Ministry of Foreign Affairs – Department for Green Diplomacy and Climate

Meeting in the Council for Development Policy on 12 October 2023
Agenda Item No. 7

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 115 mill., 2023
4. Presentation for Programme Committee:	15 August 2023
5. Previous Danish support presented to UPR:	Multiple capital contributions – earmarked and un-earmarked – since IFUs establishment in 1967, totalling DKK 3.0 bn.

IFU Capital Contribution

Key results:

- Increased climate and social inclusion impact in low-income countries and emerging markets through more investments.
- Strengthening of IFU's capabilities to undertake and manage such investments further improving impact.

Justification for support:

- Delivers on priorities in "The World We Share" and the Government's Long-Term Strategy for Climate Action
- As owner, MFA guides the direction of IFU via the Ownership Document in line with the Government's political priorities.
- Complements other bilateral and multilateral engagements to promote low carbon, climate resilient inclusive economic growth and employment.
- Filling a gap in the investment market by investing where private investors are not willing to invest alone (additionality).
- Mobilisation of additional capital for investment in developing countries, either through co-investments or through demonstration effect.

Major risks and challenges:

- Risk that the capital may be lost due to inherent risk factors of investing in developing markets. IFU mitigates by geographical and sector diversification of its investments.
- Risk that IFU will not have necessary capacity to improve impact of its investments. MFA's active ownership of IFU, recruitment of qualified management and a fit for purpose board as well as strong IFU commitment mitigates this.
- Risk related to significant organizational growth of IFU as part of the reform of IFU. IFU's strategy for growth and continuous dialogue between IFU's management, Board and the MFA mitigates this.

File No.	2023-32828					
Country	Global					
Responsible Unit	GDK					
Sector	Climate, decent jobs, economic growth					
Partner	Investment Fund for Developing Countries (IFU)					
DKK million	**2023**	**2024**	**2025**	**2026**	**2027**	**Total**
Commitment	115					115
Projected disbursed	115					115
Duration	November 2023 – 2025					
Previous grants	Latest general capital contribution: 200 million DKK in 2017					
Finance Act code	§06.38.01.11					
Head of unit	Karin Poulsen					
Desk officer	Jakob Tvede					
CFO	Rasmus Tvorup					

Relevant SDGs

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

Objective

IFU will invest the capital contribution in projects and companies in developing countries where private investors are not willing or able to invest. The investments contribute to the green transition, both climate mitigation and adaptation as well as promote gender equality, job creation and inclusive and sustainable growth, in line with the MFA's Ownership Document of IFU, IFU's own investment strategy, policies and standards. IFU mobilises additional private capital through risk-sharing and by demonstrating the potential for profitable impactful investments in developing countries.

Environment and climate targeting

	Climate adaptation	Climate mitigation	Biodiversity	Other green/environment
Indicate 50% or 100%	50	50	50	50

Justification for choice of partner:

IFU is the Government's official Development Finance Institution with a mandate to promote the SDGs and climate goals through investments. IFU operates under a government mandate and is in coherence with the government's priorities, strategies and interventions, including the Strategy for Denmark's Development Cooperation, The World We Share, and the Government's Long-Term Strategy for Climate Action. The MFA's Ownership –Document describes the strategic targets, which secure alignment between IFU and MFA. A Government led reform of IFU is currently ongoing with a significant capital contribution towards 2030, which requires a larger and stronger institution and will deliver additional development and climate impact.

Summary:

The Finance Act for 2023 includes a non-earmarked grant of DKK 115 million for capitalisation of IFU. IFU can make use of the capital contribution across all IFU's instruments and will invest the capital in accordance with IFU's investment strategy. The capital contribution provides additional resources to finance new engagements in developing countries in support of the SDGs and climate goals in alignment with the Paris Agreement. It will allow IFU to provide long-term funding and support for priority sectors such as renewable energy, health care, food production and financial services for micro, small and medium enterprises (MSMEs) and underserved households. Investments will, in line with IFU's mandate, be in developing countries globally, including in poor and fragile states and with strong focus on Sub-Saharan Africa. The capital contribution aligns with MFA's Ownership Document for IFU and supports the principles of the reform of IFU.

Budget (DKK million):

Engagement 1 – IFU Capital Contribution	115.0
Total	**115.0**

Ministry of Foreign Affairs of Denmark **Danida**

DRAFT

Programme Document

IFU

Capital Contribution

September 2023

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 Institution, is a government-backed institution that invests in commercial businesses in low and middle income countries to promote Sustainable Development Goals with a view to ensuring the businesses aresustained.
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.
Exit	An equity investor exits an investment when the investor sells its share-holding to another investor. IFU's business model is to invest in companies where private investors do not invest or are reluctant to invest without a DFI. IFU helps develop the companies to a point where a private investor is willing to buy IFU's shares and secure IFU's exit.
IFI	International Finance Institution, an institution similar to a DFI, but established by more than one country, such as the IFC.
Impact Investing	Investments made into companies with the intention to generate a measurable, beneficial social or environmental impact alongside a financial return
IFU's impact objectives	IFU has two impact objectives: 1) Promote the Green Transition (defined by the EU Green Taxonomy); and 2) Promote Social Inclusion (defined by whether the investment would reduce inequality in access to goods and services to the underserved, income, gender according to IFU's impact screening tool (re Annex 1)).
Investment	Finance provided to a company in the form of equity or debt, which finances the business plan of a company/project. If the investment is commercial the investor (provider of finance) expects a return on the finance made available

	that reflects the risk of the company. The higher the risk, the higher the required return
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.
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.
Risk adjusted return	The return on an investment that is compensated for risk. Calculated as the difference between the expected return on an investment and the "risk free" return, which is often estimated using the interest rate of the US Treasury Bill.
2X challenge	A challenge set by DFIs at G7 meetings for investments that meet set criteria for gender equality and is revised every 2nd year. The challenge for 2021-22 was for DFIs to invest at least USD 6bn in such investments.[1]

[1] See also annex 1.4 and https://www.2xchallenge.org/

Table of Contents

1 Introduction

The Finance Act for 2023 allocates a non-earmarked contribution of DKK 115 million for the capitalisation of IFU.

The present programme document outlines the background, rationale and justification, objectives, and management arrangements for the capital contribution as agreed between IFU and the Ministry of Foreign Affairs of Denmark (MFA).

The capital contribution to IFU provides additional financial resources to finance new engagements in emerging markets and developing countries in support of the SDGs and in alignment with the Paris Agreement, in line with Danish priorities and IFU's investment strategy. It will allow IFU to invest more in priority sectors such as renewable energy, healthcare, food production and access to financial services for micro, small and medium enterprises (MSMEs) and underserved households. These investments play a crucial role in promoting sustainable and inclusive growth, particularly in sectors with limited access to financing from commercial banks or other private sources.

IFU's raison d´être is to provide financing where the private sector alone may not be willing or able to invest due to perceived risks or inadequate returns. In that respect, IFU's role is to invest alongside private sector to overcome barriers to investments promoting low-carbon, climate resilient inclusive growth and supporting projects with potential socio-economic benefits that may not be adequately served by purely profit-oriented entities. By providing initial funding or risk-sharing mechanisms, IFU encourages private investors to participate in projects that they might have otherwise considered too risky or uncertain. IFU also mobilises private finance from Danish pension funds. The latest example is the SDG Fund launched in 2018.

Since its creation in 1967, IFU has reinvested returns from investments into new investments. Occasionally, IFU has paid dividends to its owner, the Danish state, and at other times the MFA has injected new capital into IFU. A solid financial base and scale enable IFU to operate sustainably over the long term. Firstly, by ensuring a diversified portfolio of investments with a balance between engagement in lower income countries and fragile countries, where risks are high and expected returns low, and investments in impactful companies and markets where risks are lower. This allows for financial sustainability. Secondly, scaling investments enables IFU to have and continuously develop capabilities relevant for profitable impact investing, including in key sectors and markets, environmental, social and health standards as well as good governance, business integrity and anti-corruption. A well-capitalized IFU is better positioned to work with a long-term strategic perspective, weather economic cycles, attract talent, operate with autonomy, and flexibility, and promote Danish priorities.

In August 2023, The Minister for Development Cooperation and Climate Policy approved a new Ownership Document, which establishes a framework for governance, strategic targets, transparency, accountability, and monitoring. The purpose is to set the strategic direction for the Minister's ownership of IFU and ensure effective utilisation of capital, continuous organisational development and adherence to the developmental and investment mandate. In parallel, a reform of IFU – initiated by the Minister in the beginning of 2023 and foreseen in the Strategy for Denmark's Development Cooperation, *The World We Share* from 2021 – has been approved by the government in September 2023. The reform will enable IFU to significantly increase its potential for impact investments in support of the green transition and sustainable development, not least in Africa and in poor and fragile countries including Ukraine. The reform consists of new funding from five sources of finance:

1) Capital contribution of DKK 500 mill. pr. year from 2024-2030 (total of DKK 3,5 bill.);
2) expanded access to state loans of up to DKK 7,5 bill. towards 2030;
3) contribution to a new SDG Fund via state loans of DKK 800 mill.;

4) loan financing of DSIF projects via state loans of up to DKK 5,4 bill. towards 2030[2];
5) adjustment of IFU's dividends policy allowing IFU to reinvest its surplus instead of paying dividends to the state. In addition, IFU expects to mobilise DKK 3 bill. from Danish institutional investors for a new SDG Fund. The total additional funding to IFU towards 2030 therefore amounts to more than DKK 20 bill. on IFU's balance sheet.

With the reform and the approval of the revised Ownership Document, IFU has been designated to provide a stronger contribution to the Danish development policy priorities by mobilizing more private capital and delivering significantly more climate finance, more investments in Africa, and more investments in poor and fragile countries including Ukraine. The reform also sets IFU on a growth path that will increase its capital under management from presently DKK 15 bill. to DKK 36 bill. in 2030. When fully capitalized IFU's size will lie around average of other European DFI's.

The present un-earmarked capital contribution of DKK 115 million should be seen as part of the reform and the strategic direction that the Minister has set for IFU towards 2030. The capital contribution will enter IFU's balance sheet and IFU can use the funds across the various types of financial instruments to support different types of investments and generating different types of development impact. IFU manages several facilities in agreement with the MFA. This includes the SDG Fund where 60 pct. of funds are from private investors (mostly Danish pension funds). In addition, IFU manages part of the Government's Green Future Fund, the India Climate Finance Initiative, the Ukraine Facility, the Project Development Programme, the High-Risk High-Impact (HRHI) Facility, Danish Sustainable Infrastructure Finance and since 2022 a guarantee facility with a frame of DKK 2bn.

The broad scope of facilities covers a full spectrum of financing tools, which allow IFU to add value in different types of projects. At one end of the spectrum is the SDG Fund, mobilising highly commercial capital from regulated pension funds in larger scale impactful investments such as renewable energy or microfinance focusing on markets and countries where risks are much higher than in mature markets such as Denmark, but where risk are considerably lower than in least developed countries. Further along on the spectrum are impactful investments in riskier markets such as lower income African and fragile countries (e.g. IFU's "High Risk High Impact" facility) as well as early-stage companies (project development/impact ventures) and investments transforming markets (such as e-mobility, adaptation) where private investors are hardly investing at present, but where the ambition is to mobilise private investors over time. At the opposite end of the spectrum are such activities as providing project development, technical assistance, the development guarantees and concessional finance to public sector investments in areas where the private sector cannot invest (e.g. DSIF investing in water treatment in Uganda or district heating in Ukraine). IFU has over the last 5-6 years gained experience and build a foundational capacity with new investment instruments, which IFU can build further upon as IFU 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.

Annex 3 provides an overview of the facilities and instruments at IFU's disposal as well as some of the considerations related to their uses and priorities.

[2] The MFA is currently analysing ways to strengthen the governance around DSIF and DSIF's organisational setup.

2 Programme context

2.1 Background and Thematic Context

IFU was established by the Government in 1967. 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 State[3].

Governance
The Minister responsible for Development Cooperation nominates the Board of Directors and its Chairperson. An Ownership Document (written by the MFA and approved by the Minister) lays out the rationale and principles for the state ownership of IFU (The Ownership Document is attached in annex 11).

As the owner (and de facto sole shareholder), the Minister for Development Cooperation and Global Climate Policy meets annually with the Board's Chairperson, Deputy Chairperson, the CEO and the Deputy CEO to take stock of performance as presented in the annual report of IFU.

The MFA is represented by an observer to the Board of Directors and participates in all board meetings. Senior management of MFA meets quarterly with senior management of IFU to discuss issues of common strategic interest (a Partner Assessment is attached in annex 2). In addition, at an operational level several meetings take place between IFU, MFA and relevant Danish embassies.

Over the years, IFU has invested in more than 1,300 companies in more than 100 countries in Africa, Asia, Latin America, and Eastern Europe. According to current IFU policies, all engagements must support the green transition and / or contribute to social inclusion. IFU also has board-approved guidelines and policies in place for working with safeguards and ESG requirements.

The financing gap
The climate and development challenges facing the world require more investments into sustainable and inclusive growth. Private and market-based investments need to scale up significantly and fast especially in emerging and developing markets. IFU plays a key role in undertaking market-based impact investments in emerging and developing economies where private investors perceive risks to be too high to invest.

It is estimated that the annual global climate funding gap is USD 3.9tr, most of which in emerging markets and developing economies. The present climate finance flow is estimated at less than USD 800bn, leaving a considerable financing gap, mostly in low and lower-middle income countries. [4]

The majority of private investors target only a small sub-set of 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" [5]. Furthermore, private capital flows to emerging markets are transitory and tend to be strongest when growth in the developing world is outpacing developed markets. When emerging markets are going through hardships, private capital tends to dry up and flow out of these markets, especially lower income countries, when it is most needed.

[3] »Formålet med Investeringsfonden for Udviklingslande er at fremme investeringer, der understøtter bæredygtig udvikling i udviklingslande og bidrager til realisering af verdensmålene.« In English translation: the purpose of IFU is to promote investments that support sustainable development in developing countries and contribute to the realisation of the SDGs.
[4] E.g. Climate Policy Initiative, Global Landscape of Climate Finance 2021 or IMF 2022, Mobilize Private Climate Finance in Emerging and Developing Economies . UN Global Crisis Response Group estimates the lack SDG and Climate Funding at USD 4.3tr of which 75% refers to low and lower-middle income countries.
[5] 'Investment grade' refers to the group of credit ratings that imply a low default risk (from AAA to BBB-). Companies with a rating in this range will issue debt at a lower interest rate than others with a poorer credit rating.

The risk environment in developing countries and emerging markets
Perceived and real risk is assessed to be too high compared to expected financial returns to allow most private investors (often due to financial regulations) to invest in markets, which are not considered investment grade. Risks include:

- **Macroeconomic risks:** exchange rate, economic crises, including related to deficient governance that affect the ability of government to uphold payment commitments etc. This is experienced in many low and lower-middle income countries. These risks are often exacerbated by global developments (COVID-19, war in Ukraine, supply chain disruptions, inflation, and sharply increased interest rates).
- **Policy/regulatory risk:** taxation, market specific rules that affect businesses and competition.
- **Rule of law risks:** lack of enforcement of investment agreements, corruption.
- **Other country risk:** e.g., security such as spill over effects from neighbouring countries in conflict
- **Project risks:** delays, cost overrun related to regulatory approvals, licences, deficiencies in implementation of agreed regulatory changes, availability of skilled workforce, power outages, security risk etc.
- **High upfront cost** of climate infrastructure exacerbates other risks. In time of more uncertainty long term investments such as infrastructure tend to fall and interest rates increase making capital intensive projects (like renewable energy projects) more expensive.
- **Lack of liquidity** in the markets, which increases risk of not being able to exit. This is especially so in smaller economies such as most low-income and many lower-middle income countries.

These risks not only lower or prevent external private finance flows: even state-owned development finance institutions such as IFU face challenges with balancing the mandate of investing in least developed and fragile countries with the aim of doing financially sound and sustainable investments. Investing in such markets thus entails that a certain share of investments will fail, and that risk-willing capital is required.

Given the insufficient amount of private investments in low-income countries, it is necessary to step up efforts to use institutions like IFU as a source of risk-willing (subordinated to any private investors) capital to ensure that the risk becomes acceptable for the private sector in the more challenging markets. Here various types of blended instruments can be used. As an example, IFU is managing the High Risk, High Impact funds to blend with its regular capital.[6]

The climate and social benefits that characterise IFU's investments cannot always be quantified or monetised as returns for an investor. Such investments might not be undertaken (by private investors) if assessed on a purely financial and commercial basis. Aside from the financial returns from investments, IFU also considers externalities and associated effects in its investment decisions. Such externalities or effects could in the case of an investment in a processing plant e.g., be indirect job creation in the value chain, either from suppliers, or in relation to use of produced goods or services that would allow downstream enterprises to expand operations.

The risks perceived by private investors in developing markets may in many cases not reflect the actual risk. IFU's investments serve to demonstrate that it is possible to carry out investments on commercial terms and to achieve adequate risk-adjusted returns.

In addition, by acting as a "first mover", IFU helps pave the way for more commercial followers, who can learn from its experience (good and bad), and benefit from regulatory changes initiated or induced by official commercial investors such as IFU. These private followers can either refinance projects or acquire IFU investment once the costs and risks are considerably lowered. A recent example of this type of regulatory change is from Ukraine and has to do with the possibility of foreign investors to repatriate returns on investments. While the recent decision by the Government of Ukraine to change its regulation of cross-border

[6] A blended instrument or blended finance is a term which in this context denotes the use of capital that has a high risk-willingness and can mitigate risk for private/commercial capital in such a way as to mobilise private/commercial capital. It is subordinated to private capital, such that if a company is not able to pay all investors, the company first pay the private investor.

capital transfers may not be solely attributable to the efforts of IFU in the official dialogue with the Central Bank in Kyiv, the persistence of IFU in this policy area is likely to have played a role - alongside similar efforts from other partners.

IFU investments must be additional to private finance, not competing with it. IFU has no impact and add now value if its investments crowd out private investors. By pricing on commercial terms, IFU helps prevent that. This does not mean that IFU behaves in the same way as commercial investors. It rather means operating in market segments where finance is lacking but setting prices that allows the entry of commercial investors once the potential has been demonstrated.

Experience
IFU has experience in emerging markets and developing economies, and has demonstrated its ability to invest profitably, with an increasing focus on SDG and climate impact. IFU has also successfully mobilised Danish institutional investors (more than DKK 4bn) in various private equity funds (such as the SDG Fund) and has during the last 3-4 years invested more than DKK 400m in high-risk high impact projects in Africa, including with blended finance from both the MFA and from the EU.

The capitalisation of IFU will increase investment volumes and help close the financing gap and meet the investment needs in developing countries. It will also enable IFU to further strengthen its capacity in assessing, managing, and documenting the impact of its investments as well as other aspects, such as gaining a better understanding of the political economy to become more capable of engaging in the market in relation to regulations and promoting good practices for impact investing.

2.2 Results

In 2022, IFU invested almost DKK 1.5 billion, more than double the amount invested in 2017. IFU undertakes investments that are highly impactful but may have low risk-adjusted returns in African countries through HRHI, as well as large-scale investments that leverage significant commercial co-investments through the SDG Fund.

IFU investment activity 2017-2022

DKKm	2017	2018	2019	2020	2021	2022
Investments	640	1,029	1,103	1,965	1,005	1,466
of which SDG	*N/A*	*112*	*482*	*1,209*	*498*	*618*
of which HRHI	*N/A*	*N/A*	*N/A*	*81*	*96*	*72*
Total capital under management	9,100	11,400	11,200	12,800	12,600	15,600
Number of investments	37	37	25	31	15	20

The current IFU portfolio contributes to employment of close to 380,000 people and supports 450,000 smallholder farmers. In addition, IFU's investments in microfinance institutions provide financial services to 16 million clients, of whom more than 90 percent are women in support of SDG 1 (target 4). IFU's green energy investments produced more than 5 GWh of clean energy and avoided 3.4 million tons of CO_2 emissions during 2022. IFU's investments also contributed to mobilise 1.4 billion DKK of private capital in 2022, equivalent to an almost 100% mobilisation rate on IFU's investments.

COVID-19 negatively impacted a significant share of IFU's investment portfolio and limited IFU's ability to efficiently deploy its capital, especially in 2021 and first half of 2022. In addition, IFU experienced liquidity challenges related to the investments on its own balance sheet, where a reduction in cash inflows (from e.g. selling investments) forced IFU to reduce its investment activities. Through a period of careful management of new and existing investments in 2022, IFU managed to solve the liquidity situation.

2.3 Lessons learned

IFU has gone through a significant shift in terms of strategic focus over the past five years: From investing with Danish businesses in developing countries, IFU today is untied and focuses on its mandate as impact investor with international investment partners. An evaluation of IFU from 2018, just after IFU's mandate had been changed in 2017[7] was overall positive and considered IFU to be "fit-for-purpose". Key recommendations from this evaluation along with a short description of IFU follow-up are included below:

Recommendation	Response
i) Strengthen the development expertise within the organisation at all levels	IFU has significantly staffed up its Sustainability team, including hiring a Head of Sustainability & Impact, with experience from FMO (the Dutch DFI). The team now also has additional staff resources to monitor and report on impact. In addition, IFU has established a new Business Integrity team to ensure that IFU appropriately deals with matters relating to anti-bribery and corruption in its investments. Financial and commercial skills have also been improved systematically.
ii) Improve monitoring and evaluation: from focus on compliance with CSR standards to more pro-active monitoring and evaluation of actual CSR performance and development outcomes	IFU has introduced several new processes and tools to ensure that development impact is ascertained early in the investment cycle to guide decisions. For example, IFU's initial screening of a potential investment focuses on the assessment of impact, to ensure early consideration of expected impacts – including social, environment and climate, see Annex 1. For each investment, IFU establishes a results framework based on relevant SDG targets and indicators and an Environmental & Social Action Plan, with clear targets and actions that both become part of the legal agreements of each investment.
iii) Improve the transparency of IFU, its learning culture and communication further (e.g. in relation to sensitive issues raised by civil society and in the media)	IFU needs to communicate openly about its investments, both the ones that do well and the ones with challenges. When criticism is raised regarding IFU investments, e.g. by media, IFU needs to provide a transparent and open response, which should also be published on IFU's website. The MFA is coordinating closely with IFU as the owner-ministry for IFU on any potential issues. As part of the reform, IFU is working on strengthening and developing communication and transparency to become more proactive in its communication.
iv) Set clear criteria for Board membership in investee companies to help increase the non-financial value that IFU can deliver to investee companies	IFU strives to have a board seat in all of its equity investments, and it is an explicit focus in IFU's strategy to ensure that it can exert active ownership in the investee companies. As part of IFU's active ownership, IFU monitors each investment according to a value creation plan established for each project. The plan holds financial and non-financial parameters. IFU is also organising training courses for all senior investment professionals on strategic board work in developing markets. For all larger investments, IFU is regularly updating a status on its active ownership.
v) Further strengthen the country/regional offices to originate	IFU has conducted a review of its regional offices, and deployed more resources where the on-the-ground presence is most beneficial. For example, the Nairobi office has increased in size to four investment professionals and have added additional staff in both the Accra and the New Delhi office. A

[7] Evaluation of The Investment Fund for Developing Countries (IFU) 2004-2017

bankable projects with impact	recruitment process is also underway for the Kyiv office, to support the expected increase in investments in Ukraine as IFU supports the rebuilding of the country. IFU also operates representative offices in Sao Paolo and Singapore. As part of the reform, IFU will further strengthen its regional representation.

2.4 Coherence and synergies

IFU operates under the guidance of the government's priorities, strategies and interventions, including the Strategy for Denmark's Development Cooperation, *The World We Share*, and the Government's Long-Term Strategy for Climate Action.

IFU is a signatory to the Operating Principles for Impact Management[8]. In 2021, IFU engaged BlueMark, a leading provider of verification services in the impact investing market, to independently assess and verify IFU's impact management system and processes. This verification concludes that IFU has well-established impact objectives, has integrated impact considerations throughout its investment process, and has a clear process for assessing each investment's expected impact. See Annex 9 for the conclusions.

In 2022, IFU introduced a new set of impact targets as well as a new climate policy. The ambition is to become the best-in-class impact investor. Among other targets, IFU aims to be net-zero in its portfolio by 2040, and the MFA has required that IFU's board reports on IFU's pathway to decreasing carbon intensity each year until then. From 2025, IFU intends to make climate-related financial disclosures in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). As part of the development of the climate policy, IFU undertook a benchmarking exercise comparing it with the climate policies and commitments of other DFIs and similar organisations. The exercise confirmed that IFU's ambition level is among the highest, including on the target for becoming net-zero emitting on a portfolio level. The full benchmarking overview is included in Annex 12.

The aim for the next SDG Fund (preparations are ongoing) is to secure compliance with the EU's Sustainable Finance Disclosure Regulation (SFDR) Article 9. SFDR Article 9 is the EU definition of an investment fund that allocates 100 pct. of investments to either a climate or social objective. SFDR Article 9 is the reference point for impact investors. Today only around 5 percent of investment funds are currently compliant.[9]

Synergies:

The MFA's Ownership Document requires that IFU aligns with Denmark's development policy priorities, and that IFU seeks synergies with Danish and international platforms.

IFU has already expanded its collaboration and alignment with the European Union during the past five years. IFU has drawn upon EU support to complete impact investments in very difficult markets, including support to a debt fund for small enterprises in the Somali region. IFU participated in EU-funded initiatives to increase collaboration between European institutions working in developing markets, such as European Financing Partners and the Interact Climate Change Facility. In 2022, The European Commission granted IFU three guarantees to IFU under the scheme European Fund for Sustainable Development Plus (EFSD+), making IFU

[8] Signatories & Reporting | Operating Principles for Impact Management (impactprinciples.org)
[9] Responsible Investor, January 2023.

one of the larger recipients of support under this EU scheme. Negotiations are still ongoing on the specific terms.

IFU's untied mandate today makes it possible to increase collaboration with other DFIs including IFC, and participate in co-investments with like-minded investors as well as undertaking high risk, high impact investments. The SDG Fund is an example of synergies with Danish institutional investors that would not have been possible under a tied mandate. IFU's expertise in developing markets has paved the way for the Danish pension funds, which today increasingly direct own funds towards development outcomes in the developing countries.

IFU's untied investment mandate has also allowed IFU to support and engage directly with bilaterally initiated structures and organizations. This has led to synergies between development programmes in partner countries. An example is aBi Finance in Uganda: In aBi Finance, which uses lines of credit and guarantees to support local bank's lending to SMEs in the agricultural value chain, IFU has taken over Denmark's stake and is managing a capital contribution from the EU.

In Ghana, IFU manages the capital stake of Denmark alongside Ghana's Government in the Rural Development Finance Institution (RDF). RDF provides access to funds and capacity-building services to agriculture, agribusinesses, and renewable energy. RDF continuously reinvests its earnings to support access to finance while leveraging its funding to work with other like-minded institutions. By allowing IFU to step into the investor role on behalf of Danida, it is possible to extend the life of these development programmes and grow them without additional ODA, while retaining the original outcomes and impacts.

In a similar structure in Tanzania, Private Agricultural Sector Support (PASS), IFU and MFA have for some time been exploring possible opportunities for a new partnership in dialogue with the Danish Embassy and the Government of Tanzania.

By taking over and/or investing in these financial institutions, IFU helps to ensure commercial sustainability so that the institutions may continue creating the impact that they were established to generate without further support from Danida. IFU's engagement contributes long-term sustainability in projects and programmes initiated with Danida grant funding.

In addition, IFU has over the years benefitted from engagements with a number of Danish embassies, the Trade Council, and organisations from Danish (and local) civil society. Collaboration with e.g. embassies helps identify potential investment opportunities and provides knowledge of the local conditions in the country and helps provide access to key decision makers.

Looking ahead, IFU and the MFA are considering ways in which IFU can support the JTEPs (Just Energy Transition Partnerships) and EU's Global Gateway.

Investment partnerships and platforms help build the pipeline of projects and allow IFU to execute co-investments with partners that have relevant experience and market knowledge, and can share risk with IFU, enabling IFU to diversify investments and better manage its risks.

2.5 Justification of programme design

The proposed capital contribution 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 investments in developing markets. As the official Danish Development Finance Institution operating as a unique Danish actor in the global space of impact investing institutions and organisations, the Government considers IFU the relevant bilateral partner in terms

of promoting private sector investments in developing countries[10]: IFU is working closely together with MFA and is delivering on the Danish development policy priorities such as climate finance. IFU has the skills and experience to manage investments and ensure that relevant sustainability policies, including environment and social standards, human rights standards, anti-corruption standards are upheld.[11]

Efficiency
IFU has invested in emerging and developing economies since 1967, including in high-risk markets. IFU has developed screening and approval processes that are suitable to large-scale investments as well as smaller high-risk projects. IFU can deploy capital also in fragile situations and during periods of macroeconomic headwinds. Aside from financing new investments, the capital contribution into IFU will also contribute to improve IFU's management systems, appraisal and risk management procedures, financial value, and impact creation processes.

Effectiveness
The effectiveness of IFU's investments depend on a variety of factors. Overall, and as confirmed by the 2018 evaluation, IFU has generally been able to live up to its mandate: 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 the High-Risk, High-Impact funds to reach geographies that have previously been considered too risky, such as the Somali region and the Democratic Republic of Congo. The present capital contribution will allow IFU to keep growing its investment volumes while creating both impact and returns, also on high-risk markets in line with the directions set in the Ownership Document.

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 (approved by the Board of Directors in 2020) builds on two impact priorities, which are directly linked to the SDGs:

- **Building green economies:** To reduce the use of resources, preventing global temperature rise through climate mitigation, contributing to a circular economy, and allow developing countries to pursue a path of sustainable production and growth. Climate adaptation and biodiversity protection are at the core of the green transition and essential to building resilience.

  The climate adaptation focus can particularly be seen in IFU's agriculture investments: for example, the recent investment in a company, Suminter, supports smallholder farmers primarily in Uganda, India and the Philippines to adopt farming practices that provide greater resilience against climate change. IFU also recently supported one of the world's first funds entirely dedicated to climate-smart agriculture, the responsAbility Climate-Smart Agriculture Fund, which has an explicit focus on climate change adaptation in the agricultural sector in developing countries. Furthermore, IFU is actively working with several of its microfinance investees to develop climate products, including 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 increasingly looking to invest into forestry, where biodiversity is a key consideration.

- **Building 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

[10] See also section 7. Management, and Annex 2 Partner Assessment for more details on the ownership, governance and accountability of IFU.
[11] For a full overview, please refer to IFU Sustainability Policy

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 serves for all parts of the population.

Sustainability:
IFU's investments must contribute to sustainable outcomes in terms of environmental impact and climate change (adaptation and mitigation). 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 all make a difference for delivering better sustainability.

Additionality:
The additionality of IFU refers to the extent to which its participation mobilizes investments and impact that would not otherwise be possible. IFU's due diligence process serves to ascertain that investments are likely to be additional and not crowd out commercial alternatives is fundamental. Addressing additionality is not new in the world of DFIs. It is the same basic question that is posed whenever and wherever public funds are deployed to supplement markets with private investors and companies (whether in developed or developing countries). IFU is working on improving the assessment of financial additionality by having a more rigorous analytical tool and has engaged the Institute of Economics at Copenhagen University to help develop such a tool based on the best available knowledge12.

An important function of any DFI is to pave the way for other investors. By investing in developing countries, IFU provides assurance to other investors that attractive investment opportunities are available in these markets, and by doing so mobilises private investment that would not otherwise have taken place.

IFU selects its investments based on their potential to deliver on IFU's impact priorities of (i) building green societies, and (ii) building just and inclusive societies. For IFU's 'green' impact priority, IFU selects investments based on their potential to support climate mitigation and/or adaption, circular economy, pollution prevention and control, sustainable protection of water and marine resources, and/or the protection and restoration of biodiversity and ecosystems (in line with EU Green Taxonomy). For the 'just and inclusive' impact priority, IFU selects its investments based on their potential to stimulate the economies of least developed countries, improve incomes for the bottom 40 per cent segment, improve access to goods or services for underserved populations and gender lens investing. Investments need to have significant potential to deliver on at least one of the impact objectives and at least "do no significant harm" in relation to the other.

3 Programme presentation

3.1 Objectives and outcomes

The objective of the proposed capital contribution is to enable IFU increase its investment volume, and thereby the impact it is creating. As outlined in the Ownership Document, IFU is undergoing a reform to create a single, unified IFU that will be able to flexibly use its funding, regardless of risk profile or instrument, to meet the strategic goals set out in the Document. Rather than relying on earmarked facilities, the intention is that

[12] "Support to Develop IFU's Approach for Assessing Financial Additionality", Henrik Hansen and John Rand, Institute of Economics, University of Copenhagen (forthcoming).

IFU will operate based on organisation-wide targets and allocations, ensuring a flexibility in funding allocation as long as IFU meets the strategic goals.

IFU will invest the capital contribution in accordance with the priorities in the Ownership Document and IFU's existing policies and safeguards. Its investments will address climate change and social inclusion that carry too high risk to be done on normal market conditions. IFU's investments can reduce risks for other commercial investors so that they are willing to invest alongside IFU, demonstrate and serve as a signal to private investors that it is possible to make financial returns in developing markets, or invest in markets where there is a need for some concessionality to mobilise private finance due to positive externalities. The proposed contribution of equity capital will allow IFU to also invest in riskier geographies where additionality and impact are higher.

The Ownership Document defines seven objectives for the reform of IFU:

- **Additionality:** IFU must use the funding for investments that are additional, in relation to the funding already available in the market. IFU must document that the investments are additional in terms of both financial and non-financial additionality.
- **Climate investments:** In line with the "The World We Share" strategy and the government agenda, IFU must use the funding to strengthen its focus on climate investments and supporting the green transition (ref. the targets in the box below). The updated climate policy adopted by IFU in 2022 will support this objective.
- **Investments in poor and fragile countries, especially in Africa:** "The World We Share" strategy also emphasises the need for increased Danish commitment to the poorest, most fragile and least developed countries. IFU has through the High-Risk, High-Impact facility shown that it can find relevant investments in these challenging markets. IFU must work to deepen the engagement in these countries, together with new partners and through new types of investments (ref. the targets in the box below).
- **Mobilisation of private investors:** In addition to creating preconditions for private investors to invest in developing markets, IFU must also directly use its capital to mobilise Danish private investors through a successor fund to the SDG Fund.
- **Project development:** There is significant shortage of financing for early-stage investments and project development in developing countries. IFU has provided financing for project development since 2016 and will increase its focus on these types of investments as part of a planned new IFU Impact Ventures programme, funded with DKK 150 million during the period of 2024-2026.
- **Development guarantees:** In cooperation with Swedish SIDA, IFU has launched a pilot phase for a DKK 2 bn development guarantee facility running until 2025. IFU must use the guarantees to increase financing to unserved or underserved populations, as well as to mobilise private capital through providing risk reduction.
- **Ukraine:** IFU is one of the European DFIs with most investment experience in Ukraine. Supported by IFU's office in Kyiv, IFU will use its funding to play a central role in the rebuilding of Ukraine.

The outcomes will relate to the investments completed with the additional funding, and the impacts achieved by them. IFU has defined targets for where and how to invest, and across its two impact priorities:

Priority	Target
Africa	• Minimum 50% investments in Africa
Poor and fragile states (see Annex 10)	• Minimum 50% of investments, in countries where the GNI is 80% or less of the definition of Lower Middle Income Countries • Minimum 30% of investments in countries where the GNI is 50% or less of the definition of Lower Middle Income Countries, or is included on the World Bank list of fragile or conflict-afflicted states
Climate (Building a green economy)	• At least 50% of direct investments to be climate investments • Decreasing three-year rolling average of carbon intensity measured at sector level • Net-zero portfolio emissions by 2040 at the latest

Social inclusion (Building a just and inclusive economy)	• 30% of investments to have a gender equality focus by being 2X Challenge eligible • Minimum 40% of the number of invests are either 2X Challenge eligible or have plans to become eligible by the end of 2024

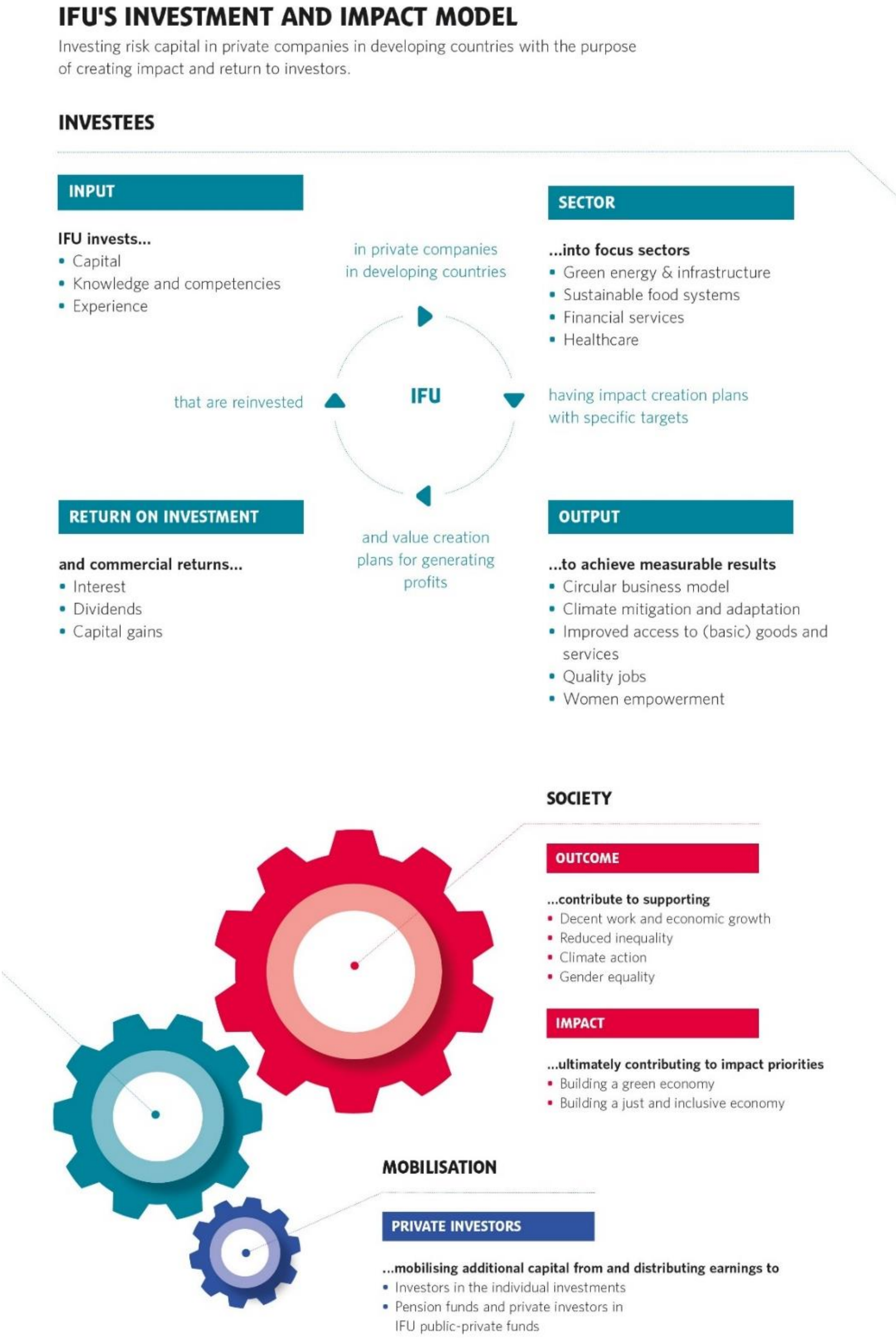
3.2 Eligible countries

IFU's mandate in terms of eligible countries is defined by the OECD Development Assistance Committee and updated annually. For 2023, countries with a GNI per capita of less than $12,695 (using the Atlas method of estimation and based on 2020 data) are eligible. As outlined above, there are also targets in relation to investments in Africa (50%) as well as to poor and fragile states.

4 Theory of change and key assumptions

4.1 Theory of Change

At portfolio level, IFU has developed an Investment and Impact Model to illustrate how IFU achieves positive impact through its investments. The model sets the frame for the Theory of Change analysis at project level.



Input: IFU invests capital into private companies in developing countries and provides knowledge and competencies based on its many years of experience.

Sector: The companies operate primarily in IFU's four focus sectors: green energy & infrastructure, sustainable food systems, financial services, and healthcare. IFU agrees on an **impact creation plans** together with the investee company, including setting specific targets for relevant impact indicators.

Output: The businesses create measurable impact, in terms of e.g. climate change mitigation/ adaptation, providing goods or services to underserved groups, addressing gender equality challenges and by creating jobs. IFU also creates a **financial value creation plans** with the companies, to support them to grow their businesses and improve operations and profitability. IFU follow up on these plans through its participation in the boards of the investee companies.

Return on investment: Eventually, IFU's investments result in commercial returns for IFU, in the shape of interest, dividends or capital gains once an investment is sold. IFU then reinvest the returns in new companies.

Outcome: The outcomes of the investments include improved working conditions and economic growth, reduced inequality, increased climate action and improved gender equality. The impact is then expressed through IFU's two overall impact priorities: contributing to build a green economy and a just and inclusive economy.

Mobilization: Mobilisation of private investors is also a key focus in IFU's model. IFU both catalyses private investors to invest in developing countries but also distributes earnings back to pension funds and private investors in IFU's public-private funds, such as the SDG Fund.

The Investment and Impact Model takes a general approach to the impact and the linkages 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 the type of expected change depends on the specific investment opportunity. 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.

For each investment it undertakes, IFU develops a specific and detailed Theory of Change overview, highlighting how IFU's investment will bring about the expected change and impact. 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) 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.

During the investment period, the Theory of Change also helps to map the linkages between the intended changes, and the KPIs that are being tracked in IFU's results framework, which can be a useful tool to understand why the expected performance on the impact targets may not be achieved. Finally, the Theory of Change is a powerful tool to 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.

See examples of these investment-specific Theories of Change in Annex 7: for an MSME-focused financial institution in Sub-Saharan Africa, an African affordable pharmacy chain and an African electric bus provider. The three examples also illustrate how IFU's work with Theory of Change has developed, with e.g. assumptions now being incorporated in all overviews.

4.2 Key assumptions:

The model assumes that lack of financing in emerging markets impedes economic development and a green transition. The model further assumes that:

- There are businesses with profitable business models that currently do not have access to sufficient funding from the market;
- IFU is able to identify relevant investment opportunities and is able to execute on them;
- Political, regulatory, and macroeconomic conditions in developing markets allow for investments by DFIs;
- Investee companies and projects are willing and able to execute on the impact and value creation plans;
- Positive returns can be achieved, despite the risks inherent in investing in developing markets;

These are generic assumptions that IFU must always assess prior to an investment decision. It will often be the case that one or several assumptions will only be partially met from the outset, and that there may be several degrees of fulfilment that may be acceptable. IFU document, track, and ascertain these assumptions as part of the investment cycle.

Market research, macroeconomic monitoring, financial due diligence, integrity checks, research and possibly investigations of investee companies and stakeholders are some of the tools that IFU uses to inform decision making. Some of the assumptions are relatively easy to change or improve with patience and persistence (such as regulatory dimensions), while others may either require an adjusted investment structure, or a special agreement. Often persistence and patience are key ingredients.

In some cases, political, regulatory or macroeconomic conditions may be prohibitive for a meaningful engagement. As an example, it would currently be impossible to invest in a number of jurisdictions that are excluded under international sanctions. In other cases, the regulatory environment may not allow international investors sufficient comfort for undertaking investments, and in some cases the macroeconomic context may suggest that major upheaval and /or currency convertibility and international payment problems are to be expected. In these situations, it may be possible to remedy the situation through regulatory changes as in the case of Ukraine's decision to allow investments by DFIs access to international currency transfers. In other cases, it may be possible to deploy more patient and risk tolerant equity capital that will only generate returns if the investee performs, and commercial conditions allow for it – as opposed to debt capital that will require a fixed payment irrespective of market fundamentals and economic developments in the host country.

5 Summary of the results framework

To monitor the delivery of impact, IFU has defined impact targets at portfolio level. To date, IFU has set portfolio targets for gender lens investing and climate finance, as well as allocation to lower income countries.

IFU's monitoring of financial performance, application of environmental, social and governance (ESG) safeguards, as well as business integrity screening and impact monitoring of the engagement feeds into annual reporting. IFU is continuously developing the 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 CO2 emissions and number of female clients in financial institutions.

IFU's results framework build on IFU's impact targets, as well as the targets set in the updated Ownership Document. The MFA has defined targets to ensure that IFU's activities will deliver across development policy priorities related to the climate, Africa as well as lower income and fragile countries.

In addition, an important policy priority is that IFU mobilises private capital, including climate finance by raising private finance in the SDG Fund, by raising debt to fund IFU investments or by mobilising private finance in investments in companies. With the mobilised private capital, IFU's aggregate investments within the three priority areas (climate, Africa, lower income and fragile countries) will exceed the levels IFU would have achieved solely with its own funding.

IFU's Impact Results Framwork

IFU develops a results framework for each individual investment, linked to the specific theory of change and relevant SDG targets. Examples of impact result indicators at project level for different priority sectors:

- Financial services: the client poverty incidence, increase in turnover, jobs in the companies receiving loans, extent of the outreach (to women).
- Renewable energy: energy generated, avoided air pollution, changes in the average cost of electricity, change in frequency of power outages and for off-grid projects potentially also impact on household income.
- Agriculture investments: number of farmers reached, improvement in agricultural yield, avoided food loss and biodiversity (tree canopy cover, soil content etc.).
- Health care investments: number of patients served, number of patients that previously did not have access to quality healthcare services.

Annex 8 includes the standard indicators and examples of the sector-level indicators that IFU commonly applies. These include tracking on both of IFU's overall impact priorities; building a green economy, and building a just and inclusive economy. This programme document and the capital contribution relate to IFU's overall operations. Hence, the Ownership Document establishes the targets indicators for the capital contribution:

Programme Title		**IFU Capital Contribution**
Objective		Create positive developmental and climate effects in developing countries, that would not be possible under existing market conditions due to the high related risks. The capital is expected to be deployed over a two-year period and monitored and followed-up on using IFU systems and procedures.
Impact indictors		Geographic focus, climate finance and gender lens investments
Baseline and targets		Baseline is IFU performance as of latest reporting with 5-year or 3-year averages where available, targets are based on IFU priorities as defined in the annual report and the updated Ownership Document[13]
Target	Year	2025
Outcome 1		**Building a green economy**
Outcome indicator 1.1		Share of new direct investment volume qualifying as climate finance
Baseline	2018-22	61%
Target	2025	50% (aim to meet target every year)
Outcome 2		**Building a just and inclusive economy**
Outcome indicator 2.1		Share of new investments with a gender equality focus (2X challenge eligible)
Baseline	2021	36%
Target	2025	30 % (aim to meet target every year)
Outcome indicator 2.2		Portfolio investments that are either 2X challenge eligible or have plans to become so by the end of 2024
Baseline	2021	44%
Target	2025	40%
Outcome indicator 2.3		Share of investments in Africa (three-year rolling period)
Baseline	2018-22	64%
Target	2025	50% (aim to meet target every year)
Outcome indicator 2.4		Share of investments in poor countries (GNI per capita below 80% of the definition of Lower Middle Income Countries[14])

[13] The targets are defined in the same way as in the ownership document: IFU's aggregate investments (all IFU funding + loans using the state's refinancing facility + SDG Fund investments) in relation to IFU's own funding (i.e. including IFU's funding of loans using the state's refinancing facility and investments in the SDG Fund)

[14] For 2023, defined as GNI per capita below < $3,277 in 2020, using the Atlas method

Baseline	2021-Q2 23	65%
Target	2025	50% (aim to meet target every year)
Outcome indicator 2.5		Share of investments in poorer countries (GNI per capita below 50% of the definition of Lower Middle Income Countries[15]) and fragile and conflict-afflicted countries
Baseline	2018-22	25%
Target	2025	30% (aim to meet target every year)

Outcome 3		**Building a best-in-class impact investor in IFU**
Outcome indicator 3.1		Increased capacity in IFU, including for impact and sustainability
Baseline		Current status and outcome of 2018 review of IFU
Target	2025	Positive evaluation on progress in MFA review of IFU

As part of the reform process, IFU and the MFA will work closely together to develop indicators, which IFU can measure and track, to form a stronger basis for impact reporting, including on adaptation and social inclusion.

6 Budget

The overall budget of the proposed contribution is DKK 115 million as indicated below. Amounts are distributed equally over time. As a general capital contribution to IFU, the funding will be deployed as part of IFU's overall investments using its own capital. The below indicative sector split reflects IFU's sector focus, and actuals may be different depending on investment opportunities.

Use (DKKm)	
Capital contribution to IFU	**114.5**
of which Green Energy	*22.9*
of which Other Green	*22.9*
of which Healthcare	*22.9*
of which Financial Services	*22.9*
of which Sustainable Food Systems	*22.9*
MFA review	**0.5**
Total contribution	**115.0**

[15] For 2023, defined as GNI per capita below < $2,048 in 2020, using the Atlas method

7 Management arrangements

Overall governance
The MFA is responsible for the active ownership of IFU. The Minister for Development Cooperation and Global Climate Policy appoints board members (3-year term), the board chair, vice chair, and IFU's CEO.

An observer represents the MFA in IFU's board of directors. The Minister meets annually with the Board's Chair, Deputy Chair, the CEO and the Deputy CEO to take stock of performance, approve the annual report as well as discuss the overall strategic issues related to the Ownership Document. The State Secretary for Development Policy meets twice a year with the IFU Chair and Deputy Chair to assess progress on agreed strategic priorities. The Head of the Department responsible for IFU oversight meets with IFU senior management for operational follow-up and to secure close coordination of priorities.

Based on recommendation from the 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).

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 policy strategy). 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.

It is a precondition for the MFA to exercise diligent active ownership and monitoring of IFU that GDK has the right technical knowledge of IFU's operations.

IFU investment process
An average investment process takes 6 months from sourcing to binding commitment. But there is a significant degree on variability depending on the complexity of the transaction, see Annex 4 for further details.

Steps in IFU investment process:

Sourcing to FC | FC to G1P | G1P to CIP | CIP to BC | BC to P | P to Exit

Sourcing to FC ("First Contact"): IFU identifies and assesses investment opportunities based on their development impact (using IFU's screening tool, see Annex 1) as well as the potential for profitability. IFU assesses partners and management team, conducts KYC ("Know Your Customer"), considers key risks, and a number of principal questions are formulated for further evaluation of the opportunity. IFU sources investment opportunities through IFU's regional offices, network of partners like other DFIs and investee companies, relevant conferences, and consultants.

FC to G1P ("Gate 1 Paper"): Once decided that the opportunity is worth exploring further, IFU conducts initial financial modelling, and initiates negotiations with the aim to agree on the main terms of a potential transaction. The responsible investment manager then drafts a 3-4 page document outlining the investment opportunity and present this on IFU's VP meeting[16]. The VP meeting discusses, provides advice, and approves or rejects the proposal for possible resubmission for renewed consideration.

[16] The VP Meeting consists of IFU´s investment related heads of teams/units: senior vice presidents for IFU´s sector teams (Green Energy and Infrastructure, Sustainable Agriculture, Health Services, and Financial Services), for Legal Affairs, for Sustainability as well as IFUs Chief Investment Officer.

G1P to CIP ("Clearance in Principle"): After the approval from the VP meeting, a project "transaction team" is established consisting of a project manager from IFU and other relevant investment professionals as well as professionals from IFU's sustainability team and legal team. The deal team conducts more thorough desk research on the company and the market, as well as negotiates a term sheet with the company. The team prepares a longer presentation and presents to IFU's Investment Committee and Board for approval, Clearance in Principle (CIP). The Investment Committee also approves a budget for due diligence (further and more thorough assessment of the opportunity). The transaction team also drafts plans for financial value and impact creation.

CIP to BC ("Binding Commitment"): After the CIP approval, the transaction team initiates formal due diligence using both external advisors and internal resources. Commercial, legal, impact and sustainability (including gender and climate), financial, technical and tax matters are, among others, thoroughly investigated. The due diligence also includes at least one visit to the company for the transaction team to inspect the sites and operations and meet with the management team in person. A longer presentation is again prepared summarising the findings of the due diligence and presented to IFU's Investment Committee and Board for a binding commitment (BC). Plans for financial value and impact creation are finalised with the investee company. Other plans in areas such as ESG and business integrity are also prepared when needed. IFU has a small grant facility that can co-finance such plans.

BC to P ("Project"): The transaction team subsequently concludes negotiations of agreements and legal contracts, ensuring the inclusion of IFU's standard requirements. IFU usually hires external legal counsel to support the drafting and negotiation of the documentation and to arrange for the closing of the transaction.

P to Exit (Active Ownership phase): IFU normally requires being on the Board of Directors of an investee company, to ensure the best conditions to exert its active ownership in the Board Room. IFU works together with the management and partners in the investment to ensure fulfilment of the value and impact creation plans. Once the company is deemed to be able to attract private or other commercial capital, IFU prepares an exit plan ensuring that the investment can be exited both sustainably (e.g. to a reputable, impact-minded investor) and profitably. Both the continued social and environmental impact of the company following IFU's exit are considered in the choice of the investor to whom IFU decides to exit. IFU is currently developing an updated exit policy, which will further systematise how IFU works with exit processes and identify relevant and aligned investors to whom IFU can exit.

8 Financial management, monitoring and learning

According to *Vejledning for håndtering af kapitalindskud fra Udenrigsministeriet til IFU*[17] 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. In addition, IFU Management will update the MFA through quarterly meetings, covering both financial, impact and other relevant reportin (see also section 7 on management arrangements). IFU also publicly reports on its operations and results in e.g. its annual report. Continuous follow-up and monitoring from IFU will require in-depth understanding of IFU and IFU's activities in the relevant office within the MFA.

Furthermore, the MFA participates as observer in the Board of Directors, which receives reporting on pipeline, investments and exits as well as timely financial reporting.

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

At the level of individual transactions and engagements, IFU monitors impact by monitoring key performance indicators, including on impact parameters in the Impact 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 investee companies. 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 also conducts an annual survey across portfolio companies to track performance on ESG-related issues.

At portfolio level, IFU collates and analyses data to assess performance against organisational objectives; develop annual reports on impact performance. Additionally, IFU uses this information to inform quarterly or half-yearly 'active ownership' reviews on financial and sustainability performance of investments.

IFU collects lessons learned during the lifetime of investments, and the Board receives exit evaluations for information and discussion to secure learning from the experiences. In 2024, IFU plans to update its guidelines for final evaluation of projects, as well as its guidelines for responsible exits, ascertaining that impact will continue to be created after IFU is no longer invested.

9 Risk management

IFU is operating in developing markets, and there is a risk that IFU's capital is lost due to factors such as poor performance of the investee companies, negative macroeconomic development incl. currency depreciation, adverse political interventions or wars and conflicts. At portfolio level, IFU spreads these risks by IFU's global mandate: Returns across developing markets are not very highly correlated. So, a loss on an investment in Africa will be compensated by a well performing investment in India. Furthermore, IFU's investment focus stretches across sectors that are not highly correlated with each other. This diversification on both sector and geography reduces the risk of significant portfolio losses. In addition, IFU, through its local offices as well as other Danish presence (embassies, Trade Council and CSOs) and advisors in the regional markets, actively works to mitigate project risks.

Another risk is the lack of relevant investment opportunities in emerging markets for IFU to deploy the capital. IFU aims to address this by being able to support companies across various stages, to ensure that also earlier stage companies receive sufficient funding to grow to a stage where they become relevant for IFU's main facilities, including the SDG Fund. IFU has historically been able to invest its capital across the cycles in emerging markets and have found relevant investment opportunities both when markets are performing well and during downturns.

On the other hand, it is also necessary to consider the opposite risk, that investment opportunities are attractive enough for private investors and that IFU risks to "crowd out" these private investors. To avoid this risk, IFU assesses its additionality at an early stage of its screening and does not pursue opportunities where IFU cannot establish the likelihood of additionality. The assessment of additionality is currently primarily qualitative: as mentioned in Section 2.4 Justification for Programme Design, IFU has initiated work to improve the assessment of financial additionality of a given investment opportunity together with the University of Copenhagen, including defining a more quantitative and data-driven approach to the assessment. Given the wide investment mandate, IFU operates within, and the lack of access to investable capital in the markets, the risk of not being able to find any relevant opportunities where IFU can be additional is considered low.

IFU as well as the MFA is exposed to a reputational risk linked to the investee company. 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 and the Minister as the owner of IFU. 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 afflicted countries, including Ukraine, increases risk exposure.

Annex 1 Context Analysis

1. Overall development challenges, opportunities and risks

It is estimated that the annual climate funding gap is USD 3.9tr, most of which is in emerging markets and developing economies (emerging markets and developing economies). The present global climate finance flow is estimated at less than USD 800bn[18] leaving a considerable gap, most in low and lower-middle income countries.

Institutional investors face difficulties in identifying investments in emerging markets and developing economies that are relatively safe and liquid. This leaves the majority of emerging markets and developing economies without the private investment levels that are required for a more rapid and sustainable growth path.[19]

Risk is assessed to be too high to allow most private investors to invest in lower income markets, which are not considered investment grade. Risks include:

- **Macroeconomic risks:** exchange rate, economic crises that affect the ability of government to uphold payment commitments etc.
- **Policy/regulatory risk:** taxation, market specific rules that affect businesses and competition
- **Rule of law risks:** lack of enforcement of investment agreements, corruption
- **Other country risk:** e.g., security from spill overs from neighbouring countries in conflict
- **Project risks:** delays, cost overrun related to approvals, licences, implementation agreed regulatory changes, availability of skilled workforce, power, security risk etc.
- **High upfront cost** of climate infrastructure exacerbates other risks higher
- **Lack of liquidity,** in the markets, which increases risk of not being able to exit. This is especially so in smaller economies such as most low income and many lower-income countries.

These risks not only prevent private finance flows, but more so the development of investment ready projects for those commercial investors able to invest. This is the basis for the call by many, including the IEA, IMF, G7, ODI and more for more capital to DFIs for risk mitigation and investments that can attract private investors as well. Without an increase in development finance, there will be too few investments by DFIs and consequently too few opportunities for institutional investors.

IFU has invested in developing countries and emerging markets since 1967. IFU has successfully mobilised Danish institutional investors in various PE funds.

2. Political economy and stakeholder analysis

Key stakeholders of IFU include 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.

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

[18] E.g. Climate Policy Initiative, Global Landscape of Climate Finance 2021 or IMF 2022, Mobilize Private Climate Finance in Emerging and Developing Economies . UN Global Crisis Response Group estimates the lack SDG and Climate Funding at USD 4.3tr of which 75% refers to low and lower-middle income countries.

[19] IMF 2022, Mobilize Private Climate Finance in Emerging and Developing Economies

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

3. 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 insufficient.

In some of these situations, IFU engagement can play a key role. It can help pave the way for other types of engagements - signalling the feasibility of investments. Pursuing investment opportunities in such countries are mostly considered for IFU's High Risk, High Impact (HRHI) facility. This facility can also invest in green field operations, as has been the case for the investment in CRDB Bank DRC, the Spark+ Fund investing in cleaner cooking stove value chains and the Horn of Africa SME fund in the Somali region.

IFU will continue to work with relevant partners such as the EU and Danish embassies to identify and develop investment opportunities in these countries in line with the Ownership Document and IFU's strategy. IFU is also able to use its HRHI funding as a form of "first loss" or blended finance for its own investments, as well as for other investors.

For example, IFU has structured investments where the HRHI facility would only receive a limited return after all other investors have received a satisfactory return. This reduces the risk and increases the upside for other investors (or other IFU facilities), which allows for greater investment volumes to these impactful projects. IFU has also made use of HRHI funding to increase funding from more commercial sources. The HRHI facility of a total of DKK 350m extended to IFU for 2019-2023 will be fully invested in this period.

With the reform of IFU HRHI investments will be an integral part of the general capital injections and earnings of IFU's existing investment. As established in the Ownership Document, the MFA expects IFU to increase financing to lower income countries in Africa as well as countries affected by fragility or conflicts.

4. Human rights, gender and youth and applying human rights based approach

IFU's sustainability policy[20] includes specific reference to the UN guidelines for Business and Human Rights as well as to the key ILO conventions of workers´ rights. IFU has adopted the 2X challenge and the ambition is that at least 40%

[20] Sustainability Policy

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. 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.[21]

Entrepreneurship	1A. Women ownership	51%
	1B. Founded by women (and still active)?	Yes
Leadership	2A. Women in senior management OR	20-30%
	2B. Share of women on the Board or IC	30%
Employment	3A. Share of women in the workforce AND	30-50%
	3B. One "quality" indicator beyond compliance	Yes
	Describe any gender related policies, programmes or approaches in place. Any gender specific indicators?	
Consumption/clients	4. Product or service specifically or disproportionately benefit women	Yes
	Describe the assumed way they product / service is impacting / benefiting women?	
Investments through Financial Intermediaries	5A. On-Lending facilities: Percent of the DFI loan proceeds supporting businesses that meet the criteria for direct investment	30%
	5B. Funds: Percent of portfolio companies that 30% meet the criteria for direct investment	30%

5. 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,[22] 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.

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

IFU does not invest in publicly/state owned companies. However, co-investors can be publicly/state owned companies/financial institutions/organisations. IFU always conducts a business integrity assessment of investors, companies and owners of companies during due diligence as well as due diligence of risk of corruption, money laundering and terrorist financing and measures in place to avoid or mitigate these. This is part of IFU's sustainability policy.

---

21 See https://www.2xchallenge.org/

22 Sustainability Policy

7. 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.

IFU Impact Screening Tool

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

Area	Comment
General criteria	
Investment type	Whether IFU is investing in an existing project, or setting up something new
Sector	Alignment with IFU sector strategy
Sector transformational potential	Potential for the investment to fundamentally change the sector it is in
Geography	Alignment with IFU geographical strategy
EDFI Exclusion List[23]	Any activities on the EDFI Exclusion List will make an investment ineligible
Commercial investment considerations	Instrument, direct or intermediated investment, ticket size, expected return and certainty of exit are considered in the screening
Strategic Alignment	
Use of funds	Whether IFU's investment will provide new capital to the company, or buy existing shares
IFU experience	IFU's track record in the sector
Building a Green Economy	
"Do no significant harm"	Requires the investment professional to confirm that the investment will "Do no significant harm" as defined by the EU Taxonomy – hard requirement for all investments
Climate change mitigation	Whether the investment meets the EU Taxonomy criteria (sector-specific where available)
Climate change adaptation	Whether the investment meets the EU Taxonomy criteria (sector-specific where available)
Sustainable protection of water and marine resources	Whether the investment meets the EU Taxonomy criteria
Transition to a circular economy	Whether the investment meets the EU Taxonomy criteria
Pollution prevention and control	Whether the investment meets the EU Taxonomy criteria
Protection and restoration of biodiversity and ecosystems	Whether the investment meets the EU Taxonomy criteria
Building a Just & Inclusive Economy	
Investment in Least Developed Country	Whether a majority of the investment will go to a Least Developed Country
Bottom-of-the-pyramid focus	Whether the investment will increase incomes for the bottom 40% income segment in the country / region
Unserved / underserved populations	Whether the investment will provide access to goods/services for which access is currently not available or limited?

[23] https://www.ifu.dk/wp-content/uploads/2021/09/EDFI-exclusion-list.pdf

Gender lens investment	Whether the investment meets any of the 2X Challenge criteria (see above) – further requires intentionality in the company to work with gender equality, e.g. through an action plan
Job creation (secondary impact area)	
Decent Work criteria	Whether the employment conditions of the investment are aligned with ILO criteria for Decent Work
Job creation propensity	The number of jobs expected to be created per million DKK invested
Type of jobs created	Whether jobs created are: i) local, ii) permanent; iii) skilled, iv) available to youths

Annex 2 Partner Assessment

IFU was founded in 1967. IFU equity stood at DDK 4.6bn by the end of 2022 with total capital under management of DKK 15.6bn. IFU provides financing on a commercial basis through equity, loans and guarantees and advice to climate and SDG impactful project companies in emerging markets and developing economies. IFU can invest in all OECD DAC countries. The aim is to undertake investments with a significant positive climate and development impact, which would not otherwise be undertaken on standard market terms due to high (perceived) risk. IFU undertakes direct investments into companies, investments into other funds managed by IFU and into funds/financial intermediaries managed by third party capital managers.

IFU manages several funds such as the SDG Equity Fund where 60% of the funding are from private investors. In addition, IFU manages part of the Green Future Fund and facilities with contribution from the Ministry of Foreign Affairs such as the India Climate Finance Initiative, the Ukraine Facility, the Project Development Programme, the High Risk, High Impact Facility, and Danish Sustainable Infrastructure Finance. IFU also manages a guarantee with a frame of DKK 2bn.

I 2017, the MFA decided to untie IFU from Danish commercial interests. The untying has provided IFU with more opportunities for impact investments enabling IFU to grow its impact significantly.

IFU's purpose, stated in the law for international development cooperation (§9), is to promote investments that support sustainable development and contribute to the realisation of the SDGs in these countries.

The overall strategic framework for IFU is set out in a hierarchy of documents as follows:

- Law for International Development Cooperation (lov om internationalt udviklingssamarbejde)
- Danish development policy strategy (The World We Share and related political agreements)
- The Ownership Document, based on Statens Ejerskabspolitik (the Danish State´s policy for ownership of companies) and formulated within the frame of the law and strategy mentioned above (new Ownership document underway (attached as appendix 1)
- IFU's statutes (approved by the board)
- IFU's strategies and policies approved by the IFU board

The Minister responsible for development cooperation has the oversight responsibility. The Minister appoints the board members (3-year term), the board chair, vice chair, and IFU's CEO. The MFA is represented in the board by an observer. The Minister meets annually with the Board's Chair, Deputy Chair, the CEO and the Deputy CEO to take stock of performance, approve the annual report as well as discuss the overall strategic issues related to the ownership document etc. The MFA leadership (State Secretary for Development Policy) meets twice a year with the IFU board chair and vice chair for strategic follow-up. Senior management of Ministry of Foreign Affairs meets quarterly with senior management of IFU for mostly operational follow-up.

IFU's Board of Directors:

- Michael Rasmussen, Chairman
- Anette Eberhard, Deputy Charman
- Thomas Bustrup
- Emilie Agnar Damm
- Nanna Hvidt
- Hanna Line Jakobsen
- Jarl Krausing
- Irene Quist Mortensen
- Karin Poulsen, UM (observer)

The responsible Minister's supervision of IFU further consists in ensuring that the Danish state's applicable regulations in the area are complied with by IFU, and that good practice for legal-critical review as well as financial and management audit is observed, including standards for public audit (offentlig revision). Based on recommendation from the board, the Minister appoints an audit company with international experience, which undertakes audit of the annual account in accordance with Danish and international audit standards.

The IFU board is responsible for assuring that the strategic management of IFU is aligned to and within the parameters of the Ownership Document (and hence the law and development policy etc.). The board is hence responsible for IFU's strategies and policies and for ensuring that IFU complies with these. The CEO is responsible to the board for implementing strategies and policies set by the board.

The primary rationale for the state ownership of IFU is to mobilise private capital to promote sustainable and responsible investments in developing countries, where it would otherwise be difficult or impossible to implement investment projects because of too high risks perceived by the private sector. IFU's participation in such investments can mitigate the risk and thereby mobilise finance and technology to developing countries in line with the countries´ development plans. This mobilisation can be in a concrete investment that IFU take part in or over time as IFU help develop a company to become attractive to more private investors and eventually exit the investment, ideally to a private investor and redeploys the capital.

Reform of IFU

As responsible owner of IFU, the Ministry of Foreign Affairs has embarked on a reform process with the aim to strengthen IFU over the coming years (2024-2030) and to significantly increase IFU's capabilities to increase its investments and impact in climate and in lower income countries and countries affected by fragility or conflict with a strong focus on Africa. The reform will to strengthen IFU in the coming years so that IFU can better support Denmark's global climate commitments and the development policy priorities as an innovative, trend-setting development financing institution. The reform will provide IFU with new funding in the period 2024-2030:

- Annual capital injection (from the ODA budget) of DKK 500m
- Access to debt from the refinancing facility of the Central Bank of Denmark (Statens Genudlånsramme) of up to DKK 13.7bn

It will be the responsibility of IFU to ensure that its investments are additional, including financially and development additional, and at the same time ensure high standards regarding environment, social, governance and human rights. IFU will be obliged to document additionality appropriately in all investments in line with relevant OECD standards.

Below table shows the finance instruments in the reformed IFU with sources and use of funding.

IFU's finance instruments

Instrument	Primary function
1. IFU's Equity	• **Use:** Equity investments and loans (direct and funds) • **Financing**: Accumulated profits, capital injection, facilities, EU and other sources • **Geography**: lower income and fragile countries, particular Africa, middle income countries (MIC), Ukraine • **Effects**: More inclusive societies, climate (mitigation and adaptation),
2. Green loans	• **Use:** Loans to private companies, primarily in climate, but also other and green transition • **Financing**: State's refinancing facility (Statens genudlån) with co-financing from IFU's own equity • **Geography**: Lower middle-income countries (LMIC) – upper middle-income countries (UMIC) • **Effects**: Climate (mitigation, adaptation, resilience) and green transition
3. SDG Equity Fund	• **Use**: Equity investments with commercial returns • **Financing**: 60% equity injection from pension funds and other private investors and 40% from IFU • **Geography**: Lower middle-income countries (LMIC) – upper middle-income countries (UMIC) • **Effects**: Green transition and climate (mitigation mostly), more inclusive societies
4. Development Guarantee Facility	• **Use:** Guarantees, primarily to financial institutions • **Financing:** Danish state guarantee • **Geography**: Low income countries, fragile countries, middle-income countries (MIC) • **Effects**: More inclusive societies, climate (including adaptation)
5. DSIF	• **Use:** Subsidised loans to public infrastructure • **Financing**: State guaranteed loan, grant from ODA budget • **Geography:** Strong focus on Africa, Ukraine and Green Strategic Partner countries • **Effects**: Climate (mitigation/energy and adaptation, e.g. access to water), district heating (incl. Ukraine)

The vision behind the reform is to create a unified IFU that operates flexibly as one unit, independent of instrument and risk profile, and which is managed according to strategic goals aligned to the government's foreign and development policy priorities.

In the Finance Law 2023 and towards 2030, the aim is to strengthen IFU's financial and human resource capacity to increase the scope of investment, including investing to a greater extent in climate projects in developing countries as well as in projects with a view to economic development, job creation and a strong green focus, especially in lower income and fragile countries, with a strong focus on Africa. This includes an ambition to dedicate resources for project development, including developing a strategy for development of investment ready projects that can be implemented in 2024.

At the same time, the intention is that IFU can continue to mobilise private financing primarily to support the global, green transition via institutional investors such as pension funds, as has happened through the SDG Fund. Finally, it is the ambition of the Minister that IFU maintains and expands its commitment to key European initiatives such as the EU's Global Gateway, EFSD+, as well as cooperation with other European development finance institutions.

IFU as best-in-class impact investor

IFU’s board approved an IFU investment strategy in 2020, which set the ambition that IFU become a best-in-class impact investor.

Two overall impact objectives were approved: contributing to the green transition with eligibility based on the EU taxonomy for green and contributing to social inclusion (reduction of inequality). Investments must at least contribute to one of the objectives and do no harm to the other to be considered. Tools were developed for impact screening and is regularly review and updated. In addition, promotion of gender equality has become a more significant objective and is considered in all investments. IFU has set targets for gender equality with reference to the 2X challenges set by international development finance institutions (and regularly made more ambitious). IFU board has approved a target that at least 30% of all investments must fulfil the 2X challenge and an ambitious climate policy aiming to become a net-zero emitting financial institution by 2024 with continuous declining emission intensity per invested DKK.

IFU has also strengthened it capacity for impact management, monitoring and documentation, for environmental, governance, business integrity, social and human rights promotion and compliance, both in terms of processes and in terms of staff capacity.

A strengthened organization

IFU has re-organised and strengthened its investment organisation with a more thorough and rigorous investment process (including due diligence) of potential projects. Focus is now on fewer sectors than before (Green energy and infrastructure, financial inclusion, health, and sustainable food). Together with new hirings, this has led to a significant professionalization of the investment organisation. IFU has also strengthened is investment capacity in terms of high risk, high impact and deployed significant capital to such investments in Africa, including with funding mobilised by IFU from the EU, made possible through IFU’s pillar assessment.

Based on its investment strategy (to be revised in 2024), IFU provides risk capital in the form of equity, loans and guarantees to companies in OECD DAC across Africa, Asia, Latin America and parts of Europe.

Active portfolio at 31 December 2022 (no.)

Investment Fund for Developing Countries (IFU)	139
Danish SDG Investemt Fund (SDG Fund)	20
Danish Climate Investment Fund (DCIF)	9
Danish Agribusiness Fund (DAF)	3
IFU Investement Partners (IIP)	3
Investment Fund for Central and Eastern Europe (IØ)	2
Total	**176**
Eliminations*	(10)
Consolidated total	**166**

* Ten projects are eliminated due to inter-fund investments, or because they have received financing from more than one fund.

IFU’s investments

IFU and IFU managed funds have invested in more than 1,300 projects covering more than 100 different countries in Africa, Asia, Latin America, and Europe. Committed investments total DKK 234 billion, of which IFU has contributed DKK 27 billion.

Currently, and covering all funds, IFU has an active portfolio of more than 166 project companies. Total investments (from all investors) in the active portfolio is DKK 112bn of which IFU has contributed 13bn. The combined experience over the last 60 years makes IFU the most experienced Danish investor in developing countries and emerging markets.

IFU can invest up to DKK 350 million per project company. Generally, IFU will be a minority investor and take a 10-30 per cent stake of the total investment. In small projects, IFU can take up to 49 per cent.

IFU's current annual investment budget amounts to DKK 2bn and involves 15 to 25 companies and the general requirements for companies to receive funding from IFU are:

- The investment must contribute to the green transition or to social inclusion or both and as a minimum do no harm on green transition or social inclusion;
- The business operation must be deemed to be commercially viable in line with IFUs investment strategy;
- There must be a company in a developing country that IFU can invest in;
- The host country must be on the list of developing countries eligible for IFU investment.

IFU follows a rigorous investment process, including project identification, due diligence, financial structuring, and monitoring. It assesses the financial viability, environmental and social sustainability, and developmental impact of potential projects before making investment decisions.

The investment process follows the existing IFU policies and among other integrates environmental, social, and governance considerations into its investment decisions and actively supports responsible business practices. It works closely with investee companies to ensure compliance with international standards and best practices in areas such as environmental sustainability, labour rights, and corporate governance.

IFU has an Investment Committee responsible for reviewing and approving investment proposals. The committee consists of IFU's Senior Vice Presidents as well as its CEO and Deputy CEO who evaluate potential investments based on financial, developmental, and environmental and social criteria. The Investment Committee plays a crucial role in ensuring that investments align with IFU's objectives and meet the necessary standards.

Today IFU's organisational capacity is built around its head office in Copenhagen and regional offices in Ghana, Kenya, Ukraine, Brazil, Singapore and India.

Directed by the Board, IFU's executive management team comprising the CEO and Deputy CEO provides the overall leadership of IFU. The organisation is structured around three main units: Investment, including Sustainability and Impact, People & Culture, and support units comprising Finance, Digitalisation, Legal, Strategy and Communications. See organisation chart in the Textbox.

The day-to-day operations is performed by IFU's approximately 115 full-time staff, hereof approximately 25 regional staff based in the regional office mentioned above.

Executive summary from IFU's 2022 Annual Results Report

Investments

- IFU and IFU managed funds contracted investments of DKK 1.5 billion in 2022, compared to DKK 1bn in 2021
- Mobilising private capital of DKK 1.4 billion
- The investments were made in 20 project companies
- 35 per cent of the new investments were made in Africa
- IFU provided additional finance to support portfolio companies in Ukraine
- Total capital under management is DKK 15.6 billion
- IFU's financial result was a net loss of DKK (57) million mainly due to the Ukrainian portfolio

Impacts New investments

- Creating access to clean cooking for 4.5 million households
- Creating access to safe drinking water for 30 million people
- Installing up to 1,300 megawatts of renewable energy
- Assisting 90,000 smallholder farmers in becoming organic producers
- Installing new district heating for 180,000 people in Ukraine
- 87 per cent of the volume contracted in new direct investments was climate finance
- 36 per cent of the number of new investments was investments with a gender lens focus

Portfolio companies

- Close to 380,000 people were employed by the portfolio companies
- Microfinance institutions served 16 million clients, of whom more than 90 per cent were women
- Supported 450,000 smallholder farmers
- Portfolio companies reported taxes in developing countries of DKK 5.4 bn.
- 87 per cent of investments have a written sustainability policy
- Portfolio emissions attributed to IFU was 817,000 tons CO_2e
- More than 5 GWh of renewable energy was produced avoiding 3.4 million tons CO_2e
- Avoided emissions attributed to IFU was 430,000 tons CO_2e

IFU organisation chart

IFU staff predominately have a background in investment and business finance, but staff also cover expertise in various sectors and regions. IFU's regional staff has in-depth knowledge of local business culture, investment authorities, local financing institutions and framework conditions, accountants, lawyers, etc. Furthermore, IFU has a network of external advisers with expertise and management experience from companies in Denmark and abroad. IFU uses its network to offer the guidance when it comes to choice of partners, preparation and implementation of the projects. A continuous challenge for IFU is to ensure that all regional staff, as well as key headquarter staff have full appreciation of MFA's ODA and AMG requirements.

- The Investment Unit is responsible for sourcing, evaluating, and executing investments. It conducts due diligence, negotiates investment terms, and monitors the performance of portfolio companies. Furthermore, the unit provides technical assistance and advisory services to investee companies. It supports them in areas such as project development, capacity building, environmental and social management, and corporate governance.
- The Finance Unit manages IFU's financial resources, including funding allocations, financial reporting, and risk management. It assesses and monitors the financial risks associated with investments and ensures compliance with financial regulations and guidelines.
- The Strategy and Communications Unit is responsible for IFU's communication strategies, public relations, and engagement with stakeholders, including investors, partner countries, and development partners. It helps raise awareness of IFU's activities and impact.
- The People and Culture Unit is responsible for Human Resources-related activities and people development within the organisation.
- Sustainability & Impact Unit: IFU's monitoring and impact measuring is managed by its Sustainability & Impact Unit. The team assesses the developmental impact of its investments by monitoring key performance indicators and conducting impact evaluations.

In conclusion, with the new reform of IFU and the extended support and mandate from MFA, IFU is considered to have the resources, staff, capabilities and experience to successfully grow its investment volume and the impact it creates.

Annex 3 IFU's instruments and facilities

IFU's financing instruments:

IFU provides risk capital on commercial terms, primarily in the form of equity and debt.

Unlike many of the other official development finance institutions, IFU is primarily an **equity investor**, representing approximately 70 pct. of annual direct investment volumes. As an equity investor, IFU purchases shares in a company and participates directly and actively in the governance, often with a seat on the board of the company. Equity investors financial returns depends on the profits. IFU's typical equity investment is between DKK 70m and DKK 350m. The investment would generally represent a significant minority stake in the company that is sufficiently large for IFU to exert influence on the management, including on impact matters. IFU will not generally take majority positions in companies, but rather seek to cooperate with other aligned shareholders.

IFU also invests via **debt**, i.e. loans to companies and projects. Debt represents about 30 pct. of total annual investments. Debt investments are generally less risky than equity investments as even in a bankruptcy scenario. Debt investors are likely to recover a share of their investment (depending on the seniority of the debt provided). This lower risk is reflected in the return, with debt investments generally having lower expected returns than equity. IFU can provide both senior (with highest repayment priority) and more subordinated debt and is able to do both secured lending and lending without taking a security. The pricing of the loans is defined by IFU's interest rate policy and IFU's risk model, taking into account both market risk, country risk and counterparty-specific risk.

In addition to equity (shares in a company or project) and debt, IFU can also invest in **quasi-equity instruments**. These include convertible debt, which are junior instruments (with a lower repayment priority), where IFU can choose to convert the outstanding debt into equity, instead of receiving the interest rate and principal back. Convertible instruments provide IFU with a potential to capture the upside of an equity investment, while still retaining the possibility to exit the investment if it is not attractive to convert the debt into equity.

To a limited degree, c. 10 pct. of total invested assets, IFU is also able to invest equity indirectly, through e.g. **investment funds and platform structures** managed by a third-party manager. Such structures are primarily used to target geographies, sectors or impact priorities where IFU may not have the capacity or required experience to invest directly.

As of 2022, IFU is also able to provide **development guarantees** in cooperation with the Swedish agency for development cooperation, Sida, and the Swedish National Debt Office. The guarantees serve as an insurance product for credit losses, to create incentives for e.g. financial institutions in developing countries to lend to underserved or new clients that they otherwise would not lend to.

Equity vs. debt:
Equity investments generally have a high degree of non-financial additionality. By becoming an owner of the company, IFU will have greater influence on the management and have more avenues to promote its impact priorities. As a lender to the company, there are fewer opportunities to be directly involved in the governance, but there are still potential for IFU to influence the company in a positive direction. For example, IFU commonly "earmarks" the debt funding it provides so that it can only be used for specific purposes, such as supporting green initiatives in a company. Specific reporting requirements and monitoring can also be built into a loan agreement to ensure that the loan is used to achieve the intended impact.

Both equity and debt investments can have significant financial additionality, depending on the company's needs. As equity investments, all else equal, are more risky than lending, there are fewer private investors willing to take the risk of investing in equity, especially at an early-stage. Equity investments also have the benefit that they can help a company to mobilise debt capital, or "lever up". [24]

[24] For example, a lender may be comfortable with providing debt to a company as long as 25% of the assets are financed by equity, which will first assume losses. In other terms, the lender is willing to accept a debt-to-equity ratio of 3-to-1. This means that for each unit of equity that is invested in the company, they can raise an additional 3 units of debt. The equity investment can thus be seen to have mobilised the debt, which would not otherwise have occurred if the additional equity had not been invested.

The growth of many companies in developing markets is hamstrung because they are not able to access local bank loans, and therefore need to finance their growth with equity only. If IFU is able to provide a loan and allow the company to lever the equity it already has, it can also be seen as unlocking growth that otherwise would not have occurred. An additional benefit of debt investments is that they reduce the company's cost of capital, allowing companies to undertake a greater range of projects to keep growing and increase their impact.[25]

Pricing is important to ascertain the financial additionality of debt transactions. IFU is pricing its debt investments on commercial terms and does not aim to undercut e.g. local financial institutions on pricing. The financial additionality would not be present if a company would accept debt from IFU only because of lower interest rates than what private lenders would offer. Still there are cases where the rates from private lenders are excessive (due to high perceived risk), and so only a few borrowers have access to loans. Here it may be possible to be additional even with lower interest rates. A careful assessment of the proposed transaction will always be required to determine pricing and conditions for IFU investments.

IFU will provide equity or debt based on the company's needs; in most cases the company is specifically in conversations with IFU looking for one or the other.

<u>IFU's facilities:</u>

IFU has a number of facilities at its disposal, with differing requirements and investment mandates. Investment opportunities are allocated to the facilities based on the fit with the requirements and the mandates. The four main facilities or sources are:

- **Investments using IFU's own capital (~DKK 4bn):** IFU's most flexible facility. Investments can be in any instrument (equity, debt or quasi-equity), with a typical investment size of DKK 70-150m. Investments are expected to generate a positive return, but IFU is able to assume a higher risk at the expense of the expected return when investing using its own capital. Priorities reflect IFU overall impact areas, but larger emphasis is put on investing in countries and sub-sectors that are not core focus for the other facilities (e.g. the SDG Fund).
- **The Danish Sustainable Development Goals Fund (the SDG Fund, ~DKK 5bn):** IFU's managed fund with 60% of the capital provided by Danish institutional investors. The fund is primarily an equity fund, investing in equity. Debt and quasi-equity are not explicitly excluded but need to achieve comparable expected returns to an equity investment to be considered for the SDG Fund. Investment sizes are generally larger with typical investments being in the range of DKK 150m-350m. The larger investment size means that investments are generally in more established companies and projects, which typically carry lower risk. Priorities reflect IFU's overall priorities, and the fund invests in developing markets globally.

  A larger share of investments is in more established economies, where investment opportunities of significant size are more common, but the fund has also invested in more difficult geographies, such as Myanmar. Some 35 pct. is invested in Africa. The SDG Fund is a closed-ended fund with a defined lifetime. More emphasis is therefore put on ensuring that IFU has a defined exit route from all its investments, so that the investments can be sold and the money returned to the investors.

  IFU is currently in progress of raising a successor fund to the SDG Fund, which will replicate the concept of the first fund.
- **High-risk / high-impact (DKK 350m):** Investments in the lower income African countries (defined as 50% of the definition Lower Middle Income Countries), with a significant risk level but also, as the name suggests, potential for significant impact. Returns are expected to be lower on a risk-adjusted basis, which prevents other investors from undertaking the investments despite the impact potential. The risk can derive from the business

[25] Due to the inherent riskiness of equity investments, equity investors will require a higher return on their capital to compensate for the risk. As debt investors are protected by equity investors who will assume the first losses, they do not have as high return expectations and are able to accept a lower interest rate on the loan. This means that the average cost of capital (considering both equity and debt) is lower for a company that is able to raise debt, than for one that is not able to do so. The company with debt, and thus the lower cost of capital, can therefore justifiably undertake projects that the solely equity-financed company will not be able to do, which will in turn further support the growth.

model (e.g. serving poorer and rural areas), the stage of the company (e.g. supporting companies at an earlier, riskier stage), or the geography (investing in risky countries).

- **Green Future Fund (DKK 1bn):** Loan investments using a re-lending facility from Nationalbanken. All investments are required to have an explicit green focus (EU Green Taxonomy compliant). Loans can be up to 10 years, and generally have slightly lower risk than the debt investments done using IFU's own capital (to ensure matching of cashflows with repayments to Nationalbanken).

In addition to these main facilities, IFU also has a facility supporting Danish SMEs investing in developing markets as well as programme for early-stage project development. In 2022, IFU also established a Development Guarantee Facility with a total guarantee frame of DKK 2bn. Finally, IFU is managing Danish Sustainable Infrastructure Finance addressing the need for public infrastructure projects in low income and lower-middle income countries, especially in water and energy.

Annex 4 IFU Investment process

	Sourcing to FC	FC to G1P	G1P to CIP	CIP to BC	BC to P	P to Exit
Key Activities	• Outreach to contacts in your network, cold-calling and networking • Screening 'on the fly' of incoming opportunities, using our screening tool and E&S (Environment and Social) exclusion list when possible • Registration of projects in ODIN	• Detailed screening (Return-Size-Impact-Risk) • Ensure that desired heads of terms are attainable • Drafting of G1P, including v1.0 of BAT • Formulate impact and value creation hypotheses • Internal (cross-)team discussion • Add preliminary E&S cat. (A,B+,B or C)	• Refine impact and value creation hypotheses • Understand and analyse key value drivers – complete first full version of BAT • Analyse partners and ensure alignment • Analyse risks and unknowns • Scope DD and line-up advisors and experts • Negotiate term sheet (& cost sharing agreement) • Assess key E&S risks	• Manage the DD process • Verify and adjust impact and value creation hypotheses and secure buy-in from partners • Confirm (and modify) key value drivers • Verify likelihood and impact of risks & prepare mitigation strategies • Prepare for negotiation & implementation • Confirm E&S cat. and identify actions in E&S Action Plan	• Negotiate transaction documents • Ensure that all IFU standard requirements are implemented (or waivable) • Liaise with external legal counsel • Secure necessary legal opinions and reliance from DD providers • Arrange for closing	• Attend board meetings • Drive value and impact creation program by liaising with partners • Monitor KPIs, analyse deviations and ensure necessary corrective actions • Safeguard IFU's contractual rights • Ensure implementation on ESAP and Result Framework • Prepare exit plan (with partners, if relevant)
Key outputs	• First contact registered in ODIN – at 0% or 10% • Contact data logged in CRM/ODIN	• Completed G1P and project screening tool • Completed BAT 1.0 • Agreed Heads of Terms, ideally in draft term sheet • Updated availability reporting	• CIP presentation • Updated project screening tool • First full version of BAT • Detailed term sheet signed or in agreed form (+/-) • Corporate Governance Tool • Complete Risk Model in ODIN • Completed draft Impact Results Framework	• BC Presentation • Updated project screening tool • Updated Full BAT • Updated Corporate Governance Tool • Updated Risk Model (in ODIN) • Depending on E&S cat. completed/reviewed ESG self-assessment or ESDD report • E&S Action Plan (ESAP) • Impact Results Framework	• Transaction documents in execution version • Completed pre-signing note (PSN) • Register OFR in ODIN • Closing certificate/memorandum[1] • Electronic Disbursement Request to FIN • Proper archiving of documents, incl. share certificates if relevant	• Registration of quarterly financial reporting and audited financial statements in ODIN • Annual sustainability reporting (ASR) • Exit note for decision/approval[2] • Sign exit agreement and complete PSN[2] • Secure incoming (re)payment • Complete FER • Close project in ODIN
Gate	None	Gate 1 Paper (A or B) approved by VP group	CIP approved by IC (and Board)	BC approved by IC (and Board)	PSN approved by Management & Signed Transaction Documents	Exit note approved by IC (and Board)[2] & Signed PSN[2]

Annex 5 Risk Management

Contextual risks					
Risk Factor	**Likelihood**	**Impact**	**Risk response if applicable**	**Residual risk**	**Background to assessment**
Macroeconomic downturn across emerging markets	Medium	Medium	IFU generally supports companies with services that are essential also during a downturn. Economic downturns are not likely to happen simultaneously	Medium	Overall economic climate has deteriorated in the wake of the Russia-Ukraine war and the rising interest rate environment.
Currency fluctuations	High	Medium	Hedge where appropriate, consider currency effects in financial return expectations, hard currency debt transactions	Medium	Currency fluctuations and depreciation is part of investing in developing countries, and the risk can never fully be mitigated.
Political unrest, conflicts and wars	Medium	Large	Thorough assessment of the risks at the time of investment. IFU has experience with assessing such situations and would also draw upon partners and experts on the ground. Potential to structure deals to allow exits in case of material adverse events.	Medium	The risk of unrest, or full blown conflicts, increase as economic conditions worsen. IFU's exposure can be mitigated by assessing the risk and structure the deals appropriately in unstable geographies.
Climate shocks	High	Large	Focus on climate change mitigation and adaptation investments in geographies exposed to climate change	Medium	Climate shocks may have devastating impact on developing countries, but will also increase the attention for green finance, including investments from IFU.

Programmatic Risks					
Risk Factor	**Likelihood**	**Impact**	**Risk response**	**Residual risks**	**Background to assessment**
Insufficient demand for investment finance	Low	Large	Developing stronger networks on the ground, finding partners, cooperating with peers including other DFIs	Small	Evidence indicates benefits to large pipeline and network to find good opportunities
Decreased interest of private investors for developing markets	Low	Large	Increased use of blended finance, achieving good exits to demonstrate potential	Small	While economic conditions may make private investors more wary, private investors are increasingly finding attractive opportunities in developing markets
Crowding out of private investors	Low	Large	Assessment of additionality, focus where additionality is greatest	Small	While private interest is increasing, there will still be sub-sectors and geographies where IFU's capital is additional

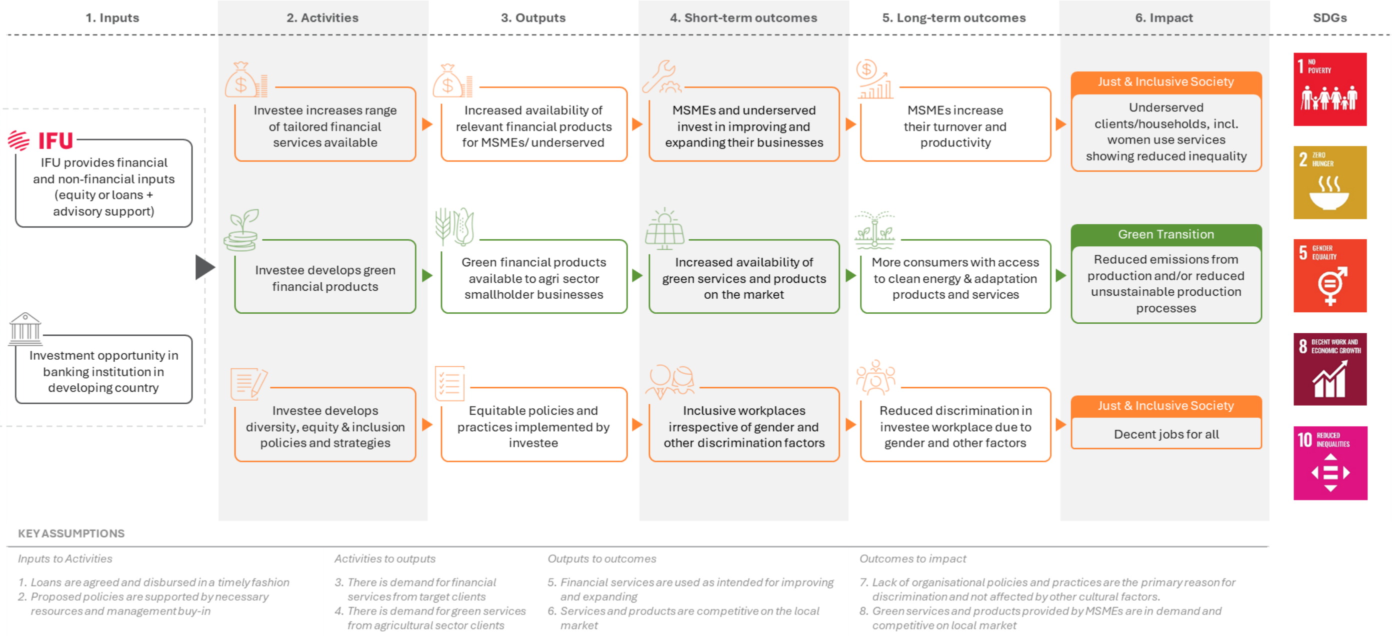
Institutional Risks					
Risk Factor	**Likelihood**	**Impact**	**Risk response**	**Residual risk**	**Background to assessment**
That IFU does not allocate sufficient resources to grow the supportive functions in the organization	Medium	Large	Active ownership with regular consultations between IFU and Ministry of Foreign Affairs	Small	

Annex 6 Process Action Plan (PAP)

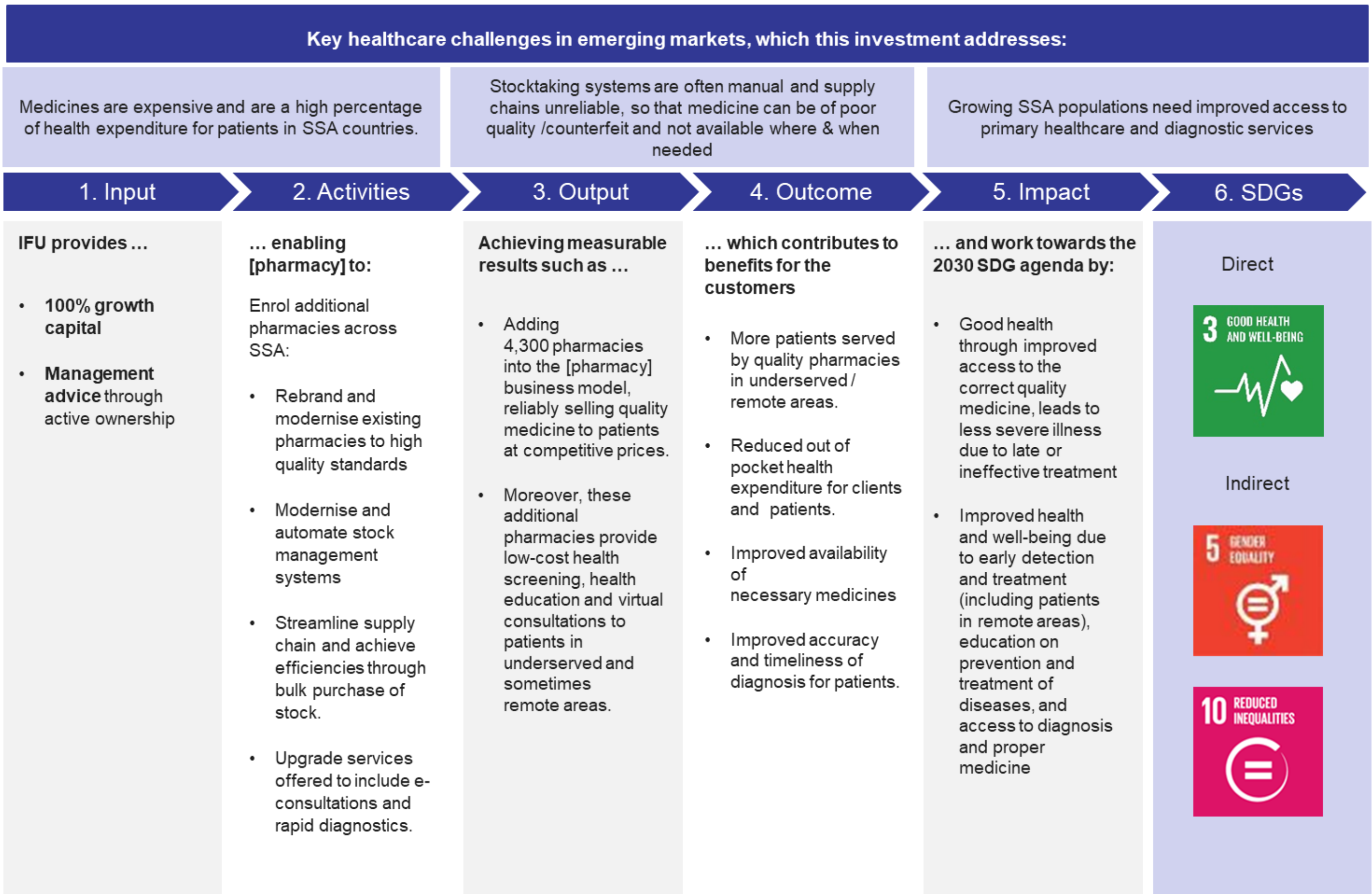
July 21st	First draft to Programme Committee
August 8th	Comments on first draft
August 15th	Programme Committee meeting
From August 15th	Appraisal and incorporation of comments
September 25th	Documents ready for UPR
October 12th	UPR meetings

Annex 7 Example investment-level Theory of Change

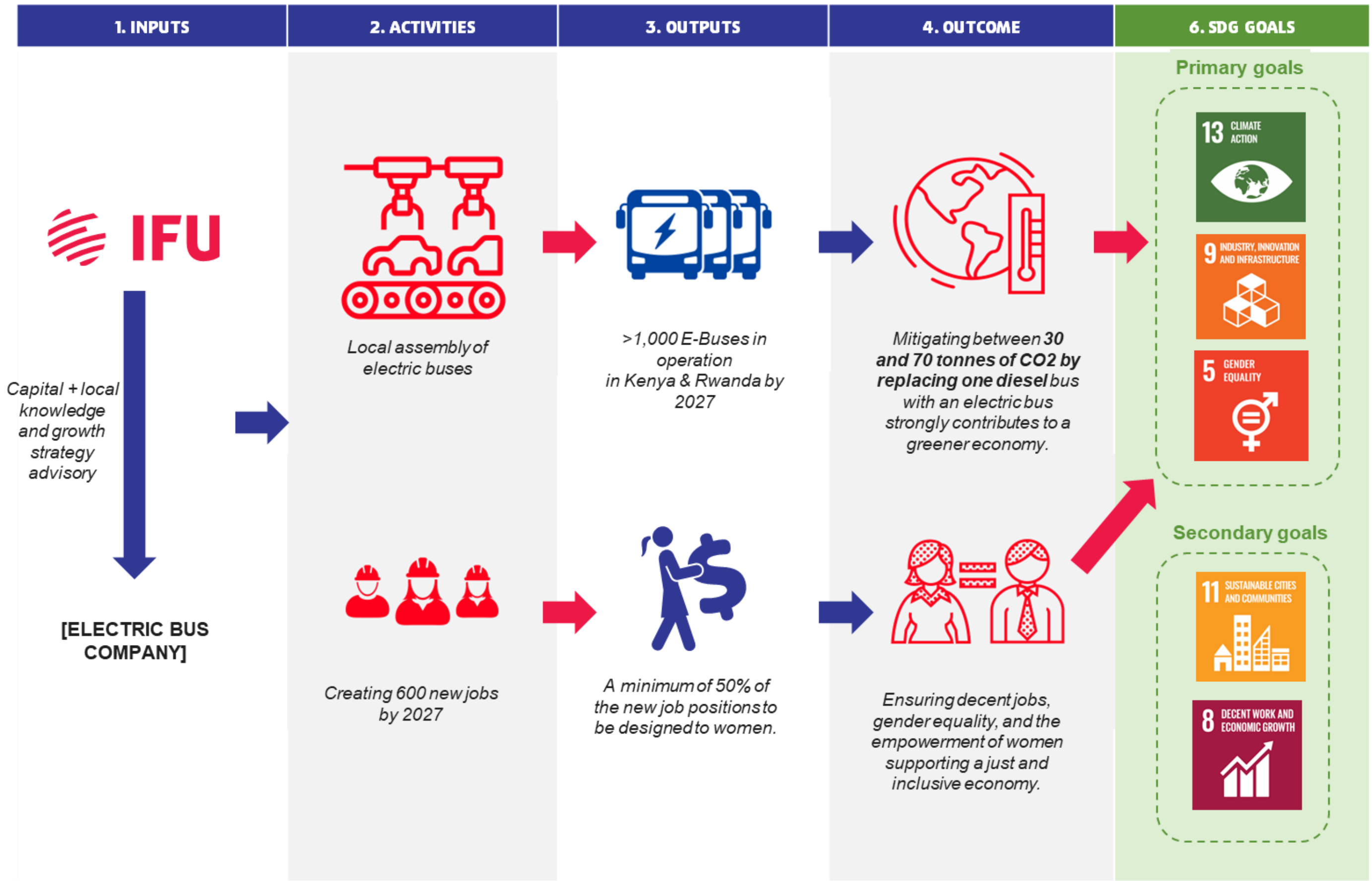
1) MSME-focused financial institution in Sub-Saharan Africa



2) Affordable pharmacy chain in Sub-Saharan Africa



3) Electric bus company in Sub-Saharan Africa



Annex 8 IFU Standard Impact Indicators

IFU Standard Indicators for IPs

Version 1.0

1. Purpose

The standard indicators provide guidance on populating the Results Framework for a project. The standard indicators should be used specifically, with the possibility of adding further project-specific indicators as required.

2. Portfolio indicators - direct projects, fund investees and FIs

14 portfolio indicators for all projects.

	Indicator	Unit	Data source
Green Transition			
Climate	GHG emissions – direct investments	tCO_2e	UNEP DTU and ASR
	GHG emissions – Funds and FIs	tCO_2e	UNEP DTU and ASR
	GHG emissions avoided / reduced	tCO_2e	UNEP DTU
	GHG sequestration	tCO_2e	UNEP DTU
Water	Water consumption	m^3	ASR
Inclusive Economy			
Jobs	Direct employment (total, gender, youth)	#	ASR
	Indirect jobs	#	JIM estimation based on sector/turnover
	Number of people trained	#	Results Framework (reporting)
Gender	Annual investment in 2X Challenge eligible projects	USD	Annual 2X Challenge Report
Economic indicators	Taxes paid	Currency	Financial report
	Domestic purchase	Currency	ASR
	Annual total wages paid to employees	Currency	ASR
	Total sales	Currency	ASR
	Value of total export	Currency	ASR

3. Sector indicators - IFU focus areas

Indicators in bold should always be included in the Results Framework, for the specific sector.

	Indicator	Unit	Data Source	SDG target
		Banks & Microfinance Institutions		
Standard reporting indicators for all Banks & MFIs	**Total volume of loans outstanding by sector and by client group (corporate, SME, micro-finance, mortgage, retail) (HIPSO)**	Currency	Results Framework and EDFI template	1.4 Ensure access to economic resources, including microfinance 8.3 Encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services 9.3 Increase the access of small-scale industrial and other enterprises to financial services
	Total number of clients, credit (HIPSO)	#		
	Number of microfinance clients	#		
	Number of female clients	#		5.5 Ensure women's full and effective participation and equal opportunities for leadership
	Net interest income in the reporting year	Currency	EDFI template	8.10 Strengthen the capacity of domestic financial institutions
	Average loan size (non- retail portfolio)	Currency		8.3 and 9.3
	Number of staff trained (E&S training and other)	#		8.10
	Expenditures on staff training	Currency		
	Short-term finance	Currency		8.3 and 9.3
	Long-term finance	Currency		
Bespoke output indicators	Impact Management System in place	Milestone	Results Framework (reporting)	8.10
	Number of clients trained (specific groups)	#		1.4 or 8.3
	Access to digital payment services (HIPSO)	# clients		1.4, 8.3 or 9.3
Bespoke outcome indicators	Client poverty incidence	%	Results Framework (surveys)	1.4
	Client income or assets	Currency		1.4
	Turnover in client companies (SMEs)	Currency		8.3 or 9.3
	Jobs in client companies (SMEs)	#		1.3 or 9.3 8.5 Employment and decent work for all women and men

	Indicator	Unit	Data Source	SDG target and comments
Renewable Energy				
Standard indicators	**RE Capacity installed**	MW	Results Framework and ASR	7.1 By 2030, ensure universal access to affordable, reliable and modern energy services 7.2 By 2030, increase substantially the share of RE in the energy mix
	Renewable energy generated (HIPSO)	GWh		
Bespoke outcome indicators	Number of new connections to energy (HIPSO)	#	Results Framework	7.1 Only relevant for C&I, mini-grid or off-grid solutions
	Number of new connections to energy for underserved groups (HIPSO)	#		
	Avoided air pollution	tPM2.5		11.6 Reduce environmental impact of cities and improve air quality Relevant when replacing generators
	Average cost of electricity	Currency/ kWh		Retrieve information from company clients
	Frequency of power outages (HIPSO)	#		World Bank data on power outages in firms per month https://data.worldbank.org/indicator/IC.ELC.OUTG
	Average length of power outages (HIPSO)	#hours		
	Local effects from construction of RE projects and off grid solutions			
	Local content of procurement (domestic)	Currency or %	Results Framework	Survey data would only be collected on an ad-hoc basis when/if an impact survey is undertaken in the local community
	Household income and/or assets	Currency	Survey	
	Local company turnover	Currency	Survey	
	Local company employees	#FTE	Survey	
	Number of local conflicts	#	Survey	
	Health and education effects of access to electricity	Various indicators	Survey or local statistics	

	Indicator	Unit	Data Source	SDG target
		Agriculture and Food		
Standard indicators	**Farmers reached (HIPSO)**	#	Results Framework	2.3 By 2030, double the agricultural productivity and incomes of small-scale food producers 10.1 Income growth of the bottom 40 per cent of the population
Bespoke outcome indicators	Average agricultural yield (HIPSO)	t/ha	Results Framework	2.1 By 2030, end hunger and ensure access by all people, in particular the poor and people in vulnerable situations, including infants, to safe, nutritious and sufficient food
	Number of (underserved) customers reached with food products	#		
	Sustainable management of natural resources (HIPSO)	ha		2.4 Ensure sustainable food production systems and implement resilient agricultural practices that strengthen capacity for adaptation to climate change 12.2 Sustainable management and efficient use of natural resources. Only when certified.
	Avoided food loss/waste	t lost / t produced or stored		12.3 Halve per capita global food waste at the retail and consumer levels and reduce food losses along production and supply chains, including post-harvest losses
	Long-term outcomes of agriculture and food projects (established through surveys/studies)			
	Household income and/or assets for small-scale producers		Survey	This data would only be collected on an ad-hoc basis when/if an impact survey is undertaken
	Local company turnover		Survey	
	Local company employees		Survey	
	Natural resource and biodiversity indicators (tree canopy cover, soil C-content, presence of sentinel species)		Survey or direct observation	
	Health indicators		Survey or local statistics	

	Indicator	Unit	Data Source	SDG target
Health				
Standard indicators	Number of patients served (HIPSO)	#	Results Framework	3.8 Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all
	Number of female patients served (HIPSO)	#		
	Number of underserved patients served	#		
	Number of hospital beds	#		
Water				
Standard indicators	Number of new connections to water and wastewater services (HIPSO)	#	Results Framework	6.1 Achieve universal and equitable access to safe and affordable drinking water for all.
	Number of new connections to water and wastewater services for underserved groups (HIPSO)	#		
	Wastewater treated (HIPSO)	m^3		6.3 By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals
	Water consumption (HIPSO)	m^3		12.2 By 2030, achieve the sustainable management and efficient use of natural resources.
Waste				
Standard indicators	Waste collected	t	Results Framework	12.4 Achieve the environmentally sound management of chemicals and all wastes
	Renewable energy generated (from waste) (HIPSO)	GWh		7.2 By 2030, increase substantially the share of RE in the energy mix
	Material recycled	t		12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse

Annex 9 Independent Verification of IFU impact management system

BLUE/MARK

Verifier Statement

Independent Verification Report

Prepared for IFU: March 24, 2021

Introduction

As a signatory of the Operating Principles for Impact Management (the Principles)[1], IFU engaged BlueMark to undertake an independent verification of the alignment of IFU's impact management (IM) system with the Principles. IFU's assets under management covered by the Principles (Covered Assets) totals €836.2 million[2], for the year ending 31/12/2019.

Summary assessment conclusions

BlueMark has independently verified IFU's extent of alignment with the Principles. Key takeaways from BlueMark's assessment are as follows:

Principle 1: As part of its new 2021- 2024 Investment Strategy, IFU has two clearly defined impact objectives related to (1) building the green economy, and (2) building a just and inclusive economy. The impact objectives are linked to appropriate SDG targets, and underpinned by a theory of change and four related focus areas.

Principle 2: IFU has outlined its approach to integrating impact considerations throughout the investment process. Policies clearly articulate the IM processes within due diligence, execution, and monitoring. IFU has accountability mechanisms for IM system execution and links staff incentives to achievement of impact targets through an annual bonus system.

Principle 3: IFU has a process in place to assess its financial and non-financial contribution(s) to investee achievement of impact. An external evaluation has assessed IFU's additionality. To further align, IFU could build a robust evidence base demonstrating its contribution to the achievement of impact.

Principle 4: IFU's new impact management system facilitates a clear process for assessing each investment's expected impact, from screening, using the Project Screening Tool, to the conclusion of due diligence, as reflected in key transaction templates. Baseline value and ex-ante targets are set for the investment's expected impact throughout the investment lifetime. IFU could develop a catalogue of commonly used indicators mapped to key impact themes and industry standards, with supporting guidance on selection.

Principle 5: IFU has implemented a clear Environmental, Social, and Governance (ESG) risk identification and management process, aligned with industry standards, through its Sustainability Policy. IFU could further increase its alignment by instituting protocols for responding when ongoing monitoring indicates ESG underperformance.

Principle 6: IFU has recently operationalized a new process, utilizing its Results Framework, to monitor impact performance on a regular basis. To further align, IFU could document and formalize its protocol for engaging investees in cases of impact underperformance and further develop tools or methodologies to capture impact outcomes.

Principle 7: IFU's Sustainability Policy commits to registering development impact considerations at the time of exit, which, to date, has primarily been operationalized through self-assessment reports. IFU could further align by more intentionally exploring and documenting considerations to ensure long-term impact at the time of exit.

Principle 8: IFU collects impact performance data annually on an actual vs expected basis, leveraging its Annual Sustainability Report framework. IFU could further align by formalizing and standardizing its process to extract lessons learned from each investment's impact and ensure they are able to influence future decisions.

---

[1] Principle 9 states that signatories "shall publicly disclose, on an annual basis, the alignment of its impact management systems with the Principles and, at regular intervals, arrange for independent verification of this alignment. The conclusions of this verification report shall also be publicly disclosed. These disclosures are subject to fiduciary and regulatory concerns."

[2] Assets under management figure as reflected in the IFU Disclosure Statement as of 31/12/2019. BlueMark's assessment did not include verification of the AUM figure.

Annex 10 Country classification

Country Name[26]	80% of definition of Lower Middle Income Countries	50% of definition of Lower Middle Income Countries or Fragile and Conflict-Afflicted States
Afghanistan	✓	✓
Angola	✓	✓
Bangladesh	✓	✓
Benin	✓	✓
Bhutan	✓	
Bolivia	✓	
Burkina Faso	✓	✓
Burundi	✓	✓
Cabo Verde	✓	
Cambodia	✓	✓
Cameroon	✓	✓
Central African Republic	✓	✓
Chad	✓	✓
Comoros	✓	✓
Congo, Dem. Rep.	✓	✓
Congo, Rep.	✓	
Cote d'Ivoire	✓	
Djibouti	✓	✓
Egypt, Arab Rep.	✓	
Eritrea	✓	✓
Ethiopia	✓	✓
Gambia, The	✓	✓
Ghana	✓	
Guinea	✓	✓
Guinea-Bissau	✓	✓
Haiti	✓	✓
Honduras	✓	
India	✓	
Iraq		✓
Kenya	✓	
Kiribati	✓	✓
Kosovo		✓
Kyrgyz Republic	✓	✓
Lao PDR	✓	✓
Lebanon		✓
Lesotho	✓	✓
Liberia	✓	✓
Libya		✓
Madagascar	✓	✓

[26] Based on OECD DAC definition for Lower Middle Income Countries for FY23 flows, which uses the World Bank Atlas method for GNI per capita as per 2020. Fragile & conflict-afflicted states based on World Bank classification. Table is preliminary and will be reassessed, based on averages, as the 2020 data in some cases are significantly impacted by COVID..

Malawi	✓	✓
Mali	✓	✓
Marshall Islands		✓
Mauritania	✓	✓
Micronesia, Fed. Sts.		✓
Morocco	✓	
Mozambique	✓	✓
Myanmar	✓	✓
Nepal	✓	✓
Nicaragua	✓	
Niger	✓	✓
Nigeria	✓	✓
Pakistan	✓	✓
Papua New Guinea	✓	✓
Rwanda	✓	✓
Sao Tome and Principe	✓	✓
Senegal	✓	✓
Sierra Leone	✓	✓
Solomon Islands	✓	✓
Somalia	✓	✓
South Sudan	✓	✓
Sudan	✓	✓
Syrian Arab Republic	✓	✓
Tajikistan	✓	✓
Tanzania	✓	✓
Timor-Leste	✓	✓
Togo	✓	✓
Tunisia	✓	
Tuvalu		✓
Uganda	✓	✓
Ukraine		✓
Uzbekistan	✓	
Vanuatu	✓	
Venezuela, RB		✓
West Bank and Gaza		✓
Zambia	✓	✓
Zimbabwe	✓	✓

Annex 11 Ownership Document

STRATEGISK EJERSKABSDOKUMENT

INSTRUKTIONER FRA EJER TIL BESTYRELSEN FOR INVESTERINGSFONDEN FOR UDVIKLINGSLANDE (IFU)
(August 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 primo 2023 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 fire-årig 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. årligt. 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 møde 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 mobilisere 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 direktør for udviklingspolitisk samarbejde. 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 kvartalsmøde 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.

Annex 12 Climate policy benchmarking output

Parameters	IFU (new policy)	Swedfund[27]	Norfund[28]	CDC[29]	FMO[30]	EKF[31]	AFD[32]/ Proparco	DFC[33]	IFC[34]	EIB[35][36]	EBRD[37]
Included in climate approach											
Sector (inclusion)											
Direct Energy (fossil/non-fossil)	+	+	+	+	+	+	+	+	+	+	+
Direct Non-energy	+	+	+	+	-	-	+	?	(+)	(+)	(+)
Indirect FI Energy	(+)	(+)	-	-	-	NA	(+)	?	(+)	(+)	(+)
Mitigation	+	+	+	+	+	+	+	+	+	+	+
Adaptation	+	+	+	+	+	+	+	+	+	+	+
Commitment and targets (portfolio)											
Portfolio net zero	2040	2045	2050	2050	2050	2045	2050	2040	Paris Aligned	Paris Aligned	Paris Aligned
Decreasing carbon intensity targets	(+) no targets	(+) no targets	(+) no targets	(+) no targets	(+) no targets	(+) no targets	Sector pathways	(+) no targets	Sector pathways	Sector pathways	Min 25 million tCO2e by 2025
Climate finance targets (for new investments)	50% rolling average across 2022-2024		50% (renewable energy)	30% in 2021 (climate)	40% in 2025 (green)	DKK 160 billion in 2022-2030 (green projects)	50% by 2022 (5 billion EUR/ year) (climate)	33% in 2023 (climate)	35% in 2021-2025 for World Bank Group (climate)	50% in 2025 (trillion EUR/year) (green investments)	Min 50% by 2025 (green investments)
TCFD framework & reporting	22: Dev. tools 23: Assess new inv. 24: Report on climate risk	(+)	(+)	(+)	(+)	(+)	+	-	+	+	+
Exclusions											
Coal (full value chain)	yes	yes	Yes	yes	yes	yes	yes	yes	yes	yes	yes
HFO upstream	yes	yes	Yes	yes	yes	yes	yes	yes	yes	yes	yes
HFO downstream	yes	yes	Yes	yes	yes	yes	yes	(?)	(-)	(-)	(-)
Gas upstream	yes	yes	Yes	yes	yes	yes	yes	yes	no	Yes	no
Gas downstream	yes, but with exceptions	yes	yes, but with exceptions	yes, but with exceptions	yes, but with exceptions	yes, but with exceptions	yes, but with exceptions	no	no	yes, but with exceptions	no
Accounting scope (KPIs)											
Absolute (net footprint)	+	+	-	(+)	+	(+)	-	-	-	-	-
Avoided emissions	+	+	+	+	+	+	+	+	+	+	+
Transition requirements (project level)											
NDC alignment in LDC	+	+	+	+	+	+	+	+	+	+	+
20% improvement (efficiency gain) against baseline	+	(?)	-	TBD	+	(+)	+	-	-	+	+
Top quartile (Best Available Tech)	+	-	-	TBD	(+)	(+)	(+)	-	(+)	(+)	(+)
Meets EU Taxonomy	+	-	-	-	(+)	(-)	(-)	-	-	(+)	(-)

[27] https://www.swedfund.se/media/2493/swedfund-guiding-note-climate.pdf
[28] https://www.norfund.no/app/uploads/2021/02/Norfund-Climate-Position_external-small.pdf (November 2020)
[29] https://www.cdcgroup.com/en/climate-change-strategy/
[30] https://www.fmo.nl/policies-and-position-statements (Position Statement on Phasing Out Fossil Fuels in Direct Investments, June 2021)
[31] https://www.ekf.dk/en/netzero
[32] https://www.afd.fr/en/actualites/midterm-assessment-afds-climate-strategy Mid-term review, 2020)
33 https://www.dfc.gov/media/press-releases/dfc-commits-net-zero-2040-increases-climate-focused-investments (April 2021)
[34] https://www.worldbank.org/en/news/infographic/2021/06/22/climate-change-action-plan-2021-2025
35 https://www.euractiv.com/wp-content/uploads/sites/2/2020/06/final_eib_group_cbr_position_paper_15_06_2020.pdf
[36] https://www.eib.org/en/press/all/2019-313-eu-bank-launches-ambitious-new-climate-strategy-and-energy-lending-policy
37 https://www.ebrd.com/what-we-do/get.html