Project Development Programme (PDP) -Top-up 2023

Key results:

- *IFU will make 4 investments to develop projects contributing to green transition (reduction in GHG emission) and counter climate changes. The investments will follow all IFU's policies, including ESG standards.*
- *PDP investments will help adoption of technology, know-how, and new business models, and increase capacity of local partners.*
- *IFU will strengthen its capacity for early stage project development, network and outreach with a focus on climate change and green transition in developing and emerging markets and continuously build an interesting portfolio of green investment projects.*

Justification for support:

- *Fully in line with the Danish strategy for development cooperation "The World We Share" and IFU's priorities and strategy: engagement of the private sector in developing and implementing market-based solutions that address environmental degradation, climate change and the biodiversity crisis and contribute to inclusive economic growth in partner countries.*
- *Complements other Danida business instruments as well as bilateral and multilateral engagements that aim at promoting inclusive economic growth and employment opportunities, among others through increased trade, investments and business development.*
- *Filling a gap in the climate investment market by investing seed capital in early-stage companies/projects, which are not yet commercial, hence comprise a high-risk investment. Sector stakeholders consistently point to the shortage of bankable projects and need for innovative approaches.*
- *Mobilisation of additional commercial and private capital for investment in developing countries of an expected minimum DKK 35m. Successful projects are expected to raise many folds in private capital over time.*

Major risks and challenges:

- *The world is currently experiencing an economic crisis partly due to Russia's war in Ukraine with increasing inflation, increasing prices on energy, goods and services.*
- *Political challenging environment and challenging framework conditions for green transition. In line with the adaptive approach, IFU will be flexible in planning and implementation, in order to respond adequately to changes and potential risks.*

File No.	2022-39382				
Country	Global				
Responsible Unit	GDK				
Sector	Climate, decent jobs, economic growth				
Partner	Investment Fund for Developing Countries (IFU)				
DKK million	**2022**	**2023**	**2024**	**2025**	**Total**
Commitment	15				15
Projected disbursement	15				15
Duration	Dec. 2022-Dec. 2023 (12 months)				
Previous grants	50 mil DKK; Climate Envelope 23 mil DKK and Danida's Business Platform 27 mil DKK				
Finance Act code	§06.38.01.11				
Head of unit	Karin Poulsen				
Desk officer	Charlotte Just				
Reviewed by CFO	Rasmus Tvorup				

Relevant SDGs

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

Objective

Bankable investment projects addressing climate and sustainable development needs with a potential for IFU and/or other DFIs and/or commercial follow-on investment.

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

	Climate adaptation	Climate mitigation	Biodiversity	Other green/environment
Indicate 0, 50% or 100%	100%*	100%*	0	0
Total green budget (Mill. DKK)	**0-15**	**0-15**	**0**	**0**

**All investments will have climate as principal objective.*

Justification for choice of partner:

IFU has a mandate as a DFI to mobilize private investments by taking high risk in the early stages of a commercial investment. IFU is developing a strategy to strengthen project development, including strengthening the capacity to contribute to the development of bankable project that over time would mobilize private investors, including in funds such as the SDG Fund. IFU´s investment strategy has focus on supporting a green and just economy. Project development will help IFU to become more in line with the vision in "The World We Share" (ref above) as well as the government climate action plan.

Summary:

Findings show that ODA can be used effectively to leverage private sector finance, which is available and is actively seeking investment opportunities but unfortunately not flowing to climate and environment projects in developing countries in sufficient amounts. This is due to high risks in development markets and a lack of investor-ready deals (bankable projects) as companies lack capacity and funding to help commercialize their business models so they become investment-ready. Building on experiences and lessons learned with early-stage project development 2016-22, the PDP Top-up funding in 2023 is an intermediate extension and top-up of the first phase. The Top-up will enable IFU to continue to engage in developing bankable climate projects that over time will be scaled up with significant private investments. IFU has identified four promising proposals that will be considered for funding in 2023 while a new PDP strategy and program proposal is being developed. A new PDP-specific screening, investment process and legal documentation has been developed by IFU to appropriately take into concern the risk profile of early-stage investments.

Budget (engagement as defined in FMI)**:**

Engagement 1 – Capital contribution to IFU	DKK 15 million
Total	**DKK 15 million**

Ministry of Foreign Affairs of Denmark

Programme Document

Project Development Programme,

Top-up 2023

DRAFT 12.12.22

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List of Abbreviations

CAIF	Climate Action Investment Facility
DFI	Development Finance Institutions
CIP	Clearance in Principle
DKK	Danish Kroner
EFSD	European Fund for Sustainable Development
EUR	Euro
EV	Electric Vehicle
FDI	Foreign Direct Investment
GDK	Green Diplomacy and Climate (MFA)
GNI	Gross National Income
IFU	Investment Fund for Developing Countries
JoDEA	Joint Donor Escrow Account
KfW	Kreditanstalt für Wiederaufbau
LDC	Least Developed Countries
LMIC	Low Middle-Income Countries
MFA	Ministry of Foreign Affairs
MT	Metric Tons
MTR	Mid-Term Review
ODA	Official Development Assistance
P4G	Partnering for Green Growth and the Global Goals
PDP	Project Development Programme
PSI	Private Sector Investment
SDG	Sustainable Development Goal
UN	United Nation
USD	United States Dollars

1. Introduction

This project document outlines the background, rationale and justification, objectives and management arrangements for development cooperation concerning Project Development Programme (PDP) Top-up grant 2023 as agreed between the parties: The Investment Fund for Developing Countries (IFU) and Green Diplomacy and Climate Department in the Ministry of Foreign Affairs of Denmark. The project document is an annex to the legal bilateral agreement with the implementing partner and constitutes an integral part hereof together with the documentation specified below. The project is an intermediate extension and top-up of the first phase of PDP 2016-2022, and builds on previous years' experiences and learnings with early stage project development[1].

IFU is the Danish development finance institutions with a mandate to invest in emerging and developing markets for SDG and Climate impact and financial return. IFU manage in this capacity several facilities, including those that are more commercial and does large investments (the SDG Fund, Green Future Fund), and facilities such as project development that has a bigger risk appetite in case of high SDG or climate impact. IFU also manages a development guarantee facility and the Danish Sustainable Infrastructure Finance that invests in public (sector) infrastructure such as water.

In line with the Danish strategy for development cooperation *The World We Share*, the PDP Top-up phase will enable IFU to continue to engage the private sector in developing and implementing market-based solutions that address environmental degradation, climate change and the biodiversity crisis and contribute to inclusive economic growth in partner countries. IFU is committed to develop a strategy for project development work during the Top-up phase. This will include strengthening IFU´s capacity and network. Such strategic strengthening should be seen as an important element of the reform of IFU in line with the Danish development strategy.

The PDP Top-up complements other Danida business instruments as well as bilateral and multilateral engagements that aim at promoting inclusive economic growth and employment opportunities, among others through increased trade, investments and business development.

The project aims to contribute to the Sustainable Development Goals (SDG), in particular addressing climate change mitigation, climate change adaptation, environmental protection, biodiversity and inclusive growth. Notably SDG 13 (climate action) and SDG 8 (decent jobs and economic growth).

The total budget for PDP Phase 1 was DKK 50m. In 2020, a Mid-Term Review (MTR) recommended a two years no-cost extension, which was granted by the MFA until the end of 2022.

IFU has four promising project proposals, which are in process for IFU PDP funding. With a remaining budget of about DKK 17.1m from Phase 1[2], IFU is seeking an additional DKK 15m to pursue these opportunities and an extension of the current phase until end 2023. Concurrently, IFU will be developing a programme proposal for phase 2 for the period end 2023 – end 2028.

2. Context, lessons learned and justification

2.1 Context and lessons learned

Overseas Development Assistance (ODA) can be a critical source of funding to catalyse high risk and low- to no-return projects in Low Middle-Income countries (LMIC) and Least Developed Countries

[1] An assessment conducted October 2022 reviewed IFU follow-up to the 2020 Midterm recommendations. Combined, the two reports provide the basis for the formulation of the PDP Top-up phase.

[2] For further info see section 4 on budget

(LDC). However, at USD161billion the total global ODA is insufficient to fill the SDG and climate funding gap estimated in 2020 at USD 3.7 trillion per year, up from USD 2.5 trillion in 2019. Findings show that ODA can be used effectively to leverage private sector finance at a ratio of about 3 to 14.

Private finance is available and is actively seeking investment opportunities, but it is unfortunately not flowing to climate and environment projects in developing countries in sufficient amounts. This is often due to high risks in these markets in general and lack of investor-ready deals as companies lack capacity and funding to help commercialize their business models so they become investment-ready (bankable).

Investors including Development Finance Institutions (DFIs) tend to focus more on mature projects and shy away from smaller and early stage initiatives and projects that still need to be fully developed. The assessment is that too little financial and human capital is allocated to early-stage investments. Without a massive increase in development of investment-ready projects, there will be too few bankable projects in the coming years for private capital to invest in; projects that are required to reach the SDG and Paris Agreement goals.

The PDP helps fill this gap in the climate investment market, by investing seed capital in early-stage companies/projects, which are not yet commercial, and therefore high-risk. PDP projects are new to the market or have a new technology or business model and yet to be assessed as commercially viable.

It was expected that the ongoing PDP would have attracted more interest from the Danish business community. In practice however, the PDP has faced challenges in developing a viable portfolio of projects partly due to the initial tying of investments to Danish companies and later the protracted COVID-19 period's general impact on the private sector. The PDP has since been untied from Danish interests in line with general untying of IFU investments from Danish interest.

When the MTR inquired about the relevance of the PDP, stakeholders consistently confirmed a clear need for a facility like the PDP that focuses on project development. Both when the MTR team interviewed partner companies and sector stakeholders, it was emphasised that companies have difficulties in finding risk sharing capital for early project development and that the PDP fills a gap in the market. IFU is, in general, perceived to be more involved, supportive, and proactive than other similar funds the partners have worked with, and thus contributes to the likeliness of a successful development phase. In the MTR, sector stakeholders consistently pointed to the shortage of bankable projects and need for innovative approaches.

During the first years of the PDP, IFU was assessing projects as if they were commercially competitive projects but just smaller size investments. This approach proved counterproductive and the MTR recommended that IFU revisited the PDP approval process to ensure more flexibility to fund early-stage efforts to develop projects. PDP projects have followed the same screening and selection process as any other IFU projects, but given that a classic PDP is often less mature or ready, it is more likely to fail during IFU's standard screening process.

IFU has now developed a new PDP-specific screening, investment process and legal documentation to appropriately take into account the risk profile of early-stage investments. This will provide a simpler approach for PDP projects to be presented to the IFU investment committee for funding.

Other lessons learned from the first phase of the PDP relate to lack of a thematic or geographical focus. The projects have ranged from wind farms and power plant development to pig and fish breeding. This demands a wide range of competencies within IFU, which easily leads to the risk of spreading effort too thinly. This finding was also echoed by the MTR, which recommended a stronger thematic focus to allow IFU to become more specialised, build stronger competences and network within selected thematic areas. As part of the development of the second phase of PDP, emphasis is on narrowing the thematic focus in line with IFU´s Investment Strategy 2021-2024 (e.g. focus on healthy food & lives; green energy, water & waste; financial inclusion and transformational businesses; and gender).

Finally, IFU has been more pro-active in the latter part of the PDP Phase 1 in identifying PDP projects, building experiences and knowledge internally in IFU, which will be carried into the phase 2 formulation in order to ensure a more strategic implementation of the PDP. Similar will also be reflected in a new IFU PDP strategy to be formulated during 2023. Please refer to section 5 below reg. steps taken to reflect lessons learned in the PDP management set-up.

2.2 Justification

Relevance

In order to attract higher levels of foreign direct investments, there is a need for more and better investment opportunities in developing countries and emerging markets. The private sector in these countries is an engine of growth and increased levels of investments is needed and can lead to improved economic and social development. In the area of financing for climate projects, there exists several investment funds. However, many of these funds are challenged by the shortage of bankable projects, which could in turn lead to lost opportunities and delay in the required investment. The PDP is set up to help overcome these challenges. Large-scale investment opportunities are costly and risky to explore and develop. In order to embark on these, companies have a need for risk sharing and high risk capital, which the PDP can provide. The PDP can as such facilitate much needed investment projects that might otherwise never mature.

Efficiency

Management of the PDP is aligned with IFU's existing administrative systems and appraisal procedures. IFU has over the last year improved the efficiency of the PDP by introducing more simple screening and approval processes that are suitable to small high-risk projects instead of applying standard processes that apply to large investments. Overall, IFU has vast experience investing in emerging and developing economies, including high risk markets. There are clear synergies to be tapped into internally in IFU through its capacity as fund manager for the SMV-facility, High Risk High Impact programme and IFU´s building up of a portfolio of blended finance with the EU.

Effectiveness

Approximately 70 percentage of all projects considered for PDP funding failed in the initial screening and 10 projects have received funding. Some of these projects have subsequently been closed as it was assessed during the investment period that they would not be feasible. This "success rate" is probably not unusual for early stage and venture investors, because as mentioned above, it is associated with high risks to embark on these kinds of projects. The new screening and selection procedures have been developed to also improve the overall effectiveness.

Impact

The PDP is expected to have a direct impact on the number (and quality) of bankable investment projects readily developed for investment by IFU and other investors in the commercial market. The assumption for the PDP is that these projects when implemented have a positive climate and SDG impact. Projects that are developed into investment-ready projects would over time attract more investors and scale up their impact. Impacts would include climate mitigation, adaptation, creation of decent jobs for women and men etc. Investments will be implemented in accordance with IFU´s sustainability policies, including principles of the UN Global Compact, the UN guiding principles for business and human rights, the IFC Performance Standards, gender policy etc. and IFUs screening for impact (green transition and social inclusion) and results monitoring. IFU is in the process of further developing a robust monitoring framework and approach to capture outcomes and impact of ongoing PDP projects.

Sustainability
At programme level, sustainability is to be measured by the return on investment of the projects that mature and develop into bankable investment projects, and will be available for funding of new investment opportunities. At project level, and in the first phase, it was expected that approximately 40 percentage of the developed projects would succeed and mature for investment and implementation. However, only approximately 10 percentage of the approved projects are expected to succeed. The MTR mentions that most of the problems were beyond the control of the PDP but also that there has been limited systematic reflection within IFU on why projects have not been successful. As mentioned above, this has changed. The expectations of 40 percentage has subsequently been considered too ambitious considering international experiences and a target of 10 percentage more realistic. The return on a successful project is however expected to be of a considerable size, but it can take a time up to 5-10 years, before such returns can be realised. It is important to emphasise that the development costs of projects that do not materialise are not very high, i.e. most projects which have been found unfeasible, have been shut down before the full budget was spent. The unspent part of the budget has been used on the development of other investment projects.

Additionality
Experience shows that even large companies are hesitant to develop large-scale investment projects in developing countries and emerging markets because of the higher risks (difficult political and regulatory contexts, corruption, volatile markets, exit challenges etc.) compared to other markets and the relatively high development costs involved. At the same time, it is also a fact that unless many more projects, including green infrastructure, are developed, the world will not achieve the climate or sustainable development goals, and that the risk of not achieving those could be very large not just in low income countries, but also in high income countries. Better and more flexible access to risk capital and co-investment in project development is critical for the projects to be developed at the pace and in the form and quality that makes them interesting also to other investors. This has been confirmed through the first phase of PDP. Further, investment capital with a long time perspective is not easily available in the market. The participation in project development is therefore crucial for several of the more innovative but also ‘risky’ PDP projects in order to reach a level of commercial interest to IFU classic and other investors. With its long-term perspective, the PDP is additional to other funds and facilities that exist both within IFU and on the commercial market.

Eligible countries
The PDP follows IFU’s mandate, and investments can be made in all countries on the OECD/DAC list of development aid recipients. As is also applicable to IFU’s regular portfolio, at least 50% of the budget must be invested in countries with a GNI per capita below 80% of the upper limit for Lower Middle Income Countries (World Bank's classification).

3. Presentation of PDP Top-up

Overall, the Top-up follows the vision, purpose and approach/theory of change outlined in the PDP Programme Document from 2016.

3.1 Programme objective

The overall purpose of the PDP is to share risks with companies wishing to develop medium to large-scale investment projects in developing countries with the aim of entering into investment cooperation with IFU and other investment partners in accordance with IFU's mandate.

Development objective:

- Contribute to sustainable, low-carbon, resilient and inclusive economic growth in developing countries and emerging markets

Project objective:

- Bankable investment projects addressing climate and sustainable development needs with a potential for IFU and/or other DFIs and/or commercial follow-on investment.

Outcome:

- Climate and inclusive development projects prepared and ready for implementation by using PDP funds with the prospective of further investments through IFU managed funds.

3.2 Theory of Change

From interventions to outputs

The PDP will enable IFU to identify partners and agree on projects to be developed. The interventions/input in terms of financial participation in project development, technical assistance by IFU and IFU's active and thorough management and monitoring of the entire process, is expected to mobilise companies to use their technical knowledge in project development in developing markets.

Through the PDP support, companies will be able to conduct feasibility testing, data gathering and formulation of business plans. By being involved in the early stages of a company/project, IFU will transfer knowledge and channel PDP capital to improve a new companies' standards (with the assumption that ODA-compliance is both good for ESG issues, but equally important, will attract commercial capital later on i.e. IFU will ensure the companies are ODA-compliant and supported by IFC performance standards).

A key output would be agreements signed with private partners to develop an investment project.

Further, another output of the PDP Top-up phase will be a draft IFU PDP strategy developed ahead of the Phase 2 PDP, funded through IFU's general budget.

From outputs to outcomes at PDP level

A key outcome at this level is the active engagement and mobilisation of companies' skills, technology, knowhow and capital for development of large-scale investment projects. The capacity of local partners is also expected to increase as a result of the project implementation. Further, a key outcome is the de-risking through feasibility testing, data gathering, formulation of business plans and careful due diligence processes which are expected to lead to successfully developed investment projects, bankable and matured for further investment.

In addition, companies' proof of concept for new technology and new business model will support companies to be established and enabled to initiate production of services and/or goods on a commercial basis. The latter being a precondition for scaling and mobilization of additional commercial and private capital invested in the company.

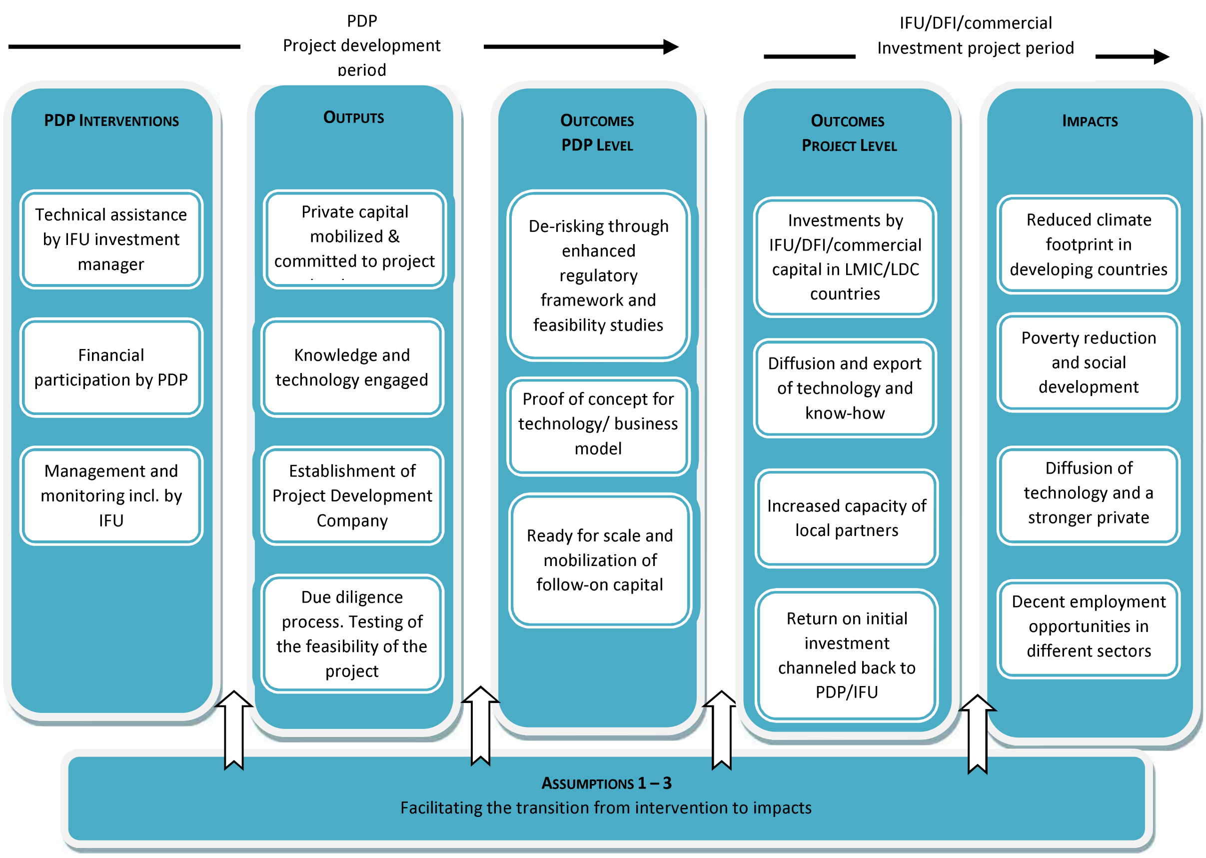
From outcomes at PDP level to outcomes at investment project level

Once a project/company is scaling up its production, it will start contributing to impact. An intermediate outcome is the benefits that the company directly and indirectly creates over a period. This would include number of decent jobs created, amount of CO2 avoided, amount of renewable energy produced and sold, income created etc. IFU would continue to monitor this so long as IFU is invested in the company, in line with IFUs processes for active ownership. Any scale-up investment by IFU would include an impact creation plan with agreed impact related targets that would be monitored.

From outcome at project level to impact

The investment projects will contribute to income and job generation and thus to building a stronger private sector in the host countries. Due to the requirements for responsible business conduct embedded in the programme and in IFU's work in general, the jobs created will be decent with the aim of also promoting social development and poverty reduction. The projects are expected to contribute to positive societal impacts such as lower CO2 emission levels, improved food quality and food security, better and more reliable infrastructure etc. depending on the target sector of the project. Overall, the projects are thus, expected to contribute to placing the host countries on a more sustainable development path, and to the fulfilment of the global goals for sustainable development (SDGs).

Figure 2: ToC for the PDP



Assumptions 1: Interest among companies to engage in project development: IFU is able to actively promote the PDP as part of its product line.

The experience from Phase 1 has been that it has been more difficult than expected to identify suitable climate projects, but given the urgency of climate change more companies are interested to engage in early-stage investments and there is a growing appetite from financial institutions and capital market for climate investments, which are commercially viable. IFU has expanded its network relevant for project development. The four identified projects are assessed to be relevant in this context. The assumption is still relevant.

Assumptions 2: Feasible proposals for projects are presented to IFU: Continued interest by companies to engage in developing countries and emerging markets.

IFU's elaborated approval process was ill suited to early-stage investments. IFU has subsequently modified its investment process to make it more PDP-appropriate and there has been a significant increase in interest including the four identified projects for the Top-up phase. The assumption is still relevant.

Assumptions 3: IFU has allocated the sufficient internal resources to deliver on the PDP: IFU will assign human resources and finance from within the organisation to manage the PDP and ensure delivery according to programme objective including ongoing monitoring.

IFU is funding all operational costs under its general budget. Further, IFU is developing a new IFU strategy for PDP developed ahead of the Phase 2 PDP including a focus on strengthening the overall organisation and management of PDP.

3.3 Results Framework for the PDP Top-up

The potential projects to be funded through this Top-up grant include the following:

BasiGo: BasiGo is a newly established company, which wants to tackle air pollution from diesel buses in Kenya and related greenhouse gases. It has a highly experienced team who h worked previously in developing and delivering renewable energy and financing solutions in developing countries.

The main projected impacts are:

- Jobs in renewable energy and e-mobility sector in vehicle assembly, charging and service.
- Reduction of 55MT of CO2/diesel bus replaced with an electric battery and elimination of toxic air pollution (diesel buses in public service fleets drive between 70-90,000 km annually, generating over 60MT of CO2 and 6.5Kg of toxic air pollutants).
- Lower cost barriers from BasiGo's investment in charging infrastructure and thus increasing adoption for other EV sectors (like private cars)

Karidja: Karidja is a green field project, which aims at restoring 70,000ha of forest in Ivory Coast, which has had significant loss of forest cover since 1960 when 50 percentage of the country (16 mil ha) was forested to currently 9 percentage. Since 2014, the Government of Ivory Coast has committed to restoring the country's forest cover to 20 percentage of the land area (6.4mil ha) by 2030.

The main projected impacts are:

- 20MT of CO2 sequestered
- 60km of riverbanks restored and protected

- 100,000 local people directly impacted through hiring, professional training, revenue generating activities and design of agroforestry projects
- Safeguarding of critical habitat for biodiversity, soil health and protection of water catchment areas that supply clean water to downstream communities

Cardano Development/JoDEA: a Dutch non-profit incubator and fund manager operating since 2007 that conceptualises, builds and manages products for clients in low-income countries, with focus on development of financial markets. The most successful project to date is TCX, which provides foreign currency hedging for emerging market currencies. PDP funds will mainly go into green projects.

The main projected impacts are:

- Creation and incubation of on average 3 innovative business models annually.
- Emphasised focus on green investments in the financial sector in developing countries.
- Demonstrable acceleration of development of financial markets, with an emphasis on addressing local market failures.
- Focus on developing solutions for Africa
- Significant job creation through making financial services more efficient or more accessible (TCX estimated to have created 37,000 jobs, 45 percentage female jobs).
- Enabling and de-risking of investments in renewable energy through innovative financial products (TCX hedging estimated to have driven generation of an additional 60GW of green energy and avoidance of 75KT of emissions).

CAIF – Climate Action Investment Fund: CAIF is an initiative by IFU and P4G that aims to create a fund for investment in innovative, green companies at an early-stage – primarily ones with which P4G already partners. The investment base for the fund will be DFI and ODA funding and IFU/P4G is in negotiations with various DFIs for financing. IFU has also submitted an application for a USD 50m first close supported by an EFSD+ first loss guarantee. The fund will invest in climate-focused ventures that are innovative, transformative and with catalytic impact across five different themes: clean energy transition, zero waste industry, resilient agricultural value chain, sustainable land use, and climate-resilient water management.

The main projected impacts are:

- Providing catalytic DFI capital to mitigate early-stage development risk and crowd-in private investments (according to Dalberg study[3], less than 4 percentage of DFI catalytic capital is directed to early-stage risk)
- Addressing climate change through both mitigation and adaptation with SDG 13 Climate Action as the underpinning goal
- Providing replicable models for building capacity to scale climate finance in support of the Paris Agreement goals;
- Expanding the capacity to achieve established climate goals working through local stakeholders;
- Supporting women-led enterprises (at least 50 percentage of investments targeted to be 2X gender-lens compliant)

[3] Investment Gaps Analysis, Dalberg, April 2021

The results and impact of all projects will only be realised within a longer timeframe of up to 5 – 10 years and for as long as IFU is involved in these projects. Baseline and targets have been updated in the below results framework from 2016.

Project Title		**Project Development Programme, Top-up 2023**	
Project Objective		Bankable investment projects addressing climate and sustainable development needs with a potential for IFU and/or other DFIs and/or commercial follow-on investment.	
Impact Indicators		2 bankable investments where additional financing has been mobilised	
Outcome		Climate and inclusive development projects prepared and ready for implementation by using PDP funds with the prospective of further investments through IFU managed funds	
Outcome indicator 1.1		Number of Clearance in Principles (CIP) applied for climate and inclusive development projects and approved by IFU's Investment Committee to be further assessed for PDP participation	
Baseline	Year	2022	1 projects
Target	Year	2023	0 projects – however it is expected that over time (1-3 years) 3 projects would be ready for scale up.
Outcome indicator 1.2		Number of PDP proposals found eligible for investment through PDP	
Baseline	Year	2022	10 projects
Target	Year	2023	14
Outcome indicator 1.3		Volume of additional DFI/commercial finance leveraged by PDP funding.	
Baseline	Year	2022	DKK 44 million mobilised
Target	Year	2023	DKK 35m additional mobilised

See Annex 3 for details on indicators and targets related to the impact, outcome, and outputs.

4. Budget for the Top-up grant

The allocation for the PDP Top-up grant is DKK 15m to cover the period January – December 2023. From phase 1 of PDP, there is an outstanding balance of DKK 17,1m which will be transferred to the extended period and thus the total balance for 2023 is **32,1 m**

Table 3: Budget

	2023
Phase 1 unallocated funds	17,1
Top-up	15
Total (million DKK)	**32,1**

Expected allocation (PDP-pipeline)	2023

BasiGo	10
Cardano	10
Karidja	10
CAIF	2,1
Total (million DKK)	**32,1**[4]

IFU sources new opportunities for PDP-projects on a continuous basis and has become a well-known actor in the emerging market community for early-investment capital. Under the current pipeline another 5-10 projects is expected to be assessed in 2023 for possible financing but not all projects will be deemed investable by IFU's screening process. IFU's policy is to always have a higher number of project pipeline than it has capital – given that some projects may not be converted to investments, and budget commitment and disbursement will be followed closely to manage expectations.

The use of the PDP budget will follow IFU's normal investment procedures. The Top-up grant will be transferred to IFU at the beginning of the operation. IFU will manage the funds according to IFU's rules and procedures for accounting, auditing, procurement, etc. Until invested in project development, IFU will place the funds so that a sound interest rate is secured.

5. Management

The procedures and governance set-up for MFA capital contributions to IFU are well established. The PDP investments will be integrated into IFU's governance structure and managed according to IFU policies and procedures, as well as the priorities outlined in this document. All decisions regarding allocations from the PDP will be decided in according with its high-risk nature.

Based on lessons learned from Phase 1 of PDP, IFU has made several adjustments to the management of the PDP. IFU has strengthened the organisational set-up by dedicating an anchor point for the programme at the Vice President level. A team for PDP investments will be finally confirmed in 2023 with the aim to not only focusing capacities in IFU to handle early-stage investments, but also to capture lessons learnt, share with the wider organisation and to engage in relevant networking.

As mentioned above, IFU has undergone a thorough process of creating a PDP-appropriate screening, investment and contracting procedures appropriated for PDP-projects to ensure that the capital can be deployed better and more efficiently. The new process is 70 percentage faster including for rejections, and success rate more realistic fixed at 10 percentage.

The principal modalities of the PDP are as follows:

- The private project partners will invest a minimum of 50% of the budgeted development costs. IFU, through PDP, can participate with up to 50% of the budget. The instrument will in most cases be a PDP convertible loans, but it can also be either loans, equity or a mix of the two. It will be up to IFU to decide on the most appropriate way of participating in each project.
- The PDP is not tied to any Danish companies.
- The new IFU guidelines have lifted the DKK 5m ticket size limit and thus this limit will not apply to the PDP grant either.

[4] The total amount to be contracted and disbursed will depend on final negotiations with project stakeholder but will not exceed the total available amount for the Top-up period.

- IFU will follow the impact of the projects until IFU is fully exited – it will be difficult to mandate future owners of the project to report on both capital mobilization and impact after IFU has exited.
- The Top-up grant will be fully integrated into the current PDP and IFU's operation and all costs related to the programme will be covered under IFUs own operational budget.

IFU's reporting on the Top-up funds will be an integral part of the existing governance and reporting structures between the MFA and IFU. The MFA is observer in IFU's board meetings, and the parties have yearly high-level meetings at which also the PDP will be discussed. IFU will provide a complete report by closure of the Top-up grant December 2023. This report will include the entire Phase 1.

Further, progress of the PDP Top-up will be discussed at the quarterly management meeting between IFU and MFA/GDK.

In addition, IFU does a Final Evaluation Report for each project, which addresses lessons learnt, financial and impact results.

5.1 Communication

IFU will communicate on new PDP projects per its normal communications channels and policies - as with all its other funds under management. The progress in the programme will also form part of the results reporting of the MFA.

6. Risks assessment

The responsibility for monitoring and taking action on the risks as regards PDP rests with IFU Management and Board, and IFU will also be responsible for handling any operational risks which may occur during implementation of the Top-up grant. IFU will keep Danida updated on any significant changes in the risk assessment.

Contextual risks remain the same and mainly relate to growing financial recession/crisis, which is likely to have a negative impact on international investments and especially investment in more risky markets. Given that the investments foreseen have already been identified for the Top-up phase, contextual risks are considered minimal.

In general, programmatic risks include lack of knowledge and interest in the PDP as a product and lack of capacity in the market for developing investment projects. IFU will market the PDP as part of their ongoing dialogue with potential investors. IFU has already four solid project proposals for the Top-up phase and these risks are therefore not considered likely.

On the institutional level, any risks are considered rare. IFU is a well-established organisation with many years of experience in investment in developing and emerging markets. There is a risk however that the four proposed projects will not attract investors, which will have an impact on the returns to the programme and also on the development impact. The constant monitoring and advisory support by IFU investment advisors will mitigate this risk.

Annex 1: PDP Investment Pipeline

BasiGo

BasiGo is a newly established company, December 2021, which wants to tackle the pollution of air and the avoidance of GhG due to diesel buses in Kenya.

As urbanisation increases the demand for cities to provide quality public transport will also increase in order to combat congestion, CO2 emissions and air pollution. Electric buses, which charge from East Africas mostly renewable grid, are shielded from the increasing costs of fossil fuels which with the current energy crisis normally will increase the cost of public service.

The Business Model:

BasiGo provides an electric bus, charging, and servicing solution for public service vehicles at less than the incumbent diesel bus cost via an innovative Pay-As-You-Drive financing. They are the only company in Kenya offering a holistic e-Mobility solution that incorporates product delivery, charging, service and financing, and given the innovative element, are looking to receive early stage high-risk capital.

BasiGo launched a bus pilot in April 2022 and wants to use the PDP grant to order four additional buses to prove the concept in Nairobi, Kenya. Electronic buses and the charging infrastructure for buses batteries is an unknown technology in Kenya. The four buses will test both the electricity infrastructure in Kenya (e.g., will the Kenya network with its unpredictable high/low intensity burn the batteries whilst they are charging,), the financing capacity in the local market for this product (the bus companies are private in Kenya and they finance the buying of the buses via loans), and the commercial interest in this service from Nairobi citizens (will they prefer this bus or the old ones?).

The EV market in densely populated cities in emerging markets is at a nascent stage and IFU would like to use this investment to learn about the potential and the challenges for. IF the company succeeds in these early stages, and become commerically viable, IFU will demand an option that its SDG 2 Fund or its other capital under management, has a first right to invest, thereby creating commercially viable pipeline for IFU's own commercial pool of capital.

BasiGo has a highly experienced team who have worked for both Google and Tesla previously in developing and delivering renewable energy and financing solutions.

The main projected impact are:

- Jobs in renewable energy and e-mobility sector in vehicle assembly, charging and service.
- Reduction of 55MT of CO2/diesel bus replaced with an electric battery and elimination of toxic air pollution (diesel buses in public service fleets drive between 70-90,000 km annually, generating over 60MT of CO2 and 6.5Kg of toxic air pollutants).
- Lower cost barriers from BasiGo's investment in charging infrastructure and thus increasing adoption for other EV sectors (like private cars)

IFU is negotiating Head of Terms with BasiGo and expect to be able to make a full assessment by Q3 2023.

See also: https://www.basi-go.com/about

Cardano Development

Cardano Development is a Dutch non-profit foundation established in 2007 and based in the Netherlands. Cardano is acting as a fund manager and incubator to support and finance innovative early-stage concepts in the developing world. To date, Cardano has primarily focussed on business models that aim to improve the robustness and resilience of financial systems in developing countries. Its most notable incubated projects are:

- TCX (The Currency Exchange Fund), which offers long-term currency and interest rate hedging in emerging market currencies – it was co-created with FMO and IFU was one of the original investors in 2007 (current portfolio of USD 5,065m)
- Frontclear, which enables emerging market banks to connect to global interbank markets by providing credit guarantees, thereby increasing liquidity in the financial sector in developing countries (current portfolio of USD 308m)

In addition, Cardano has since 2016 held the management mandate for GuarantCo, a leading provider of local currency credit solutions and guarantees for infrastructure projects in Africa and Asia, supported by the governments of the UK, Switzerland, Sweden, the Netherlands, Canada and Australia (current portfolio of USD 883m)

Cardano itself does not provide any substantial capital, but focusses on conceptualising new innovative products and formalising them (including forming companies, finding suitable management teams, establishing governance processes etc.) with the aim to de-risk the concepts so that first donor funding and later funding from e.g. DFIs can be attracted – and the projects eventually taken over by the private sector.

JoDEA incubator:

The Joint Donor Escrow Account ("JoDEA") is an incubator that was first established in 2007 with support from the Dutch and German public development agencies and initially housed within the TCX fund. In 2017, JoDEA was spun out into a separate entity with Cardano Development as manager, and with KfW providing approximately USD 2m annually in funding

The incubator provides grants, guarantees and investment capital to concepts that have "high additionality and development impact" and that are explicitly otherwise not commercially viable. Cardano considers JoDEA its "dedicated incubator" with the specific purpose of "fuelling its innovative pipeline".

Since 2017, the incubator has supported 12 different initiatives for a total of USD 13m. Projects are selected by a Donor Committee which currently consists of a representative from KfW as well as one independent member. While past projects have primarily been focussed on financial inclusion and financial infrastructure, a majority of the current pipeline are financial products with a green focus (e.g. green guarantees and sustainable housing finance).

The projects undertaken by JoDEA between 2017 and 2020 were externally and independently reviewed in 2021 by consulting firm EA Consultants, with a positive outcome.

- The consultants scored the incubator 3.3 ("Very good") on a 4-grade scale, with an especially positive assessment of the sustainability and impact of the incubator

- The incubator scored slightly lower (but still above average) on "efficiency and effectiveness" as some of the more ambitious projects have taken time to get off the ground, with delays partly caused by COVID-19
- "We conclude that JoDEA has developed an innovative and impactful approach to incubating new projects that seek to accelerate the development of financial markets and boost sustainable investments in the developing world (…). The strong value-add of JoDEA is providing resources for the early-stage development of innovative and oftentimes high-risk projects that explore ways to address market failures" (EA Consultants review, 2021)
- "In summary, we find that JoDEA is a unique and agile programme that leverages the specialized capacity of the Cardano Development team (…) As such, it is well-positioned to expand its sphere of influence in the development of more liquid and transparent local markets and expanding capital flow to such markets" (EA Consultants review, 2021)

Proposed collaboration with IFU:

KfW has indicated that they would like to see another funder join JoDEA to grow and deepen the impact. Cardano has reached out to IFU to see if IFU would be interested in joining the incubator The Dutch government has also indicated that they are considering providing financial support to the incubator (which they were part of establishing in its first iteration in 2007).

The initial proposal is that IFU would join the incubator on the same terms as KfW, providing annual funding of USD 1-2m and with a seat on the Donor Committee, having a say on project selection.

Cardano has suggested that they can commit to a certain portion of projects (e.g. 50%, very indicatively) being green.

In addition, Cardano is in the very early stages of establishing a venture capital fund, which would focus on investing in projects that come out of JoDEA once they reach commercial viability. An external fund manager would be mandated for the fund to ensure neutrality in the investments. IFU support to the JoDEA facility could be combined with a commitment to the fund – Cardano has raised the possibility of IFU having a more active role also in the fund (e.g. a seat on the investment committee)

See also: https://www.cardanodevelopment.com/our-companies/start-ups/

Karidja

Karidja is a green field project which aims at restoring 70,000ha of forest in Ivory Coast. Ivory Coast has had significant loss of forest cover since 1960 when 16m Ha (50 percentage of the country) was forested to current 3m Ha (9% of country). This has led to significant threats to the regions CO2 sink, biodiversity and animal species.

Since 2014, the Government of Ivory Coast has committed to restoring the country's forest cover to 6.4m Ha (20% of the land area) by 2030. In January 2022, aDryada signed a MOU with the Government of Ivory Coast granting aDryada the right to restore the Haut Sassandra Forest covering 70,000 Ha, which has lost over 80% of its original forest cover.

ADryada is a fund advisor to Ardian, the leading European fund manager, managing and advising more than USD 141b of assets on behalf of more than 1,300 clients globally. Ardian has a large capacity for raising capital having successfully raised USD 15b in 2021 focussed on investments into energy, transport, digital and climate. Adryada and Ardian have signed a service agreement under which, aDryada will originate and develop projects for Ardian and Ardian will raise capital to fund these projects. ADryada CEO is Fabio Ferrari who has more than 30 years experience in building new enterprises and most recently supported Ardian in launching Hy24, the Euro 2b hydrogen infrastructure fund which was successfully closed in October 2022.

The Business Model:

The project aims to sequester 20m tons of CO2 over 40 years, which will be sold to private companies seeking to reach net zero emissions.

The project is at advanced stage of appraisal: i) Completed planting of 500,000 trees pilot project; ii) Final stage of legal and contractual framework structuring; and iii) Identification of initial carbon-credit off takers.

Euro 2 million is required for preparatory/development investment covering feasibility studies, project design, certification process and first restoration block pre-financing. This will unlock a fund raising process targeting to raise Euro 70m, which will be used to plant c35m native trees over 70,000ha.

aDryada, is the main promoter of the project. aDryada is a developer and operator of biodiversity carbon projects with over 50,000 ha of nature based projects (forests, mangrove, wetlands) under management. aDryada has partnered with AGRO-MAP, a leader in reforestation projects in Ivory Coast with a track record of 7m trees planted. Support received from Ardian Infrastructure, international infrastructure investment house with USD 20b AUM.

The main projected impact are:

- c20m tons of CO2 sequestered
- c60km of riverbanks restored and protected
- 100,000 local people directly impacted through hiring, professional training, revenue generating activities and design of agroforestry projects
- Safeguarding of critical habitat for biodiversity, soil health and protection of water catchment areas that supply clean water to downstream communities

This opportunity is interesting for IFU as it has huge climate impact, contributing c20m tons of CO2 sequestered, which will greatly contribute to IFU's ambition of achieving net zero on its portfolio by

2040. The project timelines aim to achieve an initial tree planting of 2,500ha in 2023 and progressively plant more hectares every year to achieve a target of 70,000ha planted by 2029.

IFU will invest post the PDP stage on achievement of 3 main milestones, which will make the project bankable, specifically:

i) Secure the 40-year Concession Contract and its associated Forestry Plan with the Government of Ivory Coast;

ii) Secure an advanced commitment with at least one off-taker for a long-term credit carbon purchase agreement; and

iii) Commitment of co-investors to participate in the Euro 70m capital raise.

The status of both these milestones is:

- Negotiations for the concession contract are at an advanced stage and a decision is expected by Q2 2023;
- Discussions with off takers are also well advanced with several of them are in the due diligence phase e.g. Shell, Total and Eni. Others who have expressed interest but are yet to start due diligence are Touton, CEMOI, Compagnie Fruitiere and Sifca
- Several DFIs and investors have expressed interest and are in due diligence phase e.g. IFC and STOA Infra and Energy. Others who have expressed interest but are yet to start due diligence are FMO, BII, KFW and DEG/AFD.

See also:

www.adryada.com

www.ardian.com

CAIF – Climate Action Investment Fund

In 2018, the governments of Denmark, the Netherlands, and South Korea, set up the organisation P4G ("Partnering for Green Growth and the Global Goals 2030") to catalyse political awareness and commitment in partner developing countries and particularly advise and provide catalytic grant funding to partnerships working on business model with potential to speed and scale up climate investments.

IFU is considering partnering up with the organisation to establish a new early-stage blended fund (the Climate Action Investment Fund, or CAIF) to invest in innovative, green companies at an early-stage – primarily ones with which P4G already partners.

The fund is targeting a USD 50m first close supported by an EFSD+ first loss guarantee, ODA funding, as well as DFI funding. The fund has applied for an EFSD+ first-loss guarantee to cover a minimum EUR 20m and up to EUR 50m which was presented to the Technical Assessment Meeting in the European Commission, where FMO supported the initiative. The European Commission has endorsed the project for approval at the EFSD+ TAM Board meeting on 15-16 December 2022. Should the EFSD+ not approve a guarantee, another partner would be needed who could mitigate the risks. This would be a challenge for the initaitve.

The fund will invest in minority stakes in pre-revenue climate-focussed ventures that are innovative, transformative and with catalytic impact. All investments will have a clear climate impact focus across five different themes: clean energy transition, zero waste industry, resilient agricultural value chain, sustainable land use, and climate-resilient water management. The geographic focus would prioritise markets where P4G is operating a national platform (Mexico, Colombia, South Africa, Kenya, Ethiopia, Bangladesh, Vietnam, Indonesia), but also be open to other developing markets.

The fund will hold and support the investment during a period of 3 to 5 years, after which it will aim to exit primarily to DFIs – including IFU and other DFI LPs in the fund, thereby acting as an accelerator or incubator for DFI climate investments

The exact structure of the fund, including IFU's and P4G's respective roles, remains to be defined – but the fund will leverage IFU processes, possibly IFU staff and the fund may also be structured as a GP (co-)owned by IFU.

Projected impact:

- Supporting innovative climate solutions by leveraging IFU know-how and processes
- Providing catalytic DFI capital to mitigate early-stage development risk and to crowd-in private investments (according to a Dalberg study[5], less than 4% of DFI catalytic capital is directed towards early-stage risk)
- Addressing climate change through both mitigation and adaptation with SDG 13 Climate Action as the underpinning goal
- Providing replicable models for building capacity to scale climate finance in support of the Paris Agreement goals;
- Expanding the capacity to achieve established climate goals working through local stakeholders;
- Supporting women-led enterprises (at least 50% of investments targeted to be 2X gender-lens compliant)

[5] Investment Gaps Analysis, Dalberg, April 2021.

Annex 2: Partner Assessment

1. Brief presentation of partners

Established in 1967, IFU has today more the 170 active investment projects in more than 100 countries in Africa, Asia, Latin America and parts of Europe. Committed IFU investments total DKK 26 billion. IFU is an independent government-owned fund offering risk capital to companies in developing countries and emerging markets. IFU is fund manager of a number of other investment funds, including the Danish SDG Investment Fund, a high risk, high impact facility, project development etc.

IFU investments have helped create and preserve close to one million jobs in the host countries, and IFU has contributed to the establishment of more than 2,000 megawatts renewable energy. In addition, IFU's presence has resulted in transfer of knowledge and technology, the employees have received training, economic activity has been accelerated and a source of income through e.g. taxes has been created for the host countries.

IFU has two overall impact objectives, which include supporting a green economy and supporting a just and inclusive economy. All projects must contribute significantly to at least one of these objectives and do not harm on the other objective. Furthermore, IFU has a strong focus on environment, social and governance in the project companies' to ensure, among other things, that employees are given proper working conditions and that a project company's production is socially and environmentally sustainable. IFU offers risk capital and advice to companies in developing countries. IFU has built up a strong experience with investments in developing countries including low-income countries, and IFU has the experience and capacity and networks to develop and implement the project development.

2. Summary of partner capacity assessment

No additional stakeholder analyses have been conducted due to the fact that IFU is a well-established organization, and the planned commitment to early stage project development would not change IFU's current governance procedures and business activities.

3. Summary of key partner features

Name of Partner	**Core business** *What is the main business, interest and goal of the partner?*	**Importance** *How important is the project/programme for the partner's activity-level (Low, medium high)?*	**Influence** *How much influence does the partner have over the project/programme (low, medium, high)?*	**Contribution** *What will be the partner's main contribution?*	**Capacity** *What are the main issues emerging from the assessment of the partner's capacity?*	**Exit strategy** *What is the strategy for exiting the partnership?*
IFU	*IFU invests in financially viable companies, contributing to building a green economy and/or a just and inclusive economy.*	*Low.* *IFU has an active portfolio under management of DKK 12.6 billion by the end of 2021.*	*High.* *IFU will decide which projects to invest in.*	*IFU will cover all costs related to identifying, maturing, approving and implementing the investments.*	*Strength: Solid well tested systems for identifying and managing investment projects.* *Strong regional presence with local offices in 7 countries.*	*Capital and dividends from successful investments will become part of IFU equity and re-invested in new projects.*

					IFU is dedicating more resources for project development and is working on a strategy for project development.	

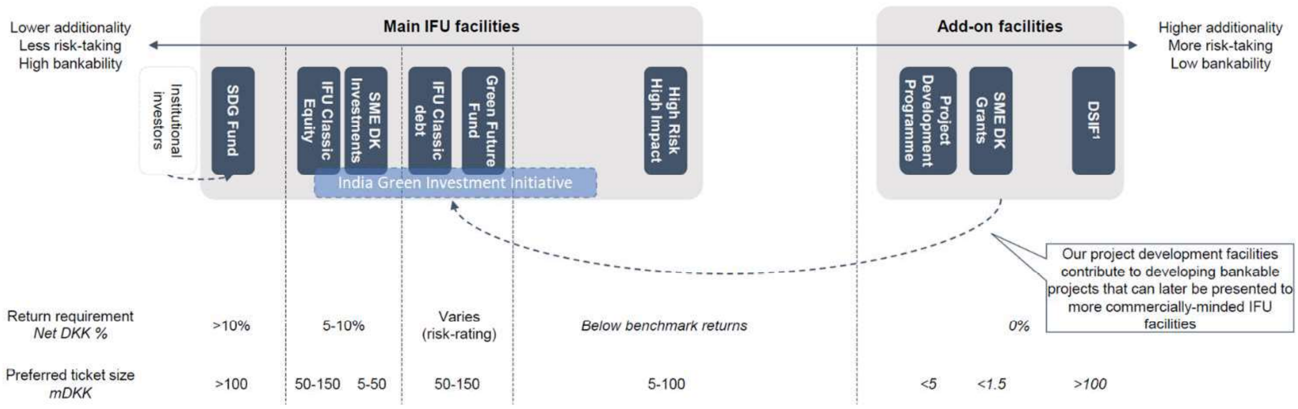
4. Overview of IFU´s engagement in projects funded under PDP-phase 1 (DKK 49,5m w. DKK 0,5m allocated to reviews)

Project	Current status	Investments Contracted	Disbursements + expected disbursements/commitment by end of 2022	Project related expenses	Total allocated	Unallocated funds for 2023[3]
C2SI Biomass Guatemala*	Inactive	3,0	3,1	0,1	3,2	-
Inhambane wind farm	Inactive	-	-	0,0	0,0	-
Osudoku Wind Farm[1]	Active	5,0	2,9	-	2,9	2,1
Azur WtE 2 Projects*	Active	9,3	10,2	0,1	10,3	-
Africa GreenCo*	Active	6,4	6,3	0,3	6,6	-
Benpower	Inactive	5,0	1,0	0,2	1,2	3,8
CerCa A/S	Active	2,4	2,3	-	2,3	0,1
COOP Kenya	Inactive	-	-	0,3	0,3	-
DLG Pilot India	Inactive	0,3	0,1	-	0,1	0,2
Anji Salmon Farm	Inactive	4,7	1,0	0,3	1,3	3,3
Falck Serbia [2]	Active	-	4,3	-	4,3	-
Total		**36,0**	**31,2**	**1,2**	**32,4**	**17,1**

*** Disbursements are more than investments contracted due to currency adjustments**

[1] Osudoku Wind Farm is in the process of being closed down and IFU does not expect to disburse the remaining DKK 2.06m. The amount has been added to the unallocated capital for 2023.
[2] DKK 4.3m has been approved for a project in Serbia together with Falck A/S. The project has been approved by IFU. Signing is expected early 2022.
[3] Remaining commitment related inactive projects are added to the unallocated capital for 2023.

5. Overview of IFU instruments



IFU has in addition since 2022 managed the Danish Development Guarantee Facility with a financial frame of DKK 2bn, in agreement with the Ministry of Foreign Affairs, initially for a 4 years pilot phase.

Annex 3: Theory of Change and Results Framework

From interventions to outputs

The PDP will enable IFU to identify partners and agree on projects to be developed. The interventions/input in terms of financial participation in project development, technical assistance by IFU and IFU's active and thorough management and monitoring of the entire process, is expected to mobilise companies to use their technical knowledge in project development in LMIC/LDC.

Through the PDP grant companies will be able to conduct feasibility testing, data gathering and formulation of business plans. By being involved in the early stages of a company / project, IFU will transfer knowledge and channel PDP capital to improve a new companies' standards (with the assumption that ODA-compliance is both good for the ESG issues, but equally important, will attract commercial capital later on i.e. IFU will ensure the companies are ODA-compliant and supported by IFC performance standards.

A key output would be agreements signed with private partners to develop an investment project.

Further, another output would be a draft IFU strategy for PDP developed ahead of the Phase 2 PDP, funded through IFU's general budget.

From outputs to outcomes at PDP level

A key outcome at this level is the active engagement and mobilisation of companies skills, technology, knowhow and capital for development of large-scale investment projects. The capacity of local partners and contractors is also expected to increase as a result of the project implementation. Further, a key outcome is the derisking through feasibility testing, data gathering, formulation of business plans and careful due diligence processes which are expected to lead to successfully developed investment projects, bankable and matured for further investment.

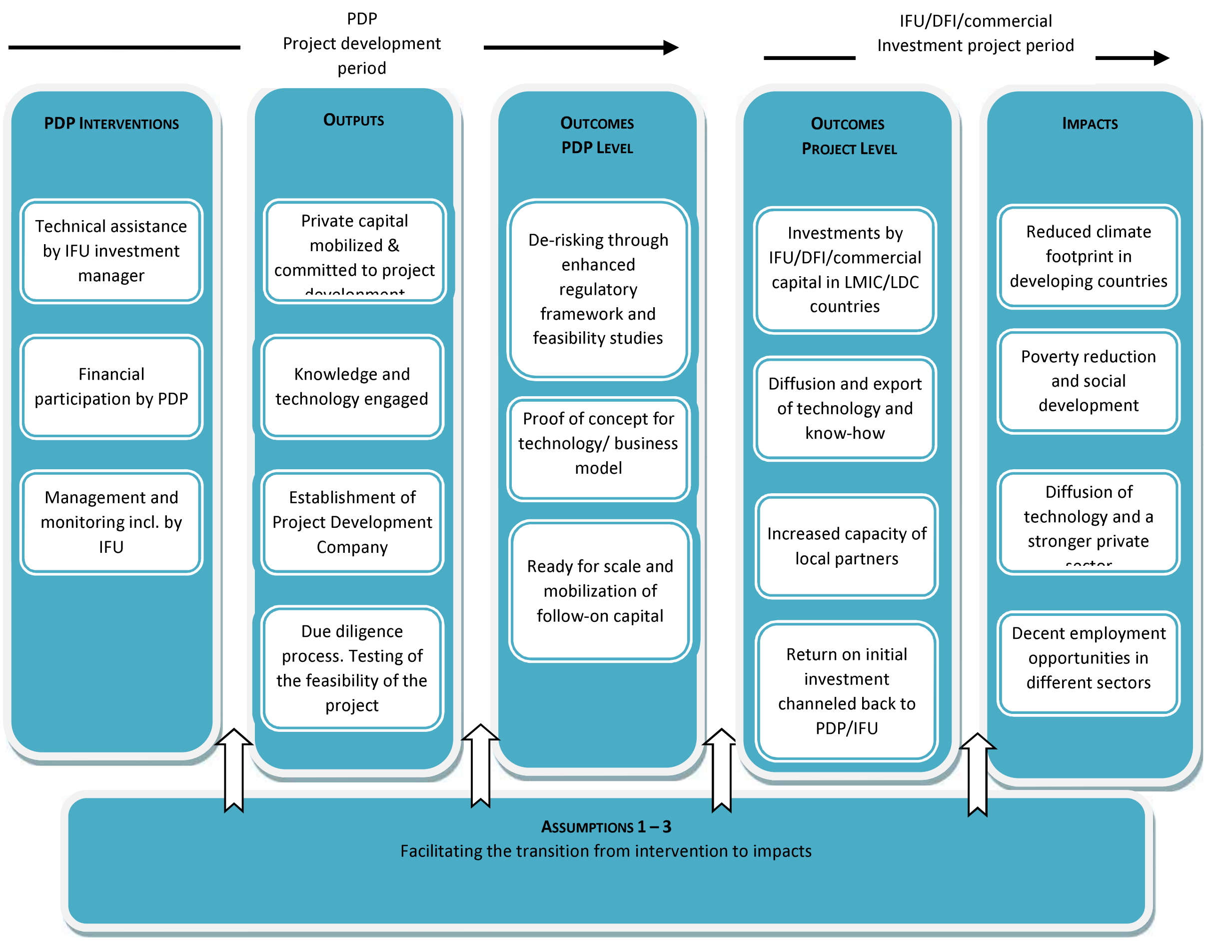
In addition, companies' proof of concept for new technology and new business model will support companies to be established and enabled to initiate production of services and/or goods on a commercial basis. The latter being a precondition for scaling and mobilization of additional commercial and private capital invested in the company.

From outcomes at PDP level to outcomes at investment project level

Once a project/company is scaling up its production, it will start contributing to impact. An intermediate outcome is the benefits that the company directly and indirectly enables over a period. This would include number of decent jobs created, amount of CO2 avoided, amount of renewable energy produced and sold, income created etc. IFU would continue to monitor this as long as IFU is invested in the company in line with IFUs processes for active ownership. Any scale-up investment by IFU would include an impact creation plan with agreed impact related targets that would be monitored.

From outcome at project level to impact

The investment projects will contribute to income and job generation and thus to building a stronger private sector in the host countries. Due to the requirements for responsible business conduct embedded in the programme and in IFU's work in general, the jobs created will be decent with the aim of also promoting social development and poverty reduction. The projects are expected to contribute to positive societal impacts such as lower CO2 emission levels, improved food quality and food security, better and more reliable infrastructure depending on the target sector of the project, etc. Overall, the projects are thus expected to contribute to placing the host countries on a more sustainable development path, and to the fulfilment of the Global Goals for sustainable development (SDGs).



RESULTS FRAMEWORK

Project Title	**Project Development Programme, bridging phase 2023**
Project Objective	Bankable investment projects addressing climate and sustainable development needs with a potential for IFU and/or other DFIs and/or commercial follow-on investment.
Impact Indicators	2 bankable investments where additional financing has been mobilised

Outcome		Climate and inclusive development projects prepared and ready for implementation by using PDP funds with the prospective of further investments through IFU managed funds	
Outcome indicator 1.1		Number of Clearance in Principles (CIP) applied for climate and inclusive development projects and approved by IFU's Investment Committee to be further assessed for PDP participation	
Baseline	Year	2022	1 projects
Target	Year	2023	0 projects – however it is expected that over time (1-3 years) 3 projects would be ready for scale up.
Outcome indicator 1.2		Number of PDP proposals found eligible for investment through PDP	
Baseline	Year	2022	10 projects
Target	Year	2023	14
Outcome indicator 1.4		Volume of additional DFI/commercial finance leveraged by PDP funding.	
Baseline	Year	2022	DKK 44 million mobilised
Target	Year	2023	DKK 35m additional mobilised
Output 1.1		Applications for PDP received by IFU from partners	
Output indicator 1.1		Number of proposals received for potential PDP-funding.	
Baseline	Year 2022	100 (2016-2022)	
Target	2023	150	
Output 1.2		Investment project proposals presented to IFU's Investment Committee	
Output indicator 1.2		Investment project proposals presented to IFU's Investment Committee	
Baseline	Year 2022	11 (2016-2022)	
Target	2023	13	
Output 1.3		Project development company established and development activities ongoing	
Output indicator 1.3		Number of project development investment agreements signed	
Baseline	Year 2022	10	
Target	2023	14	

Annex 4: Risk Matrix

Risk Factors	Likelihood	Background to assessment of likelihood	Impact	Background to assessment of potential impact	Risk Response	Residual Risk
Contextual risks						
Global Macro-economic instability	**Likely (red)**	The world is currently experiencing an economic crisis with increasing inflation, increasing price on energy, goods and services	**Major**	The crisis has also reached LMIC/LDC	IFU will assess each opportunity taking into account how the relevant global context would affect the financial and impact feasibility of a project. However, IFU would not be able to predict events and crisis that could affect the investment over the investment period.	**Major**
Continued rise in global commodity prices	**likely**	The commodity prices (soft and hard) are still under pressure, influencing investment markets in emerging markets	**Major**	Many of the IFU target countries are dominated by commodity trading and processing, and continued rise in world market prices would affect investments	Refocus on other sectors, e.g. retail, banking etc. less influenced by commodity prices	**Major**
Programmatic risks						
Partners not interested in PDF products	**Unlikely**	There is a large unmet demand for project development funds,	**Major**	If the financial products cannot be sold to partners, PDF	A redefinition of the products will be made	**Major**

		which IFU is now engaging through a more focused approach.		becomes irrelevant		
Oversupply of capital in the climate investment market, and distortion of investment of the investment market, leading to less demand for investments from IFU	**Unlikely**	There are at present more than 90 larger fund arrangements in the climate market, and many of these provide concessional financial products	**Major**	Without a significant increase in number and size of bankable projects, the climate and SDG targets will not be met. There would be too few investment opportunities for DFI and commercial investors, including an SDG Fund	PDF becomes a very important vehicle to mitigate this risk	**Minor**
Lack of knowledge about sustainable energy investment and climate mitigation investment opportunities and viability	**Unlikely**	There is still a hesitation among investors to invest in renewables, due to the lack of knowledge of the business cases in the sector	**Minor**	General awareness about renewables is increasing; The market is now developing fast in many emerging market countries, and there is a growing recognition of the financial viability of investments in climate mitigation and adaptation activities	n.a.	**Minor**
No demand from IFU to use PDF funds to support investments from their statutory resources	**Rare**	IFU has already 3 new projects and a list of potential projects ready to apply for funds from PDF.	**Major**	Obviously the lack of demand from IFU would have a major impact. However, the issue is not relevant at this stage	n.a.	**Insignificant**
Investee projects	**Minor**	It has been foreseen	**Minor**	It is normal in the	IFU having become more	**Minor**

supported under PDF will be significantly delayed or they will not be launched		that some of the projects that have received funds from PDF will not materialise, and that is also foreseen since PDF is considered a risk mitigation facility for the companies investing, by reducing development costs and losses in case of abandoning investment projects		investment banking business that many projects, although well prepared will not be launched for many different reasons. In the results framework it is outlined how many of the projects is expected to be realized	focused and applied more resources for project development, including for better screening of opportunities.	
Poor repayment performance by borrower's/equity holders, compromising the financial sustainability/recapitalization of PDF	**Unlikely**	The track record in IFU is compared with industry standard fairly good. The repayment of the PDF contribution will also depend on the terms of payment (grace period, exit strategy etc.)	**Minor**	Obviously, the recapitalization of PDF will depend on the performance of the investee companies/projects that has benefitted from PDF. It is also clear that the performance will vary over the portfolio, where some will perform better than others.	The final participation of the development company in the investment project can be assured by taking a product mix of equity and loans in exchange for the contribution from PDF.	**Minor**
The real value of PDF will not be sustained due to deterioration of the principal caused by little recycling of funds	**Minor**	Although IFU´s portfolio track record shows a positive return on investments, there is a risk that early stage investments would not give a positive return and	**Major**	Failure to resolve sustainability of the fund would reduce the amount of funds available to continue supporting PDF objectives in future	IFU has gained experience during phase 1, and is working on a new strategy for PDP, which would include consideration of how to mitigate risk of losing real value in the PDP facility. This	**Minor**

into the PDF		that the real value of PDP would fall over time.			could be done by improve PD capacity and improved due diligence, by more diversification through platform investments companies, and thereby reduce the time before refuelling can take place	
Institutional risks						
Most of the PDF funds are used to develop projects that are not implemented	**Rare**	This event will be mitigated through the fact that only CIP projects can get support from the PDF, thereby improving the probability that the development activities will result in investments and start-up of new initiatives	**Major**	Should the PDF funds be spent on projects that are not implemented, the objectives of the PDF are not fulfilled	IFU is allocating more resources to manage the PDP investments. This would include better analysis of impact and financial viability of the projects. IFU is developing a strategy for PDP with a view to focus on fewer objectives/sectors, and ensure a better internal organisation of the management of PDP, including more – and more focused – resources being allocated.	**Major**
IFU is not able to facilitate investments in PDF target countries	**Rare**	IFU has the necessary competences and a long track record in investing in the countries and companies/investment projects that are eligible for project development support from PDF	**Insignificant**	The probability that IFU will not be able to manage these funds in an optimal way is very little	IFU is allocating more resources to PDP and working an strategy for PDP, including organisation of the work to ensure sufficient focus.	**Insignificant**

Annex 5: List of supplementary materials

Document / Material	Source
Closing the SDG Financing Gap in the COVID-19 era. (OECD, 2021)	https://www.oecd.org/dev/OECD-UNDP-Scoping-Note-Closing-SDG-Financing-Gap-COVID-19-era.pdf
Financing for the Sustainable Development Goals (SDGs) and the Paris Climate Agreement: The UN Ecosystem of Initiatives on Private Sector Finance A sdg 2030 Series Report by Stakeholder Forum and New World Frontiers, July 2021	https://stakeholderforum.org/wp-content/uploads/2021/07/SDG-2030-Series-Report-No-2-Financing-for-the-Sustainable-Development-Goals-and-the-Paris-Climate-Agreement-13-July-2021.pdf
OECD Development Co-operation Profiles, June 2021	https://www.oecd.org/development/development-co-operation-profiles-2dcf1367-en.htm
PDP – Status Report 1 January 2020 – 31 December 2020	PDP IFU REPORT 2020.pdf
PDP – Status Report 1 January 2021 – 31 December 2021	PDP Annual report 2021.pdf
IFU Annual Report (IFU, 2021)	https://www.ifu.dk/wp-content/uploads/2022/05/IFU_AR_2021_280421.pdf

ANNEX 9: QUALITY ASSURANCE CHECKLIST

File number/F2 reference: 2022- 39382

Programme/Project name: Project Development Programme (PDP), Top-up 2023

Programme/Project period: Dec 2022 – Dec. 2023

Budget: DKK 15 mil.

Presentation of quality assurance process:
The PDP-programme was externally reviewed, Dec 2020, resulting in 9 recommendations. Responding to recommendation 9, another external assessment was conducted during October 2022 reviewing IFU follow-up to the recommendations. Combined, the two reports provide the basis for the formulation of the PDP Top-up phase. Thus while phase 2 will be formulated during 2023, the Top-up appropriation is designed to "tie-over" four pipeline projects in the last stages of approval from phase 1.

To ensure quality of its operations and in line with the recommendations of the reviews, IFU has reconsidered its current method for early-stage project development and follow-up, and early project development is foreseen to play a more prominent role in its coming strategy. IFU is also looking into more effective ways of managing the PDP by setting-up a dedicated PDP-team and allocating financial resources. In the planned revised "ownership document", the MFA will emphasis IFU's role in early project development more prominently.

☐ The design of the programme/project has been appraised by someone independent who has not been involved in the development of the programme/project.
Comments: In consultation with ELK and given the relatively limited time period for the Top-up phase and the profound knowledge and experience in the MFA of working with IFU, the verification of the Top-up programme document has been done through a relatively lean process and taking into concern reviews referred to above. The draft programme document has been verified internally in GDK supported by an external consultant.

☐ The recommendations of the appraisal has been reflected upon in the final design of the programme/project.
Comments: yes, recommendations of the above-mentioned reviews have been reflected in the design of the Top-up phase and in particular led to changes in criteria for PDP project approval, reflections on recommitment and reallocation of resources for PDP.

☐ The programme/project complies with Danida policies and Aid Management Guidelines, including the fundamental principles of Doing Development Differently.
Comments: yes, in general both IFU's strategy and screening tools for new project investments including the PDP Top-up phase complies with Danida polices and AMG.

☐ The programme/project addresses relevant challenges and provides adequate responses.

Comments: yes, the 2020-review verified that PDP and by extension the Top-up phase respond to a highly relevant challenge and gap in early stage project development, and IFU both has the mandate and is trusted and valued by the sector and partners.

- Issues related to HRBA, LNOB, Gender, Youth, Climate Change, Green Growth and Environment have been addressed sufficiently in relation to content of the project/programme.

Comments: yes and above issues are an integrated part of IFU screening and monitoring process for PDP-projects: if the projects do not fulfill IFU's "Green and inclusive impact criteria" (IFU classic), it will not be shortlisted for possible approval and support.

- Comments from the Danida Programme Committee have been addressed (if applicable).

Comments: n.a.

- The programme/project outcome(s) are found to be sustainable and in line with the partner's development policies and strategies. Implementation modalities are well described and justified.

Comments: yes – please also refer to the above on compliance with IFU's general strategy. Implementation modalities are described in details in the programme document, section 2.3.

- The theory of change, results framework, indicators and monitoring framework of the programme/project provide an adequate basis for monitoring results and outcome.

Comments: yes – also considering that the Top-up phase results framework will also be complemented by an elaborated general IFU monitoring framework at individual project/investment level (fixed criteria for all investments).

- The programme/project is found sound budget-wise.

Comments: yes – also verified by GDK CFO-office.

- The programme/project is found realistic in its time-schedule.

Comments: yes based on experiences end phase 1 and the advanced approval stage of the four projects, contracts are expected to be signed within 3- 4 months.

- Other donors involved in the same programme/project have been consulted, and possible harmonised common procedures for funding and monitoring have been explored.

Comments: n.a. – no other donors involved.

- Key programme/project stakeholders have been identified, the choice of partner has been justified and criteria for selection have been documented.

Comments: yes – IFU as direct partner of the PDP has more than 60 years of experience as a DFI to crowd in private sector investments by taking high risk in the early stages of a commercial investment, and profound experience engaging with the type of partners and countries of investment relevant for the PDP Top-up phase.

□ The implementing partner(s) is/are found to have the capacity to properly manage, implement and report on the funds for the programme/project and lines of management responsibility are clear.
Comments: yes – please also refer to above.

□ Implementing partner(s) has/have been informed about Denmark's zero-tolerance policies towards (i) Anti-corruption; (ii) Child labour; (iii) Sexual exploitation, abuse and harassment (SEAH); and, (iv) Anti-terrorism.
Comments: yes – and have adopted a comprehensive list of similar policies guiding its work under the heading "IFU's Sustainability Policy 2022".

□ Risks involved have been considered and risk management integrated in the programme/project document.
Comments: yes, the risk matrix is updated and integrated in the Top-up phase.

In conclusion, the programme/project can be recommended for approval: **yes** / no

Date and signature of Desk Officer: 13.12.22 ______________

Date and signature of Management: 13.12.22 ______________

KARIN POULSEN

Head of Dept.