

Danish Sustainable Infrastructure Finance (DSIF) Project Development Facility

Key results:

- Local authorities in developing countries enabled to present project proposals for financing of infrastructure under DSIF and thereby support delivery of services in line with their SDGs.
- Increased local authorities' ownership and capacity to apply the life-cycle principle in infrastructure projects.
- Better project proposals presented to DSIF, which consider poverty reduction and green economy from the idea stage, enabling effective and efficient implementation of the new DSIF Strategy.

Justification for support:

- As a prerequisite for the DSIF loans, the PDF indirectly delivers on Denmark's key development priorities as set out in 'The World We Share' and contributes to delivering the government's global climate action plan.
- With a focus on water and energy sectors, the support will contribute to poverty reduction in geographical priority areas, where the population is predominantly poor.
- Support to project preparation ensures better quality project proposals to be submitted for DSIF financing and better local understanding and ownership of the life-cycle cost principle for infrastructure investments.

Major risks and challenges:

- Project proposals not reaching the final stage for a loan agreement and/or being delayed due to countries often suffering from turbulent political and economic conditions.
- Lack of capacity and interest by the project owner/authorities to develop project proposals based on the life-cycle cost principle applied by DSIF.
- Operational constraints in the PDF due to an increase in the financial envelope for DSIF combined with staffing constraints causing the Strategy 2021 – 2024 not to be fully executed.

File No.	2022-31221				
Country	DSIF eligible countries – Annex 5				
Responsible Unit	GDC				
Sector	Infrastructure				
Partner	Danish Sustainable Infrastructure Finance				
	<i>DKK million</i>	2022	2023	2024	2025
Commitment		25	25		50
Projected		11.8	12.6	14.2	11.4
Duration	4 years, 2022-25				
Previous grants	2017-2021, DKK 50 million				
Finance Act code	06.38.01.14.				
Head of unit	Karin Poulsen				
Desk officer	Helene Merete Bangert				
Reviewed by CFO	YES: Rasmus Tvorup Ewald				
Relevant SDGs					

Objectives:

Overall objective: To establish sustainable and climate-relevant infrastructure in developing countries and thereby contribute to promoting the UN's SDGs in line with Denmark's development policy priorities.
 Immediate objective of PDF: Enable local authorities in developing countries to present project proposals for financing of infrastructure under DSIF and thereby increase DSIF pipeline.

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%	0%	100%
Total green budget (DKK)	DKK 25 million	DKK 25 million		DKK 50 million

Justification for choice of partner:

The management of DSIF was in 2017 moved from the Danish Ministry of Foreign Affairs (MFA) to the Investment Fund for Developing Countries (IFU). DSIF's mandate is to deliver on Denmark's strategy for development cooperation and hence DSIF's strategy for 2021-2024 is closely aligned with Danish policy priorities. The choice of IFU as administrative unit for DSIF-PDF rests on the recognition of the symbiotic relationship between the DSIF PDF and the DSIF financing facility housed by IFU, and that the PDF has demonstrated its value in the preparation process for projects eligible for DSIF financing.




















































Summary:

The DSIF facility provides access to financing of infrastructure projects in developing countries for projects which have difficulties finding financing due to lack of public funds and/or lack of private sector interest due to their non-financially viable nature. The PDF supports local partners and authorities in developing countries to formulate and present project proposals for financing under DSIF. The facility provides access to financing in connection with the development of projects that may be financed by DSIF. Ultimately, this contributes to socially, economically, and environmentally sustainable infrastructure helping developing countries to deliver on their SDGs.

Budget (engagement as defined in FMI):

The project development facility	DKK 49 million
Midterm review	DKK 1 million
Total	DKK 50 million

Danish Sustainable Infrastructure Finance (DSIF) Project Development Facility

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Danish support to

**Danida Sustainable Infrastructure Finance (DSIF) Project
Development Facility (PDF)
2022 - 2025**

Project Document

2 November 2022

F2: 2022-31221

GDK

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Abbreviations

DFI	Development Finance Institution
DKK	Danish Kroner
DSIF	Danida Sustainable Infrastructure Finance
ELQ	Evaluation, Learning & Quality
GDK	Grønt Diplomati og Klima/Green Diplomacy and Climate
IFU	Investeringsfonden for Udviklingslande /Investment Fund for Developing Countries
ILO	International Labour Organisation
LDC	Least Developed Countries
MFA	Ministry of Foreign Affairs
ODA	Official Development Aid
OECD	Organisation for Economic Co-operation and Development
PAP	Process Action Plan
PD	Project Document
PDF	Project Development Facility
SC	Steering Committee
SSC	Strategic Sector Cooperation
TOC	Theory of Change
TOR	Terms of Reference
UNCTAD	UN Conference on Trade and Development
UPR	Council for Development Policy
USD	United States Dollar

Definitions:

DSIF	DSIF refers to the financing instrument named: Danida Sustainable Infrastructure Finance. It has two interlinked parts: DSIF Program Development Facility (PDF), which is the focus in this document and DSIF loan facility, which takes over after the PDF ends and not in focus in this document.
DSIF-team	DSIF-team refers to the technical team in IFU and is used for the group of people in charge of the daily management and administrative tasks related to the implementation of DSIF Strategy.
Financially non-viable	Projects which lack the capacity to generate sufficient cash flow to cover the project's operating costs and service the capital employed under standard export credit with 10 years maturity
Life-cycle cost approach	Life-cycle cost (LCC) refers to the total cost of ownership during the life of an asset. Costs considered include the financial cost, and the environmental and social costs. Typical areas of expenditure which are included in calculating the whole-life cost include, planning, design, construction and acquisition, operations, maintenance, renewal and rehabilitation, depreciation and cost of finance and replacement or disposal.

1. Introduction

The proposed project concerns a financial contribution to the Investment Fund for Developing Countries (IFU) of DKK 50 million to finance the Danida Sustainable Infrastructure Finance (DSIF) Project Development Facility (PDF) for the period 2022-2025.

Danida Sustainable Infrastructure Finance (DSIF) was established by the Danish Ministry of Foreign Affairs (MFA) in 1993 and provides finance to financially non-viable sustainable infrastructure projects in developing countries. DSIF is part of the Danish development assistance portfolio. The overall purpose of DSIF is to ensure access to finance for major public infrastructure projects that cannot be financed on market terms in developing countries. By promoting investment in sustainable infrastructure, DSIF supports the UN 2030 Agenda, the Sustainable Development Goals and contributes to creating a better framework for growth and employment.

DSIF projects are eligible in low-income countries and lower middle-income countries with a Danish representation, mainly as tied aid. The new DSIF Strategy (2021 – 2024) focuses on three areas: water (clean drinking water and wastewater handling), energy (several subsectors, including wind energy), and transformational projects (leveraging Danish strengths and testing innovative approaches within other sectors). Green transition being a cross cutting focus/priority. The Strategy foresees two-thirds of the DSIF investments will be focused on the African countries.

To facilitate the preparation of DSIF projects and strengthen the DSIF project pipeline, a Project Development Facility (PDF) was established in 2017 with a grant of DKK 50 million to support authorities in developing countries to prepare and present project proposals for financing under DSIF. The present proposal for a next phase of the PDF is a continuation of the previous phase.

The purpose of the DSIF Project Development Facility (PDF) is to enable authorities in developing countries to present project proposals for financing under DSIF (building the DSIF pipeline), with the following two outcomes: applications for DSIF support and capacity building of local authorities. The facility provides access to financing in connection with the development of projects that may be financed by DSIF. Such projects may have difficulties finding financing during the development phase due to limited public funds and lack of interest from private investors. The preparation phase covers the period up to the approval of DSIF projects by the Danish Minister for Development Cooperation.

An evaluation of DSIF in 2021 and a mid-term review of the PDF in 2022 both found that the PDF has demonstrated its value in supporting the process of developing projects eligible for DSIF financing. Further, that the PDF can be considered a significant value added to the functioning of the DSIF as it allows the DSIF-team to engage proactively with stakeholders at various points during the preparation phase.

Both the evaluation and the mid-term review also pointed to challenges experienced during the previous phase. While the PDF project proposed in this document is a continuation of the previous phase of the PDF, processes and procedures will be assessed and strengthened. The DSIF-team has identified key lessons from the two studies that will inform the implementation of the PDF work-programme for 2022 – 2025 and which have been considered in the formulation of this project document.

Actions to ensure development outcomes prioritised by Denmark includes strengthening the focus on poverty reduction and climate resilience through systematic use of an impact screening tool for better screening of projects at the point of entry/identification. Further, enhancing the scope of the feasibility study to include solid assessment of these issues as well as establishing the basis for frameworks for measurement of results and reporting. Also, the DSIF-team will work towards strengthening synergies with Denmark's bilateral country programs and other relevant sector cooperations. These points will be considered and integrated in an updated description of the project development cycle and associated project management tools. Lastly, going forward and drawing on the lessons learned from the evaluation, a key discourse in the Steering Committee will be further strengthening of the collaboration between the MFA and DSIF to ensure a better understanding of the local developmental, socio-economic, and political risk context.

This project document outlines the background, rationale and justification, objectives and management arrangement for development cooperation concerning the DSIF PDF as agreed between the parties: IFU and the Green Diplomacy and Climate (GDK) department in the MFA. The project document is an annex to the legal bilateral agreement between the Parties and constitutes an integral part hereof together with the documentation specified below:

- The DSIF Strategy
- Agreement between MFA and IFU concerning DSIF
- Guidelines for Project Management DSIF

IFU hosts the operational activities of DSIF and decides the activities in which to engage. The PDF was transferred from the Ministry of Foreign Affairs to IFU in September 2017 with the objective of facilitating closer and systematic cooperation between IFU and the Embassies and to establish a platform to strengthen coherence and synergy between the various financing instruments for Danish development assistance.

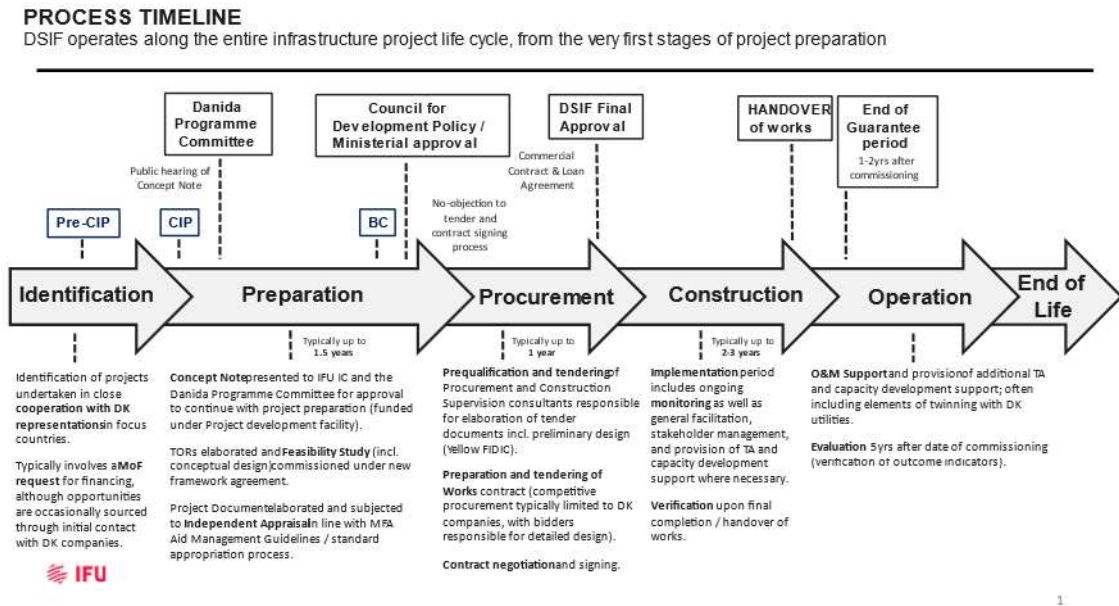
2. Presentation of DSIF Project Development Facility

The DSIF financing model is a combination of grant financing for the cost of project development and heavily subsidised loans¹. DSIF is provided for financing of sustainable infrastructure projects involving a public/governmental buyer from the country in

¹ DSIF operates in accordance with the Arrangement on Guidelines for Officially Supported Export Credits (the Consensus Agreement) by the Organisation for Economic Co-operation and development (OECD). According to the Arrangement, the concessional level of tied aid for individual transactions must be at least 35% (for LDC countries 50%). The DSIF subsidy of the Loan covers interest in both the construction period and the repayment period; the Export premium; a Bank Margin, and an Upfront Grant, in case the other mentioned expenses do not arrive at 35% /50% of the contract amount (contract amounts for the Contractor and the Supervision by an Engineer, which are both covered by the Loan Agreement).

question and a Danish supplier. Projects that are financially non-viable, that is projects which lack the capacity to generate sufficient cash flow to cover the project's operating costs and service the capital employed under standard export credit with 10 years maturity, are eligible for Danida Sustainable Infrastructure Finance².

Albeit a separate fund, the PDF is an integral part of DSIF. The diagram below illustrates the coherence between the PDF and the loan facility.



The PDF-phase of DSIF runs from the identification of projects until the presentation of the project to UPR and subsequent approval by the Minister for Development, i.e., the two first boxes in the diagram above.

Identification phase: In the Identification phase project ideas are presented to DSIF by local authorities in developing countries. Often these ideas evolve from cooperation and dialogue between the representatives from the Danish Representation and representatives from a sectoral ministry in a particular country or promoted by SSC advisors working in relevant sectors in eligible countries. During the identification process, the Danish Representation and/or the SCC advisor in the country play an important role in the initial dialogue and in the pursuing preparatory activities in close cooperation with the DSIF-team in Copenhagen.

The DSIF-team screens project proposals against criteria as presented in the Guiding principles for DSIF (2020), to ensure the project reflects national development plans and strategies and with particular emphasis on sustainability criteria. The focus on poverty reduction and climate resilience will be strengthened through systematic use of an impact screening tool for screening projects at the point of entry/identification. The DSIF-team

² Apart from the subsidy to the Loan, the grant part of financing covers Technical Assistance (TA) to the receiving authority during procurement of an engineer and during the engineer's elaboration of Tender Documents for the construction part of the plant/project in question, tendering periods, negotiations with the winning company till signature of contract. The procurement consultant is tendered by DSIF, whereas the engineer and the contractor tenders are the responsibility of the receiving authority.

decides whether to undertake further assessments, which could include travel to the country in question (for further consultation with the local partner, relevant authorities, and the Danish Representation), and meetings with Danish companies. During the identification phase the project idea is presented to IFU's Investment Committee (IC) for a pre-clearance before further work is initiated (Sagbehandlervejledning, 2019). If it goes through the screening phase, the Ministry of Finance in the recipient country makes a formal request for the financing of a Feasibility Study for an infrastructure investment project with DSIF support thereby confirming that the project is prioritised by the government.

After the initial identification and screening of the project proposal and prior to development of the concept note for presentation to the IFU IC and MFA Programme Committee (PC), the DSIF-team will assess the need and agree with the partner on the co-financing arrangement for financing of the feasibility study. The standard requirement is that the local partner contributes 25% of the financing, normally as a cash payment, but in some cases, especially for low-income countries, it can be in-kind contributions. Flexibility to this rule may be considered in some cases where local constraints hinder co-financing of 25%.

Preparation phase: When the DSIF-team finds that the project fulfils DSIF requirements, the team prepares a concept note annexed terms of reference (ToR) for the feasibility study, for presentation to IFU IC for Clearance in Principle (CIP), followed by a presentation to the MFA's PC for recommendations. The ToRs for the feasibility study will follow a standard format developed by the DSIF-team and ELQ together, and ELQ provides feedback on the final ToRs for each project. After receiving recommendations from the MFA PC, the DSIF-team invites pre-qualified consultants to make proposals for the feasibility study based on the terms of reference adjusted for comments made by the PC.

The feasibility study includes a preliminary engineering design (PED), which is the basis for a correct calculation of the costs of the infrastructure and estimated costs of its operation & maintenance. The feasibility study includes Environmental, Social and Governance (ESG) assessments as well as assessments concerning economic and institutional sustainability of the project. Further, the feasibility study includes considerations related to strategic objectives such as poverty, climate, and gender, as well as political economy issues. In this phase, the necessary studies for establishing the baseline for measuring and monitoring results and impact are conducted.

The DSIF-team follows the feasibility study process closely, participates in key activities, comments on drafts, and proposes adjustments in consultation with local authorities and the Danish representation (Sagsbehandlervejledning, 2019).

Based on the feasibility study and feedback from IFU's IC and the MFA's PC, a more detailed project proposal is developed by hired consultants in consultation with DSIF, local authorities, the Embassy and MFA/GDK. Once the feasibility study, including a draft project document, has been finalised, the project is ready for appraisal and DSIF formulates ToRs for the appraisal of the project proposal document, which is undertaken by ELQ. The project document will then be revised according to the

recommendations from the appraisal, in consultation with local authorities before presentation to UPR and final approval. Presentation of materials for a project proposal follows MFA's Aid Management Guidelines.

3. Context, strategic considerations, rationale, and justification

3.1. Summary of context

Investments in infrastructure in least developed countries (LDC) are insufficient, inter alia, due to financial, administrative, and technological capacity constraints in the countries (IMF, 2017³), constraints which also affect the capacity to maintain and/or adapt existing infrastructure to climate challenges. It is expected that by 2030, approximately half of the world's poor will live in countries affected by fragility, conflict, and violence. For Africa, the estimate is that by 2050, its population will double to reach 2.5 billion - with two-thirds of the growth, 950 million people, living in urban areas⁴. Africa's fast-growing population presents a challenge for most African nations to meet their development needs. While a fast-growing and young population on the one hand is an asset for structural transformation and economic growth it also presents a challenge for a state to meet the needs of a growing population for social and economic services and infrastructure. Infrastructure investments can have a strong impact on economic growth and be a key for structural transformation that supports prosperity for all, provided that the infrastructure is sustainable, resilient, and inclusive.

The African Development Bank estimates the infrastructure financing gap for Africa alone to USD 68–108 billion (2018 estimates)⁵. However, it is not only a matter of just closing the 'financing gap' but also of how the local governments prioritise using the financing to bring about sustainable solutions, which will ensure inclusive social and economic development. The poor and vulnerable suffer the disproportional part of the social and economic effect of lack of effective infrastructure. While non-African countries do not see the same fast population growth, the challenge to meet the need for social and economic development of larger segments of un(der)served part of their population equals Africa's.

Poverty is increasingly also an urban problem, in Africa as well as in non-African countries. In Africa, the urban population growth is particularly high in informal settlements, already making up over 50% of cities⁶. These settlements are in high-risk areas where infrastructure is least developed and least resilient, and they have limited means to recover. Poor urban planning and weak capacity of local authorities to finance investments and maintenance together with, social inequality, environmental degradation, and effects of climate changes, compound major challenges for the poor, noting that women and girls constitute the majority of the poor. Women and girls are disproportionality affected by insufficient infrastructure as they rely more on food and income that is dependent on land and natural resources, and typically hold lower power and role in decision-making.⁷ It is crucial to ensure that benefits from infrastructure

³ [Trends and Challenges in Infrastructure Investment in Low-Income Developing Countries \(imf.org\)](https://www.imf.org)

⁴ https://www.oecd-ilibrary.org/development/africa-s-urbanisation-dynamics-2020_b6bccb81-en

⁵ African Development Bank (AfDB). 2018. African economic outlook 2018:

⁶ <https://data.worldbank.org/indicator/EN.POP.SLUM.UR.ZS?locations=ZG>

⁷ <https://s3.amazonaws.com/oxfam-us/www/static/media/files/climatechangewomen-factsheet.pdf>

investment are equitable and informed by an understanding of gender impacts to effectively contribute to fairer long-term growth while also progressing gender equality.

Good practice to ensure direct impacts includes participatory infrastructure planning at community and local government (sector) level to identify infrastructure needs and priorities among different beneficiaries (UN⁸). DSIF, from first point of contact with a beneficiary and throughout the project cycle, works in accordance with international best practice for infrastructure investment, and applies an integrated participatory approach, which involves close dialogues with the national authorities as well as initial assessments of how best to target cross-cutting issues such as the project's poverty alleviation potential, gender issues including its benefits for women and youth, and ensure that these issues are considered in project design.

3.2. Strategic considerations

The recent DSIF strategy focuses on two objectives:

- **building a green economy** by supporting infrastructure projects which mitigate or enable adaptation to pressures from climate change or provide other environmental services, and
- **building a just and inclusive economy** by supporting infrastructure projects which create decent jobs and provide access to essential goods, services, and solutions.

These two overall objectives fit well with the overall priorities for Danish development corporation to prevent and fight poverty and inequality and to lead the fight to stop climate change and restore balance to the planet.

The PDF activities, being a prerequisite for the DSIF loans, will therefore indirectly deliver on Denmark's key development priorities as set out in the Danish Government's strategy for development cooperation 'The World We Share'.

The focus on the water sector, which currently constitutes the bulk of DSIF-PDF projects under preparation, will directly impact poverty reduction in the DSIF geographical priority areas, areas where the population is predominantly poor.

The PDF promotes projects that can deliver on the Danish Government's long-term strategy for global climate action as outlined in 'A Green and Sustainable World', which emphasises that Denmark must support green infrastructure that aids the SDGs and achieves the Paris Agreement. By promoting investments in infrastructure in least developed countries, including in areas where it is hard to operate, and focusing on two sectors (water and energy), the projects developed will contribute to SDG 9: Industry, innovations, and infrastructure; SDG 6: Clean water and sanitation; SDG 7: Affordable and clean energy; and SDG 13: Climate action.

⁸ https://www.greengrowthknowledge.org/sites/default/files/Interagency%20Statement%20On%20Sustainable%20Infrastructure_UN%20Environment.pdf

As described in the presentation of the PDF in this document, the project development phase is initiated and guided by the demand of local authorities in eligible countries. Projects supported by the PDF are therefore aligned with infrastructure plans of local authorities.

Further, the overall strategy of DSIF, and therefore also of the PDF, aligns well with IFU's strategic impact priorities to undertake investments in support of creating green, just, and inclusive societies (IFU, 2022).

Going forward, there are opportunities for furthering synergy between DSIF and other Danida development instruments through coordination and alignment with the Danish country programmes and SSC programme in relevant countries. Further, given the fact that IFU is also implementing the climate fund activities there is an opportunity to seek synergy between the climate fund activities and the Project Development Facility.

To strengthen focus on poverty reduction and climate resilience DSIF-team will further develop its impact screening tool, inter alia, assessing the possibility of using relevant parts of IFU's impact screening tool for screening of projects at the point of entry/identification.

3.3. Rationale

To speed up the quantity and quality of public infrastructure projects in developing countries in general and in Africa in particular, the rationale is that the PDF is instrumental in doing just that. The project development phase is essential in laying the foundation for designing sustainable infrastructure projects that aim at addressing development priorities in accordance with the DSIF mandate and strategy and thus aligned with Danish development priorities.

<i>The project meets OECD/DAC criteria:</i>	
<i>Relevance</i>	The expected outcome of the PDF in terms of local authorities in developing countries being enabled to present project proposals for financing of infrastructure under DSIF is essential to speed up the quantity and quality of infrastructure project proposals ready for financing by DSIF that are resilient, inclusive, and sustainable.
<i>Coherence</i>	The PDF activities/interventions are coherent with other Danida instruments such as the SSC programs, country programs and some of the funds managed by IFU such as the climate fund. Coherence is achieved at the strategic level by aligning strategic priorities of DSIF with those of Danish development policy as well as IFU's strategic impact priorities. Further at a project level by aligning with local development plans.
<i>Effectiveness</i>	Supporting local partners in Danida priority countries to develop commercially non-viable public infrastructure project proposals that can be financed by DSIF is a direct and effective way to reduce the financing gap and speed up the quantity and quality of infrastructure projects especially in Africa.
<i>Efficiency</i>	IFU is managing the DSIF loan phase, and it is therefore expectedly most efficient to keep the project preparation facility within IFU.

<i>Impact</i>	The PDF lays the foundation for DSIF infrastructure investments and as such partakes in the development impact from the DSIF by creating the foundation for DSIF concessional financing of financially non-viable infrastructure projects in developing countries. Impact is achieved when a project has positive impact on poverty reduction, inequality, green economy, climate change, and gender, which is why the PDF considers these issues already from the stage of project idea.
<i>Sustainability</i>	Project sustainability is critical and relies to a large degree on the capacity of local partners in maintaining the project after commissioning. The PDF seeks to enhance institutional and financial sustainability of project proposals already in the development phase by assessing these aspects. The PDF seeks to create positive impact on sustainability of the investments through promoting a life-cycle cost approach to decision on infrastructure investments. Assessment and necessary strengthening of the capacity of local authorities is therefore an essential part of the PDF.
<i>Additionality</i>	The PDF facility is providing much needed and very scarcely available financing for development of infrastructure investment projects which otherwise face difficulties in finding financing due to limited public funds or lack of private investors due low returns on investment and/or perceived high risk.

3.4. Justification of choice of partner

The selection of IFU as administrator of the PDF builds on the Danish Government's Act no. 106 of 8 June 2017 assigning an exclusive right to IFU to administer both the PDF and DSIF financing facility. The justification of the choice of IFU rests on the recognition of the symbiotic relationship between the DSIF PDF and the DSIF financing facility and that the PDF has demonstrated its value in the preparation process for projects eligible for DSIF financing (as confirmed by the evaluation).

It is noted that the Public Procurement Act does not apply to contracts awarded on the basis of an exclusive right, cf. Section 17 of the Act⁹.

The recent evaluation of the DSIF found that overall DSIF, including the PDF, has delivered on its mandate and that the goal of furthering development and deepen synergy between IFU, DSIF, and the MFA has partially materialised. This was the reason for moving the administration from MFA to IFU in 2017. The evaluation concluded that the DSIF (including the PDF) is a proven modality that works.

3.5. Lessons Learned

An evaluation was undertaken of the DSIF programme in 2021, and in 2022 a mid-term review of the PDF was conducted. Lessons learned from the two studies will inform the

⁹ Section 17. This Act shall not apply to public service contracts awarded by the contracting authority to another contracting authority or to a group of contracting authorities on the basis of an exclusive right under law or according to published administrative provisions which are compatible with the Treaty on the Functioning of the European Union.

implementation of the PDF work-programme for 2022 – 2025 and has been considered in the formulation of this project document.

The key findings from the evaluation and the review are presented in [Annex 6](#) and summarised below.

Overall, the evaluation found that DSIF has a high level of relevance and close alignment with national development policies and that DSIF projects have contributed to direct and indirect beneficial development effects, with most projects delivering the planned outputs and continuing operations after handover. Both the evaluation and the review confirmed the important role of the PDF in bringing project ideas to a stage ready for DSIF financing. The development phase allows the DSIF-team to develop projects together with local authorities and jointly scope the project in line with Danish development priorities. The PDF has changed the way DSIF operates towards a more proactive identification and maturing of projects from a very early stage. The review also points to the flexible application of the PDF funds towards numerous activities as a notable strength of the facility as it ‘responds to the gaps and needs of project partners’ and recommends that the flexibility in the use of the PDF funds should continue

However, the evaluation also found that DSIF has made inadequate efforts to define and quantify development outcomes related to poverty reduction and recommended that this aspect should be clearly defined and tracked, stating that ‘DSIF projects mostly generate significant development outcomes that are not being captured and recorded in its monitoring frameworks’; there is a need to improve the monitoring frameworks from the preparation phase through implementation, handing over of projects and beyond.

Further, the evaluation found that there is a need to strengthen local ownership even more during the project development phase. Both studies also highlighted that there is scope for strengthening potential synergies and coordination between DSIF projects and other Danida instruments; overall both studies highlighted the important role of the Danish Representation and the SSCs in the initial dialogues with a local authority and in pursuing preparatory activities.

Both studies highlighted the need for strengthening the results measurement system to ensure a systematic approach to capturing results throughout the project period, a need for revisiting the terms of reference for the feasibility study for enhanced focus on development objectives and other non-technical issues and better reporting to the MFA. An administrative review conducted by the MFA post evaluation recommends that DSIF introduces risk-based monitoring of projects, institute clear processes for closure of projects and measurement of impact post-completion, and improved annual reporting to MFA on the DSIF projects.

Going forward and drawing on the lessons learned from the two studies and the administrative review, the DSIF-team will follow up on the lessons learned and pay specific attention to:

- using Danish representations more pro-actively;
- anchoring DSIF projects in bilateral country programs and other relevant country frames and sector cooperation;
- using SSC advisors and investment advisers more pro-actively;

- strengthening local ownership even further during project preparation;
- strengthening synergies and coordination between DSIF projects and other Danida instruments;
- further strengthening of the collaboration between the MFA and DSIF;
- ensuring focus on quality of feasibility studies by including political economy issues, poverty reduction, inequality, green economy, climate change, and gender issues;
- strengthening focus on compliance with AMG, including improved reporting on progress and results.

Related to these priorities, a key discourse in the Steering Committee will be strengthening of the collaboration between the MFA and DSIF to ensure a better understanding of the local developmental, socio-economic, and political risk context. Actions to underpin this includes: 1) ELQ to provide feedback on the ToR for feasibility studies, 2) the project proposal to be presented to the MFA's Programme Committee, and 3) ELQ to be in charge of the appraisal.

4. Programme objective

The development objective of the PDF is closely linked to the overall objective of DSIF which is, as set out in Act 106 of 8th June 2017 and reaffirmed in the Finance Bill of 2022:

- To establish sustainable and climate-relevant infrastructure in developing countries and thereby contribute to promoting the UN's Sustainable Development Goals in line with Denmark's development policy priorities.

The objective will be achieved through the provision of subsidised financing for major public infrastructure projects that cannot be financed on market terms to a group of selected developing countries with income per capita below USD 3,995 (2020) and with a Danish representation.

By promoting investment in sustainable infrastructure, DSIF supports the UN 2030 Agenda and the 17 Sustainable Development Goals, in particular SDG 9: Industry, innovations, and infrastructure; SDG 6: Clean water and sanitation; SDG 7: Affordable and clean energy; and SDG 13: Climate action.

The recent DSIF strategy 'translates' this overall objective into two objectives for DSIF:

- **Building a green economy** by supporting infrastructure projects which mitigate or enable adaptation to pressures from climate change or provide other environmental services, and
- **Building a just and inclusive economy** by supporting infrastructure projects which create decent jobs and provide access to essential goods, services, and solutions.

The immediate objective for the PDF is to:

- Enable local authorities in developing countries to present project proposals for financing of infrastructure under DSIF and thereby increase DSIF pipeline.

The immediate objective will be achieved through the main outcome: application for DSIF financing. The project development facility supports local authorities that face difficulties in finding financing during the development phase due to limited public funds or because private investors consider it to be associated with high risk and low returns.

5. Theory of change and key assumptions

The Theory of Change (ToC) for the PDF foresees that funding of the DSIF Project Development Facility (PDF) will facilitate that the DSIF-team can further build a DSIF pipeline of projects and bring these to a stage where they are ready for financing under DSIF.

The ToC for the PDF is based on the rationale that providing funds and skills to facilitate the development phase, will speed up the pace and quality by which sustainable infrastructure project ideas develop and find funding, while also ensuring that they meet objectives of the SDGs and Danish development priorities. Further, involving relevant Danish companies in the process is a way to promote knowledge transfer and investment designs that are based on low life cycle costs and high quality.

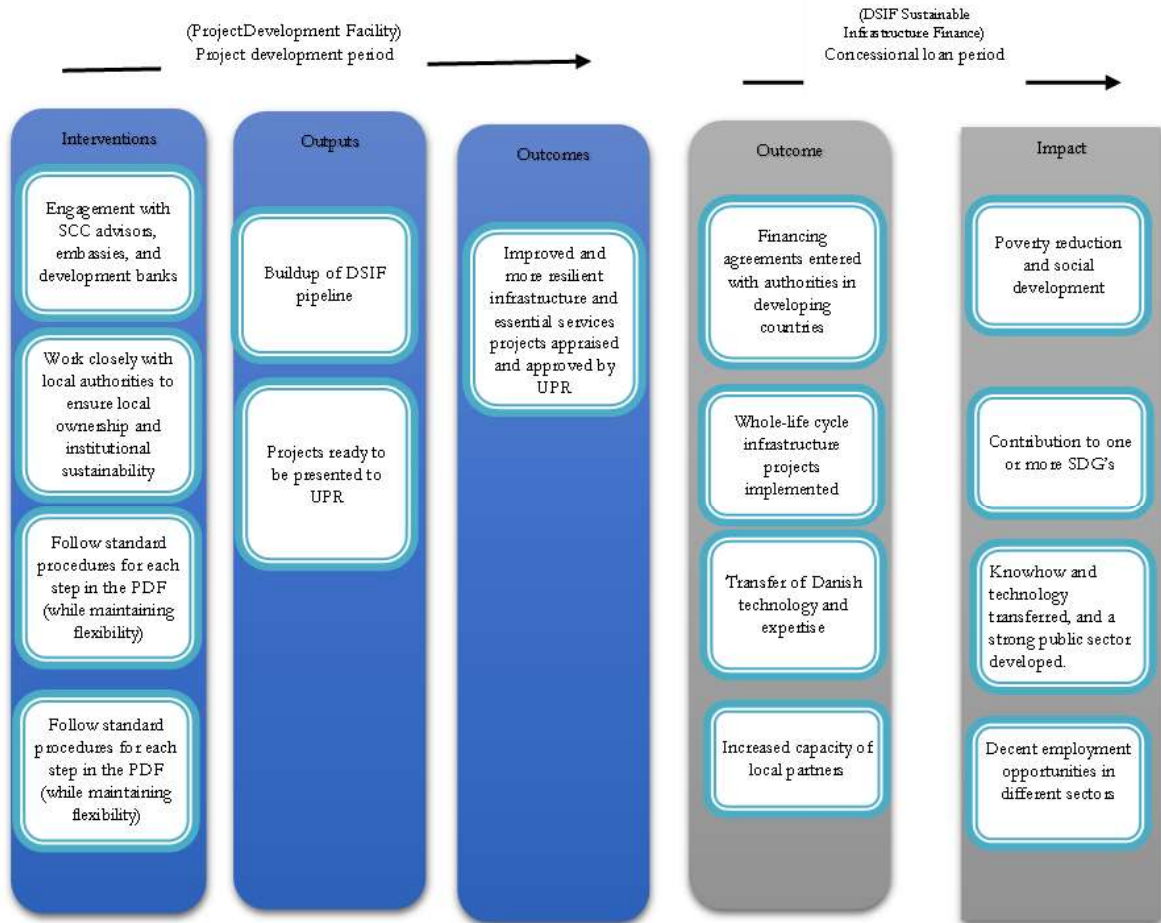
The Theory of Change (ToC) is based on a number of assumptions including: i) that despite unstable political and economic contexts globally, and in the DSIF focus countries, the need for public infrastructure development remains stable or even increases, ii) that the sector authorities in developing countries demand public investments in sustainable infrastructure projects based on subsidised loans including aid tied to Danish companies. This in turn rest on the assumption that Danish companies, through subsidies, can be competitive and attractive for developing countries and posits:

<i>If</i> Denmark contributes the committed funding to the DSIF Project Development Facility (PDF)
<i>And if</i> the DSIF-team proactively engages with embassies, SSC and investment advisors, development banks and others.
<i>And if</i> the DSIF continues to work closely with local authorities to ensure ownership and institutional sustainability.
<i>And if</i> the DSIF-team develops and follow standard procedures through the development phase, while maintaining flexible use of the PDF so it fits the unique context of each project.
<i>And if</i> political economy, end-user consideration and development objectives such as poverty reduction/more climate mitigation/ adaptation ability are integrated into all phases of the PDF.
<i>Then</i> the PDF can efficiently and effectively facilitate the development of demand driven project proposals that are ready for DSIF financing.
<i>Hence</i> the PDF enables the delivery of DSIF financing for: <ol style="list-style-type: none"> a) Building a just and inclusive economy by supporting infrastructure projects, which create decent jobs and provide access to essential goods, services, and solutions.

- b) Building a green economy by supporting infrastructure projects, which mitigate or enable adaptation to pressures from climate change or provide other environmental services.

Hence the PDF enables the delivery of DSIF financing to establish sustainable and climate-relevant infrastructure in developing countries and thereby contribute to promoting the UN's Sustainable Development Goals in line with Denmark's development policy priorities.

The TOC can be illustrated as follows:



See further on Theory of Change in Annex 3.

6. Summary of results framework

The results framework presented below regards the project development phase, the period from first contact with a beneficiary to the project is presented to the UPR for approval.

Project Title	DSIF Project Development Facility			
Impact Area	Development of project proposals ready for DSIF financing, thereby contributing to: a) Building a just and inclusive economy by supporting infrastructure projects, which create decent jobs and provide access to essential goods, services, and solutions. b) Building a green economy by supporting infrastructure projects, which mitigate or enable adaptation to pressures from climate change or provide other environmental services.			
Outcome	Local authorities in developing countries enabled to present project proposals for financing of infrastructure under DSIF and thereby increase DSIF pipeline.			
Outcome indicator	No. of DSIF financed infrastructure projects in the target areas.			
	Year	No. of	Africa	Non-Africa
Baseline (Ongoing projects under preparation not yet presented to UPR)	2022	15	9	6
Target (Projects presented to UPR)	2022-2025	10	6	4
Ultimo (New projects started not ready for UPR carried forward)	2025	8	3	2
Output 1				
Output 1	Water sector projects ready to be presented to UPR			
Output indicator	No. of project documents elaborated and appraised.			
Baseline: (Ongoing projects under preparation not yet presented to UPR)	2022	11	7	4
Target: (Projects presented to UPR)	2025	6	4	2
Ultimo: (Projects started but not ready for UPR carried forward)	2025	6	3	2
Output 2				
Output 2	Energy sector projects ready to be presented to UPR			
Output indicator	No. of project documents elaborated and appraised.			
Baseline: (Ongoing projects preparation not yet presented to UPR)	2022	3	2	1
Target: (Projects presented to UPR)	2025	3	2	1
Ultimo: (Projects started not ready for UPR carried forward)	2025	1	0	0
Output 3				
Output 3	Transformative sector projects ready to be presented to UPR			
Output indicator	No. of project documents elaborated and appraised.			
Baseline: (Ongoing projects preparation not yet presented to UPR)	2022	1	0	1
Target: (Projects presented to UPR)	2025	1	0	1
Ultimo: (Projects started not ready for UPR carried forward)	2025	1	0	0

Output 4:	Better project proposals presented to DSIF, which considers poverty reduction and green economy from the idea stage enabling effective and efficient implementation of the new DSIF Strategy.	
Output indicator	<ul style="list-style-type: none"> • Updated and unfolded DSIF Strategy and action plan for key priority areas 2021 – 2024. • Updated comprehensive operational guidelines covering the whole DSIF project cycle recognising the lessons learned, including update of template for terms of reference for feasibility study. • Clear process plan for project development cycle aiming at reducing the preparation time from first contact to presentation to UPR. • Further developed and improved format for reporting on the PDF. • Systematised monitoring and harvesting of lessons learned from projects executed. 	
Baseline	2022	DSIF Strategy, with key priorities for 2021 – 2024 recently approved and unfolding/operationalization has commenced. Guidelines for project management not updated since 2019. Standard terms for feasibility studies not updated to comply with MFA and IFU practice. Unsystematic monitoring and harvesting of lessons learned from executed projects.
Target	2025	Strategy 2021 – 2024 operationalised and guidelines for project management updated and kept current. Lessons learned captured and the Strategy 2025 – 2030 presented in draft to Steering Committee.

Notes:

- 1) *Baseline* = projects where the project preparation phase has started, Pre-CIP, CIP and FC from DSIF's Pipeline dated 06.04.2022 as presented to the Steering Committee in May 2022, in total 15.
- 2) *Target* = number of projects estimated to be presented to UPR during the project period. The assumption is that projects at the stage of Pre-CIP and CIP will be ready for presentation to UPR during the period 2023 – 2025, which constitutes 10 in total.
- 3) *Ultimo* = number of projects in process but not completed in the project period 2022 – 2025. Given the present timeline from first contact until the presentation to UPR, the assumption is that the 5 projects at the stage of FC as of April 2022 will be carried forward to the next project period (PDF-III).

The previous phase of the PDF recognised capacity building of local authorities in its results frame. The lessons learned is that it proved difficult to identify a useful KPI for an outcome related to capacity building, hence this has been omitted in the new PDF results frame. Recognising the importance of capacity building, the DSIF-team continues monitoring and measure capacity building of local authorities during the project cycle to the point of hand-over of works.

Activities foreseen under output 4 aims at enhancing the quality of the project proposals presented to DSIF by local partners and strengthen the focus on poverty reduction and green economy already from the idea stage to enable effective and efficient

implementation of the Strategy 2021 – 2024 and underpin achievements in key priority areas at the operational level.

To reach the target related to output 4, the DSIF-team will work on unfolding the strategy 2021-2024 during the first half of 2023 to facilitate more clarity related to how the strategic objectives will be obtained. Activities foreseen under output 4 will underpin achievements in key priority areas at the operational level, as expressed in the Strategy 2021 – 2024, such as develop and launch an impact screening tool for project identification and assessment and an upgrade of the results measurement system to including crosscutting portfolio level indicators. Further, to reach the ambition of developing and financing larger infrastructure projects, the DSIF-team will explore opportunities for or parallel financing with IFU and/or other DFIs. (Further in Annex 2: Detailed Results Frame with Output budget).

Going forward the DSIF-team will:

- Develop improved formats for monitoring and reporting of the results on the PDF and will ensure improved quality of feasibility studies (a major output under the PDF) by ensuring these includes political economy issues, poverty reduction, inequality, green economy, climate change, and gender issues.
- Systematize monitoring of results and harvesting of lessons learned from executed DSIF-projects.
- Explore and establish a modality for monitoring the capacity building of local partner provided during the project cycle.

7. Inputs/budget

The total input budget is DKK 50 million, which will be committed to IFU in two tranches: A DKK 25 million allocation in 2022 pending approval of the Minister and followed by a DKK 25 million commitment in 2023, pending approval of the Finance Act for 2023.

The budget is planned to be used as follows:

Outcome: Local authorities in developing countries enabled to present project proposals for financing of infrastructure under DSIF and thereby increase DSIF pipeline	DKK million				
	2022	2023	2024	2025	Total
Output 1: Water sector projects ready to move to design phase	8.6	8.6	8.6	8.4	34.2
Output 2: Energy sector projects ready to move to design phase	3.2	3.2	3.2	2.6	12.2
Output 3: Transformative sector projects ready to move to design phase	0	0	0.6	0	0.6
Output 4: Better project proposals presented to DSIF which considers poverty reduction and green economy from the idea stage enabling effective and efficient	0	0.8	0.8	0.4	2.0

implementation of the new DSIF Strategy					
Sub-total PDF activities	11.8	12.6	13.2	11.4	49.0
Mid-term review (budget administered by MFA)			1.0		1.0
Grand total	11.8	12.6	14.2	11.4	50.0

The budget will cover a wide range of project development related activities, including fact-finding studies, feasibility studies, partly project design, as well as technical assistance to local partners during various phases of the investment project (e.g., preparation, legal assistance, post-completion studies). The assumption is that the beneficiary meets 25% of the costs of a feasibility study. In some special cases, mainly for Least Developed Countries, the contribution can be in kind. Cost for tendering, and monitoring of the investment projects is paid from the allocated funds approved by UPR/Minister for Development, as is the cost of monitoring and verification consultants.

The assumption for Output 4: 'Better project proposals' is that better project proposals will lead to better impact and that developing and enhancing the PDF toolbox to make the PDF more efficient and effective will lead to the desired better project proposals from local partner. The budget is allocated to cover cost of activities (one-off in nature) that are not covered by the administrative budget allocated to IFU. Activities are foreseen to include external assistance to unfold and operationalise the DSIF Strategy and revision of the Guidelines for DSIF project management, and further development of the DSIF platform to strengthen coherence and synergy between the various financing instruments for Danish development assistance and an improved focus on poverty reduction, including better coherence between the DSIF project development phase and IFU's sustainability procedures. Further, to the extent possible, the opportunity for synergy between the climate fund (administered by IFU) and the PDF will be explored.

For output 1 – 3 the budget will cover both cost associated with projects ongoing as per 30.09.2022 as well as cost associated with projects not yet started and/or not yet identified.

The input budget is the best estimate as of September 2022, however, recognising the relative volatile environment of DSIF eligible countries, variation between the budget lines should be expected. The DSIF-team monitors the budget execution and will present to the Steering Committee's (see below) approval proposal for a revised budget in the case variations exceeds +/- 10% of the budget line.

8. Institutional and Management Arrangement

8.1. At the Governing level

The governing arrangement for the DSIF-PDF follows the arrangement for the DSIF as set out in the agreement between the MFA and IFU on the administration of DSIF (previously known as DBF). The MFA holds the overall policy responsibility and responsibility for the approval of grants for projects of a certain thresh-hold level, currently DKK 39 million, the presentations to the Programme Committee, the Council

for Development Policy (UPR), and the final approval by the Minister for Development Cooperation.

IFU holds the mandate to execute commitments on behalf of the MFA at the project level, and the responsibility to ensure that grant management follows the MFA Guidelines for Aid Management and the Danish Government's guidelines for good practice for grant management. IFU's Investment Committee provides clearance of project ideas and approves DSIF projects in principle before a feasibility study is undertaken, and before presentation to UPR.

To facilitate the cooperation and decision making in relation to DSIF and the DSIF-PDF a Steering Committee has been established and is in operation. The Steering Committee is guided by a set of terms of reference ('Styrekomiteens forretningsorden og standard dagsorden'). The Steering Committee meets twice a year, and discussions include deliberations on the Activity Report for DSIF, Status on Execution of the Budget, and the DSIF Activity Report.

8.2. Management and administrative arrangement

At the operational level, the DSIF-PDF is managed by a DSIF-team headed by a manager at the level of IFU Vice President. In total, the team is comprised of six full-time staff, one part-time staff, and one student. The team is embedded in the IFU structure and refers to the IFU management team at the day-to-day level. The management tools include:

- Annual work plan and budget.
- An overview of the projects planned to be presented to the MFA Programme Committee, and ultimately to UPR on a rolling 18-months basis.
- Bi-annual status on the accumulated DSIF portfolio and with an overview of projects under preparation financed from the PDF.

Two main documents set out the administrative procedures for DSIF – including the DSIF PDF: The Guiding Principle for DSIF and Guidelines for Project Management. These documents outline the key administrative procedures, reporting and procurement as well as decision-making and approval related to implementation of DSIF and the PDF. Both documents will benefit from substantial revision and update, inter alia, to capture the priorities set out in the DSIF Strategy recently approved, the rules for presentation to the MFA's Programme Committee and the processes related to the MFA responsibility for appraisal of project proposals. The revision of the mentioned administrative documents is expected to be concluded during the first quarter of 2023.

Going forward:

- The management tools will be enhanced with an indicative 3-year work plan on a rolling basis and substantiated in annual work plan and budget.

8.3. Monitoring and reviews

At an overarching level, the MFA will monitor the progress of DSIF as part of established procedures for the Ministry's oversight of IFU, which includes participation as observer at the IFU Board of Directors. At the concrete DSIF-PDF level MFA/GDK will monitor the progress in the implementation of the DSIF strategy and the

implementation of the PDF through the bi-annually Steering Committee meetings, based on documentation such as the bi-annual status provided to the Steering Committee. At the technical level, GDK will use a newly established monthly management meeting (technical level) for monitoring and dialogue with the DSIF-team regarding the execution of the annual work programme and budget. At the administrative level, IFU carries the responsibility for monitoring DSIF-PDF at the day-to-day level, ensuring compliance with IFU's overall management procedures.

The MFA will conduct a mid-term review medio 2024. The scope of work for the mid-term review will include, but not necessarily be limited to, an assessment of the progress in implementation against the targets established in the results framework, assessing the project pipeline, the results reporting on the use of funds under the DSIF PDF, as well as assessing processes established for systematic monitoring of results and harvesting of lessons learned from DSIF projects (based on 'end of life' evaluations of projects), systematic integration of non-technical issues such as poverty and climate. Also, a key issue for the mid-term review will be to assess the progress in the work with strengthening the quality of project proposals; the review will assess DSIF-team's capacity to execute its strategy efficiently and effectively as well as verify and recommend on the application of the developed Impact Screening Tool for DSIF. The mid-term review will also assess and provide recommendations regarding the possible strengthening of IFU's engagement in project development, including the cooperation and coherence between DSIF impact screening and IFU's Impact Screening Tool.

The MFA represented by GDK, or other relevant MFA units, shall have the right to carry out any technical or financial supervision mission that is considered necessary to monitor the implementation of the project/programme.

After the termination of the project/programme support, the MFA represented by GDK, or other relevant MFA units, reserves the right to carry out evaluations in accordance with this article.

9. Financial Management, Planning and Reporting

The administrative agreement between IFU and MFA sets the overall frame for the financial management, planning and reporting on the PDF grant.

The DSIF-team prepares an annual budget indicating the expected activities at project level and the associated budget, which is presented to the Steering Committee for approval. This takes place in the 'autumn' meeting in the year preceding the budget year.

Disbursement of funds from MFA to IFU is made twice a year, based on a funding request submitted by IFU as per Annex 7 to the Administrative Agreement. IFU bases the requested amount on a 6-months forward-looking projection of the cash requirements for projects under preparation. The PDF will finance a wide range of activities in relation to the development of a project, including fact-finding and feasibility studies but also other activities necessary for the formulation of a DSIF project, including technical assistance to the local authorities in all aspects of the preparation phase. Recognising that DSIF operates in a context with relatively high volatility, an adaptive management approach will be applied. Based on developments in the project

preparation portfolio and relevant country contexts, the DSIF-team will revise and present an updated budget at the next Steering Committee meeting.

IFU will typically award a feasibility study contract to a consultant following a framework agreement tender. The financial support decisions follow established IFU approval procedures. IFU's investment committee approves all projects, and the budgets for all smaller initiatives such as screenings, prefeasibility studies, technical assistance contracts, etc. This provides DSIF the necessary discretion to take the initiative, be flexible and respond to arising needs.

IFU executes payments at the project level for the preparation activities financed under the PDF frame. Financial management of the funds for the PDF will be in full compliance with IFU's financial management procedures, including procedures for procurement. An administrative monitoring visit to DSIF/IFU conducted by MFA in 2022 confirmed that IFU undertakes appropriate financial management of funds received from MFA. Further, that sufficient procedures are in place to ensure management of funds in compliance with good management of grant funds, which can be assumed including the administration of the PDF funds. The administrative monitoring visit recommended that a comprehensive description of the accounting procedures for DSIF is prepared. The DSIF-team will ensure that the administration of the PDF funds is sufficiently included in the revised DSIF Guidelines for Project Management, and that the document includes descriptions of the tasks, administrative procedures, level of authorization, and internal control.

IFU is responsible for financial accounting and will present a separate detailed audited financial statement for the PDF annually. The annual financial statement provides information on the disbursement in the year at project level.

The requirements for progress reporting from IFU to MFA are outlined in the Administrative Agreement between Denmark and IFU. The reporting, prepared by the DSIF-team for the Steering Committees, includes information on the DSIF loan projects as well as on the projects under the PDF.

Going forward, the DSIF-team will:

- Follow up on the administrative review, including prepare a comprehensive description of the accounting procedures for DSIF.
- Further, develop the format for reporting on the PDF, moving towards a narrative report, which in addition to the specific detailed information on the status of each project also reports on the progress in implementation of the Strategy and results frame for the PDF phase of the projects up against set targets.

10. Risk Management

DSIF has no policy or guidance on portfolio concentration by regional/geographic location, (sub)sector, or individual borrower's creditworthiness/capacity; hence there is no portfolio approach to risk management for the DSIF loan portfolio, and hence neither for the PDF. The majority of the DSIF investments are in countries generally associated with a relatively high risk (perceived or real) not least for medium- and long-

term projects, which constitute the majority of DSIF's portfolio. At the DSIF investment level, specific risks, and measures to manage the identified risks are assessed in relation to the specific projects and in relation to the related country and business context, i.e., risk management has hitherto happened at the project level and is primarily focused on management of risk associated with risks of delays and flawed project design.

The local context poses important influence on the quality and quantity of the project documents developed under the PDF. To underpin a systematic approach to execution of the PDF work programme and ultimately to ensure delivery of the Strategy 2021 – 2024, a risk matrix has been developed for the PDF (*Annex 4*) in compliance with the Danida Aid Management Guidelines concerning contextual, programmatic, and institutional risks.

The contextual risks identified for the PDF are to a large extent associated with the regional/country context for the investment projects under development, which as mentioned above are associated with relatively high perceived and real risks. This is due to developing countries often suffering from turbulent political and economic conditions, which are likely to cause a project proposal not to reach the final stage for a loan agreement as planned. The DSIF-team mitigates this risk through ensuring that assessment of projects includes assessment of the political stability of the partner country at point of first contact and continued monitoring through the preparation phase. The team also consult country stability assessments made by other development banks and DFIs, e.g., reports from the World Bank.

Programmatic risks include lack of capacity and interest by the project owner/authorities in developing countries to take on the workload and cost of preparing an investment project proposal based on the life-cycle cost principle. The risk can be managed through the allocation of resources to inform partners about the life-cycle cost principle and the structure of a DSIF financing. The long timeline for preparing investment projects means that there will often be HR changes at the partner-level during the preparation phase. The DSIF-team proactively keep in close contact with local partners throughout the project development cycle to ensure continued interest and that capacity building is an integral part of the technical assistance to local authorities.

Programmatic risks also include the risk that an infrastructure project financed by DSIF may not achieve the projected results due to inadequate understanding of the country context and/or flawed feasibility assessment. The mitigating action is to ensure better quality and scope of the feasibility study such that the feasibility study covers also political economy factors.

Risks at the institutional level are linked to constraints at the operational level for the PDF, due to an increase in the financial envelope for DSIF, staffing constraints combined with new tasks and requirements being imposed, and the Strategy 2021 – 2024 not yet operationalised. This will be managed through unfolding and operationalization of the Strategy into a tentative work plan, introduction of new planning tool, as well as mapping of the project development cycle (the latter especially can benefit the embassies and MFA units dealing with DSIF). For details see Annex 4.

The responsibility for monitoring risks and taking action to mitigate these in regard to the PDF rests with the DSIF-team. The team will provide a report on the development of risks, together with an updated risk matrix (if needed) as part of the annual results reporting for the PDF facility, which will be presented to the Steering Committee.

11. Communication

The PDF is an integral part of DSIF. Communication to stakeholders and the public in Denmark of the results of DSIF is included in the annual report for IFU. There will be no separate communication on the PDF to stakeholders and the public in Denmark, hence a communication plan has not been developed. As outlined in the Strategy 2021 – 2024 the DSIF-team will develop tools to better communicate DSIF procedures and results.

12. Exit

Closure and exit in relation to the PDF is not deemed relevant at this point in time and should be considered in conjunction with eventual deliberation of the DSIF as a whole. The timeline for developing an infrastructure project for DSIF funding is relatively long due to the complicated and technical nature of such projects. Projects can remain in the DSIF PDF portfolio for 4 – 5 years before being ready for financing. Evidently, the modality and home/ownership of the PDF can be reassessed, and a different modality developed. However, should such be wanted, sufficient time for planning and executing such a change should be set aside.

13. List of Annexes

Annex 1: Steps in the Preparation Phase

Annex 2: Detailed Results Frame

Annex 3: Theory of Change

Annex 4: Risk Management Framework

Annex 5: List of DSIF eligible countries

Annex 6: Lessons Learned

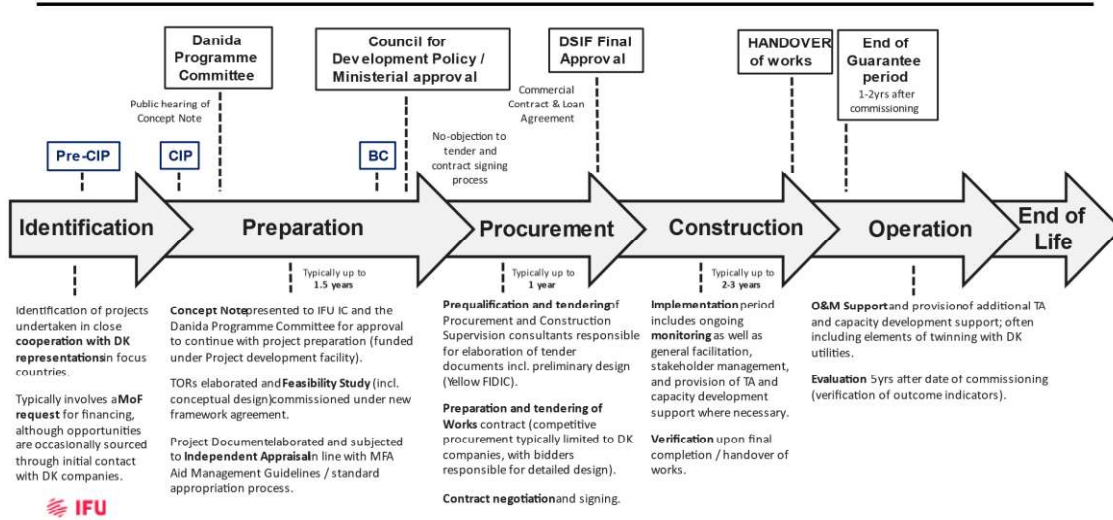
Annex 7: PAP

Annex 1: Key steps in the DSIF Project Development Facility

This annex presents an overview of the actions that constitutes the development phase of DSIF projects including outputs at each step and the roles and responsibilities for the key stakeholders in the process.

PROCESS TIMELINE

DSIF operates along the entire infrastructure project life cycle, from the very first stages of project preparation



1

Action	Responsible	Output
Project Screening and Identification		
Identification of project ideas based on cooperation and dialogue between the representatives from the Danish Representation and representatives from a sectoral ministry in a particular country or promoted by SSC advisors working in relevant sectors in eligible countries.	DSIF-team proactively reaching out to Danish representations and SCC advisors.	Access to local authorities that can present project ideas to DSIF.
Screening of project ideas: against sustainability criteria as presented in the Guiding principles for DSIF (2020) to ensure the project reflects national development plans and strategies and with particular emphasis on sustainability criteria such as poverty reduction and climate resilience. Further assessments may be undertaken based on dialogue with the local partner, MFA, IFU, embassies etc. Consultations with Danish	DSIF-team undertaking initial screening based on Guiding principles (2020) as well as proactively seeking dialogue with relevant partners in Denmark and the recipient country.	Decision on whether the project idea is feasible or not.

companies to ensure their interest in the project.		
The Ministry of Finance in the recipient country makes a formal request for financing the preparation of a Feasibility Study for an infrastructure investment project with DSIF support. As part of this, the DSIF-team will assess the need and agree with the partner on the co-financing arrangement for financing of the feasibility study.	DSIF-team and Ministry of Finance in the recipient country.	Formal request for funding of feasibility study from part of the recipient country including potential co-financing agreement.
Development of draft Terms of Reference (ToR) for the Feasibility study based on standard ToRs.	DSIF in consultation with local partner, embassies and MFA/ELQ/GDK (Steering Committee).	ToR for feasibility study.
Development of concept note.	DSIF-team in coordination with the local partner (applicant) and embassy and/or IFU investment team.	Project Concept note.
Preparation		
Presentation of Concept note to IFU Investment Committee (IC) (CIP)	DSIF-team, IFU IC.	Recommendations from the IC on the concept note.
Revision of concept note according to recommendations of Investment Committee	DSIF-team.	Revised concept note.
Submission to ELQ, which will publish the note for public consultation.	ELQ.	Note for public consultation.
Presentation of concept note to the Programme Committee.	DSIF-team and Program Committee.	Approval and recommendations from Programme Committee.
Invite pre-qualified consultants to make proposals for feasibility study based on terms of reference. Assess proposals and select consultant	DSIF-team in consultation with local partner (project implementing party).	Selected consultant for feasibility study.
Conducting feasibility study	Consultant and followed by DSIF-team.	Finalised feasibility study
Feasibility study, including a draft project document, finalised, and approved by the local partner (project implementing party) and IFU IC (BC)	DSIF-team and IFU IC.	The project proposal is ready for appraisal.
Project proposal and draft terms of reference for appraisal submitted to ELQ for appraisal	DSIF formulates ToRs for the appraisal, which is undertaken by ELQ.	Appraisal report.
Project document updated (based on feedback from	DSIF.	Revised project document.

appraisal, local partner, and embassy in the country)		
Revised Project document is presented to the Council for Development Policy	DSIF, GDK.	Project proposal is approved by Council for Development Policy (UPR).

The project preparation phase concludes with the UPR's recommendations and subsequent approval by the Minister for Development.

Annex 2: Detailed Indicative Results Framework and Output-based Budget

Project Title		DSIF Project Development Facility						
Impact Area		c) Building a just and inclusive economy by supporting infrastructure projects, which create decent jobs and provide access to essential goods, services, and solutions. d) Building a green economy by supporting infrastructure projects, which mitigate or enable adaptation to pressures from climate change or provide other environmental services.						
Outcome		Local authorities in developing countries enabled to present project proposals for financing of infrastructure under DSIF and thereby increase DSIF pipeline.						
Outcome indicator		No. of DSIF financed infrastructure projects in the target areas.			Output budget DKK '000			
	Year	No. of	Africa	Non-Africa	Africa	Non-Africa	Total	
Baseline (Ongoing projects under preparation not yet presented to UPR)	2022	15	9	6				
Target (Projects presented to UPR)	2025	10	6	4	31.3	15.7	47.0	
Ultimo (Projects started not ready for UPR carried forward)	2025	8	3	2				
Output 1		<i>Water sector projects ready to be presented to UPR</i>						34.2
Output indicator		No. of project documents elaborated and appraised.						
Baseline (Ongoing projects under preparation not yet presented to UPR)	2022	11	7	4			8.6	
Target: (Projects presented to UPR)	2023						8.6	
Target (Projects presented to UPR)	2024						8.6	
Target (Projects presented to UPR)	2025	6	4	2			8.4	
Ultimo (Projects started not ready for UPR carried forward)	2025	6	3	2				

Output 2		<i>Energy sector projects ready to be presented to UPR</i>					12.2
Output indicator		No. of project documents elaborated and appraised.					
Baseline (Ongoing projects preparation not yet presented to UPR)	2022	3	2	1			3.2
Target (Projects presented to UPR)	2023						3.2
Target (Projects presented to UPR)	2024						3.2
Target (Projects presented to UPR)	2025	3	2	1			2.6
Ultimo (Projects started not ready for UPR carried forward)	2025	1	0	0			
Output 3		<i>Transformative sector projects ready to be presented to UPR</i>					0.6
Output indicator		No. of project documents elaborated and appraised.					
Baseline (Ongoing projects preparation not yet presented to UPR)	2022	1	0	1	?	?	?
Target (Projects presented to UPR)	2023						
Target (Projects presented to UPR)	2024						
Target (Projects presented to UPR)	2025	1	0	1			0.6
Ultimo (Projects started not ready for UPR carried forward)	2025	1	0	0			
Output 4:		<i>Better project proposal from partners, which considers poverty reduction and green economy from already at the idea stage enabling effective and efficient implementation of the new DSIF Strategy.</i>					2.0

Output indicator		<ul style="list-style-type: none"> • Updated and unfolded DSIF Strategy and action plan for key priority areas 2021 – 2024. • Updated comprehensive operational guidelines covering the whole DSIF project cycle recognising the lessons learned, including update of template for terms of reference for feasibility study. • Clear process plan for project development cycle aiming at reducing the preparation time from first contact to presentation to UPR. • Further developed and improved format for reporting on the PDF. • Systematised monitoring and harvesting of lessons learned from projects executed. 				
Baseline	Year	2022	<p>DSIF Strategy, with key priorities for 2021 – 2024 recently approved and unfolding/operationalization has commenced.</p> <p>Guidelines for project management not updated since 2019.</p> <p>Standard terms for feasibility studies not updated to comply with MFA and IFU practice.</p> <p>Unsystematic monitoring and harvesting of lessons learned from executed projects.</p>			0.0
Target	Year 1	2023	<p>Updated comprehensive operational guidelines for the project development process, including template for terms of reference for feasibility study.</p> <p>Clear process plan for project development cycle aiming at reducing the total project cycle time.</p>			0.8
Target	Year 2	2024	Systematised monitoring and harvesting of lessons learned from projects executed.			0.8
Target	Year 3	2025	Updated and unfolded strategy for a 5-year strategy period (2025 – 2030).			0.4

- 4) *Baseline* = Number of projects where the project preparation phase has started (Pre-CIP, CIP and FC) captured from DSIF's Pipeline dated 06.04.2022 and presented to the Steering Committee in May 2022, in total 15.

Name of project		Sector			Geographical location	
		Water	Energy	Transformative	Africa	Non-Africa
ICT Project, Bangladesh	Pre-CIP			X		X
Lombok Indonesia	Pre-CIP		X			X
Ouagadougou W&S	Pre-CIP	X			X	
Jinga & Iganga, Uganda	Pre-CIP	X			X	
Musi River clean-up, India	Pre-CIP	X				X
Mali Transmission Line	CIP		X		X	
Ethiopia Asella II	CIP		X		X	
Ghana Aveyime Water	CIP	X			X	
Lahore Water Treatment	CIP	X				X
Bobo-Dioulasso W&S, Burkina	CIP	X			X	
Name of project		Sector			Geographical location	
		Water	Energy	Transformative	Africa	Non-Africa
Tema Wastewater, Ghana	First Contact	X			X	
Kenya Water & Sanitation	First Contact	X			X	
India Water & Sanitation	First Contact	X				X
Ukraine District Heating/ W&S	First Contact	X				X
South Africa W&S	First Contact	X			X	

- 5) *Target* = Number of projects estimated to be brought for UPR during the project period. The assumption is that projects at the stage of Pre-CIP and CIP will be ready for presentation to UPR during the period 2023 – 2025, which constitutes 10 in total.
- 6) *Ultimo* = Number of projects in process but not completed in the project period. Given the present timeline from first contact until presentation to UPR, the assumption is that the 5 projects at the stage of FC as of April 2022 will be carried forward to the next project period (PDF-III).

The DSIF strategy is a first step. The DSIF-team will work on unfolding the strategy during the first half of 2023 to facilitate more clarity related to how the strategic objectives will be obtained. Activities foreseen under output 4 will underpin achievements in key priority areas at the operational level, as expressed in the Strategy 2021 – 2024, such as developing and launching an impact screening tool for project identification and assessment, and an upgrade of the results measurement system to including cross-cutting portfolio level indicators. Further, to reach the ambition of developing and financing larger infrastructure projects, the DSIF-team will explore opportunities for or parallel financing with IFU and/or other DFIs.

Annex 3: Theory of Change

The development objective of the PDF is closely linked to the overall objective of DSIF which is, as set out in Act 106 of 8th June 2017 and reaffirmed in the Finance Bill of 2022:

- To establish sustainable and climate-relevant infrastructure in developing countries and thereby contribute to promoting the UN's Sustainable Development Goals in line with Denmark's development policy priorities.

The recent DSIF strategy 'translates' this overall objective into two objectives for DSIF:

- **Building a green economy** by supporting infrastructure projects which mitigate or enable adaptation to pressures from climate change or provide other environmental services, and
- **Building a just and inclusive economy** by supporting infrastructure projects which create decent jobs and provide access to essential goods, services, and solutions.

The immediate objective for the PDF is to:

- Enable local authorities in developing countries to present project proposals for financing under DSIF, and thereby build DSIF pipeline.

The development of successful projects requires time, money, and sophisticated skills, which is limited in many developing countries (UN-Habitat, 2011). Lack of projects that are developed to a state where they are ready to be considered for DSIF and similar subsidised loans by other development banks is identified as a key barrier for the development of sustainable infrastructure projects to support the LDCs achieving their SDGs. A project development facility is therefore an important instrument to overcome this barrier to find financing options for non-commercially viable investments in needed sustainable infrastructure.

The Theory of Change (ToC) for the PDF foresees that funding of the DSIF Project Development Facility (PDF) will facilitate that the DSIF-team can build a pipeline of projects and bring these to a stage where they are ready for financing under DSIF.

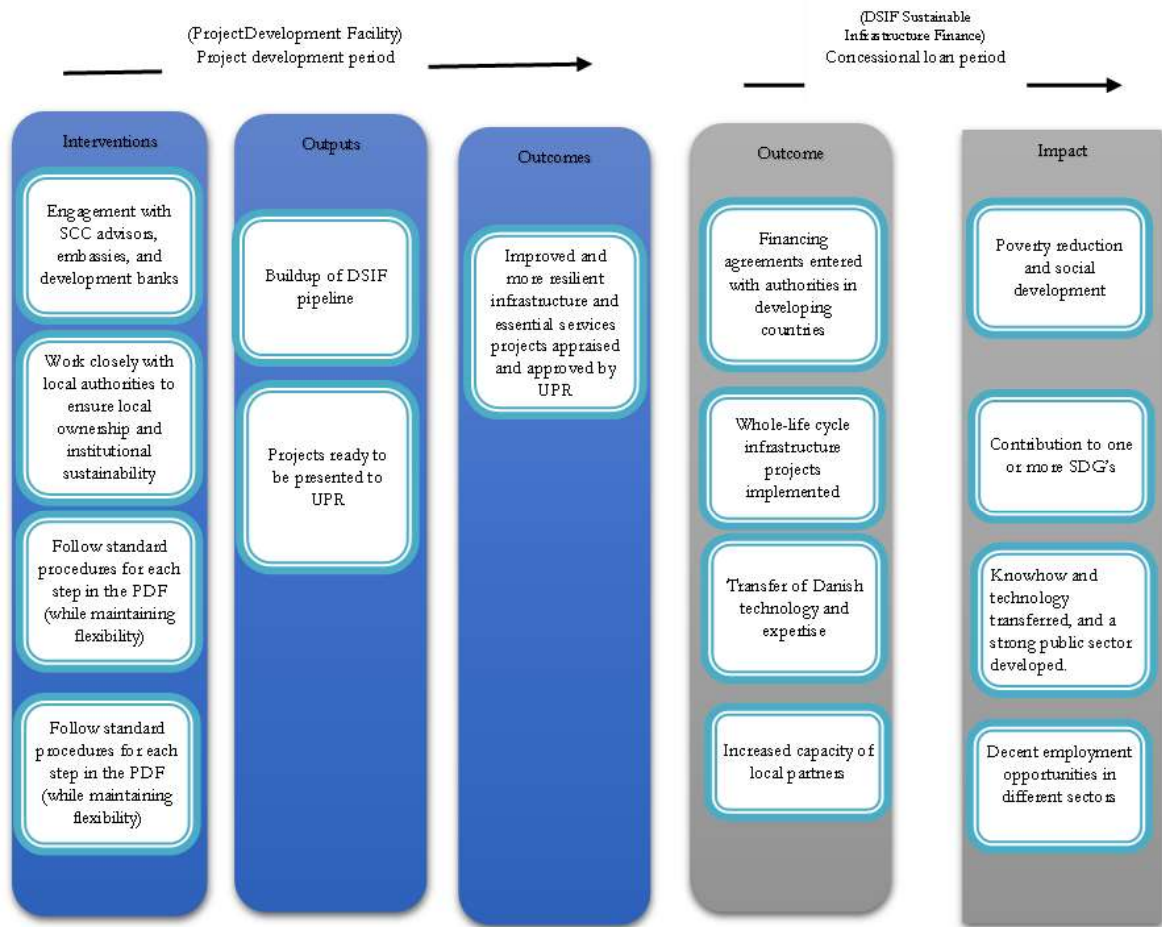
The ToC is based on the rationale that providing funds and skills to facilitate the development phase, will speed up the pace and quality by which sustainable infrastructure project ideas develop and find funding, while also ensuring that they meet objectives of the SDGs and Danish development goals. Further, involving relevant Danish companies in the process is a way to promote knowledge transfer and investment designs that are based on low life cycle costs and high quality.

The building of a pipeline takes place based on dialogue between DSIF and a public sector authority in a developing country. Such contacts may be established based on local authorities contacting DSIF but is facilitated through the DSIF-team proactively engaging with embassies, SSC and investment advisors, development banks and others to identify new project ideas.

Figure 1 below illustrates the Theory of Change for the PDF.

<i>If</i> Denmark contributes the committed funding to the DSIF Project Development Facility (PDF)
<i>And if</i> the DSIF-team proactively engages with embassies, SSC and investment advisors, development banks and others.
<i>And if</i> the DSIF continues to work closely with local authorities to ensure ownership and institutional sustainability.
<i>And if</i> the DSIF-team develops and follow standard procedures through the development phase, while maintaining flexible use of the PDF so it fits the unique context of each project.
<i>And if</i> political economy, end-user consideration and development objectives such as poverty reduction/more climate mitigation/ adaptation ability are integrated into all phases of the PDF.
<i>Then</i> the PDF can efficiently and effectively facilitate the development of demand driven project proposals that are ready for DSIF financing in accordance with Danish development priorities and increase and develop local authorities' capacities, and ownership, in life- cycle project formulation.
<i>Hence</i> the PDF enables the delivery of DSIF financing for: <ul style="list-style-type: none"> a) Building a just and inclusive economy by supporting infrastructure projects, which create decent jobs and provide access to essential goods, services, and solutions. b) Building a green economy by supporting infrastructure projects, which mitigate or enable adaptation to pressures from climate change or provide other environmental services.
<i>Hence</i> the PDF enables the delivery of DSIF financing to establish sustainable and climate-relevant infrastructure in developing countries and thereby contribute to promoting the UN's Sustainable Development Goals in line with Denmark's development policy priorities.

Figure 2 below illustrates the link between interventions, output, and outcomes of the PDF and how they relate to the DSIF concessional loan period.



The recipient country presents a proposal to DSIF outlining the desired project. The DSIF-team analyses project proposals at the point of entry to confirm that the proposed investment positively aligns with the overall objectives for the DSIF. If it goes through the screening phase, the Ministry of Finance, in the recipient country makes a formal request for financing the preparation of a Feasibility Study in view of an infrastructure investment project with DSIF support.

Assessment of institutional capacity is an integrated part of the development phase to understand the need for technical and financial support of local authorities to enhance the likelihood of financial and institutional sustainability of the project (beyond handing the project over to local authorities). The most important activities to build local institutional capacity link to the close collaboration with local authorities through all phases of project development and thus through partnerships, direct knowledge sharing and ‘learning by doing’.

The formal application by the Minister of Finance in the recipient country for DSIF to finance 75% of a financial feasibility study, is an important brick in the Theory of Change as the feasibility study will cover not only a preliminary engineering design (PED), which is the basis for a correct calculation of the costs of the infrastructure and estimated costs of its operation & maintenance, but also provide information regarding ESG issues,

political economy, end-user considerations and development objectives such as poverty reduction and climate mitigation/ adaptation. In this way, the feasibility study is an important step to ensure that the objectives of the investment are in line with Danish development priorities and DSIF strategic objectives, while providing the necessary data to monitor results over the course of the project.

To streamline and enhance the quality and quantity of project proposals ready for DSIF financing (and thus in support of the Theory of Change), the DSIF toolbox will be developed including standard ToRs for feasibility studies, updating, and unfolding the DSIF strategy, updated guidelines, clear process plan for project development cycle, systematised monitoring, etc.

Annex 4: Risk Management

DSIF has no policy or guidance on portfolio concentration by regional/geographic location, (sub)sector, or individual borrower creditworthiness/capacity; hence there is no portfolio approach to risk management for the DSIF loan portfolio, and hence neither for the PDF. The majority of the DSIF investments are in countries generally associated with a relatively high risk (perceived or real) not least for medium- and long-term projects, which constitute the majority of DFID's portfolio and thus the majority of project developments financed from the PDF frame. Specific risks and the measure to manage these risks are assessed in relation to the specific projects and in relation to the related country and business context, i.e., risk management has hitherto happened at the project level and is primarily focused on management of risk associated with risks of delays and flawed project design.

The DSIF-team will provide an assessment of the identified risks and risk responses together with an updated risk matrix as part of the annual results reporting for the PDF facility. The risk assessments and responses will be subject to a discussion in the Steering Committee.

The table below outlines the assessed risks identified in relation to the implementation of the PDF at a consolidated project level.

Contextual risks: (risks concerning the general risk and fragility factors)

Risk Factor	Likelihood	Impact	Risk response	Residual risk	Background to assessment
Vulnerability of target countries to conflict, political instability and also climate change, the risk of natural disasters, could delay results.	Likely	Major	Political stability in the recipient country is part of the assessment of project applications. Through regular contact with the Danish government and its embassies, DSIF PDF keeps abreast with the situation and adjusts the project planning and timelines accordingly.	The risk that political turmoil and instability will impact on the successful completion of project development and execution will remain.	
The cost of the ongoing war in Ukraine, including acute refugee crisis, could lead to insufficient funding of DSIF and hence projects being developed without financing being secured.	Unlikely	Significant	The annual allocations to DSIF ensures a reasonable timeline for making adjustments to the pipeline which should allow for avoiding void projects. The monthly technical meetings between DSIF PDF and GDK will ensure that DSIF PDF is well informed about the strategic priorities and capacity of the development frame to allow for adjustments.	The risk for insufficient resources as a consequence of limited resources and or change of priorities remains but can be managed.	
A possible new global financial crisis and/or the debt burden of a country may limit the ability and willingness of developing	Unlikely	Major	DSIF subsidise the investment through part-payment of the project preparation and design as well as a loan	Residual risk not reduced - exogenous factors is outside DSIF's span of control.	It is believed that a global financial crisis will render local authorities reluctant or unable to access loans for infrastructure investments.

countries to invest in the preparation and financing of sustainable infrastructure project.			guarantee, which sweetens the deal and creates appetite and preference of the DSIF package over other possibilities.		Also, because its sovereign loans, local authorities' borrowing capacity could also be limited by the accumulated debt burden of the country.
Impacts of the COVID-pandemic and other pandemics (e.g. Ebola) which could lead to disruption of (programmatic) activities across or in part of the organisation.	Likely	Minor	Remote working procedures instituted which ensures almost uninterrupted operations. Active monitoring of COVID outbreaks and other pandemic outbreaks ensures adjustment of work processes and procedures which will safeguard staff as well as ensure uninterrupted operations.	Residual risk not reduced. However, the actions taken will allow DSIF almost normal operations given the current level of pandemics.	While the COVID pandemic in Denmark are perceived reduced to a non-disruptive level it is still a major concern in local contexts in partner countries, as is the from time to time emerging Ebola virus.
A possible new global financial crisis will limit the ability and willingness of developing countries to invest in the preparation and financing of sustainable infrastructure project.	Unlikely	Major	The effects of a possible global financial crisis will be part of the assessment of project applications, and on the consequences for possible financing under DSIF of the proposed project.		
Not all feasibility studies end up in securing DSIF loans.	Likely	Major	DSIF-team monitor development in countries where projects are under preparation and keeps close contact with both IFU proper and the MFA.	Residual risk not reduced.	Political upheaval in partner countries can lead to a project developed not being presented for financing. As examples, the projects prepared for Mali and Ukraine.

Programmatic risks (Programmatic risk concerning risk in regard to achievement of programme objectives)

Risk Factor	Likelihood	Impact	Risk response	Residual risk	Background to assessment
Recipient country has no interest in take on the workload and cost of developing a sustainable project proposal based on the whole-life cost principles.	Likely	Major	Allocation of resources to inform relevant authorities, including the Ministry of Finance, about the whole-life costs principles. Sustainability assessment part of the screening phase.	Risk remains and may affect the portfolio composition, but significantly reduced through the dialogue and capacity development.	
DSIF portfolio not delivering sufficiently on the development objectives as outlined in its Mandate and Strategy.	Likely	Major	Systematic use of IFU impact screening tool for screening projects at point of entry for poverty reduction and climate reduction potential at point of entry.		
DSIF portfolio not delivering sufficiently on the strategy's geographical and sectoral goals.	Unlikely	Major	Unfold and operationalise the strategy and develop a pipeline, which considers a loan-portfolio balanced according to the strategy's geographical and sector focuses.		

			Maintain and update on a multi-year pipeline on a rolling basis to guide the PDF activities. Steering Committee to discuss the pipeline bi-annually.		
Reputational risk for Denmark due to DSIF projects not delivering what they were set out to do due to flawed feasibility studies and design.	Very unlikely	Major	DSIF develops standard terms for minimum requirements for feasibility studies and ensures feasibility studies and design considers local context 360°.	No residual risk.	This has been an issue in the past but new procedures and standard minimum terms for feasibility studies will effectively mitigate the risk.
Lack of interest by Danish companies to participate in tenders originating from the Facility.	Unlikely	Significant	Early dialogue with potential Danish suppliers about possible interest in a particular potential infrastructure project.		
Local authorities unable/unwilling to participate in the preparation of feasibility studies, etc. due to lack of knowledge and experience with the whole-life cost principle.	Likely	Minor	Allocation of sufficient budget for technical assistance and training to key personnel with relevant public institutions and authorities.	Risk remains and may affect the portfolio composition, but significantly reduced through the dialogue and capacity development.	Danish equipment is often perceived more expensive at first glance. Majority of local partners are less experienced with DSIF's approach: 'whole-life-cycle' cost, a principle which most often render the Danish equipment better value for money.
Risk of project not achieving the projected results due to inadequate understanding of the country context or flawed feasibility assessments.	Likely	Major	Enhanced scope and quality of the feasibility study and ensuring the feasibility study has covered also political economy factors.	Risk remains due to the long implementation period of an infrastructure project, but better quality feasibility study significantly reduces the risk.	

Institutional risks

Risk Factor	Likelihood	Impact	Risk response	Residual risk	Background to assessment
Reputational risk through Denmark being associated with major corruption and/or human rights violations in one of the projects/countries.	Very unlikely	Minor	Suspension of preparation and/or funding. Close dialogue with benefiting partners and Danish companies on the 0-tolerance principle during project development.	Long-term portfolio risks reduced substantial due to capacity development activities, but short-term risks remain at individual project level, though reduced through monitoring and dialogue with Danish companies.	DSIF works in countries prone to corruption and human rights violations. In spite of engaged dialogue with partners to make sure that they gain an in-depth understanding of the negative effects of corruption and human rights violation, experiences shows that especially in fragile states and LDC countries cases can occur.
Operational risks linked to weak performance of the PDF, from lack of senior management attention and/or delays in approval of changes, and late implementations of changes.	Likely	Major	Introduction of an 'arshjul' as a planning tool for the secretariat. Monthly monitoring and dialogue meetings with GDK at technical level. Elevating the focus of the Steering Committee to the strategic level.	The residual risk is assessed to be minor after applying risk response.	

Annex 5: List of Eligible Countries

DSIF offers subsidised loans to infrastructure projects in developing countries with income per capita below USD 3,995 (2020) and with a Danish representation. At the moment (September 2022), it is:

- Afghanistan
- Bangladesh
- Burkina Faso
- Egypt
- Ethiopia
- Ghana
- India
- Indonesia
- Kenya
- Mali
- Morocco
- Mozambique
- Myanmar
- Niger
- Nigeria
- Pakistan
- Palestine
- Philippines
- Somalia
- Tanzania
- Uganda
- Ukraine
- Vietnam

Annex 6: Lessons Learned

An evaluation was undertaken of the DSIF programme in 2021, and in 2022 a mid-term review of the PDF was conducted. Lessons learnt are drawn from the two studies and have been considered in the formulation of this project document and will inform the implementation of the PDF work-programme for 2022 – 2025. A summary of the two studies is provided below.

Value addition: Both the evaluation and the review agree that the PDF plays an important role in bringing project ideas to a stage where DSIF can support them. It has increased the quality (local ownership, developmental objectives, and sustainable projects) and quantity (number of projects screened) of project proposals for DSIF financing. The evaluation also finds that the PDF positively supports the conduct of ESG studies (including mitigation and management) in relation to project development and that the facility positively brings in Danish companies offering cutting edge technologies required for green transitioning, which are increasingly in demand in partner countries.

According to the review, the PDF has changed the way DSIF operates towards a more proactive identification and maturing of projects from a very early stage. The development phase allows the DSIF-team to develop projects together with local authorities and jointly scope the project. The PDF phase also facilitates an inclusion of sustainability principles and life-cycle considerations. The PDF has made it possible to screen more projects, while using fewer resources to test more projects' viability. This has eliminated poor projects at an early stage, saving time and resources.

The review also points to the flexible application of the PDF funds towards numerous activities as a notable strength of the facility as it 'responds to the gaps and needs of project partners' and recommends that the flexibility in the use of the PDF funds should continue.

Theory of Change: The evaluation finds that the theory of change applied in the feasibility studies did not live up to the requirements of the MFA and in general recommends a future focus on strengthening the Feasibility studies for example by including a monitoring and evaluation consultant profile in the feasibility study, tasked with developing project documents. This would improve the understanding of the local developmental, socio-economic, and political risk context in early project development and result frameworks. Actions have been taken to learn from these findings including: 1) ELQ to provide feedback on the ToR for feasibility studies, 2) the project proposal to be presented to the MFA's Programme Committee, and 3) ELQ to be in charge of the appraisal.

Local ownership and Synergies: The evaluation also found that there is a need to strengthen local ownership even further during the project development phase as well as working towards strengthening potential synergies and coordination between DSIF projects and other Danida instruments, overall; these points will be considered and integrated in the updated description of the project development cycle. The evaluation finds that collaboration between DSIF and embassies has strengthened project and country-level coherence. None the less, the evaluation points out that more collaboration

for example with SSC advisors can be beneficial to synergies at country level as well as supporting DSIF in building a project pipeline. The review highlighted that the Danish Representation in a country plays an important role in the initial dialogue with the local authority and in pursuing preparatory activities in close cooperation with the DSIF-team in Copenhagen.

Going forward, the ambition is to create a greater synergy with Denmark's bilateral country programs and other relevant sector cooperations. The DSIF-team will therefore systematically reach out to embassies and SSC advisors in the project identification phase and integrate this into their updated operational guidelines and a clear process plan for project development cycle.

Further, the evaluation finds that synergies with IFU have only been partially realised. The DSIF-team is currently working to benefit even more from the relocation to IFU. For example, by using IFU's communication department in developing a DSIF communication strategy and by integrating DSIF impact assessment and monitoring alongside IFU's sustainability procedures managed by IFU's Sustainability team.

Result measurement: Both the evaluation and the review find that there is a need to strengthen the definition of results for each project and likewise the tracking of results on a project level. The ability to track results depend on the necessary baseline studies, indicators and desired results being established already in the project development phase. According to the review, feasibility studies undertaken in the project development phase did not live up to the requirements of the MFA system in relation to theory of change and results frameworks and the evaluation finds that baselines and description of desired development outcomes and targets were generic and not well defined in DSIF project documents.

These shortcomings will be taken into consideration through updated comprehensive operational guidelines for the project development phase, including update of template for terms of reference for feasibility study to ensure that necessary baseline studies and result indicators are developed early in the project phase. DSIF will increasingly seek to leverage on IFU's sustainability processes to further strengthen these areas as well as getting external M&E support in relation to the development of DSIF specific result measurement frameworks.

Reporting: The evaluation finds that progress reporting in DSIF projects is mainly linked to engineering progress and less to ESG monitoring as well as development output, outcomes, and impact. The evaluation further finds, that DSIF has limited information on project sustainability as DSIF's engagement in the project ends with the completion and handover of projects. Likewise, the review report also emphasises the importance of ensuring that systems are in place to collect data for reporting. The DSIF-team will make reporting, including post-completion monitoring, an integrated part of their updated operational guidelines and a Clear process plan for project development cycle. At the same time, the evaluation seems to conclude that "11.2 M&E and reporting frameworks effectively and consistently provide accurate and timely information for management of results of DSIF portfolio".

Identified shortcomings related to establishing the Theory of Change, baseline studies and result measurement frameworks as well as priorities given to reporting can, according to the evaluation and the review, also be strengthened through adding staff to the DSIF-team with such expertise, as well as by ensuring that consultants, e.g. with M&E experience consistently are involved in the feasibility studies. Lastly, the review also points to the value of standardising the project development phase to ensure clarity of what each step contains and the objectives and priorities it seeks to achieve. These points are in accordance with the view of the DSIF-team who are seeking to find such solutions in dialogue with the MFA and IFU. Standardisation of the project development process is a key priority for the PDF 2022-2025 with measurable deliveries as reflected in the result framework.

Both studies in particular highlighted the need for strengthening the results measurement system to ensure a systematic approach to capturing results throughout the project period, a need for revisiting the terms of reference for the feasibility study for enhanced quality and better reporting to the MFA. An administrative review conducted by the MFA post evaluation recommends that DSIF introduce risk-based monitoring of projects, institute clear processes for closure of projects and measurements of impact post-completion, and improved annual reporting to MFA on the DSIF projects.

Going forward and drawing on the lessons learned from the two studies and the administrative review, the DSIF-team will follow up on the lessons learned and pay specific attention to:

- using the Danish representations more pro-actively;
- anchoring DSIF projects in bilateral country programs and other relevant country frames and sector cooperation;
- using SSC advisors and investment advisers more pro-actively;
- strengthening local ownership even further during project preparation;
- strengthening synergies and coordination between DSIF projects and other Danida instruments;
- further strengthening of the collaboration between the MFA and DSIF;
- ensuring focus on quality of feasibility studies by including political economy issues, poverty reduction, inequality, green economy, climate change, and gender issues;
- strengthening focus on compliance with AMG, including improved reporting on progress and results;
- further, a key discourse in the Steering Committee will be strengthening of the collaboration between the MFA and DSIF to ensure a better understanding of the local developmental, socio-economic, and political risk context. Actions to underpin this includes: 1) ELQ to provide feedback on the ToR for feasibility studies, 2) the project proposal to be presented to the MFA's Programme Committee, and 3) ELQ to be in charge of the appraisal.

Annex 7: Process Action Plan

Action/Product	Deadline	Responsible Unit/Persons	Comments
Project document draft finished	October 20 th (morning)	GDK and consultants	
Quality assurance: Appraisal	October 20 th -1 st November	Lasse Møller	An independent view must be safeguarded during appraisal
Finalisation of the project/programme document	1 st November - 4 th November	Responsible unit and consultants	Summary conclusions from the Programme Committee taken into account and the appraisal recommendations.
Final Project Document, annexes and appropriation cover note forwarded to ELQ	November 7th	GDK	
Presentation to the Council for Development Policy	November 24th	GDK	
The minister approves the project	Mid/end December	ELQ submits the proposed project/programme together with the minutes of meeting	After Council for Development Policy meeting
Initial actions following the Minister's approval			
ELQ facilitates that grant proposals are published on Danida Transparency after the Minister's approval		ELQ	
Signing of legally binding agreements (commitments) with IFU	After the Minister's approval	GDK	
Register commitment(s) in MFA's financial systems within the planned quarter	After agreement(s) are signed	GDK	

ANNEX 3 SUMMARY OF RECOMMENDATIONS

Title of Programme/Project	DSIF Project Development Facility (PDF)
File number/F2 reference	2022-31221
Appraisal report date	1/11 2022
Council for Development Policy meeting date	6/12 2022
Summary of possible recommendations not followed (to be filled in by the responsible unit)	
<p>Overall conclusion of the appraisal The overall conclusion of the appraisal is that the proposed programme/project is recommended for approval with adjustments taking the recommendations of this report into consideration.</p>	
Recommendations by the appraisal team	Follow up by the responsible unit
<i>Programme Documentation</i>	
<ol style="list-style-type: none"> 1) The introduction of the PD should place the PDF in the context of the positive lessons as well as the challenges experienced with the previous PDF. 2) A complete list of steps that are normally followed in developing DSIF projects should be included in the PD with corresponding roles and responsibilities for the key stakeholders in the process, including MFA/ELQ. 	<ol style="list-style-type: none"> 1) This has now been included in the program document. 2) This has now been included in the program document.

<i>Strategic Considerations</i>	
3) The PD section 3.5 on lessons learned should conclude by emphasising the issues mentioned by the AT that the DSIF/PDF team will pay specific attention to during implementation of the PDF.	3) This has now been included in the program document.
<i>Results framework</i>	
4) An output/KPI should be included in the results framework for outcome 2. If a meaningful output/KPI for cannot be developed, outcome 2 should be omitted from the programme objectives.	4) Outcome 2 has been omitted.

I hereby confirm that the appraisal team has identified the above-mentioned issues and provided the corresponding recommendations as stated above to be addressed properly in the follow-up to the appraisal.

Signed in Copenhagen on the 1 November 2022

Lasse Moller

Appraisal Team leader/ELK representative

I hereby confirm that the responsible unit has undertaken the follow-up activities as stated above. In cases where appraisal recommendations have not been accepted, reasons for this are given either in the table or in the notes enclosed.

Signed in *Copenhagen* on the *21/11-2022*

Head of Unit/Embassy

Karin Poulsen
KARIN POULSEN