

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


















Meeting in the Council for Development Policy on 23 November 2023

Agenda Item No. 5

- 1. Overall purpose:** *For discussion and recommendation to the Minister*
- 2. Title:** Guarantee Instrument: Subsidies, Technical Assistance, and Administration 2023-2025
- 3. Amount:** DKK 135.0 million
- 4. Presentation for Programme Committee:** 29 August 2023
- 5. Previous Danish support presented to UPR:**

Development Guarantee Facility

Grant for guarantee subsidies, technical assistance and administration

Key results: <i>Outcomes:</i> 1. Mobilized climate finance (adaptation/mitigation) 2. Access to finance for SME's, primarily in Africa Incl. for women and young entrepreneurs Justification for support: According to OECD DAC, development guarantees can be one of the most effective financial instruments to increase private sector investments for development. The experience with development guarantees at Sida is impressive. There is significant potential for a Danish guarantee facility to deliver additional development results in parallel to the Danish official development aid budget. Major risks and challenges: <i>During the pilot phase guarantees are underwritten jointly with Sida. While a close partnership with Sida to accelerate learning is very beneficial, it also carries certain risks. This is due to the internal organisation of Sida, where decision-making for guarantees is often delegated to the various policy departments, teams and embassies implementing different bilateral/ regional/ global strategies, timeframes and planning horizons. This means that many decisions are not under the sole authority of the Development Guarantee Facility at IFU. This increases transaction costs associated with maintaining close relationships with many different stakeholders within Sida to ensure a relevant pipeline and portfolio of Danish guarantees.</i>	File No.					
	Country	Global				
	Responsible	GDK				
	Sector	Financial sector				
	Partner	IFU				
	<i>DKK million</i>	2022	2023	2024	2025	Total
	Commitment	(5)	(5)+35	50	50	(10)+135=145
	Projected disbursement	(5)	(5)+35	50	50	(10)+135=145
	Duration	2023-2025				
	Previous grants	5+5 mio. DKK in 2022/2023				
	Finance Act code	§06.38.01.16. Udviklingsgarantier				
	Head of unit	Karin Poulsen				
	Desk officer	Jesper Hilsted Andersen				
	Reviewed by CFO	YES: Rasmus Ewald				
Relevant SDGs <i>[Maximum 1 – highlight with grey]</i>						
						
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 institutions	Partnerships for Goals		

Strategic objectives

The overall objective of the MFA-IFU Agreement on the pilot program introducing development guarantees in Danish development cooperation is to mobilize additional private capital for investments in sustainable development, in line with the Danish Strategy for Development Cooperation, with a special focus on mobilization of climate finance and create access to finance.

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

	Climate adaptation	Climate mitigation	Biodiversity	Other green/ environment
Indicate 0, 50% or 100%	50%	50%		50%
Total green budget (DKK)		67,5		67,5

Justification for choice of partner:

In 2022, IFU was formally chosen to host the Development Guarantee Facility based on its experience with development finance. The present commitment will allow for managing the pilot phase and support a higher impact of development guarantees. Helping beneficiaries pay for the guarantees based on expected development outcomes is an integral part of the model, and experience shows that targeted technical assistance can further magnify the impact of interventions.

Summary:

Promotion of sustainable economic development with a climate change focus will be pursued along with the aim of creating access to finance is to make finance accessible to broader and underserved groups. This will make use of technical assistance and risk premium subsidies to address barriers, and empower disadvantaged groups, leading to broad based sustainable economic growth and poverty reduction.

Budget (engagement as defined in FMI):

Engagement 1 – Management grant	DKK 22.5 mil.
Engagement 2 - Subsidies to premium payments	DKK 92.5 mil.
Engagement 3 – Technical Assistance	DKK 20 mil.
Total	DKK 135 mil.

Ministry of Foreign Affairs of Denmark

Danida

Programme Document

Development Guarantee Facility

- Grant for Guarantee Subsidies, Technical Assistance
& Administration**

November 2023

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1 List of Abbreviations

AGF	African Guarantee Fund for Small and Medium-Sized Enterprises
ASR	Annual Sustainability Report
DAC	Development Assistance Committee
DFI	Development Finance Institutions
DGF	Development Guarantee Facility

DKK	Danish Kroner
DTU	Danmarks Tekniske Universitet
ESG	Environment, Social and Governance
GDK	Green Diplomacy and Climate department of the Ministry of Foreign Affairs
GNI	Gross National Income
IFC	International Finance Corporation
IFU	Investment Fund for Developing Countries
LDC	Least Developed Countries
MFA	Ministry of Foreign Affairs of Denmark
M&E	Monitoring and Evaluation
MIGA	Multilateral Investment Guarantee Agency
MSME	Micro, Small and Medium Enterprises
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
RKG	Riksgälden – National Debt Office of Sweden
SDG	Sustainable Development Goals
Sida	Swedish International Development Cooperation Agency
SME	Small and Medium Enterprises
UNEP-DTU	United Nations Environment Programme partnership with DTU
UNFCC	United Nations Framework Convention on Climate Change
UNGP	United Nations Guiding Principles on Human Rights and Business
USD	United State Dollar
WB	World Bank

2 Definitions

Additionality	Refers to the concept that a financial intervention results in outcomes or benefits that are additional to what would have occurred in the absence of that investment. It is the concept of providing key financial and non-financial inputs to a client and project 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 the sum of money that is borrowed for a certain period of time and is to be return along with the interest. The amount as well as the terms of the debt depends upon the creditworthiness of the borrower. There are different types of debts that vary with the requirements of the borrower.
Due diligence	A comprehensive appraisal of a business, bank or other organization undertaken by a prospective financier or guarantor, especially to establish its assets and liabilities and evaluate its commercial potential. The concept is also applied in relation to environmental and social concerns.
Eligible Borrowers	Defined as the group of borrowers to which lending from a bank is covered under a given guarantee agreement.
Impact Investing	Investments, loans, and guarantees to companies, banks, organizations, and funds 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: Promote the Green Transition (defined by the EU Green Taxonomy); and Social Inclusion (whether the investment is expected to reduce inequality in access to goods and services, income, and gender according to IFU's impact screening tool.
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 considered 'investment grade' when default risks are considered low by the international rating agencies (above BBB-rating). This allows institutional investors such as pension funds to invest in these markets. It also allows companies and countries to take loans at lower interest. Credit guarantees can be used to improve the investment grade of borrowers.

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.
Guarantee	A guarantee is a financial arrangement where a guarantor agrees to cover a share of the losses on a portfolio of debt in case of default. This encourages the guaranteed party (lenders) to provide credit to guarantee beneficiaries (borrowers). If a beneficiary defaults, the guarantor makes the payment, reducing the guaranteed party's risk.
Guarantor	A guarantor is an entity, typically a government agency or financial institution, that agrees to assume responsibility for partly fulfilling a debt or obligation if the primary borrowers default. This provides a financial safety net for the guaranteed party (lenders) by committing to make payments if the guarantee beneficiaries (borrowers) cannot.
Guaranteed party	The guaranteed party is a lender or creditor, typically a local bank or multilateral development bank, who extends credit or enters into an agreement with the guarantee beneficiaries (borrowers). They benefit from the assurance provided by the guarantor, as it reduces their risk of financial loss in case of borrower default.
Guarantee beneficiary	Guarantee beneficiaries (borrowers) are individuals or entities seeking credit or loans from the guaranteed party. They may have limited creditworthiness or higher risk profiles, making it harder for them to secure loans on their own.
Expected loss	Expected loss refers to the calculated amount a guarantor anticipates losing on a guaranteed portfolio due to defaults or non-repayment by borrowers. It's a risk assessment metric that considers the probability of default and the potential severity of losses if defaults occur. Expected loss helps set aside provisions to mitigate potential financial impacts.
Risk premium	The risk premium is an amount paid by the guaranteed party to the guarantor in exchange for the guarantee. The risk premium is equal to the expected loss, but can be subsidised by ODA if the guarantor deems it necessary.
Risk premium subsidy	The amount of ODA required to make guarantees affordable to a guaranteed party. Subsidies can be used where there are significant expected development effects of increased access to finance, but where the expected loss is high, and the capacity to pay the full risk premium is therefore limited.

3 Introduction

The present programme document outlines the background, rationale and justification, objectives and management arrangements for support to the Development Guarantee Facility (DGF) during a pilot period (2022-2025) as agreed between the parties: The Investment Fund for Developing Countries (IFU) and the Ministry of Foreign Affairs of Denmark (MFA).

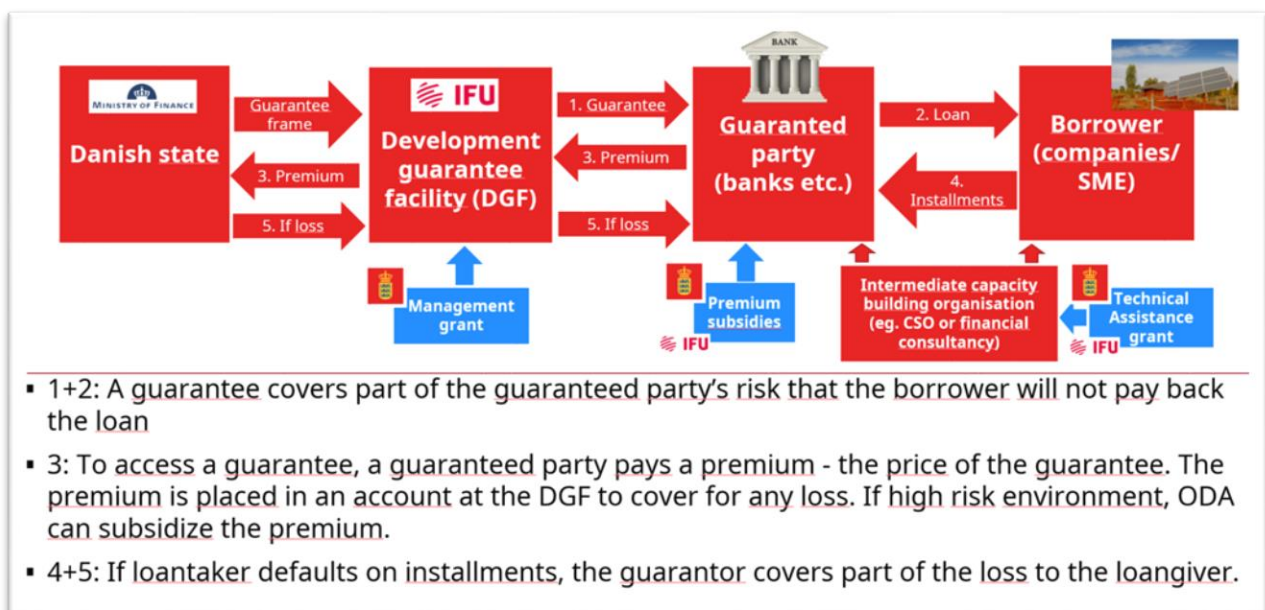
In 2021, the Danish Government's Financial Coordination Committee (Økonomiudvalget) approved a Danish pilot phase to establish a guarantee facility under IFU in close cooperation with Sida and the Swedish National Debt Office (Annex 2). With the Finance Act for 2022, a frame of DKK 2 billion has been given for issuance of state backed guarantees for climate and development purposes. The Finance Act also includes an account to subsidize the risk premiums paid by guaranteed parties (intermediates such as local banks, local investment funds, etc.) as well as for capacity building and management of the scheme. During 2022 the guarantee agreements between Sida, IFU and MFA was signed and a guarantee team established at IFU (Annex 3 and 4).

This programme document defines the objectives and management arrangements for a grant to IFU for

- (i) management of the Development Guarantee Facility, a pilot program (2022-2025) introducing development guarantees in Danish development cooperation;
- (ii) subsidies to risk premium payments by guaranteed parties;
- (iii) technical assistance to support lenders and borrowers

Figure 1 below describes how guarantee works and where the three elements support the structure.

Figure 1. Guarantees are Insurance against Loss



Moving from the initial phase of establishing DGF at IFU from mid-2022/Q3-2023 with initial grants of 5+5 million DKK (Annex 5+6) already provided to IFU, a total of DKK 10 million through this project document grant is allocated towards management of the scheme annually in 2024-2025, as well as DKK 30 million annually for risk premium subsidies. In addition, it is proposed to allocate DKK 10 million per year in 2024-2025 for technical assistance for capacity building of guaranteed parties and

beneficiaries, where the needs justify this to increase the expected impacts of the interventions. This means that a total of DKK 145 million will be utilized for the instrument's development and management, risk premiums subsidies and technical assistance.¹

The proposed grant contributes to the implementation of several objectives under Denmark's Development Policy Strategy, *The World We Share*, as well as the Danish government's long term global strategy for climate action, and the Government's ambition to use public funds to mobilize private capital towards climate finance.

4 Programme context

Developing countries face numerous challenges when it comes to financing their development agendas. These challenges include limited fiscal space, inadequate infrastructure, low levels of private investment, and vulnerability to external shocks. Additionally, the scale and complexity of development projects often require substantial capital injections that cannot be fully met through traditional funding mechanisms alone. Mobilizing finance for development through innovative financing instruments, therefore, becomes imperative to bridge the existing financial gap and ensure sustainable progress. It is widely recognized that mobilizing finance for development remains crucial for sustainable economic growth and for alleviating poverty.² The SDG financing gap in developing countries is estimated to approx. 4 trillion dollars annually according to the OECD.

There are two primary strengths associated with development guarantees. First, they have an unrivalled power in mobilizing private capital, and second, guarantees are cost-effective.^{3 4 5 6} Guarantees can also be deployed to provide access to financial markets for underserved groups and economic sectors. As guaranteed parties pay for guarantees (to the extent of their means), the risk of supporting recipients and activities that do not have a real need for the guarantees is very limited. A full context analysis is included in annex 1.

4.1 Thematic context – 1) Mobilizing finance to address climate change

Climate change poses a significant challenge for billions of people and the macroeconomic activity in developing countries not least countries in Africa, where many countries are highly vulnerable to the impacts of global warming. Rising temperatures and changing weather patterns are affecting agriculture, water resources, and by implication economic opportunities and prospects for many citizens. In addition, extreme weather events such as floods and droughts are becoming more frequent and severe, causing displacement and insecurity. An independent high-level expert group on climate finance commissioned by the chairmanships of COP26/27 concluded that the world needs to mobilize 1 trillion annually in external financing by 2030 for emerging markets and developing countries to keep the target of 1.5 degrees within reach.⁷

¹ See section 6. On the budget, and the Proposed Finance Bill for 2024 as part of '§6.3. Bistand til udviklingslande'

² Addis Ababa Action Agenda (AAAA), The final text of the outcome document adopted at the Third International Conference on Financing for Development, (Addis Ababa, Ethiopia, 13–16 July 2015) and endorsed by the General Assembly in its resolution 69/313 of 27 July 2015.

³ OECD/DAC (2021) The Role of Guarantees in Blended Finance

⁴ Blended Finance Task Force (2023) Better Guarantees, Better Finance

⁵ Convergence (2022) Profiling Sida's Guarantee Programme

⁶ Center for Strategic Studies (2019) Innovations in Guarantees for Development

⁷ Finance for climate action, Scaling up investment for climate and development, Report of the Independent High-Level Expert Group on Climate Finance (November 2022)

The UNCTAD World Investment Report 2023 highlights that developing countries need renewable energy investments of about 1.7 trillion USD each year, but attract only 544 billion USD in clean energy FDI in 2022. Although investments in renewables have nearly tripled since 2015, most of the money has gone to developed countries. The report calls for urgent support to developing countries to enable them to attract significantly more investment for their transition to clean energy.⁸ Of the total estimated needed investments in the SDG's in developing countries of 4 trillion USD annual to reach the SDG's in 2030, the energy investment needs amount to 2.2 trillion USD.

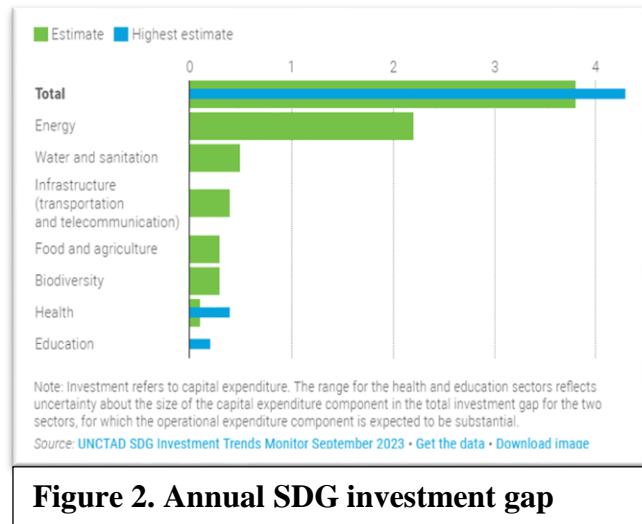


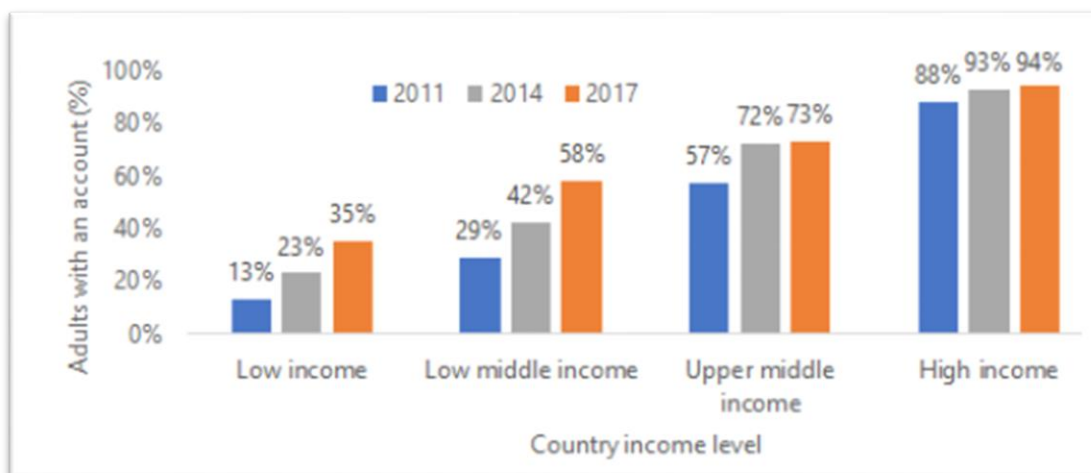
Figure 2. Annual SDG investment gap

These figures put the 100 bn. Dollar climate finance target from COP15 into perspective as a call to action on significant upscaling of current efforts by developed as well as developing countries.

4.2 Thematic context – 2) Access to finance

Access to finance is a critical tool for addressing development challenges, including the consequences of climate change, inequality, and poverty reduction.⁹ Not least in Africa. Guarantees can unlock existing liquidity from the private sector into new investments that are needed to create sustainable employment opportunities. By assuming a portion of the risk, guarantees encourage commercial banks and private investors to provide financing that they might otherwise perceive as too risky. This expanded access to funding promotes investment in sectors and regions that are typically underserved or deemed 'high-risk'.

Figure 3. Account Ownership by country income group¹⁰



⁸ [World Investment Report 2023 | UNCTAD](#)

⁹ Making financial services meet the needs of the world's most vulnerable, Consultative Group to Assist the Poor (www.cgap.org) a global partnership, which Denmark has been a member of for many years.

¹⁰ World Bank, approach paper "The drive for financial inclusion: lessons of World Bank group experience", 2021.

According to the African Development Bank, every year, more than 12 million young people join the African labour market, while only 3 million new jobs are created. Accordingly, there is a correlation between lack of employment opportunities and growing poverty, inequality and instability. Private sector driven job creation and sustainable growth are considered essential elements in the pursuit of poverty reduction (UN Sustainable Development Goal, SDG 1) and the fight against inequality (SDG 10). At the same time, sustainable decent jobs combined with rights, influence on decision-making and opportunities to participate in society contribute crucially to creating hope and future prospects for young people, pre-empting migratory pressures and instability (SDG 16).¹¹

4.3 Two overall thematic concepts for DGF

During the pilot phase IFU will seek to address to central priorities of DK development priorities: 1) mobilizing private capital to address climate change and 2) providing access to finance for population segments that do otherwise not have access. Therefore, it is useful to conceptually distinguish between these two concepts along two overall tracks: (i) guarantees that seek to mobilize significant volumes of capital to meet global and regional climate challenges, primarily climate change; (ii) Guarantees that address the principal challenge of providing access to credit markets and bank loans for underserved groups (in Africa and LDCs in other regions).

While this distinction is useful in discussions about how DGF delivers on Danish development priorities it does not represent a programmatic approach. But, the distinction is useful to clarify thinking and in discussions regarding issues around intentions, expected results, resource allocation, additionality, and possible efficiencies.

In fact, most guarantees will encompass elements of both approaches, but where some will focus more on mobilization and others on access. This is in line with the stated purpose in the agreement between IFU and MFA to "test the guarantee instrument", where the pilot phase seeks to develop a diversified portfolio with a variety of guarantees.

(i) *Mobilization guarantees (primarily climate)*

Guarantees to meet global challenges, mainly climate (adaptation and/ or mitigation). These guarantees are characterized by considerable volumes, and could include a wider group of partners, such as MDBs or investment funds, for investments in a broad range of countries, regionally or globally. The preferred creditor status of MDBs and the diversification of countries in these broad guarantees tends to reduce the risk and the need to subsidize the guarantee fees. On the other hand these guarantees usually have a relatively high degree of complexity and possibly innovative financial models as part of the transaction.

(ii) *Access guarantees (primarily Africa and LDCs)*

The volumes are often, but not always, relatively modest and with relatively low leverage, or mobilization effect. Many of these guarantees, are so-called portfolio guarantees, where DGF / IFU shares risk with local banks to make available increased lending to underserved groups. Guarantees can also support lending to investments in sustainable infrastructure or new technologies, for example with the aim of reducing emissions, improving the environment, and building resilience for better adaptation to climate change. With a primary focus on Africa and LDCs, the guarantees are often higher risk and require subsidies of the guarantee fees.

¹¹ How-to note for implementation of "The world we share", Job creation and sustainable growth, Ministry of Foreign Affairs of Denmark (August 2022).

4.4 Thematic context – crosscutting priorities

Addressing poverty in Africa

Access to finance is a critical tool for addressing development challenges, including inequality and poverty reduction. Not least in Africa. Lack of access to financial services is a major barrier to economic growth. With little access to formal sector finance, entrepreneurs and small businesses struggle to invest in productive assets, and cope with unexpected shocks. This perpetuates a cycle of poverty and limits opportunities for upward mobility and economic expansion. Development guarantees can increase access to financial institutions for otherwise underserved groups. MSMEs can save, invest, and grow, creating jobs and opportunities for more equitable societies. Lack of access to finance makes it difficult for people to invest in their own businesses or improve their livelihoods. With easier access to financial services, individuals can start small businesses or engage in other productive activities that generate income and improve their standard of living. As more people are lifted out of poverty, this can lead to broader economic growth and development, creating a more prosperous society for all.

Energy poverty in Africa poses a formidable challenge, with over 580 million people on the continent lacking access to reliable electricity, according to recent data. This widespread issue is exacerbated by a combination of factors, including inadequate infrastructure, financial constraints, and the pressure of a rapidly growing population, expected by the UN to reach 2.5 billion by 2050. Consequently, a significant portion of the population relies on traditional and inefficient energy sources like biomass, contributing to health hazards and environmental degradation. Urban-rural disparities persist, with rural areas experiencing disproportionately limited access to electricity, creating a significant contrast with their urban counterparts. To address this issue, substantial investments are required, estimated by the World Bank's IRENA at around \$120 billion annually, emphasizing the need for a comprehensive approach that considers the social, economic, and environmental dimensions of energy poverty in Africa.

Including a focus on women and youth

Another significant challenge facing many developing countries is the gender gap in access to finance. Women are often excluded from the formal financial system, making it difficult for them to save, invest, and build assets. This limits their ability to contribute to economic growth and perpetuates gender inequality. Expanding access to finance for women can promote gender equality and enhance women's participation in economic activities, leading to sustainable development. Young people constitute another group that can be helped to overcome barriers accessing formal financial services to build more sustainable and prosperous lives.

Access to finance for women and youth in developing countries remains a pressing issue, with significant barriers hindering their economic empowerment. According to the World Bank, approximately 70% of women-owned small and medium enterprises (SMEs) in developing countries are underserved or excluded from financial services. Youth, despite their entrepreneurial potential, face challenges in accessing credit, with an estimated 84% of young entrepreneurs in low-income countries lacking the necessary financing. This gender and age-based financial exclusion perpetuates cycles of poverty, limiting the ability of women and youth to invest in education, healthcare, and sustainable businesses.

The Global Findex Database reveals that in some regions, only 37% of women have a bank account compared to 46% of men, emphasizing the gender disparity in financial inclusion. Additionally, high-interest rates, collateral requirements, and limited financial literacy contribute to the obstacles faced by women and youth seeking access to finance.

4.5 Danish strategic context for DGF

DGF provides an opportunity for Denmark to strategically steer mobilization of climate finance and access to finance at transactional level directly in line with the Danish strategy for development cooperation. Overall, the guarantees issued by DGF will primarily support the following key objectives of the Danish Development Strategy, *The World We Share*: **Objective 1: We create hope**, and **Objective 4: Climate, nature and environment**. The investments that result from improved access to finance for otherwise underserved groups will contribute to ensuring new opportunities through job creation, entrepreneurship, and sustainable economic growth.¹² In addition to creating hope and opportunities for young people, other priorities pursued with guarantees include the environmental and climate objectives stated in the strategy for development cooperation. In particular, the focus on sustainable and socially just economic recovery and green transition are also strategic priorities for IFU¹³. All potential guarantees are screened against their relevance for these priorities.¹⁴ The two strategic impact priorities of IFU are building a green economy and building a just and inclusive economy, which are directly linked to SDG 8, Decent work and economic growth, SDG 10, Reduced inequalities, and SDG 13 Climate action.

Each transaction is subject to close coordination between DGF and MFA (GDK). In Danish development cooperation programme countries, DGF coordinates closely with the Danish embassy to ensure synergies with the existing country programme. In addition to being beneficial for stronger outcomes, close collaboration is also likely to be a necessity to unlock further subsidies that will most likely be required. If and when it is not possible to align with a Danish partner country programme, it may be possible to subsidize the guarantee premium from other allocations from the development budget. This in turn means that subsidized guarantees will be used in contexts that are prioritised under the development strategy. In the longer term, the aim is to more fully integrate guarantees into Denmark's bilateral development assistance and contribute to lasting changes for access to finance and investment capital. Where relevant, guarantee operations could be supplemented with policy dialogue and expert support (TA) and be included in country programs.

Issuance of guarantees aimed at providing access to finance will follow the principles and intentions presented in the *How-to-Note on Job Creation and Sustainable Growth*, and be guided by the principles of Doing Development Differently, where “opportunities for synergy will be sought out continuously during the formulation and implementation of Danish development cooperation”¹⁵, see also section 5.2 on lessons learned from previous Danish bilateral country programmes.

4.6 Context for choosing IFU as implementing partner

Since being untied from Danish commercial interests in 2017, IFU has achieved promising results in its transition towards becoming a development finance institution that mobilizes private capital and invests for impact with a strong strategic alignment with Danish development priorities. IFU's impact management system is fully integrated into its due diligence and investment cycle, involving a number of steps from initial project screening to exit. Through IFU's project screening tool, all investment opportunities are checked against strategic objectives, including the impact criteria for green transition and for just and inclusive growth.¹⁶

¹² See also section 6 Theory of Change and Key Assumptions.

¹³ Ibid.

¹⁴ Operating Principles for Impact Management, https://www.ifu.dk/wp-content/uploads/2022/09/IFU-Disclosure-Statement-2022_19Sept-22-FINAL-003.pdf

¹⁵ How-to note for implementation of “The world we share”, Job creation and sustainable growth Ministry of Foreign Affairs of Denmark (August 2022).

¹⁶ The Theory of Change presented in Section 6 contains more details.

Deployment of regular IFU investment funds through equity and loans requires a risk-adjusted financial return. The mobilized funds under IFU management, such as the SDG Fund with participation of pension funds prioritise investments with a relatively low risk profile and strong prospects for a timely exit (often in developing countries with relatively mature markets). Development guarantees do not have a return requirement but seek to strike a long-term balance between income and losses. The addition of guarantees to IFU's products range provides a new lever for IFU to engage in lower income countries and fragile states to a larger extent than previously.

In the establishment of DGF the Ministry of Finance (MoF) required that The DGF facility would not be placed in the MFA, but specifically would be set up at IFU as a known and trusted state-owned financial institution. Placing the DGF at IFU was as such a requirement from the MoF, who evaluated the financial model and capacity of IFU in relation to the certainty needed for the MoF to put the State balance sheet "on the line." This ruled out the possibility for assessing and considering other international partnering organizations as the base of the DGF.

4.7 DGF in the international context of development guarantee instruments

International investors and multilateral development banks are important players when it comes to mobilizing capital for new climate investments. However, these international investors and institutions have capacity to pay the full risk premium with no needs for subsidies. Also, these investors will not require technical assistance to the same extent, and will have other ways of accessing it.

Accordingly, the focus of the present program document is mostly on aspects related to access (and to a lesser degree mobilization) with, and through, local banks and other financial institutions – primarily in Africa. This is to address failures in financial markets. These market failures occur when banks and other financial institutions refrain from lending to certain groups and sectors, such as women, youth, (micro) small and medium sized enterprises (MSMEs), marginalised groups such as refugees, and energy efficiency, and renewable energy. Commercial banks often have limited knowledge of these client groups and / or technologies, and thus assess the risk of lending higher than it is. This results in otherwise sound projects and business ideas not being financed. Neglecting these groups and segments may entail a significant loss to the economy and hold back growth and development.

The Development Guarantee Facility (DGF) model is one of several existing international guarantee schemes to support development efforts currently in use. These can be grouped into four overall schemes or categories as presented in table 1 below.

Table 1: Overview of main existing guarantee schemes

Guarantee schemes	Examples	Description
Multilateral Development Banks (MDBs)	The World Bank, The Asian Development Bank, The African Development Bank, IFC, etc.	Owned by a group of countries, which have contributed capital and promised additional capital (callable capital) should it prove necessary. These banks provide guarantees with security in their own balance sheet. Decisions on issuing guarantees are made by the executive management under the authority of the board of directors, which is appointed by the owners.
Specialized guarantee organizations	African Guarantee Fund, Guarantco, etc.	Established and capitalized by donor governments, and / or development finance institutions. Specific mandates and standardized products. Provide guarantees with security in equity. Decisions are made independently by their boards.

Public Development Finance Institutions	FMO (The Netherlands), BII (UK), DFC (US), etc.	Capitalized by the state (and in the Netherlands also by private investors). Provides guarantees against the balance sheet of the institution. Decisions are taken by executive management under the authority of boards of directors appointed by owners.
Government backed facilities	Denmark , Norway (announced at UNGA), Sweden, US	Guarantees are issued with the direct backing of the state as a tool in development work. The model resembles that of an insurance company. The risk is reflected in the calculation of an expected loss for each guarantee, which is financed with paid-in premiums from the guaranteed parties. Any realized losses for the individual guarantees are thereby covered by premiums from all guaranteed parties. When and if the risk is assessed to be very high and the guarantor cannot pay the calculated premium, the guarantee premium can be reduced with ODA grants. Decisions on issuing guarantees are made by the governing boards of respective institutions, and any grants to support guarantees are allocated under rules for development assistance.

As table 1 shows, DGF complements other actors in the guarantee space, such as Sida, the African Guarantee Fund (AGF), MDBs, and other specialized initiatives. Demand for guarantees is far larger than the supply of these guarantors.¹⁷

5 Lessons learned

5.1 Lessons learned from Sida

The DGF is modelled on the set-up in Swedish Sida and guarantees are issued in collaboration with Sweden during the pilot period. Sweden's development guarantee program was formally launched in 2009 with a guarantee frame of SEK 5 billion. The guarantee frame has been continuously increased and today amounts to SEK 20 billion.

At the end of 2020, Sweden had an active development guarantee portfolio of SEK 8.8 billion. The portfolio contains 40 guarantees across 23 countries and regions. The portfolio contains six large mobilization guarantees to multinational development banks totalling SEK 4.6 billion. In total, the guarantees underwritten by Sweden have mobilized SEK 24.3 billion in private capital. With a volume of SEK 8.8 billion, and at a cost of about SEK 330 million of ODA for subsidies of fees and administrative costs, Sida has mobilized more than SEK 24 billion for development purposes. This is almost three times greater than the guarantee volume and 72 times larger than the cost in premium subsidies (ODA).

The majority (84 percent) of the Swedish guarantees are provided in the areas of renewable energy, sustainable infrastructure, and (financial) market development.

Of Sida's total guarantee portfolio, 70 percent are loan portfolio guarantees, which cover a proportion of banks' lending to selected recipient groups. The purpose of these access guarantees is to promote local banks' lending to SMEs, mainly in Africa. This experience will be beneficial to DGF given Denmark's strategic focus on Africa, climate change and fragile situations.

¹⁷ AGF estimates that the current aggregate supply of credit guarantees to banks in Africa only covers around 2 pct. of market demand (conversations with the CEO and senior management of AGF in Nairobi in September 2023).

At the end of 2020, Sida's loss rate (the amounts disbursed from guarantees that have been triggered) stood at 1.12 percent of the total guarantee amount to beneficiaries. This loss rate is significantly lower than the *expected* loss on Sida's portfolio, which was estimated to be 10.27 percent. However, many guarantees have not yet expired, which is why more future losses can and should be expected. In the long term, the loss rate should be expected to be equal to the calculated expected losses. This lesson shows that the risk assessments underpinning the IFU co-guarantees can be expected to be conservative when based on Riksgäldens risk premium valuations.

5.2 Lessons learned from bilateral country programs and other official Danish engagements

While the development guarantee model is an innovation in Denmark, the concept of working with the private sector to realize development outcomes is not new in Danish development cooperation.¹⁸ The African Guarantee Fund (AGF), the Agricultural Business Initiative (aBi) in Uganda, the Private Agricultural Sector Support (PASS) in Tanzania are examples of these types of engagements. A few stylized lessons associated with the development outcomes across these interventions include: (i) the importance of understating local market dynamics, (ii) providing TA where it may be needed to increase the impact of the programs, and not least (iii) keeping relations commercial and making sure that the intended beneficiaries have skin in the game to align incentives.

The design and intentions associated with Denmark's development guarantees is guided by these lessons, as well as the experience from Sida, see also section 6, Theory of change and key assumptions.

5.3 Lessons learned from the first year of DGF operation

DGF was set-up in mid 2022 based on an agreement between MFA and IFU and an MoU with Sida (Annex 3 and 4). The first year of implementation has seen the establishment of the DGF team of 4 experts, headed by the former head of Sida's guarantee department (annex 5+6)

A status report (annex 7) of the first year shows good progress on building the organizational capacity within IFU and cooperation with relevant support functions at IFU, such the legal department, the sustainability and impact team, as well as the business integrity functions. The status report lists a number of issues to be mindful of for the remainder of the pilot phase - especially in the collaboration with Sida and looking beyond the pilot phase for permanent establishment of the instrument. There are four main areas of attention:

1. Decision-making at Sida has proven to be an unexpected bottleneck for issuance of guarantees.
Recommendation: consider alternatives to Riksgälden to risk assessments to build independence.
2. Timing of formal MFA participation in IFU's (emerging) guarantee approval process
Recommendation: consider for MFA to join more upstream internal IFU discussions in first gate clearing.
3. Extension of the pilot phase for the development guarantee facility
Recommendation: Ensure sufficient time to build a portfolio and to conduct a review/evaluation before decision to make the DGF permanent.
4. Risk assessment and relations with other institutions.
Recommendation: Develop relations with competent risk assessment institutions such as EIFO or the EU Guarantee Risk Expert Group in DG INTPA.

¹⁸ How-to note for implementation of "The world we share", Job creation and sustainable growth Ministry of Foreign Affairs of Denmark (August 2022).

The status report has been discussed at a quarterly meeting between MFA senior management on development cooperation and IFUs management, as well as at a meeting of the Guarantee Committee. The status report has also been submitted to IFU's board of directors. Based on the lessons learned from the report it was decided to start the de-linking from the dependency on Swedish risk assessments and initiate a process towards building risk assessment capacity within IFU. This will enable IFU to do development guarantees independent from Sida and Sida's portfolio and strengthen the strategic manoeuvrability of DGF within the Danish development policy priorities and IFU's strategies and policies.

5.4 Lessons learned from studies and synergies with other interventions

A literature review of various types of guarantees was conducted by ELK in 2020¹⁹. The study sums up good practice in relation to guarantees under four headings: (i) The legal and regulatory framework, (ii) Corporate governance and risk management, (iii) The operational framework and (iv) Monitoring and evaluation. These elements have been duly considered in the process leading to DGF. Annex 8 considers the recommendations from the report in relation to the DGF design further described in section 6 of this document.

To ensure synergies with bilateral and multilateral development interventions the pipeline of guarantees will be shared on a regular basis across MFA offices and country representations. This will help build stronger links to other development programmes. The SME-banking guarantee in Rwanda is one such example. It has been included in the country engagements under development and the ongoing bilateral dialogues. The coordination goes both ways. A number of Danish Embassies in Africa are in contact with the DGF to explore opportunities for use of guarantees in their programming.

6 Justification of programme design

In 2021, the Danish Government's Financial Coordination Committee (Økonomiudvalget) approved a Danish pilot phase to establish a guarantee facility under IFU in close cooperation with Sida and the Swedish National Debt Office (Annex 2). With the Finance Act for 2022, a frame of DKK 2 billion has been given for issuance of state backed guarantees for climate and development purposes. The Finance Act also includes an account to subsidize the risk premiums paid by guaranteed parties (intermediates such as local banks, local investment funds, etc.) as well as for capacity building and management of the scheme. During 2022 the guarantee agreements between Sida, IFU and MFA was signed and a guarantee team established at IFU (Annex 3 and 4).

The government decision followed a year long dialogue with Ministry of Finance on how to operationalize guarantees within the Danish Finance Act. This was based on a new set of MoF guidelines on how to manage Danish state backed guarantees.²⁰ Following the Government decision in late 2021 an agreement between IFU and the MFA in May 2022 laid out the model to establish DGF as a structure inside IFU, see also annex 9, Partner Assessment.

6.1 The development guarantee model

The model of DGF is based on the principles used in private insurance companies. An economic risk, or expected loss, is calculated and financed when the guarantee is issued. The expected loss is financed

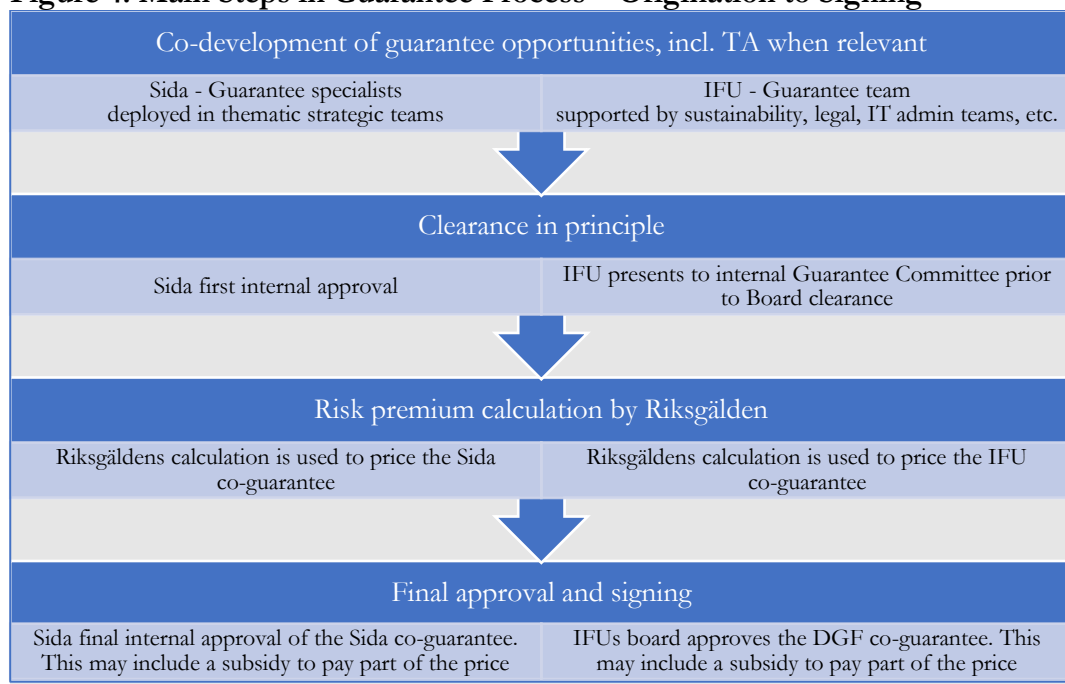
¹⁹ [Guarantees and Incentives in Development Aid \(um.dk\)](#)

²⁰ In 2019, the Danish Ministry of Finance adopted the same overall approach to managing and costing credit risk on the state balance sheet as Sweden. IMF, The World Bank and OECD have in recent years formulated best-practice principles regarding the administration of guarantees and state loans. Sweden, The Netherlands, USA and New Zealand have begun following and implementing the international recommendations as also referenced in chapter 1 of *Kortlægning af statslige garantier og genudlån*, Finansministeriet (2019).

by a premium levied on the guaranteed party, e.g. a bank in Africa. The scheme is in theory cost neutral for the state, which is ultimately liable for the guarantee obligations. Income from risk premiums (and subsidies) are accumulated on a state guarantee reserve with the Ministry of Finance. This reserve is used to cover future losses on the guarantee portfolio. ODA will not cover any losses related to the guarantees. This means that the actual guarantee is not considered ODA. But the subsidies that help bring down the risk premium that guaranteed parties (e.g. local African banks) are charged for a guarantee are counted towards the 0.7-pct. target for development aid as a share of annual GNI.

The risk associated with banks in less developed financial markets with a weak regulatory environment is high. This means that the risk-based premium will also be high. In many cases it will be too expensive for the local bank and its clients such as small businesses and entrepreneurs (the target group and end-beneficiaries of the guarantee). To overcome this challenge and open opportunities also for those who are unable to pay the full risk premium, it is possible to subsidize the premium, i.e. bring down the cost to beneficiaries with official development aid. As noted, these subsidies are the only direct expenses that are itemized as development aid. Indirect expenses include support to administration of DGF, and as presented in this programme document, a grant to finance targeted technical assistance to the guaranteed parties and end-beneficiaries, e.g. training of loan officers in local banks, the development of business plans, and credit assessment of investments into the environment and climate financing space. The purpose of the subsidies and technical assistance in the present proposal is to promote lending to those who would otherwise not be able to obtain loans for new investments, thereby creating jobs in the private sector.

To accelerate learning and to build robust and reliable routines for this new instrument, the government process between MoF and MFA concluded that during a pilot phase all guarantees would be issued jointly with Sida. Figure 4 below describes the process of developing joint guarantees between Sida and IFU. The founding principles for DGF are similar to those applied in Sweden, which has been in use since 2009. Following the government decision and as specified by MoF the MFA-IFU agreement further specifies that DGF will rely on the risk assessment capacity of Riksgälden (the national debt office of Sweden) through the cooperation with Sida, to calculate the expected loss in each guarantee. DGF will subsequently value these risk assessments is performed by DGF. This implies that all joint guarantee operations need to support the strategies and safeguard requirements of both parties. The intention is that the partnership will result in sufficient experience, technical expertise and capacity for DGF to issue guarantees independently of Sida.

Figure 4. Main Steps in Guarantee Process – Origination to Signing

Responsibility for decisions related to pricing and issuance of guarantees rests with IFU's board of directors. The guarantees are backed by the creditor rating of the Danish state (AAA) and are managed independently from IFU's balance sheet. Preparation of guarantees benefits from guidance and consultation with the various IFU support functions, including the areas of legal, compliance, business integrity, anti-money laundering, know-your-customer and sustainability. The internal process for preparation of a guarantee proposal is similar to the process for investment and loan proposals. However, for guarantees, IFU's internal investment committee is joined by a representative from the Ministry of Foreign Affairs and is known as the "Guarantee Committee".

6.2 Risk premium and risk premium subsidy

92.5 mil. DKK of the project documents grant is allocated towards risk premium subsidies for the DGF pilot period. As noted above, the partnership with Sida gives DGF access to the risk assessment expertise of Riksgälden, which provides a risk assessment for pricing of Sida's guarantees. The government decision to introduce development guarantees notes:

Fastsættelsen af risikopræmier udføres under pilotfasen af IFU som udgangspunkt i samarbejde med Riksgälden. Riksgälden anvender "best practice" inden for fastsættelsen af risikopræmier. Metoden er baseret på samme principper som Finansministeriets model for fastsættelse af risikopræmier. Fastsættelsen af risikopræmier er udfordret af begrænset datatilgængelighed for udviklingslande, hvilket i praksis gør grundlaget for fastsættelsen mere usikkert end ved øvrige garantier.

When issuing a guarantee under the development guarantee programme, Riksgälden determines the credit risks for the guarantee, i.e. the expected loss. As noted, the risk can be financed by charging risk premiums, possibly subsidized by development aid. Income from risk premiums and subsidies is accumulated on the state guarantee reserve, which is used to cover future losses on the guarantee portfolio.

Regarding the use of subsidies as an integral part of DGF, the government decision to introduce development guarantees further notes:

De statsfinansielle risici ved ordningen skal fastsættes og finansieres med afsæt i statens principper for garantier og genudlån. I den pågældende ordning tilfalder alle risikopræmieindtægter forbundet med udstedelsen af de enkelte garantier under rammen staten. Dette følger af den særlige og midlertidige fondsstruktur. De statsfinansielle risici fastsættes således løbende med udstedelsen af nye garantier under garantirammen. Risikopræmierne finansieres af garantimodtagerne med evt. subsidier fra § 6.3. Bistand til udviklingslandene, hvorfor der ikke skal findes særskilt finansiering. Behovet for subsidier fra udviklingsbistanden vurderes til 25-30 mio. kr. årligt.

Access to ODA for subsidies of guarantee fees is required for DGF to issue guarantees in higher risk countries, such as Sub-Saharan Africa and other low-income countries, where guarantee fees without subsidies would be too high for the transaction to materialize. Subsidies are required to reach these target beneficiaries. The MFA How-to-Note on Job creation and sustainable growth highlights the FACEJ-project in Mali, where “young people get help to develop a business plan and to access a guaranteed bank credit. FACEJ supports young people (about 40% women) in a number of towns and cities, including some surrounded by conflict zones. The model ensures access to finance, guarantees to the banks and that young people are getting in contact with the banking system and getting a financial education. In less than three years, 1200 businesses have been supported and about 5000 jobs created.”

The current estimated need for subsidies in the portfolio of guarantees under development is included in annex 11.

6.3 Technical assistance to support guarantees

20 mil. DKK of the budget in this project document is aimed towards supporting guarantees with technical assistance. Technical assistance can enhance the effectiveness of the guaranteed parties (e.g. banks) by refining their understanding of SME clients, and specific themes such as women entrepreneurs, or climate-related investments. Moreover, when borrowers receive technical support alongside access to loans, they are better equipped to utilize the funds for growth. Business management guidance, mentorship, and financial education empower them to make informed decisions, magnifying the impact of financial resources. Over the years, several Danish programs aimed at supporting growth and employment in partner countries have benefitted from such types of TA.²¹

An evaluation of Sida guarantees from 2016 concludes that TA generally is most useful where it has a clear purpose and target group connected to the guarantee.²² The study further elaborates that TA can be an important instrument to improve effectiveness and impact of a guarantee, and a tool to assist borrowers in becoming bankable to facilitate outreach to poorer clients. TA should be made available in a focused manner and be well aligned with the financial intermediaries implementing the facility. It can additionally be beneficial to the impact if the bank refers borrowers to the TA providers, to strengthen some elements in the business performance. Another element where TA would be useful is the strengthening of the awareness of the guarantee by the loan officers. Loan officers are crucial for identification of clients and clients' financial needs, and therefore understanding of the conditions of the guarantee by the loan officers is crucial for take-up and a good use of the guarantee. DGF and Sida will agree on the definition of 'eligible borrowers' with the guaranteed party to ensure that the guarantee benefits the targeted group(s) (beneficiaries). The definitions of eligible borrowers will vary from guarantee to guarantee given the specific context and objective of the guarantee. Any loan extended by the financial institution to non-eligible borrowers will not be covered by the guarantee.

²¹ How-to note for implementation of “The world we share”, Job creation and sustainable growth, Ministry of Foreign Affairs of Denmark (August 2022).

²² 'Evaluation of Sida's use of guarantees for market development and poverty reduction', 2016.

Box 1. Examples of technical assistance in relation to guarantees

1. Risk Assessment and Underwriting Support:

- Provide training and resources to the local bank's underwriting team to help them assess the creditworthiness of borrowers, especially small and medium-sized enterprises (SMEs).
- Offer guidance on conducting thorough due diligence to identify and mitigate potential risks associated with lending to specific sectors or regions.

2. Capacity Building:

- Organize training programs and workshops for bank staff to enhance their financial analysis and risk management skills, enabling them to make more informed lending decisions.
- Help the bank develop standardized lending processes and loan documentation to streamline operations and reduce administrative inefficiencies.

3. Portfolio Management:

- Assist the bank in setting up effective portfolio monitoring systems to track the performance of loans and identify early warning signs of distress.
- Train bank personnel in best practices for managing non-performing loans and implementing effective recovery strategies.

4. Product Development:

- Collaborate with the bank to design financial products tailored to the needs of target borrowers, such as loans for women-owned businesses or green financing initiatives.
- Offer guidance on interest rate structuring and loan terms to make the bank's offerings more attractive to borrowers while ensuring financial sustainability.

5. Regulatory Compliance:

- Help the bank understand and comply with local and international financial regulations and standards to ensure transparency and accountability.
- Assist in developing anti-money laundering (AML) and know your customer (KYC) procedures.

6. Market Research:

- Conduct market research to identify emerging business opportunities and sectors with growth potential, enabling the bank to better target its lending activities.
- Share data and insights on economic trends, industry developments, and consumer behaviour in the region.

7. Environmental and Social Safeguards:

- Support the bank in implementing environmental and social risk management practices to ensure responsible lending and adherence to international standards.
- Provide guidance on integrating environmental and social considerations into the bank's lending policies.

8. Financial Literacy and Entrepreneurship Training:

- Collaborate with the bank to offer financial literacy and entrepreneurship training to potential borrowers, helping them better understand financial concepts and improve their business management skills.

9. Monitoring and Evaluation:

- Set up a system for ongoing monitoring and evaluation of the guarantee program's impact on the local economy, including job creation, income growth, and poverty reduction.

10. Knowledge Sharing and Networking:

- Facilitate knowledge exchange and networking opportunities by connecting the local bank with international financial institutions, microfinance networks, and industry experts to learn from best practices and experiences.

The current estimated need for technical assistance in the portfolio of guarantees under development is included in annex 11.

6.4 OECD DAC evaluation criteria for ODA

In terms of explaining and justifying the design of the proposed grant including risk premium subsidies (section 6.2) and Technical assistance to support guarantees (section 6.3) it is important to consider key aspects such as relevance, efficiency, effectiveness, impact, sustainability and additionality.

Relevance: As described in section 4 development guarantees are relevant in situations and investment environments where there is a high degree of risk or uncertainty. For example, in larger mobilization guarantees banks may be reluctant or hesitant to invest in renewable energy projects because of concerns about the sector and / or the sponsors or borrowers, who often may lack the required collateral and financial “track record”. In such situations, credit guarantees lower the risk to banks’ lending. In essence guarantees can be useful in situations where there is a lack of trust or understanding between different stakeholders, such as banks and potential investors. In many contexts it may be useful to supplement these guarantees with technical assistance. The guarantee subsidy helps increase the relevance as it allows for guarantees to situations with a higher risk, typically in more fragile, poorer countries and underserved communities e.g. SME’s in low income countries, which is the focus of access to finance guarantees.

Efficiency: Development guarantees is an efficient way to mobilize private investment for climate and development projects. By making projects bankable or investable, development guarantees can help attract private investors, who may otherwise be hesitant to invest in projects with high perceived levels of risk. While being efficient in the use of ODA the origination of a guarantee portfolio that reflects and respects policy priorities in Danish development assistance requires significant resources. As a rule of thumb, one in three potential guarantee negotiations succeed in a guarantee being underwritten. While careful screening is part of the initial contact with potential guaranteed parties, it is often not possible to predict in advance if all requirements for sustainability and safeguards can be honoured in the final agreement as additional information becomes available during due diligence and negotiations. This goes for both mobilization guarantees as well as for access to finance guarantees.

Effectiveness: The OECD-DAC report on development guarantees underlines that development guarantees have proven to be the most effective instrument towards mobilizing private finance for development. Quote from the executive summary: *Guarantees are also uniquely suited to mitigate commercial, credit and political risks, and they can bring financial additionality by changing the risk-return profile of investments and alleviating credit restrictions for underserved borrowers.*²³

The effectiveness of the individual guarantees, whether access or mobilization guarantees, depends on a variety of factors, including the design of the guarantee, the quality of the underlying project(s), and the ability of the guaranteed party to utilize the guarantee for the intended purpose. The partnership with

²³ The role of guarantees in blended finance, OECD Development Co-operation Working Paper 97 (May 2021).

Sweden gives access to many years' worth of experience with guarantee design – also in complex and fragile situations. This is also one of the main reasons for including technical assistance under the facility. Appropriately designed and executed guarantees increase effectiveness, and ultimately the likelihood of success. To be effective, guarantees must be structured in a way that provides sufficient incentives for private investors and or banks to invest in projects.

Impact: The impact of development guarantees can be significant, particularly in situations where private investment is needed to achieve development outcomes. By providing assurance to investors, development guarantees can help to mobilize private investment that might not otherwise be available. This investment can then be used to finance projects that have the potential to create jobs, improve infrastructure, and / or otherwise enhance the overall quality of life for local communities. When negotiating the terms of guarantee, output and outcome targets that are likely to lead to the desired impact objectives are agreed, see also section 6 on the Theory of Change and Key Assumptions. This could be an agreement on the share of lending to SMEs and women entrepreneurs in certain geographies to create conditions for decent jobs, to improve livelihoods and reduce vulnerability.

Sustainability: The underlying projects and investments may contribute to sustainable outcomes in terms of environmental impact and climate change (adaptation and mitigation) when appropriate screening and eligibility criteria and safeguards are applied. Here the guarantee facility relies on the strong and demonstrated expertise of Sida, and the impact screening tools applied by IFU. The financial sustainability of DGF hinges on professional underwriting, careful design of guarantees, and not least data analysis and proper risk assessment. A guarantee will only contribute to sustainable outcomes if the transaction is financially sustainable. If a development guarantee is issued in favour of an intervention that is not sustainable, the guarantee will not be effective in achieving the desired development outcomes. Experience from Sida shows that targeted technical assistance can make a difference to that end and should be combined with guarantees in relevant contexts to achieve better sustainability when aiming especially at access for finance through local banks towards eg. SME's.

Additionality: The additionality of development guarantees refers to the extent to which the guarantee mobilizes investment that would not otherwise be available. Analysis to ascertain with confidence that development guarantees are likely to be additional and not crowd out commercial alternatives is part of the initial screening of opportunities as part of IFU's approval processes. This is important for claiming development impact of the supported projects and interventions and for respecting rules on use of state aid in a way that does not distort markets. A scientific study in the making will help strengthen the evaluation of additionality for the DGF.²⁴

As in other types of government-backed financial transactions, additionality is also a concern when it comes to development guarantees. The central question is whether the use of government guarantees can be assessed to make a meaningful and positive impact that would not have occurred without the risk sharing of the guarantee. If a guarantee does not achieve additionality, it raises concerns about the optimal allocation of risk capacity, as well as the potential displacement of private sector activity.

The frame allocated to DGF needs to be allocated additionally to existing financing available in the market to maximize impact. If guarantees duplicate or displace other risk underwriters, it may not be the most effective use of the frame. If government-backed guarantees discourage or crowd out private insurers, it can lead to reduced economic dynamism and innovation. If development guarantees benefit projects or borrowers that would have received financing anyway, it can lead to disproportionate re-

²⁴ "Support to Develop IFU's Approach for Assessing Financial Additionality", Henrik Hansen and John Rand, Institute of Economics, University of Copenhagen (forthcoming).

turns, unfair advantages, and even reduced access to funding for projects that truly need it. Finally, ensuring that development guarantees are deployed to achieve additionality is crucial for maintaining trust and accountability with all stakeholders.

Against this backdrop, the consideration of a guarantee opportunity is always screened carefully to ascertain the additionality that can be expected from its deployment. This is done for access and mobilization guarantees. Key elements taken into consideration when assessing the additionality of a potential guarantee for banks' lending to SMEs could be the following: (i) Baseline lending behavior and intentions, where the historical lending behavior of the bank is considered, i.e. is there any interest in the SME client group, as well as the strategic objectives of management to grow their SME-business. (ii) Credit risk mitigation: It must be assessed whether the guarantee will effectively and sufficiently mitigate credit risk for the bank so that it encourages banks to extend credit to SMEs that they might have otherwise deemed too risky. (iii) Market dynamics: An understanding of the broader market dynamics and competition among banks in the SME lending space is also important to assess whether the guarantee could lead to increased competition among banks, potentially resulting in better financing options for SMEs. But also to assess the likelihood of any unintended consequences, such as crowding out other private lenders not benefitting from a guarantee.

If it can be convincingly argued that there is likely to be an increase in lending to SMEs that were previously unable to secure loans, the question of additionality is considered to have been addressed.

7 Programme presentation

7.1 Objectives and outcomes

The overall objective of the MFA-IFU Agreement on the pilot program introducing development guarantees in Danish development cooperation is to mobilize additional private capital for investments in sustainable development in line with the Danish Strategy for Development Cooperation, *The World We Share*. As described in relation to the Programme Context in section 4, this will be achieved with a special focus on the thematic continuum and overlap between (1) *mobilization of climate finance* and (2) *creating access to finance*.

By mobilizing private capital towards climate finance - objective 1 - DGF contributes to the green transition and scaling up of private investments into renewable energy generation, GHG reductions in high-emitting sectors as well as investments in climate adaptation e.g. in agriculture and water management towards a higher climate resilience in vulnerable countries and communities. The capital mobilized for climate investments can be reported to the UNFCCC (UN Convention on Climate Change) as part of Denmark's global climate contribution. For example, for a development guarantee of DKK 100 million and with a subsidy of DKK 10 million, which mobilizes DKK 200 million from private investors, the full mobilization of DKK 200 million is included. Thereby the development guarantee facility will support the government's ambition to contribute at least 1.0 percent of the developed countries' goal of mobilizing USD 100 billion annually in global climate finance for developing countries.

By increasing access to finance – objective 2 – especially for SMEs will then be enabled to grow their businesses, create jobs, and contribute to the economic development of their communities. This will lead to increased income and livelihood opportunities for individuals and families, as well as the development of local economies and the reduction of poverty. By providing TA for capacity building of partners a stronger and more effective impact can be obtained in certain situations. Providing subsidies to make the guarantee premium affordable allows for use of guarantees in contexts with a higher risk, e.g. in the least developed countries (LDC's). This will focus primarily on LDC's in Africa as elaborated in section 7.2. below.

As noted in section 4, the distinction between the two types of guarantees is used to clarify thinking about the primary purposes of the individual guarantee operation. All access guarantees will also contain some element of capital mobilization, and many mobilization guarantees will also contribute to greater access even if it is not the primary objective. Annex 10 presents an explainer on how guarantees work, with a schematic overview of the standard process for origination and implementation of a joint guarantee operation.

Given the development priorities retained in Denmark's development policy strategy and IFUs strategic focus as described in the ownership document and the reform of IFU – the DGF will aim towards the same strategic targets as IFU. This suggests DGF aims towards 50% implemented in Africa, 50% towards climate (mitigation and adaptation) and minimum 30% towards LDC and fragile countries. This strategic aim is conditioned on the available pipeline of Sida and the possibilities of strategic focussing IFU's guarantees within the pipeline and the aim to test the instruments capabilities and potential in the Danish development policy priority context.

The TA and risk premium subsidies in this project document grant will be earmarked to Sub-Saharan Africa and LDC countries in other geographies. The development policy cross cutting themes for the DGF and the premium subsidies and TA targeted with the present proposal will be a focus on decent job creation, women, and market development - either individually or in combination. The share of the grant covering administration expenses associated with DGF is presented in more detail in section 8, Budget.

7.2 Strategic alignment of the pipeline to objectives

Annex 11 gives an overview of the current pipeline of guarantees under development including the expected mobilization rate or increased access to finance, the thematic priority and geographic focus. This also includes the estimated needs for Technical Assistance in each possible guarantee as well as the estimated need for risk premium subsidies. Both of the estimations sums exceed the amounts available from this project document grant. In this regard it is worth noting as mentioned earlier that as a rule of thumb 1 in 3 pipeline possibilities can on average be expected to materialize into a signed guarantee, drawing on the TA and Subsidy budget. Guarantees are never used to de-risk IFU's own investments.

The DGF pilot phase pipeline is aligned to deliver on the strategic aims of IFU of 50% climate, 50% Africa and minimum 30% LDC's. This is evident from the pipeline as specified below in section 7.3. and 7.4.

Preparations are most advanced for three guarantees in Africa: one to support SME financing in Rwanda, one for a Kenyan bank that looks to use its network and client relations across East Africa to expand its climate finance footprint; and one jointly with the African Guarantee Fund to reach small yet creditworthy operations in Burkina Faso that are currently excluded from the financial sector, or are credit rationed in their existing relations with lower tier commercial banks. IFU expect to sign the first guarantee in 2023 on access to finance in east Africa on NCBA with more to follow shortly after in Q1 of 2024.

7.3 Table 2 on pipeline of mobilization guarantees

Guarantee type	Volume (MUSD)	Subsidy (MUSD)	Mobilization* (MUSD)	Leverage factor	Policy priority	Geography	Type	Status
KNOW LEVERAGE FACTOR								
MDB Guarantee	50	0	250	5X	Mitigation Adaptation	Developing Asia	First loss	In progress
Fund Guarantee	40	0	250	5X	Mitigation Adaptation	Global	First loss	In progress
MDB Guarantee	75	0	375	5X	Mitigation	Sub-Saharan Africa	First loss	Potential
TOTAL	165	0	875	5X	-	-	-	-
UNKNOWN LEVERAGE FACTOR								
Fund Guarantee	50	?	TBD		Adaptation	Global/Africa	First loss	In progress
MDB Guarantee	25	0	TBD	-	Infrastructure	Sub-Saharan Africa Focus fragile states	Pari-Passu	Potential
MDB Guarantee	TBD	0	TBD	-	Mitigation	Sub-Saharan Africa	TBD	Potential
MDB Guarantee	TBD	0	TBD	-	Mitigation	East Africa	TBD	Potential
MDB Guarantee	20-40	0	TBD	-	Mitigation	Sahel	TBD	Potential
TOTAL	95-115+	0	-	-	-	-	-	-
MOBILISATION GUARANTEES	260-280+		875					

7.4 Table 3 on access to finance pipeline

Guarantee	Volume (MUSD)	Subsidy (MUSD)	TA (MUSD)	Mobilisation* (MUSD)	Leverage factor	Policy priority	Geography	Type	Status
KNOWN LEVERAGE FACTOR									
Bank Guarantee	40	3-4	2-3	80	2X	Mitigation	Kenya, Rwanda, Tanzania, Uganda	Pari-passu	In progress
Bank Guarantee	20	2	1-2	30	1.5X	SME (women, youth)	Rwanda	Pari-passu	In progress
Bank Guarantee	8	2	1	10	1.25X	SME (women, youth)	Burkina Faso	Pari-passu	In progress

Bond Guarante	10	5		50	5X	Mitigation Adaptation	Congo Basin	TBD	Potential
Total	78	12-13	4-6	180	Ca. 2X				
ACCESS GUARANTEES	78	12-13	4-6	180					

7.5 Further strategic considerations

IFU is a signatory to the IFC Operating Principles for Impact Management, which is the leading international framework for investors' design and implementation of impact management systems. The objective is to ensure that impact considerations are considered and integrated throughout the investment lifecycle. These principles instil discipline around impact investing, fostering greater mobilization of capital for impact and a high standard for the social and environmental impact that it can achieve. Development guarantees are underwritten in accordance with IFU's mandate to invest for impact.

Gender inequality is a pervasive challenge in Africa. It undermines human development, economic growth, and social stability. Women and girls in Africa face significant barriers to accessing education, healthcare, and economic opportunities, which limits their potential and contributes to poverty and social exclusion. Women also face gender-based violence and discrimination, which not only violates their human rights but also limits their ability to participate fully in social and economic life. Addressing gender inequality is essential for promoting inclusive and sustainable development in Africa. Applying a gender lens when underwriting risks will therefore be an integral part of guarantee screening and negotiation, as well as a human rights assessment. In fragile situations, specific conflict assessments will be performed.²⁵

7.6 DGF beyond the pilot phase

The current pilot period is from 2022-2025. The government will make a decision on a permanent guarantee structure in IFU based on an assessment of operations and preliminary results during the pilot period. This will in part be based on the evaluation review described in section 11. Crucially, a credible and robust alternative to the risk assessments and guarantee must be defined as described in section 5.3. Risk analysis and pricing is a prerequisite for DGF to support and align with Danish development priorities and ambitions. Looking ahead on the strategic aims of DGF, IFU is expected to initiate a new strategy process regarding 2024-2030 with a new ownership document and reform of IFU as the stepping stones. The strategic process will aim to bind together better the umbrella of instruments under IFU including the DGF. This will form the basis of IFU's strategic thinking for the DGF beyond the pilot period ending in 2025. This will thereby also aim to align and incorporate the DGF in the next development policy strategy beyond 2025.

²⁵ The section on gender equality in the How-to-Note on Human Rights and Democracy of the Ministry of Foreign Affairs explains that "Along the programmatic track, we will [...] mainstream the gender equality perspective into all interventions and partnerships, including with the private sector." More specifically, guarantees that incentivize increase lending to women-led or -owned enterprises can be categorized as a 'gender-responsive approach' as it seeks to "identify the symptoms of inequality, targets interventions at the different needs of women [...], and promotes gender equality through practical and strategic measures", How-to note for implementation of "The World We Share", Human Rights and Democracy, Ministry of Foreign Affairs (2022).

8 Theory of change and key assumptions

8.1 Theory of Change for mobilization guarantees

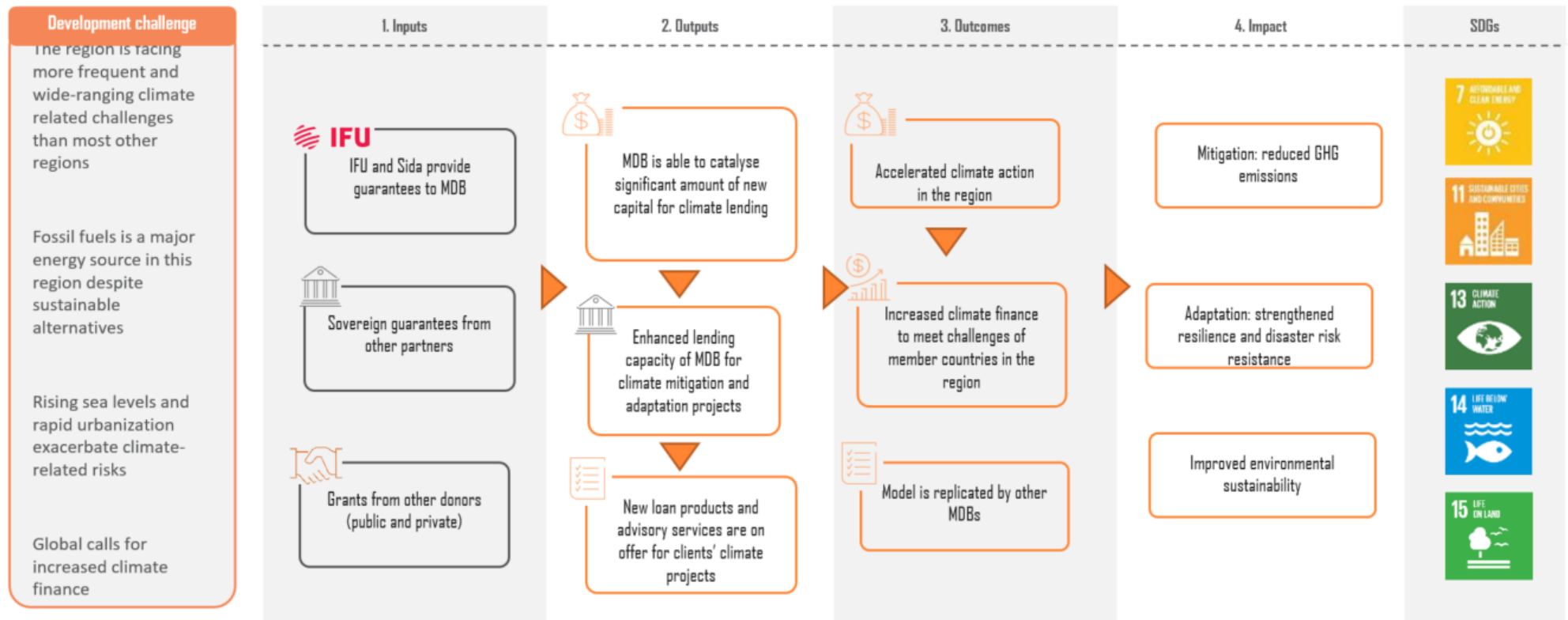
Mobilization guarantees compared to access guarantees will have a stronger focus on mobilizing substantial amounts of capital for climate finance for mitigation and adaptation. These guarantees are likely to be large in guarantee volume and cover a broad range of countries, regionally or globally.

In mobilization guarantees, Denmark's high credit-rating can be used to release headroom in the balance sheet of the lender, most likely an MDB, which will enable the financier to increase its lending. Headroom on the balance sheet means freeing up risk provisioning capital the bank have set aside for any losses from the current lending portfolio. By guaranteeing some of the balance sheet, the bank will be able to take on additional lending towards climate and other developing agendas.

The size of these portfolios in itself provide a diversification of risk that generally reduce the expected loss for these guarantees. Also, when cooperating with MDBs, their track record and status as preferred creditor tend to reduce the expected cost of the guarantee. These guarantees will therefore not require a subsidy of the guarantee fee or technical assistance, as MDBs are not likely in need of such support.

DGF develops a theory of change for every single guarantee operation supported. The following is an example of the theory of change behind the deployment of a guarantee to an MDB to free up headroom on the bank's balance sheet to do additional lending towards climate mitigation and adaptation. Figure 5 below illustrates an example of a ToC for a mobilization guarantee.

Figure 5. Example of Theory of Change for a typical mobilization guarantee



Key assumptions

Input to outputs

- Term sheet and final guarantee documentation is agreed among all guarantors

Outputs to outcomes

- Guarantees will provide capital relief for MDB
- MDB can issue additional bonds on the capital markets on attractive terms

Outcomes to impact

- Project preparation advances at satisfactory speed
- Willingness and ability to borrow for climate action
- Capacity building and knowledge solutions are in demand

8.2 Theory of Change for access to finance guarantees

The ultimate impact of providing loan guarantees, subsidies and technical assistance for increasing lending to climate relevant projects and SMEs, youth, and women-owned businesses will be the promotion of sustainable economic development, poverty reduction and green transition in energy and other sectors. By increasing access to finance and TA where needed, SMEs will be able to grow their businesses, create jobs, and contribute to the economic development of their communities. This will lead to increased income, decent jobs, and livelihood opportunities for individuals and families, as well as the development of local economies and the reduction of poverty.²⁶

In addition, providing technical support to banks can help address some tangible aspects of the discrimination and prejudice that holds back loans to the targeted sectors. Helping these groups access finance will contribute to their livelihoods and provide the resources and skills necessary for their projects to succeed. They will be better equipped to overcome barriers and achieve economic and social empowerment. This will contribute to the broader goal of promoting gender and youth equality, as well as the SDGs related to better jobs and climate change and of reducing poverty and promoting economic growth and development of more sustainable societies.²⁷

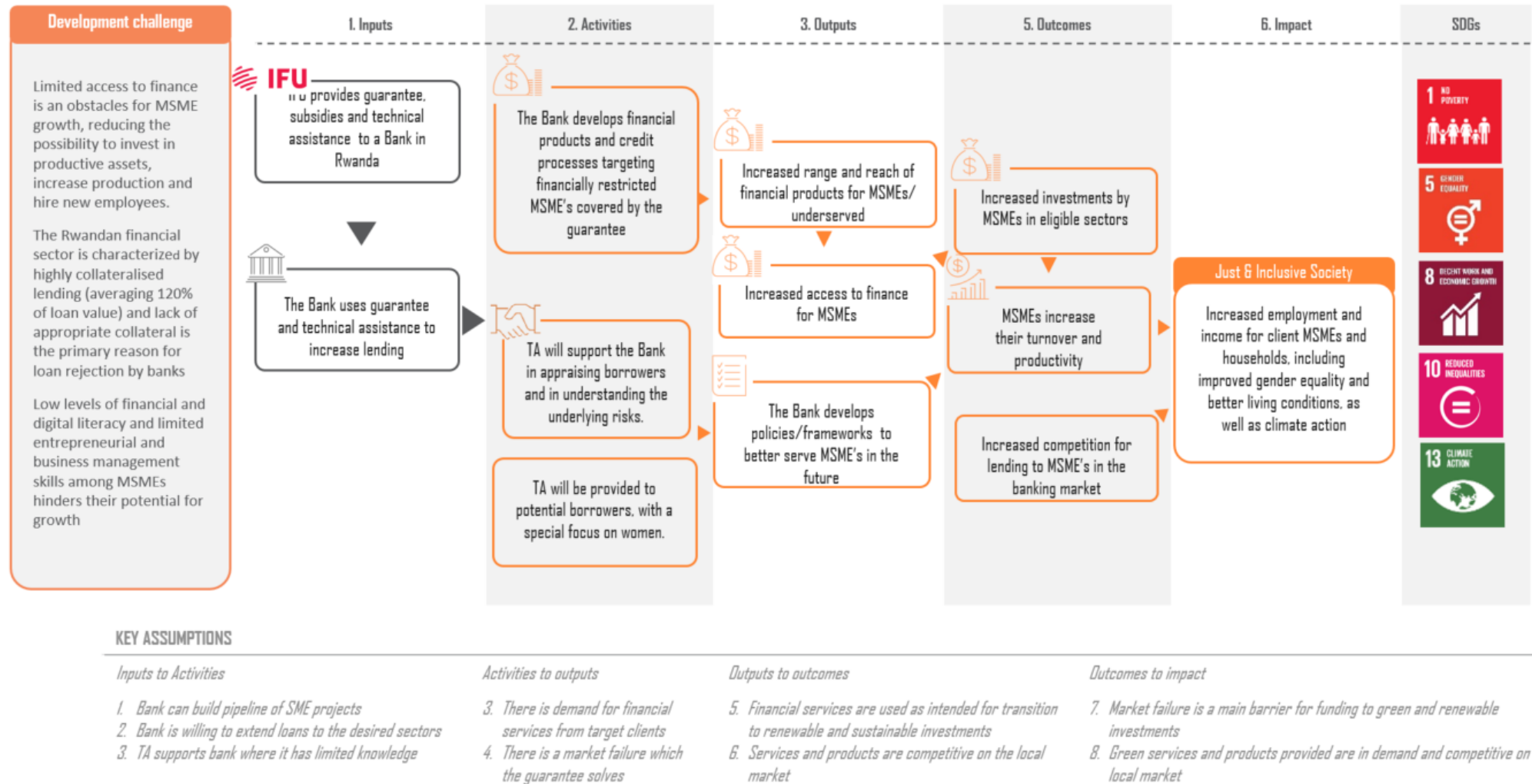
Overall, the impact of providing loan guarantees, subsidies and technical assistance to banks and SMEs, youth, and women-owned businesses can be significant, both in terms of the economic development of communities and the social and economic empowerment of disadvantaged groups. Commercial banks in Africa often have limited knowledge of these client groups and technologies, and thus assess the risk of lending as higher than it is. This results in otherwise sound projects and business ideas not being financed. Neglecting these groups and segments may entail a significant loss to the economy and hold back growth, development and job creation. By addressing some of the root causes of insufficient investments, guarantees have the potential to create sustainable change and contribute to a more equitable and prosperous future – also in difficult and fragile contexts.

DGF develops a theory of change for every single guarantee operation supported. The following is an example of the theory of change behind the deployment of a guarantee to a local bank in Africa, where technical assistance is used to increase lending to and investments in (M)SMEs, which in turn increases employment opportunities and income for households. Figure 6 below illustrates an example of a ToC for mobilization.

²⁶ According to the ILO “a credit guarantee is expected to enable local lending institutions in Africa, where credit markets are imperfect, to lend more, and on affordable terms, to SME businesses – an engine for decent job creation.”, Credit guarantees: SME access to finance and employment in Africa, International Labour Organization (August 2022)

²⁷ How-to note for implementation of “The world we share”, Job creation and sustainable growth, Ministry of Foreign Affairs of Denmark (August 2022).

Figure 6. Example of a Theory of Change for a access to finance guarantee



9 Summary of the results framework

9.1 Operationalizing strategic priorities into impact

Given the development priorities retained in Denmark's development policy strategy and IFUs strategic focus as described in the ownership document and the reform of IFU – the DGF will aim towards the same overall strategic targets as IFU. This suggests DGF aims towards 50% implemented in Africa, 50% towards climate (mitigation and adaptation) and 30% towards LDC and fragile countries. This strategic aim is conditioned on the available pipeline of Sida and the possibilities of strategic focussing IFU's guarantees within the pipeline and the aim to test the instruments capabilities and potential in the Danish development policy priority context.

Operationalizing IFU's thematic and geographical priorities into impact priorities focus on two areas of impact: (1) *Building a green economy*, by supporting businesses that mitigate or adapt to climate change, change production and consumption patterns, or provide other environmental services and benefits; and (2) *Building a just and inclusive economy*, by supporting businesses that create decent jobs and provide access to essential services, goods and solutions, including to underserved groups such as women, youth and smallholders. The two strategic impact priorities of IFU are directly linked to SDG 8, Decent work and economic growth, SDG 10, Reduced inequalities, and SDG 13 Climate action. And as mentioned in section 4.1 Background and Thematic Context, DGF primarily support the following objectives of the Danish Development Strategy: *Objective 1: We create hope*; and *Objective 4: Climate, nature and environment*.

For an IFU transaction to be considered as supportive of the impact priority of building an inclusive and just economy, it must contribute to at least one of the following: (i) Least developed countries, (ii) Improved access to goods and services for underserved; (iii) Increased incomes for 40 pct. lowest income segment, (iv) Gender 2X²⁸ eligible.

For an IFU transaction to be considered as supportive of building a green economy it must at least contribute directly to: (i) Climate mitigation, (ii) Climate adaptation, (iii) Transition to circular economy, (iv) Pollution prevention and control, (v) Sustainable protection of water & marine resources, (vi) Protection and restoration of biodiversity and ecosystems.

DGF follows the investment screening of IFU and follows the investment policies of IFU, including the Sustainability Policy, that covers the environmental, social and governance as well as impact areas.²⁹ These IFU policies align with the guidance contained in the MFA How-to-Notes on Fighting Poverty and Inequality³⁰ and the Human Rights Based approach.

DGF also follows the IFU ESG Impact Control Framework. A specified process for the guarantees incorporating the Guarantee committee as the Clearance In Principle step will be developed. The framework is attached in annex 13.

²⁸ 2X is 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.

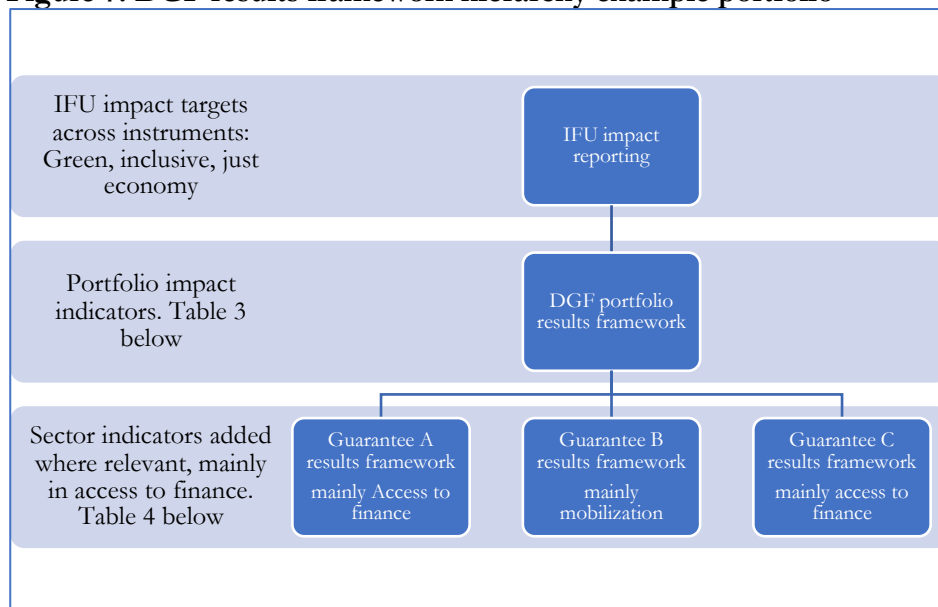
²⁹ See IFU's Sustainability Policy, <https://www.ifu.dk/en/impact/>

³⁰ MFA How-to-Note Fighting Poverty and Inequality, p 6: "there may be circumstances without a need to demonstrate that a project has a direct impact in favour of the very poorest. It might make more sense in the context to create jobs for a greater number of people who are relatively less poor".

9.2 Results frameworks applied to guarantees

For each of IFU's transactions, a results framework is agreed with the partner and approved as part of the internal IFU approval procedures. Monitoring of financial performance, application of environmental, social and governance (ESG) safeguards, as well as business integrity screening and impact monitoring of the engagements feeds into IFU's annual reporting – both for the guarantee portfolio as well as for IFU as a whole. Each legal guarantee agreement will include aggregated reporting from guaranteed parties on guarantee targets at the individual guarantee level. This structure is depicted in the figure 7 below showing the hierarchy of results frameworks.

Figure 7. DGF results framework hierarchy example portfolio



As the individual guarantees are to be negotiated with the guarantee and Sida it is not possible ex ante to provide output and outcomes for the DGF as a portfolio and the TA, and the risk premium subsidies. However, as the DGF supports the overall impact metrics of IFU through the ESG framework, a results framework for the overall DGF will have indicators at the impact level. This is work in progress and depends on the portfolio development of Sida, but can currently be based on the framework presented in table 5.

Table 5: Summary of the Results Framework for DGF

Programme	Guarantee premium subsidies, Technical Assistance and Administration
Programme Objective	<p>The overall objective of the MFA-IFU Agreement on the pilot program introducing development guarantees in Danish development cooperation is to mobilize additional private capital for investments in sustainable development, in line with the Danish Strategy for Development Cooperation. , with a special focus on mobilization of climate finance and creating access to finance. According to the agreement, the purpose of the pilot program is to test the guarantee instrument and build capacity within IFU and MFA around the use of development guarantees.</p> <p>The objective of this grant is to support the overall objective of mobilizing climate finance and increased access to finance in support of job creation and climate action in countries with relatively higher risk, mainly in Africa and LDC's. Creating access is done with the support of subsidies to bring down the price that guaranteed parties pay for access to guarantees - where capacity to pay is limited, but development</p>

		outcomes are assessed to be significant. Along with such subsidies, technical assistance to guaranteed parties can be required and further enhance the development impact of guarantees.																																																											
Impact Indicator		The impact of development guarantees will be ascertained on the basis of the individual guarantees across countries and thematic areas and sectors. Impact assessments will be based on the indicators that are retained at the time of underwriting the guarantees. These indicators will also be used in relation to evaluations and other ex-post studies of selected guarantees.																																																											
<div>Impact indicators across guarantee portfolio</div> <p>Impact indicators per guarantee issued to be supportive of the portfolio impact indicators at outcome level.</p> <p>Mobilization guarantees mainly support the green transition indicators, but also inclusive economy indicators.</p> <p>Access to finance guarantee mainly support the Inclusive Economy indicators, but also green transition indicators.</p>		<div>The portfolio impact indicators for IFU instruments will apply to the DGF.</div> <div>Table 3 – portfolio indicators</div> <table><tr><th></th><th>Indicator</th><th>Unit</th><th>Data source</th></tr><tr><td colspan="4">Green Transition</td></tr><tr><td rowspan="4">Climate</td><td>GHG emissions – direct investments</td><td>tCO₂e</td><td>UNEP DTU* and ASR</td></tr><tr><td>GHG emissions – Funds and FIs</td><td>tCO₂e</td><td>UNEP DTU and ASR</td></tr><tr><td>GHG emissions avoided / reduced</td><td>tCO₂e</td><td>UNEP DTU</td></tr><tr><td>GHG sequestration</td><td>tCO₂e</td><td>UNEP DTU</td></tr><tr><td>Water</td><td>Water consumption</td><td>m³</td><td>ASR</td></tr><tr><td colspan="4">Inclusive Economy</td></tr><tr><td rowspan="3">Jobs</td><td>Direct employment (total, gender, youth)</td><td>#</td><td>ASR</td></tr><tr><td>Indirect jobs</td><td>#</td><td>JIM estimation based on turnover</td></tr><tr><td>Number of people trained</td><td>#</td><td>Results Framework (reporting)</td></tr><tr><td>Gender</td><td>Annual investment in 2X Challenge eligible projects</td><td>USD</td><td>Annual 2X Challenge Report</td></tr><tr><td rowspan="5">Economic indicators</td><td>Taxes paid</td><td>Currency</td><td>Financial report</td></tr><tr><td>Domestic purchase</td><td>Currency</td><td>ASR</td></tr><tr><td>Annual total wages paid to employees</td><td>Currency</td><td>ASR</td></tr><tr><td>Total sales</td><td>Currency</td><td>ASR</td></tr><tr><td>Value of total export</td><td>Currency</td><td>ASR</td></tr></table> <p>* UNEP DTU Partnership a leading global research and advisory institution — will be renamed the UNEP Copenhagen Climate Centre and, moving forward, will be supported operationally by the United Nations Office for Project Services (UNOPS)</p>		Indicator	Unit	Data source	Green Transition				Climate	GHG emissions – direct investments	tCO ₂ e	UNEP DTU* and ASR	GHG emissions – Funds and FIs	tCO ₂ e	UNEP DTU and ASR	GHG emissions avoided / reduced	tCO ₂ e	UNEP DTU	GHG sequestration	tCO ₂ e	UNEP DTU	Water	Water consumption	m ³	ASR	Inclusive Economy				Jobs	Direct employment (total, gender, youth)	#	ASR	Indirect jobs	#	JIM estimation based on 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
	Indicator	Unit	Data source																																																										
Green Transition																																																													
Climate	GHG emissions – direct investments	tCO ₂ e	UNEP DTU* and ASR																																																										
	GHG emissions – Funds and FIs	tCO ₂ e	UNEP DTU and ASR																																																										
	GHG emissions avoided / reduced	tCO ₂ e	UNEP DTU																																																										
	GHG sequestration	tCO ₂ e	UNEP DTU																																																										
Water	Water consumption	m ³	ASR																																																										
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Jobs	Direct employment (total, gender, youth)	#	ASR																																																										
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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																																																										
Baseline	Year 0	An ex-ante baseline will be prepared before each new guarantee is initiated. Monitoring will include annual reporting on selected indicators as well as ex-post assessment. A final evaluation report will be prepared for each guarantee, and in-depth outcome or impact studies will be prepared for selected engagements.																																																											
Target	Year n	The specific targets of the indicators are established prior to the effectiveness date of the guarantees in collaboration with the direct guarantee beneficiary. Indicators will be based on projections of outreach and deliveries on the specific guarantee and associated technical assistance.																																																											

Additional impact indicators mainly for access to finance guarantees Added indicators mainly relevant for access to finance guarantees often including TA and risk subsidies	IFU Standard Indicators provide guidance on populating the Results Framework for a project. The standard sector indicators are used specifically, and further project-specific indicators as required.				
	Table 4: Sector specific indicators – Banks and other financial institutions*				
		Indicator	Unit	Data Source	SDG target
	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 and medium industrial and other enterprises to financial services
		Total number of clients, credit (HIPSO)	#		
		Number of micro-finance clients	#		
		Number of female clients	#		
		Net interest income in the reporting year	Currency	EDFI template	8.10 Strengthen the capacity of effective 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	
		* Indicators in bold should always be included in the Results Framework for the sector.				
Supporting capacity building through the administrative fee		To develop the pipeline, conduct due diligence, conduct governance of signed pipeline etc. the administrative fee will help build and maintain the DGF. This level of capacity building continues the initial grants of 10 mil. DKK to the DGF from mid. 2022 to Q3 2023.				
Output		Detailed governance structure for Guarantee Committee				
Output indicator		Governance and ToR for the Guarantee Committee in place				
Base-line	2023	Basic agreement on role and mandate of Guarantee Committee;				
Annual target	2024	Detailed governance structure and ToR for Guarantee Committee in place.				
Output		IT and reporting systems for portfolio management established				
Output indicator		Detailed procedures for handling of guarantee registration and claims exist, the impact reporting systems, accounting systems and other internal IT-systems of IFU incorporate DGF				
Base-line	2023	No IT set-up implemented				
Annual target	2025	IT systems and project monitoring systems in IFU is set-up to support the guarantee facility				
Output		Pre-conditions for permanent DGF structure				
Output indicator		Alternative to risk assessment of Riksgälden in place				
Base-line	2023	Various possibilities exist				
Annual target	2025	A viable alternative to the risk assessments of Riksgälden has been identified and is approved by the Ministry of Finance for implementation.				

9.3 Rio Markers

For reporting purposes and to ascertain the degree of mainstreaming of climate and environmental objectives in Denmark's ODA, the present grant can also be assessed according to the Rio Marker Methodology. As such the climate-related development finance contained in the present ODA contribution is a combination of subsidies and TA activities marked with a mitigation-related objective, and subsidies and TA activities marked with an adaptation-related objective. Some transaction may contain both a mitigation-related and an adaptation-related objective, and it is also likely that biodiversity will be a theme in future operations that are at a very early stage, and therefore not yet included in the pipeline overview contained in Annex 11. At this point and in view of the pipeline, the best gauge of the integration of climate objectives across activities of the present grant would suggest 50 pct. mitigation, and 50 pct. adaptation noting that some transactions may contain both objectives.

10 Budget

An initial grant of DKK 4.8 million was committed in 2022 and additional 5.1 million in 2023 towards the establishment of the administrative capacity at IFU for setting up DGF. This initial funding covered the period from June 2022 through October 2023. The present grant contributes DKK 135 million towards the period from October 2023 to end-2025. The grant component allocated towards administration will supplement any fees that are to be collected from guaranteed parties. No guarantees were issued in 2022, in consequence no origination or administration fees were collected from beneficiaries. In general, administration fees are not likely to be sufficient to cover management and implementation of the facility.

Table 3: Programme budget (million DKK)

Guarantee facility pilot period budget 2022-2025							
		Previous grants		New grants			
		2022-2023 Q1	2023 Q2+3	2023 Q4	2024	2025	Total
(1)	Subsidies for guarantees			32.5	30	30	92.5
(2)	Technical Assistance			0	10	10	20
(3)	Administration	4.8	5.1	2.5	10	10	22.4
(4)	Total grant from MFA	4.8	5.1	35	50	50	144.9 New: 135
(5)	Administration fees collected from guaranteed parties*			2	2.5	3	7.5
(6)	Total administration budget = (3)+(5)			4.5	12.5	13	30
Breakdown of administrative costs							
(7)	Salary costs			0.9	4	4.4	9.3
(8)	Estimated overhead, 150% of salaries***			1.35	6	6.6	13.95
(9)	Travel			0.3	1	1	2.3
(10)	Risk assessment			1.2	0,3	0,4	1.2
(11)	Due diligence			0.3	0,5	0.5	1,8
(12)	Other costs (up to 10 pct.)			0.45	1	1	2.45
(13)	Total administrative costs**			4.5	12	13.5	30

* In addition to the risk premium, a guaranteed party must pay a one-time origination fee (approximately DKK 1 million for a typical portfolio guarantee), as well as an annual management fee during the guarantee period (DKK 75-80.000,00). This is the best estimate, but subject to variation depending on actual portfolio of guarantees.

**Administration cost can be compared to the total frame for guarantees under management expected to be utilized by end 2015 of 2 bn. DKK. 13.5 mil. DKK in 2025 is equal to 0.7 pct. Of the frame for administrative costs.

***this initial budget proposal overhead from IFU is calculated using 150% of direct salary costs for the guarantee team. This will be discussed with IFU as part of the new grant dialogue.

After approval by the Minister for Development Cooperation and Global Climate Policy, DGF will develop a further, detailed, administrative budget for the remainder of the pilot phase (2024 and 2025). In the pilot phase the build up of capacity in IFU is expected to draw additionally on the overhead costs, which will be recalibrated in a dialogue between MFA and IFU for the permanent establishment expected post 2025. The intention is to strengthen the transparency and dialogue regarding administrative costs. The budget and the underlying assumptions will be submitted to the MFA and the Guarantee Committee for review and adoption.

11 Management arrangements

This section presents the management arrangements in place with regard to the pilot phase. The management agreement between MFA and IFU, and the MoU between IFU and Sida are attached as annex 3 and 4.

Through the initial grants of 4.8 and 5.1 mil. DKK from MFA the guarantee team have been established in IFU consisting of 4 employees. The two grants are attached as annex 5 and 6 and further elaborate on the initial capacity building of supporting the DGF establishment at IFU.

According to the agreement between MFA and IFU, the Board of Directors of IFU have the final decision authority for issuance of guarantees. DGF is managed independently of IFU's balance sheet and guarantees are not intended to de-risk IFU investments. A Guarantee Committee is responsible for clearing guarantee proposals prior to Board submission, confirming the compliance with MFA and IFU priorities and guidelines. The Guarantee Committee is chaired by the chief investment officer of IFU and has participation from MFA. The Guarantee Committee has participation of IFU senior management, investment professionals, legal experts as well as impact and safeguards specialists. Twice a year the Guarantee Committee reviews any outstanding receivables and the risk for claims.

The Development Finance Team in GDK is responsible for relations and coordination with IFU and DGF. This work stream focuses on strategic alignment between the development policy priorities and the pipeline of guarantees, as well as monitoring the implementation of the MFA-IFU agreement on development guarantees.

In 2024, the Guarantee Committee will consider new arrangements and conditions for IFU to issue guarantees independently of Sida. This will include identification of a solution for the risk-assessment currently performed by Riksgälden. The aim is to be untied from Sida at the end of 2025, thereby avoiding an extension of the pilot phase. The preparation for a permanent DGF must not be delayed even if the portfolio may not be well developed at the end of the pilot phase.

The preparatory work will include documentation for the principles guiding identification and justification of the individual guarantees, including risk assessment, market analysis, level of subsidies, need for TA, assessment of internal and external coherence, assessment of envisaged financial and development additionality, and procedures for guarantee management, including approval procedures for the DGF itself within the next 12 months.

Furthermore, the Guarantee Committee will adopt elaborate Terms of Reference for itself and consider whether the Committee should be expanded with new members.

In addition, the management arrangements for the DGF should be guided by a management procedures document (MPD) to be developed within the next 12 months. The MPD will clearly set out the management and reporting procedures of DGF. A review will be conducted on behalf of MFA during the final phase of the pilot program, as a basis for a government decision on the future direction of the guarantee program.

12 Financial management, monitoring and learning

12.1 Managing the risk premiums and subsidies

Guarantees can be issued to states, public bodies, international, multilateral and intergovernmental organizations, and legal entities governed by private law. The size of any subsidy is based on the guaranteed party's ability to pay the guarantee premium taking into account an assessment of whether a subsidy is necessary to achieve the developmental additionality of the guarantee (including any potential market distortions).

Guarantee premiums (along with any ODA-subsidies) are transferred to the state each year upon request from the Ministry of Finance. The transferred to the state is equal the amount collected during the previous calendar year. Prior to the transfer, a meeting with participation of MFA, DGF and Ministry of Finance will review the background for the transfer. Administration fees are retained by IFU to cover related costs. The MFA will cover administration costs for in excess of the fees that are collected from guaranteed parties. IFU will submit an audited report of administration fees and costs to the MFA. During the pilot phase, DGF will align its fee structure with that of Sida.

IFU and Sida rely on Riksgälden to perform risk assessments. In parallel DGF performs its own risk calculation to validate the results of Riksgälden. DGF will continuously monitor each guarantee to ensure that the guaranteed party adheres to the guarantee agreement, and that agreed reporting and guarantee fees are submitted to IFU in due time. DGF retains the right to conduct reviews and evaluations of individual guarantees as deemed necessary and relevant.

12.2 Financial reporting of the DGF

An audited annual statement for all issued guarantees must be submitted to the MFA, either as a separate statement, or as a supplement to IFU's annual report. The use of guarantees in development cooperation will also be reported in the annual report of IFU. This will include the number of guarantees, guarantee volume, and mobilized external capital, thematic focus, assessment of additionality, and expected impact of the guarantees at an aggregate level. In addition, DGF will provide an assessment of the contribution of the guarantees to the objectives in the Danish strategy for development cooperation.

Financial reporting on DGF and use of grants will be integrated into IFU's overall financial reporting as part of the audited annual report. A annual financial audit report only for the Development Guarantee Facility is also submitted to MFA. The guarantee premiums charged by IFU and subsidies to the premiums are transferred to the state guarantee reserve each year upon request from the Ministry of Finance. Prior to the transfer, IFU and MFA will meet with the Ministry of Finance to present the transfer in more detail.

12.3 Monitoring of financial and impact additionality

IFU's impact management system is fully integrated into its investment cycle and involves a number of steps from initial project screening to exit. Development guarantees benefit from the same system with a few pertinent adjustments where necessary.

Through IFU's project screening tool, all investment opportunities are checked against IFU's investment safeguards and impact criteria for green transition and for just and inclusive growth.

Development guarantees will be part of the overall IFU portfolio and reported in the annual report, which will include financial performance data as well as a narrative description of the guarantees. IFU's annual report will also include progress and performance of selected guarantees including the rationale, the additionality as well as the expected climate and development outcomes.

Monitoring of financial performance, application of environmental, social and governance (ESG) safeguards, as well as business integrity screening and impact monitoring of the engagements feeds into annual reporting. This will include reporting from guarantee beneficiaries. IFU is continuously developing the monitoring and evaluation system for documenting development effects of engagements 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.

12.4 Pilot programme review

A joint IFU/MFA stock take of DGF will be conducted before the end of the pilot period. The objective will be to assess progress against targets, the mandate, the quality of procedures and risk assessments, how the approved guarantees support climate and development priorities to assess the merits of continuing to use development guarantees as part of Denmark's development engagement and climate priorities. A final statement of accounts (covering the entire project period) shall be submitted no later than three months after completion of the pilot period.

A pilot programme review will be conducted on behalf of MFA during the final phase of the pilot program, as a basis for a government decision on the future direction of the guarantee program. The purpose of the review will be to take stock of the progress with establishing and institutionalizing the DGF as a new Danish development instrument, following-up on the recommendations of the appraisal and also covering the lessons learnt from the first year of operation, including identification and implementation of both mobilization and access guarantees. Prior to the review, DGF should prepare scenarios for continuation, modification or exit of the programme by end of the pilot phase in 2025.

While the last year of pilot period is 2025, guarantees that are underwritten during this period will remain in effect until they expire typically 5-10 years later, irrespective of any decision about the continuation of the programme. MFA/IFU is working to secure finance Act approval for guarantees to expire up to 25 years after signing to ensure green infrastructure project at scale can be guaranteed for the full life cycle if necessary in a transaction. This is mainly relevant under mobilization guarantees with MDBs.

13 Risk management

Management of risk is an integral part of any guarantee scheme - it forms the foundation of the model. By carefully assessing risks, using the best available techniques and models, it is possible price and pool risks to the benefit of the guaranteed parties while maintaining a long-term equilibrium in the guarantee scheme, where expected losses are covered by premium payments. A risk matrix is included in annex 12. This section unpacks the main risks that can be identified in relation to DGF's environment, operations and underwriting.

Contextual risks:

DGF underwrites risk in developing markets, and there is a risk that losses are greater than what had been expected and priced in. This could be due to such factors as negative macroeconomic developments, adverse political interventions or wars and conflicts. In situations where risks cannot be properly quantified and assessed guarantees are not considered. To a certain degree there will be some mitigation of concentration risk by holding guarantees across a number of countries. Careful and diligent assessment of risk is the best guard against these risks. Here the experience of Sida provides comfort. Sidas data history shows a track record of risk premiums being approximately 8 times higher than the actual payouts to losses. This suggests Riksgälden is sufficiently conservative in the risk assessments.

Programmatic Risks:

Another risk is the lack of relevant opportunities. Fortunately, experience to date (also from Sida) suggests this is an unlikely scenario. The total guarantee volume of the current portfolio presented in section 7.3 and 7.4. adds to approximately 2.4 bn. DKK compared to the available frame of 2 bn. DKK. Maintaining a sufficiently broad and solid pipeline is thereby key to the risk response.

On the other hand, it is also necessary to consider the opposite risk - that guarantee opportunities are attractive enough for the private sector and that DGF could inadvertently "crowd out" these private insurers, or that banks that benefit from cover from DGF gain an unfair competitive advantage over banks without guarantees. To avoid this risk, DGF assesses its additionality at an early stage of its screening and does not pursue opportunities where the likelihood of additionality cannot be established with sufficient confidence. IFU has initiated work to improve the ex-ante assessment of financial additionality of a given engagement together with the University of Copenhagen, including defining a more quantitative and data-driven approach to the assessment. The risk of not being able to find any relevant opportunities where IFU can be additional is considered low.

Paradoxically, the close, and in many ways beneficial partnership with Sida, also entails one of the most substantial risks to satisfactory programme execution. This is due to the internal organisation of Sida, where decision-making for guarantees is delegated to the various policy departments, teams and embassies implementing different bilateral/regional/global strategies, with timeframes and planning horizons that are substantially longer than the present pilot phase. The partnership also means that many decisions are not under the sole authority of DGF. In addition to increasing the transaction costs associated with maintaining close relationships with many different stakeholders within Sida, it also carries the risk of Denmark not gaining sufficient experience during the pilot phase to fully prove the strength and relevance of guarantees as an innovation in Danish development cooperation. Identifying a new arrangement and appropriate conditions for IFU to issue guarantees independently of Sida is the most relevant risk mitigant in this regard. This will include identification of a solution for the risk-assessment currently performed by Riksgälden. The aim should be separation from Sida at the end of 2025, thereby avoiding an extension of the pilot phase. The preparation for a permanent DGF must not be delayed even if the portfolio may not be well developed at the end of the pilot phase.

Institutional Risks:

DGF and IFU as well as the MFA are exposed to a reputational risk linked to the guaranteed party. Accusations of any fraudulent, corrupt behaviour or not operating with integrity or in compliance with tax policies, can be damaging to DGF as a reputable partner and also be damaging to IFU and the MFA and the Minister as the owner of IFU.

DGF benefits from IFU's well-established policies and procedures which ensure that safeguards are in place and sustainability issues are professionally addressed during guarantee preparation and execution. Significant checks on the targeted parties and the owners and managers of the guaranteed institutions are performed to minimise the risks. IFU has also recently strengthened its capacity and established a specific anti-bribery and corruption function, which specifically screens all proposed engagements for any related risk indicators.

Accusations of fraud, corruption and other illicit or irresponsible behaviour is widespread in the countries where DGF has a mandate to issue guarantees. 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 engagements in developing, fragile and possibly conflict afflicted countries comes with an inherent risk.

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Annex 1 Context Analysis

Annex 2 ØU-cover on guarantees in Danish development cooperation

Annex 3 MoU between MFA, Sida and IFU

Annex 4 IFU-MFA agreement on pilot program regarding development guarantees

Annex 5 Mini-project document 1 development guarantee facility IFU

Annex 6 Mini-project document 2 development guarantee facility IFU

Annex 7 Annual report DGF to MFA and minutes from follow-up meeting

Annex 8 Alignment of project design with report on credit guarantee scheme

Annex 9 Partner assessment - IFU

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Annex 11 Guarantee pipeline under development

Annex 12 Risk analysis matrix

Annex 13 IFU ESG Impact Control Framework

Annex 14 Process Action Plan for Implementation

Annex 1 Context Analysis

1. Overall development challenges, opportunities and risks

Briefly summarise the key conclusions from the analyses consulted and their implications for the programme regarding the following points:

- **General development challenges, equality/inequality, and poverty reduction**

Access to finance is a critical tool for addressing development challenges, including inequality and poverty reduction. Not least in Africa. Lack of access to financial services is a major barrier to economic growth. With little access to formal sector finance, entrepreneurs and small businesses struggle to invest in productive assets, and cope with unexpected shocks. This perpetuates a cycle of poverty and limits opportunities for upward mobility and economic expansion. Development guarantees can increase access to financial institutions for otherwise underserved groups. MSMEs can save, invest, and grow, creating jobs and opportunities for more equitable societies. Lack of access to finance makes it difficult for people to invest in their own businesses or improve their livelihoods. With easier access to financial services, individuals can start small businesses or engage in other productive activities that generate income and improve their standard of living. As more people are lifted out of poverty, this can lead to broader economic growth and development, creating a more prosperous society for all.

One of the most significant challenges facing Africa is the gender gap in access to finance, see also section 4 below. Women are often excluded from the formal financial system, making it difficult for them to save, invest, and build assets. This limits their ability to contribute to economic growth and perpetuates gender inequality. Expanding access to finance for women can promote gender equality and enhance women's participation in economic activities, leading to sustainable development.

Since being untied from Danish commercial interests, IFU has achieved promising results in its transition towards becoming a leading development finance institution that mobilizes significant private capital and invests for impact. However, preliminary experience shows, that deploying these funds needs to take into account the high return requirements and short time horizons of institutional investors. This means that the mobilized funds under IFU management, such as the SDG Fund prioritise investments with a low risk profile in relatively mature markets. These characteristics of the mobilization effort diverts attention from the co-mandate of investing in places where there are no, or only few alternatives to officially backed development finance. The mandate or mission of providing countercyclical investments needs to be supported with other approaches and tools, such as e.g. development guarantees, which don't have return requirements, but seek to strike a long-term balance between income and loss.

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

To achieve the SDGs in developing countries, a significant scale-up of investment is required. The following SDG's have been retained as most directly linked to this proposal.

SDG 1 No Poverty: One of the ultimate impact goals and ambitions of the proposal is poverty reduction (along with better opportunities for livelihoods, adapting to climate change and mitigating the negative climate impact of growth, see below SDGs).

SDG 7 Affordable Clean Energy: Over 600 million Africans have no access to electricity. Universal access to energy crucial for achieving other SDGs, including poverty eradication (SDG1), building modern infrastructure, and creating decent jobs (SDG 8 and 9) and climate resilience (SDG13). Power consumption per capita in sub-Saharan Africa is the lowest globally at 370 kilowatt-hours annually compared with 6,500 kWh in Europe, and 11,000 kWh in the United States. Powering Africa's growth with Affordable and clean energy will be decisive for reaching the global climate ambitions.

SDG 8 Decent Jobs, Economic Growth: Africa is the continent where the global demographic transition is moving at the slowest pace. Most of the world is growing older. Not Africa. Fertility rates remain elevated, and if current trends persist, Africa will by 2070 be home to one in three persons on earth. The consequence is an urgent need to increase youth access to the formal labour markets, providing productive opportunities and stabilizing local communities.

SDG 9 Industry, Innovation, Infrastructure: Developing sustainable, resilient and inclusive infrastructures, promote inclusive and sustainable industrialization, and increasing access to financial services and markets are important delivering on several of the other SDGs, including to create employment opportunities to durably reduce poverty and vulnerability. Especially access to financial services is targeted with the present proposal.

SDG 10 Reduced Inequalities: Inequality – like poverty – has many dimensions. African countries are characterized by very high levels of inequality in opportunities, income, and wealth. Research shows that long-term economic growth is higher in less unequal economies. Recognizing inequality as a barrier to long-term growth and potential source of social tension and ultimately conflict is a key motivation for using guarantees to help banks reach otherwise underserved groups and segments. African women are particularly exposed to structural disadvantages on the basis of their gender. This is also the case in terms of access to financial services. This proposal will support guarantees' contribution to gender equality.

SDG 13 Climate Action: In Africa, the impact of climate change is already dramatic. According to the Intergovernmental Panel on Climate Change, Africa will experience even more extreme weather events, water shortages, food insecurity, likely social upheaval, and loss of biodiversity and entire ecosystems. The consequences are alarming. Urgent measures are needed, and every stakeholder has a responsibility to contribute to change. As a government initiative, the development guarantees support climate-friendly investments that are needed for transformation of social and economic systems.

SDG 17 Partnerships for Goals: This Goal calls for the global community to work together across governments, the private sector, and civil society towards the goals. In addition to corporation, financing is required for the necessary investments. Funding is needed on a large scale, far exceeding previous efforts. In the development finance landscape, development guarantees are unrivalled as a tool for mobilising capital and providing access to finance for underserved groups to create greener and more resilient economies, and thus support the partnerships for achieving the SDGs.

Summary: The needs are urgent and likely to increase. Substantial investments are necessary but not sufficient for reaching the SDGs. Deploying development guarantees and technical assistance is part of the solution.

2. Political economy and stakeholder analysis

Stakeholder	Stakeholder mapping	Action Proposed
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Danish MFA Senior management	High Interest - High Influence	Keep engaged
Danish MFA Minister for Development Cooperation and Global Climate Policy	High Interest - High Influence	Keep engaged
GDK, MFA	High Interest – High influence	Keep engaged
Danish MFA Development Departments, excl. GDK	Low Interest - Medium Influence	Increase interest
Danish Ministry of Finance	Medium Interest – High Influence	Increase interest, understanding
Danish Embassies in Africa	Medium-High Interest - Medium Influence	Increase interest, engage
EIFO - Denmark's Export and Investment Fund (previously EKF)	Low Interest – Medium Influence	Increase Interest
Sida	Medium Interest – Medium Interest	Keep engaged
Riksgälden	Low interest – No Influence	Keep engaging
Civil society and NGOs	Medium Interest – Medium Influence	Keep engaged
IFU Board	Medium Interest – High Influence	Keep engaged and informed

3. Fragility, Conflict and Resilience

Several countries and situations in Africa are characterized by fragility and conflict. Development guarantees will be relevant in these situations to support investments that are fundamental 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 seen as 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, guarantees can play a key role by de-risking credit to underserved groups and segments of the economy. Along with targeted advisory services this can help address the market and institutional failures that limit private sector growth and impact.

Guarantees can cover risks in those areas where direct investments may not (yet) be possible. This can help pave the way for other types of engagements - signalling the feasibility of investments. Experience shows that these situations will require significant subsidies to make the guarantees affordable for beneficiaries and that dedicated technical assistance can greatly improve the impact of interventions.

4. Human Rights, Gender and Youth and applying Human Rights Based Approach
<p>Human Rights</p> <p>All IFU engagements are subject to a stringent due diligence process, which ensures that operations adhere to the UN guiding principles for business and human rights, in compliance with the overall sustainability policy of IFU. This also applies to development guarantees.</p>
<p>Gender</p> <p>One of the ways in which African women are driving growth and development is through entrepreneurship. Women-owned businesses are on the rise in Africa, with female entrepreneurs creating jobs, driving innovation, and contributing to economic growth. These businesses are often focused on meeting the needs of their local communities. Gender inequality, discrimination, and lack of access to formal finance continue to hold many women back. Creating an enabling environment that empowers women and supports their economic and social advancement is part of overcoming the challenges. Development guarantees will give special priority to gender equality and the promotion of women entrepreneurs. To monitor the delivery of impact, IFU has begun setting portfolio targets for gender lens investing. Targets are also in place for the various funding vehicles managed by IFU, and this will also apply to DGF.</p>
<p>Youth</p> <p>Youth unemployment is a major concern in most African countries. Africa has the largest youth population in the world; around 60 percent of the total population is below the age of 25 and 70 percent of sub-Saharan Africa is under the age of 30. By the end of this decade, young Africans are expected to constitute 42 percent of global youth. It is a challenge, but also an opportunity as change is often driven by the young generation. Harnessing the entrepreneurial potential of Africa's youth as a powerful engine and demographic dividend holds great potential for sustainable development on the continent. Development guarantees can help local African banks reach young business owners and entrepreneurs with appropriate financing mechanisms, and when needed with targeted TA for capacity-building. The resulting investments will generate both direct and indirect jobs through economic linkages and increasing demand from suppliers.</p>
<p>5. Inclusive sustainable growth, climate change and environmental assessment;</p> <p>Access to finance for private businesses is a critical component of achieving inclusive sustainable growth and addressing the challenges of climate change in Africa. Private businesses play a vital role in driving economic growth, creating jobs, and promoting innovation. However, many businesses in Africa, especially micro, small and medium-sized enterprises, face significant challenges in accessing finance. This limits their ability to invest in climate-resilient infrastructure, adopt sustainable practices, and innovate. Deploying development guarantees to improve access to finance for private businesses in Africa can help to promote inclusive sustainable growth and address the challenges of climate change. By providing financing to MSMEs and other private businesses, local commercial banks can promote entrepreneurship, support the growth of new industries, and create jobs. This can help to reduce poverty and inequality, and promote social and economic development.</p>

Environmental assessments can help to identify potential risks and impacts associated with business activities, and ensure that investments are made in a way that supports sustainable development. By taking a holistic approach to development that integrates environmental and social considerations into investment decisions, access to finance for private businesses can promote inclusive sustainable growth while addressing the challenges of climate change in Africa.

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

As is true for any type of intervention (grant, investment, loan, or guarantee), the country context can be of decisive significance for outcomes and impacts. It is outside the mandate of IFU and the guarantee facility to work with public authorities and framework conditions. However, IFU requires careful due diligence on all aspects related to business integrity, anti-money laundering, know your client. These are important elements in IFU's commitment to zero-tolerance on corruption.

7. Matching with Danish strengths and interests and seeking synergies.

Since being untied from Danish commercial interests, IFU has achieved promising results in its transition towards becoming a leading development finance institution that mobilizes significant private capital and invests for impact.

The development guarantees are well suited to support existing development programmes at Danish embassies, where access to finance is a key development challenge, that is difficult and costly to address with ODA. Guarantees to local financial institutions can complement programmes and project by incentivising banks to increase lending to key target groups.

Annex 2 ØU-cover on guarantees in Danish development cooperation

Garantier i dansk udviklingssamarbejde

Problem

Der skal tages stilling til, hvorvidt statslige garantier skal introduceres som supplement til Danmarks udviklingssamarbejde, herunder ifm. klimaindsatser. Der lægges op til en pilotordning under IFU i samarbejde med Udenrigsministeriet.

Baggrund

I 2015 vedtog verdens stats- og regeringsledere aftalen om FN's Verdensmål for bæredygtig udvikling og Parisaftalen om klima. Begge aftaler sætter fokus på bl.a. nødvendigheden af at øge private investeringer i udviklingslandene. Garantier er særligt velegnede til at mobilisere privat kapital til investeringer i udviklingslande, idet garantier kan reducere investorernes risiko, og dermed gøre det mere attraktivt at investere i usikre markeder. Bl.a. USA og Sverige anvender statslige garantier under udviklingssamarbejdet.

Udenrigsministeriet (UM) og Finansministeriet (FM) har afsøgt mulighederne for at supplere det danske udviklingssamarbejde med en ny udviklingsgarantiordning. Det er bl.a. sket via en gennemgang af særligt Sveriges erfaringer med udviklingsgarantiordninger, *jf. bilag 1*. Arbejdet viser, at Sverige gennem den svenske udviklingsmyndighed Sida har mobiliseret betydelige beløb fra private finansielle institutioner til bæredygtige investeringer. Den svenske garantimodel baserer sig på samme grundlæggende principper, som er gældende i Danmark.

Udviklingsgarantier

Udviklingsgarantier er et instrument til at afhjælpe markedsfejl og dårligt fungerende kapitalmarkeder i udviklingslande. Markedsfejl opstår bl.a. ved, at finansielle institutioner (fx banker) ikke udlåner penge til bestemte grupper af modtagere (fx grønne SMV'er, solcellevirksomheder, investeringer i energieffektivitet mv.) i udviklingslande. Bankerne har dårligt kendskab til disse grupper og teknologier, og vurderer dermed risikoen ved udlån højere, end den er. Dette resulterer i, at ellers profitable projekter ikke kan finde finansiering, hvilket skaber en underfinansiering af målgrupperne.¹

Der anvendes allerede garantier i udviklingssamarbejdet i dag gennem bl.a. multilaterale udviklingsbanker (IBRD, AfDB m.fl.) og regionale garantifonde (AGF m.fl.). Udviklingsgarantier under en statslig garantiramme kan i højere grad målrettes danske politiske prioriteter og åbner op for finansiering til de underfinansierede markeder i udviklingslande. Garantierne bidrager til at danne et erfaringsgrundlag for garantimodtagerne, så de på sigt kan yde udlån til markederne uden garantier.

Udviklingsgarantierne fungerer som låneporteføljegarantier ved, at staten garanterer en andel af finansielle institutioners udlån til en af staten udvalgt underfinansieret gruppe, *jf. bilag 2*. Således garanterer staten tilbagebetalingen af en andel af lånene i tilfælde af misligholdelse af disse. Garantierne

¹ Guarantees and Incentives in Development Aid - Evaluation Study, Henrik Hansen (Københavns Universitet), John Rand (Københavns Universitet), Ole Winckler Andersen (Dansk Institut for Internationale Studier (DIIS)) og Udenrigsministeriet (2020)

medfører dermed en risiko for fremtidige betalinger fra staten til garantimodtageren. Risikoen fastsættes og finansieres ved risikopræmier fra garantimodtagerne, evt. subsidieret over udviklingsbistanden, iht. principper for garantier og genudlån.

Udviklingsgarantier medregnes ikke i 0,7 pct. målsætningen for udviklingsbistand. Hele den mobiliserede kapital inden for klima kan til gengæld indrapporteres til UNFCCC (FN's konvention for klimaforandring) som del af Danmarks globale klimabidrag. Fx kan der til en statsgaranti på 100 mio. kr., som mobiliserer 200 mio. kr. fra private investorer til klimaindsatser, medregnes den fulde mobilisering på 200 mio. kr. Det vil dermed understøtte regeringens ambition om at bidrage med mindst 1,0 pct. af de udviklede landes mål om at mobilisere 100 mia. USD årligt i global klimafinansiering til udviklingslandene.

Løsning

Det foreslås, at der etableres en pilotordning med statslige garantier som et særligt instrument under udviklingssamarbejdet. Ordningen vil have til formål at understøtte udmøntningen af Danmarks udviklingspolitiske strategi samt regeringens langsigtede strategi for global klimaindsats, herunder særligt mobilisering af klimafinansiering.

Fondsmodel

Pilotordningen foreslås midlertidigt placeret i en særskilt fond under IFU (Investeringsfonden for Udviklingslande), idet der vil være tale om garantier til udviklingsformål og i udviklingslande, herunder særligt de fattigste og skrøbeligste lande, som IFU har erfaring med at operere i. Ordningen vil ikke have et kommercielt og eksportorienteret sigte. Hertil kommer, at UM med afsæt i den udviklingspolitiske strategis målsætning om at reformere IFU har igangsat et analysearbejde mhp. muligheden for at omstrukturere IFU til en udviklingsbank. En garantiordning vil derved indgå naturligt i et reformeret IFU med en bredere vifte af finansielle instrumenter med stærkere fokus på udviklingseffekterne.

Garantiinstrumentet placeres midlertidigt i en særlig fondsstruktur, *jf. bilag 3*. Organisatorisk vil det overordnede ansvar for garantiudstedelse og -tilsyn varetages af IFU's bestyrelse. Under fonden oprettes en garantikomité med deltagelse af IFU og UM, som vurderer og indstiller projektforslag til bestyrelsen med sigte på at sikre faglig og strategisk afstemning. Det kan overvejes også at inddrage eksterne ekspertise i garantikomiteen. Under pilotfasen kan der ligeledes være behov for indstationering af UM-medarbejdere i IFU. Fondens vil operere uafhængigt af IFU's øvrige forretning. Fondens drift i IFU finansieres af udviklingsbistanden (ca. 5-10 mio. kr. årligt), og fonden har ikke en egenkapitalbeholdning til at holde for ved evt. tab på de enkelte garantier, fonden udsteder. Staten hæfter direkte for fondens udstedte garantier under garantirammen, og risikopræmieindtægter fra de enkelte garantier tilfalder ligeledes staten.

Udmøntning af garantierne vil, som udgangspunkt, samtidig ske i tæt samarbejde med Sida, herunder ift. bl.a. udvikling af garantiprojekter, risikoberegninger og udstedelse af fælles konkrete garantier, *jf. bilag 3*.

Inden udløb af pilotfasen evalueres garantiordningen mhp. at vurdere de foreløbige resultater, herunder mobilisering af privat kapital, forventede udviklingsresultater, risiko og forvaltning. På den baggrund vil ordningen kunne tilpasses og videreudvikles, herunder i lyset af en evt. omstrukturering af IFU. Der vil

blive taget særskilt stilling til en evt. videreførelse af ordningen, herunder vilkår for risikopræmiefastsættelse mv. ved en videreførelse af ordningen direkte i IFU.

Garantiramme

Det foreslås, at der i en pilotperiode på 4 år kan udstedes garantier under en samlet ramme på 2 mia. kr. De udstedte garantier forventes at løbe 10-12 år, og vil dermed løbe videre efter pilotperiodens ophør. UM vurderer pba. Sida's erfaringer, at der vil kunne findes afløb for den samlede ramme inden for pilotperioden. Det forventes, baseret på erfaringer fra Sverige, at en ramme på 2 mia. kr. kan mobilisere 3-4 mia. kr. i private midler, hvoraf en stor del forventes at være klimafinansiering.

De statsfinansielle risici ved ordningen skal fastsættes og finansieres med afsæt i statens principper for garantier og genudlån. I den pågældende ordning tilfalder alle risikopræmieindtægter forbundet med udstedelsen af de enkelte garantier under rammen staten. Dette følger af den særlige og midlertidige fondsstruktur. De statsfinansielle risici fastsættes således løbende med udstedelsen af nye garantier under garantirammen. Risikopræmierne finansieres af garantimodtagerne med evt. subsidier fra § 6.3. *Bistand til udviklingslandene*, hvorfor der ikke skal findes særskilt finansiering. Behovet for subsidier fra udviklingsbistanden vurderes til 25-30 mio. kr. årligt.

Udviklingsgarantierne øger statens samlede risikoeksponering, uagtet at der afsættes risikopræmier til finansiering af de forventede tab ved garantierne. Staten hæfter for den samlede garantiforpligtelse og kan potentielt realisere tab større end de afsatte risikopræmier. Det er formålet, at risikopræmierne og tab på garantierne vil balanceres over tid, så staten hverken oplever tab eller opnår profit. Dette kan dog ikke garanteres. Evt. tab på garantierne, der overstiger de afsatte risikopræmier, kan ikke opgøres som udviklingsbistand og dermed ikke tælles med i 0,7 pct.-målsætningen. Omvendt er det også vigtigt, at præmien ikke sættes for højt, da det kan medføre kritik for, at risikopræmier finansieret af udviklingsbistanden ophobes i staten. Der lægges i pilotfasen derfor op til et tæt samarbejde med Sverige, som har opnået gode resultater ved garantier.

Garantier udstedt under garantirammen vil være afgrænset i størrelse og tid, således at statens samlede eksponering ikke overstiger den tildelte ramme, og udløbsdatoen for samtlige garantier under rammen fastsættes og kendes.

Præsentation

Der skal tages stilling til præsentation af et udviklingsgarantiinstrument under det danske udviklingssamarbejde, idet instrumentet kan overvejes præsenteret på forskellige platforme. En ny garantiordning på 2 mia. kr. kan annonceres ifm. COP26 som et markant nyt dansk bidrag bl.a. til international klimafinansiering og bæredygtig udvikling primo november, og samtidigt indgå som en potentiel indrømmelse til støttepartiernes ønske om øget klimabistand i forhandlinger om finansloven for 2022.

Indstilling

Det **indstilles**,

- at der oprettes en pilotordning for garantier under udviklingsbistanden på 4 år med en statslig garantiramme på 2 mia. kr., der placeres i en midlertidig særlig fondsstruktur under IFU, *jf. ovenstående*.

- at instrumentet præsenteres ifm. COP26 samt indgår i finanslovsforhandlingerne, herunder at BØF-partiernes udviklingsordfører orienteres ifm. præsentationen.

Forventet modtagelse

Etablering af en midlertidig garantiordning som supplement til det eksisterende udviklingssamarbejde forventes positivt modtaget bredt i Folketinget, NGO-miljøet samt internationalt i EU, FN mv. Det gælder ikke mindst ift. det forventede bidrag til Danmarks internationale klimafinansiering og mulighederne for at styrke indsatserne i de fattigste og skrøbelige lande, herunder særligt i Afrika.

Pilotordningen vil kunne imødekomme støttepartiernes evt. krav om ekstra klimafinansiering i de kommende finanslovsforhandlinger. Senest er der i finanslovsaftalerne for 2020 og 2021 aftalt ekstra klimafinansiering på hhv. 150 mio. kr. og 100 mio. kr.

Procedure

Ved ØU's tilslutning vil UM arbejde på oprettelse af en pilotordning som særlig fond under IFU, herunder udvælgelse af medlemmer i garantikomité mv. Politisk opbakning sikres i forbindelse med de politiske ændringsforslag til finanslovsaftalen for 2022, hvorpå IFU tildeles et loft for udstedelse af garantier til udviklingsformål på op til 2 mia. kr. i perioden 2022-2025.

Kommunikation

Regeringen annoncerer instrumentet ifm. COP26 som nyt og markant dansk bidrag. Instrumentet præsenteres første gang til et optaktsarrangement til COP26 d. 28. oktober. Ordførerne for støttepartierne orienteres kort forinden arrangementet, herunder at ordførerne efterfølgende vil blive inviteret til nærmere dialog herom i regi af finanslovsforhandlingerne. Kommunikation af instrumentet tager afsæt i vedlagte kommunikationslinje, *jf. bilag 4*.



**MINISTRY OF
FOREIGN AFFAIRS
OF DENMARK**
Danida



**INVESTERINGSFONDEN
FOR UDVIKLINGSLANDE**

Memorandum of Understanding

**Between the Ministry of Foreign Affairs of Denmark together with the Danish Investment
Fund for Developing Countries
and the Swedish International Development Cooperation Agency**

Article I: Parties

This is a Memorandum of Understanding by and between on the one hand the Ministry of Foreign Affairs of Denmark ("Danida") together with the Danish Investment Fund for Developing Countries ("IFU") and on the other hand the Swedish International Development Cooperation Agency ("Sida"), hereinafter each referred to as a "Party" and collectively as "Parties".

Whereas

Danida is responsible for planning, implementation and quality assurance of Denmark's development policy and cooperation. The vision for Denmark's development cooperation is: A more secure and sustainable world free from poverty, based on international binding cooperation as well as just and resilient societies that fight inequality and create hope and future opportunities for the individual, with the UN Sustainable Development Goals and the Paris Agreement as beacons. To support this overall vision, Denmark is introducing a pilot program with development guarantees during 2022-2025 as a new financial instrument to mobilize additional capital for investments in sustainable development. The pilot program will be implemented by IFU, in close cooperation with Danida.

Sida is a Swedish government agency working on behalf of the Swedish parliament and government, with the mission to reduce poverty in the world. Through its work and in cooperation with others, Sida contributes to implementing Sweden's Policy for Global

Development. The goal of Sweden's development cooperation is to improve the living conditions of people living in poverty and under oppression.

Sida operates a guarantee instrument. The guarantee instrument is designed to share risk with public and private actors in order to mobilize additional capital by bringing in new partners to reach development impact. The Guarantee instrument is part of the overall Swedish guarantee system but guided by a specific ordinance (SFS 2018:2098) and builds on central concepts such as the capability to calculate expected loss (conducted in cooperation with the Swedish National Debt Office (SNDO)), risk-sharing, additionality, that functioning markets must not be disturbed, soundness of commitments and ability to account for the government liability. The purpose of Sida's guarantee instrument is to promote sustainable development, inclusive economic growth and poverty reduction by unlocking financial resources and facilitating access to credit, within a guarantee frame adjusted from time to time. Guarantees may be used in all sectors as a strategic and cost-effective instrument within the scope of any Swedish Development Cooperation Strategy.

Article II: Purpose

The purpose of this Memorandum is to express an ambition to collaborate in matters of common interest in relation to the provision of guarantee facilities. Danida together with IFU and Sida can in this respect benefit from a cooperation of common interests.

Article III: Scope

Danida together with IFU and Sida hereby express their ambition to join efforts to achieve their common objectives of assisting selected countries, regions and sectors in their development activities within the potential areas of cooperation described in the Article IV of this Memorandum.

Article VI: Areas of Cooperation

The following areas of potential co-operation are in focus:

- (a) Development and conclusion of guarantees to mobilize finance for development to support creation of decent jobs, gender equality, mitigation and adaption related climate investment, green transition and other areas of mutual interest with risk assessments conducted in co-operation with SNDO, understanding that the terms of any such potential co-operation in relation to conclusion of specific guarantees are to be discussed and decided upon specifically
- (b) Sharing of data and information on transaction level relevant for both parties in order to calibrate risk assessments and to obtain harmonized pricing in guarantee transactions where both parties are engaged
- (c) Designing and financing of technical assistance programs to foster the development of financial institutions (banking and non-banking), microfinance

institutions, local guarantee funds, and micro-, small- and medium-sized enterprises in general and in relation to the guarantee activities of the Parties

- (d) Specific joint efforts may also include i) co-hosting guarantee seminars, workshops or conferences of mutual interest ii) establishment of a staff exchange program iii) other forms of exchange of knowledge and experience, including in relation to risk assessment methodologies, as agreed upon specifically

Article V: Consultation

The Parties will strive to meet at least once every year to follow-up on progress of current cooperation and coordination of future activities.

Understanding that restrictions may follow from applicable legislation relating to public access to information, the Parties will strive to keep each other informed and to share relevant basis for assessments and, whenever necessary, consult each other on matters of mutual interest.

Article VI: Notices

For the purpose of this Memorandum, notices to Danida shall be made to the attention of the following office and accompanying address:

Ministry of Foreign Affairs of Denmark/Danida
Department for Green Diplomacy and Climate/Team Finance
Asiatisk Plads 2
DK-1448 Copenhagen
Tel: 45 3392 0000

For the purpose of this Memorandum, notices to IFU shall be made to the attention of the following office and accompanying address:

IFU – Investment Fund for Developing Countries
Fredericiagade 27
DK-1310 Copenhagen K
Tel +45 33 63 75 00

For the purpose of this Memorandum, notices to Sida shall be made to the attention of the following office and accompanying address:

Swedish International Development Cooperation Agency
Unit for Guarantees and catalytic financing for development
SE - 105 25 Stockholm
SWEDEN
Tel: + 46 (8) 698 50 00

Article VII: Other Matters

The Parties specifically acknowledge that this Memorandum is not an obligation of funds, nor does it constitute a legally binding commitment by either Party, nor does it create any rights in any third party.

The Parties specifically acknowledge that any sharing of data, information and documentation between the Parties may be restricted due to secrecy obligation following from applicable legislation relating to public access to information.

Article VII: Effectiveness

This Memorandum shall become effective upon signature and be reviewed within three years.

Each of the Parties may at any time in writing inform the other Parties that this Memorandum shall no longer be effective whereupon the Memorandum shall cease to be effective in respect of all Parties.

A copy of this Memorandum of Understanding will be shared with the Swedish National Debt Office.

IN WITNESS WHEREOF, the undersigned representatives of Danida, of IFU and of Sida have signed this present Memorandum as of the date and year set forth below.

For Danida



Lotte Machon
State Secretary for
Development Policy

Dated: 1/6-22

For Sida



Carin Jämtin
Director General

Dated: 1/6-22

For IFU



Torben Huss
CEO

Dated: 7. juni 2022

AGREEMENT BETWEEN
THE MINISTRY OF FOREIGN AFFAIRS OF DENMARK AND
THE INVESTMENT FUND FOR DEVELOPING COUNTRIES (IFU) ON
A PILOT PROGRAM 2022-2025 INTRODUCING
DEVELOPMENT GUARANTEES IN DANISH DEVELOPMENT COOPERATION

1. OBJECTIVE OF PILOT PROGRAM WITH DEVELOPMENT GUARANTEES IN IFU

1.1. The Investment Fund for Developing Countries (IFU) has been mandated by the Danish government in the state budget 2022 to issue sovereign development guarantees on behalf of the Danish state during a pilot program covering the period of 2022-2025.

1.2. The objective of introducing sovereign development guarantees is to *mobilize additional private capital for investments in sustainable development, in line with the current Danish Strategy for Development Cooperation, with a special focus on mobilization of climate finance.* The purpose of the pilot program is to test the guarantee instrument, and build capacity and experience within IFU and the Ministry of Foreign Affairs of Denmark (MFA) around the use of development guarantees.

2. GENERAL CONDITIONS FOR DEVELOPMENT GUARANTEES ISSUED BY IFU

2.1. As mandated by the Government, IFU will be responsible for the execution of the development guarantee pilot program, which will have the following characteristics:

- 1) IFU may issue unfunded sovereign development guarantees in line with Denmark's Strategy for Development Cooperation and under the mandate and policies of IFU. The Danish state is directly liable for the guarantees issued by IFU which will be reflected in the guarantee-documentation;
- 2) The accumulated total amount of issued guarantees may not exceed DKK 2 billion as stated in the state budget 2022;
- 3) Guarantees can be issued to states, public bodies, international, multilateral and intergovernmental organizations, and legal entities governed by private law.
- 4) The guarantees should enable the Danish state to share credit risks with other actors to enable financing solutions in compliance with relevant IFU policies and impact priorities.

- 5) The guarantees should only be issued where it is possible to reliably assess and quantify the risks, which shall constitute the basis for calculating expected loss.
- 6) The guarantees should have financial and developmental additionality, where the risk of negative market distortion in the economy is considered limited, and where financing at a reasonable cost is not available through financial markets, without the support of a guarantee.
- 7) The guarantees should not constitute state aid prohibited by EU law. When subsidies are provided, and particularly if any of the key parties are located in the EU, IFU will strive to ensure that subsidies are transferred for the benefit of the underlying borrowers, through i.a. reduced interest rates, reduced collateral requirements, longer maturities or a combination of these or other measures.
- 8) Specific objectives, terms and conditions shall be detailed in an agreement between IFU and the guaranteed party. All guarantees must be limited in time and maximum amount, and financed by guarantee premiums and possibly other fees, which may be supplemented by subsidies from the Danish state.
- 9) IFU must manage the guarantee instrument independently of its existing pipeline and portfolio, including IFU-managed funds. IFU may not issue guarantees to reduce the risk for IFU's own investments.

3. FEE STRUCTURES AND FINANCING OF DEVELOPMENT GUARANTEES

3.1. The expected costs for a guarantee, defined as the expected loss and the administration cost, is financed by guarantee premiums and administration fees. These costs may, under circumstances specified below, be subsidized by development assistance.

3.2. Guarantee premium: For each guarantee, IFU shall charge a guarantee premium that corresponds to the Danish state's cumulative expected loss ex ante. When calculating the expected loss, expected recoveries and costs for recovery of the claim and utilization of any collateral shall be taken into account.

3.3. Administration fee: In addition to the guarantee premium, IFU shall charge an administration fee from the guaranteed party to cover the administration costs for IFU. The administration fee may be combined with the guarantee premium and charged to the guaranteed party.

3.4. Subsidy element: IFU may subsidize guarantee premiums and/or administration fees with development assistance provided by the MFA/Danida. The subsidies for guarantee premiums and/or administration fees will be provided on a case-by-case basis by the MFA/Danida. To determine the necessity and size of a subsidy, IFU must:

- 1) assess the indicative required rate of return and the counterparty's ability to pay the guarantee premium;
- 2) assess whether a subsidy of premium and/or fees is necessary to achieve the financial and/or developmental additionality of the guarantee;
- 3) assess a reasonable size of a possible subsidy;
- 4) assess whether the subsidy may adversely affect the market;
- 5) estimate the expected loss, administration fee and subsidy in a payment plan; and
- 6) document all considerations based on the above principles.

3.5. The guarantee premiums charged by IFU and subsidies to the premiums from the MFA are transferred to the state each year upon request from the Ministry of Finance. The amount transferred to the state is equal the amount of guarantee premiums collected by IFU and the necessary subsidies from the MFA for the period 1st of January to the 31st of December the previous year. Prior to the transfer, IFU and the MFA arranges a meeting with the Ministry of Finance to present the foundation for the yearly transfer. The meeting takes place no later than the 24th of January each year.

3.6. Administration fees and related contributions are paid to IFU to cover IFU's costs.

3.7. During the pilot phase, IFU will align its fee structure with Sida's (see Section 4)

4. COOPERATION PARTNERSHIPS

4.1. The MFA and IFU intends to enter a memorandum of understanding with the Swedish International Development Cooperation Agency (Sida) on cooperation on development guarantees.

4.2. During the pilot phase, IFU will issue guarantees in close cooperation with the MFA, and Sida. The cooperation facilitates mutual sharing of experiences and capacity-building on methodological issues on development guarantees. It is the intention that IFU, during the pilot phase, will develop sufficient experience, technical expertise and capacity to issue guarantees independently.

4.3. IFU and Sida will cooperate on due diligence to ensure efficient transaction execution.

4.4. IFU will rely on the risk assessment capacity of Sida, i.e. Sida's cooperation with the Swedish National Debt Office, to calculate the expected loss in each guarantee, albeit an independent valuation of such assessments shall also be conducted by IFU.

4.5. MFA/IFU and Sida may respectively present guarantee opportunities with the purpose of cooperation.

4.6. A working group between IFU, Sida and the MFA will ensure alignment of policies and develop the coordination and communication flow related to the decision-making process for each guarantee.

5. ORGANISATION AND MANAGEMENT

5.1. IFU guarantee unit: IFU will establish an internal unit with a direct responsibility to execute IFU's mandate to issue the guarantees under this agreement, in close cooperation with the MFA. The unit will be responsible for day-to-day management of new transactions and administration and monitoring of the guarantee portfolio according to IFU's decision-making process. The unit will benefit from the various competences within IFU. The unit will further be responsible for concurrent coordination with the Ministry of Finance and Sida on guarantee matters. IFU will receive cover of costs related to the administration through the administration fee charged under each guarantee, and supplementary contributions from MFA.

Within the MFA, the Department responsible for IFU will be responsible for coordination on behalf of the ministry.

5.2. Guarantee committee: IFU will establish a guarantee committee, with participation of IFU and the MFA to ensure strategic alignment with the Danish Strategy for Development Cooperation and discuss risk and impact of individual proposals. During the pilot phase, the guarantee committee will unanimously submit guarantee proposals to the board of IFU for decision. The guarantee committee will review semi-annual assessments by IFU, in close cooperation with Sida, of outstanding receivables and the risk for claims.

5.3. In the guarantee committee, IFU and the MFA will be represented by relevant staff. The committee is chaired by the chief investment officer of IFU.

6. ADMINISTRATION COSTS

6.1. IFU's administration costs for managing the pilot program for development guarantees are intended to be covered by administration fees charged from the guaranteed party.

6.2. The MFA will provide an administration contribution to cover remaining administration costs for IFU, if the administration fees do not cover the full administration costs. The total amount for the administration contribution is defined in the annual state budget. IFU will report annual administration fees and costs in a statement confirmed by IFU's auditor to the MFA.

6.3. The final administration contribution for each year will be based on the actual costs for the relevant employees, as well as IFU's estimate for indirect costs (overhead), actual external costs, such as due diligence and risk assessments, and actual travel expenses in IFU, related to guarantees under the pilot program, less administration fees from guarantees. If requested by IFU, an on-account amount will be paid by the MFA at the start of each year to be finally adjusted and settled based on the audited statement referred to above

7. ACCOUNTING AND REPORTING

7.1. IFU undertakes to present detailed, i.e. listing each guarantee, audited annual statements for all issued guarantees to the MFA, either as a separate statement, or as a supplement to its annual accounts.

7.2. IFU shall report the use of guarantees in development cooperation in the annual report of IFU. The report shall contain the number of guarantees, guarantee volume and mobilized external capital. The annual report must also contain a listing of new guarantees agreed during the year, and aggregated subsidies of fees and claims.

7.3. IFU shall report annually to the MFA on the thematic focus, assessment of additionality, and expected impact of the guarantees at an aggregate level. In addition, IFU shall report an assessment regarding the contribution of the guarantees to the fulfillment of the objectives in the Danish development cooperation strategy.

8. MONITORING AND REVIEW

8.1. IFU will monitor each guarantee to ensure that the guaranteed party adheres to the guarantee agreement, and that agreed reporting and guarantee fees are submitted to IFU in due time.

8.2. IFU shall ensure the right to conduct reviews and evaluations of individual guarantees as deemed necessary and relevant.

8.3. IFU shall annually assess outstanding receivables, commitments and risk for defaults in each guarantee. IFU may benefit from such assessments by Sida in co-guarantees with Sida.

8.4. A review will be conducted on behalf of MFA during the final phase of the pilot program, as a basis for a government decision on the future direction of the guarantee program.

9. AGREEMENT CONDITIONS

9.1. Proposals to amend the clauses of this Agreement shall be submitted in writing. An amendment to a clause requires that both parties agree and that a new complete agreement document with amended clauses is signed.

9.2. The parties are entitled to terminate the agreement when giving a minimum of 12 months of prior written notice.

9.3. In the event of a material breach of the agreement, the parties may terminate the agreement without further notice.

9.4. The Agreement and/or any claim, dispute, etc. arising from and/or related to the Agreement shall be governed by Danish law.

9.5. The Parties shall endeavor to resolve any disputes relating the Parties' rights and obligations from or related to this Agreement through negotiations. If the dispute is not solved by negotiations within 30 calendar days of the first negotiation meeting between the parties, the dispute shall be settled by the Danish courts, cf. below Section 9.6.

9.6. If negotiations as described in above Section 9.5. fail, the dispute shall be settled with binding effect by the Danish Courts. The court of first instance shall be the City Court of Copenhagen.

9.7 This agreement shall enter into force on the date of signature of both parties.

Date: 31 May 2022



Flemming Møller Mortensen

Minister for Development Cooperation

Date: 31 May 2022



Torben Huss

CEO of IFU

Mini-project document

Development Guarantee Facility

IFU – Investment Fund for Developing Countries

F2: 2020 – 4546

1. Introduction

This project document defines the objectives and management arrangements for a grant to the Investment Fund for Developing Countries (IFU) for the establishment of the IFU guarantee unit and the setting up of and management of the Development Guarantee Facility, a pilot program (2022-2025) introducing development guarantees in Danish development cooperation. The present grant is contributed towards the period from mid-2022 to the end of the first quarter of 2023. For 2023 Q2 and Q3 administrations costs will be covered by a grant of 5.1 mil. DKK as outlined in the budget in section 5, less the guarantee fees received. It is envisaged that the remaining management costs for the remainder of 2023 to ultimo 2025 will be covered as yearly management grants combined with administration fees levied on guarantee beneficiaries. The Agreement between the Ministry of Foreign Affairs and the Investment Fund for Developing Countries (attached as annex 1) together with the documentation specified below constitutes the conditions for the grant from the Danish Ministry of Foreign Affairs (MFA).

1.1 Grantor and Grantee

Grantor: The Department of Green Diplomacy and Climate (GDK) of the Ministry of Foreign Affairs and

Grantee: The Investment Fund for Developing Countries (IFU).

1.2 Documentation

The Documentation refers to:

- (i) Lov om internationalt udviklingssamarbejde, §9 "formålet med Investeringsfonden for Udviklingslande er at fremme investeringer, der understøtter bæredygtig udvikling i udviklingslande og bidrager til realisering af verdensmålene i form af direkte kapitalindsat, garantier eller på anden måde".
- (ii) Agreement between the Ministry of Foreign Affairs and the Investment Fund for Developing Countries on a pilot program 2022-2025 introducing development guarantees in Danish development cooperation (annex 1).
- (iii) Memorandum of Understanding between the Ministry of Foreign Affairs of Denmark (MFA) together with the Danish Investment Fund for Developing Countries (IFU) and the Swedish International Development Cooperation Agency (Sida), (Annex 2).

1.3 Contributions

GDK of the Danish Ministry of Foreign Affairs commits a contribution to the Development Guarantee Facility of DKK 4.800.000 (four million eight hundred thousand) for the period 2022 (1.6.2022) – 2023 (31.3.2023).

2. Background and project description

The present grant supports IFU's management of the Development Guarantee Facility in accordance with the above mentioned agreement between the Ministry of Foreign Affairs of Denmark and IFU and in conformity with the Memorandum of Understanding between the Ministry of Foreign Affairs of Denmark (MFA) together with the Danish Investment Fund for Developing Countries (IFU) and the Swedish International Development Cooperation Agency (Sida) (attached as annex 2).

As mandated by the Government in the agreement with IFU, IFU will be responsible for the execution of the pilot program for the development guarantee facility, which will have the following characteristics:

- 1) IFU may issue unfunded sovereign development guarantees in line with Denmark's Strategy for Development Cooperation and under the mandate and policies of IFU. The Danish state is directly liable for the guarantees issued by IFU which will be reflected in the Guarantee documentation.
- 2) The accumulated total amount of issued guarantees may not exceed DKK 2 billion as stated in the state budget 2022.
- 3) Guarantees can be issued to states, public bodies, international, multilateral and intergovernmental organizations, and legal entities governed by private law.
- 4) The guarantees should enable the Danish state to share credit risks with other actors to enable financing solutions in compliance with relevant IFU policies and impact priorities.
- 5) The guarantees should only be issued where it is possible to reliably assess and quantify the risks, which shall constitute the basis for calculating expected loss.
- 6) The guarantees should have financial and developmental additionality, where the risk of negative market distortion in the economy is considered limited, and where financing at a reasonable cost is not available through financial markets, without the support of a guarantee.
- 7) The guarantees should not constitute state aid prohibited by EU law. When subsidies are provided, and particularly if any of the key parties are located in the EU, IFU will strive to ensure that subsidies are transferred for the benefit of the underlying borrowers, through i.a. reduced interest rates, reduced collateral requirements, longer maturities or a combination of these or other measures.
- 8) Specific objectives, terms and conditions shall be detailed in an agreement between IFU and the guaranteed party. All guarantees must be limited in time and maximum amount, and financed by guarantee premiums and possibly other fees, which may be supplemented by subsidies from the Danish state.
- 9) IFU must manage the guarantee instrument independently of its existing pipeline and portfolio, including of funds managed by IFU. IFU may not issue guarantees to reduce the risk for IFU's own investments.

The following areas of co-operation between IFU and Sida are in focus:

- (a) Development and conclusion of guarantees to mobilize finance for development to support creation of decent jobs, gender equality, mitigation and adaption related climate investment, green transition and other areas of mutual interest with risk assessments conducted in co-operation with Sweden's National Debt Office, understanding that the terms of any such potential co-operation in relation to conclusion of specific guarantees are to be discussed and decided upon specifically.
- (b) Sharing of data and information on transaction level relevant for both parties in order to calibrate risk assessments and to obtain harmonized pricing in guarantee transactions where both parties are engaged.

(c) Designing and financing of technical assistance programs to foster the development of financial institutions (banking and non-banking), microfinance institutions, local guarantee funds, and micro-, small- and medium-sized enterprises in general and in relation to the guarantee activities of the Parties.

(d) Specific joint efforts may also include i) co-hosting guarantee seminars, workshops or conferences of mutual interest ii) establishment of a staff exchange program iii) other forms of exchange of knowledge and experience, including in relation to risk assessment methodologies, as agreed upon specifically.

3. Project objective and results framework

The objective of the pilot program is to develop a well-balanced portfolio that supports the development priorities of the Danish Government with a strong capital mobilization effect grounded in solid risk assessments. The long term development objective is to mobilize additional private capital for investments in sustainable development, in line with the Danish Strategy for Development Cooperation, with a special focus on mobilization of climate finance.

The grant will specifically support IFU in establishing an internal unit with a direct responsibility to execute IFU's mandate to issue the guarantees under this agreement, in close cooperation with the MFA. The unit will be responsible for day-to-day management of new transactions and administration and monitoring of the guarantee portfolio according to IFU's decision-making process. The unit will benefit from the various competences within IFU. The unit will further be responsible for concurrent coordination with the Ministry of Finance and Sida on guarantee matters. In addition to the grant IFU will receive cover of costs related to the administration through the administration fee charged under each guarantee.

The unit will work towards building capacity to originate guarantees independent from Sida. This includes e.g. risk assessment, pricing- and clause negotiations.

GDK will base the actual support on progress attained in the implementation of the project as described in the documentation provided by the Grantee and as stated in §7. in the MFA-IFU Agreement.

Project title		Management of the sovereign guarantee facility in IFU	
Project objective		Administration of the sovereign guarantee facility in IFU	
Outcome		A portfolio of sovereign guarantees for development in line with 'Fælles om Verden' strategic priorities.	
Outcome indicator			
Baseline	Year	2022	No guarantees issued
Target	Year 1	2023	First guarantee is issued and a portfolio of potential guarantees is under development.
Output		Guarantee facility team fully staffed in IFU	
Output indicator		Fully established an internal unit with a direct responsibility to execute IFU's mandate to issue the guarantees under this agreement, in close cooperation with the MFA. The unit will be responsible for day-to-day management of new transactions and administration and monitoring of the guarantee portfolio according to IFU's decision-making process. Signed contracts of employment including Head of Guarantees, two Investment Directors, and a Risk Analyst.	
Baseline	Year	2022	No guarantee unit, 0 contracts signed

Annual target	Year 1	2023	An established and fully functioning Guarantee Unit with 4 full-time staff members
Output		Governance structure and procedures for the guarantee facility established and approved	
Output indicator		The approval process of guarantees should be incorporated and formats aligned into the governing processes for approval of appropriations in IFU. This includes the establishment/incorporation of the guarantee committee in relation to IFU's investment committee.	
Baseline	Year		No governance structure set-up
Annual target	Year 1		Governance structure is set-up and formats for approval developed.
Output		IT and reporting systems for portfolio management established	
Output indicator		The impact reporting systems, accounting systems and other internal IT-systems of IFU should incorporate the guarantee facility to support the management and implementation of the guarantee portfolio.	
Baseline	Year		No IT set-up implemented
Annual target	Year 1		Functionality to support, manage and report from the guarantee facility is included in the requirement specification for IFU's new investment managed system planned to be selected and start implementing in 2023.
Output		Collaboration with Sida and Rigsgælden established	
Output indicator		Continuous dialogue and knowledge exchange between IFU, Sida and Rigsgælden on pipeline development and guarantee agreement structuring.	
Baseline	Year		No collaboration set-up.
Annual target	Year 1		A pipeline of several potential guarantees is developed and IFU is working to finalize first guarantees agreements with Sida and Rigsgælden.

4. Risk Management

Summary of risk analysis and risk response for contextual, programmatic and institutional risk factors. The below risks relate to the administrative, political and economic context.

Risk Factor	Likelihood	Impact	Risk response	Residual risk	Background to assessment
Lack of frame for a sufficient number of guarantees to gain experience	- Unlikely	- Major	Devote resources to continuous dialogue with MoF and MFA	Minor	If Government shifts its approach to risk management or preference for use of guarantees it would have an impact on the use of development guarantees
Few relevant opportunities for use of guarantees in cooperation with Sida	- Very unlikely	- Major	Devote resources to origination through close engagement with Sida	Insignificant	Experience to date indicates it is an unlikely risk and that it can be managed should it occur

5. Budget

The present grant contributes towards the period from initiation in second half of 2022 into end of Q1 in 2023. A second grant of 5.1 mil. DKK is planned for 2023 to cover Q2 and Q3. This is depending on parliamentary approval of the Finance Act 2023. A contribution to cover the remainder of the pilot period

(last quarter of 2023 until end 2025) will be submitted to Udviklingspolitisk Råd for approval during 2023. As noted, the present contribution would supplement any administration fees that may be collected from guarantee beneficiaries. No guarantees will be issued in 2022, accordingly no administration fees will be collected from beneficiaries in 2022. In general, administration fees are not likely to be sufficient to cover management and implementation of the facility.

2022-2023 grant budget DKK millions	2022 (H2)	2023 (Q1 covered by 2022 frame)	2023 (Q2-3 covered by 2023 frame)**	Total
Estimates administration income				
<i>Projected administration fees collected from beneficiaries*</i>	0,00	0,52	1,04	1,55
<i>Management grant from MFA</i>	2,32	2,45	5,00	10,00
Estimated administration costs				
Salary	0,85	0,85	1,73	3,43
Estimated overhead, 150%	1,27	1,30	2,60	5,17
Travel	0,2	0,15	0,40	0,75
Risk assessment		0,05	0,11	0,16
Due diligence		0,10	0,30	0,40
Total administrative costs	2,32	2,45	5,14	9,91

*Best estimate, but subject to variation depending on actual portfolio of guarantees. Fees received will be used to lower the necessary management grant from MFA. Administrative costs is therefore not depending on and utilizing the fees collected in addition to the MFA grant.

**Subject to parliamentary approval of Finance Act 2023.

The 2022 frame contribution of DKK 4.77 million will be supplemented by DKK 5.14 million from the foreseen 2023 frame contribution. Contribution beyond 2023 Q3 will form part of the budget proposal for the remainder of the pilot period (2023-2025).

Pilot phase grant period 2022-2025, DKK millions					
	2022	2023	2024	2025	Total
Estimated administration Income					
Projected administration fees collected from beneficiaries*	0,00	2,07	3,03	4,08	9,18
Management grant from MFA**	4,80	10,00	10,00	10,00	35,00
Total administration income	4,80	12,07	13,03	14,08	44,18
Estimated administration costs					
Salary costs	0,85	3,47	3,53	3,61	11,45
Estimated overhead, 150% of salaries	1,27	5,20	5,30	5,41	17,17
Travel	0,20	0,80	0,80	0,80	2,60
Risk assessment	0,00	0,21	0,28	0,35	0,84
Due diligence	0,00	0,60	0,80	1,00	2,40
Total administrative costs	2,32	10,28	10,71	11,17	34,46
Balance ultimo year***	2,45	1,79	2,32	2,91	9,72

*Best estimate, but subject to variation depending on actual portfolio of guarantees.

**Subject to parliamentary approval of future Finance Acts.

***Will act as buffer if guarantee fees will be lower than expected. Fees received will be used to lower the necessary management grant from MFA. Administrative costs is therefore not depending on and utilizing the fees collected in addition to the MFA grant.

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The Grantee has agreed to the following management arrangement with the aim to ensure adequate dialogue and timely decisions with regard to this program.

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7. Financial Management

The Grantee will utilize own rules and procedures, while adhering to the minimum requirements as stipulated in the Ministry of Foreign Affairs' Guidelines for Financial Management and conditions specified for the grant, that must be considered an integral part of the conditions for this grant.

7.1 Procurement of goods and services

Procurement is in accordance with existing rules and regulations as approved by IFU's Board of Directors.

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The final administration contribution for each year will be based on the actual costs for the relevant employees, as well as IFU's estimate for indirect costs (overhead), actual external costs, such as due diligence and risk assessments, and actual travel expenses in IFU, related to guarantees under the pilot program, less administration fees from guaranteed parties.

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The accounts shall at all-time be kept updated according to international standards.

The accounts shall be drawn up to the same level of detail as is done in the budget.

The total budget cannot be exceeded and shall be used for the agreed purposes only.

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A final statement of accounts (covering the entire project period) shall be submitted no later than three months after completion of the pilot period.

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7.5 Unspent funds

Unless agreed otherwise, any unspent balance or any savings of project funds shall be returned to the Danish Ministry of Foreign Affairs (MFA) together with any interest accrued from deposits.

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IFU will report annual administration fees and costs in a statement confirmed by IFU's auditor to the MFA.

7.7 Obligation to report on changes and irregularities

IFU is obliged to inform the responsible unit at the MFA immediately if any changes, including overspending of budget lines, or irregularities in the management of funds are foreseen or have occurred.

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A project completion report shall be submitted to the responsible unit of the MFA no later than three months after end date of the pilot period.

MFA shall have the right to carry out any technical or financial mission that is considered necessary to monitor the implementation of the programme. To facilitate the work of the person or persons instructed to carry out such monitoring missions, IFU shall provide these persons with all relevant assistance, information, and documentation.

After the termination of the programme support the Danish MFA reserves the right to carry out evaluation in accordance with this article.

Representatives of the Auditor General of Denmark shall have the right to:

i) Carry out any audit or inspection considering necessary as regards the use of the Danish funds in question, on the basis of all relevant documentation,

ii) Inspect accounts and records of suppliers and contractors relating to the performance of the contract, and to perform a complete audit

9. Anti-corruption clause

No offer, payment, consideration or benefit of any kind, which could be regarded as an illegal or corrupt practice, shall be made, promised, sought or accepted - neither directly nor indirectly - as an inducement or reward in relation to activities funded under this agreement, incl. tendering, award, or execution of contracts. Any such practise will be grounds for the immediate termination of this Agreement and for such additional action, civil and/or criminal, as may be appropriate.

At the discretion of the Danish MFA, a further consequence of any such practise can be the termination of any ongoing projects funded by the Danish MFA.

10. Child labour clause

The Grantee shall abide by applicable national laws as well as applicable international instruments, including the UN Convention on the Rights of the Child and International Labour Organisation conventions. Any violation will be ground for immediate termination of the Agreement.

11. Prevention of sexual exploitation, abuse and harassment

The Danish MFA has a zero tolerance for inaction approach to tackling sexual exploitation, abuse and harassment (SEAH) as defined in UNSG Bulletin ST/SGB/2003/13 and the definition of sexual harassment in UNGA Resolution A/RES/73/148. The Grantee, and its sub-grantees, will take appropriate measures to protect people, including beneficiaries and staff, from SEAH conducted by its employees and associated personnel including any sub-grantee staff and take timely and appropriate action when reports of SEAH arise. In the event that the Grantee receives reports of allegations of SEAH, the Grantee will take timely and appropriate action to investigate the allegation and, where warranted, take disciplinary measures or civil and/or criminal action.

Any violation of this clause will be ground for the immediate termination of this Agreement.

IFU confirms:

- (1) that it has adequate policies/standards or frameworks in place to prevent SEAH¹;
- (2) that all employees have been informed about these policies/standards/frameworks; and
- (3) that there are appropriate SEAH reporting procedures and complain mechanisms in the organisation including the protection of victims of SEAH and that prompt and adequate action is taken if SEAH is observed, reported or suspected.

In case the development engagement includes sub-grantees, the Grantee is responsible for ensuring that sub-grantees have adequate policies/standards and procedures in place for the prevention of SEAH.

¹ In line/adherence with the Inter Agency Standing Committee's Minimum Operating Standard on prevention of SEA and/or the elements on prevention of SEA of the Core Humanitarian Standard on Quality and Accountability

12. Anti-terrorism and restrictive measures

If, during the course of implementation of this project, the Grantee discovers any link whatsoever with any organization or individual associated with terrorism, it must inform the Danish MFA immediately and explain the reasons for such transfer, including whether it was made or provided knowingly, voluntarily, accidentally, unintentionally, incidentally or by force.

The Grantee agrees that it and/or its implementing partners (including contractors, sub-contractors and sub-grantees) will take all reasonable steps to secure that no transaction made in relation to the project will – directly or indirectly – benefit a person, group or entity subject to restrictive measures (sanctions) by the UN or the EU.

Any violation of this clause is ground for immediate termination of the Agreement returning to the Danish MoFA of all funds advanced to the Grantee under it.

Please use the following clause as an alternative, if the clause above is deemed not feasible.

Consistent with United Nations (UN) Security Council Resolutions relating to terrorism, including UNSC Resolution 1373 (2001), 1267 (1999), 2462 (2019), the European Union's (EU) Consolidated list of persons, groups and entities subject to EU financial sanctions and other related resolutions the Parties are firmly committed to the international fight against terrorism, and in particular, against the financing of terrorism.

It is the policy of Denmark to seek to ensure that none of its funds are made available to, or for the benefit of, third parties - whether entities, individuals or groups of individuals - designated by the EU as subject to restrictive measures in the lists provided at www.sanctionsmap.eu or individuals, groups of individuals or entities associated with terrorism or designated by the UN Security Council and its committees.

The Implementing Partner undertakes to ensure that the activities funded under the Agreement at all times comply with all applicable rules and regulations including relevant UN and EU restrictive measures. The Implementing Partner will inform the Danish MoFA immediately if, during the course of its activities, the Implementing Partner determines that funding provided to the Implementing Partner pursuant to this Grant agreement has been used or provided as described in this clause.

The Implementing Partner shall provide the Danish MoFA with an account of all the known facts, and shall continuously thereafter consult with the Danish MoFA on the further handling of the matter to jointly determine remedial measures in accordance with their respective applicable legal frameworks.

Any violation of this clause is ground for immediate termination of the Agreement.

13. Transfer of ownership

The Grantee will not procure physical goods or assets during the pilot period with the purpose of implementing this programme.

14. Transparency

The Parties shall have the right to publish the Agreement, any documents or other informational data relating to the project on its internet site (the Danish MFA's website for such purposes is currently www.um.dk) and other relevant media.

The Implementing Partner is aware that the Danish MoFA is subject to inter alia the Danish Access to public administration files act. Upon request for the disclosure of this Agreement, or any document related to this Agreement, the Danish MoFA must in each case assess, if such document may be disclosed in whole, or, where there are grounds for confidentiality, disclosed in part.

15. Suspension

In case of non-compliance with the provisions of this Project Document and /or violation of the essential elements mentioned in this Project Document MFA reserves the right to suspend with immediate effect further disbursements to the Grantee under this contribution.

16. Entry into force, duration and termination

The contribution will be announced in a letter of commitment referring to this Project document and programme documentation.

The present grant is contributed towards the period June 2022 – to September 2023 in accordance with the period stated under 1.3. The duration of the grant may be extended by mutual arrangement and within the agreed budget.

Notwithstanding the previous clause MFA may terminate the grant upon 6 months written notice.

In witness hereof the Parties hereto, acting through their representatives duly authorised for this purpose, have caused this Agreement to be signed in 2 originals in the English language in Copenhagen.

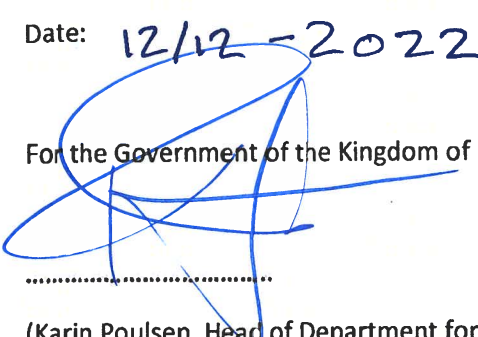


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(Torben Huss, CEO, IFU)

Date: 12/12-2022

For the Government of the Kingdom of Denmark



.....

(Karin Poulsen, Head of Department for Green Diplomacy and Climate)

Date: 16/12-22

Annexes:

Annex 1: The Agreement between the Ministry of Foreign Affairs and the Investment Fund for Developing Countries

Annex 2: Memorandum of Understanding between the Ministry of Foreign Affairs of Denmark (MFA) together with the Danish Investment Fund for Developing Countries (IFU) and the Swedish International Development Cooperation Agency (Sida)

Annex 3: Partner assessment

Annex 4: Quality assurance checklist

Mini-project document

Development Guarantee Facility

IFU – Investment Fund for Developing Countries

F2: 2020 – 4546

1. Introduction

This project document defines the objectives and management arrangements for a grant to the Investment Fund for Developing Countries (IFU) for the establishment of the IFU guarantee unit and the setting up of and management of the Development Guarantee Facility, a pilot program (2022-2025) introducing development guarantees in Danish development cooperation. The present grant is contributed towards the period from mid-2022 to the end of the first quarter of 2023. For 2023 Q2 and Q3 administrations costs will be covered by a grant of 5.1 mil. DKK as outlined in the budget in section 5, less the guarantee fees received. It is envisaged that the remaining management costs for the remainder of 2023 to ultimo 2025 will be covered as yearly management grants combined with administration fees levied on guarantee beneficiaries. The Agreement between the Ministry of Foreign Affairs and the Investment Fund for Developing Countries (attached as annex 1) together with the documentation specified below constitutes the conditions for the grant from the Danish Ministry of Foreign Affairs (MFA).

1.1 Grantor and Grantee

Grantor: The Department of Green Diplomacy and Climate (GDK) of the Ministry of Foreign Affairs and
Grantee: The Investment Fund for Developing Countries (IFU).

1.2 Documentation

The Documentation refers to:

- (i) Lov om internationalt udviklingssamarbejde, §9 "formålet med Investeringsfonden for Udviklingslande er at fremme investeringer, der understøtter bæredygtig udvikling i udviklingslande og bidrager til realisering af verdensmålene i form af direkte kapitalindskud, garantier eller på anden måde".
- (ii) Agreement between the Ministry of Foreign Affairs and the Investment Fund for Developing Countries on a pilot program 2022-2025 introducing development guarantees in Danish development cooperation (annex 1).
- (iii) Memorandum of Understanding between the Ministry of Foreign Affairs of Denmark (MFA) together with the Danish Investment Fund for Developing Countries (IFU) and the Swedish International Development Cooperation Agency (Sida), (Annex 2).

1.3 Contributions

GDK of the Danish Ministry of Foreign Affairs commits a contribution to the Development Guarantee Facility of DKK 4.800.000 (four million eight hundred thousand) for the period 2022 (1.6.2022) – 2023 (31.3.2023).

2. Background and project description

The present grant supports IFU's management of the Development Guarantee Facility in accordance with the above mentioned agreement between the Ministry of Foreign Affairs of Denmark and IFU and in conformity with the Memorandum of Understanding between the Ministry of Foreign Affairs of Denmark (MFA) together with the Danish Investment Fund for Developing Countries (IFU) and the Swedish International Development Cooperation Agency (Sida) (attached as annex 2).

As mandated by the Government in the agreement with IFU, IFU will be responsible for the execution of the pilot program for the development guarantee facility, which will have the following characteristics:

- 1) IFU may issue unfunded sovereign development guarantees in line with Denmark's Strategy for Development Cooperation and under the mandate and policies of IFU. The Danish state is directly liable for the guarantees issued by IFU which will be reflected in the Guarantee documentation.
- 2) The accumulated total amount of issued guarantees may not exceed DKK 2 billion as stated in the state budget 2022.
- 3) Guarantees can be issued to states, public bodies, international, multilateral and intergovernmental organizations, and legal entities governed by private law.
- 4) The guarantees should enable the Danish state to share credit risks with other actors to enable financing solutions in compliance with relevant IFU policies and impact priorities.
- 5) The guarantees should only be issued where it is possible to reliably assess and quantify the risks, which shall constitute the basis for calculating expected loss.
- 6) The guarantees should have financial and developmental additionality, where the risk of negative market distortion in the economy is considered limited, and where financing at a reasonable cost is not available through financial markets, without the support of a guarantee.
- 7) The guarantees should not constitute state aid prohibited by EU law. When subsidies are provided, and particularly if any of the key parties are located in the EU, IFU will strive to ensure that subsidies are transferred for the benefit of the underlying borrowers, through i.a. reduced interest rates, reduced collateral requirements, longer maturities or a combination of these or other measures.
- 8) Specific objectives, terms and conditions shall be detailed in an agreement between IFU and the guaranteed party. All guarantees must be limited in time and maximum amount, and financed by guarantee premiums and possibly other fees, which may be supplemented by subsidies from the Danish state.
- 9) IFU must manage the guarantee instrument independently of its existing pipeline and portfolio, including of funds managed by IFU. IFU may not issue guarantees to reduce the risk for IFU's own investments.

The following areas of co-operation between IFU and Sida are in focus:

- (a) Development and conclusion of guarantees to mobilize finance for development to support creation of decent jobs, gender equality, mitigation and adaption related climate investment, green transition and other areas of mutual interest with risk assessments conducted in co-operation with Sweden's National Debt Office, understanding that the terms of any such potential co-operation in relation to conclusion of specific guarantees are to be discussed and decided upon specifically.
- (b) Sharing of data and information on transaction level relevant for both parties in order to calibrate risk assessments and to obtain harmonized pricing in guarantee transactions where both parties are engaged.

(c) Designing and financing of technical assistance programs to foster the development of financial institutions (banking and non-banking), microfinance institutions, local guarantee funds, and micro-, small- and medium-sized enterprises in general and in relation to the guarantee activities of the Parties.

(d) Specific joint efforts may also include i) co-hosting guarantee seminars, workshops or conferences of mutual interest ii) establishment of a staff exchange program iii) other forms of exchange of knowledge and experience, including in relation to risk assessment methodologies, as agreed upon specifically.

3. Project objective and results framework

The objective of the pilot program is to develop a well-balanced portfolio that supports the development priorities of the Danish Government with a strong capital mobilization effect grounded in solid risk assessments. The long term development objective is to mobilize additional private capital for investments in sustainable development, in line with the Danish Strategy for Development Cooperation, with a special focus on mobilization of climate finance.

The grant will specifically support IFU in establishing an internal unit with a direct responsibility to execute IFU's mandate to issue the guarantees under this agreement, in close cooperation with the MFA. The unit will be responsible for day-to-day management of new transactions and administration and monitoring of the guarantee portfolio according to IFU's decision-making process. The unit will benefit from the various competences within IFU. The unit will further be responsible for concurrent coordination with the Ministry of Finance and Sida on guarantee matters. In addition to the grant IFU will receive cover of costs related to the administration through the administration fee charged under each guarantee.

The unit will work towards building capacity to originate guarantees independent from Sida. This includes e.g. risk assessment, pricing- and clause negotiations.

GDK will base the actual support on progress attained in the implementation of the project as described in the documentation provided by the Grantee and as stated in §7. in the MFA-IFU Agreement.

Project title		Management of the sovereign guarantee facility in IFU	
Project objective		Administration of the sovereign guarantee facility in IFU	
Outcome		A portfolio of sovereign guarantees for development in line with 'Fælles om Verden' strategic priorities.	
Outcome indicator			
Baseline	Year	2022	No guarantees issued
Target	Year 1	2023	First guarantee is issued and a portfolio of potential guarantees is under development.
Output		Guarantee facility team fully staffed in IFU	
Output indicator		Fully established an internal unit with a direct responsibility to execute IFU's mandate to issue the guarantees under this agreement, in close cooperation with the MFA. The unit will be responsible for day-to-day management of new transactions and administration and monitoring of the guarantee portfolio according to IFU's decision-making process. Signed contracts of employment including Head of Guarantees, two Investment Directors, and a Risk Analyst.	
Baseline	Year	2022	No guarantee unit, 0 contracts signed

Annual target	Year 1	2023	An established and fully functioning Guarantee Unit with 4 full-time staff members
Output		Governance structure and procedures for the guarantee facility established and approved	
Output indicator		The approval process of guarantees should be incorporated and formats aligned into the governing processes for approval of appropriations in IFU. This includes the establishment/incorporation of the guarantee committee in relation to IFU's investment committee.	
Baseline	Year		No governance structure set-up
Annual target	Year 1		Governance structure is set-up and formats for approval developed.
Output		IT and reporting systems for portfolio management established	
Output indicator		The impact reporting systems, accounting systems and other internal IT-systems of IFU should incorporate the guarantee facility to support the management and implementation of the guarantee portfolio.	
Baseline	Year		No IT set-up implemented
Annual target	Year 1		Functionality to support, manage and report from the guarantee facility is included in the requirement specification for IFU's new investment managed system planned to be selected and start implementing in 2023.
Output		Collaboration with Sida and Rigsgælden established	
Output indicator		Continuous dialogue and knowledge exchange between IFU, Sida and Rigsgælden on pipeline development and guarantee agreement structuring.	
Baseline	Year		No collaboration set-up.
Annual target	Year 1		A pipeline of several potential guarantees is developed and IFU is working to finalize first guarantees agreements with Sida and Rigsgælden.

4. Risk Management

Summary of risk analysis and risk response for contextual, programmatic and institutional risk factors. The below risks relate to the administrative, political and economic context.

Risk Factor	Likelihood	Impact	Risk response	Residual risk	Background to assessment
Lack of frame for a sufficient number of guarantees to gain experience	- Unlikely	- Major	Devote resources to continuous dialogue with MoF and MFA	Minor	If Government shifts its approach to risk management or preference for use of guarantees it would have an impact on the use of development guarantees
Few relevant opportunities for use of guarantees in cooperation with Sida	- Very unlikely	- Major	Devote resources to origination through close engagement with Sida	Insignificant	Experience to date indicates it is an unlikely risk and that it can be managed should it occur

5. Budget

The present grant contributes towards the period from initiation in second half of 2022 into end of Q1 in 2023. A second grant of 5.1 mil. DKK is planned for 2023 to cover Q2 and Q3. This is depending on parliamentary approval of the Finance Act 2023. A contribution to cover the remainder of the pilot period

(last quarter of 2023 until end 2025) will be submitted to Udviklingspolitisk Råd for approval during 2023. As noted, the present contribution would supplement any administration fees that may be collected from guarantee beneficiaries. No guarantees will be issued in 2022, accordingly no administration fees will be collected from beneficiaries in 2022. In general, administration fees are not likely to be sufficient to cover management and implementation of the facility.

2022-2023 grant budget	2022 (H2)	2023 (Q1 covered by 2022 frame)	2023 (Q2-3 covered by 2023 frame)**	Total
DKK millions				
Estimates administration income				
<i>Projected administration fees collected from beneficiaries*</i>	0,00	0,52	1,04	1,55
<i>Management grant from MFA</i>	2,32	2,45	5,00	10,00
Estimated administration costs				
Salary	0,85	0,85	1,73	3,43
Estimated overhead, 150%	1,27	1,30	2,60	5,17
Travel	0,2	0,15	0,40	0,75
Risk assessment		0,05	0,11	0,16
Due diligence		0,10	0,30	0,40
Total administrative costs	2,32	2,45	5,14	9,91

*Best estimate, but subject to variation depending on actual portfolio of guarantees. Fees received will be used to lower the necessary management grant from MFA. Administrative costs is therefore not depending on and utilizing the fees collected in addition to the MFA grant.

**Subject to parliamentary approval of Finance Act 2023.

The 2022 frame contribution of DKK 4.77 million will be supplemented by DKK 5.14 million from the foreseen 2023 frame contribution. Contribution beyond 2023 Q3 will form part of the budget proposal for the remainder of the pilot period (2023-2025).

Pilot phase grant period 2022-2025, DKK millions					
	2022	2023	2024	2025	Total
Estimated administration Income					
Projected administration fees collected from beneficiaries*	0,00	2,07	3,03	4,08	9,18
Management grant from MFA**	4,80	10,00	10,00	10,00	35,00
Total administration income	4,80	12,07	13,03	14,08	44,18
Estimated administration costs					
Salary costs	0,85	3,47	3,53	3,61	11,45
Estimated overhead, 150% of salaries	1,27	5,20	5,30	5,41	17,17
Travel	0,20	0,80	0,80	0,80	2,60
Risk assessment	0,00	0,21	0,28	0,35	0,84
Due diligence	0,00	0,60	0,80	1,00	2,40
Total administrative costs	2,32	10,28	10,71	11,17	34,46
Balance ultimo year***	2,45	1,79	2,32	2,91	9,72

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***Will act as buffer if guarantee fees will be lower than expected. Fees received will be used to lower the necessary management grant from MFA. Administrative costs is therefore not depending on and utilizing the fees collected in addition to the MFA grant.

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The Grantee has agreed to the following management arrangement with the aim to ensure adequate dialogue and timely decisions with regard to this program.

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At the end of year one (medio 2023) IFU will produce a short reporting on the status of implementation. The report will be structured in accordance with the results framework outputs. The report includes a financial overview of the guarantee portfolio currently signed as well as the portfolio under development and the guarantee fees received. The report also includes a financial overview of funds spent and unspent under the management grant in accordance with the budget categories under section 5 in this agreement. The reports financial overview can be included in the annual report of IFU as a separate note.

7. Financial Management

The Grantee will utilize own rules and procedures, while adhering to the minimum requirements as stipulated in the Ministry of Foreign Affairs' Guidelines for Financial Management and conditions specified for the grant, that must be considered an integral part of the conditions for this grant.

7.1 Procurement of goods and services

Procurement is in accordance with existing rules and regulations as approved by IFU's Board of Directors.

7.2. Transfer of funds

The final administration contribution for each year will be based on the actual costs for the relevant employees, as well as IFU's estimate for indirect costs (overhead), actual external costs, such as due diligence and risk assessments, and actual travel expenses in IFU, related to guarantees under the pilot program, less administration fees from guaranteed parties.

If requested by IFU, an on-account amount will be paid by the MFA at the start of each year to be finally adjusted and settled based on the audited statement referred to above. IFU must return a letter or email with acknowledgement of receipt of funds.

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The accounts shall at all-time be kept updated according to international standards.

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A final statement of accounts (covering the entire project period) shall be submitted no later than three months after completion of the pilot period.

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Unless agreed otherwise, any unspent balance or any savings of project funds shall be returned to the Danish Ministry of Foreign Affairs (MFA) together with any interest accrued from deposits.

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IFU will report annual administration fees and costs in a statement confirmed by IFU's auditor to the MFA.

7.7 Obligation to report on changes and irregularities

IFU is obliged to inform the responsible unit at the MFA immediately if any changes, including overspending of budget lines, or irregularities in the management of funds are foreseen or have occurred.

8. Monitoring and Evaluation

A project completion report shall be submitted to the responsible unit of the MFA no later than three months after end date of the pilot period.

MFA shall have the right to carry out any technical or financial mission that is considered necessary to monitor the implementation of the programme. To facilitate the work of the person or persons instructed to carry out such monitoring missions, IFU shall provide these persons with all relevant assistance, information, and documentation.

After the termination of the programme support the Danish MFA reserves the right to carry out evaluation in accordance with this article.

Representatives of the Auditor General of Denmark shall have the right to:

- i) Carry out any audit or inspection considering necessary as regards the use of the Danish funds in question, on the basis of all relevant documentation,
- ii) Inspect accounts and records of suppliers and contractors relating to the performance of the contract, and to perform a complete audit

9. Anti-corruption clause

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Any violation of this clause will be ground for the immediate termination of this Agreement.

IFU confirms:

- (1) that it has adequate policies/standards or frameworks in place to prevent SEAH¹;
- (2) that all employees have been informed about these policies/standards/frameworks; and
- (3) that there are appropriate SEAH reporting procedures and complain mechanisms in the organisation including the protection of victims of SEAH and that prompt and adequate action is taken if SEAH is observed, reported or suspected.

In case the development engagement includes sub-grantees, the Grantee is responsible for ensuring that sub-grantees have adequate policies/standards and procedures in place for the prevention of SEAH.

¹ In line/adherence with the Inter Agency Standing Committee's Minimum Operating Standard on prevention of SEA and/or the elements on prevention of SEA of the Core Humanitarian Standard on Quality and Accountability

12. Anti-terrorism and restrictive measures

If, during the course of implementation of this project, the Grantee discovers any link whatsoever with any organization or individual associated with terrorism, it must inform the Danish MFA immediately and explain the reasons for such transfer, including whether it was made or provided knowingly, voluntarily, accidentally, unintentionally, incidentally or by force.

The Grantee agrees that it and/or its implementing partners (including contractors, sub-contractors and sub-grantees) will take all reasonable steps to secure that no transaction made in relation to the project will – directly or indirectly – benefit a person, group or entity subject to restrictive measures (sanctions) by the UN or the EU.

Any violation of this clause is ground for immediate termination of the Agreement returning to the Danish MoFA of all funds advanced to the Grantee under it.

Please use the following clause as an alternative, if the clause above is deemed not feasible.

Consistent with United Nations (UN) Security Council Resolutions relating to terrorism, including UNSC Resolution 1373 (2001), 1267 (1999), 2462 (2019), the European Union's (EU) Consolidated list of persons, groups and entities subject to EU financial sanctions and other related resolutions the Parties are firmly committed to the international fight against terrorism, and in particular, against the financing of terrorism.

It is the policy of Denmark to seek to ensure that none of its funds are made available to, or for the benefit of, third parties - whether entities, individuals or groups of individuals - designated by the EU as subject to restrictive measures in the lists provided at www.sanctionsmap.eu or individuals, groups of individuals or entities associated with terrorism or designated by the UN Security Council and its committees.

The Implementing Partner undertakes to ensure that the activities funded under the Agreement at all times comply with all applicable rules and regulations including relevant UN and EU restrictive measures. The Implementing Partner will inform the Danish MoFA immediately if, during the course of its activities, the Implementing Partner determines that funding provided to the Implementing Partner pursuant to this Grant agreement has been used or provided as described in this clause.

The Implementing Partner shall provide the Danish MoFA with an account of all the known facts, and shall continuously thereafter consult with the Danish MoFA on the further handling of the matter to jointly determine remedial measures in accordance with their respective applicable legal frameworks.

Any violation of this clause is ground for immediate termination of the Agreement.

13. Transfer of ownership

The Grantee will not procure physical goods or assets during the pilot period with the purpose of implementing this programme.

14. Transparency

The Parties shall have the right to publish the Agreement, any documents or other informational data relating to the project on its internet site (the Danish MFA's website for such purposes is currently www.um.dk) and other relevant media.

The Implementing Partner is aware that the Danish MoFA is subject to inter alia the Danish Access to public administration files act. Upon request for the disclosure of this Agreement, or any document related to this Agreement, the Danish MoFA must in each case assess, if such document may be disclosed in whole, or, where there are grounds for confidentiality, disclosed in part.

15. Suspension

In case of non-compliance with the provisions of this Project Document and /or violation of the essential elements mentioned in this Project Document MFA reserves the right to suspend with immediate effect further disbursements to the Grantee under this contribution.

16. Entry into force, duration and termination

The contribution will be announced in a letter of commitment referring to this Project document and programme documentation.

The present grant is contributed towards the period June 2022 – to September 2023 in accordance with the period stated under 1.3. The duration of the grant may be extended by mutual arrangement and within the agreed budget.

Notwithstanding the previous clause MFA may terminate the grant upon 6 months written notice.

In witness hereof the Parties hereto, acting through their representatives duly authorised for this purpose, have caused this Agreement to be signed in 2 originals in the English language in Copenhagen.



.....

(Torben Huss, CEO, IFU)

Date: 12/12 - 2022

For the Government of the Kingdom of Denmark

.....

(Karin Poulsen, Head of Department for Green Diplomacy and Climate)

Date:

Annexes:

Annex 1: The Agreement between the Ministry of Foreign Affairs and the Investment Fund for Developing Countries

Annex 2: Memorandum of Understanding between the Ministry of Foreign Affairs of Denmark (MFA) together with the Danish Investment Fund for Developing Countries (IFU) and the Swedish International Development Cooperation Agency (Sida)

Annex 3: Partner assessment

Annex 4: Quality assurance checklist

Annex 7 Annual report DGF to MFA and minutes from follow-up meeting

Annual Report – June 2022- June 2023

Development Guarantee Facility

IFU – Investment Fund for Developing Countries

F2: 2020 – 4546

1. Introduction

In 2022, the Ministry of Foreign Affairs allocated a grant to the Investment Fund for Developing Countries (IFU) for the establishment of the IFU guarantee unit and the setting up of and management of the Development Guarantee Facility, a pilot program (2022-2025) introducing development guarantees in Danish development cooperation.

The objective of the pilot program is to develop a well-balanced portfolio that supports the development priorities of the Danish Government with a strong capital mobilization effect grounded in solid risk assessments. The long-term development objective is to mobilize additional private capital for investments in sustainable development, in line with the Danish Strategy for Development Cooperation, with a special focus on mobilization of climate finance.

The grant will specifically support IFU in establishing an internal unit, DGF, with a direct responsibility to execute IFU's mandate to issue the guarantees under this agreement, in close cooperation with the MFA. DGF is responsible for day-to-day management of new transactions and administration and monitoring of the guarantee portfolio according to IFU's decision-making process. The unit benefits from the competences within IFU. DGF is also responsible for concurrent coordination with the Ministry of Finance and Sida on guarantee matters.

DGF works towards building capacity to originate guarantees independent from Sida. This includes e.g. risk assessment, pricing- and clause negotiations.

2. Output progress

This report constitutes the first annual progress report on status of implementation. The report is structured in accordance with the results framework outputs. The report includes a financial overview of the guarantee pipeline. The report also includes a financial overview of funds spent and unspent under the management grant in accordance with the budget categories. The audited annual financial report is attached as appendix 1.

Outcome		A portfolio of sovereign guarantees for development in line with 'Fælles om Verden' strategic priorities.	
Outcome indicator			
Baseline	Year	2022	No guarantees issued
Target	Year 1	2023	First guarantee is issued and a portfolio of potential guarantees is under development.

Actual progress, mid-2023		A portfolio of potential guarantees is under development, but no guarantees have yet been issued.	
Output		Guarantee facility team fully staffed in IFU	
Output indicator		Fully established an internal unit with a direct responsibility to execute IFU's mandate to issue the guarantees under this agreement, in close cooperation with the MFA. The unit will be responsible for day-to-day management of new transactions and administration and monitoring of the guarantee portfolio according to IFU's decision-making process. Signed contracts of employment including Head of Guarantees, two Investment Directors, and a Risk Analyst.	
Baseline	Year	2022	No guarantee unit, 0 contracts signed
Annual target	Year 1	2023	An established and fully functioning Guarantee Unit with 4 full-time staff members
Actual progress, mid-2023		A fully functioning Guarantee Unit with 4 full-time staff members has been established.	
Output		Governance structure and procedures for the guarantee facility established and approved	
Output indicator		The approval process of guarantees should be incorporated and formats aligned into the governing processes for approval of appropriations in IFU. This includes the establishment/incorporation of the guarantee committee in relation to IFU's investment committee.	
Baseline	Year	2022	No governance structure set-up
Annual target	Year 1	2023	Governance structure is set-up and formats for approval developed.
Actual progress, mid-2023		A basic governance structure is in place, and formats for approval have been approved. Adaptation of IFU investment formats to the specifics and requirements of guarantees is a process of continuous adaptation.	
Output		IT and reporting systems for portfolio management established	
Output indicator		The impact reporting systems, accounting systems and other internal IT-systems of IFU should incorporate the guarantee facility to support the management and implementation of the guarantee portfolio.	
Baseline	Year	2022	No IT set-up implemented
Annual target	Year 1	2023	Functionality to support, manage and report from the guarantee facility is included in the requirement specification for IFU's new investment managed system planned to be selected and start implementing in 2023.
Actual progress, mid-2023		Requirement specifications for management of guarantees in a new IT-system for IFU were included in the tender material. However, the incoming bids for developing a new IT-system have been discarded for several reasons, and a new tender is expected later this year. In the meantime, guarantees are included in existing IT systems as preparations and underwriting of guarantees progress.	
Output		Collaboration with Sida and Riksgälden established	
Output indicator		Continuous dialogue and knowledge exchange between IFU, Sida and Riksgälden on pipeline development and guarantee agreement structuring.	
Baseline	Year		No collaboration set-up.
Annual target	Year 1		A pipeline of several potential guarantees is developed and IFU is working to finalize first guarantees agreements with Sida and Riksgälden.

Actual progress, mid-2023	There is daily interaction between IFU and Sida at the operational level; virtual meetings with third parties and potential guarantee beneficiaries are very common and several meetings have taken place in Copenhagen and Stockholm. A direct link between IFU and Riksgälden has been established at the technical level, including for actual risk assessments and calculations.
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2. Guarantee Pipeline

As of mid-2023, the pipeline of projects appears promising. The pipeline reflects the strategic climate and development priorities of the Danish Government. The pipeline is balanced across the two overarching objectives (i) mobilisation of private capital with a focus on climate finance, and (ii) giving access to credit and financial markets for underserved groups that would not otherwise have access to risk willing capital to invest and develop their businesses. The pipeline also reflects the efforts the team has put into developing potential guarantee opportunities that seek to address global, regional, and country specific challenges. In terms of geography, emphasis is on Africa for bilateral guarantees. For larger guarantees with a focus on mobilization for climate finance, the emphasis has been global/regional guarantees.

A total guarantee amount of around USD 260-270 million is in progress or has potential to progress, see below pipeline overview. This compares to a guarantee frame of USD 292 million (with the exchange rate of July 5) for this pilot phase.

Name	Volume	Subsidy	Mobilization	Climate	Geography	Type	Status
NCBA	\$40 m	\$3-4 m	\$80 m	Mitigation	Kenya, Rwanda, Tanzania, Uganda	Pari-passu	In progress
One Planet	\$10 m	0	\$50 m	Mitigation/Adaptation	Global	First loss	Discontinued
ACSEM	\$50 m	0	\$250 m	Mitigation/Adaptation	Global	First loss	Discontinued
IF-CAP	\$50 m	0	\$250 m	Mitigation/adaptation	Developing Asia	First loss	In progress
Rwanda	[\$10] m	\$1 m	\$14m	SME renewables	Rwanda	Pari-passu	In progress
IDCOL	\$40 m	\$4 m	\$70-80 m	Mitigation	Bangladesh	Pari-passu	Potential
BRAC	\$ 20 m	\$2 m	TBD	Mitigation/adaptation	Bangladesh	Pari-passu	Potential
AFC	\$75 m	0	\$375 m	Mitigation	Sub-Saharan Africa	First loss	Potential
Afrexim-Bank	TBD	0	TBD	Mitigation	Sub-Saharan Africa	TBD	Potential
EADB	TBD	0	TBD	Mitigation	East Africa	TBD	Potential
Desset to Power	\$20-40	TBD	TBD	Mitigation	Sahel	TBD	Potential
FIRST	\$10 m	\$5 m	\$50 m	Mitigation/adaptation	Congo Basin	TBD	Potential
PSF	\$25 m	0	TBD	Mitigation	Fragile states	Re-Guarantee	Potential
MSME SAHEL	\$8 m	\$2 m	\$10 m	Mitigation/adaptation	Burkina Faso	Pari-passu	In progress
GAIA	\$100 m	0	\$300 m	Mitigation	Global	First Loss	Discontinued
IFAD ARCAFIM	\$10 m	\$2 m	\$12 m	Adaptation	Uganda	Pari-passu	Discontinued
SDG Bond 2	\$12 m	\$3 m	\$50 m	Mitigation	Global	First Loss	Discontinued

4. Financial status

An audited account of the DKK 4,8 million grant to IFU for the establishment of the IFU guarantee unit and the setting up of and management of the Development Guarantee Facility, covering the period from mid-2022 to mid-2023 has been submitted in parallel to this report.

5. Issues and challenges to be discussed in Guarantee Committee

Progress towards achieving the defined objectives, as measured by the indicators that have been retained for this purpose (see section 2 above), has been sustained along most dimensions of the project of establishing and running a guarantee facility at IFU.

Most significantly, a very interesting and promising guarantee pipeline has been established. In terms of themes and geography it reflects the strategic priorities that are laid out in the Strategy for Development Cooperation, *The World We Share*, and in the Government's Long-Term Strategy for Global Climate Action.

The Guarantee Facility has benefitted immensely from the cooperation and partnership in place with Sida. Daily interactions on operational aspects related to technical design and development objectives are evidence of a relationship build on mutual trust and benefit.

Nevertheless, a few challenges and issues merit a formal discussion in the Guarantee Committee:

- (1) Decision making at Sida has proven to be an unexpected bottleneck for issuance of guarantees. This is due to
 - (i) a newly established approach to guarantee origination, processing and negotiation in Sida's Africa Department, which has the unfortunate, and unintended, consequence of making it more complicated for Sida to engage with guarantee partners such as Denmark during the implementation of this approach.
 - (ii) Sida's work-cycle and program for guarantee origination, pipeline development, and portfolio management has proven more difficult to sync with the needs of Denmark for relatively swift delivery in a compressed time frame than originally expected (pilot expires in 2025);
 - (iii) differences in the approach to safeguard (ESG) screening as well as in timing and sequencing of the stages of guarantee due diligence, even if the overall development and climate priorities of Denmark and Sweden are broadly the same.
 - (iv) The guarantee set-up is contingent on access to risk modelling and pricing by Riksgälden, which in turn subordinates Denmark's use of guarantees to Sida's decisions. Which alternatives exist, and when is it appropriate to explore these?
- (2) Timing of formal MFA participation in IFU's (emerging) guarantee approval process
 - (i) MFA currently has a seat in the Guarantee Committee ahead of the targeted Board Meeting for either CIP or BC submission. This is late in the process for formal sign-off on guarantees.
 - (ii) The guarantee team and MFA maintain a very close dialogue at the operational level, and meet on a weekly basis to secure alignment and flow of information.
 - (iii) Would it make sense for MFA to also join the internal upstream IFU meeting that formally clears the Gate-1 paper for the guarantee in question?
- (3) Extension of the Pilot Phase for the Development Guarantee Facility
 - (i) The current pilot programme is running from 2022-2025. In order for the government to make a decision on a permanent guarantee structure in IFU,

an evaluation (or a review) should focus on results in terms of mobilization, expected impact, risks and administration.

- (ii) A government decision on a continuation needs to be taken to be included in the budget bill for 2026. To form the basis for such a decision an evaluation / review needs to be in place a year ahead of the beginning of the budget process, i.e. Q1/2024.
- (iii) Due the bottlenecks mentioned above, only a few guarantees are expected to be in place by Q1/2024. With these uncertainties, it may be appropriate to extend the pilot phase with one year to base decisions on a larger portfolio of guarantees.

(4) Risk assessments and relations with other institutions

- (i) Technical meetings and relations are being developed with Riksgälden, the risk management department at EIFO (formerly EKF), and with the EU Guarantee Risk Experts Group an independent and inclusive group of risk experts established within the Risk Management Unit serving DG INTPA and DG NEAR

Annex 8 Alignment of project design with report on credit guarantee scheme

1. Legal and regulatory framework recommendation:

- a. clearly define ownership and representation of government and supervision of the guarantee entity.
Alignment with recommendation: Section 4.2. with figure 2 and section 9 describes ownership, representation and supervision.
- b. One or more local partners should have partial ownership alongside government and donors.
Alignment with recommendation: Guarantees are created in collaboration with local financial entities such as banks and financial institutions as well as with MDB's with a keen local credit markets knowledge. This can be assisted by TA by local organizations with knowledge of local credit markets and regulation to ensure effective implementation.
- c. The legal framework should ensure division of role and responsibilities among the ownership group. Autonomy must be given to day-to-day operations to avoid political influence on guarantee politics and operation
Alignment with recommendation: This point was stressed by the Ministry of Finance in the design of DGF and MoF therefore pointed to the DGF being hosted by IFU with an arms length to the MFA. MFA is represented in the guarantee committee approving the strategic alignment of new guarantees, but does not interfere in IFUs policies and operations.
- d. The legal framework should specify funding sources and consist of primarily equity endowments.
Alignment with recommendation: The funding sources are clear with a frame of 2 bn. DKK for unfunded guarantees and this project document to support management, TA and subsidies. The guarantees is not funded by equity endowments as the point is to create an un-funded guarantee scheme in alignment with OECD and IMF recommendations.

2. Corporate governance and risk management recommendations

- a. All instruments in relation to the guarantee instrument should be described in the mandate for the instrument. Desired level of efficiency should be described. Goals should accommodate adaptive management.
Alignment with recommendation: Complementary instruments are described in the project document ie. Ta and subsidies. Efficiency is described in section 4.2. on OECD criteria for development aid. Overall goals have been specified as objectives with a ToC, but it is too early to consider specific targets as the pipeline is developing.

Board and management should develop strategies.

- b. Internal controls should be designed. The board should play a role in conducting oversight.
Alignment with recommendation: Governance is described in section 9 of this document.
- c. The board should have a transparent process for appointments and minimum standards of competence. Board and management should understand financial risks.
Alignment with recommendations: IFUs board is appointed according to the rule and procedures of IFU which is approved by the MFA. A document describing the role for the board and management in the governance of the guarantee facility including the risks have been presented to the board.
- d. The board should indentify the ESG risks as well as development additionality.
Alignment with recommendations: The guarantee facility utilizes IFUs ESG standard screening

tools to ensure impact and additionality. The guarantees also follows IFUs gate-approval process to ensure due diligence is conducted and approved.

3. Recommendation for the operational framework

- a. The guarantee entity should publish clear criteria for eligibility. Target types of credit instruments should be specified. The method of delivery should be specified
Alignment with recommendation: Eligibility follows IFUs eligibility criteria for investments and Sidas eligibility criteria for credit guarantees. All guarantees are credit guarantees devised to support increased lending to project investments through funds or directly or to support increased lending to companies ie. SME's. What types of lending depends on the local context (credit market demands). Method of delivery is specified in section 4.2.
- b. Beneficiary characteristics should be described and modality be based on priori analysis of the local financial sector.
Alignment with recommendation: As part of the due diligence conducted when considering a guarantee the beneficiaries are analysed as well as the local financial sector.
- c. The guarantee coverage ratio should incentivize lenders to participate but be low enough to incentivize the guaranteed party to properly assess lenders.
Alignment with recommendation: No guarantee covers all risk, only a minority part of the guaranteed party's lending – normally around 10% of the loan portfolio.
- d. Guarantee coverage should vary over time to account for changes in the financial market, unexpected losses and development in the production sector etc.
Alignment with recommendation: Not aligned as a guarantee have to be set to a certain level throughout the guaranteed period at portfolio level to be credible in risk-reduction for the guaranteed party.
- e. Fees for guarantees should be charged based on riskiness of the underlying loan(s). Fees should be adjustable over time.
Alignment with recommendation: Guarantee fees based on expected loss calculations are charged to the guaranteed party eg. Banks and financial entities. The fee is fixed and paid up front as the expected loss calculation is fixed in time as the net present value of future possible expenses.

4. Recommendations on monitoring and evaluation

- a. Quarterly or annually disclose financial statements and reports on economic and social commitments and outcomes. Governance information should be disclosed. Evaluation of the entity performance should take place. Should focus on financial additionality, development additionality and financial sustainability.
Alignment with recommendation: Section 9 and 10 describes annual financial statements and M&E practices in line with the recommendation with a focus aiming at all three sections of additionality.

Annex 9 Partner assessment - IFU

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 DGF with a frame of DKK 2bn.

In 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

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	<ul style="list-style-type: none">• 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	<ul style="list-style-type: none">• 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)

	<ul style="list-style-type: none"> • Effects: Climate (mitigation, adaptation, resilience) and green transition
3. SDG Equity Fund	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Use: Guarantees, primarily to financial institutions • Financing: Danish state guarantee • Geography: Strong focus on Africa for guarantees that require ODA subsidies. • Effects: More inclusive societies, climate (including adaptation)
5. DSIF	<ul style="list-style-type: none"> • 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 its 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.

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.

Active portfolio at 31 December 2022 (no.)	
Investment Fund for Developing Countries (IFU)	139
Danish SDG Investment Fund (SDG Fund)	20
Danish Climate Investment Fund (DCIF)	9
Danish Agribusiness Fund (DAF)	3
IFU Investment 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 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 IFU's 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.

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

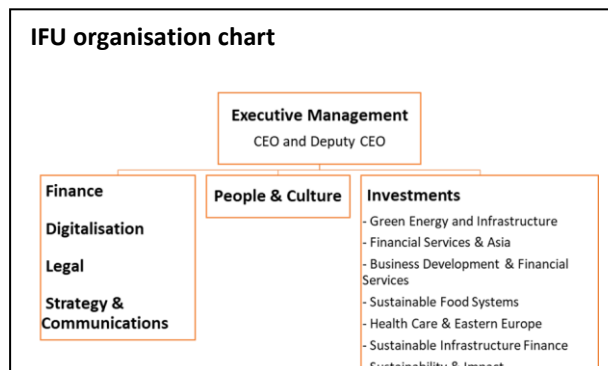
- Creating access to clean cooking for 4.5 million households
- Creating access to safe drinking water for 30 million people
- Installing up to 1,300 megawatts of renewable energy
- Assisting 90,000 smallholder farmers in becoming organic producers
- Installing new district heating for 180,000 people 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

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.

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 reform of IFU and the extended support and mandate from MFA, IFU is considered to have the resources, staff, capabilities and experience to successfully support the growth and development of DGF and a guarantee portfolio that supports the impact priorities of IFU, as well as the development priorities in the Strategy for Development Cooperation.

Annex 10 Explainer on how guarantees work

The state guarantee model

The development guarantee model is based on the Danish principles for state guarantees, similar to those used in private insurance companies. An economic risk, or expected loss, is calculated and will be financed by a premium levied on the guaranteed party, e.g. a bank in Africa. The scheme is in theory cost neutral for the state, which is ultimately liable for the guarantee obligations. The guarantee premium, that reflects the risk, can be subsidized with ODA if the calculated premium (given the perceived risk) is too high for the bank to accept.

Income from risk premiums (and subsidies) are accumulated on a state guarantee reserve account, which is used to cover future losses on the guarantee portfolio. Official development aid will not cover any losses related to the guarantees (above subsidies provided ex-ante to cover part of the premium fee from the guaranteed party).

ODA for subsidies of guarantee premiums, technical assistance and administration

The guarantees are expected to be provided to partnering local banks, fund managers and financial institutions as intermediates to support the impact beneficiaries through the mobilized investments for development. International investors and multilateral development banks have capacity to pay the full risk premium with no needs for subsidies. Also, these partnering organizations will not require technical assistance to the same extent, and / or have other ways of accessing funding for technical assistance. Accordingly, the focus of the present proposal is on the activities related to access and mobilization with and through local banks, primarily in Africa. Non-profit organisations active in the financial sector may also be considered as recipients for guarantees, or as technical assistance providers to target borrowers.

The operational risk associated with banks in less developed financial markets with a weak regulatory environment is high. This means that the risk-based premium will also be high. In many cases it will be too expensive for the local bank and its clients (the target group and beneficiaries of the guarantee). To overcome this challenge and open opportunities also for those who are unable to pay the full risk premium, it is possible to subsidize the premium, i.e. bring down the cost to guaranteed parties with official development aid. These subsidies are the only direct expenses that are itemized as development aid in a guarantee. Indirect expenses include support to administration of the guarantee facility at IFU, and as presented in this programme document, a grant to finance targeted technical assistance for banks to better understand the needs of target borrowers, who may also benefit from technical assistance, such as business development support.

Cooperation with Sweden

Swedish Sida has been implementing guarantees as a tool for development cooperation since 2009. The underlying principles for state guarantees are identical in Sweden and Denmark, and Sida is therefore regarded a strong partner for IFU in developing the new guarantee instrument to support the strategic priorities of Danish development cooperation. The government mandate to IFU to issue state guarantees is based on the conditions that guarantees are issued in cooperation with Sida and based on risk assessments by the Swedish National Debt Office. The figure below illustrates the foreseen standard process for origination and implementation of Sida-IFU co-guarantees.

Standard process for origination and implementation of a Sida-IFU co-guarantee

1. Origination	Sida and IFU identifies guarantee opportunity in line with strategic impact priorities
2. Negotiations	Sida and IFU negotiate with a local bank on terms for the guarantee, including guarantee coverage and target borrowers
3. Risk assessment	Sida instructs the Swedish National Debt Office to calculate the expected loss for the guarantee for Sida and IFU to set the price for the guarantee
4. Decision	Sida and IFU decides respectively on terms and price for the guarantee, including possible ODA subsidy to reduce the guarantee fee to be paid by the bank
5. Agreement	Sida and IFU sign a guarantee agreement with the bank
6. Guarantee Reserve	Guarantee fees from the bank, and possible ODA subsidies, are placed in the Swedish and Danish guarantee reserves respectively
7. Lending	The bank provides loans to the agreed target borrowers, and reports jointly to Sida and IFU
8. Default Claim	In case a borrower defaults on a loan, the bank sends default claims to Sida and IFU
9. Payment	Sida and IFU review that the claims is in line with the guarantee agreement, and disburse a payment from the guarantee reserve to the bank
10. Recovery	If the bank recover parts of the defaulted loan, the recovery is shared pro rata with Sida, IFU and the bank

Guarantee pipeline

Status update: 23-11-08

IFU Development Guarantee Facility

Pipeline overview

Purpose	# Active guarantee proposals	# Potential guarantee proposals	# Discontinued guarantee proposals	Volume active proposals (MUSD)*	Subsidy active proposals (MUSD)	Leverage factor**
Mobilisation	3	5	3	140		5X
Access	3	1	3	120	7-8	2X
TOTAL	6	6	5	260	7-8	-

Definitions

- **Leverage factor.** The so called gearing of a guarantee. If a guarantee of MUSD 10 mobilises MUSD 50 in private capital, the leverage factor is 5X
- **Pari-passu.** A guarantee is pari-passu, if IFU as a guarantor shares the risk on the same level as the guarantee beneficiary. If a loss of MUSD 100 arises, and the risk sharing is 50/50 between the guarantor and the beneficiary, IFU as guarantor will cover MUSD 50 of the loss, while the beneficiary covers the remaining MUSD 50.
- **First loss.** A guarantee is first loss, if IFU as a guarantor covers the first losses incurred by the beneficiary. If IFU has a first loss tranche of 10% for a total portfolio of MUSD 1,000, the first MUSD 100 lost by the beneficiary is covered by IFU. First loss guarantees are typically provided for safer institutions, such as MDB's, to balance the risky nature of the first loss tranche. First loss guarantees typically have a higher leverage factor than pari-passu guarantees.

The development guarantee facility aims to issue two overall types of guarantees:

- **Mobilisation.** Guarantees intended to mobilise private capital. The guarantees are typically characterised by a high leverage factor.
- **Access.** Guarantees intended to provide access to finance to underserved groups. The guarantees are typically characterised by a low leverage factor, given that the purpose of the guarantees is to reach underserved groups and beneficiaries typically require IFU to carry a larger share of the risk.



*The volume for mobilisation guarantees is only known for 4 out of 6 guarantees, why the actual total volume is higher than the presented amount

**Leverage factor is based on active guarantees where both guarantee amount and mobilised/access amount is known. For mobilisation guarantees this is the case for 2 out of 6 active guarantees. For access guarantees this is the case for 5 out of 6 active guarantees

Guarantees for mobilisation

Guarantee type	Volume (MUSD)	Subsidy (MUSD)	Mobilization* (MUSD)	Leverage factor	Policy priority	Geography	Type	Status
KNOW LEVERAGE FACTOR								
MDB Guarantee	50	0	250	5X	Mitigation Adaptation	Developing Asia	First loss	In progress
Fund Guarantee	40	0	250	5X	Mitigation Adaptation	Global	First loss	In progress
MDB Guarantee	75	0	375	5X	Mitigation	Sub-Saharan Africa	First loss	Potential
TOTAL	165	0	875	5X	-	-	-	-
UNKNOWN LEVERAGE FACTOR								
Fund Guarantee	50	?	TBD		Adaptation	Global/Africa	First loss	In progress
MDB Guarantee	25	0	TBD	-	Infrastructure	Sub-Saharan Africa Focus fragile states	Pari-Passu	Potential
MDB Guarantee	TBD	0	TBD	-	Mitigation	Sub-Saharan Africa	TBD	Potential
MDB Guarantee	TBD	0	TBD	-	Mitigation	East Africa	TBD	Potential
MDB Guarantee	20-40	0	TBD	-	Mitigation	Sahel	TBD	Potential
TOTAL	95-115+	0	-	-	-	-	-	-
MOBILISATION GUARANTEES	260-280+		875					



* The total amount of private capital mobilised to reach the target group – used for calculating leverage factor

Guarantees for access

Guarantee	Volume (MUSD)	Subsidy (MUSD)	TA (MUSD)	Mobilisation* (MUSD)	Leverage factor	Policy priority	Geography	Type	Status
KNOWN LEVERAGE FACTOR									
Bank Guarantee	40	3-4	2-3	80	2X	Mitigation	Kenya, Rwanda, Tanzania, Uganda	Pari-passu	In progress
Bank Guarantee	20	2	1-2	30	1.5X	SME (women, youth)	Rwanda	Pari-passu	In progress
Bank Guarantee	8	2	1	10	1.25X	SME (women, youth)	Burkina Faso	Pari-passu	In progress
Bond Guarante	10	5		50	5X	Mitigation Adaptation	Congo Basin	TBD	Potential
Total	78	12-13	4-6	180	Ca. 2X				
UNKNOWN LEVERAGE FACTOR									
Total				-					
ACCESS GUARANTEES	78	12-13	4-6	180					

DISONCONTINUED GUARANTEES

Guarantee	Volume (MUSD)	Subsidy (MUSD)	Mobilisation/ Access* (MUSD)	Leverage factor	Policy priority	Geography	Type	Status
MOBILISATION								
MDB Guarantee	10	0	50	5X	Mitigation Adaptation	Global	First loss	Discontinued
Bond Guarantee	12	3	50	4.1X	Mitigation	Global	First Loss	Discontinued
Fund Guarante	100	0	300	3X	Mitigation	Global	First Loss	Discontinued
Total	122	3	400	3.7X	-	-	-	-
ACCESS								
Bank Guarantee	10	2	12	1.2X	Adaptation	Uganda	Pari-passu	Discontinued
Bank Guarantee	10	2	14	2X	Mitigation Adaptation	Bangladesh	Pari-passu	Discontinued
Bank Guarantee	40	4	70-80	Ca. 1.9X	Mitigation	Bangladesh	Pari-passu	Discontinued
Total	60	8	96-106	1.5X	-	-	-	-
Discontinued guarantees	182	11	496-506	-	-	-	-	-

Annex 12 Risk analysis matrix

Contextual risks					
Risk Factor	Likelihood	Impact	Risk response if applicable	Residual risk	Background to assessment
Possible global financial instability and economic slow down	Likely	Minor	Careful and rigorous risk assessments can mitigate the impact through appropriate pricing of risk	Minor	Financial turbulence and economic slow-down triggered by global political or financial crises.
Political and/or financial instability in some of the targeted countries	Likely	Major	Guarantees that are eligible for subsidies will primarily be issued against credit risks in different African countries, which may help mitigate concentration risks	Minor	During recent years political and financial turbulence have taken place in many developing countries, particularly in the least developed countries and fragile states, including Africa.
Programmatic Risks					
Risk Factor	Likelihood	Impact	Risk response	Residual risks	Background to assessment
Inadequate interest at standard rates of cover and price	Likely	Major	A broad geographical and thematic approach will limit the risk	Minor	Many commercial banks require risk cover in excess of what the facility should provide given alignment of incentives
Commercial failure of individual clients of guarantee intermediaries	Likely	Major	A rigorous and evidence-based risk management system is needed. Some losses are to be expected, given the risk of investing in the least developed countries and fragile states and guarantees will be priced to reflect this	Minor	Experience from engagements with credit lines and financial guarantees in the targeted countries indicate that careful preparation, design and pricing are crucial
Shortage of bankable projects and guarantee opportunities	Unlikely	Major	The guarantee facility is aware of the importance of maintaining a solid pipeline of guarantee opportunities, and efforts are devoted to developing and maintaining a satisfactory pipeline.	Minor	Overall there is a shortage of bankable investment projects in developing countries, and that is in particular an issue in the least developed countries and fragile states in Africa where the risk-return balance is relatively challenging. At the same time the interest in guarantees from commercial banks in these markets is significant.
Weak risk assessment and	Unlikely	Major	The determination of risk premiums is carried out	Minor	Application of "best practice" for risk premium

miscalculation of premiums			during the pilot phase by IFU in cooperation with the Riksgälden. Risksgälden uses "best practice" in determining risk premiums. The method is based on the same principles as the Ministry of Finance's model for determining risk premiums.		determination will limit the significance of this risk.
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Market distortion	Unlikely	Major	For each individual guarantee a careful assessment of the market and the guarantee recipient is done to assess additionality and prevent possible market distortion. The terms of the guarantee agreement between IFU and the guarantee recipient specifies the purpose of the guarantee, eligible borrowers under guarantee, maximum guarantee amount, maximum size of underlying loans, guarantee premiums and payment plan, as well as payments and claims collection.	Minor	Attention to the risk of market distortion and avoidance of possible conflicts with EU rules on prevention of state aid will limit this risk.
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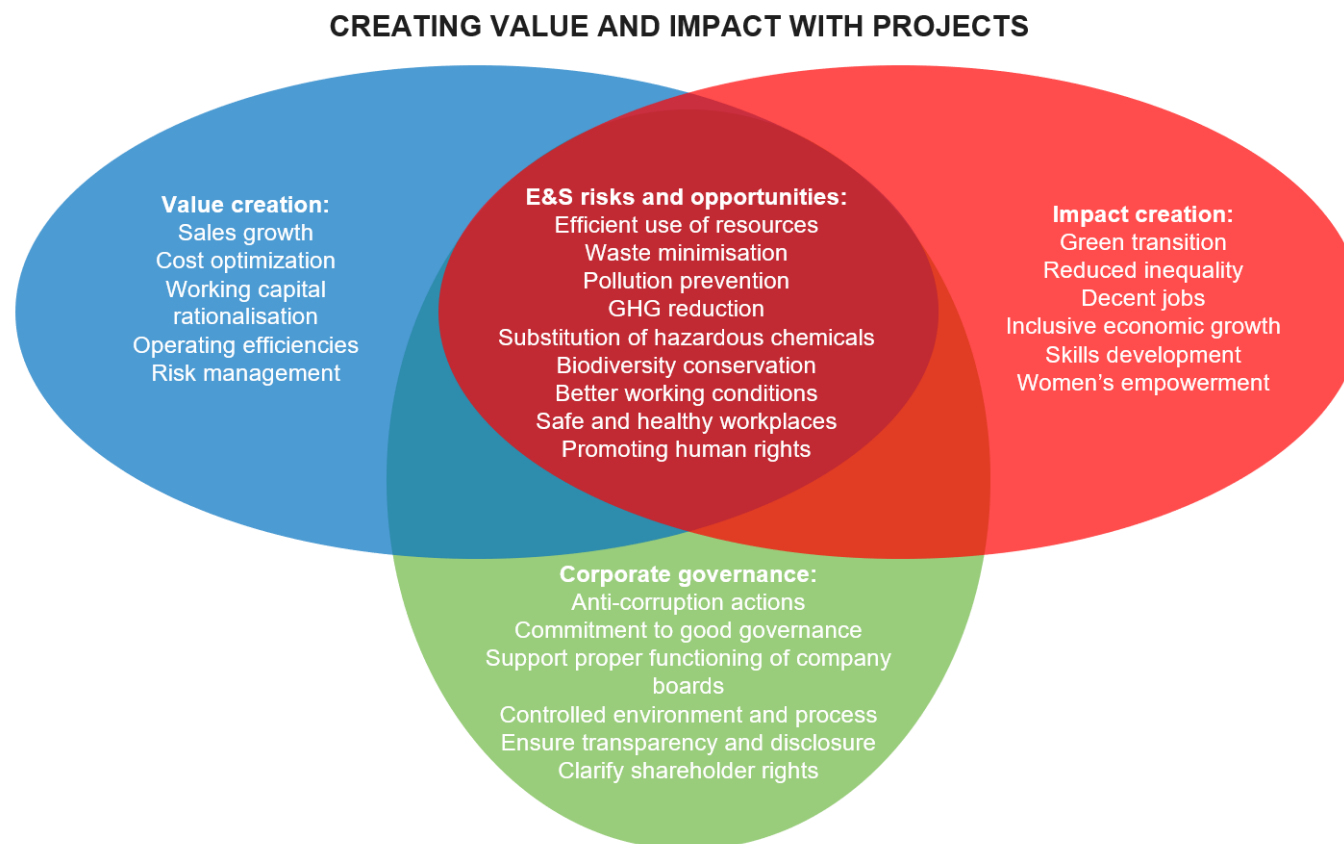
Institutional Risks

Risk Factor	Likelihood	Impact	Risk response	Residual risk	Background to assessment
Reputational risks due to violation of human rights, OSH, environmental standards etc.	Unlikely	Major	The Development Guarantee Facility benefits from IFU's well-established policies and procedures which ensure that safeguards are in place and sustainability issues are professionally addressed during guarantee preparation and execution	Minor	Various studies indicate that international and not least local companies often violate human rights, OSH, environmental standards etc.
Misuse, corruption and fraud by participating	Likely	Major	These risks can never be eliminated, but IFU has developed a number of monitoring and control	Minor	According to international business environment indexes, including the Transparency International

international and local partners			procedures to mitigate the frequency and impact of these risks.		Index, corruption, fraud and misuse of funds is widespread in the concerned countries.
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Environmental, Social & Governance (ESG) and Impact Control Framework

Version 1.1, July 2022



Best-in-class Impact Investor

We have an exciting opportunity to sharpen our reason to be and define cross-cutting impact priorities to set a clearer direction for IFU.

IFU Investment Strategy 2021 - 2024

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1. Introduction

IFU's investment strategy drives the sustainability policy, providing an **environmental, social & governance (ESG) and impact** framework for all investments. Identifying and managing ESG risks and impacts are thus integral to IFU's investment process.

The Project Manager (PM) has the overall responsibility for ensuring that ESG and impact requirements are addressed through making use of this document, the ESG and impact control framework. For the purpose of this document, PM also implies the role of investment professionals (IPs) within deal teams.

Purpose

This document describes how IFU manages ESG risks and impacts during the investment process, through **defining ESG and impact tasks and responsibilities**.

This guide will assist the PM with managing ESG and impact tasks within the deal team. Sections 4 and 5 detail tasks, tools and guidelines for each phase of the investment process, clarifying the responsibilities of PM and the Sustainability and Impact (SI) team.

The tasks, tools and guidelines are arranged from first contact to final evaluation report (FER). These are applicable to Direct Investments, Fund Investments (including Platforms) and Financial Institutions investments (also referred to as Banks & Microfinance Institutions); specific requirements are highlighted for each, as applicable.

Tools and guidelines

The ESG and impact tools and guidelines available to the PM/IP, are arranged on IFU Connect as follows:

- **PM tools** on IFU Connect/Investments/Investment process/E&S and impact toolbox
- **Tools for SI-team** on IFU Connect/Investments/Sustainability/Tools for SI-team
- **ESG and impact guidelines** on IFU Connect/Investments/Sustainability
- **Corporate governance tools and guidelines** on IFU Connect/Investments/Other/Corporate governance

Section 4 provides quick links to the PM tools.

The PM/IP may contact the SI-team for assistance and/or training.

Sustainability and Impact Team

November 2021

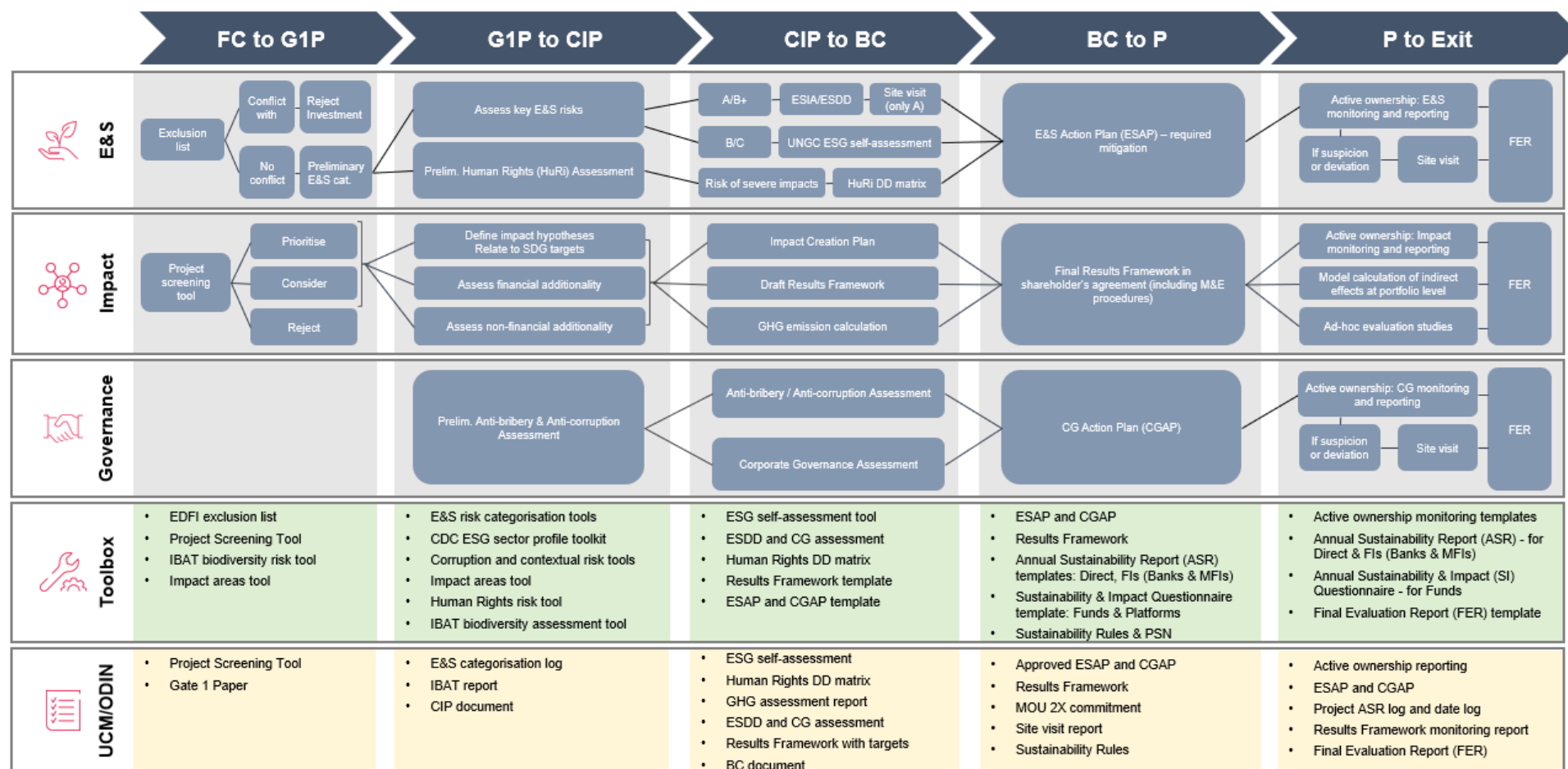
2. Operationalising the IFU Sustainability Policy

Sustainability policy at IFU is based on the European Union Development Finance Institutions' (EDFI) common approach, international standards and agreements, as well as national legislation in the relevant countries. The portfolio company requirements are published in IFUs Sustainability Rules (as attached to the Term Sheet) together with requirements for ESG (in the form of the ESG action plans) and impact (in the form of the Results Framework).



3. ESG and Impact Overview

The ESG and impact process is summarised below, with further details provided in section 5 of this document.



Refer to the Appendices for process diagrams for Direct, Fund and Financial Institution (Banks and Microfinance) investments.

4. PM Tools - Quick Links

The following quick links include tools available to the PM/IP.

FC to G1P	G1P to CIP	CIP to BC	BC to P	P to Exit
<ul style="list-style-type: none"> • IFU exclusion list • Screening Tool • IBAT biodiversity risk screening tool • Impact areas by sector • Guidance on Gender lens & 2X Challenge 	<ul style="list-style-type: none"> • Direct: Guideline for E&S risk categorisation of projects • Funds: highest E&S risks category in pipeline, using Guideline for E&S risk categorisation of projects • FIs: EDFI Harmonised E&S Standards for FIs • CDC ESG sector toolkit • Transparency International corruption risk tool • Google word search (broader): "Company name" (Corruption OR Bribery OR Conviction OR Investigation OR Allegations OR Indictment OR Fraud OR Money Laundering) • Google word search (narrower) - Corruption: "Company name" (Crime OR criminal OR siphon OR evade OR evasion OR evading OR violation OR Defraud OR defrauded OR defrauding OR fraud OR fraudulent OR misappropriation OR misappropriated OR embezzlement OR embezzled OR default OR defaulted OR abuse OR abusive OR abused OR subprime OR Bribed OR bribery OR kickbacks OR graft OR corrupt OR corruption OR cheating) • Google word search (narrower) - Financial crime and fraud: "Company name" (Insolvent OR insolvency OR dispute OR ban OR banned OR impounded OR lockouts OR breach OR misled OR misleading OR nondisclosure OR "non-disclosure" OR falsify OR mismanagement OR mismanaged OR malpractices OR sacked OR sacking OR fired OR narcotics OR trafficking OR contraband OR smuggling OR bombing OR suit OR offence OR offences) • Dow Jones risk screening report for both project company and sponsors (request from Legal¹) • IBAT biodiversity risk screening tool • Climate risk assessment tool • SDG indicators and targets • Impact areas by sector • IFU Standard Indicators for IPs • Results Framework template 	<ul style="list-style-type: none"> • ESG self-assessment • IFC Performance Indicators for Corporates • IFC Performance Indicators for FIs • Corporate governance tools and guidelines 	<ul style="list-style-type: none"> • ESAP template • Results Framework template • ASR (Direct) template • ASR (Banks & MFIs) template • SI Questionnaire (Funds) (Microfinance Funds) templates • Sustainability Rules 	<ul style="list-style-type: none"> • Active ownership templates

¹ Currently via Tania Larson or Olivia Dedopoulos.

5. ESG and Impact Tasks

The investment process and tasks are defined by the following control gates:

- A. 1st Contact (FC) to Gate 1 Paper (G1P)
- B. Clearance in principle (CIP) approval
- C. Binding commitment (BC) approval
- D. Project (P) - Signing of agreement
- E. P to Exit - Active ownership & monitoring
- F. Exit



A. Control Gates: 1st Contact (FC) to Gate 1 Paper (G1P)

Tasks	Who to execute?	Archive in UCM	Log in ODIN
FC		-	-
1. Check project opportunity against IFU exclusion list	PM		
2. Check if project opportunity fits with IFU Investment Strategy - Focus Areas	PM		
G1P			
3. Complete Project Screening Tool and file in UCM	PM	Screening Tool	-
4. Conduct biodiversity screening, using IBAT to identify biodiversity risks	PM, SI-team support	-	
5. Create impact hypotheses, including Gender lens (Impact areas by sector)	PM, SI-team support	-	-
6. Generate G1P and file in UCM	PM	Gate 1 Paper	-
PM tools: E&S and impact toolbox <ul style="list-style-type: none"> • IFU exclusion list (IFU Connect/Investments/Investment process/E&S and impact toolbox) • Project Screening Tool • IBAT 'how to use' videos: introduction https://www.youtube.com/watch?app=desktop&v=YnpngcuoUDk & create a new project https://www.youtube.com/watch?app=desktop&v=34QvGITLZhU to view potential biodiversity risks. IBAT tool for biodiversity sensitivity (https://www.ibat-alliance.org/) and create personal profile to view biodiversity sensitivities • Impact areas by sector (IFU Connect/Investments/Investment process/E&S and impact toolbox/Impact areas by sector) • Guidance on Gender lens & 2X Challenge (IFU Connect/Investments/Sustainability/Gender lens) 			



B. Control Gate: CIP Approval

Tasks	Who to execute?	Archive in UCM	Log in ODIN
7. Ensure project is aware of Sustainability Rules , as attached to Term sheet	PM	-	-
8. Indicate E&S categorisation (A, B+, B, C): direct investments (construction phase and operational phase), fund investments using direct categories for fund pipeline, financial institution investments	PM, SI-team approve	-	• E&S categorisation log
9. E&S materiality assessment List project significant E&S issues in DD document, based on sector and location (Use CDC ESG sector profile toolkit , including IFC Performance Standards (PS) & IFC EHS Guidelines)	PM (cat. B & C) or SI-team (cat. A & B+)	-	-
10. Initial and specific E&S risk assessment a. Apply Human Rights contextual risk assessment for severe human right impacts, (based on Voluntary EDFI Guidance Note) b. Apply IBAT to identify biodiversity risks , and archive IBAT Report on UCM	PM (cat. B & C) or SI-team (cat. A & B+)	IBAT Report	-
11. Initial anti-corruption screening: check index (Transparency International Corruption Perception Index) to contextualise corruption risk; also use Google word search (use word string under PM tools below). Request Dow Jones screening report for both project company and sponsors, from Legal. Conclude if site inspection is needed, or if desktop screening is sufficient	PM	-	-
12. Assess climate vulnerability assessment (assess the level of river flood, earthquake, drought, cyclone, coastal flood, tsunامي, volcano, and landslide hazard within the project area)	PM (cat. B & C) or SI-team (cat. A & B+)	-	-
13. Assess financial additionality and non-financial additionality	PM	-	-
14. Identify impact areas , relate to SDG targets , review initial impact hypothesis for validity and propose indicators and targets in Results Framework template . Refer to IFU Standard Indicators for IPs , as guidance.	PM	-	-
15. Review impact scoring in Project Screening Tool before inserting summary into CIP presentation template	PM	-	-
16. Complete E&S and impact slides in CIP template: explain proposed E&S and impact DD, specify budget for technical assistance during DD	PM (cat. B & C) or SI-team (cat. A & B+)	-	-
17. Complete CIP template and archive on UCM	PM	CIP document	-

PM tools: E&S and impact toolbox

- Direct: [Guideline for E&S risk categorisation of projects](#) (IFU Connect/Investments/Investment process/E&S and impact toolbox)
- Funds: highest E&S risks category in pipeline, using [Guideline for E&S risk categorisation of projects](#) (IFU Connect/Investments/Investment process/E&S and impact toolbox)
- FIs: [EDFI Harmonised E&S Standards for FIs](#) (IFU Connect/Investments/Investment process/E&S and impact toolbox)
- CDC ESG sector profile toolkit (<https://toolkit.cdcgroup.com/sector-profiles/>)
- Corruption risk, using Transparency International Corruption Perception Index (<https://www.transparency.org/en/cpi/2020/index/nzl>)
- **Google word search (broader):** "Company name" (Corruption OR Bribery OR Conviction OR Investigation OR Allegations OR Indictment OR Fraud OR Money Laundering)
- **Google word search (narrower) - Corruption:** "Company name" (Crime OR criminal OR siphon OR evade OR evasion OR evading OR violation OR Defraud OR defrauded OR defrauding OR fraud OR fraudulent OR misappropriation OR misappropriated OR embezzlement OR embezzled OR default OR defaulted OR abuse OR abusive OR abused OR subprime OR Bribe OR bribery OR kickbacks OR graft OR corrupt OR corruption OR cheating)
- **Google word search (narrower) - Financial crime and fraud:** "Company name" (Insolvent OR insolvency OR dispute OR ban OR banned OR impounded OR lockouts OR breach OR Misled OR misleading OR nondisclosure OR "non-disclosure" OR falsify OR mismanagement OR mismanaged OR malpractices OR sacked OR sacking OR fired OR narcotics OR trafficking OR contraband OR smuggling OR bombing OR suit OR offence OR offences)
- Dow Jones risk screening report for both project company and sponsors (request from Legal²)
- IBAT for biodiversity sensitivity (<https://www.ibat-alliance.org/>) and create personal profile to view biodiversity sensitivities
- Climate vulnerability assessment tool (<https://thinkhazard.org/en/>)
- [SDG indicators and targets](#) (IFU Connect/Investments/Investment process/E&S and impact toolbox/SDG indicators and targets)
- [Impact areas by sector](#) (IFU Connect/Investments/Investment process/E&S and impact toolbox/Impact areas by sector)
- [Results Framework template](#) (IFU Connect/Investments/Investment process/E&S and impact toolbox)
- [IFU Standard Indicators for IPs](#) (IFU Connect/Investments/Investment process/E&S and impact toolbox)

Tools for SI-team:

- Direct: [Guideline for E&S risk categorisation of projects](#) (IFU Connect/Investments/Investment process/E&S and impact toolbox)
- Indirect: [EDFI guidelines for Funds](#), [EDFI Harmonised E&S Standards for FIs](#) (IFU Connect/Investments/Sustainability/EDFI guidelines)

ESG and Impact Guidelines

- IFC Performance Standards – [overview webinar training](#)
- [Guideline on international standards for sustainability](#) (IFU Connect/Investments/Sustainability/Other IFU guidelines)
- IFC Performance Standards https://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Sustainability-At-IFC/Policies-Standards/Performance-Standards
- IFC EHS Guidelines https://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Sustainability-At-IFC/Policies-Standards/EHS-Guidelines/
- EDFI Voluntary Guidance Note on Human Rights (under development)
- [Internal guideline for IFU human rights DD process](#) (IFU Connect/Investments/Sustainability/Other IFU guidelines)

² Currently via Tania Larson or Olivia Dedopoulos.



C. Control Gate: BC Approval

Tasks	Who to execute?	Archive in UCM	Log in ODIN
18. Cat. B & C: Check that greenfield/brownfield is correctly filled in ODIN registration and initiate ESG self-assessment on ODIN, in dialogue with project to identify gaps according to IFU Sustainability Policy - archive in UCM.	PM	ESG self-assessment	ESG self-assessment date, score
19. Cat. B & C: Check the answers in the ESG self-assessment against the IFC Performance Indicators for Corporates and IFC Performance Indicators for FIs	PM	-	-
20. Cat. B & C: Identify and negotiate with sponsor on international sustainability standards to be complied with and include into Sustainability Rules	PM	-	-
21. Cat. A & B+: Initiate ESDD using Environmental and Social Review Summary (ESRS) template	SI-team	-	-
22. For Direct Investment: incl. Human Rights (HuRi) risk assessment in ESDD using CPHSocial and archive in UCM	SI-team	Human Rights DD matrix	-
23. GHG assessment with UNEP-DTU; request and archive on UCM	SI-team	GHG report	-
24. Assess climate vulnerability and identify mitigation measures	SI-team	-	-
25. Assess project company's awareness and capability in anti-corruption	SI-team	-	-
26. Conduct corporate governance (CG) assessment, using IFU toolkit	PM	-	CG assessment
27. Validate E&S category (direct investments , fund investments using direct categories for fund pipeline, financial institution investments) to finalise DD requirements, liaise with SI-team to approve	PM	-	-
28. Conduct E&S site and community visit and compile report	PM, or cat. A, SI-team	Site visit report	-
29. Cat. A & B+: complete ESDD review using ESRS template	SI-team	ESRS & ESDD	-
30. Cat. B & C: conclude E&S risk and context assessment, DD result into ES slide BC template (incl. IBAT, Think Hazard and for Direct, also HuRI contextual risks analysis tool), prepare ESAP using ESAP template	PM	-	-
31. Assess and validate the impact hypotheses during DD	PM / SI-team	-	-
32. Define Impact Creation Plan , as per BC template	PM / SI-team	-	-
33. Prepare Results Framework , by obtaining data from company and validate	SI-team	Results Framework	-
34. Complete E&S and impact slides in BC template	PM (cat. B & C) or SI-team (cat. A & B+)	-	-
35. Complete BC template and archive on UCM	PM	BC document	-

PM tools: E&S and impact toolbox

- [ESG self-assessment](#) (ODIN/registration/ESG self-assessment)
- [IFC E&S Performance Indicators for Corporates & FIs](#)
- [Corporate governance tools and guidelines](#) (IFU Connect/Other/Corporate governance)

Tools for SI-team:

- [Environmental Social Review Summary \(ESRS\) template – Fund Investments](#) (IFU Connect/Investments/Sustainability/Tools for SI-team)
- [Environmental Social Review Summary \(ESRS\) template – FI Investments](#) (IFU Connect/Investments/Sustainability/Tools for SI-team)
- [Environmental Social Review Summary \(ESRS\) template – Direct Investments](#) (IFU Connect/Investments/Sustainability/Tools for SI-team)
- [IFC E&S Performance Indicators for Corporates & IFC Performance Indicators for FIs](#) with guidance provided on below link:
https://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Sustainability-At-IFC/Company-Resources/ESG+Performance+Indicators_SA/
- [Results Framework template](#) (IFU Connect/Investments/Investment process/E&S and impact toolbox)

ESG and Impact Guidelines

- [IFU Sustainability Policy](#) (IFU Connect/Investments/Sustainability/ESG policies)
- [CDC ESG toolkit sector profile](#) (<https://toolkit.cdcgroup.com/sector-profiles/>)
- [Guideline on international standards for sustainability](#) (IFU Connect/Investments/Sustainability/Other IFU guidelines)
- [EDFI Guidelines for IFU Investment in Funds](#) (IFU Connect/Investments/Sustainability/EDFI guidelines)
- [EDFI Harmonized E&S Standards for Financial Institutions](#) (IFU Connect/Investments/Sustainability/EDFI guidelines)
- [IFC Performance Standards](#) https://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Sustainability-At-IFC/Policies-Standards/Performance-Standards
- [IFC EHS guidelines](#) https://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Sustainability-At-IFC/Policies-Standards/EHS-Guidelines/
- [IFC E&S Performance Indicators for Corporates & IFC Performance Indicators for FIs](#) with guidance provided on below link:
https://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Sustainability-At-IFC/Company-Resources/ESG+Performance+Indicators_SA/
- [Internal guideline for IFU human rights DD process](#) (IFU Connect/Investments/Sustainability/Tools for SI-team)
- [Methodology for the analysis of IFU's climate footprint 2020](#) (IFU Connect/Investments/Sustainability/Other IFU guidelines)



D. Control Gate: Project (P) - Signing of Agreement

Tasks	Who to execute?	Archive in UCM	Log in ODIN
36. Finally negotiate and finalise ESAP	PM (cat. B & C) or SI-team (cat. A & B+)	-	ESAP deadline date
37. Finally negotiate and finalise Results Framework	PM	Results Framework	Results Framework targets and dates
38. Ensure the project company understands IFU's requirements for the Annual Sustainability and Impact Reporting	PM	-	-
39. Ensure ASR template is part of agreement	PM	-	-
40. Ensure Sustainability Rules are part of SHA, or provisions included into SHA	PM (cat. B & C) or SI-team (cat. A & B+)	SHA incl. Sustainability Rules	-
41. Ensure PSN has SI-team signing	PM	PSN with SI-signature	-
42. Cat. A & B+: finalise and archive ESRS	SI-team	ESRS	-
PM tools: E&S and impact toolbox <ul style="list-style-type: none"> • ESAP template (IFU Connect/Investments/Investment process/E&S and impact toolbox) • Results Framework template (IFU Connect/Investments/Investment process/E&S and impact toolbox) • ASR (Direct) template (IFU Connect/Investments/Investment process/E&S and impact toolbox) • ASR (Banks & MFIs) template (IFU Connect/Investments/Sustainability/Project reporting tools) • SI Questionnaire (Funds) (Microfinance Funds) templates (IFU Connect/Investments/Sustainability/Project reporting tools) • Sustainability Rules (IFU Connect/Legal/Term sheets) • Project Signing Note (PSN) 			

FC to G1P

G1P to CIP

CIP to BC

BC to P

P to Exit

E. Control Gates: P to Exit - Active Ownership & Monitoring

Tasks	Who to execute?	Archive in UCM	Log in ODIN
43. Ensure ESG and impact issues are discussed regularly at board meetings (Investment committees/advisory boards for Funds)	PM / IFU Board member	-	-
44. Conduct ESG site visit, as applicable, and compile a site visit report	PM / SI-team	Site report (inhouse or by consultant)	-
45. Fund investment (special): Review the E&S due diligence documents of the first three investments	SI-team	-	-
46. Conduct active ownership review of ESAP and Results Framework	PM	Updated ESAP, if required	-
47. Initiate ASR (Direct or Banks) distribution to PMs	SI-team	-	-
48. Send ASR request to projects	PM	-	-
49. Review ASR received and approve	PM	ASR PDF	ASR
50. Fund investment: Review annual ESG report and extract relevant E&S and impact data	SI-team	Fund Annual Report	-
51. Fund investment: distribute, collect and review SI Questionnaire for Funds	SI-team	SI Quest. for Funds	-
52. Review ad-hoc reporting in case of significant incidents	PM	Incident Report	-
53. Monitor Results Framework annually, report and communicate performance to board member	PM	Results Framework monitoring report	-
54. Participate in ESG committees, as applicable	SI-team	-	-
55. Consider/apply a grant from Sustainability Facility	SI-team	-	-
56. Consider initiating a Gender lens project	PM	-	-
PM tools: E&S and impact toolbox <ul style="list-style-type: none"> • Active ownership templates (IFU Connect/Investments/Investment process/Active ownership) • ASR (Direct) template (IFU Connect/Investments/Investment process/E&S and impact toolbox) • ASR (Banks & MFIs) template (IFU Connect/Investments/Sustainability/Project reporting tools) • Gender Equality Scorecard, with introduction and calculation sheet (IFU Connect/Investments/Sustainability/Gender lens/Gender Equality Scorecard) Tools for SI-team: <ul style="list-style-type: none"> • ASR Direct (IFU Connect/Investments/Investment process/E&S and impact toolbox) • ASR (Banks & MFIs) template (IFU Connect/Investments/Sustainability/Project reporting tools) • SI Questionnaire (Funds) (Microfinance Funds) templates (IFU Connect/Investments/Sustainability/Project reporting tools) ESG and Impact Guidelines <ul style="list-style-type: none"> • Guide to Sustainability Facility (IFU Connect/Investments/Funds and facilities/Sustainability facility) 			

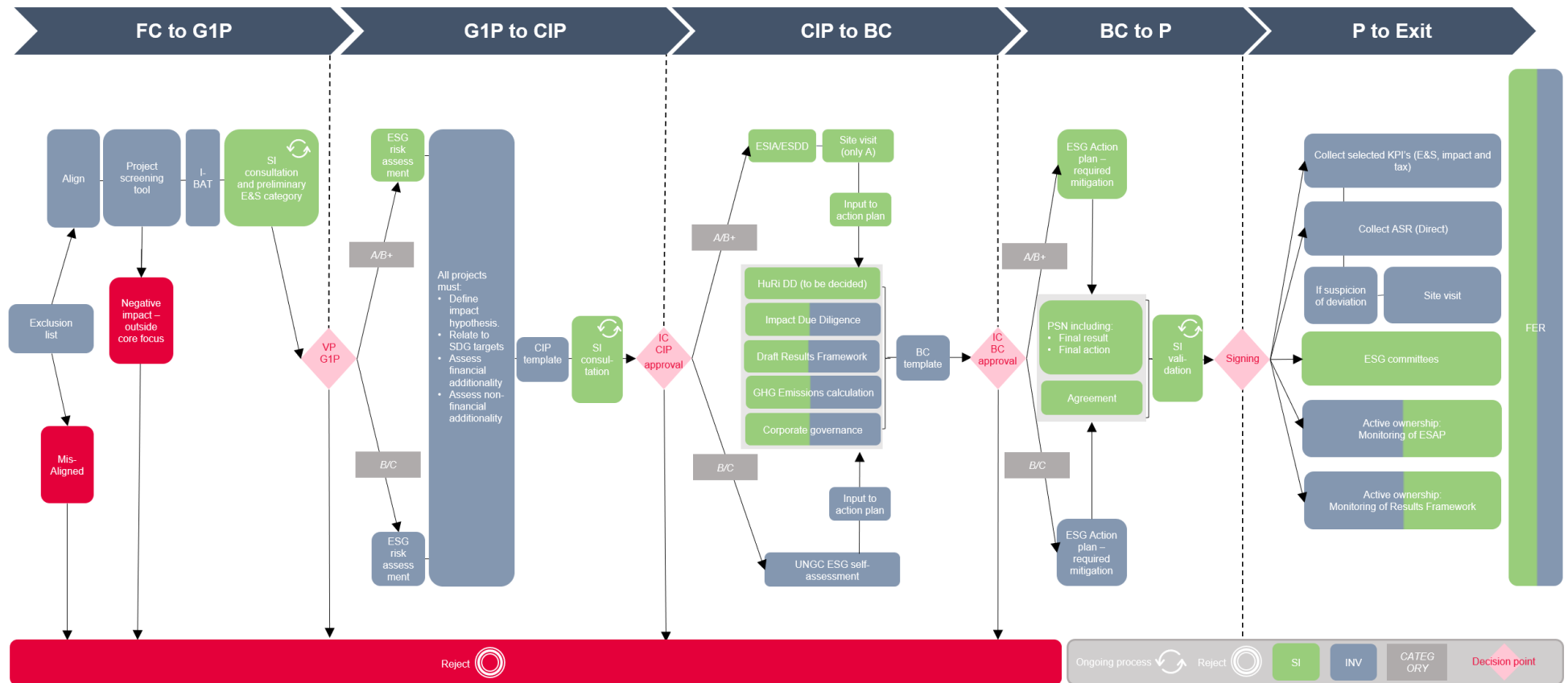


F. Control Gate: Exit

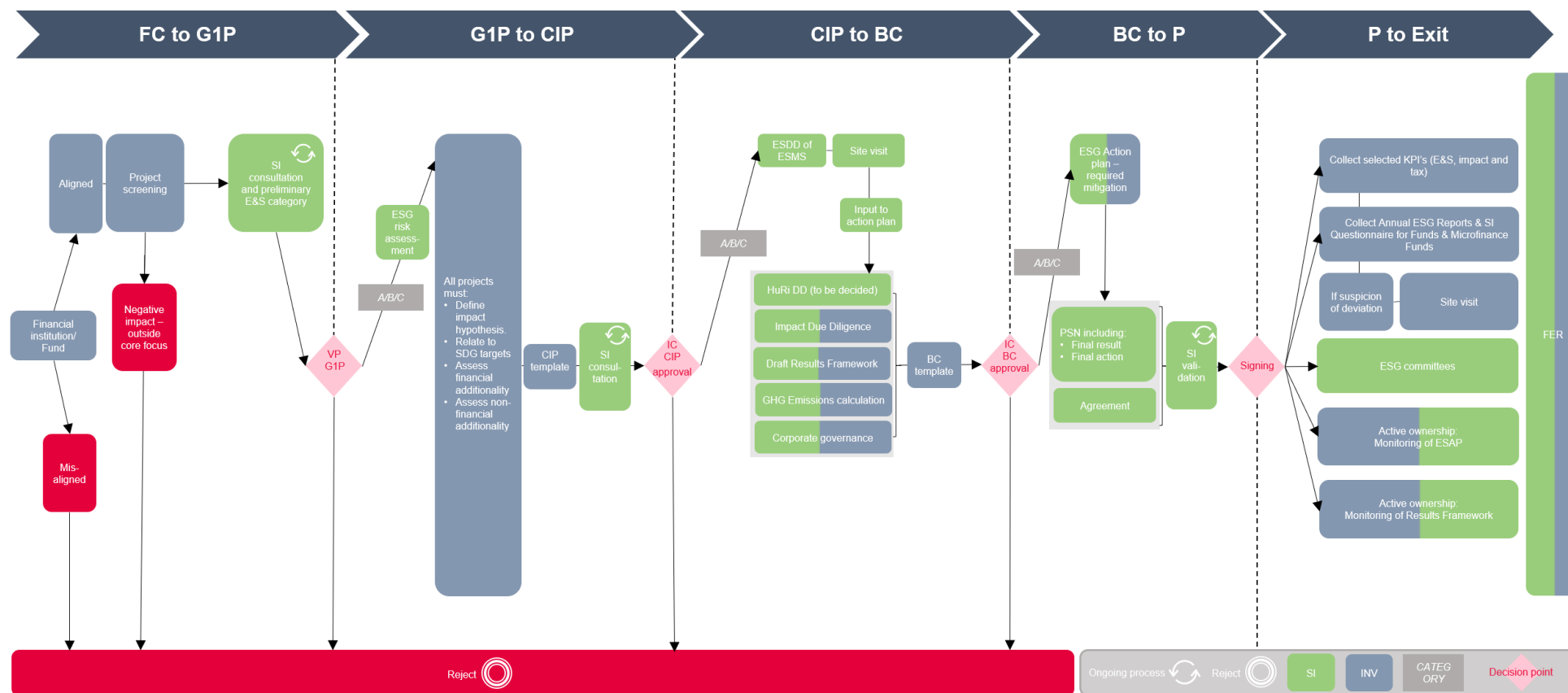
Tasks	Who to execute?	Archive in UCM	Log in ODIN
57. Assess if Results Framework targets have been achieved	PM	-	-
58. Check whether ESAP is completed	PM	-	-
59. Check whether ASR has been completed on a regular basis	PM	-	-
60. E&S and impact assessment, if required where significant E&S risks prevail (potential liability risks)	SI-team	-	-
61. Complete Final Evaluation Report	PM	-	-
PM tools: E&S and impact toolbox <ul style="list-style-type: none"> Final Evaluation Report 			

6. Appendices

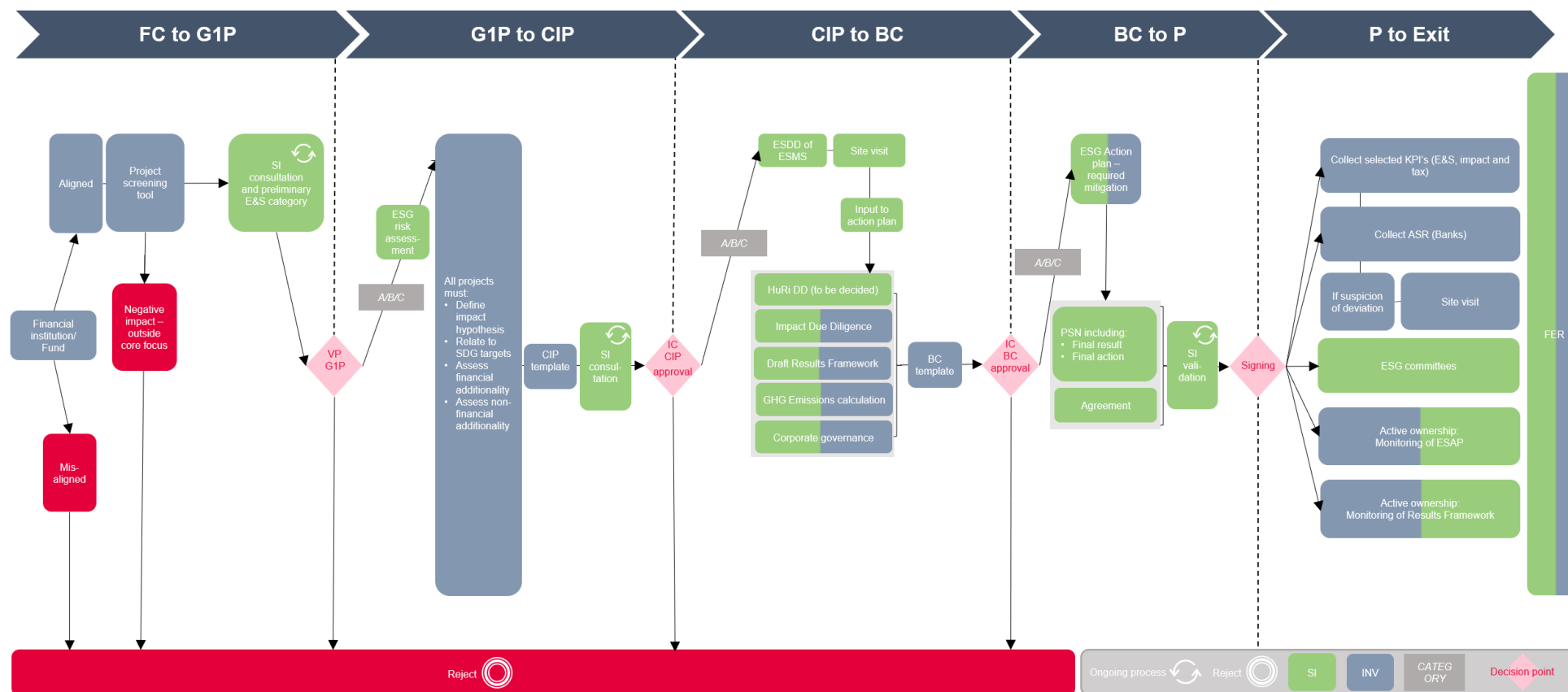
Appendix A: ESG and Impact Process for Direct Investments



Appendix B: ESG and Impact Process for Fund & Platform Investments



Appendix C: ESG and Impact Process for Financial Institution (Banks & Microfinance) Investments



Annex 14 Process Action Plan for Implementation

PROCESS ACTION PLAN		
Activity	Timing/deadline <i>[month or quarter]</i>	Responsible
Finalisation of project/programme document following PC meeting	29. August to 5. September	GDK
Appraisal	5. September to 1. October	ELK
Follow up on appraisal recommendations	1. October to 8. October	GDK
Presentation for the Council for Development Policy (UPR)	26. October	GDK
Finalisation of project/programme documentation	November	GDK
Approval by the Minister	November	GDK
Expected timing of commitment	November	GDK