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. 02

1. Overall purpose:	*For discussion and recommendation to the Minister*
2. Title:	**Capital Contribution to the Investment Fund for Developing Countries (IFU)**
3. Amount:	DKK 3600 million (2024-2030)
4. Presentation for Programme Committee:	12 March 2024
5. Previous Danish support presented to UPR:	Capital Contribution to IFU, 12 October 2023

IFU Capital Contribution 2024-2030

Key results:

Contribute to positive developmental and climate effects in target countries in the support of IFU's two overall objectives 1) Fostering green economies and 2) Supporting the building of just and inclusive economies Total capital under IFU management is expected to grow from DKK 15.6 billion in 2023 to DKK 36.2 billion in 2030. At least 50% of investments should be climate investments, at least 50% in Africa and at least 30% in poor and fragile countries. Key Results targeted for 2030:

- 270,000 jobs directly supported
- 5 million jobs in-directly supported
- 14 million GWh clean energy produced
- 475,000 tCO2e emission avoided
- DKK 38 billion climate finance mobilised

Justification for support:

The proposed capital contribution is mandated in the government approved IFU reform from 2023. With an increased capital base, IFU will mobilise significant non-ODA capital, for scaling up investments substantially in priority sectors (healthcare, financial services, sustainable food systems and green energy & infrastructure) and deliver significant climate and development results. IFU's focus on Africa and approach to investing commercially with partners on an equal footing, makes IFU a highly relevant contributor to the new Danish Africa Strategy. IFU has embarked on an ambitious organisational development programme as basis for this expansion.

Major risks and challenges:

Contextual:

- Macroeconomic downturn across emerging markets.

Programmatic:

- IFU needs to engage in an increasingly complex investment climate with increasingly sophisticated and innovative partners – and more ambitious targets and safeguards for ESG.

Organisational:

- Need to rapidly expand organisational capacity.

File No.	24/27759							
Country	Global							
Responsible Unit	KLIMA							
Sector	Climate, decent jobs, economic growth							
Partner	Investment Fund for Developing Countries (IFU)							
Year	24	25	26	27	28	29	30	Total
Commitment	550	500	550	500	500	500	500	3,600
Proj. disbursed	550	500	550	500	500	500	500	3,600
Duration	November 2024 – 2030							
Previous grants	Capital contribution: 115 million DKK in 2023							
Finance Act code	§06.38.01.11							
Head of unit	Karin Poulsen							
Desk officer	Mikkel Klim							
CFO	Jan Hindhede Justsen							

Relevant SDGs

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

Objective

Through deployment of risk willing capital the objective is to **promote sustainable investments that contribute to the achievement of the Sustainable Development Goals (SDGs) and climate targets in developing countries** by: a) supporting the building of a just and inclusive economies, with a focus on poverty alleviation, gender equality, and job creation in the most vulnerable communities & b) fostering green economies through investments in climate mitigation, adaptation projects, and sustainable infrastructure, particularly in regions most affected by climate change. Although challenging, IFU will explore approaches and partners to increase the level of investment in climate adaptation. IFU will ensure that investments are additional, catalytic, and sustainable, by leveraging private capital and mobilizing financial resources in a way that prioritizes financial additionality and delivers measurable development impact across IFU's four thematic areas.

Environment and climate targeting

	Climate adaptation	Climate mitigation	Biodiversity	Another green/environment
Indicate 50% or 100%	No target. Will be tracked	50%		75%

Justification for choice of partner

The Government has decided to reform its development finance institution, IFU, towards 2030. The ambition is that IFU will further expand its position as a leading impact investor in emerging markets, increasing its ability to deliver on central Danish priorities in relation to climate finance, support to Africa as well as poor and fragile countries. IFU has over the last 6-7 years gained experience and built a foundational capacity and tested new investment instruments, which IFU can build further upon as it scales up activities in line with the reform ambitions. The goal is that IFU operates as 'One IFU', applying its different investment instruments to deliver on the objectives set in the Ownership Document.

Summary

In the period 2024-2030, the MFA will provide IFU with a capital contribution of DKK 3.6 billion allowing IFU to scale up investments and mobilise significant additional non-ODA funds that contribute to IFU's two overall impact objectives 1) Fostering green economies and 2) Supporting the building of a just and inclusive economies underpinning existing national policy frameworks in target countries. The MFA Ownership Document and IFU's own strategy 2024-2026 define instruments, facilities, target countries and impact objectives, as well as the organisation's investment strategy and sustainability strategy. IFU must document results based on IFU's impact measurement system including qualitative case studies. Results reporting includes an annual consultation with the Council for Development Policy (UPR).

Budget (DKK million)

IFU Capital Contribution 2024-2030	3500.00
IFU Impact Venture	100.00
Total	3600.00

Ministry of Foreign Affairs of Denmark **Danida**

Programme Document

IFU
Capital Contribution 2024-2030

September 2024

Submitted to UPR

360: 24/27759

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Abbreviations

aBI	Agribusiness Initiative (Uganda)
ASR	Annual Sustainability Report
BC	Binding Commitment
BFET	Blended Finance for Energy Transition
CEO	Chief Executive Officer
CIP	Clearance in Principle
CSDDD	Corporate Sustainability Due Diligence Directive
CSRD	Corporate Sustainability Reporting Directive
DAC	Development Assistance Committee
DEI	Diversity, Equity and Inclusion
DFI	Development Finance Institution
DGF	Development Guarantee Facility
DKK	Danish Krone
DSIF	Danida Sustainable Infrastructure Finance
EDFI	European Development Finance Institutions
EFSD+	European Fund for Sustainable Development Plus
EIFO	Export and Investment Fund of Denmark
ESG	Environmental, Social and Governance
FTE	Full-time employee or the equivalent of a full-time employee
GFF	Green Future Fund
GHG	Greenhouse gas
GNI	Gross National Income
GWh	Giga Watt Hours
HIPSO	Harmonised Indicators for Private Sector Operation
HRHI	High Risk High Impact
ICT	Information and Communication Technology
IFC	International Financial Cooperation
IFU	Investment Fund for Development Countries
IMCA	Investment Mobilisation Collaboration Arrangement
IMS	Investment Management System
KLIMA	Department for Green Diplomacy and Climate
KPI	Key Performance Indicators
LDC	Least Developed Countries
LIC	Low Income Countries
LMIC	Lower Middle Income Countries
MDB	Multilateral Development Bank
MFA	Danish Ministry of Foreign Affairs
MYNSAM	Sector Cooperation (Myndighedssamarbejde)
NGO	Non-Governmental Organisation
OD	Ownership Document
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OHS	Occupational health and safety
PASS	Private Agriculture Sector Support
PDF	Project Development Facility
PDP	Project Development Programme
RDF	Rural Development Fund

SDG	Sustainable Development Goal
SFDR	Sustainable Finance Disclosure Regulation
SME	Small and Medium sized enterprise
SOE	State-Owned Enterprise
TA	Technical Assistance
ToC	Theory of Change
UAF	Ukraine Facility
UMIC	Upper Middle Income Countries
UN	United Nations
UNEP	United Nation Environment Programme
UPR	Council for Development Policy (Udviklingspolitisk Råd)
USD	United States Dollars

Definitions

Additionality	The concept of providing financial and non-financial inputs to a client and project necessary to make the project or investment happen, make it happen much faster than it would otherwise, or improve its design and/or development impact
Debt	A debt is a sum of money that is borrowed for a certain period of time and is to be repaid along with the interest accrued. The amount as well as the approval of the debt depends upon the creditworthiness of the borrower. There are different types of debts that vary with the risk profile of the project and the requirements of the borrower.
DFI	Development Finance Institutions (DFIs) are specialised development organisations that are usually majority owned by national governments. DFIs invest in private sector projects in low- and middle-income countries to promote job creation and sustainable economic growth. DFIs source their capital from national or international development funds or benefit from government guarantees which ensures their credit-worthiness. The financial support they bring to relatively high-risk projects help mobilise the involvement of private capital.
Due diligence	A comprehensive appraisal of a business and any external factors that impact the business' impact and commercial viability undertaken by a prospective buyer, to assess its potential impact and profitability, including any significant risks.
Equity	Equity is the kind of financing that gives the provider of equity (the investor) ownership of the company proportional to the investor's share of total equity. Equity is the riskiest asset class as equity investors (shareholders) are the last to get paid (after debt providers). Shareholders' return on an investment, dividends, typically depends on the financial performance (profitability) of the company.
Investment-grade	Countries, companies, or projects are investment grade when risks are considered low by the international rating agencies, for instance because default rates are low (BBB to AAA rating). Such ratings allow institutional investors such as pension funds to invest in these markets. It also allows companies and countries to take loans at lower interest.
Impact Investing	Investments made into companies with the intention to generate a measurable, beneficial social or environmental impact alongside a financial return.
Leverage	The leverage ratio is the ratio between debt and equity. The more equity a company has the more debt will it be able to raise to help finance its activities.
2X challenge	A challenge set by DFIs at G7 meetings for investments that meet set criteria for gender equality and is revised regularly. The challenge for 2024-27 is for DFIs to invest at least USD 20bn in such investments.

1 Introduction

This programme document outlines the background, rationale and justification, objectives, and management arrangements for the capital contribution as agreed between the Investment Fund for Developing Countries (IFU) and the Ministry of Foreign Affairs of Denmark (MFA). It covers a seven-year period with an expected capital contribution of DKK 3.6 billion from 2024 to 2030. This will provide IFU with capital to expand its current investment instruments and with seed capital to launch the new IFU Impact Ventures.

The Danish Government gave mandate to this capital contribution when they approved the IFU reform in September 2023. The capital contribution is a cornerstone in the reform, which will enable IFU to accelerate implementation of the other reform tracks. This programme document describes how the capital contribution links to the reform of IFU and how the MFA expects IFU to use the capital contribution to implement the IFU reform and deliver on the priorities outlined in the MFA Ownership Document (OD) for IFU (cf. section 2.2.2). IFU's focus on Africa and approach to investing commercially with partners on an equal footing, makes IFU a highly relevant contributor to the new Danish Africa Strategy. Although IFU was untied in 2017, IFU still engages with Danish partners. Since 2017 IFU has invested DKK 1.6 billion with Danish partners and more than DKK 1.2 billion in projects with Danish commercial partners.

The programme document together with the ownership document will form the basis for the ongoing dialogue between IFU and MFA as well as an annual consultation with the Council for Development Policy (UPR). The annual consultation with UPR is a new initiative, and will focus on key issues such as achievements, additionality, mobilisation of capital, country focus, organisational change, communication as well as strategic priorities for the following period. The annual consultation is also a forum where the UPR can raise issues of priority and concern. These consultations feed into the annual meeting with the responsible Minister and the regular update of the OD. The strategic direction set by the MFA ownership is captured in the OD and, as such, the OD will be a reference point for the consultations between IFU and the MFA including UPR. The MFA plans to conduct two reviews during the period 2024-2030 to assess progress more in-depth.

The ambition with the capital contribution document is in conjunction with the MFA ownership document to create a framework for a more programmatic and strategic approach to including new initiatives and funding – ideally as an extension of the overall capital contribution. For 2025 MFA has, beyond the capital contribution, proposed funding for three new initiatives. One budget allocation is DKK 100 million to increase the Ukraine facility. Furthermore, the proposed Finance Act 2025 foresees two budget allocations to finance IFUs contribution to the new Africa Strategy i.e. DKK 100 million for a new Africa facility as well as DKK 50 million to support SMEs. These will be presented to UPR with the annual consultations in 2025.

The present programme document consists of four parts:

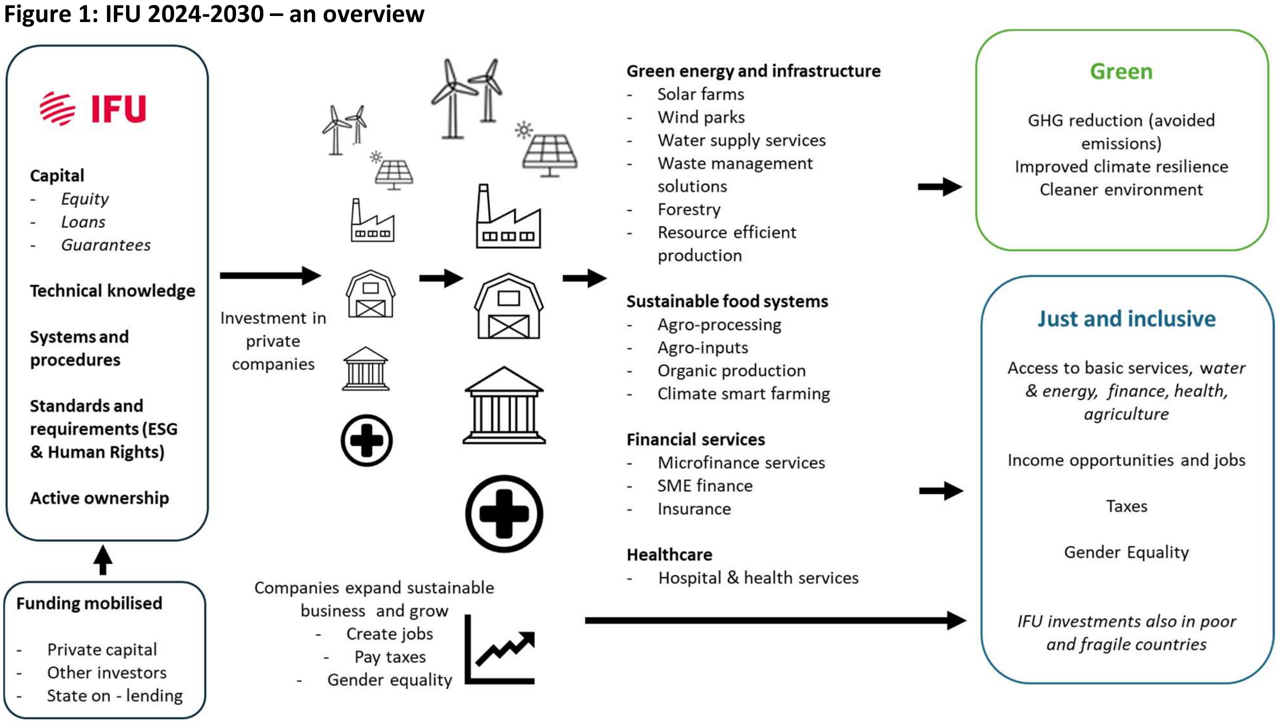
1. The IFU reform – strategy, vision and the contextual framework (chapters 1 and 2)
2. Execution of the programme document: (chapter 3 and 4)
3. Results and documentation (chapter 5)
4. Governance of the capital contribution & budget (chapters 6, 7 and 8)

The objective of the programme is to ***Promote investments, which support sustainable development, realisation of the SDGs and climate goals in developing countries.*** Since 2020, IFU has built its investment decisions around delivering on IFU's two impact objectives of 1) Fostering green economies and 2) Supporting the building of just and inclusive economies.

Box 1: IFU Impact objectives

Fostering green economies	Supporting the building of just and inclusive economies
Building a green economy is about reducing the use of resources, preventing global temperature rise through climate mitigation, climate adaptation, contributing to a circular economy, and allow developing countries to pursue a path of sustainable production and construction. Climate adaptation and biodiversity protection are at the core of the green transition and essential to building resilience.	Just and inclusive societies are a necessity because there is a strong need to reduce inequalities and poverty by addressing the fact that billions of people lack access to essential goods, services and basic human rights. Gender is an important dimension of inequality addressed by IFU, together with a just and fair transition that focuses on people at the bottom of the income pyramid and the underserved.

Figure 1: IFU 2024-2030 – an overview



2 Programme context

2.1 Background and thematic context

2.1.1 The need for a strong DFI with financial muscles

The World faces climate and development challenges at unprecedented scale which require massive investments in sustainable and inclusive growth. OECD estimates the annual global funding gap for climate alone to be USD 3.9 trillion, most of which in emerging markets and developing economies. Global ODA totals USD ~210 billion and the present climate finance investment flow is estimated at approximately USD 1.300 billion[1]. This leaves a considerable financing gap, mostly in low and lower-middle income countries. There is a strong agreement that the mobilisation of private and institutional investors – domestic and international – is pivotal for succeeding.

However, private investors rarely reach the markets that are most in need for investments. The majority of private investors target only a small sub-set of sectors in emerging markets – the ones that are considered relatively safe and liquid (easy to exit investments, e.g. by selling shares in companies). Established rating agencies consider most emerging markets "non-investment grade". Private capital flows to developing countries and emerging markets are transitory and tend to be strongest when growth

[1] CPI Annual report 2023

in these countries is high (very pro-cyclical). When emerging markets go through hardships, private capital dries up and flows reverse, especially in lower income countries, when it is most needed. In this context there is a strong need for DFIs like IFU that can actively engage in identifying and maturing investments, mobilise private capital and co-invest – also in more challenging markets.

2.1.2 Climate change is closely related to poverty

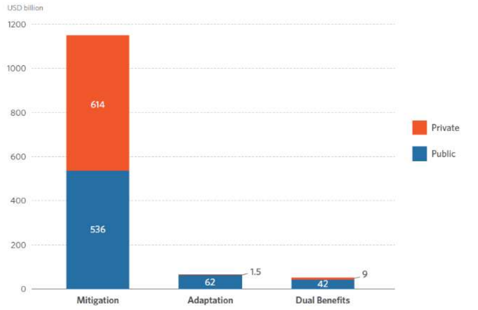
The 1.5°C goal agreed in the Paris agreement is important, especially for vulnerable communities already experiencing severe climate change impacts. Climate change mitigation involves actions to reduce or prevent greenhouse gas emissions from human activities. Mitigation efforts include transitioning to renewable energy sources, enhancing energy efficiency, adopting regenerative agricultural practices and protecting and restoring forests and critical ecosystems. There is also an important role to play in climate change mitigation for the private sector. Particularly those companies responsible for causing high emissions, should take a leading role in innovating, funding and driving climate change mitigation solutions – but financing is often a critical factor.

The global climate crisis is closely related to poverty. Poor countries carry the burden disproportionately compared to high-income countries. The world's poorest countries account for a small portion of global greenhouse gas emissions. However, these countries are confronted with massive investment needs to build resilience and adapt, given extreme weather events, natural hazards and climate induced food and water shortages that especially threaten the livelihoods of poor people.

The Paris Agreement's climate objectives and the Sustainable Development Goals, including SDG 1 on poverty reduction, are closely linked. The triple threat of natural resources degradation, pollution and biodiversity loss negatively impacts poor people's livelihood and reduce their resilience to climate change. The poor and those just above the poverty line are vulnerable to economic shocks in the form of failed harvests, destroyed homes and productive assets, and health crises. It has been estimated that by 2030, climate change could push more than 120 million more people into poverty. Thus, climate change adaptation is a high priority in developing countries.

The overwhelming amount of new climate finance relates to mitigation with an almost equal split between public and private funding. Meanwhile, adaptation makes up a very small percentage of climate finance as illustrated in figure 2. Despite increasing political attention and momentum for mobilizing adaptation finance globally, adaptation action remains severely underfunded. The latest UNEP Adaptation Gap Report estimates that the need for adaptation finance is 10-18 times higher than the current financial flows. While there is an urgency to increase the quantity of flows of adaptation finance to developing countries, effectiveness in adaptation finance also depends on the quality and nature of the funded projects.

Figure 2: Uses of climate finance with private public splits



Source: CPI: "The Global Landscape of Climate Finance 2023", November 2023

There is fragmented evidence of private sector investments in adaptation, including priority sectors such as water and agri-food systems. While companies are increasingly reporting on climate-related issues, the comparability, consistency, comprehensiveness and coherence across the different data sets, as well as the limited information on adaptation actions taken, inhibit meaningful aggregation. So, while evidence hints at increasing private-sector engagement in adaptation, the related investments – and contribution to closing the adaptation finance gap – remains unclear.

2.1.3 The majority of the world's extreme poor live in Africa and in fragile states

Globally there has been substantial but uneven progress in poverty reduction over the past three decades. In 1990, at least half of the people in East Asia, South Asia, and Sub-Saharan Africa were living in extreme poverty. In 2019 the estimated rates of extreme poverty in these three regions were 1 percent (East Asia), 9 percent (South Asia), and 35 percent (Sub-Saharan Africa).

The World Bank estimates that 59% of the Worlds extreme poor[2] are living in Sub-Saharan Africa[3]. There are currently 39 fragile states that the World Bank classifies as "countries with high levels of institutional and social fragility" and "affected by violent conflict." They are home to almost 1 billion people, 335 million of which lived in extreme poverty in 2020. Projections by the World Data Lab's World Poverty Clock suggest that by 2030, there will be 359 million people living in extreme poverty in today's fragile states, representing 63 percent of the world's poor. This means that while most stable countries can anticipate the end of extreme poverty, more than a third of the population in fragile states will live in extreme poverty[4]. This analysis has been important for determining the focus of IFU on Africa as well as poor & fragile countries.

It is important not to consider poverty as one-dimensionally based on income alone[5]. Poverty is too complex to be contained in a single indicator and most donors apply a multidimensional poverty concept. The multidimensional poverty concept broadens poverty from a question of income, to also consider access to resources in a wider sense, such as education, health, natural resources (including water and land), energy, jobs, rights (including influence on decision-making processes), as well as personal security. The multidimensional poverty concept is useful to capture the breadth of the impact of IFU investments.

Box 2: 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.

IFU investments also have an **indirect impact** on poverty, for example by stimulating a supply chain which increases wages, or because it provides the things that other businesses need to grow, like electricity, finance or better market access. These interlinkages are complex, but still very powerful.[6] The evidence that investments indirectly help people escape poverty is overwhelming not least from historical

[2] Living of less than USD 2.15 per day (international poverty line)
[3] https://datatopics.worldbank.org/world-development-indicators/stories/where-do-the-poor-live.html
[4] Poverty and fragility: Where will the poor live in 2030? | Brookings
[5] Approach note for implementation of "The world we share", Fighting poverty and inequality, Ministry of Foreign Affairs of Denmark (August 2022).
[6] See for example "Job creation and sustainable growth" How-to note for implementation of "The world we share", Ministry of Foreign Affairs of Denmark, August 2022.

examples of growth and poverty eradication. Research also shows that higher rates of private investment are associated with higher growth and faster poverty reduction[7].

2.1.4 Early-stage ventures hold significant development potential to be unleashed

Small and medium-sized enterprises (SMEs) are vital employers and key to creating jobs. The World Bank estimates that SMEs account for 90 percent of businesses and more than 50 percent of employment worldwide. Furthermore, job creation among SMEs is driven by a small group of high-performing firms often referred to as "gazelles".

Enterprises in developing country contexts that are in an early growth stage, have potential to create significant positive impacts over time, but often face significant costs and many hurdles to become viable businesses (e.g. skills & capacity, technology, framework conditions, political economy and insufficient access to finance). The financing gap was estimated to be $4.5 trillion across developing countries as of 2017[8]. As a result, these enterprises have a risk profile that severely constrain their access to finance. Investments in early-stage enterprises can drive impact through several channels:

(i) Enterprises bring innovations and new technologies to market to drive progress and improve the quality of life;
(ii) New business ventures stimulate economic growth and job creation – a number of these start-ups could lay the foundations for tomorrow's industries and opportunities;
(iii) Many venture capital investments are directed towards solving societal challenges, such as renewable energy and healthcare – venture capital can help these companies scale solutions with positive externalities for society.

Early-stage companies can help bring, test, and develop new ideas and business models related to climate and inclusion to emerging markets. However, there is insufficient capital for such companies, and even less for those focused on climate and/or inclusion, whose business models take more time and money to breakeven. Evidence also points to insufficient follow-on capital for companies to scale, even if they have viable business models; and insufficient experienced, impact-focused investors with risk-willing capital. With the launch of IFU Impact Ventures and additional budget targeting SMEs allocated on the proposed Finance Act 2025, IFU and MFA have initiated a workstream to re-invigorate IFUs instruments to reach both Danish and partner country SMEs and early-stage companies.

2.1.5 Rapidly evolving requirements for Environmental, Social and Governance (ESG) standards

IFU's approach to ESG can be thought of as safeguards, which in many ways correspond to the "do-no-harm principle" found in the MFA's guidance note for working with multi-dimensional poverty concepts[9]. Danish-supported interventions, including IFU engagements, must never, directly or indirectly, harm poor or vulnerable groups. IFU is expected to remain at the forefront and always set high standards, acting as a reliable partner and investor in supporting the ESG capacity of the companies and projects that benefit from IFU capital. The ESG requirements which companies face, have increased significantly over the years. Today, ESG is a necessity for companies, not only driven by regulations but also by customers awareness, employee expectations, and investors interest. A recent development is the

[7] Pritchett (2020) shows that growth is "empirically necessary" for poverty reduction. Moral-Benito (2012), find that investment is one of the most robust predictors of growth. Both articles are referenced in "Investment and poverty reduction Practical thinking on investing for development" in the research series from British International Investments, the DFI of the British Government. In addition, it is often argued that the productivity of investments matters more than the level of investment.

[8]https://blogs.worldbank.org/en/psd/quest-better-understand-relationship-between-sme-finance-and-job-creation-insights-new-report

[9]Approach note for implementation of "The world we share", Fighting poverty and inequality, Ministry of Foreign Affairs of Denmark (August 2022).

increased reporting requirements from EU as e.g. the Corporate Sustainability Reporting Directive (CSRD) and the requirements on companies to assess and manage the risks of impact on the environment and the people including in the companies supply chain (CSDDD). The latter has enhanced the focus on the impact on people and environment in developing countries.

The increased focus on ESG especially from customer awareness can drive new business opportunities, like businesses within circular economy as waste management in general or specific waste types. However, operating in developing countries with weak governmental institutions and ditto legislation creates challenges not only for the companies but also for the investors. Therefore, common international standards, including on human rights are key to ensure companies comply not only with national requirements but with international requirements like UN Guiding Principles on Business and Human Rights and IFC Performance Standards. For companies in developing countries, it can be particularly challenging to live up to ESG requirements which can further erode competitiveness.

2.2 Overview of IFU

IFU's raison d´être is to deliver impact by providing financing where the private sector by itself may not be willing or able to invest due to perceived risks or inadequate returns. In that respect, IFU's role is to invest together with other DFIs and Multilateral Development Banks (MDB)s and private sector partners to overcome barriers to investments in developing countries (c.f. section 2.2.4 for IFU country focus) with a specific focus on Africa. Since its foundation in 1967, IFU has reinvested returns from investments into new investments and has to date realised more than 1.300 investments in over 100 developing countries. In 2017 the Government decided to untie IFU from only investing with Danish companies and today IFU has a much broader mandate to invest. This change has been fundamental for the development and scale up of IFU. Since 2017, IFU has tested a range of new instruments and approaches to investing. This includes the SDG Fund, a pioneering public-private partnership to mobilise private capital at scale. IFU has gained experience and built a foundational capacity with a strong impact focus and new investment instruments, which will support IFU in scaling up activities in line with the 2023 reform ambitions.

2.2.1 The 2023 IFU reform – a long term strategy and vision

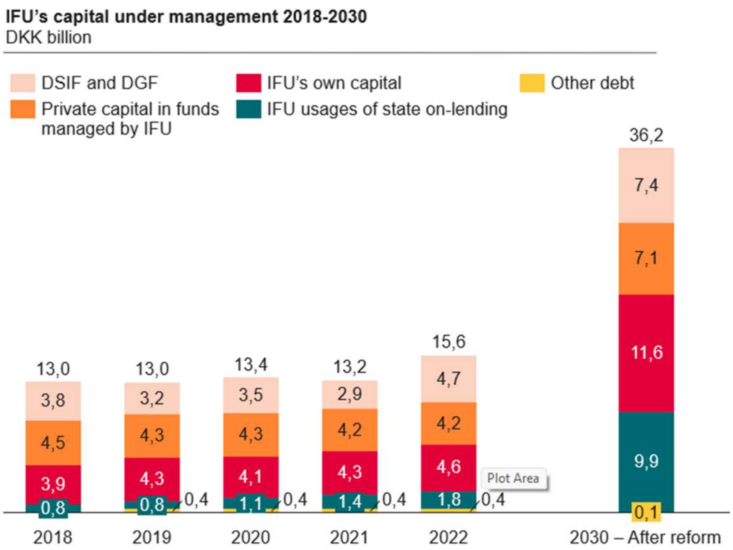
The Government approved reform of IFU (September 2023) was initiated by the Minister for Development Cooperation and Climate Policy. The reform of IFU sets out to increase the capital under management from DKK 15.6 billion in 2022 to 36.2 billion in 2030 and includes an ambition that IFU must further expand its position in emerging markets being a frontrunner in terms of launching new and innovative financing mechanisms and approaches to mobilising finance. The five key tracks of the IFU reform are presented in table 1.

Table 1: IFU reform tracks

IFU Reform track	Purpose	Capital increase (DKK)
1) Capital contribution (this appropriation)	Risk hedging of green loans, capital investments and the new SDG Fund	3.5 billion*
2) Expanding green loans state on-lending frame	Facilitate green loans in climate, Africa and fragile states	7.5 billion
3) Establishing SDG Fund II drawing on state on-lending	IFU share of SDG Fund II	0.8 billion
4) Reform of DSIF and restructuring of lending set-up	Improved efficiency of DSIF administration	5.4 billion
5) Change in IFU dividend policy	Freeing capital	NA
Total		17.2 billion

**The proposed total budget in this appropriation comprises of the DKK 3.5 billion foreseen in the IFU reform and DKK 100 million for IFU Impact Ventures. A total of DKK 3.6 billion*

Reform tracks 1 and 5 will contribute to boosting IFU's own capital (equity) from DKK 4.6 billion by the end of 2022, to DKK 11.6 billion by the end of 2030. On top of the capital contribution, IFU will leverage its strengthened balance sheet to access capital through an on-lending facility[10] in the Danish Central Bank of DKK 13.7 billion (reform tracks 2,3 and 4) and through raising private capital for a new SDG Fund from institutional investors of up to DKK 3 billion. It is with these new sources of financing, and reinvestment of capital that IFU expects to invest DKK 20.6 billion up to 2030 and thereby increase its capital under management to 36.2 billion in 2030. Figure 3 below presents the expected increase in capital under management split on the five reform tracks.



With the reform, IFU will become a larger and more proactive impact investor with a broad palette of financing instruments to engage across different sectors and countries.

2.2.2 IFU strategic framework

Figure 4 provides an overview of the strategic and policy framework governing IFU including the Danish Government's policy framework "Ansvar for Danmark" / Responsibility for Denmark, the Danish Government's policies for climate and the environment and the strategy for Denmark's Development cooperation "The World we Share" from 2021. The reform will also contribute to the new Strategy for Africa launched in August 2024. A strong emphasis of the Strategy is to establish equal partnerships with the African countries to position Denmark as an attractive partner in the future. Central to this ambition is that Denmark's trade with, and investment in African countries, must be increased. IFU is well positioned to contribute to this ambition. These Danish strategies and policies contribute to the overall strategic framework for IFU.

[10] 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.

In August 2023, the Minister for Development Cooperation and Climate Policy approved a new Ownership Document for IFU. The purpose of the Ownership Document is to a) define and operationalise the strategic direction for the Ministry's ownership of IFU as outlined in the overall Danish strategies and b) to serve as a formal and transparent basis for the dialogue between MFA and IFU. It is in the OD that e.g. changes in political priorities will be captured. Table 2 provides an overview of the key elements of the Ownership document (the full Ownership document is included in Annex 9).

Figure 4: Framework governing IFU (and hence DSIF 2.0)

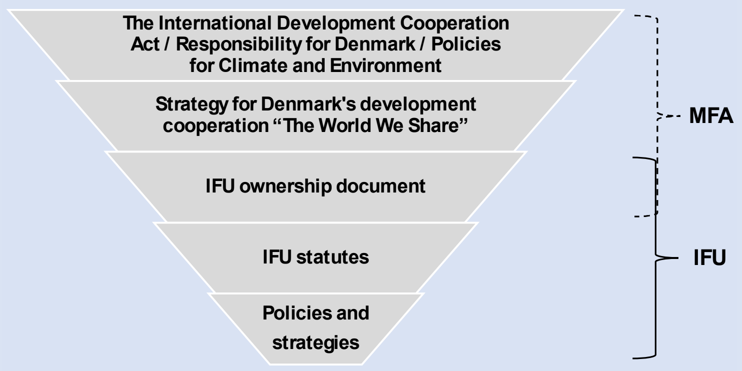


Table 2: The Ownership Document

Additionality
- IFU must ensure that its investments are additional both financially and in terms of development impact 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 will continue to deliver significantly on, and further expand, its investments in climate and green transition.
- IFU must utilise risk-willing public capital to mobilise additional private funds.
- IFU's investments and climate policy must reflect the government's priorities on climate

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.

Investment in early-stage companies
- IFU must allocate dedicated resources to ensure a continued engagement in early-stage companies within the framework of the Danish policy priorities for development.
- IFU must systematically gather experiences from its early-stage investment activities and strengthen its monitoring and evaluation system to follow up and base future investments on lessons learned.
- IFU must develop a strategy including implementation targets from 2024 for early-stage investments and scaling of early-stage companies.

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.

Investment targets for new investments in relation to IFU's own capital*
- 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 LDCs and FCAS.

** IFU's ownership documents outlines how these KPI's are calculated*

MFA will manage the multiple appropriations including the 2024-2030 capital contribution appropriation according to the normal standards for management of development aid projects, but changes in the Ownership Document may influence the priorities within the individual appropriations.

2.2.3 IFU's strategy 2024-2026

While MFA and the Government sets the overall strategic frame, it is IFU's Board-approved strategy which in a much more tangible manner guides IFU investments, fundraising and operations. IFU's current 2024-26 strategy focuses on funding and mandates, investment, and organisational development. Table 3 below provides a brief overview.

Table 3: IFU's strategic plan 2024 to 2026

Strategic priority	Key directions and areas of strengthening
Funding and mandates	• "Reform of IFU" put into operation through "strategic framework" for capital injections 2024-30 • SDG II fundraising with support from owner • Public donor partnerships (blended finance and impact ventures) • DSIF integration, Danish Guarantee Facility (DGF) evolution to be fully IFU-managed
Investments	• Investment strategy updates, e.g., market outlook, impact priorities including net zero pathways, priority countries, expanded commercial spikes (green loans, high-impact) • Setting and tracking return and impact expectations by type of financing • Continued investment process improvements building on past learnings and best practice, including on additionality
Delivery capacities	
Organisation, values and culture	• Enable employee growth of between 25% and 40% by recruitment of 20-25 FTEs per year • Retain experienced contributors and add new skills to maintain quality while growing activity • Harness positive culture and activate employees' initiative to help meet growing expectations • Ensure continuous improvement at individual and team level • Invest in the organisation and provide professional advancement opportunities and develop leadership skills
Communication	• Build a stronger profile for IFU in Denmark and in markets to aid recruitment and sourcing efforts • Ensure a consistent core narrative that can work effectively across IFU's key activities and stakeholders • Support the narrative of IFU as an innovative and progressive impact investor
Data and technology	• Prepare to meet increased collection and reporting requirements for sustainability data • Deliver implementation of investment sourcing module and client portal • Initiating implementation of IMS and HR modules in coordination with Finance (ERP) • Centralise selected investment process tasks in team of specialists to gain efficiency and quality benefits • Introduce technology tools to automate more monitoring and data collection tasks
Governance, risk and compliance	• Increase consistency in risk identification, assessment, monitoring and reporting and close gaps to relevant trends and market standards • Define model with more explicit assignment of risk and compliance management responsibilities (i.e., three lines of defence: management, risk/compliance, audit) • Enable handling of higher risk assessment workload • Explore opportunities to increase consistency in decision-making processes; integrating management of facilities

IFU will execute the strategic plan towards 2026, and report on the implementation progress to IFU's Board of directors. IFU will develop a new strategic plan for the period 2027-2030 continuing the reform of IFU in the areas above and in line with the overall strategic direction set in the Ownership Document.

2.2.4 Sector & country focus

IFU can invest in all DAC countries, but IFU's ownership document outlines two overarching priorities for IFU: Africa and poor and fragile states. IFU prioritises four thematic areas that combine the potential to contribute to IFU's impact priorities with deep IFU sector experience: 1) Green energy and infrastructure, 2) health care, 3) sustainable food systems and 4) financial services. The four thematic areas are presented briefly in table 4 below and in Annex 2. By prioritising these sectors, IFU is building sector knowledge and networks which increase IFU's ability to identify high impact potential in growth companies, and support these companies to develop in a sustainable and impactful manner.

Table 4: brief presentation of IFU thematic areas

Green energy and infrastructure	
Link to poverty. Lack of access to electricity is a distinct challenge in developing countries. In Africa alone 600 million people are without access. To support sustainable development that is in line with the Paris Agreement, a priority for IFU is to invest in increasing access to clean and affordable renewable energy from large-scale utility projects to residential home solar systems and off-grid solutions. Water is a scarce resource, and access to clean drinking water is generally low in developing countries. IFU invests in business models and companies within water and water management that will increase sustainable supply and improve access to water. Moreover, IFU gives priority to waste recycling and management to address growing urban challenges such as sanitation, congestion and rising air pollution. Across all areas IFU also focuses on energy efficiency as the most affordable way to decarbonise the economy and ensure reliable and renewable energy for all.	***Investment focus.*** Renewable energy, Waste, Water ***Portfolio size.*** Active portfolio of 35 investments by the end of 2022. Total outstanding invested amount of DKK 3.3bn.
Sustainable food systems	
Link to poverty. Producing enough food to feed the world population is a major challenge. Today, around 800 million people in the world do not have enough food to live a healthy, active life, and with a growing population food waste must be reduced and food production needs to increase. The latter will put further pressure on global warming, as 30 per cent of global GHG emissions stems from agriculture and food processing activities. An impact priority for IFU is to invest in climate-smart farming that can increase access to healthy and affordable food products with high nutrition.	***Investment focus.*** Climate smart farming, Storage, Distribution, Processing, Forestry ***Portfolio size.*** Active portfolio of 17 investments by the end of 2022. Total outstanding invested amount was DKK 375m.
Healthcare	
Link to poverty. Poor health and health inequality continue to limit economic prosperity in developing countries and emerging markets. Around 400 million people lack access to vital healthcare services, which results in high mortality rates, lost productivity and poverty. This is especially the case in developing countries in Africa and South Asia. Healthcare services are often out of pocket expenses that have significant negative impact on accessibility and lead to increased poverty for low-income groups. On this backdrop, IFU invests in healthcare to increase access to affordable and high-quality healthcare services, especially for middle and low-income people.	***Investment focus.*** Clinics & Hospitals, Pharma chains, Bio-tech, Diagnostic services ***Portfolio size.*** Active portfolio of three investments by the end of 2022. Total outstanding investment was DKK 100m.
Financial services	
Link to poverty. Globally, 1.7 billion people are unbanked and micro, small and medium enterprises (MSME) across the developing markets struggle to access finance to grow their businesses. In many countries, women owned and or managed enterprises face higher barriers to access formal finance than those owned by men. The reasons are several and relate to both cultural norms and regulations. By investing in financial services, IFU contributes to financial inclusion, helps drive economic growth and job creation, as well as reduce inequality – where possible with a special focus on the needs of women business owners and entrepreneurs to help close the gender gap.	***Investment focus.*** Microfinance institutions, Affordable housing, MSMEs, Guarantees ***Portfolio size.*** Active portfolio of 59 investments by the end of 2022. Total outstanding invested amount was DKK 2.7bn.

IFU continuously allocates available investment budget within these four thematic areas depending on the ability to identify and mature relevant investments.

2.2.5 Towards a diverse palette of financing instruments

IFU has historically mostly taken the role as equity investor. Since 2017 IFU and MFA have developed a broader range of financing instruments, which allows IFU to take on new roles in investments and invest in projects with different impact and risk profile compared to IFU's traditional tied equity investments. The below table presents IFUs six main financing instruments, which IFU blends according to project needs, impact goals, project risk and source of financing, and ultimately with the purpose of delivering on the objectives defined in the IFU Strategy and the Ownership Document. Through the combination of these instruments IFU will seek to achieve maximum impact in a strategic approach that combines additionality and mobilisation of private capital. The capital contribution proposed with this appropriation will strengthen IFU's own capital which is a precondition for scaling each of the key financial instruments as follows:

- **Investments from IFU's own account** without direct mobilisation of the loans using on-lending and investment funds. More capital for investments on IFU's own account allows IFU to invest directly in projects with higher risk compared to the other instruments.
- **Co-financing of loans using on-lending.** To increase scale of activity, IFU will also use its capital to co-finance loans drawing on the state on-lending facility. IFU expects that approximately 1/3 of the total lending will come from IFU core capital.
- **Investment funds.** IFU will act as a fund manager for investment funds that mobilize private capital from e.g. Danish pension funds (e.g SDG Fund II). IFU will co-invest up to 40 per cent of the total capital of these funds, which will be partly financed by IFU core capital and partly by the State on-lending scheme.
- **IFU Impact Ventures** is a new instrument launched to also reach smaller and earlier stage companies through a mix of loans and equity investments directly and through funds.

Table 5: key features of the individual financial instruments

	Focus of capital contribution				Separate MFA funding	
	Investments from IFU's own account	**SDG Funds**	**Loans using on-lending**	**IFU Impact Ventures**	**Guarantees***	**DSIF***
Projected use of capital contribution 2024 – 2030	DKK 1.2 billion	DKK 1.1 billion	DKK 1.2 billion	DKK 0.1 billion	Not funded by capital contribution	Not funded by capital contribution
Other funding	DKK 4.1 billion from IFU's existing capital	DKK 0.8 billion from IFU's existing capital State on-lending DKK 0.8 billion Private capital DKK 4.2 billion	DKK 1.55 billion from IFU's existing capital State on-lending DKK 7.5 billion		State guarantee 2 billion & MFA grant 135 million	MFA grant 2.8 billion & State on-lending 5.4 billion
Expected total investments 2024-2030	DKK 5.3 billion	DKK 7 billion in SDG Fund II and III	DKK 10.25 billion	DKK 0.1 billion	DKK 2 billion guarantees per 2025	DKK 7.1 billion
Application	Equity & Loans	Equity	Loans	Equity & loans. Early-stage companies	Guarantees for financial intermediaries	Concessional public infrastructure loans
Financing Source	IFU accumulated capital and MFA capital contribution	60% capital pension funds, 24% from IFU own capital & 16% state on-lending facility	State on-lending facility and IFU own capital	IFU own capital and capital contribution	Insurance model Backed by the Danish State Grant for TA	DSIF Grant & State on-lending facility
Return expectation	Positive return but typically lower than full commercial returns	Commercial returns	Cover operational costs and expected losses	Cover operational cost and expected losses	Cover expected losses and partially operational expenses	Cover operational costs
Risk willingness	Medium to high risk	Low risk	Low to medium risk	Medium risk	Medium to high risk	Medium to high risk
Private Capital mobilisation	Lower mobilisation due to higher risk projects	High level of mobilisation	High level of mobilisation	Some mobilisation	High level of mobilisation	No mobilisation
Geography	Stronger focus on Africa and poor & fragile states compared to	Primarily LMIC and UMIC – LICs only to a limited extent	Primarily LMIC and UMIC. LIC & fragile states only to a limited extent	Africa 50% Limited focus on the poorest countries	Africa 50% Poor and fragile 30%	Africa 75% of grant and 66% of loan

	other instruments					Poor and fragile 80% of grant and 65% of loan
Impact	Investments in fragile settings and leverages larger investments	Both social and climate impact through large investments target green transition and improved access to underserved	Climate & green transition and improved access to underserved	Small upcoming companies grow & create jobs	Mobilisation of investments and finance. Targets climate & Africa	Access to public services

*Separate appropriation

To deliver on its thematic and geographic priorities and ensure the most efficient deployment of its capital, IFU segments its markets. Investments made with IFU's core capital alone will in general have the highest risk tolerance and largest flexibility in accepting returns that does not fully reflect the investment risks. The instrument will in particular be used to finance investments in Africa, as well as in poor and fragile countries, including Ukraine. Investments through IFU's SDG Funds will have the lowest risk tolerance, and must target fully risk adjusted returns to satisfy the regulatory requirements faced by the SDG Fund's private institutional investors. The SDG Funds will target countries with good balance between country risks and investment opportunities[11]. The green loan portfolio will to a large extent be built on the state on-lending facility combined with IFU own capital to mitigate risk. The on-lending instrument is primarily expected to be used for climate financing (mitigation and adaptation), and to support the green transition in high emitting countries. IFU expects high demand for the green loans in especially in Asia and Latin America.

With the palette of financial instruments each with distinct characteristics, IFU is able to put together loan packages of blended finance that is adapted to the varying needs of the individual investee company and that promote strong impacts beyond what could be achieved without blending. Across the instruments, IFU expects to invest DKK 20.6 billion in the period 2024 to 2030. It is estimated that DKK 7,7 billion will be invested in Africa and DKK 3,5 billion in poor and fragile countries, hereof approximately DKK 0,8 billion in Ukraine[12]. Furthermore, IFU expects to invest close to DKK 14 billion in climate related investments. Note, that the above figures cannot be added as there will be some overlap between these priorities (e.g. climate investments can be done both in Africa and in poor and fragile countries).

2.2.6 Mobilisation

Mobilisation of private capital is a priority for IFU as it is determining for the scale of investments and ultimately the development impact achievable with the funding available. IFU distinguishes between direct mobilisation and indirect mobilisation of private capital.

- **Direct mobilisation.** IFU mobilises private capital directly through its managed funds where private and institutional investors invest directly into funds. In the period 2024 to 2030, IFU expects to directly mobilise more than DKK 11 billion in private capital from the on-lending facility and from the SDG Fund II and eventually "SDG Fund III", which IFU expects to raise after SDG Fund II.
- **Indirect mobilisation.** IFU further mobilises private capital indirectly, by de-risking investments and lowering barriers for private investors to invest into companies alongside or after IFU. IFU

[11] IFU has identified 13 focus countries for the SDG Fund II and 15 opportunity markets, which must make up the primary markets for the SDG Fund's investments. Of these countries, 10 are in Africa, 8 in Asia and 7 in Latin America, and 3 are in Europe. 5 of the countries qualify as poor and fragile with 3 of those being LDCs. These are Kenya, Nigeria, Bangladesh (LDC), Senegal (LDC), and Uganda (LDC)

[12] IFU expects to invest approximately DKK 100 million annually in Ukraine, depending on how the war evolves.

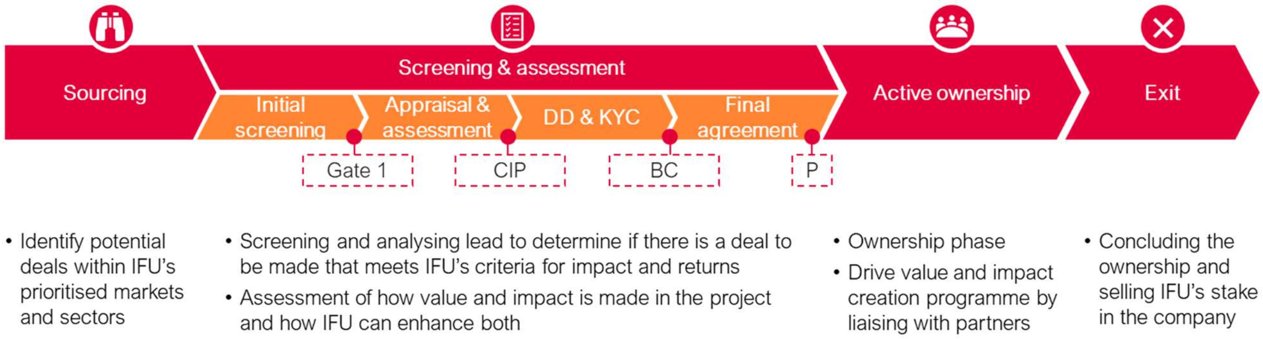
projects to indirectly mobilise DKK 38 billion in the period 2024-2030 from SDG Fund II & III, loans using on-lending and investments made with IFU's core capital alone.

2.2.7 IFU framework for identifying, screening and selecting high-impact investments

Beyond expanding IFU's capital base, MFA and IFU have a strong focus on ensuring that systems and tools are in place to identify, screen and select high impact investments that are also additional.

IFU's gating system. Figure 5 illustrates IFU's investment process from the early-stage sourcing and identification of investment opportunities to the exit from investments made. The assessment process comprises three approval stages – the Gate 1, the Clearance in Principle (CIP) and the Binding Commitment (BC). Each investment opportunity is assessed against criteria including contribution to impact priorities, additionality, alignment with sustainability policies and international standards, investee agreement to implement required ESG standards, and commercial viability. At each stage the proposed investment receives feed-back from the investment committee with participation from department heads of Investments, Sustainability and Impact, and Legal. IFU's board has authority to delegate decisions to management and ultimately approve or reject investments.

Figure 5: IFU's investment process



In 2021, IFU introduced the requirement that each individual investment must be supported by a specific and detailed Theory of Change (ToC) and results framework to be presented as part of the documentation to IFU's investment committee. This has further strengthened the focus and articulated how IFU's investments are expected to contribute to change and impact. In addition to the ToC and results framework, IFU applies different tools and analysis methods to assess additionality, impact creation and ESG risks. All identified ESG issues and risks are summarized in an action plan for implementation. (c.f. Annex 2 for an overview of the tools, analysis and policies applied).

IFU has always supported the ESG performance in the companies, which IFU has invested in, mainly through IFU's requirements to meet international standards and living up to IFU's sustainability policy that covers environmental and social standards. The sustainability 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 Policy is the overarching policy for ESG and impact, which is supplemented by specific underlying thematic policies, including: a) Climate policy; b) Human rights policy; c) Animal welfare policy; d) Gender equity policy; e) Corporate governance policy; f) Tax policy; and g) Anti-corruption policy. The policies outline the sustainability requirements that apply to IFU itself, IFU managed funds, and IFU's direct investments.

Gender and DEI. IFU has for many years considered gender investments key to reducing inequality and applied the 2X criteria as its benchmark. With an update of these criteria in 2024, IFU is in the process of updating its Gender policy to become a more holistic Diversity, Equity and Inclusion (DEI) policy, and forming an integral element of IFU's Sustainability Policy framework. Further strengthening the DEI approach is aimed at helping IFU to deliver on its broader mandate to contribute to achieving the Sustainable Development Goals, and particularly "just and inclusive economies.

IFU uses the framework of DEI to promote just and inclusive economies in its investments and uses the 2X Challenge criteria[13] as the benchmark for being a best-in-class impact investor as it is an internationally acknowledged framework for private sector investments. The 2X Criteria is the global industry standard for assessing and structuring investments that provide women with leadership opportunities, quality employment, finance, enterprise support, and products and services that enhance economic participation and access.

Net zero target. IFU has made a commitment to reach a net-zero emitting portfolio be 2040 at the latest. To support delivering on this commitment IFU will no longer make investments into fossil fuels. In addition, IFU will pursue a decreasing intensity at sectoral level based on a three-year rolling average and ensure a minimum of 50% new investments qualify as climate finance. Finally, IFU will develop a forestry policy covering investments into negative emissions and natural based assets as well as a clear position on carbon credits. Work is underway to develop sector specific pathways allowing IFU to set interim targets on the way to 2040.

Additionality. The Ownership Document specifies that it is IFU's responsibility to ensure that the fund's investments are additional, financially as well as in terms of development impact, and at the same time ensure high standards in terms of ESG (environment, social and governance) and human rights. IFU must document additionality properly in all its commitments in accordance with the standards of the OECD for private sector instruments.

The 2019 IFU evaluation (c.f. section 2.3.1) found financial additionality in 6 out of 10 investments in the sample assessed. The Evaluation also found that IFU had not to a sufficient degree had a focus on tracking and documenting development impact and additionality. With the MFA ambitions to strengthen IFU and the newly adopted OECD rules for demonstrating additionality, it has become more important to formalize, document and articulate IFUs approach to additionality. However, assessment and documentation of additionality poses several methodological challenges. IFU has initiated a workstream with input from peers and from researchers at the University of Copenhagen[14], to develop a framework to guide IFU in assessing additionality as part of the investment screening process.

The approach combines a qualitative narrative analysis tailored to each investment proposal with a quantitative assessment at country level. The ambition is a robust, systematic, theory-driven yet cost effective model that combines qualitative and quantitative methods for comprehensive analysis. The model is being rolled out for new investment proposals and in dialogue with experts from the OECD to ensure full compliance with the guidelines and rules in the area.

Financial viability. An important criteria dimension of identifying and selecting good quality projects is financial viability. Overall, it is specified in the Ownership Document that IFU's financial return should be sufficient to fund IFU's operations and maintain the assets. As such MFA does not require IFU to deliver commercial level financial return at portfolio level.

IFU has a framework which allows a classification of potential projects according to their risk (country risks, partner risks etc..) which contribute to determining the rate of return required for IFU to engage in the project. There are a number of in-built dilemmas that IFU needs to manage. On the one hand there may be projects that are sound and financially interesting where IFU will end up not engaging because

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[13] https://www.2xchallenge.org/

14 An Approach for Assessing Financial Additionality, Hansen & Rand, Department of Economics, University of Copenhagen (January 2024)

financial additionality cannot be assessed as likely. Other projects may be highly interesting from an additionality and impact perspective, but not financially viable or too risky. It is when balancing these dilemmas that the strength of IFU's diverse portfolio of instruments comes into play. Green loans or SDG Fund investments can be blended with IFU own capital where IFU is able to take higher risks and accept lower rates of return. (cf. section 2.2.5 above)

2.2.8 IFU results

IFU has demonstrated its ability to invest profitably in emerging markets and developing economies, with an increasing focus on investments with a strong SDG and climate impact. Table 6 provides an overview of results deriving from the IFU investments.

Table 6 – results from IFU investments*

Expected impacts – new investments in 2023	Realised impacts – portfolio companies
• Supporting close to 18,000 direct jobs • Adding local value of DKK 2 billion annually • Installing up to 300 megawatts of renewable energy • Avoiding greenhouse gas (GHG) emissions of 3.3 million tCO2e • Enabling access to credits for around one million clients • Supporting 30,000 smallholder farmers • Cultivating 300,000 hectares of climate smart agriculture land • Treating 700,000 patients for cancer-related diseases	• Close to 420,000 people employed by the portfolio companies • Installed close to 2,800 megawatts of renewable energy capacity • Generated more than 5,000 gigawatt hours (GWh) of renewable energy • Avoided GHG emissions of a total of 3.5 million tonnes CO2e • Avoided GHG emissions attributed to IFU was 380,000 tCO2e • Carbon footprint of IFU's portfolio was 767,278 tCO2e • Served more than 20 million clients with microfinance • Close to 80% of the microfinance clients were women • Served more than 40,000 SME clients • Supported more than 500,000 smallholder farmers • More than 80% of portfolio companies had a written sustainability policy

*Results excluding DSIF and the Danish Guarantee Facility

Table 7 below demonstrates the results for 2023 against the targets set in the Ownership Document. IFU has been overperforming on climate while there is still work to do to expand the portfolio of investments in Africa and poor/fragile states.

Table 7: Impact priorities

Priority	Key performance indicators for investments	Target	Results 2023
Climate	At least 50% investments have to qualify as climate investment	50%	75%
Africa	At least 50% of investments have to be in Africa	50%	46%
Poor and fragile countries	At least 30% of investments have to be in countries with GNI below 50% of the World Bank's definition of lower income countries or which appear on the World Bank's list of fragile or conflict-affected situations	30%	22%

The key performance indicators count as IFU's total qualifying investments (i.e., investments from IFU's own account + loans using state on-lending + SDG funds) in relation to all investments from IFU's own account (including IFU's participation in loans using on-lending and SDG funds).

2.3 IFU experiences and lessons learnt

2.3.1 Experience and lessons learned

Steps towards the IFU reform

During the first 50 years, IFU's business was to invest in joint ventures with Danish companies in developing countries. The untying of IFU in 2017 marked a significant shift in terms of strategic focus and established some of the building blocks, upon which the reform of IFU rests. Table 8 provides an overview of the key steps towards the current IFU reform.

Table 8: Steps towards the IFU reform

Event	Result
2014/2015: IFU launches the SME Facility and the Project Development Programme (PDP)	…..with a view to strengthen IFU's ability to a) engage in project identification, development and maturing at an earlier stage and b) support and invest in SMEs. The PDP and the SME facility faced some challenges and did not develop as originally envisaged and did not deliver the expected boost to the IFU portfolio.
2017: IFU becomes untied from Danish companies…	…and starts gaining experience with partnerships with international players. The increased flexibility in investment mandate allows IFU to participate in new types of investments and significantly broadens IFU's investment landscape. Partnerships with other DFIs, MDBs, and international private investors have become more frequent.
2018: IFU raises the SDG Fund with Danish institutional investors…	… and gains experience with mobilising private capital and living up to private capital investment criteria. IFU has evolved its investment approach to deliver on the demands of the SDG Fund I and the increased investment budgets that follow from the fundraise. To deliver on the SDG Fund I, IFU has increased its rigor in assessing investment opportunities with thorough analysis of the impact potential and return expectation, incl. systematic application of return benchmarks.
2018: Administration of DSIF moves to IFU…	...and IFU gains experience with managing concessional loans to public entities in poor and fragile countries. It has created even closer ties with Danish embassies and their activities with public partners. In 2023, IFU took over the role of lending agent for DSIF loans thereby reducing its vulnerability of being dependent on only one commercial bank for loan arrangements
2019: Evaluation of IFU ….	… is overall positive and considered IFU to be "fit-for-purpose". The Evaluation[15] provided a range of recommendations that formed the basis for the IFU reform. • Strengthen the development expertise within the organisation at all levels • Improve the transparency of IFU, its learning culture and communication (e.g. in relation to sensitive issues raised by civil society and in the media) • Set clear criteria for Board membership in investee companies to help increase the non-financial value that IFU can deliver to investee companies • Strengthen the country offices to originate bankable projects with impact
2019: IFU receives its first High Risk High Impact (HRHI) capital contribution ….	… and invests in poor and fragile countries underpinning Danish development priorities. With the blended finance HRHI facility, IFU gets new options to finance investments in the most challenging markets.
2020: IFU starts developing results frameworks and later on ToC (in 2021) for all its investments….	….. which allows IFU to clarify how individual investments contribute to impact, and enables IFU to collaborate with the investee companies to further enhance this contribution through an impact creation plan agreed with the company. Monitoring impact through results framework allows IFU to document impact results. The ToC and results frameworks have also helped increase impact competences in IFU.
2020: Access to green lending facility (Green Future Fund) of DKK 1 bn financed via Central Bank….	… allows IFU to take on debt to finance its lending activity demonstrating a strong market demand for large, long tenor loans to financing climate investments. The Green Future Fund was fully invested in the first half of 2024, and IFU has close to DKK 700 million in its 2024 pipeline for its new on-lending facility.
2022: 2 bn DKK development guarantee facility pilot…	…. Allows IFU to issue guarantees backed by the Danish State supporting IFU's mobilization of additional capital for climate and development challenges

[15] Evaluation of the Investment Fund for Developing Countries (IFU), 2004-2017

2023: Reform of IFU is approved by the Danish government. IFU to access DKK 17,2 bn in new capital…	… and enables IFU to make a long-term plan for its investment activities and the organisation to deliver. Higher certainty on IFU's future financing enables IFU to make a growth plan for its investments activities towards 2030 covering instruments, geographies, and impact.
2024: IFU Impact Ventures is designed and to be staffed with dedicated investment professionals…	… to deploy risk capital towards early-stage ventures and funds that have the potential to develop into more mature entities, some with the potential to attract additional core capital from IFU. IFU Impact Ventures will replace the previous facilities targeting SMEs and project development
2024: IFU starts executing its 2024 to 2026 strategic plan…	… including recruitment of new employees and growing the organisation with more than 10% in the first half of 2024, launching new people and leadership development programme, and increasing IT and system support.

Towards One IFU and long-term predictability
In the past, IFU has received its funding from a wide range of contributions from the MFA with separate conditions, target groups, timelines, reporting requirements and results frameworks (cf. Box 3 and Annex 2), with limited possibility for IFU to foresee how much it would receive each year. The preparation and approval of the multiple appropriations represents a draw on both MFA and IFU resources.

An increasing number of these appropriations have been capital contributions, which have reduced the resource draw as compared to earmarked contributions. In spite of these streamlining efforts, it is resource-demanding to prepare and manage the multiple facilities that have separate reporting requirements. Building a large portfolio of impactful projects requires continuity in sectors and countries. This is challenged when predictability is low, and IFU needs to continuously identify new types of projects with very specific particularities to draw on the facilities available.

Box 3: IFU appropriations since 2017 (DKK)

2023 Capital Contribution	115 million
2023 Ukraine Facility (UAF)	110 million
2023 Blended Finance Energy Transition	100 million
2022 Development Guarantee Facility	145 million
2022 DSIF PDF facility	50 million
2022 India Climate Finance Initiative	200 million
2022 African Guarantee Fund	219 million
2022 High Risk – High Impact	100 million
2021 High Risk – High Impact	50 million
2020 African Guarantee fund	60 million
2020 Nordic Fund (Somalia)	20 million
2019 Nordic Fund (Somalia)	35 million
2019 High Risk – High Impact	200 million
2019 Project development Water	50 million
2018 Neighbourhood-Energy (NEIP)	131 million
2018 African Guarantee Fund	85 million
2017 SDG Fund	100 million
2017 DSIF PDF Facility	50 million

Strong drive for investing in climate and green transformation
One of the two overall impact objectives of IFU is to invest in building a greener future. As section 2.2.8 above outlines, IFU is performing well in terms of delivering on the priorities defined by the MFA of reaching the 50% target on climate investments. In 2023, 75% was achieved.

IFU's financing tool box allows IFU to target a range of differing climate projects. Through the 2020 Green Future Fund (GFF) DKK 1 billion was allocated to finance green loans through the Danish State on-lending facility. The GFF frame is now fully committed and per 2023 IFU has been granted a new frame under the Danish State on-lending programme of DKK 7.5 billion. Another example of continuous innovation is the Pilot Development Guarantee Facility, where the majority of the current pipeline projects (10-12 potential guarantees) is expected to mobilise climate finance - mitigation as well as adaptation.

Climate mitigation is the predominant type of IFU climate investments. It is challenging, also for IFU, to identify climate adaption projects that are also commercially viable (c.f. section **Error! Reference source not found.**) and hence the overweight in climate mitigation is likely to continue in the coming years. The climate adaptation focus can particularly be seen in IFU's agriculture investments to adopt farming practices that provide greater resilience against climate change. Climate adaptation is receiving an increased attention when assessing and maturing projects. IFU has embarked on work to strengthen its tool box to ensure that clear criteria are applied to categorise whether an investment is climate adaptation or not. This will be integrated into the gating system assessment of potential projects.

Even when projects are not qualifying direct as climate finance, it has become standard to assess how climate change can impact an investment opportunity negatively, and what steps IFU can initiate in order to mitigate the risks and ensure resilience. The specific risks and mitigate measures depend both on geography and sector. For some investments draught and lack of access to water for irrigation will be the largest risk, while for others the largest risk will be flooding and loss of lives and destruction of production facilities. For each investment, IFU works closely with the investee companies to create action plans that can reduce the risks and build climate resilience to protect the investment and ensure that both development impact and financial returns are created according to plans.

Box 4: Blue Planet India

Reducing waste – improving health. India produces approximately 62 million tons of waste annually, of which only 12 tons are treated before disposal. Blue Planet has successfully recovered over 500 hectares from old landfills and treated more than 12 million tons of waste, replacing the need for new materials and thus reducing CO2 emissions.
Patented e-waste solution. As waste volumes are expected to more than double by 2030, there is a significant need for investments in innovative technologies and operations within the waste sector. IFU's investment will further boost Blue Planet's capabilities in two key areas in India – landfill reclamation and e-waste recycling. The company plans to operate one of the largest e-waste recycling centres in India, recovering high-value materials from electronic waste components that are traditionally lost due to inefficient, inherently toxic, and outdated treatment methods.
Expected impact: 850 full time jobs, 247,000 tCO2 reduced – Avoided GHG emissions, 4 million tonnes of waste recycled
IFU Investment DKK 246.4 million / Exp. total Investment DKK 358.3 million

2.4 Coherence and synergies

Synergies with EU and international agendas
IFU is one of the core MFA conduits to mobilise climate finance and as such IFU is closely involved in MFA activities to promote climate action in international fora a and under agreements to which Denmark is a signatory. This role will be further developed in the coming years.

IFU's untied mandate has allowed increased collaboration and alignment with the European Union. The EU supports IFU to complete impact investments in very difficult markets, including support to a debt fund for small enterprises in Somalia. IFU has participated in EU-funded initiatives to increase collaboration between European institutions working in developing markets through the market development, guarantee and co-financing facilities managed by the EDFI Management Company. In 2022, The European Commission granted IFU three guarantees under the scheme European Fund for Sustainable Development Plus (EFSD+), totalling over DKK 1 billion making IFU one of the larger recipients of support under this EU scheme (negotiations are still ongoing on the specific terms). Looking ahead, IFU and the MFA are also considering ways to support the JETPs (Just Energy Transition Partnerships) and EU's Global Gateway amongst other in Ukraine.

Direct synergy with Danish development initiatives
IFU engages directly with structures and organizations supported and, in some cases, founded by the bilateral programmes managed by the embassies e.g. aBi Finance in Uganda and the Rural Development

Finance Institution (RDF) in Ghana. In Tanzania, Private Agricultural Sector Support (PASS), IFU and MFA have for some time been exploring opportunities for a partnership. By investing in these financial institutions, IFU contributes to commercial sustainability and ensuring that the institutions will continue to create impact without further Danish ODA support.

To succeed with the ambitious growth plans outlined in the reform, IFU needs stronger presence on the ground in developing countries. IFU has over the years benefitted from engagements with Danish embassies, the Trade Council, MYNSAM counsellors and organisations from Danish (and local) civil society. Collaboration with e.g. embassies can help IFU identify potential investment opportunities and provides updated knowledge of the local conditions in the country and access to key decision makers. With the 2024 Africa Strategy a new Africa Facility is planned and budget allocated on the proposed Finance Act 2025. Within the framework of the Africa Facility, IFU is strengthening its cooperation with EIFO to support Danish companies entering the African market.

2.5 Justification of programme

The proposed capital contribution and its consequent influence on IFU's reform and change processes 2024-2030 must be justified in view of aspects such as relevance, efficiency, effectiveness, impact, sustainability, and additionality (the OECD DAC evaluation criteria).

Relevance. Overall IFU's role is to overcome the challenges related to mobilising finance and facilitate investments in developing markets. As the official Danish DFI in impact investment, the Government considers IFU the relevant bilateral partner in terms of promoting private sector investments in developing countries. IFU has the skills and experience to manage investments and ensure that relevant sustainability policies, including environment and social standards, human rights standards, and anti-corruption standards are upheld. Further, IFU's tightened mandate to deliver first and foremost on Danish development priorities, provides good examples for the Danish government to showcase at international platforms and negotiations. In relation to the Ownership Document, IFU's ability to expand further into climate finance and increasingly cover the full spectrum of impact investment instruments provides a good basis for expanding IFUs portfolio.

Efficiency. IFU has developed screening and approval processes that are suitable to large-scale investments as well as smaller high-risk projects. IFU has proven able to deploy capital in fragile situations and during periods of macroeconomic headwinds. IFU has a comprehensive management system, procedures for assessing investments and risk management procedures, financial value, and impact creation processes. During this process, one of the key questions will relate to how the advantages of scaling up can at the same time accommodate the need for having diverse instruments that can reach many different kinds of investees and target groups. The capital contribution gives IFU more flexibility to use the most suited instrument for a given project and ensure the right balance between risk, returns and impact.

Effectiveness. Overall, IFU has contributed to positive development outcomes and been additional to other investors, while achieving a moderately positive return thereby protecting its capital base. IFU has been able to significantly scale up its impact across priorities, and IFU has also been able to use blended finance to reach geographies that have previously been difficult to reach, such as the Somali region and the Democratic Republic of Congo. The principles of blended finance are now an integral part of the IFU reform and the annual capital contribution will allow IFU to keep growing its investment volumes while creating both impact and returns, also in high-risk markets in line with the directions set in the Ownership Document. Synergies with other DFIs will also improve effectiveness.

Impact. Impact is at the core of IFU's mandate. Investments by IFU help overcome barriers that private companies in developing markets face when attempting to access capital. IFU's impact philosophy is based on the need for financially sustainable investments to assist developing countries in improving the livelihood of people. IFU's investment strategy rests on two impact priorities, which are directly linked to the SDGs:

- **Fostering green economies:** To reduce the use of resources, preventing global temperature rise through climate mitigation, contributing to a circular economy, and supporting the pursuit of sustainable production and growth. Climate adaptation and biodiversity protection are at the core of the green transition and essential to building resilience – often in agriculture and food systems. Furthermore, IFU is actively working with several of its microfinance investees to develop climate insurance, to improve resilience against climate change of the primarily agricultural clients of the microfinance institutions. To reach its net-zero emissions target, IFU is looking to invest into forestry, where biodiversity is a key consideration.

- **Supporting the building of just and inclusive economies:** Billions of people across the developing world lack access to essential goods, services and basic human rights. Gender inequality is of particular importance, together with a focus on benefits to people and underserved segments at the bottom of the income pyramid. These are important elements for reducing inequality and poverty. IFU's investments in micro-credit institutions directly target these priorities, while many other investments help build opportunities and conditions for addressing these challenges, e.g. through contributions to framework conditions for sustainable growth that will be required to bring more people out of poverty. The focus on increasing incomes for people at the bottom of the pyramid and the un(der)served are directly linked with improving access to essential services (electricity, water, food, financial services) and ensuring the affordability of these services for all parts of the population.

Sustainability. Development sustainability hinges on carefully selecting investments, active ownership and responsible exit. The financial sustainability of investments hinges on professional underwriting, careful structuring, and not least data analysis and proper risk assessment. An investment will only contribute to more sustainable outcomes if the transaction is financially sustainable. Experience shows that careful due diligence, impact screening, and active ownership (including strong and reliable management) all make a difference for delivering better sustainability. IFU's ownership policies and working processes support these processes. Towards 2030, IFU must prioritize a stronger focus on adaptation investments, and how to ensure sustainability of these investments.

Additionality. The additionality of IFU refers to the extent to which its participation mobilizes investments and impact that would not otherwise be possible. IFU works within the frameworks of the OECD definition of additionality for DFIs[16], and IFU's due diligence process serves to ascertain that IFU investments are additional and will not crowd out purely private alternatives. The ambition is to further develop analytical tools to assess financial additionality and integrate them in IFU's screening processes.

3 Programme objective

Programme objective: Promote investments, which support sustainable development, realisation of the SDGs and climate goals in developing countries.

[16] DCD/DAC/STAT(2023)20/REV3: Private sector instruments: additionality, reporting requirements and data disclosure, and monitoring, safeguards and disciplines, OECD (2023).

4 Theory of change and key assumptions

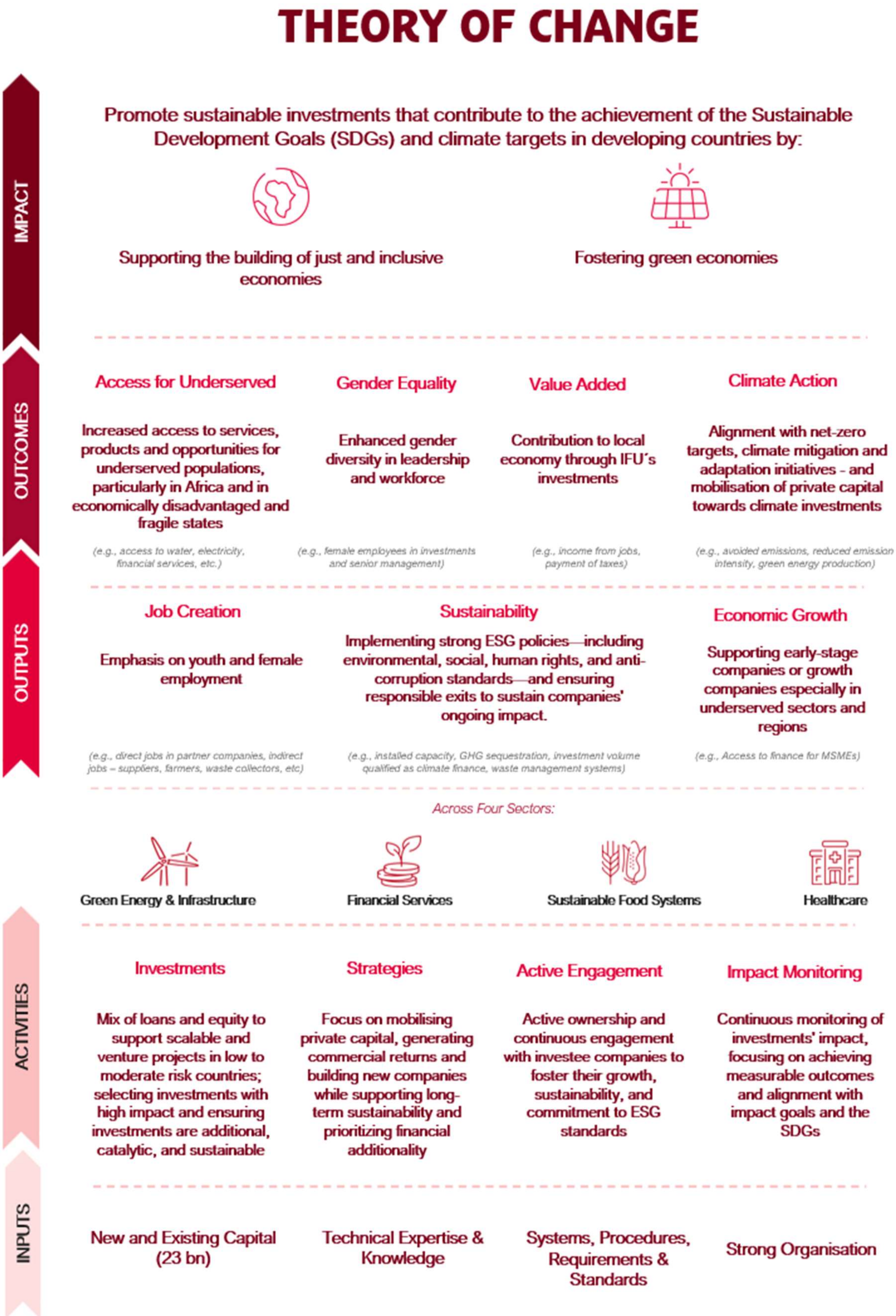
4.1 Theory of Change

The overarching Theory of Change (ToC) for IFU rests on the premise that by leveraging new and existing capital, technical expertise, and structured systems and procedures, IFU can drive impactful investments in developing countries, particularly in Africa, economically disadvantaged, and fragile states. By strategically selecting scalable investments in commercially viable businesses, these investments will contribute to long-term sustainability, job creation, gender diversity, and the achievement of climate targets. The long-term nature of this appropriation gives IFU certainty on budgets which allows a long-term perspective in building up the organisation as well as the portfolio of impactful projects.

- **Capitalisation of a diverse mix of financial instruments:** IFU deploys a mix of loans and equity to support projects with varying levels of risk tolerance, from early-stage companies to growth projects. The capital infusion foreseen with this appropriation will allow IFU to grow its portfolio under management to DKK 36.2 billion.
- **Strong and growing organisation with solid technical expertise & knowledge:** IFU has an experienced investment organisation covering both people with strong competencies within financing and deal making, legal expertise within mergers and acquisitions, and experts with deep knowledge of development impact and ESG. All areas of IFU are expected to grow as part of the reform. IFU also has a strong regional presence with offices in Ghana, Kenya, India, Brazil and Ukraine. The 2024-26 strategy envisages to further strengthen the country offices to continuously be able to identify investment opportunities and manage investments with strong development impact. Linkages with Danish Embassies will be further strengthened.
- **Systems and Procedures to guide the selection and management of impactful investments:** A crucial aspect of the ToC is IFU's ability to identify and select investments that yield measurable development impact. IFU will continue to develop and mature it’s systems and tools to ensure alignment with IFU’s policies, Environmental, Social, and Governance (ESG) standards, and international agreements like the Paris Agreement.

IFU’s intervention model differs from traditional development projects in its open mandate, which spans sectors, geographies, and stakeholders. IFU's role is to identify investment opportunities that deliver optimal value for money and the greatest development impact. IFU’s ToC is illustrated in Figure 6 below.

Figure 6: IFU investment theory of change for IFU's own capital



4.1.1 Activities and outputs

Regardless of the instrument or investment structure, IFU maintains a firm commitment to creating impact. Guided by robust systems and procedures, IFU will invest in a diverse range of companies, either directly or through intermediary investment funds. These companies, in turn, will utilize the capital to invest in their operations and, if successful, expand their business. IFU engages actively with investee companies to support growth, sustainability, and adherence to ESG standards. Active ownership includes participation on company boards and ongoing monitoring to ensure that investments align with the goals of fostering just, inclusive, and green economies.

IFU's investment must be financially additional, which IFU aims to ensure following the process described in section 2.2.7. By also being catalytic, IFU mobilises private capital. IFU mobilise private capital both directly through its managed funds and state on-lending and indirectly by de-risking investments and lowering barriers for private investors to invest into companies alongside or after IFU.

IFU's investment approach is flexible, designed to ensure the relevance, coherence, effectiveness, efficiency, impact, and sustainability of its portfolio. This approach is applied across its instruments—equity, loans, and guarantees—and is tailored to meet the specific needs of each investment, considering factors such as country, sector, network, and partnerships.

- **Job creation and improved labour standards:** The expansion of businesses will create jobs, with a focus on providing decent pay and ensuring compliance with occupational health and safety (OHS) standards. IFU will also emphasize gender equality by ensuring equal opportunities for women and men in the workforce. *(contribution to Outputs 1.1, 1.2, 1.3, 1.4, 1.5)*
- **Contribution to positive economic development:** Through its investments, IFU contributes to sustainable economic growth and job creation by providing financing for companies to fund expansion of their business. The IFU strong focus on ESG and sustainable business practices in all its investments will contribute to ensuring that partners offer quality jobs and behave in responsible manner in the local economies.
- **Project specific outputs.** Companies will be encouraged to implement resource efficiency measures (e.g., energy and water conservation, reduction of production material waste) and contribute to reduced emissions and pollution, directly supporting sustainable development outcomes. (*contribution to Outputs 2.1, 2.2, 2.3, 2.4*)

Sustainability. Fundamental to IFU's ToC is that IFU's engagement with the individual companies include a combination of the right finance package and IFU's knowledge of impact creation, documentation, and international ESG standards which helps to develop and scale the business. The capital in itself supports the growth of the company and its activities while IFU's comprehensive due diligence processes and requirements set high ESG standards which the companies have to live up to. The high standards contribute to ensuring strong development impacts from the IFU investments.

Adherence to IFU's policies and implementation of the required ESG standards and monitoring systems embed sustainability into the practices and organisational culture of the individual investee companies. Considerations to potential negative social and environmental impact becomes part of management's decision-making process, and safeguards to mitigate and avoid negative impact are implemented early on.

IFU's adherence to high ESG standards and systems for impact documentation, also decreases the risk of adverse ESG related incidents for both the company itself and its business partners. It thereby becomes more attractive for international customers, and for local as well as international investors. As such, IFU's financing and involvement mobilise additional private capital and help the companies in becoming more sustainable and ultimately also more commercially viable.

In the coming years IFU will further strengthen its system for evaluating the projects beyond the individual investee company to better understand the development impact of the investments on the communities and societies in which they are anchored. This knowledge will contribute to documenting the results of IFU, but be important learning that feeds into further maturing the system for selecting and developing new investments.

The IFU reform has a strong focus on further scaling existing financing instruments to maximize outreach and impact. Furthermore, IFU and MFA will continuously work to innovate and improve the IFU toolbox to develop instruments that can contribute to filling important financing gaps. One example is access to finance for Danish SMEs engaged in partner countries and partner country SMEs (cf. Chapter 6).

4.1.2 Expected results – outcome level

If investee companies succeed in growing their operations, this will lead to several positive outcomes:

Supporting the building of just and inclusive economies (outcome 1):

Access for underserved. IFU's investments seek to improve access to essential services, products, and employment opportunities, particularly for underserved populations. By 2030, IFU projects that 14 million underserved people will be reached through its investment portfolio.

IFU´s capital, when invested in companies, enables them to enter new markets and offer affordable, accessible services and products that otherwise wouldn´t reach communities. For instance, investments like the ones in Humania (Egypt and Morocco) or ODM (Morocco) in healthcare or Bancosol (Bolivia) in financial inclusion initiatives help companies to deliver scalable products, such as low-cost healthcare services and diagnostics or mobile banking services, that directly address the needs of underserved populations. Additionally, when investee companies expand their operations, they create new jobs *(output 1.1),* including for low-income individuals, women and youth. Access to employment opportunities provides not only income, but also empower these groups to access other essential services such as healthcare, education, and housing, which they otherwise might not afford. For example, in rural or economically disadvantaged areas, newly created jobs in Global Tea (Malawi) or African Coffee Roasters (Kenya) provide stable incomes that enable individuals to improve their livelihoods and invest in their own or their children's health and education. Overall, these investments can help reduce multidimensional poverty by increasing access to basic services that improve overall well-being, health outcomes, and economic participation.

Gender equality. IFU's investments aim to improve equality and promote inclusion across genders. IFU aims for a growing share of female employees and women in senior positions in the portfolio companies, thereby providing better access to the labour market for women and increasing their opportunities to earn their own income and increase independence.

By implementing gender-lens investing through the 2X Challenge Framework, IFU promotes companies' adoption of business models that advance female participation, such as leadership training for women or policies that support women´s inclusion in traditionally male-dominated sectors. This will provide women with better access to employment and income and also contribute to breaking cycles of dependency and creating pathways for economic empowerment.

Value Added. Beyond company-specific outcomes, the broader economic activities generated by investee companies will have significant positive impact on local economies. As businesses grow, they create jobs, contribute to local wages, pay taxes, and facilitate savings.

Companies that invest in sectors such as clean energy or agriculture can provide essential services like renewable power or sustainable farming techniques which benefit the individual, but it also contributes to increasing overall productivity for local communities. Additionally, companies sourcing raw materials locally—such as smallholder farmers in value chains—can drive economic inclusion by offering farmers access to new markets, enhancing their livelihoods, and increasing productivity through capacity-building programmes.

IFU's impact priorities are reflected in the 50% investment target for Africa and the 30% target for economically disadvantaged and fragile countries. Additionally, IFU has set ambitious targets for 30% of its investments to be eligible under the 2X Challenge (focused on gender equality), and for investments to increase income for the bottom 40% of the population[17], specifically targeting underserved populations *(contribution to Outcome 1).*

Fostering green economies (Outcome 2)

Climate Action. Investee companies will also contribute to critical environmental and climate outcomes, including climate change mitigation and adaptation, water and marine resource management, circular economy initiatives, pollution prevention, and biodiversity protection.

Investments in green infrastructure—such as solar, wind, and biomass energy projects—facilitate a shift toward a greener energy mix in developing countries. For instance, in Nithio solar power installations in rural regions in several African countries replace polluting diesel generators, while companies engaged in circular economy projects help address waste management challenges by recycling materials and turning waste into valuable products. These companies have green business models that not only reduce environmental degradation but also demonstrate that sustainable growth is commercially viable. The more companies that operate in green sectors, the greater the positive impact on the climate.

Within *sustainable food systems and climate-smart agriculture* investee companies working within the agricultural sectors will focus on promoting climate-smart practices, such as organic farming or water efficient irrigation methods. By working directly with farmers, these companies encourage the adoption of practices that enhance resilience to climate change while simultaneously increasing productivity. This not only helps mitigate the effects of climate change but also secures food systems for future generations.

IFU's strong focus on the green transition, reflected in its 50% climate investment target, ensures that each investment contributes to the overall goal of fostering a green economy. Through these investments, IFU seeks to create a ripple effect—each company that successfully adopts sustainable practices encourages others to follow, ultimately contributing to systemic change at a broader scale. Recognizing the growing need for climate adaptation, IFU is also testing new approaches to enhance the climate resilience of its portfolio and investing in climate adaptation.

Increased organization capacity (Outcome 3)

To successfully implement IFU's reform agenda, the organization will need to significantly strengthen its internal capacity. By 2030, IFU aims to increase its staff from 109 (in 2023) to between 185 and 225. This growth will be particularly focused on teams dedicated to investment activities, including professionals in legal, sustainability, and impact roles.

By expanding staff and establishing more regional offices (both number of offices and staff at the offices), IFU will be better positioned to originate a larger number of new investments and manage its growing portfolio and provide close support to its investee companies.

[17] Following the target set in SDG 10.1

Additionally, IFU is committed to continuously improving its communication, transparency and impact measurement systems, as well as its in-house expertise on climate and development. By ensuring that all staff gain a deeper understanding of the social, economic, and environmental effects of IFU investments, IFU will not only document its results but also promote learning and refine its selection processes.

4.2 Assumptions

The Theory of Change assumes that the lack of financing in emerging markets is a major barrier to both economic development and a green transition. The model further assumes the following:

- **IFU's systems and processes for identifying, screening, and selecting investments remain robust,** allowing IFU to assess risks effectively and choose investments that generate measurable development impact, particularly in underserved sectors and regions.
- **IFU's organizational growth plan for 2024-2030, including the substantial increase in staff, is implemented successfully,** both in terms of quantity and the quality of skills and expertise. This includes strengthening regional presence, governance, and in-house capabilities in sustainability, impact measurement, and climate resilience.
- **The financing gap in emerging markets persists**, particularly in areas requiring green transition, gender equality, and sustainable infrastructure, thereby continuing to create a need for IFU's investments and financial interventions.
- **Businesses with profitable and sustainable models exist but lack sufficient market-based funding**, especially in regions like Africa and fragile states where IFU's impact priorities are focused.
- **IFU can consistently identify and capitalize on relevant investment opportunities** across different sectors (green energy and infrastructure, financial services, sustainable food systems, healthcare) and geographies, particularly in markets with higher risk profiles.
- **Political, regulatory, and macroeconomic conditions in developing markets remain sufficiently stable** to enable Development Finance Institutions (DFIs) like IFU to make impactful and sustainable investments.
- **Investee companies are committed to and capable of executing their business and impact plans**, ensuring that investments lead to the intended development outcomes, such as job creation, gender equality, poverty reduction, and environmental sustainability.
- **Companies that adhere to international ESG standards** will generate stronger, long-term development impact as they implement projects aligned with IFU's sustainability goals, particularly in areas related to climate mitigation, adaptation, and circular economy practices.
- **Achieving positive financial returns is feasible**, despite the risks associated with investing in emerging markets, as long as there is a well-defined balance between financial sustainability and impact objectives.

It is recognized that some of these assumptions may only be partially met initially, with varying degrees of fulfilment over time. IFU will document, track, and reassess these assumptions throughout the investment cycle to ensure ongoing alignment with its impact goals.

5 Summary of the results framework

IFU will report on the outputs and outcomes generated by the capital contribution through the results framework. The results framework builds on IFU's monitoring of individual investments. IFU monitors and reports on financial performance, application of ESG safeguards, business integrity performance, and investment impact. All of this feeds into IFU's annual reporting. IFU is continuously developing its monitoring and evaluation system for documenting development effects of individual projects based on standard indicators such as: Number of direct and indirect jobs (total, female, youth); installed capacity of renewable energy; avoided CO_2 emissions and number of female clients in financial institutions.

The capital contribution and mobilised capital will increase both IFU's investment budgets and capital under management. Towards 2030, IFU annual investment activity is expected to reach the targeted DKK 36.2 billion in portfolio under management. The increase will signify more than a doubling of current investment levels. The activity growth will increase IFU's ability to deliver measurable impact results including on the indicators presented in the results framework. Based on the expected growth and focus sectors, IFU has projected targets for a number of indicators in the results framework.

The targets reflect the expectation that IFU is able to achieve the planned scale-up of its investment activity. They also assume that there will be a continued need and demand for IFU's financing in the sectors IFU plans to invest in. IFU will adapt to the market needs and demands in target countries, and do the investment that best deliver on it's impact priorities. The investment strategy and focus on specific sub-sectors may therefore evolve towards 2030, which can have an impact on the realisation of projected targets in the results framework. The regular reviews foreseen over the 2024-2030 period will take account of these developments and reflect lessons-learned.

In the results framework, IFU will only report on results from its direct investments and reflect separately results generated by funds that IFU have invested into and where IFU is not the fund manager. With investments into funds, IFU can reach a great number of companies in markets that can be difficult for IFU to reach itself. However, IFU can also not take the same active ownership role in funds investments, and has less influence over the impact results generated by the companies the funds invest in. These results are therefore not included in the results framework reporting or the targets. According to IFU's policies, maximum 20% of IFU's own capital can be invested in funds where IFU does not manage the fund, owns part of the fund manager or have an earmark contribution for the fund.

Programme Title	**IFU Capital Contribution**
Objective	Promote sustainable investments that contribute to the achievement of the Sustainable Development Goals (SDGs) and climate targets in developing countries by: - Supporting the building of just and inclusive economies, with a focus on poverty alleviation, gender equality, and job creation in the most vulnerable communities. - Fostering green economies through investments in climate mitigation, adaptation projects, and sustainable infrastructure, particularly in regions most affected by climate change. While ensuring that investments are additional, catalytic, and sustainable, by leveraging private capital and mobilizing financial resources in a way that prioritizes financial additionality and delivers measurable development impact across IFU's four thematic areas.
Impact indicators	- Contribution to building green economies and thereby moving the world towards the 1.5 degree target (Paris alignment). - Contribution to building just and inclusive economies through increasing human development for underserved populations through improved opportunities for decent jobs and higher incomes, and better access to quality and affordable food, healthcare, energy and financial services for underserved. - Demonstrating financial and value additionality - Increasing mobilisation of private capital towards SDGs

Priorities	**Development policy priorities**
Priority 1 - Africa	Share of new investments in Africa (three-year rolling period)
Measured on:	a) Percentage share of investments contracted a by IFU's own capital b) Percentage share all investments contracted in the year relative to the share of all investments funded by IFU's own capital

Target:	a) No target b) Corresponding to 50% of IFU own equity invested in year
Result 2023:	a) 23% b) 46%
Priority 2 – Poor & Fragile	Share of investments in poorer countries (GNI per capita below 50% of the definition of Lower Middle-Income Countries as well as all LDCs) and fragile and conflict-affected situations
Measured on:	a) Percentage share of investments contracted a by IFU's own capital b) Percentage share all investments contracted in the year relative to the share of all investments funded by IFU's own capital
Target:	a) No target b) Corresponding to 30% of IFU own capital invested in year
Result 2023:	a) 19% b) 22%
Priority 3 - Climate	Share of new direct investment volume qualifying as climate finance
Measured on:	a) Share of investments relative to total investments b) Percentage share all investments contracted in the year relative to the share of all investments funded by IFU's own capital
Target:	a) 50% b) Corresponding to 50% of IFU own capital invested in year
Result 2023:	a) 75% b) 122%

Outcome 1	**Supporting the building of just and inclusive economies**
Outcome indicator 1.1	Contribution to local economy measured through value added through IFU's investments. *Value added is a concept measured in the Joint Impact Model (JIM), which quantifies the sum of wages, taxes and savings expressed in monetary value and equivalent to gross domestic product.*
Measure on:	a) Portfolio contribution total b) Growth in contribution since last year
Baseline:	a) DKK 150bn c) 104%
Target	No target
Outcome indicator 1.2	Increased gender equality in portfolio companies
Measure on:	a) Share of female employees in investments b) Share of investments with more than 40 percent women in senior management
Baseline:	a) 32% female employees in the portfolio in 2022 c) 15% of portfolio companies had in 2022 more than 40 percent women in senior management
Target	a) 2025: 30%; 2027; 30%; 2030: 30% b) No target
Outcome indicator 1.3	Increased access to services for underserved populations
Measure on:	Total aggregated delivered impact for the portfolio (no of people reached) Access will be combined number of people reached across the below four thematic indicators: - MFI customers (Financial Services) - Patients (Healthcare) - Smallholder farmers (Sustainable Food Systems) - People receiving access to energy (Green Energy & Infrastructure)
Baseline:	2022 portfolio Total underserved: 6.6m - MFI customers: 5.2m - Patients: 1.2m - Smallholder farmers: 0.1m - People receiving access to energy: 0.1m
Target	Total underserved: 2025: 10m; 2027: 11m; 2030 14m

Outcome 2	**Fostering green economies**
Outcome indicator 2.1	Avoided emissions (attributed to IFU's financing)
Measure on:	a) Expected avoidance from new investments b) Realised on total portfolio
Baseline:	a) N/A b) 0.263 million tCO2e avoided emissions (attributed), based on GWh of renewable energy produced
Target	a) No target b) 2025: 0.3m tCO2e; 2027: 0.325m tCO2e; 2030: 0.475m tCO2e
Outcome indicator 2.2	Reduced emission intensity of IFU's portfolio and alignment with IFU 2040 net zero pathway
Measure on:	a) Full portfolio emission intensity - alignment with IFU 2040 net zero
Baseline:	a) 111 tCo2e/DKKm in 2022 emission intensity of full portfolio
Target	a) Pathway indicator under development - will be decreasing each year
Outcome indicator 2.2	Production of green energy
Measure on:	GWh produced by the portfolio
Baseline:	5.9m GWh produced by IFU's portfolio in 2022
Target	2025: 9m GWh, 2027: 12m GWh, 2030: 14m GWh
Outcome indicator 2.3	Climate financing delivered in terms of capital directly invested into companies and private capital indirectly mobilised
Measure on:	New investments
Baseline:	DKK 870m in climate financing from direct IFU investments and private capital mobilised by IFU
Target	2025: DKK 4bn, 2027: DKK 5bn; 2030: 7bn (DKK 38 billion in total)

Outcome 3	**Increased organization capacity to identify and invest in high impact additional projects**
Outcome indicator 3.1	Portfolio companies live up to and implement sustainability systems and policies.
Measured on	Percent of portfolio companies meeting requirements and share of new investments living up to them. Specifically share of portfolio companies with - A sustainability policy - An environmental & social management system - An appointed person responsible for sustainability - An external grievance mechanism - An anti-bribery & corruption policy
Baseline	2023 sustainability performance of portfolio - 82% have a sustainability policy - 66% have an environmental & social management system - 90% have an appointed person responsible for sustainability - 73% have an external grievance mechanism - 84% have an anti-bribery & corruption policy
Target	No target
Outcome indicator 3.2	Performance on "impact principles" indicators (impact management) verified by independent assessment done by BlueMark
Measured on	Score on indicators relative to peers and to last report from 2021. Ratings are: Advanced: Limited need for enhancement at present High: A few opportunities for enhancement Moderate: Several opportunities for enhancement Low: Substantial enhancement required
Baseline	2024 BlueMark report score: 6 advanced, 2 high, 0 moderate, and 0 low. Score split on indicator:

	1) Define strategic impact objective(s), consistent with the investment strategy: Advanced 2) Manage strategic impact on a portfolio basis: Advanced 3) Establish the Manager's contribution to the achievement of impact: Advanced 4) Assess the expected impact of each investment, based on a systematic approach: Advanced 5) Assess, address, monitor, and manage potential negative impacts of each investment: Advance 6) Monitor the progress of each investment in achieving impact expectations and respond appropriately: Advance 7) Conduct exits considering the effect on sustained impact: High 8) Review, document, and improve decisions and processes based on the achievement of impact and lessons learned: High
Target	Maintain or improve score (note: BlueMark continuously increase the requirements for each score level, so maintain a score implies an improve in sophistication compared to previous reviews)
Outcome indicator 3.3	Investees contribute positively to the local economy after receiving capital from IFU Impact Ventures
Measured on	Profitable exit by IFU Impact Ventures or by the funds in which IFU Impact Ventures invested – *A proxy for the investee companies having been successful and grown.*
Baseline	N/A
Target	15%
Outcome indicator 3.4	IFU Impact Ventures' investees move on to more commercial sources of finance
Measured on	Share of IFU Impact Ventures' companies able to raise follow-on capital (debt and/or equity, from IFU or other (direct and indirect (via funds))
Baseline	N/A
Target	2025: 20%; 2027: 25%, 2030: 40%

Output 1	**Supporting the building of just and inclusive economies**
Output indicator 1.1	Number of direct and indirect employees in all investments (FTEs)
Measured on:	Full portfolio
Baseline (2022):	a) 85.000 jobs directly supported by IFU's portfolio companies b) 1,8 million jobs indirect supported by IFU's portfolio companies
Targets	c) 2025: 140.000 jobs, 2027: 165.000 jobs, 2030: 270.00 jobs d) 2025: 2,5 million jobs, 2027: 3 million jobs, 2030: 5 million jobs
Output indicator 1.2	Share of direct investments that pay more than the national minimum wage
Measured on:	Full portfolio
Baseline (2022):	77% of 2022 portfolio
Target	No target
Output indicator 1.3	Women and youth employed directly (share of total)
Measured on:	Full portfolio
Baseline (2022):	a) 27.000 female jobs directly supported in 2022 by IFU's portfolio companies b) 12.000 youth jobs directly supported in 2022 by IFU's portfolio companies
Targets	a) 2025: 45.000 female jobs, 2027: 50.000 female jobs, 2030: 85.000 female jobs b) 2025: 15.000 youth jobs, 2027: 20.000 youth jobs, 2030: 35.000 youth jobs
Output indicator 1.4	Local taxes paid by investees and IFU
Measured on:	Full portfolio
Baseline (2022):	DKK 8.954 million in 2022
Target	No target
Output indicator 1.5	30% of new investments with a gender equality focus (2X challenge eligible)
Measured on:	New investments made in year
Baseline:	50% of new investments in 2023 were eligible
Target:	30%

Output 2	**Fostering green economies**
Output indicator 2.1	Total installed capacity of renewable energy investments, including new capacity

Measured on:	Installed capacity in portfolio and expected added capacity from new investments
Baseline:	Portfolio: 2.786 MW in installed capacity in 2022 Expected from new investments: 327 MW from 2023 investments
Target	No target
Output indicator 2.2	GHG sequestered by investments, for example nature-based solutions
Measured on:	Expected sequestering from new investments
Baseline:	None - *New indicator under development*
Target	No target
Output indicator 2.3	Share of investment volume that qualifies as climate investments split on climate mitigation and climate adaptation (Rio marker 1 and 2)
Measured on:	New investments
Baseline:	None - *New indicator under development*
Target	Target to be defined for 2026 review

Output 3	**Building IFU's organization**
Output indicator 3.1	Strengthened delivery capacity as per IFU 2024 to 2026 strategic plan
Measured on:	IFU to deliver qualitative reporting on the implementation status of the strategic plan: - Growing IFU, invest in professional development and harness positive culture - Increase communication efforts to build a stronger profile - Improve data and technology support to increase ability to collect and report on sustainability data, digitalise business processes and improve efficiency - Increase consistency in risk management and strengthen governance and compliance
Baseline:	IFU 2024 to 2026 strategic plan
Target	Progress on strategic plan (reported to and monitored by IFU's board)
Output indicator 3.2	Strengthened delivery capacities as per IFU 2024 to 2026 strategic plan by increasing IFU staff
Measured on:	a) Number of FTEs working in IFU b) Number of FTEs working in Investments (as Investment professionals and with Sustainability and Impact) c) Number of regional offices d) Number of Investments professionals working in regional offices
Baseline 2023:	a) 109 b) 64 c) 5 d) 13
Target	a) 2025: 150 FTEs, 2027: 175 FTEs, 2030: 200 FTEs b) 2025: 85 FTEs, 2027: 105 FTEs: 2030: 125 FTEs c) 2025: 6; 2027: To be defined, 2030: To be defined d) 2025: 26 FTEs; 2027: To be defined, 2030: To be defined
Output indicator 3.3	Strong activity in IFU Impact Ventures
Measured on:	Number of investments committed by IFU Impact Ventures, of which direct and indirect (via funds)
Baseline	N/A
Target (2026):	2025: 4, 2027: 8, 2030: 8
Output indicator 3.4	IFU Impact Ventures' investees able to increase business activity (direct and indirect (via funds))
Measured on:	Share of IIV investees with increased business activity measured as increase in revenue after IIV investment
Baseline:	N/A
Target (2030):	2025: 30%, 2027: 50%, 2030: 80%

6 Budget

The overall budget of the proposed contribution is DKK 3.6 billion from 2024-2030. As a general capital contribution to IFU, the funding will be deployed as part of IFU's overall investments using its own capital.

Activity	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**Total (million DKK)**
IFU core capital contribution	550	499	549	500	500	499	500	3,597
Hereof own capital direct investments								*1200*
Hereof own capital investments in green loans								*1200*
Hereof own capital investments in SDG Fund								*1097*
Hereof own capital investments in IFU Impact Venture								*100*
Reviews and studies*		1	1		1			3
Total	**550**	**500**	**550**	**500**	**500**	**500**	**500**	**3,600****

*IIV Review and ad-hoc consultancy input e.g. focused on setting up results measurement system in 2025, Capital Contribution Reviews in 2026 and 2028
**DKK 3.5 billion in core capital contribution and DKK 100 million capital contribution for IFU Impact Ventures

Table 9: Overview of new IFU financing sources and uses

Financing sources	**Amount**		**Uses**
Official development assistance (ODA)	**Total capital contribution from MFA**	**DKK 6.4 billion**	
	DKK 550 million in 2024, DKK 500 in 2025, DKK 550 in 2026 and DKK 500 million from 2027-2030 (total of DKK 3.6 billion), including DKK 100 million for Impact Ventures.	DKK 3.6 billion	IFU equity investments, Green loans, SDG Fund II investments
	DSIF subsidies: DKK 7 x 400 million from 2024-2030	DKK 2.8 billion	Concessional element of DSIF loans + technical assistance
Central Bank of Denmark	**Total on-lending:**	**DKK 13.7 billion**	
	Access to state loans of up to DKK 7.5 bn. towards 2030	DKK 7.5 billion	IFU green loan portfolio
	Contribution to a new SDG Fund via state loans	DKK 800 million	SDG Fund II investments
	IFU takes over as lender on DSIF projects via state loans	DKK 5.4 billion	IFU lender of record for DSIF loans
Private institutional investors	**Total capital from private institutional investors**	**DKK 3.0 billion**	
	Danish institutional investors	DKK 3.0 billion	SDG Fund II investments

From the outset, IFU will strive towards an equal distribution between investments in projects that contribute to the two impact objectives – Fostering green economies and Supporting the building of just and inclusive economies. The capital contribution is flexible to be used in the IFU instrument deemed most relevant for the respective investment. Moreover, new financing instruments have been added to the IFU toolbox and more are to come. In the first instance, IFU Impact Ventures is included starting in 2024. A budget of DKK 100 million is included in the capital contribution above.

The ambition with the capital contribution is to create a framework for a more programmatic and strategic approach to including new initiatives and funding – ideally as an extension of the overall capital contribution. For 2025 MFA has, beyond the capital contribution, committed funding for three new initiatives. One budget allocation is DKK 100 million to increase the Ukraine facility. Furthermore, the proposed Finance Act 2025 foresees two budget allocations to finance IFUs contribution to the new Africa Strategy i.e. DKK 100 million for a new Africa facility as well as DKK 50 million to support SMEs. These will be presented to UPR with the annual consultations in 2025.

7 Institutional and management arrangements

7.1 IFU governance set-up and MFA oversight

MFA Ownership

IFU was established by the Danish Government in 1967, and the legal basis for IFU is §9 in the Law for International Development Cooperation. The Ministry of Foreign Affairs manages the ownership of IFU on behalf of the Danish State. MFA exercises an active ownership which implies close dialogue and consultations with IFU to set the strategic direction and monitor progress. MFA is attentive to the need to ensure a solid mandate for the IFU management and Board. The framework for MFAs active ownership is the Ownership Document

which outlines the overall strategic direction and the meeting and reporting structure which is presented in the following sections. This appropriation document will, beyond the dedicated the budget allocated, serve as an overall framework for future capital contributions from MFA to IFU. The ambition is that future appropriations will be more uniform and transaction costs reduced.

MFA and IFU will organise yearly meetings between IFU and the Minister for Foreign Affairs with point of departure in the Ownership Document. Bi-annual meetings are set-up between the MFA State Secretary for Development Policy and the IFU Chairmanship as well as quarterly meetings between the IFU senior management and the head of the KLIMA Department in MFA to discuss issues of common strategic interest. In addition, at an operational level ad-hoc meetings are organised on a continuous basis between IFU, MFA and relevant Danish embassies. The MFA relation to IFU is coordinated by the KLIMA department. Table 10 provides an overview of the structure for a continuous dialogue.

Table 10: A structured dialogue between IFU and MFA

Coordination Forum	Frequency
Meeting the Minister	Yearly
Presentation to the Council for Development Policy	Yearly
Coordination meetings - IFU Chairmanship and MFA 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

Consultations with UPR

As a new initiative, IFU must appear before UPR annually to account for progress in the reform of IFU and provide updates on results achieved, relevant changes in context, critical assumptions and risks, and explain potential delays in results together with planned remedial action. The results framework in this document will, as a point of departure, serve as basis for the progress reporting. The annual consultations will also focus on key issues such as organisational change, impact measurement, communication, and system developments in IFU. IFU will also inform about strategic priorities for the following period. The annual consultation is also a forum, where the UPR may raise issues of priority and concern. These consultations will feed into the annual meeting with the responsible Minister and update of the Ownership Document as relevant.

IFU Board of Directors

IFU's Board of Directors is responsible for assuring that the strategic management of IFU complies with the Ownership Document (and hence complies with the law as well as with the development strategy). The responsible Minister nominates the Board of Directors and its Chairperson. MFA is represented as observer in the Board of IFU – currently by the Head of the KLIMA Department.

IFU Management
The CEO is responsible to the Board of Directors for implementing the agreed strategies and policies. The capital contribution and the resulting investments will follow IFU policies and draw on IFU's capacities in sustainability, legal, financial management and communication. IFU also has board-approved guidelines and policies in place for working with safeguards and ESG requirements. The state attorney (Kammeradvokaten) has established that IFU complies with rules and procedures of Danish anti-money laundering.

7.2 Organisational development

The capital injection, access to on-lending and the impact priorities set in the ownership document marks a strategic shift for IFU. MFA & IFU plan to more than double IFU's investment budget while ensuring a rigorous investment process with high standards for ESG that is creating significant and measurable impact. To deliver on the ambition, IFU needs to significantly boost 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 right path to strengthen its capacities and expand the organisation. Four key areas of strengthening have been defined in the strategic plan: 1) organisation, values & culture, 2) communications, 3) data & technology, and 4) governance, risk and compliance (cf. section 2.2.2). In each of these four areas, gaps have been identified to be closed and detailed plans with specific initiatives have been made to set the direction for the efforts needed.

Strengthening ***organisation, values and culture***, revolves around growing IFU as an organisation. Specifically, IFU plans to increase its staff with 20 to 25 FTEs annually with an aim to double the size of IFU towards 2030 from ~110 FTEs at the end of 2023 to 185-225 FTEs. Growth is planned both in the Copenhagen headquarter and in IFU's regional offices. Additional regional offices are foreseen, and in general the staffing at the regional offices is expected to increase in relative size compared to Copenhagen. A key focus for the growth is building the right competences within IFU both through development of existing employees and recruitment. Maintaining IFU's strong culture during a period with rapid growth is key to ensure coherence in the organisation. To support this, IFU has recently carried out a review of its organisational culture. The review confirmed a strong and positive culture, and was the starting point for an update to the statement of IFU's core values, which reflects the way IFU should work to fulfil the ambitions on the journey ahead.

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

New requirements to the collection and reporting of impact and other none-financial data and a need to increase efficiency frame IFU's work to strengthen ***data and technology***. Several new IT systems are planned for, with a new system to support IFU's investment process end-to-end is already under implementation. A new central operations unit was launched in 2023, which will boost capacity by centralising selected tasks in the investment process. The work will ensure IFU is able to meet the reporting requirements set by the new EU regulation as the Sustainable Finance Disclosure Regulation (SFDR) and CSRD and further build IFU's position as a leading impact investor.

Governance, risk and compliance are issues of growing importance, as IFU expands it 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. IFU will develop a new strategic plan during 2026, which will set the direction for IFU for the remainder of the reform period towards 2030.

7.3 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 notify MFA in accordance with MFA's Anti-Corruption Policy ("Zero tolerance")[18]. 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's Grievance Mechanism and Whistleblower Policy is presented further in Annex 2.

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.

8 Financial management, monitoring, evaluation and learning

8.1 Financial management and administration

According to *Vejledning for håndtering af kapitalindskud fra Udenrigsministeriet til IFU*[19] general capital contributions with the aim of strengthening IFU's core capital have no additional requirements beyond being invested in accordance with IFU strategies, priorities and policies. Financial reporting follows IFU's overall financial reporting to the Ministry of Foreign Affairs, reflecting the use of the funds. The funds will be audited as part of the overall audit of IFU accounts. Based on recommendation from the IFU Board of Directors, the Minister appoints an audit company with international experience, which audits the annual account in accordance with Danish and international audit standards in agreement with the Auditor General (*Rigsrevisionen*).

MFA will disburse to IFU annually based on a) audited financial accounts from the preceding year b) disbursement, pipeline and liquidity need projections for the coming year and c) if relevant, guidance from the strategic dialogue. In accordance with MFA's standard approach, MFA will ensure that new capital is disbursed to cover liquidity needs and not accumulating in the organisation.

IFU Management will update the MFA through quarterly meetings, covering both financial and other relevant reporting (cf. section 7 on management arrangements). IFU also publicly reports on its operations and results in e.g. its annual report. 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.

[18] 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
[19] "Vejledning for håndtering af kapitalindskud fra Udenrigsministeriet til IFU", opdateret 23. februar 2022, Sag: 2020-38642.

8.2 Monitoring and Evaluation

IFU's monitoring and evaluation (M&E) systems play a crucial role in learning and accountability within IFU. As an impact investor, IFU contributes to sustainable development while also generating financial returns on its investments. Consequently, IFU has unique requirements for its M&E processes. These include enhancing the understanding within the organisation of what generates impact, improving ESG implementation and risk mitigation practices, and providing evidence of impact and additionality.

Monitoring Metrics and Indicators
Regular monitoring ensures IFU and its investees are accountable for the financial resources used and the outcomes achieved. The generation of data and evidence supports informed decision-making and allows IFU to track progress towards achieving social, economic and environmental impacts in addition to financial returns. Currently, IFU's monitoring systems focus on:

- Collecting compliance and ESG reporting, along with key output data, through the Annual Sustainability Report (ASR) exercise to produce annual reports.
- Results frameworks, which have been developed for recent investments, tracking a small set of indicators against targets.
- Key compliance and ESG mitigation actions that are agreed upon at the start of an investment.
- Ex-ante and ex-post assessment of investment performance conducted by IFU staff.
- A screening tool to assess and select potential investments that align with IFU´s strategic goals, including financial considerations, developmental impact and adherence to ESG standards.

ASR data, active ownership reviews, and sporadic contacts between investment professionals provide an overview of the status. Moving forward, IFU will introduce a new Investment Management System (IMS) to include functionality to automate data collection processes contributing to monitoring of non-financial aspects of the investment.

Portfolio level
At portfolio level, IFU collates and analyses data to assess performance against organisational objectives and develop annual reports on impact performance. Additionally, IFU uses this information to inform quarterly or half-yearly status meetings on progress and the financial and sustainability performance of investments. IFU also collects lessons learned during the lifetime of investments, and the IFU Board receives exit evaluations for information and discussion to secure learning from the experiences. IFU's Investment and Impact Model takes a general approach showing how providing capital and advice to private businesses in developing countries can create impact. 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 debt investment supporting the green transition in Turkey 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 the alignment of IFU's impact management system and processes with the principles. 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 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. BlueMark has concluded a new independent verification in 2024 which concluded that IFU has improved significantly and is now in the top quartile on all eight practice verification areas. This achievement reflects IFU's evolution as a leading impact investor.

In 2022, IFU published its first integrated annual report, and as part of the reporting process IFU in 2022 had a readiness assessment on ESG assurance conducted by Deloitte with a view to having verification in the future. This is in line with the incoming EU Corporate Sustainability Reporting Directive (CSRD) that also requires limited assurance over sustainability reporting. Furthermore, to guide IFU's strategic priorities and ensure that IFU responds to and reports on material sustainability issues, IFU will prepare for a double materiality assessment process, as required by the CSRD. This includes an assessment of financial effects on IFU from sustainability-related risks and opportunities, i.e. financial materiality. It also includes an assessment of actual or potential positive or negative impacts caused or contributed to by IFU's activities on people or the environment.

Box 5: IFU is recognised as one of the World's best impact investors

In September 2024 IFU became part of the leading rating agency BlueMark's list of the world's best impact investors, where only 15 asset managers globally are represented.

"As an impact investor and manager of pension capital, it is also crucial that we are able to document, measure and report throughout the investment process that the investments actually lead to positive changes. BlueMark's recognition is an important endorsement of doing what we promise."

Lars Bo Bertram, CEO of IFU.

Investment / project level

At the level of individual investments, IFU monitors impact by tracking key performance indicators according to a results framework. All investments provide regular financial reporting and annual reporting on impact. During the pre-investment stages, IFU establishes a Theory of Change for each investment, which IFU uses to develop the impact results framework, with indicators and targets mutually agreed with the lender/investee companies. IFU develops its Theory of Change for an investment prior to the due diligence and serves as an analytic tool to evidence the company's (and IFU's) expected contribution to the impact. It also serves to identify the relevant assumptions, around impact but also the business model that should be tested during the due diligence. Complimentary to IFU's standard portfolio and sectoral indicators, IFU's adds relevant project-specific indicators to monitor the social and environmental performance of the investment. Portfolio companies are responsible for collecting data and annual reporting during the lifetime of the investment. IFU tracks performance on ESG-related issues annually across portfolio companies.

For Impact Ventures, a simplified process will be followed whereby a high-level, light-touch Theory of Change is developed for each investment, with indicators and targets established and mutually agreed on with investee companies. As much as possible, indicators will be the ones the early-stage companies themselves already track and therefore represent little incremental reporting effort.

During the investment period, the Theory of Change also helps to map the linkages between the intended changes, and the KPIs, which IFU tracks 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 investment, as well as to communicate that story to other stakeholders, including co-investors.

Evaluation of Outcomes

IFU must systematically evaluate outcomes to determine whether its interventions are achieving the intended impact priorities: Fostering green economies and supporting the building of just and inclusive economies. This process not only provides accountability to stakeholders but also informs future investment decisions and strategies. Evaluating outcomes will help IFU learn from successes and failures, enabling it to refine its approaches and allocate resources more effectively.

As initial steps towards understanding and demonstrating impact contribution and additionality, IFU introduced the Theory of Change model (ToC) into the investment design to more explicitly articulate impact ambitions and ensure indicators in the results framework are aligned with the ToC. Additionally, IFU has launched a new format for evaluating investments upon exit. This format builds on IFU's approach to active ownership and tracks the portfolio company's performance on financial, impact, and ESG indicators during IFU's ownership. It also compares this performance with the expectations set at the time of investment. The new format emphasizes collecting learnings from the ownership period and evaluating actual results against initial expectations. IFU must improve its M&E approach to effectively capture and document impact and development effects. This will involve several key initiatives:

- Realigning tools and processes to enhance data collection and complement existing information gathered from portfolio companies.
- Integrating additional components such as an evaluation policy, outcome tracking mechanisms, and an indicator catalogue.
- Developing Data Quality Assurance mechanisms to ensure that the data collected for M&E purposes is accurate, reliable, and consistent.
- Capturing end-users and stakeholders' perspectives through systematic surveys, interviews and field visits to improve IFU´s understanding of investor contributions to impact (non-financial additionality).

Another significant objective is to better measure and document the outcomes and impact of IFU's investments. This includes collaborating closely with portfolio companies to identify measurable outcome indicators and facilitating external evaluations at a theme-based and sectoral levels. These efforts will enable IFU to robustly assess the developmental impacts of its investments and further strengthen its commitment to sustainable development and accountability.

8.3 Reporting

Apart from data from the annual report, assessments of progress made and additional studies can also be presented. As IFU reports on an annual basis, the accumulated data will over time provide an overview of the progress made towards implementing the Ownership Document as well as inputs to necessary changes. IFU SDG data and impact data can over time be supplemented with demands for additional reporting on indicators, or a further development of certain key indicators.

In case results do not show as expected, or if results will only appear later representing a risk for delays in the execution of the Ownership Document, the MFA will take the initiative to collect supplementary data to document the reason behind the lack of progress. Such studies could address relations between organisational development and impact and investment results, particular impact indicators, sector studies, country studies or other data collection that can support the implementation of the ownership document.

The MFA plan to conduct two midterm reviews by 2026 and 2028, respectively. Furthermore, a dedicated review of the IFU Impact ventures if foreseen in late 2025 to assess the progress in start-up of the new IIV programme and provide recommendations for future funding beyond 2026.

9 Risk management

The reform of IFU and the more than doubling of the investment portfolio in relatively few years is ambitious and represents a substantial task of the new IFU management and IFU. To succeed with this expansion the volume of projects that IFU has to identify and invest in, will increase significantly while there are still requirements to exposure in Africa, poor & fragile states and a strong profile on climate.

As such the ability to identify projects of sufficient quality in sufficient numbers represents a risk. For the individual financial instruments there are particular risks e.g. the expansion of the green loan instruments based on the state on-lending facility represent a solid expansion in activity and IFU need to have efficient systems in place and the ensure that the financing risk is well managed. The main risk tied to the SDG fund is the ability to mobilise private investors for a SDG Fund II. For impact ventures the main risk is whether IFU is able identify the right IIV projects and reap the benefits from engaging at an earlier stage.

Similarly, IFU will expand its organisation and need to double the number of staff in IFU which all need to be onboarded, understand IFU and its culture. With such a large expansion it is a risk if IFU does not manage to develop the organisation as envisaged – e.g. in terms of organisational efficiency and staff capacity. IFU has already initiated the organisational expansion and employed roughly 20 new staff in 2024 consisting of both senior specialists as well as younger professionals. A mitigation factor is that the bulk of the workstreams in the reform are about expanding existing and well tested financial instruments, and less about developing new financial instrument. IFU will report to MFA on the organisational expansion in the regular oversight and dialogue structures.

Programmatic risk management
IFU has an elaborate system for risk management in relation to portfolio companies. The risk categories relate to financial and non-financial risks, business risks, operational risks and reputational risks[20]. For all of the IFU instruments, IFU has separate risks management systems. As an example, the SDG Fund has its own risk management system, as do the other IFU instruments based on the profile of their partners, the markets they operate in or the types of investors (depending on their risk willingness). The new IFU Impact venture instrument will also comply to the IFU risk management framework including the development of a separate risk management system.

Accusations of any fraudulent, corrupt behaviour or not operating in line with e.g. labour standards or tax policies, 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.

IFU's approach to active ownership also helps mitigate the risk: By being up to date on what the company is doing and actively engaging in decisions, IFU is better able to discover any inappropriate business behaviours at an early stage. Accusations of fraud, corruption and other illicit or irresponsible behaviour is widespread in markets where IFU invests, 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 affected situations, including Ukraine, increases risk exposure and may result in low returns and losses that may need to be offset with additional capital to maintain and increase investment volumes.

Risks are further outlined in Annex 5.

[20] See slides for IFU strategy

Annexes

Annex 1: Context Analysis

Overall development challenges, opportunities and risks

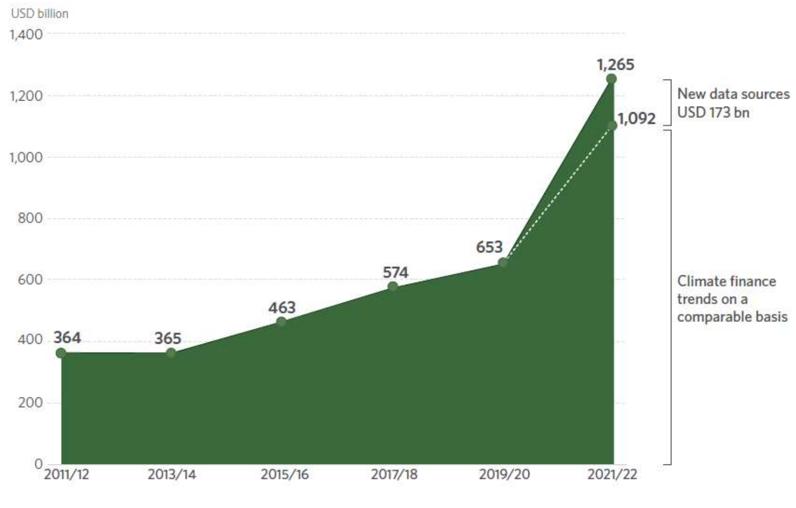
Impact investment contributes to bringing the private sector into the realm of poverty reduction and climate action. The impact investors invest in private companies with an expectation of environmental, social and developmental results beyond financial return. From an initial focus on doing business responsibly and not doing harm, more and more companies have not only developed their social and environmental compliance framework but are also increasingly directing business solutions towards global or local challenges.

Climate finance

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 account for a very small portion of global greenhouse gas emissions, extreme weather patterns, natural hazards and food and water shortages are among the factors that threaten the lives of poor people. There are 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.21 Thus, 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. During the same time, the data base has been improved to some extent, so it is possible to see the trends in climate financing. The report also mentions that despite the significant rise in climate finance, the total amount only makes up some 1 per cent of global GNP.

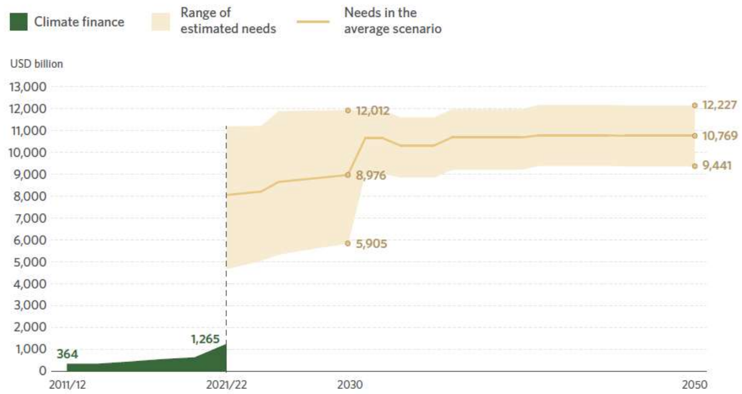
Figure a: Global climate finance in 2011-2022, biennial averages



[21] https://www.actionaid.org.uk/our-work/emergencies-disasters-humanitarian-response/climate-change-and-poverty

There is a huge gap from the available climate financing available today as compared to needs. The assessment of needs depends on a range of different methodologies, and the 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 figure below illustrates that 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.

Figure b: Global tracked climate finance and average estimated annual needs through 2050



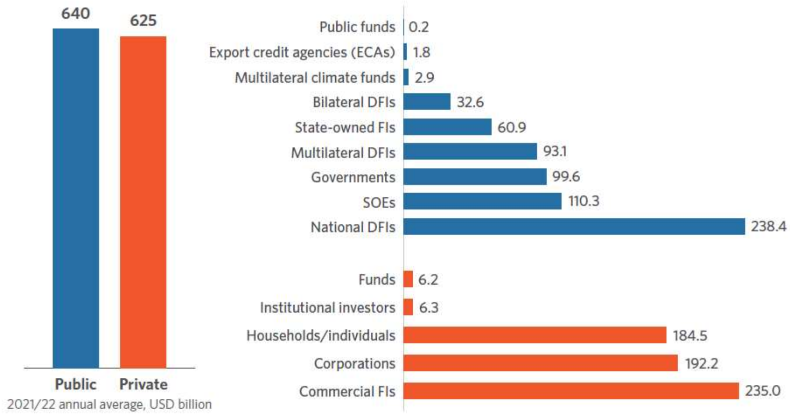
Similar to the sections above on impact investment, the distribution between regions and sectors has some common characteristics as well as differences. Most climate finance is invested in energy sectors, while the second-largest sector, agriculture, is far behind. When considering geographical distribution, the ten countries most affected by climate change between 2000 and 2019 received just USD 23 billion; less than 2% of total climate finance". In relation to the impact investment section above, the CPI reports states that

"Development finance institutions continue to provide the majority of public finance, channeling 57% of all public finance. However, more than 17% of public finance going to LDCs comes in the form of market-rate debt, increasing their already substantial debt burdens. In this context, renewed emphasis on the strategic use of public funds and other concessional finance to mobilize significantly more private capital is imperative"[22].

The distribution of funds is reflected in the figure below:

[22] CPI, Global landscape of climate finance 2023, p.7

Figure c: Sources of public and private climate finance (US bn)



It shows an almost equal distribution between public and private climate finance. Within public climate finance, national DFIs play a key role with the largest share (37 per cent of public funding). As for the private funding sources, commercial financial institutions, corporations and households provide almost all of the funding on a global level.

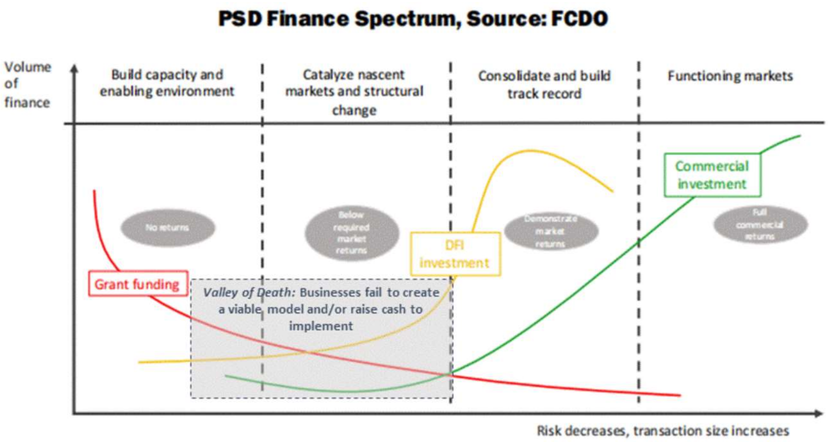
Political economy and stakeholder analysis

Developing countries carry a disproportionate burden of the negative economic and social impacts of extreme climate events as mentioned above. Meanwhile, these countries—along with communities around the world who are in the same economic bracket— are the most vulnerable to extreme weather patterns, natural hazards and food and water shortages. In the past 10 years alone, they have experienced eight times as many nature disasters, and unchecked change may force mass migrations. It has been estimated that by 2030 climate change could push more than 120 million additional people into poverty[23]. However, markets also offer opportunities to address these problems: A rapidly increasing number of innovative businesses are able to provide products that are affordably priced for the poor. These are also working in regions that lack access to food, water, sanitation and energy, and suffer the economic growth-stifling effect that the lack of such services carries. For example, one cannot have refrigeration for either a grocery store or a clinic without access to electricity. The provision of such services is directly tied to economic growth, with studies showing that for every increase in basic energy service levels, average household revenue will also increase.

The companies providing these innovative and affordable climate-friendly products in Overseas Development Assistance (ODA)-eligible countries face considerable challenges in getting the investment needed to start and to grow their businesses. From the outset, LMICs have difficulties in attracting private investments because risks are perceived as too high, and the enabling environment is not conducive. This results in private capital costs being prohibitively expensive and prevents private capital flow to LMICs. To meet this challenge, many programme initiatives aim to enable investment, e.g., including early-stage project development that proves the bankability of business solutions and blended finance mechanisms where public funds are engaged to make private investments possible. The model below illustrates the spectrum of the different market types, and the role of different types of funding and support from development actors for the companies operating in these different markets, moving from seed and early-stage companies to mature companies operating in regulated markets.

[23] https://www.actionaid.org.uk/our-work/emergencies-disasters-humanitarian-response/climate-change-and-poverty

Figure d: Private-Sector Development Finance Spectrum and the Valley of Death



As markets mature, development finance should become increasingly commercial, with higher expected returns

The full spectrum of finance flows (as shown in Figure d) is required in development finance, for example including grant funding that is deployed in riskier more nascent markets to more commercial finance in fully functioning more mature markets. The figure highlights that commercial investors often do not reach the markets that are most in need for support and that other funding mechanisms operate to bridge that gap. To attract commercial investment in the longer term, it is important to increase the number of investors and funds operating in this space, as well as the pipeline of viable businesses with models that can reduce the risk and increase the prospects of return on the investment. IFU engages in many of the different market segments in the model above, and has a range of funds and facilities that allow them to reach these different segments through different pathways. For all interventions, it is key that IFU is additional, i.e. offering support that will not distort existing mechanisms in the markets.

Key stakeholders are closely related to IFUs role and mandate as an institution in the framework of their ownership by the MFA (please also see section 6 below). Many Danish stakeholders play an important role in the governance of IFU, and has done so for many years since the inception in 1967. Hence, it is important to distinguish between the role of stakeholders in the markets IFU operates in, but also stakeholders that relate to the role of IFU in relation to development cooperation, impact investment and climate action in Denmark. These two dimensions are not necessarily fully aligned as some stakeholders relate to operational aspects, while others relate to governance and policy development issues in a Danish context.

The list below contains the key stakeholders of IFU including institutional investors such as pension funds, private equity (PE) funds, with a relevant mandate at international, regional and national level, development finance institutions in the markets; institutions, which are able to promote change in the regulatory environment, which are needed to enable successful investments (such as ministries, associations, international development agencies/institutions, EU, embassies with relevant programme engagement, etc.). At a more strategic level, the Danish Ministry of Foreign Affairs, Danish businesses and their organisations, labour market organisations, and other Danish civil society organisations with a commitment to promote sustainable development in emerging markets and developing economies especially through promotion of market-based solutions. The table also contains an assessment of importance and proposed action.

Table a: IFU stakeholders:

Stakeholder	Stakeholder mapping	Action Proposed
Danish Ministry of Foreign Affairs	High Interest - High Influence	Keep engaged
Danish embassies	Medium-High Interest - Medium Influence	Keep engaged
Danish pension funds	High interest – high influence	Keep engaged
Private impact investors, including Private Equity funds	Medium interest – low influence	Engage
Companies, including Danish, with interests in emerging markets	Medium interest – medium influence	Engage
Other DFIs and IFIs	Medium interest – medium influence	Keep engaged
Danish and local civil society organisations focussing on emerging markets	High interest – medium influence	Keep engaged
Institutions able to positively affect relevant regulatory environment	High interest – high influence	Engage
Business associations and trade unions (Danish and in markets)	Medium interest – medium influence	Keep engaged
Citizens (Danish and in markets)	Low interest – medium influence	Engage
Media (Danish and international)	Medium interest – medium influence	Engage

Fragility, conflict and resilience

Several countries and situations in Africa are characterised by fragility and conflict. Investments are relevant in these situations for building resilience and putting these 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. In this context, the role of the private sector is increasingly essential. Rather than binary distinctions between e.g., stability and instability or conflict and peace, many situations will be more appropriately described by degrees of intensity on a continuum along different dimensions of e.g., fragility and conflict. These countries tend to rank low on investment climate indicators - especially quality of infrastructure, market size, and institutional trust. As a result, the level of private investment remains low.

According to the World Bank, 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):

Table b: Categories of countries by GNI and country classification map

GNI	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:

Figure e: World Bank country classifications

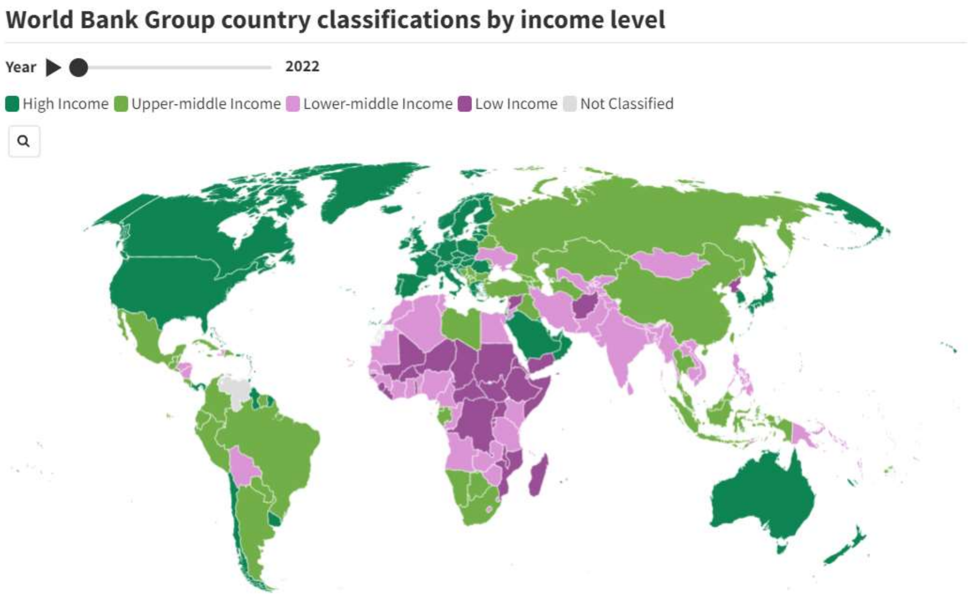


Table c: FY24 List of Fragile and Conflict-affected Situation

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 West Bank and Gaza (territory)	Solomon Islands
Yemen, Republic of	Timor-Leste
	Tuvalu
	Venezuela,
	Zimbabwe

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

Human rights, gender and youth and applying human rights-based approach

Although IFU has a different focus, the principles of human rights approaches are often integrated in practice in relation to the main HRBA principles of Participation, Accountability, Non-discrimination and Transparency as illustrated in the table below:

Table d: Main HBRA principles and integration in IFU

HRBA principle	Visibility in IFU
Participation	Involves companies, their management and staff in the active ownership process for each of the companies in IFUs portfolio of 170 companies. IFU governance (board, sustainability committee etc.) includes a wide range of stakeholders from government, civil society, and the private sector. Possible barriers might include women's access to economic activities.
Accountability	Meticulous investment process based on IFU policies, e.g. within sustainability, LNOB and safeguarding. IFU governance includes targeted plans for accountability and a strong focus on anti-corruption.
Non-discrimination	Sourcing of projects targets many different markets and sectors, the target group while being inclusive as a general principle, does relate to different groups depending on the different funds and facilities used. To the extent that some groups have no direct access to IFU support, they are often beneficiaries (indirect target group).
Transparency	The IFU communication and data analysis are key components in sharing lessons learnt with a wider audience. Tailor-made strategies for communication with different target groups have been planned.

Normative frameworks are included in most of the phases. From the initial phases, questions of non-discrimination, accountability, participation and transparency are explicitly stated in the framework agreements with companies. Policies related to sustainability, safeguarding and do no harm play a key role, and during the active ownership process, the Annual Sustainability Report (ASR) contains data on these issues that are reported regularly and make up a basis for IFU involvement with the partners.

In the coming seven years, the capital contribution is expected to concentrate on these normative aspects, and the investment process is taken as a point of departure as a generic model that IFU will work with across all of its engagement. Hence, IFUs work as an organization, and the flexibility between the instruments and facilities in the future, will integrate core values that are aligned with the normative HRBA values of the MFA. In turn, these normative aspects are incorporated into the working culture of companies, not only during the period of the active ownership, but throughout the process, right from the initial contact to the exit process with the company.

IFU adheres to a number of normative frameworks that are aligned with the HRBA principles:
- The push for accomplishing the SDGs and climate goals is also directly affecting the private sector, with the world's leading reporting and standards-setting institutions driving for even deeper accountability for environmental, social and governance (ESG) impact. The principle of dynamic or double materiality embraced by these organizations requires companies to consider not just the impacts of climate on the company's financials, but also the impacts of a company on the climate or any other ESG factor4. The adaptation of the new ESG standards for reporting is expected to reach not only large-scale companies in the coming years, but also many businesses in value chains, and introduce concepts of social and governance that are like human rights principles.
- EU regulation includes an obligation to report on ESG, CSRD and most recently, the CSDDD. Hence, standards on environment, social results, and governance are becoming integrated with the working processes that IFU partner companies are obliged to follow. There is in this way a convergence in the criteria of DFIs, investors and blended finance towards some of the HRBA principles. Although business plans relate to profitability, the demands on climate, green transition and environmental protection are related to sustainability and human rights questions, even if they are framed in different terms than the human rights language.

- Moreover, companies will operate under conditions stipulated by national labour laws, where workers' rights, OSH and obligations related to both employers and government are often aligned to the rights-based approach of International Labour Standards.
- IFU is part of OECD additionality criteria, to IPIM, and other international standards covering DFIs. IFU must also screen for financial and non-financial additionality.
- IFU' sustainability policy includes specific reference to the UN guidelines for Business and Human Rights as well as to the key ILO conventions of workers´ rights. All investments must to live up to IFU's sustainability policy, that covers environmental and social standards (including IFC performance standards and other relevant standards e.g. such as those that refer to (potential) displacement of people (voluntary guideline on the responsible governance of tenure) as well as IFU's climate policy (part of the sustainability policy).
- Anti-corruption is a key concept, especially in due diligence and active ownership processes.
- IFU has adopted the 2X challenge and the ambition is that at least 30% of investments live up to the 2X criteria (see below). IFU screening tool (see below) further screens for relevant job characteristics: including support for youth, that jobs are permanent and that jobs are skilled.
- The 2X Challenge plays a key role for IFU. For companies to be 2X compliant, they must fulfil at least 1 of the 5 criteria below. The 2X challenge is defined by DFIs, launched in 2018 and updated every regularly (every 2 years) with the aim to increase the ambitions over time. Below the 2021-22 2X challenge, which is expected to be revised in 2023.

Inclusive sustainable growth, climate change and environmental assessment

IFU must screen all potential investments through IFU's impact screening tool (see below). This implies that the investments must live up to the EU Taxonomy for green with focus on climate mitigation and climate adaptation should also not do any harm in terms of social inclusion (reducing inequality) and contribute to a more equal society. The other investments must fulfil the IFU requirement to contribute to inclusive and sustainable growth, while doing no harm with respect to the green transition (EU taxonomy). Furthermore, all investments must to live up to IFU's sustainability policy, that covers environmental and social standards (including IFC performance standards and other relevant standards e.g. such as those that refer to (potential) displacement of people (voluntary guideline on the responsible governance of tenure) as well as IFU's climate policy (part of the sustainability policy). IFU must also screen for financial and non-financial additionality.

Matching with Danish strengths and interests and seeking synergies.

IFU works with other DFIs and international finance institutions such as European DFIs, IFC and regional development banks. Working and co-investing with such institutions mitigates risks and can help improve the likelihood of success of investments.
The relationship with other Danish supported initiatives will continue to evolve. During the last 5-6 years several joint initiatives have been undertaken with Danish embassies, such as in the case of African Guarantee Fund, aBi Finance in Uganda, Rural Development Fund in Ghana, PASS in Tanzania, Kenya Climate Ventures in Kenya, the India Climate Investment Initiative, Ukraine initiatives and more. In the cases, IFU has gradually taken on the responsibility for further developing institutions, by investing in them and supporting the business development.

Annex 2: Partner Assessment

Name of Partner	Core business	Importance	Influence	Contribution	Capacity	Exit strategy
	What is the main business, interest and goal of the partner?	*How important is the project/programme for the partner's activity-level (Low, medium high)?*	*How much influence does the partner have over the projectprogramme (low, medium, high)?*	*What will be the partner's main contribution?*	*What are the main issues emerging from the assessment of the partner's capacity?*	*What is the strategy for exiting the partnership?*
IFU	Impact investment Climate investment	Driver for the reform process	High through active ownership Same influence in other Funds and Facilities?	Enable companies to drive processes that significantly contribute to Green Economy and Just and Inclusive Economy	IFU reform is very ambitious and requires substantial expansion of IFU organization both in quantity (number of staff) but also in quality (new skills required)	Exit strategy in place for companies. MFA/IFU – long term relationship – strong focus on building strong autonomous organization – no exit plan foreseen

Summary of partner capacity assessment
No additional stakeholder analyses have been conducted due to the fact that IFU is a well-established organization, and the planned commitment will scale operations, but only to a minor extend effect IFU's current governance procedures and business activities.
Complementary information about IFU is provided below:

- IFU – an overview
- Thematic sectors
- Framework for identifying, screening and selecting high-impact investments
- IFU Policies and standards
- IFU Value and impact creation in portfolio
- IFU's Grievance Mechanism and Whistleblower Policy
- Overview of MFA contribution to IFU 2012 – 2023

IFU – an overview

IFU was established in 1967 and has to date invested in 1,325 companies in more than 100 countries in Africa, Asia, Latin America and parts of Europe. Committed investments total DKK 235 billion, of which IFU has contributed DKK 26 billion. IFU is an independent government-owned fund offering risk capital to companies in developing countries and emerging markets. IFU is fund manager of a number of other investment funds, including the Danish SDG Investment Fund. IFU investments have helped to create and preserve close to one million jobs in the host countries, and IFU has contributed to the establishment of more than 2,000 megawatts renewable energy. In addition, IFU's presence has resulted in transfer of knowledge and technology, the employees have received training, economic activity has been accelerated and a source of income through e.g. taxes has been created for the host countries.

All IFU investments must support the green transition and contribute to poverty alleviation and reduced inequality. Furthermore, IFU has a strong focus on the project companies' corporate social responsibility to ensure, among other things, that employees are given proper working conditions and that a project company's production is socially and environmentally sustainable. IFU offers risk capital and advice to companies that want to invest in commercial investment activities in developing countries. IFU has built up a strong experience with investments in developing countries including low-income countries, and IFU has the required capacity and networks to develop and implement the new instrument. The table below presents IFU investment results from 2017 onwards:

Table e: IFU investment activity 2017-2023

DKKm	2017	2018	2019	2020	2021	2022	2023
Investments	640	1.029	1.103	1.965	1.005	1.466	1.347
Total capital under management	9.100	11.400	11.200	12.800	12.600	15.600	15.544
Number of investments	37	37	25	31	15	20	17

Note: Results excluding DSIF and the Danish Guarantee Facility

Thematic sectors

Green energy and infrastructure Lack of access to energy is a distinct challenge in developing countries. In Africa alone 600 million people are without access. To support sustainable development that is in line with the Paris Agreement, a priority for IFU is to invest in increasing access to clean and affordable renewable energy from large-scale utility projects to residential home solar systems and off-grid solutions. Indirectly, this will lead to growing business activities and job creation as well as mitigating climate change. Water is a scarce resource, and access to clean drinking water is generally low in developing countries. IFU invests in business models and companies within water and water management that will increase sustainable supply and improve access to water. Moreover, IFU gives priority to waste recycling and management to address growing urban challenges such as sanitation, congestion and rising air pollution. Circular business models supporting the green transition and creating new local jobs are also promoted. Across all areas IFU also focuses on energy efficiency as the most affordable way to decarbonise the economy and ensure reliable and renewable energy for all.

Financial Services. Globally, 1.7 billion people are unbanked. Furthermore, micro, small and medium enterprises (MSME) across the developing markets are often not able to access finance to grow their businesses. MSMEs are the growth engines for emerging economies, as well as the backbone for employment. They are providing billions of people with a livelihood and are critical to achieving the SDGs and climate goals. By investing in financial services, IFU's ambition is to increase financial inclusion, drive economic growth and job creation, as well as reduce inequality. Moreover, the ambition is to work with financial institutions to promote their contribution to the green transition, and work towards increased adoption of digital technologies increasing resilience and outreach simultaneously. Microfinance provides access to finance to people, not least in rural areas, through small loans that are used for livelihood enhancement activities. This helps improve their living conditions while also providing access to savings that help improve resilience. Most microfinance clients are women, who are empowered to improve their rights through access to finance. Providing finance for banks and other financial institutions that serve MSMEs, is a priority as well. More small companies and entrepreneurs get access to financial services that help them grow their businesses and, in many instances, adopt greener practices. As an equity investor, IFU's investments help financial institutions mobilise private capital from the market, multiplying IFU's impact. IFU has also embarked on providing green loans to financial institutions to promote energy efficiency, solar energy, etc.

Sustainable Food Systems. Producing enough food to feed the world population is a major challenge. Today, around 800 million people in the world do not have enough food to live a healthy, active life, and with a growing population food waste must be reduced and food production needs to increase. The latter will put further pressure on global warming, as 30 per cent of global GHG emissions stems from agriculture and food processing activities. Consequently, an impact priority for IFU is to invest in climate-smart farming that can increase access to healthy and affordable food products with high nutrition. In all investments, there is a strong focus on supporting cultivation and production methods that reduce GHG emissions and increase yield. As developing countries are the most vulnerable and less prepared for climate change, IFU also has focus on adaptation, including drought resilient crops and irrigation. Smallholder farmers are normally the main producers of food in developing countries. But the output per hectare is low, and often the farmers lack access to value-adding processing, as well as distribution systems, leading to low income levels. Therefore, IFU gives priority to investments that improve living conditions by supporting fair trade and increased productivity. Annually, one third of all global food production is wasted. In developing countries most waste is due to inadequate and insufficient storage and distribution systems. An impact priority for IFU is therefore to invest in food waste management, as this will reduce pressure on land resources and GHG emissions, for example.

Healthcare. Poor health and health inequality continue to limit economic prosperity in developing countries and emerging markets. Around 400 million people lack access to vital healthcare services, which results in high mortality rates, lost productivity and poverty. This is especially the case in developing countries in Africa and South Asia. Healthcare

services are often out of pocket expenses that have significant negative impact on accessibility and lead to increased poverty for low-income groups. On this backdrop, IFU invests in healthcare to increase access to affordable and high-quality healthcare services, especially for middle and low-income people. Consequently, focus is on business models supported by universal healthcare programmes or insurance schemes. Noncommunicable diseases like diabetes and cancer are becoming more common in developing countries. But treatment options are insufficient, and therefore IFU, besides investing in primary healthcare and hospitals, also has attention on services targeting chronical and noncommunicable diseases. Moreover, IFU focuses on investments within diagnostic technologies and pharmaceutical companies to improve prevention and treatment as well as provide better access to medicine. One of the impact priorities when investing in private healthcare is to secure that it compliments public healthcare strategies. This can be achieved by introducing new technologies, educating staff, and engaging in outreach activities targeting low-income groups, maternal and child health and people living in rural areas. Upgrading the healthcare system will also make it more attractive for doctors and nurses to stay at home or return from abroad, thereby reducing brain drain.

Framework for identifying, screening and selecting high-impact investments

In addition to the ToC and results framework, IFU applies different tools, analysis methods to assess impact creation and ESG risks. When identified, IFU summarises ESG issues and risks in an action plan for implementation. (c.f. Annex 2 for an overview of the tools, analysis and policies applied).
IFU's system for selecting and maturing investment opportunities has been considerably strengthened in the past years. A first screening allows an initial assessment of whether the investment opportunity in a sufficient manner will contribute to IFUs two impact objectives. The subsequent steps in the selection and maturation process are presented in table 9 below:

Table f: IFU assessment steps

Process step	E&S	Governance	Impact
To gate 1	- Screening against IFU's exclusion list of activities IFU will not invest in	- Initial screening to check for recorded governance issues	- Initial screening to verify contribution to at least one of IFU's two impact priorities and likelihood of additionality
To CIP	- Preliminary Human Rights assessment	- CPI screening - Expanded search for recorded issues - 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 - Assessment of investment's additionality
TO BC	- Full Human rights due diligence - E&S due diligence - Assessment of negative impact	- Assessment of anti-corruption - Assessment of corporate governance	- Validation of impact creation hypothesis and theory of change through impact due diligence - Initial results framework - Assessment of GHG emissions - 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 - Annual reporting on E&S data through ASR	- Execution of CGAP by company incl. reporting to IFU - Annual reporting on ABC and governance data through ASR	- Reporting and monitoring of impact creation according to plan and results framework - Impact study and evaluation at exit

IFU is continuously fine-tuning and improving the framework and tools for selection, screening and management of investments. IFU has come a long way int setting up its systems and procedures. In the coming years IFU will further strengthen its system for evaluating the projects beyond the individual investee company to better understand the development impact of the investments on the communities and societies in which they are anchored. This knowledge will contribute to documenting the results of IFU, but be important learning that feeds into further maturing the system for selecting and developing new investments.

IFU Policies and standards

IFU's investee companies 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 g below.

Table g: 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.

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)

IFU Value and impact creation in portfolio

OVERVIEW OF VALUE AND IMPACT CREATION IN PORTFOLIO

This overview summarises IFU's impact priorities in support of the SDG agenda and the SDG targets that IFU's investments contribute to the achievement of. Listed are also key metrics for the value and impact creation in 2019, 2020, 2021 and 2022. These metrics are either aggregated at portfolio level based on data reported by investees or the result of analysis of the performance of the portfolio. In 2023, the performance indicators have been reviewed, with minor adjustment made to align with historic data and forthcoming reporting under the Corporate Sustainability Reporting Directive (CSRD). IFU will continue to align the indicators with the SDG targets and the CSRD and improve the data collection from the investees to strengthen the reporting on the development impact of IFU's investments, see p. 70-71.

SDG	SDG targets relevant to IFU	Indicators	Unit	2022	2021	2020	2019
1 NO POVERTY	**1.1** Eradicate extreme poverty. **1.4** Ensure that all men and women have equal rights to economic resources, including microfinance.	Invested in microfinance institutions.	DKK million	0	0	> 267	> 96
		Total active investment in microfinance (MF) portfolio.	DKK million	755	722*	> 900	> 600
		MF clients served.	No. million	20.8	18.2*	17.8	20.1
		MF loans granted to female clients.	%	77	92	62	81
2 ZERO HUNGER	**2.3** Double the agricultural productivity and incomes of small-scale food producers. **2.4** Ensure sustainable food production systems and implement resilient agricultural practices.	Total projects supporting small-scale farmers.	No.	19	22*	26	20
		Total small-scale farmers benefitting.	No.	503,291	454,802	342,187	107,600
3 GOOD HEALTH AND WELL-BEING	**3.7** Ensure universal access to sexual and reproductive healthcare services. **3.8** Achieve universal health coverage.	Healthcare investment projects.	No.	0	0	2	1
		Invested into healthcare projects.	DKK million	0	0	360	63
		Number of patients served.	No. million	1.17	1.11	-	-
		Number of female patients served.	No.	406,490	403,203	-	-
4 QUALITY EDUCATION	**4.3** Ensure equal access to affordable and quality technical, vocational, and tertiary education. **4.4** Substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills.	Employees in investments under the age of 25.	%	11	13	15	16
		Indicators under development.					
5 GENDER EQUALITY	**5.1** End all forms of discrimination against all women and girls. **5.5** Ensure women's full and effective participation and equal opportunities for leadership.	Female employees in investments.	%	35	34	37	27
		Direct investments with more than 40 per ent women in senior management.	%	15	23	20	18
6 CLEAN WATER AND SANITATION	**6.1** Achieve universal and equitable access to safe and affordable drinking water for all.	Direct investments that have reported water consumption figures.	%	86	76*	-	-

SDG	SDG targets relevant to IFU	Indicators	Unit	2022	2021	2020	2019
7 AFFORDABLE AND CLEAN ENERGY	**7.1** Ensure universal access to affordable, reliable and modern energy services. **7.2** Increase the share of renewable energy efficiency. **7.3** Double the global rate of improvement in energy efficiency.	Total installed capacity** of renewable energy investments, including new capacity.	MW	2,786	2,619	1,914	1,216
		New installed capacity** of renewable energy investments.	MW	327	1,012	698	424
		New installed capacity** of hydropower investments.	MW	0	0	602	0
		Renewable energy produced (all investments).	GWh	5,236	5,291	5,079	2,431
8 DECENT WORK AND ECONOMIC GROWTH	**8.2** Achieve higher levels of economic productivity through diversification, technological upgrading and innovation. **8.5** Achieve full and productive employment and decent work for all. **8.6** Reduce the proportion of youth not in employment, education or training. **8.8** Protecting labour rights and promote safe and secure working environments.	Total direct employees in all investments.	No.	418,879	377,094	308,174	259,068
		Direct investments that pay more than the national minimum wage.	%	77	64	65	72
		Direct investments that pay overtime.	%	77	71	76	71
		Investments reporting accidents involving workers.	%	44	33	38	32
		Occupational injuries in all investments.	No.	2,824	1,753	882	533
		Occupational fatalities in all investments.	No.	35	19	24	18
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	**9.17** Promote inclusive and sustainable industrialisation and significantly raise industry's share of employment and gross domestic product.	New direct investments in manufacturing, outside the agricultural sector.	No.	2	0	0	0
10 REDUCED INEQUALITIES	**10.2** Empower and promote social, economic and political inclusion of all. **10.b** Encourage official development assistance foreign direct investment to states where the need is greatest, including least developed countries and African countries.	Percentage of IFU's own funds invested in the poorest countries in Africa, covered by the HRHI initiative.	%	10	46	31	N/A
11 SUSTAINABLE CITIES AND COMMUNITIES	**11.1** Ensure access to adequate, safe and affordable housing.	Beds provided for affordable student accommodation	No.	988	-	-	-
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	**12.2** Achieve the sustainable management and efficient use of natural resources. **12.3** Reduce food losses along production and supply chains. **12.4** Achieve and environmentally sound management of chemicals and all wastes and significantly reduce their release to air, water and soil. **12.5** Reduce waste generation through prevention, reduction, recycling and reuse. **12.6** Encourage companies to adapt sustainable practices and to integrate sustainability information into their reporting cycle. **12.7** Promote public procurement practices that are sustainable.	All investments that have a written sustainability policy.	%	82	86*	83	83
		All investments that have an environmental & social management system.	%	66	65	61	59
		All investments that have a dedicated person responsible for sustainability.	%	90	86*	84	82
		All investments that have a grievance mechanism for external stakeholders.	%	73	67	59	52
		Direct investments that have a responsible supply chain management system.	%	60	55	-	-
		Direct investments reporting on waste generation.	%	73	70*	-	-

SDG	SDG targets relevant to IFU	Indicators	Unit	2022	2021	2020	2019
13	**13.a** Mobilise capital to address the needs of developing countries in the context of meaningful mitigation actions.	Avoided emissions (attributed), based on GWh of renewable energy produced.	Million tCO_2e	0.38	0.25	0.26	-
		Avoided emissions (not attributed), based on GWh of renewable energy produced.	Million tCO_2e	3.5	3.38	2.86	1.34
		Direct investments that report GHG emissions to IFU.	%	21	12*	13	15
14	Not applicable yet.	*No suitable indicator/s yet.*					
15	**15.2** Promote the implementation of sustainable management of forests. **15.5** Take action to reduce the degradation of natural habitats and halt loss of biodiversity.	*Indicators under development.*					
16	**16.5** Reduce corruption and bribery in all their forms.	All investments that have a written stand against corruption or anti-corruption policy.	%	84	81*	76	70
17	**17.1** Strengthen domestic resource mobilisation to improve domestic capacity for tax and other revenue collection. **17.17** Encourage and promote effective public, public-private and civil society partnerships.	Investments paying corporate tax.	No.	124	130	147	146
		Corporate taxes reported for all investments, with continent breakdown below:					
		Africa	DKK '000	2,133,675	3,292,825	1,608,370	1,092,760
		Europe	DKK '000	1,008,829	471,014	-63,174	80,813
		Asia	DKK '000	3,764,691	1,525,967	1,044,477	1,137,949
		Global	DKK '000	1,592,571	124,878	327,733	630,210
		Latin America	DKK '000	454,345	-4,718	314,046	146,628
		Total	**DKK '000**	**8,954,111**	**5,409,967**	**3,231,453**	**3,088,361**

*IFUs data collection and review was strengthened in 2023 and has led to minor shifts in the values and thus a few restatements of historic data disclosures have been made.
**Indicators have been changed from expected renewable energy capacity based on estimates, to installed renewable energy capacity using reported data for 2022. For 2019-2021, an estimation of the installed capacity has been calculated based on reporting wherever possible, supplemented with expected capacity.

Source. IFU Annual report 2023, p. 56-58

One of the findings of the 2019 evaluation was that IFU, in addition to the financial returns, mainly focused on company level Corporate Social Responsibility (CSR) or sustainability performance. Systems were in place to measure and track that this level. However, the evaluation also found that there was insufficient attention to measuring and reporting on development outcomes in all stages of investment, i.e. screening, appraisal, implementation and exit with the exception of one indicator namely the number of jobs. IFU's system centred around the company and did not deal with broader development outcomes at sector and host country level.

Since the evaluation IFU has invested in building a more robust monitoring system. A point of departure has been to introduce ToC s to be developed as well as a proper baseline for each individual investment. With this point of departure there is a more solid basis for assessing and documenting broader development outcomes of IFU investments.

IFU has been a signatory of the Operating Principles for Impact Management (OPIM) since 2019. The principles guide IFU's impact approach and ensure that IFU integrates impact considerations throughout the investment life cycle. IFU applies the five dimensions of impact set forth by the Impact Management Project (IMP) when considering investments, assessing expected impact and tracking performance during the investment period. IFU has developed a bespoke approach to impact management. The approach is based on:

- Clear mission, vision and purpose outlined in IFU's investment strategy
- Clear intent for impact contribution by formulating theory of change for each investment
- Science-based and systematic approach to impact consideration
- Implementation around impact governance, management, additionality, measurement and targets with portfolio companies
- Integrate systems to support verified reporting and disclosure on impact

This approach has been adopted from ongoing interactions with EDFI counterparts and IFU stakeholders, and is based on the OECD-UNDP defined Impact Standards for Financing Sustainable Development.

IFU's measurement of impact results – i.e. results related to a range of social, environmental and developmental areas - is to a large extent based on ex-ante predictions, on company reporting procedures and models to assess results (for some areas). IFU present these results at portfolio level in the annual report.

IFU's Grievance Mechanism and Whistleblower Policy

IFU has a grievance mechanism which is available to all stakeholders (the "Grievance Mechanism"), and which also supports IFU's obligations under the Danish Whistleblower Act. The Danish Whistleblower Policy and the IFU Human Rights Policy form the basis for the Grievance Mechanism.

The Grievance Mechanism enables IFU's employees, employees in projects financed by IFU or other IFU managed funds ("IFU Investees"), as well as other external stakeholders to raise a grievance if they identify irregularities with IFU's commitments, policies and procedures, or any other legal misconduct, including concerns about impacts on human rights under the United Nations Guiding Principles on Business and Human Rights.

IFU encourages employees of IFU and IFU Investees to discuss concerns with their immediate superior, another manager, or the human resource function. Reports may also be made according to the IFU Whistleblower Policy, using the Grievance Mechanism. The following persons may make reports governed by the Whistleblower Policy:

- IFU's employees
- Employees in projects financed by IFU
- Other IFU Project stakeholders
- Third parties with a business relationship to IFU and IFU Projects
- Other parties who are affected by IFU or projects financed by IFU

Reports can be made through several channels. Electronic reports may be made by email directly to advisory@ifu.dk or through an external web portal maintained by the law firm Bech-Bruun, which is independent from IFU. Bech-Bruun receives the reports and screens them against the scope of the Danish Whistleblower Act, and then follows the processes defined in the IFU Whistleblower Policy. The IFU Investigations Oversight Committee (IOC) is the internal organ that is responsible for managing the investigations process defined in the Whistleblower Policy. The IOC is lead by the Deputy CEO and includes the SVP of the Sustainability and Impact Team, the Business Integrity Director, the General Counsel, the Communications Director, the SVP People and Culture, and a Senior Vice President(SVP) from the Investment Department. The IOC is responsible for managing the investigations process for internal cases, with support from Bech Bruun as necessary, and monitors ESG incidents in the IFU portfolio.

ESG Incidents in IFU's portfolio

IFU monitors and manages ESG incidents in its portfolio to protect and create value and impact, as well as to manage risks to IFU's reputation and license to operate. IFU investment companies ("Projects") are obligated to report material ESG incidents to IFU, as per an obligation in the Sustainability and Impact Rules, which are attached to all project agreements.

IFU has developed "ESG Incident Reporting Instructions," which establish requirements for assessing, reporting, and closing out suspected material ESG incidents in the IFU portfolio. These instructions are supported by a Microsoft Teams-based application through which incidents are reported, updated, and closed.

The following IFU investment types are in scope:

- IFU-managed funds with participation from private investors, and
- IFU's direct investments from its own account in the form of equity and loans to project companies, investment funds, financial institutions, and other financial intermediaries

Incidents in scope include:

1)The incidents defined as "Material ESG incidents in the Sustainability and Impact Rules:

Any material negative social, labour, health and safety, security or environmental incident, accident, or occurrence:

(i) which affects any employee, customer, supplier or other person as a result or consequence of their dealings or activities with the Project Company; or

(ii) which occurs at any site, plant, equipment, or facility of the Project Company, including but not limited to:

(1) an incident resulting in death or permanent injury to any person;

(2) any other incident, accident or occurrence which has a material negative impact on the Environment or the health, safety, and security aspects (including but not limited to without limitation any explosion, spill or workplace accident which results in death, serious or multiple injuries or material contamination of the Environment).

(3) any incident of a social nature (including without limitation any labour unrest or dispute with local communities), which has or is reasonably likely to have a material negative impact on any employee, customer, supplier or other person as a result or consequence of their dealings or activities with the Project Company.

(4) any breach of Anti-Corruption Law or of the Environmental and Social Requirements.

2) Business integrity and other incidents that are not explicitly covered in the above definition, but which also fall within the scope of these instructions, include the following:

- suspicions of bribery, fraud, or corruption
- conflicts of interest
- suspected breaches of ethical behaviour by executive management
- personal data breaches
- major physical or IT security breaches
- criminal causes of action related to the Project Company

Such incidents are called collectively "material ESG Incidents."

Material ESG Incident Management and Monitoring

Project Managers have the primary responsibility for identifying and screening material ESG incidents, registering them, and seeking advice and support. Project Managers can seek support and advice from their line managers, the Sustainability and Impact team and the Investigations Oversight Committee.

Material ESG incidents that meet defined criteria are escalated to IOC, which meets on a monthly basis and reviews the cases and considers if additional actions or support are required. Notwithstanding the IOC's monitoring and advising role, the Project Managers in the investment organisation retain responsibility for managing the case.

Reporting to the Board and to external stakeholders including the Danish Foreign Ministry

The IOC decides when to report material ESG incidents to the IFU Board of Directors, which includes an observer from the Danish Foreign Ministry. IFU has contractual and general obligations to report certain types of ESG Incidents to IFU stakeholders.

1) Contractual obligations:
IFU investment agreements contain contractual obligations to report certain types of incidents to particular stakeholders. Most often these are obligations to report to a stakeholder such as the Danish Foreign Ministry, the Danish Embassy in a particular country, or the European Commission. However, such obligations are usually project-specific, and the type of incident may also be specific.

The ESG Incident Reporting Instructions specifically remind Project Managers to review the investment agreements to identify any project-specific obligations.

2) General IFU obligations:
a. IFU has an obligation to report cases of irregularities with significant risk of attention (e.g. risk of adverse media) or potentially significant impact on IFU's budget to the Royal Danish Auditors (Rigsrevisionen). The mechanism for this reporting is first internal reporting and then assessment and decision by the IFU Board of Directors regarding whether the incident should be reported.

b. IFU's Whistleblower Policy describes the following requirements, which are based on a request by the Danish Ministry of Justice. The purpose is to support the implementation of Denmark's international treaty obligations regarding foreign bribery.

> 6.2 Any IFU staff with information that may give rise to a credible suspicion ("begrundet mistanke") of foreign bribery involving a Danish individual or company must immediately report the information to the Investigations Oversight Committee for assessment regarding IFU's obligation to report such credible suspicions to Danish law enforcement authorities. In such instances, it is of utmost importance that the IFU staff member does not discuss the matter further with potential Persons Implicated.
>
> Definition of Credible Suspicion: A "credible suspicion" ("begrundet mistanke," in Danish law) is formed when there are objective facts that with considerable strength point towards the conclusion that a crime has been committed by the suspected person. A credible

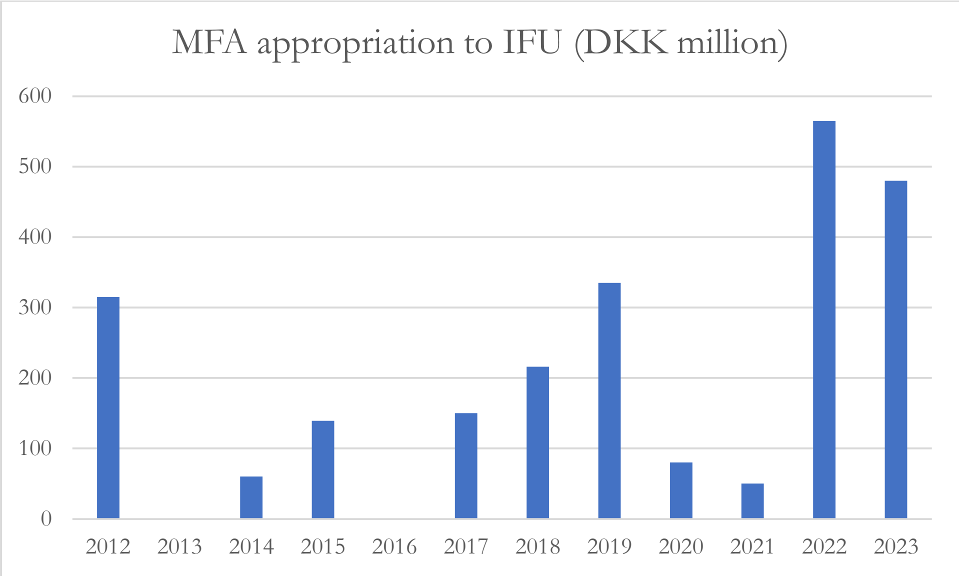
suspicion is a high level of suspicion and gives the basis for a judge to detain a suspect in pre-trial detention."

The standard of "credible suspicion" is high and many allegations of bribery are unlikely to reach this standard. Nonetheless, it is important to closely monitor all bribery allegations implicating Danish persons or companies and their subsidiaries, even when they do not reach this standard or if the subsidiary is not Danish. This enables IFU leadership and the Board to protect IFU's reputation and meet our stakeholders' expectations should the incident develop in a way that triggers an obligation.

Overview of MFA contribution to IFU 2012 - 2023

From 2012 to 2023 the total contribution from MFA to IFU amounts to DKK 2,390 million.

Purpose	DKK million	Year
CSR træningsfonden	15	2012-2016
IFU's egenkapital	200	2012
Klimainvesteringsfonden	100	2012
Små og mellemstore virksomheder (SMV)	60	2014
Projektudviklingsprogram (PDP)	50	2015
Landbrugsinvesteringsfonden	89	2015
Verdensmålsfonden / SDG-Fonden	100	2017
DSIF PDF Facility	50	2017
Naboskabs-energi-investeringsfonden (NEIF)	131	2018
Climate Investor 2	50	2019
Project Development Water	50	2019
Nordic Fund Project (Somalia)	35 20	2019 2020
African Guarantee Fund	85 60 *App. 215*	2018 2020 *2022*
High Risk High Impact	200 50 100	2019 2021 2022
India Climate Finance Initiative	200	2022
DSIF PDF Facility	50	2022
Development Guarantee Facility	145	2023
Blended Finance for Energy Transition	100	2023
Investment Mobilisation Collaboration Arrangement	10	2023
Ukraine Facility	110	2023
Capital Contribution	115	2023


MFA appropriation to IFU (DKK million)
600
500
400
300
200
100
0
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
2023

Annex 3 - IFU Financial instruments

Investments with IFU's own capital

Introduction & Background
Investments made with IFU's own capital alone has traditionally been IFU's main financial instrument. It has in recent years been complemented first by funds with private investor participation and later with loan capital which IFU can draw from the state on-lending facility managed by the Danish Central Bank (Nationalbanken).

Of all IFU's instruments, investments made with IFU's own capital alone has the highest flexibility in terms of geographic scope, risk tolerance, and desired return. IFU's own capital can absorb more risk as compared to e.g. the SDG Fund II and loans using on-lending which are constrained in their risk tolerance due to the risk appetite of private investors and the need to limit risk exposure when financing investments using debt from the state on-lending facility. The instrument is therefore important to reach the more challenging markets, where the risk is higher, but where the need for development financing is high. These are markets and investments that are typically too difficult to do with IFU's other instruments

The capital contribution of DKK 3,6 billion to IFU will be used to finance all IFU's instruments that are partly or fully financed by IFU's own capital. These are

- SDG Fund II and eventually SDG Fund III, where IFU will participate in the fund together with the private investors
- Loans drawing on the on-lending facility, where a part of the loan will be financed using IFU's own capital
- Investments made with IFU's own capital alone
- IFU Impact Ventures

The DKK 3,6 billion will together with IFU's existing capital finance DKK 5,3 billion in investments made with IFU's capital alone towards 2030. The investments can be both direct equity investments into local companies or loans which are too risky for the on-lending facility. The investments will vary in size but generally be smaller than investments made with IFU's other instruments (except IFU Impact Ventures). Investments based on IFU's own capital alone will tend to be between DKK 50 million and DKK 150 million, but can both be smaller and larger than that. The investments will be across all IFU's four focus sectors. Compared to IFU's other instruments, investments made with IFU's own capital alone will to a larger extent focus on more risky and difficult markets, including Africa and poor and fragile countries. IFU's engagement in Ukraine will also to an extent by financed by IFU's own capital in combination with earmarked funding for Ukraine.

Targeted impact results
The capital contribution will ensure that IFU has capital available to continue to make investments in developing and high-risk countries, while also having sufficient capital to co-finance loans using on-lending and participate in the second SDG Fund. As investments made with IFU's own capital can take more risks, it is expected that the investments will have a relatively higher allocation towards Africa and poor and fragile countries compared to other facilities. 50% of the investments made with IFU's own capital alone are expected to be climate financing.

Historically, IFU has had a mobilisation factor of about 1x for investments made with its own capital alone. Private capital mobilisation is lower compared to other instruments. This is a direct consequence of the higher risk exposure the investments have. Higher risk makes it more difficult for private investors to enter an investment and mobilisation therefore tends to be lower.

Budget
IFU's equity investments are expected to increase gradually in the period 2024-2030 from DKK 250m in 2024 to up to DKK 1.3 billion in 2029. The growth is financed by the new capital contribution of DKK 3.5 billion and the expected return from IFU's current portfolio. IFU currently has a pipeline of DKK 7 billion for investments with its own equity. In this way, IFU assesses that it is possible to fully disburse the capital contribution.

Risks and assumptions
The capital contribution is financed by ODA and any losses on equity investments made by IFU with its capital are borne by IFU itself, with no financial risk for the state.

IFU as Fund Manager

Introduction & Background

IFU is managing three funds with participation of private investors. The Danish Agribusiness Fund (DKK 450 million), the Danish Climate Investment Fund (DKK 1,2 billion), and the SDG Fund I (DKK 5 billion). In all funds, IFU has participated with own capital making up typically 40% of the funds' total capital.

In the SDG Fund I DKK 3.0 billion were financed by institutional investors, including Danish pension funds. IFU committed DKK 2 billion of which DKK 1.2 billion was financed from IFU's equity and DKK 800 million from a draw on the state on-lending scheme in the Danish Central Bank (Nationalbanken). With the SDG Fund I, IFU has together with Danish institutional investors delivered significant impact towards realising the SDGs in developing countries while also generating risk adjusted returns for the investors.

To support the raising of a second SDG Fund, SDG Fund II, IFU is given access to additional DKK 800 million in the state on-lending scheme to finance IFU's participation in the fund. An advantage of being able to draw on the state on-lending facility is that IFU can free up equity for investments in high-risk markets, which cannot be achieved with investments from SDG Fund II. Another benefit is that that the SDG Fund II allows IFU to mobilise private pension funds for investments in Danish priorities in developing countries.

There is a significant need for the mobilsation of private capital to achieve the UN Sustainable Development Goals (SDGs) and the objectives of the Paris Agreement, and it is a political priority for Denmark to make a significant contribution to the financing of these. Internationally speaking, IFU leads the way in the mobilisation of institutional investors, as in an international context, it is a unique way of mobilising private capital. IFU must continue to pave the way and inspire other countries and development finance institutions (DFIs) to expand mobilisation.

SDG Fund I is expected to make a return of 10-12% p.a., on par with the target return when established. SDG Fund I invested a total of DKK 3.5bn, 51% in climate projects and 49% in projects with a strong social impact, such as financial inclusion. Geographically, 33% is invested in Africa, 32% in Asia, 25% in Latin America, 10% in Europe and 10% in global projects. 10% are in high-risk countries.

Access to the state on-lending scheme for IFU's own investment in SDG Fund II sends an important signal of continued support from the state and supports IFU's efforts to mobilise private capital. It is noted in this context, that the state played an active role in the establishment of SDG Fund I, which contributed to the fund getting the necessary attention from the Danish pension funds.

As was the case for SDG Fund I, IFU's 40% participation (DKK 2 billion) in SDG Fund II will be split with DKK 800 million using on-lending (40% of IFU's participation) and DKK 1.2 billion using IFU's equity (60% of IFU's participation). This is to leverage IFU's balance sheet while maintaining a sound risk profile, ensuring that it can meet its obligations to Nationalbanken.

Through SDG Fund I, IFU has built capacity and experience in making impact investments of the requisite size, quality and risk adjusted return for such a fund. SDG Fund II is expected to have the same size, but to be invested over four years (SDG Fund I was invested over five years due to the pandemic). IFU has already built a significant pipeline (DKK 6 billion in total), so this is considered realistic. The annual investment budget for SDG Fund II will be DKK 1 billion.

Targeted impact contribution
A total of DKK 5 billion is expected to be raised for SDG Fund II for sustainable investments in developing countries with a focus on supporting the green transition and building a just and inclusive economy. 50% of the fund's capital is expected to go towards climate financing. Geographically, IFU expected that 35% of the investments will be in Africa, and 10% will be in poor and fragile countries.

The SDG Fund II will be classified as Article 9 compliant under EU's Sustainable Finance Disclosure Regulation (SFDR). This sets new standards for what public-private partnerships can deliver.

Risks and assumptions
IFU and the private investors in the SDG Fund II bear the main risk of loss with the SDG Fund II. A loss will occur if the returns on the fund's investments cannot cover the invested capital. In this scenario, IFU will loss the capital invested into the fund.

As part of the financing for the SDG Fund II, IFU will receive access to a loan of DKK 800 million, which is guaranteed by the Danish ODA budget. If the loss so high, that IFU cannot services the loan with the returns from the fund, the ODA budget will have to cover the loss. Losses thus depend on the total return of the SDG Fund II and will most likely be known several years before they are realised. This mechanism is also in place with SDG Fund I, and to date, the SDG Fund I has no prospect of a loss on the on-lending loan.

Lending through state on-lending scheme

Introduction & Background

Financing the green transition is crucial for reducing global emissions, both to reduce current emission from developing countries and to avoid increasing emissions further as these countries develop and their energy demands increase. Based on the positive experience from the Green Future Fund, IFU has been granted the opportunity to draw additional DKK 7.5 billion from the state on-lending scheme, phased in 2024-2030. This, along with IFU's equity, will increase IFU's lending for climate finance in developing countries to DKK 10.25 billion.

IFU's current climate investments are partly financed through Denmark's Green Future Fund, which was established in 2020 with DKK 1 billion allocated to IFU in the state on-lending scheme, phased in 2020-2022, with loans available until 2025. By 2024, IFU had fully committed the DKK 1 billion in loans to climate related projects. Additionally, IFU made DKK 1.5 billion in climate investments from 2020-2022 from own funds, gaining significant experience in climate finance and project development in developing markets.

Targeted impact contributions

Allowing IFU the opportunity to draw on the state on-lending facility will bolster Denmark's contribution to climate finance, aligning with the Paris Agreement and positioning Denmark as a key player in international climate finance. At least 75% of loans will target climate investments, while up to 25% will target social impact.

The loans financed with on-lending will generally be fairly larger loans with a long duration of 10 to 20 years provide to private companies. The average loans size is expected to be around DKK 150 million, but can be larger. IFU sees a high demand within infrastructure and green energy for the type of financing that can be provided with loans financed with on-lending. However, loans will also be relevant for the other IFU focus sectors. Banks and financial institutions need capital to finance their own lending activities, and IFU can help finance this lending activity and ensure a focus on e.g. green or social loans. Within the agricultural sector, the loans with on-lending can be used to finance increased climate resilience, e.g. by ensuring access to water in place with high risk of draughts.

Investments finance with use of on-lending will be limited in the risk they can take on, and the loans will therefore be target more towards relatively stable markets with manageable risk premiums. Geographically, IFU expects that 25% of the loans will be in Africa, and 10% in poor and fragile countries. The rest will be allocated to developing countries in Asia, Latin America, the Middle East, and Eastern Europe, including Ukraine. Focus will also be on Denmark's partnerships with South Africa, India, and Indonesia.

IFU's loans are made in market terms to commercially sustainable companies that need capital to support new activities. IFU's loans strengthen commercial companies' opportunities for growth. In Denmark’s Green Future Fund, IFU has had a mobilisation factor of 1.5x, with which IFU more than doubled the invested capital. It is expected that a new loan facility, with a focus on green loans, will be able to increase the mobilization factor to 2.0x. Since only one-third of the loans are financed by IFU's own capital and the remaining part with state on-lending, the total mobilisation factor for IFU's equity is 6x.

Risks and assumptions

The allocation of a framework in the state on-lending scheme entails a credit risk for the state. The framework is given to IFU which is liable for any losses under the scheme, but if IFU cannot repay

Nationalbanken under the scheme, the state will assume the loss. IFU's risk management dictates that lending financed by debt (as this debt in question) must be co-financed with equity to a degree depending on the loan's risk profile. Thereby, IFU’s equity can cushion a potential loss on a loan. The expected risk profile of the loans using on-lending indicates a 1/3 equity coverage on average. IFU will pay a risk premium to the state, budgeted under Section 37.

Danida Sustainable Infrastructure finance (DSIF)

Introduction & Background

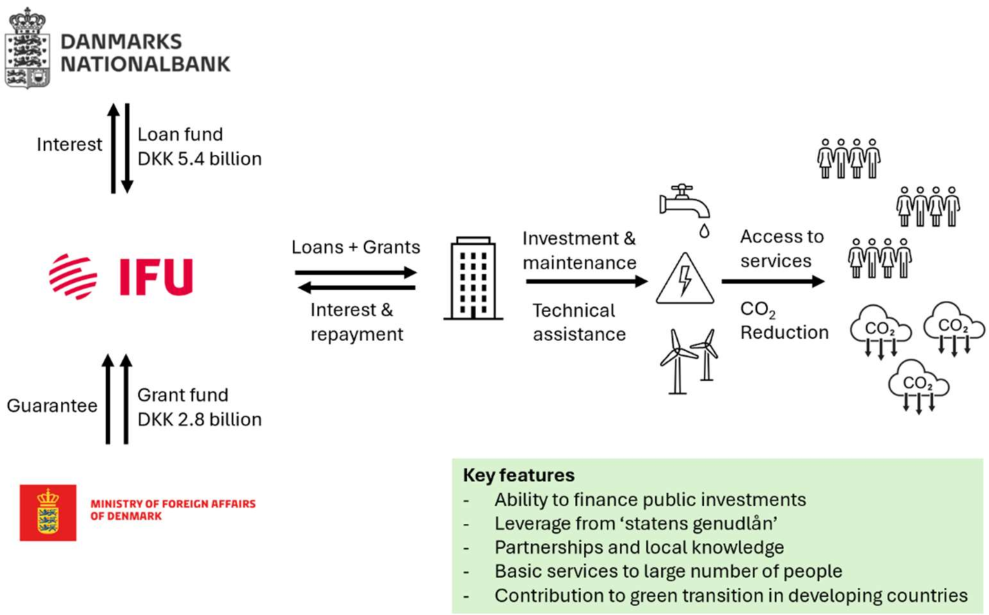
In recent decades, developing countries have witnessed rapid urbanisation and population growth. This demographic shift has placed immense pressure on public infrastructure, particularly in essential sectors such as water and energy. The Danish Government has since 1993 through DSIF supported the financing 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. In 2017, IFU assumed administrative responsibility for 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.

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.

Intervention logic

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.



Budget

Historically, MFA has allocated DKK 400 million annually to DSIF. The expected budget of DKK 2.8 billion for a seven-year period is thus a continuation of the current commitment to DSIF. The budget of DKK 2.8 billion under approval will co-exist with IFU's draw of up to DKK 5.4 billion from the government on-lending facility, already approved. As such, the total combined loan and grant budget for DSIF allocated for the period 2024 to 2030 amounts to DKK 8.2 billion.

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* Outcome 2 - Green transition, a cleaner environment and improved climate resilience in developing countries	340	239,5	394,5	399	360	359	360	**2,452**
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.*

Mobilisation of additional capital

DSIF's strategy is to focus on co-investments with either private partners or development finance institution (DFIs). A co-financing percentage target is not defined, but a fair assumption is that DSIF will not provide more than 50% of the total loan financing for a project, indicating mobilisation of at least DKK 5.4 billion based on the above budget. The majority of DSIF's projects are located either in Africa and/or in LDC countries and are by nature non-commercial, based on a willingness from the government in the recipient country to support the project with a sovereign guarantee or other adequate support mechanisms.

Risks and assumptions

Management of risk is an integral part of the DSIF investment process which currently are based on the Danida Development Guidelines. Going forward, it will follow IFU's investment guidelines. The following risks and mitigations are considered for the successful execution of DSIF.

Counterpart risk

DSIF loans are currently guaranteed by the Ministry of Finance in the recipient country. Going forward, the assumption is that some loans will be issued to publicly owned regional development banks. In this case, the bank risk is assessed by IFU's Finance team. As of today, DSIF loan financing will continue to be guaranteed by the MFA in the future.

Institutional capacity risks
In each DSIF feasibility study, an in-depth analysis of the capacity of the local entity responsible for implementing the actual project is obligatory. The same applies for proposals for mitigating actions e.g. TA, twinning or development of public-private partnerships.

Sourcing risks
Another risk is the lack of relevant opportunities. DSIF has a strong working relationship with the Danish Embassies in the countries of operation, particularly through the Strategic sector cooperation, which supports the sourcing of projects.

Reputational risks:
DSIF benefits from IFU's well-established policies and procedures which ensure that safeguards are in place and sustainability issues are professionally addressed during project preparation and execution. Comprehensive due diligence is performed on the involved parties including owners and managers, when relevant, to minimise the risks.

Management, monitoring, and reporting
DSIF follows existing IFU policies and procedures drawing on IFU's sustainability, legal, fiscal management, and communication capacities. As such DSIF benefit from IFU safeguards and governance with minor adjustments, including regular and close coordination with Ministry of Foreign Affairs.The decision structure is under revision, as outlined in the DSIF programme note, which proposes that DSIF projects going forward will follow IFU's standard decision-making process. Until this is implemented, the MFA has the authority to approve DSIF projects.

Reporting on DSIF is presently done to the MFA outside the annual IFU report but will, going forward, be integrated into IFU's overall reporting.

Development Guarantee Facility

Introduction & Background

Presentation of instrument
The Development Guarantee Facility (DGF) was established in IFU for a pilot period (2022-2025) with a frame of DKK 2 billion to issue guarantees for climate and development purposes. DGF is backed by the AAA-credit rating of Denmark and is managed independently of IFU's balance sheet. DGF addresses two key Danish development priorities: 1) mobilising private capital to address mitigation and adaptation in relation to climate change, and 2) providing access to finance for small and medium-sized enterprises to grow and create opportunities for the many young people entering the labour markets – especially in Africa. This also supports the two strategic impact priorities of IFU: 1) building a green economy, and 2) building a just and inclusive economy, which link directly to SDG 8, Decent work and economic growth, SDG 10, Reduced inequalities, and SDG 13 Climate action.

Development guarantees do not have a return requirement but seek to strike a long-term balance between income and losses. The addition of guarantees to IFU's product range provides a new lever for IFU to engage in lower income countries and fragile states to a larger extent than previously.

The model resembles that of an insurance company. The risk is reflected in the calculation of an expected loss for each guarantee, which is financed with paid-in premiums from the guaranteed parties (e.g. local banks providing local currency loans, or investment funds mobilising institutional investors to climate investments). Any realised losses on specific guarantees are covered by premiums from all guaranteed parties. For guarantees with a high risk, the premium can be reduced (subsidised) with Official Development Assistance (ODA) grants. ODA will not cover any losses related to the guarantees. This means that the actual guarantee is not considered ODA.

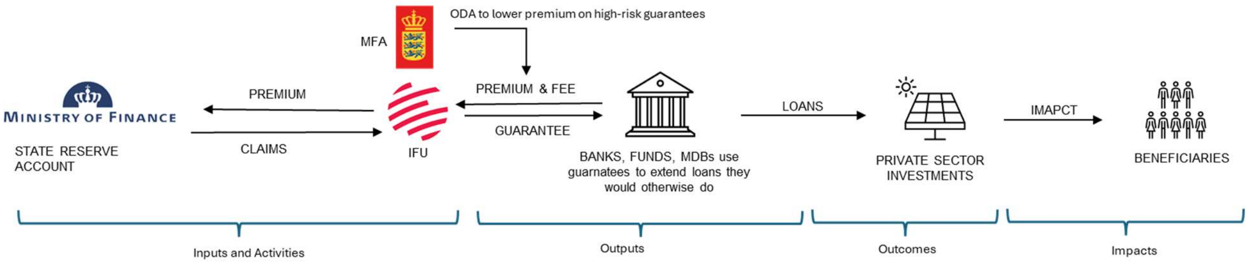
In addition to using ODA grants for premium subsidies, DGF has the option of supporting guaranteed parties and intended beneficiaries with technical assistance and capacity building where necessary.

Key partners
Each guarantee proposal is subject to close coordination between IFU and the Ministry of Foreign Affairs. In Danish development cooperation programme countries, DGF coordinates closely with the Danish Embassies to ensure synergies with the existing country programmes.

DGF is based on a similar Swedish model, where Sida, an independent government agency, is tasked with managing the guarantee instrument. During the pilot phase, DGF coordinates closely with Sida and relies on risk assessments performed by Riksgälden (the Swedish National Debt Office).

Sweden's development guarantee program was launched in 2009 with a guarantee frame of SEK 5 billion. The guarantee frame has been continuously increased, with considerations of raising it to SEK 40 billion from just over SEK 20 billion today.
Target group
With the intention of reaching underserved beneficiaries and being additional to what commercial investors are able to underwrite, DGF targets local commercial banks, development banks (global, regional and sub-regional) and funds that mobilise institutional investors in line with the agreed priorities for DGF.

Intervention logic



Through IFU's project screening tool, all guarantee opportunities are checked against IFU's strategic objectives, including the overall impact criteria for green transition and for just and inclusive growth. A detailed theory of change is developed for each guarantee operation following IFU's standard approach.

Results Framework

DGF is guided by the same strategic KPIs as IFU: 50% of guarantees in Africa, 50% of guarantees towards climate (mitigation and adaptation) and a minimum of 30% of guarantees in poor and fragile countries.

For each guarantee, a results framework is agreed with the partner and approved as a part of IFU's investment process. Monitoring of performance, application of environmental, social and governance (ESG) safeguards, as well as business integrity screening and impact monitoring of the engagements feeds into IFU's annual reporting.

Monitoring includes annual reporting on selected indicators as well as an ex-post assessment. A final evaluation report will be prepared for each guarantee and in-depth outcome or impact studies will be prepared for selected engagements. An ex-ante baseline is prepared for each new guarantee. The specific targets of the indicators are established with the direct guarantee beneficiary prior to the effectiveness date of a guarantee. Indicators are based on projections of outreach and deliveries on the specific guarantee and associated technical assistance.

Budget

Management costs of DGF are covered by the Ministry of Foreign Affairs. This will be supplemented with fees collected from guaranteed parties.

DGF Budget, 2022-2025, DKK million

Management	22.5
Subsidies to premium payments	92.5
Technical Assistance	20.0
Total	**135.0**

Mobilisation of additional capital

With a guarantee frame of DKK 2 billion (non-ODA), and an ODA contribution of DKK 135 million, the expectation is that DKK 6 billion will be mobilised for climate and development purposes.

Risks and assumptions

Management of risk is an integral part of any guarantee scheme and forms the foundation of the model. By carefully assessing risks, using the best available techniques and models, it is possible to price and pool risks to the benefit of the guaranteed parties while maintaining a long-term equilibrium in the guarantee scheme, where expected losses are covered by premium payments.

The following risks and mitigants are considered for the successful execution of DGF:

Financial and market risks
DGF underwrites risk in developing markets, however, there is a risk that losses are greater than what had been expected and priced in. This could be due to such factors as adverse macroeconomic and political developments, or wars and conflicts. In situations where risks cannot be properly quantified and assessed, guarantees are not considered. To a certain degree, concentration risk will be mitigated by holding guarantees across multiple countries. Careful and diligent assessment of risk is the best guard against these risks.

Institutional capacity risks
Paradoxically, the close, and in many ways beneficial partnership with Sida, also entails one of the most substantial risks to satisfactory programme execution. The partnership means that many decisions are not under the sole authority of DGF. Identifying a new arrangement and appropriate conditions for IFU to issue guarantees independently of Sida is the most relevant risk mitigant in this regard. This will include identification of a solution for the risk-assessment currently performed by Riksgälden. The aim should be separation from Sida at the end of 2025. The preparation for a permanent DGF must not be delayed even if the portfolio may not be well developed at the end of the pilot phase.

Sourcing risks
Another risk is the lack of relevant opportunities. Fortunately, experience to date (also from Sida) suggests this is an unlikely scenario. The total guarantee volume of the current pipeline adds up to approximately DKK 2.4 bn. compared to the available frame of 2 bn. DKK. Maintaining a sufficiently broad and solid pipeline through active sourcing is key to the risk response.
Reputational risks:
DGF benefits from IFU's well-established policies and procedures which ensure that safeguards are in place and sustainability issues are professionally addressed during guarantee preparation and execution. Comprehensive due diligence is performed on the guaranteed parties including owners and managers to minimise the risks.

Management, monitoring and reporting
DGF follows existing IFU policies and procedures drawing on IFU's sustainability, legal, financial management and communication capacities. Such guarantees benefit from IFU safeguards and governance with a few pertinent adjustments, including regular and close coordination with Ministry of Foreign Affairs.

Responsibility for decisions related to pricing and issuance of guarantees rests with IFU's Board of Directors. The guarantees are backed by the creditor rating of the Danish state (AAA) and are managed independently from IFU's balance sheet.

Financial reporting on DGF is integrated into IFU's overall financial reporting as part of the audited annual report. An annual financial audit report only for DGF is also submitted to MFA.

IFU Impact Ventures

Introduction
With IFU Impact Ventures (IIV) priority is given to early investments in innovative companies in primarily Africa but also Latin America and Asia where risks are high and capital constraints are important, but which can have a significant development and climate effect. IFU Impact Ventures supports IFU's overall objective:

Promote investments which support sustainable development and realisation of the SDGs in developing countries and global climate goals by: Supporting the building of just and inclusive economies and fostering green economies.

IFU will develop a strategy for impact ventures by end-2024, integrate early-stage investments as part of IFU's investment focus and reorient IFU's approach to impact ventures compared to previous similar efforts. Dedicated staff resources have been allocated to secure implementation in synergy with IFU's other investments. IFU Impact Ventures serves to expand IFU's investment toolbox such that IFU becomes a leading impact investor across the capital spectrum (from small to large equities, to debt and guarantee instruments), and scale up investments substantially within priority sectors to deliver results on climate change and development indicators.

Objective, key expected outcomes and target groups
The objective of IFU Impact Ventures is threefold.

- First, to support early-stage companies ("ventures") in emerging markets and developing countries that can become decidedly impactful from a climate and/or inclusive growth perspective (ideally both) through direct investments in such companies and indirect investments in funds that support such companies ("ventures funds").
- Second, to mature a pipeline of potential high impactful opportunities where IFU can invest its core capital.
- Third, to increase capacity within IFU for early stage investing such that it becomes an integral part of the organisation's investment focus.

Key expected outcomes
IFU Impact Ventures contributes to achievement of the overall IFU priorities and results as outlined in the results framework in the main IFU capital contribution programme document. Thus, at least half of all investments will be in Africa, and at least half will be climate investments. Sectors for investment will follow IFU's four priority sectors and be within sustainable food systems, green energy and infrastructure, healthcare, and financial services. Below indicators are specifically related to IIV (ref. annex 3).

Outcome indicator 3.3	Investees contribute positively to the local economy after receiving capital from IFU Impact Ventures
Measured on	Profitable exit by IFU Impact Ventures or by the funds in which IFU Impact Ventures invested – *A proxy for the investee companies having been successful and grown.*
Baseline	N/A
Target	15%
Outcome indicator 3.4	IFU Impact Ventures' investees move on to more commercial sources of finance
Measured on	Share of IFU Impact Ventures' companies able to raise follow-on capital (debt and/or equity, from IFU or other (direct and indirect (via funds))
Baseline	N/A
Target	2025: 20%; 2027: 25%, 2030: 40%

Output indicator 3.3	Strong activity in IFU Impact Ventures
Measured on:	Number of investments committed by IFU Impact Ventures, of which direct and indirect (via funds)
Baseline	N/A
Target (2026):	2025: 4, 2027: 8, 2030: 8
Output indicator 3.4	IFU Impact Ventures' investees able to increase business activity (direct and indirect (via funds))
Measured on:	Share of IIV investees with increased business activity measured as increase in revenue after IIV investment
Baseline:	N/A
Target (2030):	2025: 30%, 2027: 50%, 2030: 80%

In addition, IFU Impact Ventures will measure jobs created (direct and indirect) and have a significant focus on climate, in addition to inclusion. Some transactions may contain elements of both mitigation and adaptation; biodiversity may also be a theme in some investments. The best gauge suggests that mitigation will be the largest category. Importantly, early-stage companies are unsophisticated, immature, trying to survive and grow and thus, might not have the same monitoring capacity like mature companies. Where possible, efforts will be made to align impact metrics with operational metrics that investees regularly collect to inform their decisions. For example, an electric bus company would keep track of the number of electric buses it has on the road and how many hours a day its electric buses operate. This is an operational metric that can indicate positively that green-house gas emissions might have been avoided.

Key executing partners of IFU Impact Ventures investment strategy
Key partners in the development of IFU Impact Ventures and in the execution of its investment strategy are (i) IFU itself; (ii) venture funds and their investees; and (iii) like-minded investors including other development finance institutions; among others.

IFU itself is both a participant and a key partner in the development of IFU Impact Ventures and in the execution of its investment strategy. It is a key partner because opportunities will be sourced through networks and contacts across IFU, including country offices. In addition, the industry verticals - the priority sectors that form the organizational structure of IFU's investment staff - will work hand in hand with IFU Impact Ventures to: (i) execute a strategy that guides the sourcing and selection of potential investment opportunities within each vertical; (ii) provide industry expertise; (iii) help ensure that deals pursued are the ones in which the industry vertical would invest in; (iv) serve as a sounding board for each transaction; (iv) serve as an advocate for the transaction at each investment stage; and (vi) provide support and / or lead transaction processing and portfolio supervision of the investment.

Venture funds will be key partners. Part of the rationale of investing in venture funds is to have visibility on the top-performing companies in their portfolios. When the investees grow and need additional capital, IFU Impact Ventures will have the possibility to co-invest alongside the fund. Like-minded investors including other development finance institutions will be key partners as well because through and with them Impact Ventures can source leads, exchange ideas, and do joint transactions. For example, IFU is currently conducting diligence for a transaction in the sustainable protein space (black soldier fly larvae) where IFC has taken the lead both on legal documentation and environmental and social matters.

Investment focus
IFU Impact Ventures will target both early-stage companies for direct investments and venture funds for indirect investments.

Direct investments
For investments directly into companies, ventures prioritized will be those that:

- Align with the objectives and strategies of IFU's industry verticals, currently in draft (expected to be finalized in Q4 2024).
- Can become financially sustainable (i.e. can earn sufficient revenue to cover all expenses and makes a profit). Commercial viability is key for long-term impact. In that sense, ventures should be able thrive in the absence of long-term grants, subsidies, or protection by import tariffs.
- Are financially sustainable but would like to grow significantly to achieve scale and impact. Scaling is risky because it requires people, processes, facilities, and systems need to grow in tandem to scale operations.
- Have the potential to be eligible for regular IFU financing (minimum of USD10 million) in a 3-5 years period. Liquidity in emerging markets is scarce and viable companies may not find capital to grow. Focusing on ventures that can attract IFU finance mitigates the risk that otherwise viable portfolio companies become starved for cash.
- Have a minimum viable product that is being produced, delivered, sold, purchased, and/or paid for in emerging markets. This is important because it decreases the likelihood of failure and increases the likelihood that ventures can scale. Data from developed markets shows that over 75% of venture-backed companies never return cash to investors, with 30-40% of those liquidating assets where investors lose all their money. This suggests the likelihood of losses are real and something that IFU Impact Ventures will experience frequently.
- Have a management team that has (i) relevant technical and managerial experience; (ii) geographical experience; (iii) boots on the ground; (iv) passed due diligence screening; and (v) by the end of IFU's investment period, at least one woman in senior management. These criteria are sound because they increase the likelihood that ventures can navigate the local environment and makes explicit IFU's preference for gender parity in senior management.
- Has a Board of Directors that includes at least one woman by the end of IFU's investment period, thereby making explicit IFU's preference for gender parity on boards.

The instruments with which IFU Impact Ventures would most likely invest are loans that convert into equity (convertible notes) and equity (ideally with some preference vis-à-vis other investors in the event of a liquidation). These are commonly used instruments with which IFU (and many investees) are comfortable.

The preferred size of an investment by IFU Impact Ventures will be on average USD 2 million, to be disbursed according to milestones where possible (for example, Chief Finance Officer hired, offtake contract signed, or monthly production rate doubled). This amount is big enough to enable some ventures to reasonably reach a size that will be possible for IFU core capital to consider in a 3-to-5-years' time frame. Importantly, as per the experience of the Project Development Programme (PDP), it is expected that some commitments will not fully disburse. A lesson learned from the PDP is that it will be useful to slightly overcommit IFU Impact Ventures to effectively deploy the capital allocated to it. If all commitments happen to fully disburse (highly unlikely), IFU itself will make up the difference.

Example of early-stage company that would be a target for Impact Ventures: BasiGo
BasiGo is an early-stage electric mobility company that provides "matatu" owners (buses for mass transportation) in Kenya and Rwanda with a cost-effective payment mechanism through which to lease electric buses (an innovative "pay as you drive" model). BasiGo offers bus drivers charging stations and maintenance services and already has 20+ buses on the road. The company is raising capital to grow the number of buses in its fleet and is expected to become profitable when 400+ buses are on the road. A USD 2m investment in BasiGo is currently undergoing due diligence and would classify as being both green and inclusive.
Importantly, the company is many years away from profitability. To become financially sustainable and have a significant, long-term impact it needs to (i) raise over USD 100m to purchase the buses it needs to reach the point of breakeven, (ii) efficiently assemble buses locally –an increase from 1 to 20 buses assembled per month; and (iii) effectively operate both in Kenya and Rwanda. The company needs committed investors that are willing to be patient and provide follow-on investment. In the current fundraising round of US 15m, BasiGo hopes to attract a handful of investors (each at US 2-3m) that can accompany it on this journey. BasiGo is not a candidate for IFU's own capital; the risk of failure is too high, the business model still evolving, and the ticket size too small. This is why it is instead a candidate for IFU Impact Ventures.

Investment in venture funds
Investments in funds will help IFU Impact Ventures diversify its risk and reach a greater number of early-stage companies. In addition, by having more eyes and ears on the ground, IFU Impact Ventures can better understand the market and its trends. In that regard, funds prioritized will be those that:

- Invest in early-stage ventures that target climate and/or inclusion (ideally both), and that prioritize the sectors and geographies in which IFU invests its core capital.
- Fit the strategies of IFU's industry verticals and where possible, deliberately align with their gaps and goals.
- Have experienced managers with a track record of success in the venture space in emerging markets. This means they have raised funds and invested capital, can point to several investments (>3) from which they have exited as fund managers, and have returned capital to their investors. The rationale for this is that the objective of IFU Impact Ventures is not to build fund managers, but rather to build successful and impactful ventures.
- Have at least one woman in the senior leadership team.
- Are investing an average of USD 500,000 in each of their investees. This amount size is useful for Impact Ventures because it means the investees of a fund in which Impact Ventures invests will have a growth partner at each stage: the venture fund when they are just starting, IFU Impact Ventures when they need to scale, and IFU's own capital when they have matured.

The preferred size of an investment by IFU Impact Ventures into a fund would be USD 3-4 million. This is big enough to participate in venture funds and have them consider IFU's requirements. Fund sizes would likely be larger than USD 20 million.

An example of a venture fund that could be considered by IFU Impact Ventures would be First Circle Capital, a women-led venture fund focused on tech-enabled financial service companies in East, West and North Africa. They invest USD 500,000 per company and will soon start raising their second fund focused on climate resilience. IFU will be looking closely at the performance of their investees and at their exits prior to investment. Another candidate would be Acumen Latam Impact Ventures Early Growth Fund II (ALEG II) which focuses on impact investments primarily in Colombia and Peru and will finish fund raising this calendar year. Climate is a key theme across the various sectors in which they plan to invest (agri-tech, solar, access to healthcare, fintech) and their track record as a fund manager is well-established.

From a geographic perspective, it is important to note that both ventures and venture funds need conducive ecosystems to be successful. Since these are unlikely to develop in fragile and conflict-affected states (FCAS), it is likely that most ventures and funds supported by IFU Impact Ventures are domiciled in countries in Africa, Latin America and Asia with vibrant ecosystems for innovation and entrepreneurship (i.e. those that concentrate talent, information, and resources such that young companies and their founders quickly find what they need at each stage of growth) and/or in jurisdictions with well-developed judicial systems, and simple bankruptcy laws. This means it is unlikely for Impact Ventures to meet IFU's overall portfolio target of at least 30% of investments in LDCs and FCAS, even though the operations of the companies, in which it invests, could well reach them.

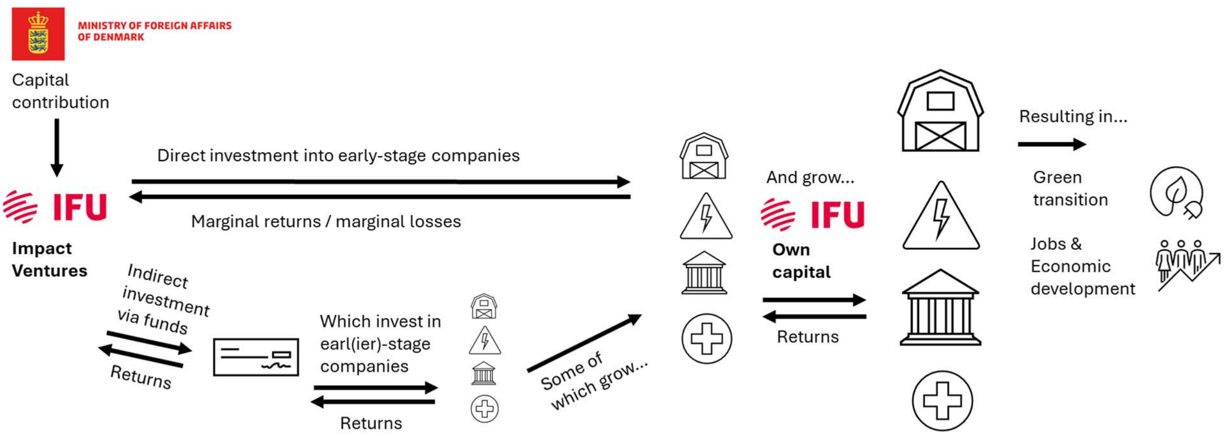
IFU Impact Ventures will not invest in the development of greenfield projects (i.e. projects that start from scratch) nor in the platforms of project developers (companies and groups of people that specialize in starting projects from scratch). This is one of the lessons learned from PDP. Project development is very resource intensive and likelihood of success is low. Experience from IFU's PDP, among others, shows that success in this area requires a team large enough to diversify risk by working across more than 5 potential projects. For a small team like IFU Impact Ventures a potential outcome could be that no projects are developed despite good effort. The same logic applies to the platforms of project developers: either they are large and IFU Impact Ventures' contribution makes little difference, or they are small and their risk is similar to that of IFU Impact Ventures developing projects itself. IFU has learned from the PDP experience and this is why IFU Impact Ventures will avoid investing in such endeavours.

Intervention Logic

Ultimately, IFU invests to help (a) fostering green economies, and (b) support the building of just and more inclusive economies in emerging markets. Entrepreneurs can be key participants in this process, but often their growth is constrained. Early-stage companies are nimble and can serve to bring, test, and develop new ideas and business models in emerging markets. However, there is:

- Insufficient capital for early-stage companies in emerging markets, and even less for companies focused on climate and/or inclusion whose business models typically take more time and money to breakeven.
- Insufficient follow-on capital for companies to scale, even if they have viable business models.
- Insufficient experienced, impact-focused investors with risk-willing capital.

Those are the three challenges IFU Impact Ventures is trying to address. The figure below illustrates how IFU intends to address them:



IFU Impact Ventures supports venture funds targeting early-stage companies that further climate and/or inclusion, as per the bottom part of the figure. These funds in turn invest in the USD 0.5m range. If the investees of the funds grow, IFU Impact Ventures can step in to support them with investments in the USD 2 million range (top and middle part of the figure) or IFU can invest directly in early-stage companies. If the investees of IFU Impact Ventures grow, IFU's own capital can support with its core capital starting at US 10 million (right side of the figure). This means that early-stage companies addressing climate and/or inclusion can find a continuum of capital to support them in their growth journey. Once such companies grow and are less risky, they can attract commercial private investment. This is how impact is achieved and the first and second challenges - insufficient capital for early-stage companies in emerging markets and insufficient follow-on capital such companies to scale - are addressed.

Budget

IFU Impact Ventures is funded by a capital contribution of DKK 100 million and implemented through staff from IFU equivalent of DKK 15 million, some of which some are full-time resources for Impact Ventures while others contribute depending on the investment opportunity that is pursued. No additional external capital is expected to be mobilised for the Impact Ventures program.

	2024	2025	2026	2027	Total
MFA grant received by IFU	50		50		100
MFA grant disbursed by IFU*	9,5	40	49	1,5***	100
Impact Ventures Investments	9	37	46	0	92
Direct (disbursement)	9	18	27	0	54
Funds (disbursement)	0	19	19	0	38
Impact Ventures staffing					
MFA (1-2 staff for 3 years)**	0.5	3	3	1,5***	8
IFU (average of 3 director-level)	2.5	5	5	2.5	15
Assumptions					
Number of investments					
1. Direct	1	2	3	0	
2. Funds	0	1	1	0	
Average amount per investment	DKK millions				
Funds	24				
Companies	14				

*The disbursement budget is indicative and may vary and will be capped by available funds.

**starting late October 2024

*** staff maintained on the assumption of continued financing of 50m DKK per year

Importantly, the IFU team is already building the pipeline of potential investees for Impact Ventures. Any commitments and disbursements made in the first nine months of 2024 are separate from those of Impact Ventures and will be made using remaining funds from the Project Development Programme (PDP). These will be done following the principles and strategy of Impact Ventures outlined in this document, but are not included in the numbers shown above as PDP and Impact Ventures are separate initiatives.

With the Finance Act 2025 an additional DKK 50 million has been allocated to strengthen IFU's work with SMEs including those with a Danish linkage or interest. IFU and MFA will explore whether the focus of IFU Impact Ventures can be expanded to also include this target group or whether a separate facility should be established with the transaction costs this would entail.

Management, monitoring and reporting

Management
The investment and supervision processes in IFU Impact Ventures will follow existing IFU policies and draw on IFU's sustainability, legal, financial management and communication capacities. The IFU Impact Ventures team is being housed within IFU's Financial Services unit, and yet is cross-cutting to all the industry verticals. The team, together with colleagues from IFU's industry verticals, is responsible for sourcing, screening, processing, and conducting due diligence of investments as well as managing the portfolio of venture investments and eventually exiting them.

IFU's impact management system is fully integrated into its investment cycle and involves a number of steps from initial project screening to exit. Investments under Impact Ventures benefit from the same system with a few pertinent adjustments where necessary. For example, the Annual Sustainability Reporting guidance has been streamlined for Impact Ventures, the Business Integrity questionnaires have been shortened, and IFU is more readily relying on the due diligence of others in investment processes—like our reliance on IFC environmental and social diligence for the black soldier fly larvae transaction mentioned above.

Monitoring and reporting
Monitoring will mainly be done through participation in company boards. In addition, quarterly financial reporting will be expected from ventures and funds, as well as annual audited accounts and impact reporting. When Impact Ventures exits investments, it will collect lessons learned during its holding period. Monitoring will also include yearly visits to the investees, where appropriate, to assess progress and challenges, and report back on those internally to secure advice and guidance.
Annual financial and progress reporting on IFU Impact Ventures will be integrated into IFU's global annual report. A more detailed annual progress and financial report only for IFU Impact Ventures will also be submitted to the MFA containing: 1) a detailed description of IFU support to each investment (funds and other support), annual progress of the investment and results one year after final or main bulk of disbursements have been made to each investment, 2) reporting on results framework indicators and progress towards achievement of overall objectives including progress on increased capacity within IFU for early stage investing, and 3) financial overview.

A review will be carried out of the IIV financial instrument at the end of 2025 assessing progress in overall implementation incl. IFU early-stage strategy, the three objectives, indicators and organisational set-up and inclusion in IFU. The review will include an assessment of the possible allocation of an additional DKK 50 million from 2027. If the review finds IIV to be progressing satisfactorily, it could be considered, in the spirit of OneIFU to further streamline the process. One model could be to develop an overall target for early-stage investments (e.g. 10%) as has been done with the 50 percent Africa, 50 percent climate and 30 percent poor and fragile states targets. IIV would then be fully integrated in the overall reporting and dialogue structures as has been done with the HRHI facility (cf. section 2.3.2).

Risks and assumptions
The following risks and mitigants are foreseen for the successful development of IFU Impact Ventures:

Financial and market risks:

Deteriorating macroeconomic and political conditions across many emerging markets means growth for ventures is harder. In addition, the current difficult fundraising environment means good companies and business models may fail to raise sufficient cash to grow. Finally, assumptions that form the basis of future investment considerations regarding market penetration, growth, margins, and costs may prove incorrect, pushing breakeven far into the future. These risks exist for all emerging markets investors in the venture space, which is why capital is scarce. There are only partial mitigants for these risks; indeed, it is part of the justification for the Impact Ventures programme and the present contribution to the programme that allows IFU to take on these risks. Importantly, by aligning the investments of Impact Ventures with the sector priorities and requirements for IFU's core capital investment, the lack of cash for growth is partially addressed.

Reputational risks:
Early-stage companies typically have reduced execution capacity, weaker governance, and limited ability to address environmental and social risks, which means venture investing may pose reputational risks for IFU. The partial mitigant is the high standards and significant scrutiny associated with the due diligence and supervision requirements within IFU, which hopefully help to identify and address reputational risks prior to investment.

Institutional capacity risks:
Investing in early-stage companies is as, if not more, complex as investing in mature companies. The former are less sophisticated, have less data, need more handholding, and have more difficulties complying with IFU requirements. In addition, although the internal investment process requires only two formal approvals instead of three, diligence is similar. In that context, sufficient headcount needs to be allocated to the IFU Impact Ventures team to ensure successful (i) execution of the budget allocated to IIV; and (ii) supervision during the period in which IFU is an investor-owner of a venture. To date, two headcounts have been approved within IFU for the team and at least two more are needed. The mitigant for this is that in the budget for Impact Ventures it is proposed that part of the contribution be earmarked for staff.

Sourcing risks:
It is assumed that Impact Ventures will be able to source sufficiently interesting and promising opportunities in the climate and/or inclusion space. To date, the number of investment possibilities presented to IFU outstrips IFU's capacity to screen them, which suggests that sourcing is not a challenge. The challenge is screening, prioritizing, and performing due diligence on investments, as mentioned earlier. The mitigant is that in the budget for Impact Ventures it is proposed that part of the contribution be earmarked for staff—and that part of the time of these staff members is spent on screening and prioritizing investments.

Annex 4: Detailed results framework

Programme Title	**IFU Capital Contribution**
Objective	Promote sustainable investments that contribute to the achievement of the Sustainable Development Goals (SDGs) and climate targets in developing countries by: - Supporting the building of just and inclusive economies, with a focus on poverty alleviation, gender equality, and job creation in the most vulnerable communities. - Fostering green economies through investments in climate mitigation, adaptation projects, and sustainable infrastructure, particularly in regions most affected by climate change. While ensuring that investments are additional, catalytic, and sustainable, by leveraging private capital and mobilizing financial resources in a way that prioritizes financial additionality and delivers measurable development impact across IFU's four thematic areas.
Impact indictors	- Contribution to building green economies and thereby moving the world towards the 1.5 degree target (Paris alignment). - Contribution to building just and inclusive economies through increasing human development for underserved populations through improved opportunities for decent jobs and higher incomes, and better access to quality and affordable food, healthcare, energy and financial services for underserved. - Demonstrating financial and value additionality - Increasing mobilisation of private capital towards SDGs

Priorities	**Development policy priorities**
Priority 1 - Africa	Share of new investments in Africa (three-year rolling period)
Measured on:	a) Percentage share of investments contracted a by IFU's own capital b) Percentage share all investments contracted in the year relative to the share of all investments funded by IFU's own capital
Target:	a) No target b) Corresponding to 50% of IFU own equity invested in year
Result 2023:	a) 23% b) 46%
Priority 2 – Poor & Fragile	Share of investments in poorer countries (GNI per capita below 50% of the definition of LMIC as well as all LDCs) and fragile and conflict-affected situations
Measured on:	a) Percentage share of investments contracted a by IFU's own capital b) Percentage share all investments contracted in the year relative to the share of all investments funded by IFU's own capital
Target:	a) No target b) Corresponding to 30% of IFU own capital invested in year
Result 2023:	a) 19% b) 22%
Priority 3 - Climate	Share of new direct investment volume qualifying as climate finance
Measured on:	a) Share of investments relative to total investments b) Percentage share all investments contracted in the year relative to the share of all investments funded by IFU's own capital
Target:	a) 50% b) Corresponding to 50% of IFU own capital invested in year
Result 2023:	a) 75% b) 122%

Outcome 1	Supporting the building of just and inclusive economies
Outcome indicator 1.1	Contribution to local economy measured through value added through IFU's investments. *Value added is a concept measured in the Joint Impact Model (JIM), which quantifies the sum of wages, taxes and savings expressed in monetary value and equivalent to gross domestic product.*
Measure on:	d) Portfolio contribution total e) Growth in contribution since last year
Baseline:	b) DKK 150bn f) 104%
Target	No target
Outcome indicator 1.2	Increased gender equality in portfolio companies
Measure on:	d) Share of female employees in investments e) Share of investments with more than 40 percent women in senior management
Baseline:	b) 32% female employees in the portfolio in 2022 f) 15% of portfolio companies had in 2022 more than 40 percent women in senior management
Target	c) 2025: 30%; 2027; 30%; 2030: 30% d) No target
Outcome indicator 1.3	Increased access to services for underserved populations
Measure on:	Total aggregated delivered impact for the portfolio (no of people reached) Access will be combined number of people reached across the below four thematic indicators: - MFI customers (Financial Services) - Patients (Healthcare) - Smallholder farmers (Sustainable Food Systems) - People receiving access to energy (Green Energy & Infrastructure)
Baseline:	2022 portfolio Total underserved: 6.6m - MFI customers: 5.2m - Patients: 1.2m - Smallholder farmers: 0.1m - People receiving access to energy: 0.1m
Target	Total underserved: 2025: 10m; 2027: 11m; 2030 14m

Outcome 2	Fostering green economies
Outcome indicator 2.1	Avoided emissions (attributed to IFU's financing)
Measure on:	c) Expected avoidance from new investments d) Realised on total portfolio
Baseline:	c) N/A d) 0.263 million tCO2e avoided emissions (attributed), based on GWh of renewable energy produced
Target	c) No target d) 2025: 0.3m tCO2e; 2027: 0.325m tCO2e; 2030: 0.475m tCO2e
Outcome indicator 2.2	Reduced emission intensity of IFU's portfolio and alignment with IFU 2040 net zero pathway
Measure on:	b) Full portfolio emission intensity - alignment with IFU 2040 net zero
Baseline:	b) 111 tCo2e/DKKm in 2022 emission intensity of full portfolio
Target	b) Pathway indicator under development - will be decreasing each year
Outcome indicator 2.2	Production of green energy
Measure on:	GWh produced by the portfolio
Baseline:	5.9m GWh produced by IFU's portfolio in 2022
Target	2025: 9m GWh, 2027: 12m GWh, 2030: 14m GWh
Outcome indicator 2.3	Climate financing delivered in terms of capital directly invested into companies and private capital indirectly mobilised

Measure on:	New investments
Baseline:	DKK 870m in climate financing from direct IFU investments and private capital mobilised by IFU
Target	2025: DKK 4bn, 2027: DKK 5bn; 2030: 7bn (DKK 38 billion in total)

Outcome 3	**Increased organisation capacity to identify and invest in high impact additional projects**
Outcome indicator 3.1	Portfolio companies live up to and implement sustainability systems and policies.
Measured on	Percent of portfolio companies meeting requirements and share of new investments living up to them. Specifically share of portfolio companies with - A sustainability policy - An environmental & social management system - An appointed person responsible for sustainability - An external grievance mechanism - An anti-bribery & corruption policy
Baseline	2023 sustainability performance of portfolio - 82% have a sustainability policy - 66% have an environmental & social management system - 90% have an appointed person responsible for sustainability - 73% have an external grievance mechanism - 84% have an anti-bribery & corruption policy
Target	No target
Outcome indicator 3.2	Performance on "impact principles" indicators (impact management) verified by independent assessment done by BlueMark
Measured on	Score on indicators relative to peers and to last report from 2021. Ratings are: Advanced: Limited need for enhancement at present High: A few opportunities for enhancement Moderate: Several opportunities for enhancement Low: Substantial enhancement required
Baseline	2024 BlueMark report 2021 report score: 6 advanced, 2 high, 0 moderate, and 0 low. Score split on indicator: 9) Define strategic impact objective(s), consistent with the investment strategy: Advanced 10) Manage strategic impact on a portfolio basis: Advanced 11) Establish the Manager's contribution to the achievement of impact: Advanced 12) Assess the expected impact of each investment, based on a systematic approach: Advanced 13) Assess, address, monitor, and manage potential negative impacts of each investment: Advance 14) Monitor the progress of each investment in achieving impact expectations and respond appropriately: Advance 15) Conduct exits considering the effect on sustained impact: High 16) Review, document, and improve decisions and processes based on the achievement of impact and lessons learned: High
Target	Maintain or improve score (note: BlueMark continuously increase the requirements for each score level, so maintain a score implies an improve in sophistication compared to previous reviews)
Outcome indicator 3.3	Investees contribute positively to the local economy after receiving capital from IFU Impact Ventures
Measured on	Profitable exit by IFU Impact Ventures or by the funds in which IFU Impact Ventures invested – *A proxy for the investee companies having been successful and grown.*

Baseline	N/A
Target	15%
Outcome indicator 3.4	IFU Impact Ventures' investees move on to more commercial sources of finance
Measured on	Share of IFU Impact Ventures' companies able to raise follow-on capital (debt and/or equity, from IFU or other (direct and indirect (via funds))
Baseline	N/A
Target	2025: 20%; 2027: 25%, 2030: 40%

Output 1	**Supporting the building of just and inclusive economies**
Output indicator 1.1	Number of direct and indirect employees in all investments (FTEs)
Measured on:	Full portfolio
Baseline (2022):	e) 85.000 jobs directly supported by IFU's portfolio companies f) 1,8 million jobs indirect supported by IFU's portfolio companies
Targets	g) 2025: 140.000 jobs, 2027: 165.000 jobs, 2030: 270.00 jobs h) 2025: 2,5 million jobs, 2027: 3 million jobs, 2030: 5 million jobs
Output indicator 1.2	Share of direct investments that pay more than the national minimum wage
Measured on:	Full portfolio
Baseline (2022):	77% of 2022 portfolio
Target	No target
Output indicator 1.3	Women and youth employed directly (share of total)
Measured on:	Full portfolio
Baseline (2022):	c) 27.000 female jobs directly supported in 2022 by IFU's portfolio companies d) 12.000 youth jobs directly supported in 2022 by IFU's portfolio companies
Targets	c) 2025: 45.000 female jobs, 2027: 50.000 female jobs, 2030: 85.000 female jobs d) 2025: 15.000 youth jobs, 2027: 20.000 youth jobs, 2030: 35.000 youth jobs
Output indicator 1.4	Local taxes paid by investees and IFU
Measured on:	Full portfolio
Baseline (2022):	DKK 8.954 million in 2022
Target	No target
Output indicator 1.5	30% of new investments with a gender equality focus (2X challenge eligible)
Measured on:	New investments made in year
Baseline:	50% of new investments in 2023 were eligible
Target:	30%

Output 2	**Fostering green economies**
Output indicator 2.1	Total installed capacity of renewable energy investments, including new capacity
Measured on:	Installed capacity in portfolio and expected added capacity from new investments
Baseline:	Portfolio: 2.786 MW in installed capacity in 2022 Expected from new investments: 327 MW from 2023 investments
Target	No target
Output indicator 2.2	GHG sequestered by investments, for example nature-based solutions
Measured on:	Expected sequestering from new investments
Baseline:	None - *New indicator under development*
Target	No target
Output indicator 2.3	Share of investment volume that qualifies as climate investments split on climate mitigation and climate adaptation (Rio marker 1 and 2)
Measured on:	New investments
Baseline:	None - *New indicator under development*
Target	Target to be defined for 2026 review
Output 3	**Building IFU's organization**
Output indicator 3.1	Strengthened delivery capacity as per IFU 2024 to 2026 strategic plan
Measured on:	IFU to deliver qualitative reporting on the implementation status of the strategic plan: - Growing IFU, invest in professional development and harness positive culture

	- Increase communication efforts to build a stronger profile - Improve data and technology support to increase ability to collect and report on sustainability data, digitalise business processes and improve efficiency - Increase consistency in risk management and strengthen governance and compliance
Baseline:	IFU 2024 to 2026 strategic plan
Target	Progress on strategic plan (reported to and monitored by IFU's board)
Output indicator 3.2	Strengthened delivery capacities as per IFU 2024 to 2026 strategic plan by increasing IFU staff
Measured on:	e) Number of FTEs working in IFU f) Number of FTEs working in Investments (as Investment professionals and with Sustainability and Impact) g) Number of regional offices h) Number of Investments professionals working in regional offices
Baseline 2023:	e) 109 f) 64 g) 5 h) 13
Target	e) 2025: 150 FTEs, 2027: 175 FTEs, 2030: 200 FTEs f) 2025: 85 FTEs, 2027: 105 FTEs: 2030: 125 FTEs g) 2025: 6; 2027: To be defined, 2030: To be defined h) 2025: 26 FTEs; 2027: To be defined, 2030: To be defined
Output indicator 3.3	Strong activity in IFU Impact Ventures
Measured on:	Number of investments committed by IFU Impact Ventures, of which direct and indirect (via funds)
Baseline	N/A
Target (2026):	2025: 4, 2027: 8, 2030: 8
Output indicator 3.4	IFU Impact Ventures' investees able to increase business activity (direct and indirect (via funds))
Measured on:	Share of IIV investees with increased business activity measured as increase in revenue after IIV investment
Baseline:	N/A
Target (2030):	2025: 30%, 2027: 50%, 2030: 80%

Annex 5: Risk Management Framework

Key contextual, programmatic and reputational risks.

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.	Minor	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	Major	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. A diverse portfolio allows Spread of risk.	Minor	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 investment finance	Unlikely	Significant	Developing stronger networks on the ground, finding partners, cooperating with peers including other DFIs	Minor	Evidence indicates benefits to large pipeline and network to find good opportunities
Decreased interest of private investors for developing markets	Unlikely	Major	Increased use of blended finance, achieving good exits to demonstrate potential	Minor	While economic conditions may make private investors more wary, private investors are increasingly finding attractive opportunities in developing markets
Crowding out of private investors	Unlikely	Major	Assessment of additionality, focus where additionality is greatest	Minor	While private interest is increasing, there will still be sub-sectors and geographies where IFU's capital is additional
IFU does not have sufficient source of new projects	Likely	Major	CRM initiative under way, and networks with DFIs and local investors. IFU act as minority investor	Minor	Insufficient sourcing of new projects increases likelihood for low quality projects and investment and impact results failure.
IFU does not have experience and presence to invest in conflict-affected situations	Likely	Minor	IFU will increasingly invest through funds that have this outreach and experience	Minor	ROI and delivery on impact indicators

IFU does not have experience to take on new role as lender	Likely	Major	Systems have been tested with Green fund – further to be matured	Minor	
IFU risk willingness and impact focus does not match demand	Unlikely	Major	Constant annual review of how instruments and facilities work together, along with regular follow up on outcome progress with UPR.	Minor	IFU unable to deliver results
Commercial risks related to early-stage investments	Very likely	Major	Assessment of market demand, product-market fit, and ability of investee management team to scale and grow.	Minor	Early-stage companies are nascent and typically struggling to manage and grow their operations, raise cash, and ensure supply and demand for their products and services.
Institutional Risks					
Risk Factor	Likelihood	Impact	Risk response	Residual risk	Background to assessment
IFU does not manage to develop the organisation as envisaged	Unlikely	Major	Annual review. Regular consultation with the MFA, and active IFU Board involvement	Minor	Organisational development is a prerequisite for the IFU reform to succeed.
MFA reputational risk from failed investments	Likely	Major	MFA oversight and annual consultations with the UPR can mitigate the risk and get the process of operationalising the OD back on track	Minor	The capital contribution makes up a substantial portion of Danish ODA, and evidence of additionality and development impact must be made.
That 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	Minor	Risk that the management and governance set-up is not strong enough

Ledger:

Risk Factor	***Likelihood***	***Impact***	***Risk response***	***Residual risk***	***Background to assessment***
The risk is formulated as a headline or in one or two sentences	*Very unlikely Unlikely Likely Almost certain*	*Insignificant Minor Major Significant*	*The risk response is formulated as a headline or in one or two sentences*	*The risk that remains after the identified response.*	*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 6: List of Supplementary Materials

- Ownership Document for IFU
- ØU-Case Document on reform of IFU
- IFU Strategy 2024-2026
- IFU Annual Report 2023
- IFU website: IFU | Investeringsfonden for udviklingslande
- "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 • Build stronger media relations with selected Danish journalists and collaborate with allies and partners, e.g. through joint ventures, papers, meetings or seminars • 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 • 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 • Thorough monitoring of the media landscape • 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. • 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 • 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 • 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			
February 2024	Presentation to the Programme Committee	KLIMA	
February 19 2024	Meeting in Danida Programme Committee	KLIMA	List of received responses from the consultation
February to June 2024	Revision to address comments from Programme Committee	Consultant	
25 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
August 5, 2024	Draft Appraisal report	LÆRING	
August 9 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 (UPR)	KLIMA / LÆRING	
End October	Address comments from Council for Development Policy in programme documents	KLIMA	
End October	Presentation of project proposal to the Minister for Foreign Affairs		
Actions following the Minister's approval			
October/November 2024	Financial monitoring visit (tilsyn)	KLIMA / LÆRING	
End October 2024	Sign Grant Agreement with IFU.	KLIMA and IFU LÆRING	
After agreement(s) are signed	Register commitment(s) in MFA's financial systems within the planned quarter	KLIMA	
Mid-November 2024	Disbursement of funds to IFU	KLIMA	

Coordination Forum	Frequency
Meeting the Minister	Yearly
IFU presentation to the Council for Development Policy	Yearly
Coordination meetings - IFU Chairmanship and MFA Director 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

Annex 9: Ownership document

STRATEGISK EJERSKABSDOKUMENT

INSTRUKTIONER FRA EJER TIL BESTYRELSEN FOR INVESTERINGSFONDEN FOR UDVIKLINGSLANDE (IFU) (oktober 2023)

§0. Formålet med ejerskabsdokumentet

I henhold til Statens ejerskabspolitik (2015) har staten ansvar for at udøve aktivt ejerskab over statslige selskaber og sikre, at selskaberne drives effektivt og professionelt. Det aktive ejerskab skal understøtte, at målsætningen med ejerskabet opnås. Det skal samtidig bidrage til at afstemme forventninger mellem den ansvarlige minister (ejerministeren), selskabets ledelse og Folketinget.

Den statslige ejerskabsudøvelse er baseret på et styringshierarki, der omfatter ejerskabets rationale, målsætning for selskabet, overordnet strategisk ramme for selskabet samt finansielle mål (økonomiske og andre mål).

Det aktive ejerskab udmøntes i et **strategisk ejerskabsdokument**, der tager stilling til disse overvejelser. Nærværende ejerskabsdokument er udarbejdet af Udenrigsministeriet som ejerministerium for IFU. Dokumentet danner rammen for Udenrigsministeriets løbende opfølgning på IFU's udvikling i forhold til den strategiske retning, prioriteter, samt tilsyn og udgør således ejerministerens rammeinstruktion til bestyrelsen.

Nærværende ejerskabsdokument er offentligt tilgængeligt på IFU's hjemmeside.

§1. Fakta om virksomheden

IFU blev etableret i 1967 og havde ved udgangen af 2022 en egenkapital på 4,6 mia. kr. og en samlet kapital under forvaltning på 15,6 mia. kr. IFU yder finansiering på et kommercielt grundlag i form af aktiekapital, lån og garantier til projektselskaber i udviklingslande og vækstmarkeder. IFU kan investere i lande, der ifølge OECD's Udviklingsbistandskomités (DAC) definition er kvalificerede til at modtage udviklingsbistand. Målet er at foretage investeringer med positive udviklings- og klimaeffekter, som ikke ville blive foretaget på almindelige markedsvilkår som følge af for høje risici. IFU kan finansiere via:

- direkte finansiering (dvs. andet end gennem investeringsfonde eller faciliteter);
- investeringsfonde eller faciliteter, der forvaltes af IFU; og
- investeringsfonde eller faciliteter, der forvaltes af tredjepartsforvaltere.

I tillæg til direkte investeringer via egen formue forvalter IFU Verdensmålsfonden (også kendt som SDG-fonden), Klimainvesteringsfonden, IFU Investment Partners, og Landbrugsinvesteringsfonden. Disse fonde er etableret i partnerskab med private investorer. IFU har desuden investeret betydelige egne midler i Verdensmålsfonden, Klimainvesteringsfonden og Landbrugsinvesteringsfonden.

Herudover forvalter IFU en del af Danmarks Grønne Fremtidsfond samt målrettede kapitalindskud fra Udenrigsministeriet, herunder India Climate Finance Initiative (ICFI), Ukraine-faciliteten, Project

Development Programme (PDP) og High Risk High Impact (HRHI). Dertil kommer Danida Sustainable Infrastructure Finance (DSIF) samt SMV-faciliteten, som giver mulighed for at støtte danske SMV'er. I 2022 fik IFU en statsgaranteret udviklingsgarantiramme på 2 mia. kr. over perioden 2022-2025. Endelig forvalter IFU Investeringsfonden for Østlandene (IØ), som er under afvikling (forventes endeligt afviklet i 2024).

I 2017 blev IFU afbundet fra alene at kunne investere med danske virksomheder. IFU arbejder fortsat med danske virksomheder og investorer, der deler IFU's målsætninger og visioner. Afbindingen har givet IFU en række nye investerings- og finansieringsmuligheder, der har åbnet for, at IFU kan vokse betydeligt.

Siden IFU's overtagelse af administrationen af DSIF fra Udenrigsministeriet i 2017 er DSIF blevet en mere integreret del af IFU's virke samtidig med, at DSIF har fortsat sit tætte samarbejde med Udenrigsministeriet med henblik på at sikre sammenhæng med regeringens udviklingspolitiske prioriteter.

§2. Ejerskabets rationale og målsætning

Formålet med IFU er fastsat i lov om internationalt udviklingssamarbejde (senest revideret 2022). IFU har til formål at fremme investeringer, der understøtter bæredygtig udvikling i udviklingslande og bidrager til realisering af verdensmålene i disse lande.

IFU er en selvejende institution. Den til enhver tid siddende minister for udviklingssamarbejde er ejerminister og har ansvar for at føre et overordnet tilsyn med IFU. IFU ledes af en bestyrelse, hvis medlemmer udnævnes for tre år ad gangen af udviklingsministeren, der tillige udpeger formand og næstformand blandt medlemmerne. Det vil fremover tilstræbes, at højest halvdelen af bestyrelsens medlemmer udskiftes ad gangen for at sikre kontinuitet i bestyrelsens arbejde og i forvaltningen af IFU's formue og forpligtelser. Endvidere udpeges en observatør fra Udenrigsministeriet. IFU's daglige forretninger forestås af en administrerende direktør, der ligeledes udnævnes af udviklingsministeren. Bestyrelsen kan udnævne yderligere direktører, der sammen med den administrerende direktør udgør IFU's direktion.

Det primære rationale for det statslige ejerskab af IFU er at mobilisere privat kapital til at fremme bæredygtige og ansvarlige investeringer i udviklingslande, hvor det ellers kan være vanskeligt eller umuligt at gennemføre investeringsprojekter, fordi private investorer vurderer, at risici er for høje. Investeringspartnerskaber med IFU kan reducere investorernes forventede risici og dermed fremme mobiliseringen af privat kapital, teknologi og viden til udviklingslande. Herudover skal IFU bidrage med finansiering til større offentlig, bæredygtig infrastruktur, der ikke kan finansieres på markedsvilkår.

§3. Overordnede strategiske rammer

De overordnede strategiske rammer for IFU's aktiviteter og investering af IFU's egen formue er fastlagt i en række dokumenter, der optræder i et indbyrdes hierarki, jf. tabel 1:

Tabel 1: Styringshierarki for IFU's virke

Lov om internationalt udviklingssamarbejde	Den juridiske ramme for IFU
Danmarks udviklingspolitiske strategi 2021-2025	Fælles om Verden og den politiske aftale bag strategien
IFU's ejerskabsdokument (nærværende)	Bygger på Statens ejerskabspolitik og er formuleret inden for rammerne af lov om internationalt udviklingssamarbejde samt regeringens udviklingspolitiske prioriteter
IFU's vedtægter	Udspringer af lov om internationalt udviklingssamarbejde
IFU's egne strategier og politikker	Udbyttepolitik og vederlagspolitik vedtages af ministeren, øvrige vedtages af bestyrelsen

Af lov om internationalt udviklingssamarbejde samt Danmarks udviklingspolitiske strategi følger, at IFU skal understøtte bæredygtig udvikling i udviklingslande og bidrage til realisering af verdensmålene samt målene i Parisaftalen. Verdensmålene og Parisaftalens klimamålsætninger hænger tæt sammen.

Fælles om Verden understreger behovet for en massiv indsats for at skabe en bæredygtig økonomisk udvikling, understøtte den grønne omstilling i udviklingslandene og vækstøkonomierne samt skabe modstandsdygtighed over for klimaforandringer i de fattigste, skrøbelige og mindst udviklede lande, særligt i Afrika. Fælles om Verden understreger ligeledes nødvendigheden af, at IFU i endnu højere grad understøtter disse udviklingspolitiske prioriteter og bliver en endnu vigtigere dansk udviklingspolitisk aktør.

I tillæg til dette styringshierarki tager ejerministerens strategiske retning for IFU afsæt i regeringsgrundlaget, Ansvar for Danmark, Danmarks udenrigspolitiske og sikkerhedspolitiske strategi, samt regeringens klimaprogram.

§4. Reform af IFU
Ejerministeren har i overensstemmelse med Fælles om Verden til hensigt at styrke IFU i de kommende år med henblik på, at IFU bedre kan understøtte Danmarks globale klimaforpligtelser og de udviklingspolitiske prioriteter som en nytænkende, toneangivende og dermed endnu mere relevant udviklingsfinansieringsinstitution. Ministeren har indledt en reformproces mod en styrkelse af IFU, der foregår i tæt samarbejde mellem Udenrigsministeriet, Finansministeriet og IFU.

Visionen med reformen er at skabe et samlet IFU, der opererer fleksibelt som én enhed uafhængigt af instrument og risikoprofil, og som styres efter strategiske mål i forhold til regeringens udenrigs- og udviklingspolitiske prioriteter. Formålet er i finansloven 2023 og frem mod 2030 at styrke IFU's finansielle og ressourcemæssige kapacitet til at øge investeringsomfanget og herunder i højere grad investere i klimaprojekter i udviklingslande samt i projekter med henblik på økonomisk udvikling, jobskabelse og et stærkt grønt fokus især i fattige og skrøbelige lande, særligt i Afrika. Reformen skal samtidig sikre, at IFU fortsat kan mobilisere privat finansiering primært til at understøtte den globale, grønne omstilling via institutionelle investorer såsom pensionskasser, som det er sket gennem Verdensmålsfonden. Endelig er det ejerministerens ambition, at IFU fastholder og udbygger sit engagement i centrale europæiske initiativer som fx EU's Global Gateway, EFSD+ samt samarbejder med andre europæiske udviklingsfinansieringsinstitutioner.

Finansieringskilder
IFU råder over flere finansieringskilder, der hver især på forskellig vis understøtter aktiviteter og leverancer på de udviklingspolitiske prioriteter:

- Egenkapital: IFU's egenkapital er investeret i IFU's eksisterende portefølje, herunder IFU's andel af forvaltede fonde, og geninvesteres efterhånden som aktiekapitalinvesteringer sælges, lån tilbagebetales og dividende og rentebetalinger modtages.
- Låneoptag: IFU har optaget lån i Danmarks Nationalbank (statens genudlånsordning), Den Nordiske Investeringsbank samt kassekreditter i kommercielle banker. Lån fra Danmarks Nationalbank anvendes til at finansiere bl.a. IFU's andel af Verdensmålsfonden og IFU's investeringer i regi af Danmarks Grønne Fremtidsfond. Kassekreditterne er oprettet for at sikre, at IFU kan honorere aftalte forpligtelser og drift i overensstemmelse med IFU's politikker og processer. Kassekreditterne vil som udgangspunkt være garanteret af staten.

- Forvaltet kapital: IFU forvalter kapital fra institutionelle investorer til aktiekapitalinvesteringer via de IFU-forvaltede fonde (primært Verdensmålsfonden). Desuden forvalter IFU tre bevillinger fra EU i enkeltstående High Risk High Impact investeringer.
- Udviklingsgarantifacilitet: IFU har fået mandat til at forvalte en udviklingsgarantifacilitet med en ramme på 2 mia. kr. over i første omgang en fireårig pilotfase, 2022-2025, til mobilisering af klimafinansiering og særligt med fokus på finansiering af projekter i fattige og skrøbelige lande. Faciliteten kræver ikke finansiering til IFU ud over tilskud fra bistandsbudgettet til subsidier og administration. Udviklingsgarantier er i international sammenhæng et finansieringsinstrument, hvor Danmark ønsker at være helt i front sammen med Sverige og USA.
- DSIF lånefacilitet**:** IFU har siden 2017 administreret Danida Sustainable Infrastructure Finance (DSIF), hvis formål er at sikre adgang til finansiering af større offentlige infrastrukturprojekter, der ikke kan finansieres på markedsvilkår. Den årlige ramme for DSIF fastsættes i forbindelse med finanslovens godkendelse og har de seneste år ligget på ca. 400 mio. kr. Projekterne godkendes af udviklingsministeren, mens IFU har det tekniske og operationelle ansvar for gennemførelsen.

Ny finansiering
Det er ejerministerens målsætning, at IFU over de kommende år tilføres væsentlig ny finansiering i en kombination af kapitaltilskud samt gennem adgang til statens genudlån og garantiramme. Det er ligeledes målsætningen, at IFU fortsat engagerer institutionelle investorer i en efterfølger til Verdensmålsfonden.

Den ny finansiering frem mod 2030 skal i kombination med IFU's egne midler sikre, at IFU i højere grad er i stand til at øge klimainvesteringer i udviklingslande og investeringer i økonomisk udvikling, jobskabelse og med et stærkt grønt fokus ikke mindst i fattige og skrøbelige lande især i Afrika.

DSIF skal fortsat målrettes udviklingen og tilvejebringelsen af bæredygtig offentlig infrastruktur i udviklingslande med et væsentligt samfundsafkast finansieret gennem koncessionelle lån. Der arbejdes for, at DSIF integreres i IFU som led i styrkelsen af IFU i de kommende år.

Den ny finansiering skal understøtte, at IFU arbejder bredt med alle fem finansieringsinstrumenter med henblik på bedre at kunne levere på de udviklingspolitiske prioriteter, jf. tabel 2.

Tabel 2: IFU's finansieringsinstrumenter

Instrument	Primær funktion
1. IFU's egenkapital	• **Anvendelse:** Egenkapitalinvesteringer og lån (direkte og fonde) • **Finansiering**: Akkumuleret overskud, kapitalindskud, faciliteter, EU og andre kilder • **Geografi**: Fattige og skrøbelige lande særligt i Afrika, mellemindkomstlande (MIC), Ukraine • **Effekter**: Mere inkluderende samfund, klima (reduktion og tilpasning), projektudvikling
2. Grønne lån	• **Anvendelse:** Lån til private selskaber primært inden for klima og grøn omstilling • **Finansiering**: Statens genudlån og medfinansiering fra IFU's egenkapital • **Geografi**: Primært lavere mellemindkomstlande (LMIC) - øvre mellemindkomstlande (UMIC) • **Effekter**: Klima (reduktion, tilpasning) og grøn omstilling
3. Verdensmålsfonden	• **Anvendelse**: Egenkapitalinvesteringer med kommercielt afkast • **Finansiering**: 60% egenkapitalindskud fra pensionskasser og 40% medfinansiering fra IFU • **Geografi**: Primært lavere mellemindkomstlande (LMIC) - øvre mellemindkomstlande (UMIC) • **Effekter**: Grøn omstilling og klima (reduktion), mere inkluderende samfund
4. Udviklingsgaranti-facilitiet	• **Anvendelse:** Garantier primært til finansielle institutioner • **Finansiering:** Statsgaranteret • **Geografi**: Fattige og skrøbelige lande, mellemindkomstlande (MIC) • **Effekter**: Mere inkluderende samfund, klima (herunder tilpasning)
5. DSIF	• **Anvendelse:** Subsidierede lån til offentlig infrastruktur (primært fokus på vand og energi) • **Finansiering**: Statsgaranteret lån • **Geografi:** Særligt fokus på Afrika, Ukraine og Grønne Strategiske Partnerskabslande • **Effekter**: Klima (reduktion/energi og tilpasning fx adgang til vand), fjernvarme (inkl. Ukraine)

Additionalitet

Udviklingsfinansieringsinstitutioners mandat er at formidle investeringer, der er additionelle i forhold til markedet. Det påhviler IFU at sikre, at fondens investeringer er additionelle, herunder finansielt som udviklingsmæssigt og samtidig sikrer høje standarder for så vidt angår ESG (environment, social and governance) og menneskerettigheder. IFU skal dokumentere additionalitet behørigt i alle sine engagementer i overensstemmelse med OECD's standarder herfor.

Klimainvesteringer

Der er via Fælles om Verden og Ansvar for Danmark bred politisk opbakning til en ambitiøs dagsorden inden for klima og miljø.

Det er regeringens ambition, at en væsentlig andel af udviklingsbistanden skal være grøn, hvilket inkluderer indsatser indenfor såvel klimatilpasning, adgang til ren energi og reduktion af udledning af drivhusgasser og biodiversitet. Det er ejerministerens målsætning, at IFU yder et vigtigt bidrag til disse mål. IFU skal løfte den dagsorden ved at styrke sit engagement markant inden for klimainvesteringer og grøn omstilling.

På den måde skal IFU bidrage til, at Danmark lever op til sin del af de samlede forpligtigelser i de globale klimaaftaler. IFU skal i overensstemmelse med Ansvar for Danmark understøtte ambitionen om, at risikovillige offentlige midler bruges til at mobilisere flere private midler.

IFU's bestyrelse har vedtaget en ambitiøs klimapolitik (april 2022), der skal understøtte IFU's bidrag til en klimaneutral verden. Det er bestyrelsens ansvar at sikre, at IFU i sit generelle virke og specifikke engagementer efterlever målsætningerne i politikken. Det er ligeledes bestyrelsens ansvar at sikre, at IFU's klimapolitik afspejler de klimapolitiske prioriteter, herunder behovet for også at tiltrække private investeringer til tilpasning. Det gælder også regeringens bredere prioriteter inden for miljø og biodiversitet.

Investeringer i fattige og skrøbelige lande især i Afrika
Fælles om Verden understreger behovet for et øget dansk engagement i de fattigste, skrøbelige og mindst udviklede lande. IFU skal øge sit engagement i disse lande for i højere grad at understøtte de udviklingspolitiske prioriteter. IFU har med HRHI faciliteten formået at engagere sig i risikofyldte lande på vanskelige markeder, med nye partnere og med nye typer af investeringer med høj udviklingseffekt men med udfordrende, risikojusterede afkast.

Det er ejerministerens målsætning, at IFU øger sine investeringer i de fattigste, skrøbelige og mindst udviklede lande samt typer af investeringer med høj udviklingseffekt, jf. måltal i tabel 3 nedenfor.

Mobilisering af private investorer
Ansvar for Danmark lægger vægt på, at risikovillige midler skal være med til at mobilisere private midler. IFU er i international sammenhæng gået forrest i mobiliseringen af private investorer, senest med Verdensmålsfonden. IFU skal fortsat i tillæg til sin egen investering heri engagere private investorer i en efterfølger til Verdensmålsfonden.

Projektudvikling
Der er betydelig mangel på investeringsegnede projekter i udviklingslandene. Udenrigsministeriet har siden 2016 prioriteret dette område med en særskilt bevilling til projektudvikling, som forventes opprioriteret i årene fremover.

IFU skal prioritere området og afsætte dedikerede ressourcer med henblik på at sikre IFU's engagement i forhold til projektudvikling inden for rammerne af de udviklingspolitiske prioriteter. IFU skal systematisere erfaringerne med projektudvikling samt styrke monitorerings- og evalueringsopfølgning. IFU skal udvikle en strategi for udvikling af investeringsegnede projekter med mål, der kan implementeres fra 2024.

IFU har desuden en SMV-facilitet forbeholdt danske SMV'er. IFU skal se nærmere på, hvordan faciliteten bedst udnyttes fremadrettet.

Udviklingsgaranti
Udviklingsgarantiinstrumentet er lanceret med henblik på at sikre adgang til finansiering samt mobilisere private investorer.

IFU skal i den fireårige pilotfase, 2022-2025, sammen med svenske SIDA prioritere at stille udviklingsgarantier, der sikrer øget adgang til finansiering for grupper, der ellers ikke har adgang til finansiering, samt garantier der mobiliserer betydelig privat finansiering herunder særligt klimafinansiering. IFU og Udenrigsministeriet udarbejder sammen en fælles strategisk ramme for udviklingsgarantierne, herunder hvorledes IFU kan drive garantiinstrumentet selvstændigt. Betinget af erfaringerne med pilotfasen er det endvidere ejerministerens målsætning, at garantirammen øges frem mod 2030.

Ukraine
Danmark er blandt de største bidragsydere til Ukraine, og IFU er allerede én af de største investorer i Ukraine blandt de europæiske udviklingsfinansieringsinstitutioner. Det er ejerminsterens målsætning, at IFU skal spille en central rolle i genopbygning af Ukraine, når situationen tillader det, herunder i forhold til mobilisering af privat kapital og offentlig infrastruktur via DSIF. Det skal ske i tæt samspil med regeringens Ukrainefond.

§5. Finansielle mål, udbyttepolitik samt udviklingsresultater.

Finansielle mål
IFU's gennemsnitlige bruttoafkast fra investeringer var i perioden 2017-2021 på 1 procent. Bruttoafkastet på aktieinvesteringer har i samme periode været 3,5 procent. For Verdensmålsfonden, som har deltagelse af private institutionelle investorer, er afkastmålsætningen 10-12 procent om året.

Som led i reformen skal IFU for så vidt angår egenkapital (uden for forvaltede fonde) og kapitaltilskud fra Udenrigsministeriet indgå i økonomisk bæredygtige investeringer med et målrettet fokus på højt samfundsafkast i udviklingslandene, samt et finansielt afkast, der sikrer finansiering af IFU's drift samt at værdien af IFU's egenkapital opretholdes over tid. Det er nærliggende, at bestyrelsen anvender relevante benchmarks til at vurdere, om resultaterne for IFU's forskellige instrumenter er tilfredsstillende, herunder om der et tilstrækkeligt kommercielt element i investeringerne.

IFU skal sikre, at fondens aktiviteter understøtter de udviklingspolitiske prioriteter, tiltrækker private investorer og ikke fortrænger private aktører fra markedet i overensstemmelse med de internationale standarder for udviklingsfinansiering.

Udbyttepolitik
Af lov om internationalt udviklingssamarbejde fremgår, at ejerministeren efter drøftelser med bestyrelsen fastlægger en udbyttepolitik. Beslutning om udbytte foretages normalt i juni på ejerministermødet mellem ejerministeren, IFU's bestyrelsesformand og IFU's administrerende direktør efter indstilling fra bestyrelsen. Det eventuelle udbytte optages på finansloven for året efter vedtagelsen, dvs. to år efter det resultat som udbyttet vedrører.

Som led i reformen af IFU er det ejerministerens hensigt, at IFU's eventuelle overskud anvendes til yderligere investeringer i bæredygtig udvikling og klimaindsatser i henhold til de strategiske prioriteringer.

Udviklingsresultater
Det er ejerministerens hensigt, at IFU skal fortsætte med at styrke arbejdet omkring styring og måling af udviklingsresultater. IFU's ambition om at blive "best-in-class impact investor" deles af ejerministeren. IFU har styrket arbejdet med styring og måling af udviklingsresultater markant i løbet af de seneste år. Bestyrelsen påser, at IFU anvender relevante standarder og principper, blandt andet Operating Principles for Impact Management (OPIM), UN Guiding Principles on Business and Human Rights, OECD Guidelines for Multinational Enterprises samt OECD-UNDP Impact Standards for Financing for Sustainable Development.

Ejerministeren har opsat en række måltal for at sikre, at IFU's aktiviteter leverer på centrale udviklingspolitiske prioriteter i forhold til klima, Afrika samt fattige og skrøbelige lande. Måltallene er opstillet for de investeringer, som IFU foretager, jf. tabel 3:

Tabel 3: Mål relateret til udviklingspolitiske prioriteter*

Prioritet	Måltal for investeringer
1. Klima	• Mindst 50 procent af investeringer skal være klimainvesteringer. Med klimainvesteringer forstås investeringer, der opfylder kravene til klimafinansiering i IFU's til enhver tid værende klimapolitik, som er baseret på EU's standarder og andre internationalt anerkendte standarder.
2. Afrika	• Mindst 50 procent af investeringer skal være i Afrika.

3. Fattige og skrøbelige lande	•	Mindst 30 procent af investeringer skal være i lande, hvis bruttonationalindkomst pr. indbygger svarer til 50 procent eller mindre af Verdensbankens definition af lavere mellemindkomstlande eller som fremgår af Verdensbankens liste over skrøbelige eller konfliktramte lande.
	•	Mindst 50 procent af investeringer skal være i lande, hvis bruttonationalindkomst pr. indbygger svarer til 80 procent eller mindre af Verdensbankens definition af lavere mellemindkomstlande.
* Måltallene gælder for IFU's samlede investeringer (dvs. alle IFU's midler + lån med anvendelse af statens genudlån + Verdensmålsfonden) i forhold til alle IFU's egne midler (dvs. inkl. IFU's medfinansiering af lån med anvendelse af statens genudlån og Verdensmålsfond).		

Mobilisering
Ud over måltallene er det en vigtig prioritet, at IFU med direkte mobiliseret privat kapital bidrager til de udviklingspolitiske prioriteter. Mobilisering kræver i sig selv, at IFU afsætter kapital hertil, fx i form af deltagelse i investeringsfonde forvaltet af IFU eller hensættelser i forbindelse med mobilisering af lånekapital. Dermed skal IFU's samlede investeringer inden for de tre prioriteter i kraft af den mobiliserede private kapital overstige det niveau, som kunne opnås alene med IFU's egne midler.

Opfyldelse af måltallene vurderes baseret på årlige investeringer målt over en løbende treårs periode.

§6. Ejerskabsopfølgning og tilsyn

Udmøntningen af ejerskabets rationale og målsætning varetages gennem IFU's bestyrelse og direktør, der er udpeget af, og således repræsenterer, ejerministeren. Bestyrelsen er sammensat med henblik på at udmønte ejerministerens strategiske retning for IFU. Bestyrelsen formulerer desuden IFU's strategier og politikker samt fører tilsyn med, at IFU efterlever disse. Det er således bestyrelsens ansvar at varetage den strategiske ledelse af IFU inden for rammerne af ejerskabsdokumentet. Det er ejerministerens hensigt at genbesøge ejerskabsdokumentet årligt.
Ejerminsterens tilsyn består i at sikre, at statens gældende regler på området efterleves, samt at praksis for finansiel-, juridisk-kritisk-, og forvaltningsrevision overholdes. I henhold til vedtægterne for IFU udpeger ejerministeren efter bestyrelsens indstilling en statsautoriseret revisor i et revisionsfirma med international erfaring, som reviderer årsregnskabet i henhold til danske og internationale revisionsstandarder og –krav. Revisionen skal endvidere omfatte juridisk-kritisk revision og forvaltningsrevision i henhold til standarderne for offentlig revision. Konklusionen herpå skal fremgå af revisionspåtegningen af årsregnskabet. Ejerministerens opfølgning på den strategiske retning samt bestyrelsens tilsyn med IFU sker gennem en række fastlagte møder, jf. tabel 4:

Tabel 4: Ejerministerens opfølgning på IFU's strategiske retning

Møde:	**Formål:**
Ejerministermøde:	IFU afholder et årligt møde med ejerministeren i henhold til dagsordenen i vedtægternes § 8A, hvor blandt andet ejerskabsdokumentet genbesøges og danner grundlag for en drøftelse. Ejerministeren, formandskabet og den administrerende direktør deltager i mødet (den administrerende direktør deltager ikke i drøftelsen af punkt 4, med mindre ejerministeren og formandskabet bestemmer andet).
Koordinationsmøde med IFU's formandskab:	Der afholdes halvårlige koordinationsmøder med deltagelse af IFU's formandskab og Udenrigsministeriets udviklingspolitiske direktør. Formålet med møderne er en gensidig orientering samt løbende opfølgning på den strategiske retning samt tilsynet med IFU.
Kvartalsmøde med IFU's ledelse:	Der afholdes kvartalsmøder med deltagelse af IFU's ledelse og ledelsen af Udenrigsministeriets kontor for Grønt Diplomati og Klima (GDK). Formålet med mødet er løbende opfølgning på sager af operationel karakter.
DSIF styrekomité:	Der afholdes halvårlige møder i DSIF's styrekomité med deltagelse af IFU's ledelse, samt ledelsen af Udenrigsministeriets kontor for Grønt Diplomati og Klima (GDK). Formålet er at godkende større sager samt udstikke de strategiske rammer for DSIF. Dagsorden aftales før hvert møde.
Garantikomité:	Der afholdes løbende møder i Garantikomitéen med deltagelse af IFU's investeringskomité og repræsentant for GDK. Formålet er i henhold til garantiaftalen mellem IFU og ejerministeren i pilotperioden at sikre strategisk overensstemmelse mellem garantiinstrumentet og de udviklingspolitiske prioriteter, herunder drøftelse af risiko, evt. subsidier samt resultater af de individuelle garantiforslag. Dagsorden aftales før hvert møde.

§7. Kommunikation og transparens

Det er ejerministerens ønske, at IFU styrker sit engagement i relevante udviklingspolitiske diskussioner som eksempelvis mobilisering af privat kapital for at nå verdensmålene og Parisaftalens mål. IFU skal med afsæt i egne erfaringer engagere sig proaktivt i samfundsdebatten og samle relevante aktører på tværs af kommercielle og udviklingspolitiske dagsordener.

Ud over at leve op til gældende lovgivning på området er det ejerministerens ønske, at IFU udviser transparens i sit daglige virke.

§8. Opfølgning af resultater og evaluering
Bestyrelsen skal sikre, at IFU:

- overholder relevant lovgivning og regulering;
- overholder sine egne politikker;
- efterlever fastlagte finansielle indikatorer herunder risikostyring og likviditet;
- ud over den rapportering, der er nødvendig i henhold til gældende love og retningslinjer, aktivt bidrager til åbenhed om dansk udviklingssamarbejde, blandt andet gennem offentlighedens adgang til information om fondens aktiviteter under hensyn til behovet for forretningshemmelighed og andre hensyn, der kan tilsige fortrolighed;
- systematisk og løbende vurderer og eksternt rapporterer om det samlede resultat af investeringerne og deres bidrag til målet for aktiviteterne. En sammenfattende afrapportering skal medtages i årsrapporten.
- i sin årsrapport rapporterer særskilt om resultater i forhold fondens målsætning og finansielle resultat; samt
- årligt aflægger regnskab over anvendelse af kapitalbidrag og, hvor relevant, rapporterer effekter pr. investering, herunder information om investeringsinstrumenter, geografi og sektor.

§9. Gyldighed
Dette ejerskabsdokument erstatter det tidligere ejerskabsdokument, og finder anvendelse, indtil andet er besluttet af den ansvarlige minister efter drøftelse med bestyrelsesformanden.