<u>Minutes from meeting in the Council for Development Policy 13 November 2019</u>

Present:

Members:	Professor Emeritus Georg Sørensen, University of Aarhus (Chair) International Director Gunvor Bjerglund Thomsen, The Danish Youth Council (Vice Chair) Head of Projects Tine Bork, SMEdenmark Director Jan Laustsen, The Danish Agriculture & Food Council Associate Professor Michael Wendelboe Hansen, Copenhagen Business School Partner Marina Buch Kristensen, Nordic Consulting Group Director Mads Bugge Madsen, The LO/FTF Council
MFA:	Under-Secretary for Development Policy Stephan Schønemann Head of Department Mikael Hemniti Winther, Technical Quality Support Deputy Head of Department Signe Skovbakke Winding Albjerg, Department for Africa, Policy and Development Adviser Mette Brink Madsen, Department for Technical Quality Support
Agenda item 2:	Head of Department Ole Thonke, Deputy Head of Department Lis Rosenholm and Chief Adviser Jørn Olesen, Department for Sustainable Growth and Employment
Agenda item 3:	Head of Department Ole Thonke, Deputy Head of Department Lis Rosenholm Chief Adviser Magnus Cedergren, Department for Sustainable Growth and Employment
Agenda item 4:	Under-Secretary for Development Policy Stephan Schønemann, Deputy Head of Department Signe Skovbakke Winding Albjerg and Chief Adviser Dorte Chortsen, Department Africa, Policy and Development, Deputy Head of Department Søren Davidsen, Department for Technical Quality Support, Deputy Head of Department Asser Rasmussen Berling, Department for Multilateral Cooperation and Climate Change, Deputy Head of Department Lis Rosenholm, Department for Sustainable Growth and Employment

Agenda item no. 1. Announcements

The Under-Secretary for Development Policy briefly informed the Council about an ongoing reorganisation of the MFA, which among other things aimed at establishing a stronger organisation on issues related to development policy and management of the development cooperation. Furthermore, a new climate ambassador had been appointed to reflect the Government's ambitions on climate, and a new department focusing on green transition would be established in the MFA.

Agenda item no. 2. Commitment to IFU for investment in the water sector

For discussion and recommendation to the Minister
DKK 50.0 million
(Department for Sustainable Growth and Employment, BVB)

Summary:
There is an urgent need to increase investments in the water sector in developing countries. Inadequate water and sanitation systems at all levels have great negative impact on social and economic development. The challenges of improving the water sector in developing countries in terms of project development, construction and operation have reached a scale that calls for a joint international effort by donors, development finance institutions (DFIs), and private investors. Climate Investor 2 (CI2) is designed to address these challenges as a Public Private Partnership for the promotion of responsible and sustainable water investments. CI2 will have a targeted capital of USD 500-1,000 million of which USD 150-200 million is expected to be committed from donors, and the remaining from DFIs and private investors. The MFA commitment will be allocated through IFU, which will invest the funds in the Development Fund and the most risky part of the Construction Fund of CI2. It is further expected that IFU will invest a substantial amount of own funds in the medium risk class of the Construction Fund.

The Council for Development Policy recommended the project for approval by the Minister for Development Cooperation.

The Department for Sustainable Growth and Employment (BVB) briefly presented the background for the proposal. Investments in water and sanitation in developing countries were inadequate, and the challenges were aggregated by population increase, urbanisation, climate changes, etc. It was likely that the water sector would gradually be able to attract private finance, and mirror developments within renewable energy where private investors were initially reluctant. Ideas of establishing a Danish investment facility in cooperation with IFU and Danish investors had not been possible due to inadequate resources, and CI2 was therefore a timely and promising international initiative, which could also engage Danish economic interests. It was further emphasised that CI2 could only address investment challenges in parts of the water sector.

The Council appreciated the proposal of promoting investments in water infrastructure and asked for further details about the indicated business models and types of projects. The Council further asked whether the water sector was an investment area suitable for private stakeholders, and whether there was interest among Danish investors and suppliers.

The Council further expressed concerns regarding tender processes related to blended finance initiatives and the Council recommended communicating clearly to potential stakeholders how and when it would be possible to bid.

The Council noted that CI2 would not invest in complex water infrastructure projects where the risk of social conflicts could be high. In that regard, the Council underlined the potential risks related to water as an area of conflict. The Council asked for further details about the type of investment projects to be prioritised, and how CI2 would distinguish between sensitive and non-sensitive projects. The Council further called for further information regarding the relation between commercial and non-commercial interests.

The Council noted that CI2 would invest 25 per cent in low-income countries and 25 per cent in North and West African countries and the rest in lower and upper middle-income countries. In this regard, the Council questioned whether this was sufficiently ambitious or whether IFU should focus more on the poorest countries.

The Council questioned whether all water projects could be categorised as climate projects, and whether there was a risk of overlap between various investment initiatives. The Council further asked why the project had not been finally cleared with IFU and to what extent IFU would contribute.

The Council noted that CI1 was only at an early stage of implementation, and asked whether there was evidence that the fund manager would also be able to manage water projects. Finally, the Council asked for further details concerning the expected return on the investments.

BVB informed the Council that IFU had participated in the entire preparation process, and that it was important that IFU actively engaged in CI2 in order to gain more experience in water and sanitation investment, and in order to establish a network and contacts that could benefit Danish companies and investors. IFU was very interested in CI2 and was preparing a commitment, which would be presented to the IFU board shortly. The proposal was in line with IFU's investment mandate. IFU could invest in all DAC countries, but at least 50 per cent of the investments had to be made in countries with a GNI per capita of 80 per cent of the upper limit of lower middle-income countries.

BVB highlighted the general promising performance of CI2, the competences and experience of CI2 ESG staff, as well as the comprehensiveness of its sustainability guidelines. CI2 was in close dialogue with NGOs. BVB further informed the Council that CI2 would only invest in new projects, which could be adequately designed from the ground. CI2 would mainly invest in industrial water and wastewater projects, e.g. in relation to new industrial areas. Most water projects could also be considered climate projects, as 40-60 per cent of the operation costs were related to energy. For example, the CI2 business model was based on energy efficiency, efficient re-use of water and waste, and complementary investments in renewable energy facilities to ensure cost effective energy supply.

The Chairman noted that the members had raised a number of questions in relation to the specific role of IFU, Danish interests, the types of investment projects, relations between commercial and non-commercial interests, assessment of CI1, climate friendly solutions in the water sector, water as a sensitive sector, as well as engagements in low-income countries. Based on the responses and ensuing exchanges, the Chairman concluded that the project proposal could be recommended for approval by the Minister.

Agenda item no. 3. Global Infrastructure Facility: Developing Climate Smart Infrastructure Projects

For discussion and recommendation to the Minister
DKK 150.0 million
(Department for Sustainable Growth and Employment, BVB)

Summary:
There is a need for more bankable projects in emerging markets and developing countries in order to fulfil the SDG's and the Paris Declaration. The Global Infrastructure Facility (GIF) is hosted by the World Bank and works with all multilateral development banks to support the development of bankable climate smart infrastructure projects. The GIF was established in 2015 and has provided technical advisory services to project preparation activities. From 2020, the GIF will launch three risk mitigation facilities backed by a new loan and guarantee fund that will cover residual risks preventing projects from reaching financial close. The GIF is expecting to mobilise USD 130-150 billion in investments, including USD 80-100 billion from private investors. The MFA is preparing a contribution of DKK 150 million. Other donor contributions are expected from the European Commission, Japan and Canada. The MFA will take an active role in the Governing Council and promote a strong engagement in low and lower income countries, will have a stronger focus on climate smart investments, and closely monitor outcomes from supported investments. Danish investors, including IFU, will be encouraged to participate in the Advisory Council of the GIF as this may provide a pipeline for investment opportunities.

The Council for Development Policy recommended the project for approval by the Minister for Development Cooperation.

The BVB Department introduced the project by highlighting that financing the SDGs would require substantial investments from the private sector as domestic public resources and official development assistance fell far below the resources needed. Private institutional investors managed vast amounts of capital with a growing interest to invest in infrastructure in emerging markets and developing countries. An indication of this was the statement by Danish pension funds at the recent UN Climate Change Summit in New York that the Danish pension industry planned to invest more than USD 50 billion in green transition, including in energy infrastructure. A precondition for increasing investments in critical infrastructure was the existence of bankable projects with an acceptable balance between risk and return. However, there was a severe shortage of such projects in developing countries. The proposed contribution to the GIF aimed at supporting the development of bankable projects, which could attract private capital for more investments in climate smart infrastructure.

The Council noted that the project description was very technical and it was therefore difficult to grasp the actual content of the project. The Council further noted that while project finance was a complex issue, the primary objective was to increase private investments and not climate investments per se. In that regard, the Council warned against green washing.

The Council called for further information regarding the specific projects in the pipeline and information about how they were initiated. The Council also called for information on the geographical scope of the project. The Council questioned the Danish engagement in infrastructure projects, as this was no longer considered a Danish priority. In this regard, further questions were raised about the specific definition of infrastructure.

The Council asked about the comparative advantage and the 'additionality' of Danish support to the GIF. It was questioned whether the shortage of bankable projects was due to market conditions. The Council further noted the many potential risks described in the project. The Council asked what risks the private investors carry, and whether GIF covered all risks. The Council also asked how it could be avoided to include projects, which did not necessarily needed risk coverage.

The Council raised concerns regarding potential overlap between different project preparation facilities, and regarding the 'additionality' of the GIF. Questions were also raised regarding various exit options and the fact that one obtain was to waive the rights of the funds. The Council noted that the GIF would monitor impact by measuring improvements in infrastructure services, but that the GIF was not monitoring long-term poverty reduction and growth. In that regard, the Council strongly recommended an increased focus on how development impact and poverty reduction could be measured. Finally, several members called for a coherent overview of the different financing facilities supported by the MFA.

BVB acknowledged that project finance was a complex matter, but that the international community was still far below the target of moving 'from billions to trillions' in terms of the financing required for realising the SDGs. It was noted that the GIF had a unique position in the ecosystem of project preparation by working with all multilateral development banks and with developing country governments providing the project pipeline. The GIF supported development of infrastructure projects within energy, water & sanitation, transport as well as information and communications technology.

BVB informed the Council that the GIF had conducted a thorough market assessment of residual risks not being covered by the market. Based on this assessment, the GIF had designed three specific facilities to address such risks. The GIF had developed a set of rigorous principles to ensure that the GIF was additional to the market in order to avoid any risk for market distortion.

BVB noted that it was the aspiration that Danish investors, including IFU, would participate in the Advisory Council as this could provide access to pipeline and investment opportunities.
BVB clarified that as the GIF was designed to support the initial development of projects rather than implementation of the investments, the long-term effects would be monitored by the multilateral development banks providing the long-term investments. However, it was agreed that

there was indeed a need to ensure that there was a feedback on high-level impact from the development banks to the GIF.

It was further noted that the eligibility requirement of climate smart investments should translate into real climate smart investments and not green washing in any form. Regarding exit strategy, it was clarified that MFA intended to monitor and advise the GIF for five years. After that, the preferred option was to waive the rights of the remaining funds, but that would be determined based on achieved results.

The Chairman concluded that the project was considered relevant. It was, however, quite a complex project, but the Council's questions regarding Denmark's role, added value, climate smart solutions and the overall objective had been answered satisfactorily and therefore the Council could recommend the project for approval by the Minister for Development Cooperation.

Agenda item no. 4: Thematic discussion: Doing Development Differently
For discussion
(Under-Secretary for Development Policy)

The Under-Secretary for Development Policy welcomed the opportunity to discuss the efforts across the Ministry of Foreign Affairs and Danish missions to "Do Development Differently" (DDD). It was work now organised as an internal project with dedicated extra staff resources, and drawing on a number of departments and staff across the organisation in Copenhagen and at Danish missions abroad. Focus was on "how" to do things differently, rather than on what, where and how much. The aim of the efforts is to 1) ensure a more holistic approach to Denmark's development engagement overall and a stronger coherence between all Danish instruments; and 2) to introduce a more adaptive approach to the programming cycle, enhance the use of lessons learned and promote a stronger focus on results. Currently, work was ongoing to test ways to ensure a more holistic approach to Danish country level engagements in a number of priority countries. The Council would be part of this when the draft strategic framework for Denmark's overall engagement in Kenya was presented to the Council at its December meeting.

The Council fully supported the objectives of the work that had been initiated. It also supported the much earlier and more strategic involvement of the Council in advising the Minister for Development Cooperation on country strategies and on the strategic allocation of the Finance Act budget for priority countries. It welcomed a more recurrent discussion in the Council of the implementation of the country strategies, progress and need for adjustments.

Some members raised questions on how to ensure the quality of the underlying grants to programmes and projects in priority countries if the Council would not be involved in reviewing them in detail. Members emphasised that it was key that the submission at the strategic level would not be too light. Some members asked whether the principle that proposals for grants above DKK 39 million had to go through the Council would now no longer be applicable.

Several members stressed the need to ensure a proper balance between focusing on Danish interests and ensuring local ownership. Development challenges and ownership were still key. The adaptive approach required both the willingness to take risks, and clarity on when to adapt and how to make that decision. One member asked what had prompted the work on DDD, whether it was scarce resources, and why the work had not been initiated before.

The Council welcomed a stronger and more strategic Danish engagement in multilateral organisations and the EU. Some members asked if the trend of increased use of multilateral channels was an effect of budget cuts. The Council agreed that a qualified dialogue with the multilateral organisations required efficient use of lessons learned from Denmark's bilateral engagement at country level and ability to engage with the multilateral partners there. That would require resources and technical skills that were currently not always present among staff at the Embassies. The Council recognised that "doing development differently" would require substantial changes in the organisation, including strengthening learning and knowledge sharing. It welcomed the ambition and was ready to support a move in that direction. It also welcomed the inclusion and use of the Council into the process of "trial and error". The use of country task forces as a central element in the work for coherence in Denmark's development engagement was welcomed. It was noted that it would also be key to ensure coordination and sharing of learning across countries and instruments as well as finding systems to capture learning and knowledge.

On the issue of public consultations and overall transparency, members welcomed adding early public consultations to the process of developing country strategic frameworks. While some members questioned the wish to exempt minutes from meetings in the internal Programme Committee from publication, others showed understanding for this, but asked that the Council would receive the minutes in confidence.

The Under-Secretary for Development Policy stated that the work on DDD was presented in earnest to solicit the views of the Council and allow it to influence its strategic direction. There was great appreciation for the work of the Council and the attempt was now to allow the Council to exert its influence at the strategic level, something the Council had often asked for. It was at that level the Council could get involved in setting real direction across all instruments in a country, including on the strategic allocation of the country level funding on the Finance Act, i.e. the funding that was currently used for country programmes. The submission to the Council and the Minister of those grants would therefore be at the strategic level, while other grants above DKK 39 million would be submitted as they were today. The Council would in fact be presented with quite substantial documentation on the priority country engagements through the submission of the strategic framework. While the Council would not review the detailed project documentation for priority country engagements, there would be frequent check-ins with the Council during implementation of the overall strategy. The Under-Secretary noted that some of the work on DDD was inward looking, but the adaptive approach was basically about reacting to local conditions. It was also underscored that the work was not a budget saving exercise. The Ministry was on-boarding more staff, and a new department was being established to better link quality assurance, technical capacity, and learning. The use of Task Forces would be a key investment in the process where technical experts would also play an important role. On the issue of transparency in the work of the Programme Committee, the Under-Secretary took note of the concerns of some of the members, but also emphasised the Ministry's need for a learning "lab", where the organisation could close its door and have an internal conversation in confidentiality. That was probably not unlike other organisations.

On what initially prompted the work on DDD, the DDD project team noted that a number of trends in the way the Ministry had approached development interventions had been deciding factors. This included the fact that a number of mid-term reviews over the course of the past years had shown that there often was none or little coherence between country programme engagements and Copenhagen managed instruments in a sector. This had resulted in a lot of wasted potential for synergy and effect. It was noted that the adaptive approach was focused on change and transformation processes and on how to adapt to the local context. It was about ensuring higher quality and more results. That would require stronger use of learning and deep knowledge of the local context. On multilateral collaboration, there was an increased share of funds going through these channels. This underlined the need for stronger and more strategic collaboration across MFA units and missions – and not least with the multilateral partners themselves. There was a need to strengthen that work, but at the same time in a light and lean manner due to conflicting demands on time and resources.

The Chair concluded that there was a lot to gain from the DDD approach and the new initiatives this entailed. The Council would support the Ministry in the endeavour.

Agenda item no. 5. AOB.

No points were raised.