing water informally and how is it organized (is it controlled by mafia gangs, are there strong vested interests)?

**2. KENYA: FOCUS ON CLIMATE RESILIENCE**

Climate change and climate resilient design is considered throughout planning, design and implementation. The result of climate change in Kenya is that the wet seasons are longer, and rains are heavier. In addition, the dry seasons are also getting longer and more severe. Consequently, it was decided to build small dams to store water for approximately 1 month – in order to ensure that the water supply (surface water from the river) is less sensitive to drought.

Flooding is often a health hazard when sewers overflow in low lying areas. Therefore, the project has focus on establishing a sewer system to service the town areas to avoid that drinking water is polluted with sewer and cause disease. The project focus on sustainability and generates green energy through use of biogas, hydropower and solar energy.

## II. Feasibility

The feasibility study assesses whether it is feasible that the proposed project outlined during identification will lead to the impact and outcomes on poverty reduction and climate resilience that was outlined during identification. The assessment must be based on thorough analyses of national and sector development plans; the socio-economic context; the available resources; and the theory of change and expected results.

To reach the goals on poverty reduction and climate resilience, the feasibility study will include the following (based on the assessments during identification):

1) Socio-economic survey of the project area – including low-income areas (assessment of willingness to pay, consumption patterns, income distribution, demand for services, household expenditure on services, etc.)

2) Project objectives – including the expected increase in number of poor people with access to services

**3. KENYA: FOCUS ON RESULTS**

The Thika and Githunguri Water Supply and Sanitation project in Kenya includes a specific focus on generating results. During design, the theory of change is elaborated and updated during design – indicators and means of verification are based on national indicator systems and developed by the implementing agency with support from DSIF. Poorer settlements get key focus during the design, to ensure that these areas are served by the project.

3) Thorough technical and social assessment of how to deliver services to the poor (based on constraints noted during identification):
   - Geographical location and population size of low-income areas
   - How are services to the poor delivered informally – are there water kiosks, communal water posts, ablution blocks etc.?
   - Can services be delivered directly to poorer households (e.g. do they have title deeds allowing connection to piped networks)?
   - If not direct service (no title deed, uneconomical, etc.), how can the utility deliver services to low-income areas?
   - How can such services be managed? Delegated management through community groups with a leader elected by residents?
   - Which goals on service delivery by the utility to these areas should be monitored? And how?

4) Assessment of institutional capacity of the utility: To enhance sustainability of the investments, DSIF will provide support to capacity building – which will be done through technical assistance (TA) to the utility combined with twinning with a Danish utility. To be effective and ensure focus on poverty and climate, TA needs to be in place in the utility early on, i.e. as the design is undertaken (procured in parallel with the Design and Supervision Consultant). Preparation of TA involves:
   - Identification of needs, based on a thorough assessment of the utility's capacity, including technical, financial, legal, human resources, and management aspects.
   - Agreement with utility management on TA, including focus areas, expected outcomes, management of TA, etc.

   - Draft terms of reference for provision of technical assistance – which should be focused on 4 key issues:
     a. enhancing capacity within the utility's mandate;
     b. ensuring increased focus and prioritization of low-income areas in the utility – TA will play a critical role in ensuring constant focus enhancing service delivery in low-income areas;
     c. support to the utility in identifying and managing twinning with a Danish utility (such twinning could involve e.g. use of renewable resources, effective identification of resource losses, enhancing management efficiency, etc.); and
     d. assisting the utility in accessing other sources of financing. At the end of the DSIF-project, the utility should have improved its credit rating and be able to access funding through commercial borrowing. This will enable the utility to invest in expansion of the coverage area and thus, improve its capacity for revenue collection.

5) To assist the utility and financial partners/DSIF maintain focus on the overall objectives of poverty reduction and climate resilience, support for monitoring should be provided. Draft terms of reference should be prepared for:
   - Technical monitoring – support to DSIF and implementing partner in monitoring project progress throughout the project, including during project design (support to assessing whether all contract elements are delivered, notably during the design period). This includes responsibilities of both contracted consultant and project owner (implementing partner). Technical monitoring will support DSIF in providing no objections for project progress
   - Results monitoring – dedicated support should be provided for monitoring results throughout project preparation and implementation. This typically involves elaborating the results framework to ensure focus on poverty and climate, identifying concrete indicators that are compatible with country and sector results systems (to make it useful to the utility and ensure sustainable access to data), specifying data sources (means of verification), and ensuring annual results are reported to project partners and used to inform next steps in design and construction.

**4. KENYA: FOCUS ON TA & TWINNING**

A TA and twinning programmer in the early stages of the project in order to improve the overall capacity of the utility companies to ensure technical and financial sustainability once the new facilities have been completed. Improvement of capacity in the water utility companies is important to ensure that: 1) water resources are used efficiently and not wasted, 2) all consumers, with specific focus on the poor, are served in an efficient and sustainable way, 3) water and sewer systems are maintained and extended, 4) performance indicators which are reported to the Government of Kenya (WASREP) on an annual basis.

**III. Detailed Design and Project Construction**

As noted above, providing services to low-income areas is a challenge both technically and financially. In addition, introduction of new technology/climate resilient solutions may not be highly prioritized – often, new technology requires institutional changes, and tends to be more costly in the short run. Therefore, it is essential that the overarching goals of service delivery to low-income areas and adoption of climate resilient solutions are constantly followed up throughout project design and implementation.

**TA**: Also as noted above, technical assistance needs to be procured early on, preferably in parallel with the Design and Supervision Consultant. The TA will be responsible for ongoing improvements in utility's capacity, across all aspects of the organization (technical, financial, human resource management, utility leadership and management). Also, the TA will ensure that focus on service provision in low-income areas is maintained, including in detailed design of the project. Furthermore, the TA will ensure that monitoring of project results will meet the utility's needs and be compatible with the country's overall results monitoring system. Finally, the TA will manage and provide oversight of the utility's twinning with Danish companies.

**Twinning:** Will provide hands-on training in the use of new equipment (e.g. operating and maintaining new technology, such as renewable energy plants). Furthermore, the Danish twinning company will provide practical training in how to ensure that new technology is fully integrated into the utility (in HR, O&M, etc.). Finally, the Danish twinning company will share experiences with top management of the recipient utility, and partner on leadership of a larger utility.

**Results monitoring:** Considerable emphasis needs to be placed on results monitoring – to steer project development well-developed, to reach the expected outcomes on poverty reduction and climate resilience, and to report into the recipient country's monitoring systems. In addition, such monitoring may be useful to report to the Danish taxpayers. It is recommended that a dedicated results monitoring consultant ius engaged throughout the project to ensure that:

A project-specific results frame is developed, based on a thorough theory of change. The starting point must be the national monitoring and sector performance systems. The results frame must be compatible with national systems. Furthermore, it must identify specific indicators and clarify in detail the means of verification. Often, the national systems are not tailored to a specific utility, rather to a specific county or region. It is essential that monitoring of results is anchored institutionally in the utility and that results are fed into the client's indicator systems (note that results reporting to Danish taxpayers is secondary).

The results frame must identify means of verification where the data sources are readily available. The intention is for results monitoring to be a useful tool to guide future investments in the utility – and thus, the system should be based on data that can be accessed, rather than rely on DSIF-specific surveys. The results frame should include specific monitoring of service delivery in low-income areas and of climate resilience, which are the overarching goals of DSIF-support. Process indicators and proxies to enable results monitoring at all stages of the project cycle is essential to maintain focus on project objectives and achieve the expected results.

**Technical monitoring**: Ongoing technical monitoring of project progress is essential. This includes monitoring of the technical aspects of service delivery in low-income areas and of climate resilient solutions. It is recommended that a technical monitoring consultant is engaged on large infrastructure projects.

**IV. Hand-over/end of project**

Towards the end of DSIF support, the following two elements are important:

**TA/twinning**: finalization and final reports (separate reports are recommended) on lessons learnt and results achieved with both technical assistance and twinning.

**Results monitoring**: End-of-project monitoring of results with emphasis on service delivery to low-income areas and climate resilience. An end-of-project annual report should be prepared, which describes the theory of change (as implemented) and links this to the outputs and outcomes achieved. The results reports are expected to feed into the utility's annual planning, the utility's performance reports, and the national/sector results monitoring systems. Five years after hand-over, a results report is expected, which outlines impact of the project. Reporting to Danish taxpayers can be based on the annual results reports to the utility and country monitoring systems.

## Overview of DSIF legacy projects

**Project Name:** The Thika and Githunguri Water Supply and Sanitation project

**Location:** Kenya

| **Project Background:** |
|---|
| Reducing poverty is the overarching goal of Kenya's long term development policies, Vision 2030. With its proximity to Nairobi, the population in Thika is growing fast – with influx from both rural areas and Nairobi, the population has more than doubled in the past decade. The result is that the poorer and slum areas in Thika have expanded rapidly. To maintain the objective on poverty reduction, the project constantly focuses on how to serve and manage water supply and sanitation facilities in the poorer areas. Vision 2030 aims to secure clean drinking water for all Kenyans and the project is part of Kenya's policies, priorities and the national development plans. Thus, it is integrated in national systems, which secures financial sustainability and financing for operation and maintenance of the systems. |

| **Scope:** |
|---|
| The Thika and Githunguri Water Supply and Sanitation project amounts to DKK 1,126 million, which is financed by GOK and a loan from Danida Sustainable Infrastructure Finance (DSIF) with a 35% subsidy element. Apart from the subsidy, Danish support also includes a cash grant for design and institutional development (technical assistance and twinning with Danish water companies) and the total appropriation amounts to DKK 486 million. The project will construct new water supply and sewerage treatment plants to serve the needs of rapidly growing populations in Thika town and Githunguri. **The project will provide clean and affordable water to 250,000 people and about 126,000 people will be connected to piped sewerage**. In addition, the project will contribute to climate adaptation in Kenya from an energy efficient design, as well as production and use of renewable energy (biogas and hydropower). The following focuses on Thika, the largest part of the project.<br><br>In addition to project development, the project includes substantial support to institutional development of both AWWDA and THIWASCO. Technical assistance was initiated in June 2023 – the aim is to improve key performance indicators in the water company. This will improve the company's rating in the annual assessments conducted by the Water Services Regulatory Board (WASREB). Recently, twinning between THIWASCO and 3Vand (consortium of Danish water companies) was initiated. Twinning will focus on three key areas, including management, non-revenue water, and operation of a biogas plant (once constructed).<br><br>The project provides technical assistance to results monitoring by AWWDA. Focus has been on embedding results monitoring into the Kenyan system and translating the theory of change into monitorable indicators. A system of indicators that link to the national development plans and the key performance indicators by WASREB has been developed and will be verified by information already being collected in Kenya. In addition to outputs and outcomes, process indicators have been included to ensure focus on poverty reduction throughout design and construction. The first annual results report will be available in June 2024. |

| **Impact** |
|---|
| The project provides technical assistance to results monitoring by AWWDA. Focus has been on embedding results monitoring into the Kenyan system and translating the theory of change into monitorable indicators. A system of indicators that link to the national development plans and the key performance indicators by WASREB has been developed and will be verified by information already being collected in Kenya. In addition to outputs and outcomes, process indicators have been included to |

**Project Name:** Saidabad III Water Treatment Project

**Location:** Bangladesh

| **Key Results/Date** |
|---|
| • The project owner is Dhaka Water Authority (DWASA) a 100% public owned service provider. DSIF has previously worked with Dhaka Water Supply and Sewerage Authority (DWASA) providing financing to the Saidabad II project<br>• The project has three components of which DSIF is financing component 2 (water treatment plant of 450,000 m3/day capacity) and AFD, KfW and EIB jointly finance components 1 and 3 (water intake, transmission line and distribution network). Total project cost is estimated at DKK 6.3 billion.<br>• MFA has in December 2023 approved that DSIF provides a total financing of DKK 2.2 billion split between a loan of 1.555m and an investment grant of DKK 684m.<br>• Components 2 will be constructed under a full wrap EPC contact.<br>• DSIF financing will be used to cover 100% of the cost of the EPC contract plus external technical advisor to DWASA. Local taxes and VAT are not included.<br>• IFU will be the lender of record and the borrower will be MOF.<br>• Payments will be made directly to the EPC contractor and technical advisor.<br>• The pre-qualification of tenderers for component 2 is ongoing.<br>• DSIF has approval from MFA to provide in total up to DKK 2,239m to finance the construction of component 2. (water treatment plant) in the Saidabad III project. Total investment is estimated at DKK 6,302m. DSIF will provide a floating rate loan of 6m EURIBOR + 0.6% with tenor of 3+10 years and grant financing. |

| **Impact** |
|---|
| • Project objective is to provide clean drinking water to around 7.5 million people in the greater Dhaka area, using surface water from Meghna River.<br>• The project will relieve pressure on groundwater supplies which are the dominant water source and are over-exploited. |

**Project name:** Construction of eastern wastewater treatment plant 150,000 m3/day Faisalabad City

**Project Location:** Pakistan

| **Project Background:** |
|---|
| Faisalabad, Pakistan's third-largest city, has a population of 3.4 million and a 3.70% growth rate. It is a key industrial center with textile exports worth $7 billion annually. Despite its rapid growth, the city struggles with inadequate environmental infrastructure, particularly in wastewater treatment. Most untreated wastewater from residential and industrial areas ends up in rivers via drainage channels. The groundwater, already brackish and unsuitable for drinking, especially near drains, is further polluted by industries and irrigation with untreated wastewater, posing health risks and legal issues. The excessive use of this poor-quality groundwater for irrigation also raises salinity due to its residual alkalinity. Keeping in view the alarming situation, construction of wastewater treatment plants has been proposed to save the environment from degradation. |

| **Scope:** |
|---|
| The capacity of the wastewater treatment plant (WWTP) will be 150,000 m/day. The treatment plant will service more than 765,000 urban inhabitants and a large number of commercial/industrial establishments. The estimated contract value for the construction of the plant, including 3 years of Operation & Maintenance, plus supervision is EUR 178 million (Loan amount). Grant allocation is DKK 435.8 million. Expected Construction and O&M contract EUR 175 million, Supervision Contract EUR 3 million. |

| **Key Results:** |
|---|
| • A fully operational wastewater treatment plant for the Channel no.4 sub-catchment (150,000 m3/day), that treat wastewater from 765,000 people and industrial and commercial units.<br>• Drainage Channel no. 4 covered and agricultural food products no longer exposed to health hazards from farmers' use of untreated sewerage water.<br>• Staff in Faisalabad Water and Sanitation Agency has adequate capacity to operate and maintain the wastewater treatment plant after having received three-year support and training.<br>• Treated effluent meeting required standards is channelled to irrigation canal (Gogera Branch) for both agricultural re-use and as contribution to raw water intake for a future drinking water treatment plant.<br>• Biogas produced based on incoming sludge will produce electricity and will contribute to reducing operational expenditure and to reducing emission of greenhouse gasses. |

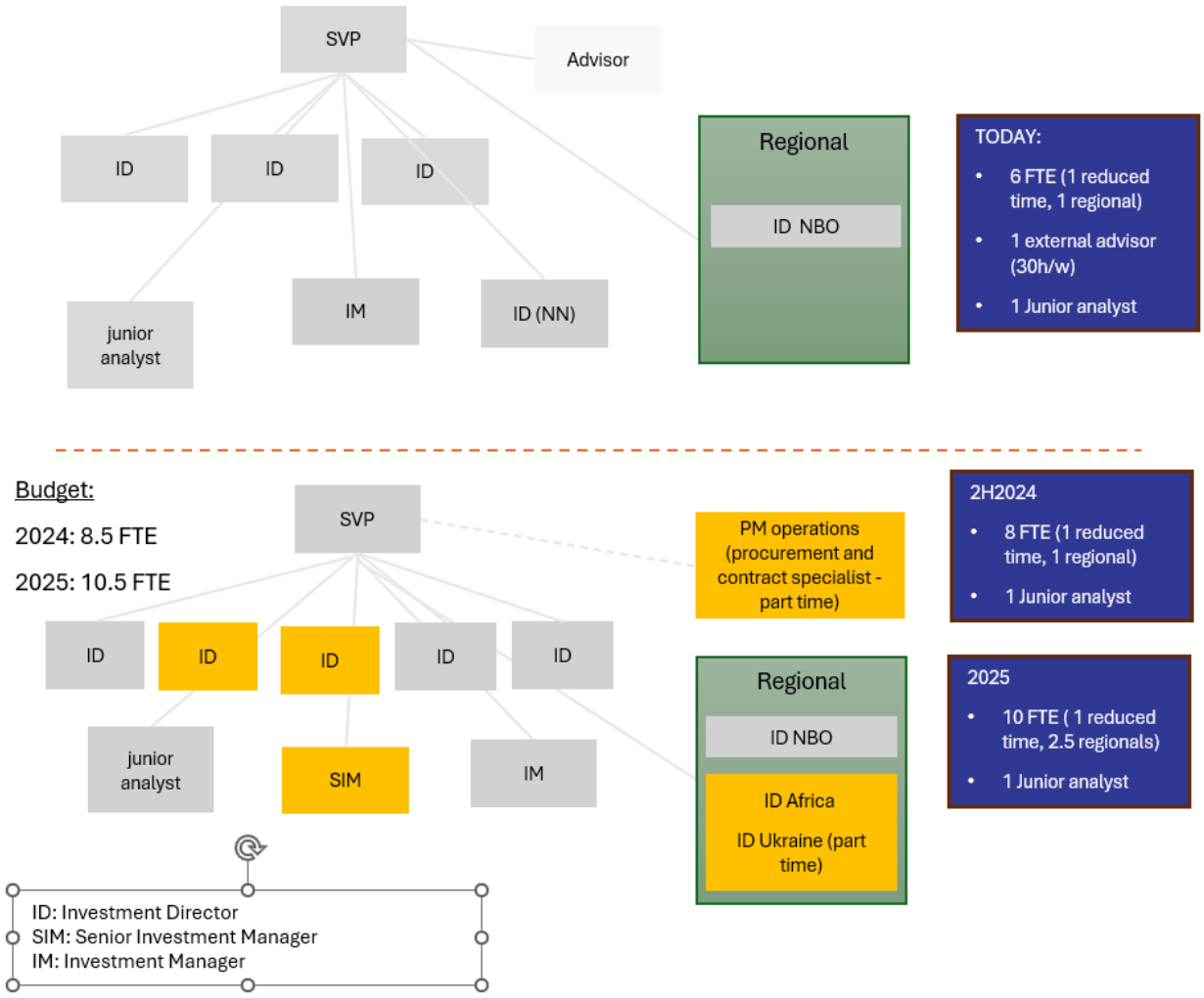
| **Impact of the WWTP project in Faisalabad:** |
|---|
| The treated effluent will meet international standards (NEQS, WHO and EU discharge standards), and contribute positively to the environment in the Faisalabad area. The project will contribute to enhancing the health of the population in Faisalabad as use of highly polluted wastewater for irrigation purposes will cease. Further, the project will also have a poverty reduction perspective as such and it is likely that the household health expenses, which constitute a substantial part of total household expenses, will diminish. Government of Pakistan has introduced a water & sanitation tariff system, which is adjusted every6 months, and the small household consumers are subsidized by the provincial government. |

## DSIF Capacity

Administration of DSIF was transferred to IFU in 2017. Based on the learnings and the challenges encountered with the shared management it has now been decided to take the next step and fully transfer DSIF to IFU. A number of important experiences and lessons provide a solid foundation for the next step. However, the full integration of DSIF into IFU also represents some significant changes in the modus operandi and the relation between IFU and MFA. These changes have been extensively mapped and prepared. The below table summarises strengths, weaknesses, opportunities and threats of DSIF and the implications of the changes proposed with this programme document.

| | |
|---|---|
| **Strengths**<br>Building on existing portfolio and long experience with infrastructure projects in water and energy sector<br>Already based in IFU. On the radar with ability to draw on IFU network, systems and tools | **Weaknesses**<br>Historically limited ability to measure and document impact of DSIF investments<br>Limited size of DSIF Secretariat and limited experience with more diverse portfolio of investments |
| **Opportunities**<br>Un-tying of DSIF enables new partnerships and more relevant projects<br>Smaller ticket sizes due to partnerships will increase leverage, the number of projects in the portfolio and reduce risks<br>New opportunities for flexible design of more relevant support packages blending finance and TA<br>On-lending facility provides more flexibility and new opportunities for blending financing packages and potentially longer loan tenures<br>IFU ESG experience and life-cycle requirements can contribute to designing more sustainable and greener projects<br>Danish Embassies as entry point and opportunities to link DSIF investments to bilateral portfolio<br>Full integration of DSIF into IFU will streamline approval processes<br>IFU Sustainability team has solid M&E competencies that DSIF can draw upon | **Threats**<br>Alignment between IFU tools and systems and the particularities of DSIF projects<br>New projects require new types of skills – need to be in place<br>Understanding and buy in of IFU organization to the particularities of DSIF projects<br>Ability to set-up lending mechanism with IFU cost coverage<br>DSIF more disconnected from MFA oversight<br>Negative perception from Danish commercial partners that will be bidding in competition with international suppliers |

## Recruitment needs 2024-25




**Tentative profiles for new DSIF staff**

**Senior level profiles:**

**Profile 1:**

- Demonstrated experience with project finance, preferably in a developing country context, within e.g. water and sanitation, waste, energy or other.
- Successful project and stakeholder management in an often complex and political environment, including financial and socio-economic analysis, assessment of development, climate, and environmental impact, and social and governance issues.
- Management of portfolio through project development, feasibility, design, and tendering.
- Professional sourcing, networking and collaboration with a variety of national and international public sector organizations and technical consultants.

**Profile 2:**

- Demonstrated experience with project finance, preferably in a developing country context, and within public infrastructure.

- Fully understands the possibilities and trends with concessional or blended finance, e.g. from multilateral development banks, EU or other institutions with a development mandate in concessional or blended finance.
- Successful deal structuring in an often complex and political environment, including financial analysis, development and climate impact, environmental, social and governance, legal, negotiating agreements.
- Management of portfolio through project development, feasibility, design, and tendering.
- Professional sourcing, networking and collaboration with a variety of national and international public sector organizations, development finance institutions and technical consultants.

**IM profiles – general IFU pool and part of rotation.**

# Annex 3: Detailed results framework

| | | | | |
|---|---|---|---|---|
| Programme Title | **Danida Sustainable Infrastructure Finance 2024-2030** | | | |
| Programme Objective | Promote investments which support sustainable development in developing countries and realisation of the SDGs and global climate goals by building a just & inclusive economy and green economy (IFU mission and impact priorities) | | | |
| Indicators and targets | **DSIF contribution to priorities defined in IFU Ownership Document** | | | |
| | **Indicator** | **IFU overall** | **DSIF legacy projects** | **DSIF new projects** |
| | Volume of loans categorised as 'climate' | 50% | TBC | 50% |
| | Volume of loans in Africa | 50% | 20% | 66% |
| | Volume of loans in poor and fragile countries* | 30% | 54% | 65% |
| | *Defined as share of loans to poorer countries (LDCs and countries with a GNI per capita below 50% of the definition of Lower Middle Income Countries which naturally include LICs) and fragile and conflict-affected situations. | | | |

| | | | |
|---|---|---|---|
| **Outcome 1** | | **Increased access to public services for the poor and underserved parts of the population in developing countries (safe water, sanitation and clean energy)** | |
| Outcome indicator 1.1 | | Number of people benefiting from access to public services with a focus on safe water, sanitation, and clean energy | |
| Measure on: | | e) People with access to improved drinking water source (variation of GERF 2.38)<br>f) People with access to improved sanitation facility (variation of GERF 2.38)<br>g) People with access to electricity (a) new access, (b) improved access (GERF 2.3)<br>h) People with access to … (other than a-c depending on type of investment)<br><br>** All indicators will be disaggregated into number of people with access that lives below the nationally defined poverty line. Will be established on country basis.* | |
| Baseline | Year | 2024 | |
| Target | Year | 2030 | 14.6 million, hereof minimum 30% living below the national poverty line |
| *Note to target established* | | *The target for 2030 is an aggregation of the targets which are established in the results frameworks for each individual investments signed by 2030. The actual results will for obvious reasons not materialise until after the construction phase is finalised.*<br><br>*Targets for the three legacy projects (8.1 million people) are based on calculations made at project preparation phase.*<br>*Targets for new projects funded are based on the following assumptions:*<br>- *When the three legacy projects are deducted, there are a total of DKK 1.2 billion left in grant funding for new projects under DSIF*<br>- *Based on the last 10 years' DSIF funded projects (incl. the three legacy projects), a total of 14,475,500 people have been/will be reached. With a total grant element to the same projects of DKK 4 billion, that would for the DKK 1.2 billion available for new projects give 4,3 million people reached. (1,2/4*14475500=4,342,650)*<br>- *However, with the untied mandate, the same level of grant element is expected to leverage investments in at least a factor 1,5 (as compared to 0,7 under tied DSIF). The number of people reached in the new projects are therefore expected to be 6.5 million.*<br>- *NB: depending on the portfolio share of projects in FCAS, the targets may be lower than projected here.* | |
| Outcome indicator 1.2 | | Infrastructure facilities constructed or rehabilitated and in operation serving the targeted population | |
| Measure on: | | e) New or rehabilitated water supply systems or water access points installed in target areas<br>f) Sanitation facilities (toilets, latrines, septic tanks) constructed in target areas<br>g) Clean energy infrastructure projects completed (e.g., microgrids, solar farms, wind farms)<br>h) …. (other 'facilities' than a-c constructed depending on type of investment) | |

| | | | |
|---|---|---|---|
| Baseline | Year | 2024 | |
| Target | Year | 2030 | 10 |

| **Outcome 2** | | **Green transition, a cleaner environment and improved climate resilience in developing countries (climate mitigation and climate adaptation)** | |
|---|---|---|---|
| Outcome indicator 2.1 | | Reduction in GHG emissions | |
| Measure on: | | c) Greenhouse Gas (GHG) emissions avoided (tonnes CO2eq) (variation of GERF 2.7)<br>d) Total absolute GHG emissions (in tCO2e) from Scopes 1, 2 and 3 | |
| Baseline | Year | 2024 | |
| Target | Year | 2030 | TBD (targets will be set at project level) |
| Outcome indicator 2.2 | | Improvement in environmental quality and resource management | |
| Measure on: | | g) Renewable energy generation capacity installed (MW) (Variation of GERF 2.4)<br>h) Renewable energy generated (HIPSO) (GwH)<br>i) Quantity of pollutants reduced or eliminated (e.g., tons of waste prevented from entering the environment)<br>j) Wastewater treated to appropriate standards<br>k) Water consumption (HIPSO) (M3)<br>l) …. (other than a-e, depending on type of investment) | |
| Baseline | Year | 2024 | |
| Target | Year | 2030 | TBD (targets will be set at project level) |

| **Outcome 3** | | **Public authorities and utilities manage infrastructure efficiently (new investment projects and existing facilities)** | |
|---|---|---|---|
| Outcome indicator 3.1 | | Financial and operational performance of utilities | |
| Measure on: | | e) Reduction in energy consumption per Unit of Output<br>f) Level of non-revenue water<br>g) Budget performance<br>h) Downtime<br>Etc. | |
| Baseline | Year | 2024 | NA |
| Target | Year | 2030 | Utilities document improved financial and operational performance (specific targets will be set at project level) |

| **Output 1** | | **Pipeline of public infrastructure investment projects developed** | |
|---|---|---|---|
| Output indicator 1.1 | | Number of projects and initiatives approved at Gate 1 | |
| Measure on: | | a) Hereof projects where DSIF has engaged on its own<br>b) Hereof co-development projects where DSIF has been leading the development and maturation<br>c) Hereof co-development projects where other potential investors have been leading the development and maturation<br>d) Hereof projects that go beyond classic lending to include e.g. output-based schemes & other payment schemes, involvement of non-traditional partners and/or stakeholders, comprising TA components, etc. | |
| Baseline | Year | 2024 | |
| Target | Year | 2030 | 15 projects approved under Gate 1 |
| Output indicator 1.2 | | Number of projects and initiatives approved at Clearance in Principle | |
| Measure on: | | a) Hereof projects where DSIF has engaged on its own<br>b) Hereof co-development projects where DSIF has been leading the development and maturation<br>c) Hereof co-development projects where other potential investors have been leading the development and maturation | |

| | | | |
|---|---|---|---|
| | | d) Hereof projects that go beyond classic lending to include e.g. output-based schemes & other payment schemes, involvement of non-traditional partners and/or stakeholders, comprising TA components, etc. | |
| Baseline | Year | 2024 | |
| Target | Year | 2030 | 12 CIP approved |

| | | | |
|---|---|---|---|
| Output 2 | | **Investments in public infrastructure materialize** | |
| Output indicator 2.1 | | Number of projects that are approved at Binding Commitment ready for investment* | |
| Measure on: | | New projects only | |
| Baseline | Year | 2024 | |
| Target | Year | 2030 | 10 projects |
| Output indicator 2.2 | | Total value of grant committed to investment projects | |
| Measure on: | | New and legacy projects (also including commitments under output 1) | |
| Baseline | Year | 2024 | |
| Target | Year | 2030 | DKK 2.8 billion |
| Output indicator 2.3 | | Total value of loans committed to investment projects | |
| Measure on: | | New and legacy projects | |
| Baseline | Year | 2024 | |
| Target | Year | 2030 | DKK 5.4 billion |

| | | | |
|---|---|---|---|
| Output 3 | | **Capacity building of public authorities and utilities** | |
| Output indicator 3.1 | | Share of DSIF investments that include capacity support engagements, e.g. twinning arrangements, study tours, TA packages | |
| Measure on: | | a) Public authorities and utilities trained in infrastructure management practices<br>b) Training sessions or workshops delivered to public authorities and utility staff on infrastructure management | |
| Baseline | Year | 2024 | |
| Target | Year | 2030 | 80% |

**Targets for composition of portfolio of DSIF projects (related to output 2):**

| **A. Value of investment projects that DSIF invests in:** | | |
|---|---|---|
| **Sub-indicator** | **Legacy projects** | **New projects** |
| Average size of grant | DKK 535 million | DKK 100 million |
| Average size of DSIF investment | DKK 956 million | DKK 500 million |
| Total investment projects cost (leverage) | 1X | <2X |
| **B. Contribution to a Green Economy** | | |
| **Sub-indicator** | **Legacy projects** | **New projects** |
| % of investments in climate projects (Rio score 1 or 2) | TBD | 50% |
| % of investments in adaptation projects (Rio score 1 or 2) | TBD | TBD |
| **C. Contribution to a Just and Inclusive Economy** | | |
| **Sub-indicator** | **Legacy projects** | **New projects** |
| Grant share Africa | 30% | 75% |
| Grant share poor and fragile | 43% | 80% |
| Loan share Africa | 20% | 66% |
| Loan share poor and fragile | 54% | 65% |

# Annex 4: Risk Management Framework

| **Contextual risks** | | | | | |
|---|---|---|---|---|---|
| **Risk Factor** | **Likelihood** | **Impact** | **Risk response if applicable** | **Residual risk** | **Background to assessment** |
| Macroeconomic downturn across emerging markets | Likely | Major | IFU generally supports partners with services that are essential also during a downturn. | Medium | Overall economic climate has deteriorated in the wake of Russia's war in Ukraine and the rising interest rate environment. This is a risk that may influence the ability to develop bankable projects. |
| Political unrest, conflicts and wars | Likely | Significant | Thorough assessment of the risks at the time of investment. IFU has good experience and would also draw upon partners and experts on the ground. | Medium | The risk of unrest, or full blown conflicts, increase as economic conditions worsen. IFU's exposure can be mitigated by assessing the risk and structure the deals appropriately in unstable geographies. |
| **Programmatic Risks** | | | | | |
| **Risk Factor** | **Likelihood** | **Impact** | **Risk response** | **Residual risks** | **Background to assessment** |
| Insufficient demand for public sector investment finance | Unlikely | Significant | Un-tied modality allows IFU to develop stronger networks on the ground, finding partners, cooperating with peers including other DFIs | Very unlikely | Evidence indicates benefits to large pipeline and network to find good opportunities |
| International bidders for the untied projects do not provide state-of the art equipment and international best practices in terms of knowhow | Likely | Major | Life-cycle and sustainability considerations will be included in project design to ensure that the most sustainable and climate friendly solutions are chosen, including tailor-made TA/O&M | Unlikely | There exist many different cheaper alternatives to Danish equipment and solutions. Many Danish companies supply higher quality and overall lower life-cycle costs |
| Limited capacity of IFU to set-up and manage a DSIF loan facility | Unlikely | Significant | Draw on internal and external resources in the process. Close dialogue and cooperation with key knowledge partners. Possible increase in capacity within IFU core structure related to public investments and development expertise. | Unlikely | IFU has experience with developing new and different types of financing facilities (SDG Fund, guarantee facility etc) involving the State on-lending facility. IFU has access to internal and external resources to provide technical assistance in the process of establishing the on-lending facility. |

| | | | | | |
|---|---|---|---|---|---|
| Limited capacity of IFU/DSIF to set-up and manage a well-functioning results measurement system that is able to capture development impact | Likely | Minor | A solid results measurement system and ensuring follow up at different level of investments will be a requirement which is followed up in annual consultations with MFA as the owner ministry. | Unlikely | Both DSIF and IFU have in recent evaluation been criticised for insufficient ability to measure and document results at outcome and impact level. The lifecycles for DSIF investments are very long (often 7 years preparation followed by 10 years implementation). With the new DSIF the ambition is to shorten average project lifetime. |
| DSIF investment partners are not sufficiently risk-willing and will not prioritise to serve more rural, fragile, or poorer areas | Likely | Major | DSIF will set up eligibility criteria that ensures that only projects with a strong development and poverty reduction focus is eligible for DSIF loans.<br>Strong cooperation with Danish Embassies and SSC programmes will help identify those projects that will have strong development impact | Unlikely | Short-term political gains may influence on Governments' willingness/interest to invest in the poorer areas of the country/segments of the population. DSIF projects require long-term planning and a constant push for creating real results for the underserved parts of the population. |
| **Institutional Risks** | | | | | |
| **Risk Factor** | **Likelihood** | **Impact** | **Risk response** | **Residual risk** | **Background to assessment** |
| IFU does not allocate sufficient resources to grow the supportive functions in the organization | Unlikely | Major | Active ownership with regular consultations between IFU and Ministry of Foreign Affairs | Unlikely | Risk that the management and governance set-up is not strong enough |
| Key Danish interests are no longer considered to the same extent in the new DSIF projects due to the weakened linkages between MFA and the DSIF secretariat | Likely | Minor | Active ownership with regular consultations between IFU and MFA<br>Close engagement between the DSIF secretariat and the Danish embassies at country level will continue | Unlikely | |
| Danish commercial actors dissatisfaction with untying of the instrument | Likely | Minor | It is a very small number of companies that have been able to bid for the large DSIF projects. Close dialogue with Danish Business Member organisations | Insignificant | Since the discussions on the untying of DSIF emerge there has been some level of resistance amongst the Danish commercial stakeholders. |

| | | | | | |
|---|---|---|---|---|---|
| | | | such as the Confederation of Danish Industries. | | |
| Risks of financial irregularities | Likely | Minor | Solid due diligence systems established to support the selection and implementation phases | Minor | Risk can be contained through solid monitoring |
| Risks of negative social and environmental impacts | Unlikely | Minor | Solid due diligence systems established to support the selection and implementation phases | Insignificant | Risk can be contained through solid monitoring |

Ledger:

| **Risk Factor** | **Likeli-hood** | **Impact** | **Risk response** | **Residual risk** | **Background to assessment** |
|---|---|---|---|---|---|
| The risk is formulated as a headline or in one or two sentences | Very un-likely Unlikely Likely Almost certain | Insignifi-cant Minor Major Signifi-cant | The risk response is formulated as a headline or in one or two sentences | The risk that re-mains af-ter the identified risk re-sponse. | Brief explanation which can emphasize the risk factor itself or any of the other elements in terms of rating and responding to the risk |

# Annex 5: Budget Details

*Exposure of current DSIF portfolio*

As of 31 December 2023, the outstanding DSIF engagement (i.e. remaining EIFO loan guarantee commitment for DSIF projects) amounted to DKK 1.9 billion for "Healthy" Engagement and DKK 2.3 billion including distressed projects in Ghana and Zambia. This engagement can be summarised as follows:

| | Country | Sector | Project Count | Outstanding Engagement as of 31/12/2023 (DKK) |
|---|---|---|---|---|
| **Active Projects** | Ethiopia | Energy (Wind Gen.) | 1 | 874.37 |
| | Bolivia | Energy (Wind Gen.) | 1 | 470.65 |
| | Mozambique | Energy T&D | 1 | 220.04 |
| | Vietnam | WSS (Sanitation), WSS (Supply), ICT | 6 | 166.17 |
| **Completed Projects** (with remaining EIFO Exposure) | Burkina Faso | ICT | 1 | 104.89 |
| | Bangladesh | Transport (Air) | 1 | 22.85 |
| | China | Energy (Other) | 2 | 30.56 |
| | | **Subtotal "Healthy" Engagement** | **13** | **1,889.53** |
| **"Distressed" Projects** (Provisioned / Devalued by EIFO) | Ghana | Transport, ICT, Other | 3 | 299.05 |
| | Zambia | WSS | 1 | 157.33 |
| | | **Total (incl. Distressed)** | **4** | **2,345.91** |

# Annex 6: List of Supplementary Materials

- Evaluation of DSIF, 2022, MFA Management Response, and DSIF and MFA's follow-up plan
- DSIF's Strategy, April 2022
- Powerpoint DSIF 2.0 outlining the vision of the new DSIF
- Aftale mellem IFU og Udenrigsministeriet vedr. administration af DSIF, december 2023
- Ownership Document for IFU, October 2023
- ØU-Case Document on reform of IFU
- IFU Strategy 2024-2026
- IFU website: DANIDA SUSTAINABLE INFRASTRUCTURE FINANCE - IFU
- Dalberg's Analysis of Sustainable Infrastructure Financing Aid Instruments for the Danida Sustainable Infrastructure Finance (DSIF) – Main report and 2-pager
- "The World We Share" and "World 2030" – Strategies for Denmark's Development Cooperation
- A Green and Sustainable World – The Danish Government's long-term Strategy for Global Climate Action
- Government Action Plan for Economic Diplomacy 2022-23 (Danish)

# Annex 7: Plan for Communication of Results

Despite IFU's long track record and growing activity, there is a lack of awareness among key stakeholders about IFU's role and value-added.

Greater visibility and recognition can make it easier for IFU to deliver on increasing demands for capital deployment and impact creation. This is particularly the case when it comes to having a stronger presence in the professional Danish public and in financial and business communities in relevant regions, and to attract new skilled employees.

In the 2024-26 IFU strategy communication is an attention area with the following elements specified:

- Building a profile in the professional Danish public
- Raising awareness about IFU in the business and financial communities in relevant regions
- Being open and well-prepared for criticism
- Dedicating more resources to communication
- Building an attractive employer brand
- Considering a potential name change

***Communication strategy***

- The communication strategy centres around a number of specific initiatives
- The initiatives are based on identified challenges and aims to support IFU in obtaining the desired position towards each of its key stakeholders

**Recommended initiatives**

| Area | Considerations |
|---|---|
| Build a profile in the professional Danish public | • Engage in the public debate about development aid through analyses, reports, and IFU spokespersons that can function as thought leaders<br>• Build stronger media relations with selected Danish journalists and collaborate with allies and partners, e.g. through joint ventures, papers, meetings or seminars<br>• Elaborate a public affairs strategy |
| Raise awareness about IFU in business and financial communities in relevant regions | • Establish an organisational setup for closer dialogue between regional offices and the communication unit, incl. delivering communication material to the regions on an ongoing basis<br>• Engage with regional PR agencies to improve communication with local/regional business communities, and develop communication material to be used by regional offices can use without planning |
| Be open and well-prepared for criticism | • Assessment of risks and possible criticism of IFU, and prepare statement papers, including Q&As on relevant and potential issues<br>• Thorough monitoring of the media landscape<br>• Ensure clear, internal communication incl. media training of spokespersons with a focus on relevant scenarios |
| More resources for communication | • A ramp up in communication resources, both spending budget and FTEs, will make it possible to create more case material, improve and increase IFU's efforts on social media, write opinion pieces, publish reports, etc.<br>• Would also allow for potential investment in paid advertisement on social media to engage more followers |
| Build an attractive employer brand | • Develop a strategy for employer branding incl. a plan for attracting female employees<br>• Consider working on employee advocacy by establishing an advocate corps with people from both Denmark and the regional offices |
| Potential name change | • Assess the pros and cons of a name change, incl. practical requirements<br>• Set the process in motion and uncover which names better capture the work of IFU |

# Annex 8: Process Action Plan

| Deadline | Action/product | Responsible | Comment/status |
|---|---|---|---|
| **Formulation, quality assurance and approval** | | | |
| April 25 2024 | Presentation to the Programme Committee | KLIMA | Draft TOR for appraisal, revised draft PAP and Draft Programme Document |
| May 7 2024 | Meeting in Danida Programme Committee | KLIMA | List of received responses from the consultation |
| May 10-17 2024 | Hearing of relevant embassies | KLIMA | Received written hearing-responses |
| May 7 to 31 2024 | Revision to address comments from Programme Committee in programme documents | Consultant | |
| June 7 2024 | Hearing of Danish business associations and civil society organizations in addition to the hearing associated with the PC-meeting | KLIMA | Meeting |
| June 2024 | Quality assurance - Appraisal | LÆRING | |
| June 2024 | Adjustment of Ownership document | KLIMA | Approval of revised ownership document at ownership meeting 26 June 2024 |
| 26 June 2024 | Ownership meeting with Minister | KLIMA | UGKM |
| 12 July 2024 | Draft Appraisal report | LÆRING | |
| 19 July 2024 | Final Appraisal report | LÆRING | |
| 23 September 2024 | Programme Document, including Appropriation Cover Note and Presentation to the Programme Committee forwarded to LÆRING | KLIMA | Summary conclusions from the Programme Committee taken into account |
| 10 October 2024 | Presentation to the Council for Development Policy | KLIMA / LÆRING | |
| October 2024 | Address comments from Council for Development Policy in programme documents | KLIMA/Consultant | |
| October 2024 | Presentation of project proposal to the Minister | LÆRING | |
| **Initial actions following the Minister's approval** | | | |
| October 2024 | Agreement between IFU and MFA on revised administration grant | KLIMA & IFU | KLIMA lead |
| October 2024 | Develop and agree on ToR for MFA participation in the Investment Committee | KLIMA and IFU | KLIMA lead |

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|---|---|---|---|
| October 2024 | IFU procedures tools and templates to be revised | IFU | |
| October/November 2024 | Financial monitoring visit (tilsyn) | KLIMA / LÆRING | |
| Mid-November 2024 | Sign Grant Agreement with IFU. LÆRING facilitates that grant proposals are published on Danida Transparency after the Minister's approval | KLIMA and IFU LÆRING | |
| After agreement(s) are signed | Register commitment(s) in MFA's financial systems within the planned quarter | KLIMA | |
| Mid-December | Disbursement of funds to IFU | KLIMA | |
| Q1/Q2 2025 | Review of DSIF integration in IFU results measurement system | KLIMA / IFU | |
| May 2025 | IFU presentation to UPR | IFU | DSIF included in presentation |
| June 2025 | Yearly meeting with the Minister | | |
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