IFU Capital Contribution

Key results:

- Increased climate impact and social inclusion impact in lower income countries and countries affected by fragility and conflict through increased investment volumes, with blending and higher risk and financial additionality than IFU's investments from the public-private SDG Fund
- Strengthening of IFU's capabilities to undertake such investments further improving impact.

Justification for support:

- In line with the Danish strategy, "The World We Share" and government priorities on increased climate finance
- Complements other Danida business instruments as well as bilateral and multilateral engagements to promote low carbon, climate resilient inclusive economic growth and employment.
- Filling a gap in the investment market by investing where, due to the risk-level, commercial investors are not willing to invest
- Mobilisation of additional commercial and private capital for investment in developing countries, either through co-investments or through demonstration effect
- Building on IFU´s track record and demonstrated capability.

Major risks and challenges:

- Risk that the capital may be lost due to inherent risk factors of investing in developing markets, which is mitigated by the significant diversification, both geographically and sector-wise, in IFU's investments

File No.	2023-xxxx					
Country	Global					
Responsible Unit	GDK					
Sector	Climate, decent jobs, economic growth					
Partner	Investment Fund for Developing Countries (IFU)					
DKK million	**2023**	**2024**	**2025**	**2026**	**2027**	**Total**
Commitment	115					115
Projected disbursed	115					115
Duration	November 2023 –					
Previous grants						
Finance Act code	§06.38.01.xx-					
Head of unit	Karin Poulsen					
Desk officer	Jakob Tvede					
CFO	Rasmus Tvorup					

Relevant SDGs

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

Objective

IFU will invests the capital contribution in projects in developing countries that commercial investors are less willing or able to invest. The investments will contribute to the green transition, both climate mitigation and adaptation as well as promote gender equality, job creation and poverty reduction, in line with IFU´s investment strategy, policies and standards. IFU's investments will help mobilise further private capital, either through risk-sharing mechanism or by demonstrating the potential for profitable investments in developing markets.

Environment and climate targeting

	Climate adaptation	Climate mitigation	Biodiversity	Other green/environment
Indicate 0, 50% or 100%	50	50	50	50

Justification for choice of partner:

IFU is the Danish Development Finance Institution with a mandate to promote the SDGs and climate goals through investments. A reform of IFU is currently taking place in which IFU will receive significantly more capital contribution and will deliver more impact including on climate and supporting the green transition. An updated ownership document is agreed for IFU, reflecting the priorities of the reform. IFU has a good track record in impact investments with a focus on climate investments as well as investments in Africa and lower-income countries. IFU has a demonstrated ability to manage such investments, mobilise private finance and continuously develop its capabilities for impact investing.

Summary:

In the Finance Act for 2023, a contribution of DKK 115 million has been allocated for capitalisation of IFU. The additional capital will be allocated to all of IFU's instruments and facilities and will be used depending on needs and in accordance with IFU's strategy. The capital contribution provides additional resources to finance new engagements in developing countries in support of the SDGs and in alignment with the Paris Agreement. It will allow IFU to provide long-term funding and support for critical sectors such as renewable energy, health care, food production and financial services for small and medium enterprises (SMEs).

Investments will, in line with IFU's mandate, be in developing countries globally, including in poor and fragile states in Sub-Saharan Africa. The impact focus will be on climate (including both climate mitigation and climate adaptation), gender equality and inequality reduction. In 2022, IFU further increased its ambition level with the aim to become a "best-in-class" impact investor, including launching a new set of impact targets as well as a new climate policy.

Budget (DKK million):

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

Ministry of Foreign Affairs of Denmark Danida

DRAFT

Programme Document

IFU

Capital Contribution

July 2023

Definitions

Additionality	The concept of providing key financial and non-financial inputs to a client and project to make the project or investment happen, make it happen much faster than it would otherwise, or improve its design and/or development impact
Debt	A debt is the sum of money that is borrowed for a certain period of time and is to be return along with the interest. The amount as well as the approval of the debt depends upon the creditworthiness of the borrower. There are different types of debts that vary with the requirements of the borrower.
Due diligence	A comprehensive appraisal of a business undertaken by a prospective buyer, especially to establish its assets and liabilities and evaluate its commercial potential.
Equity	Equity is the kind of financing that gives the provider of equity (the investor) ownership of the company proportional to the investor´s share of total equity. Equity is the riskiest asset class as equity investors (shareholders) are the last to get paid (after debt providers). Shareholders return on an investment, dividends, typically depend on the financial performance (profitability) of the company.
Exit	An equity investor exits an investment when the investor sells its share-holding to another investor. IFU´s business model is to invest in companies where private investors do not invest or are reluctant to invest, help develop the companies to a point where a private investor would buy IFU´s shares and secure IFU´s exit.
Impact Investing	Investments made into companies, organizations, and funds with the intention to generate a measurable, beneficial social or environmental impact alongside a financial return
IFU's impact objectives	IFU has two impact objectives: Promote the Green Transition (defined by the EU Green Taxonomy); and Social Inclusion (defined by whether the investment would reduce inequality in access to goods and services, income, gender according to IFU´s impact screening tool (re Annex 1)).
Investment	Finance provided to a company in the form of equity or debt, which finances the business plan of a company/project. If the investment is commercial the investor (provider of finance) expects a return on the finance made available that reflects the risk of the company. The higher the risk, the higher the required return
Investment-grade	Countries, companies, or projects are investment grade when risks are considered low by the international rating agencies and default rates low (BBB to AAA rating). This allows institutional investors such as

	pension funds to invest in these markets. It also allows companies and countries to take loans at lower interest.
Leverage	The leverage ratio is the ratio between debt and equity. The more equity a company has the more debt will it be able to raise to help finance its activities.
Risk adjusted return	The return on an investment that is compensated for risk. Calculated as the difference between the expected return on an investment and the "risk free" return, which is often estimated using the interest rate of the US Treasury Bill.
2X challenge	A challenge set by DFIs at G7 meetings for investments that meet set criteria for gender equality and is revised every 2nd year. The challenge for 2021-22 was for DFIs to invest at least USD 6bn in such investments.[1]

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

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1 Introduction

With the Finance Act for 2023, a contribution of DKK 115 million has been allocated for capitalisation of IFU.

The present programme document outlines the background, rationale and justification, objectives and management arrangements for a capital contribution to IFU as agreed between the parties: The Investment Fund for Developing Countries (IFU) and the Ministry of Foreign Affairs of Denmark (MFA).

The capital contribution to IFU provides additional financial resources to finance new engagements in emerging markets and developing countries in support of the SDGs and in alignment with the Paris Agreement. The proposed capital contribution is a general increase of IFU's capitalisation and will be used across IFU's instruments and based on IFU's strategic priorities. It will allow IFU to provide long-term funding and support for critical sectors such as renewable energy, health care, food production and financial services for small and medium enterprises (SMEs). These investments play a crucial role in promoting sustainable and inclusive growth, particularly in sectors that may have limited access to financing from commercial banks or other private sources. IFU's raison d´être is to provide financing in situations where the private sector alone may not be willing or able to invest due to perceived risks or inadequate returns. This is about overcoming barriers to investments promoting low-carbon, climate resilient inclusive growth and supporting projects with potential socio-economic benefits that may not be adequately served by purely profit-oriented entities.

IFU is also a catalyst for attracting additional investments from private sector players. By providing initial funding or risk-sharing mechanisms, IFU encourages private investors to participate in projects that they might have otherwise considered too risky or uncertain. The capital injection into IFU leverages additional funds, both domestic and international, thereby amplifying the impact of this government investment, or capital contribution. IFU also mobilises private finance through the SDG Fund based on IFU's track record of managing impact investments in developing economies.

A capital contribution to IFU is a tangible way of supporting the policy objective of fighting climate change and its consequences.

Since its creation more than 50 years ago as a government development finance institution, IFU has reinvested returns from investments into new investments. Occasionally, dividends and investment returns have been paid to the owner, and at other times fresh capital has been injected by the owner. A solid financial base and scale enables IFU to operate sustainably over the long term. Firstly, by ensuring a diversified portfolio of investments with a balance between engagement in low-income countries and fragile countries, where risks are very high and expected returns low, and investments in impactful companies and markets where risks are lower. This allows for financial sustainability. Secondly, scaling investments enables IFU to have and continuously develop capabilities relevant for impact investing, including in impact, key sectors and markets, environmental, social and health standards as well as good governance, business integrity and anti-corruption. A well-capitalized IFU is better positioned to weather economic cycles, attract talent, operate with autonomy and flexibility and promote Danish priorities.

Supported by the Ministry of Foreign Affairs, IFU has embarked on a reform process as foreseen in the Strategy for Denmark´s Development Cooperation *The World We Share* from 2021. The reform would enable IFU to significantly increase its impact investments in support of the green transition and sustainable development in lower income countries and fragile countries, not least in Africa.

A robust framework for transparency, accountability, and monitoring is agreed between the Ministry of Foreign Affairs and IFU to ensure effective utilisation of capital and adherence to the developmental and investment mandate.

2 Programme context

2.1 Background and Thematic Context

The climate and development challenges facing the world require more investments into sustainable and inclusive growth. Private and market-based investments need to scale up significantly and fast especially in emerging and developing markets. DFIs like IFU can play a key role with their mandate and capabilities in undertaking market-based impact investments in emerging and developing economies where risks are, or are perceived to be, too high for most private investors.

It is estimated that the annual global climate funding gap is USD 4.5tr, most of which in emerging markets and developing economies. The present climate finance flow is estimated at less than USD 800bn leaving a huge gap, mostly in low and lower-middle income countries. [2]

Private finance has increasingly started to target emerging markets over the past decades. However, the large majority of private sector investments target only a small sub-set of emerging markets that are considered relatively safe and liquid (easy to exit investments, e.g. by selling shares). Most emerging markets are not considered "investment-grade" by private investors and have thus no or very limited access to needed private investments. Furthermore, private capital flows to emerging markets are transitory and tend to be strongest when growth in the developing world is outpacing developed markets. When emerging markets are going through hardships, private capital tends to dry up and flow out of these markets, especially lower income countries, even though it is most needed at these times.

Perceived and real risk is assessed to be too high compared to expected financial returns to allow most private investors (often due to financial regulations) to invest in markets, which are not considered investment grade[3]. Risks include:

- **Macroeconomic risks:** exchange rate, economic crises, including related to deficient governance that affect the ability of government to uphold payment commitments etc. This is experienced in many low and lower-middle income countries these years, to a large extent due to global developments (COVID-19, war in Ukraine, supply chain disruptions, inflation and sharply increased interest rates).
- **Policy/regulatory risk:** taxation, market specific rules that affect businesses and competition
- **Rule of law risks:** lack of enforcement of investment agreements, corruption
- **Other country risk:** e.g., security such as spill over effects from neighbouring countries in conflict

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

[3] 'Investment grade' refers to the group of credit ratings that imply a low default risk (from AAA to BBB-). Companies with a rating in this range will issue debt at a lower interest rate than others with a poorer credit rating.

- **Project risks:** delays, cost overrun related to regulatory approvals, licences, deficiencies in implementation of agreed regulatory changes, availability of skilled workforce, power outages, security risk etc.
- **High upfront cost** of climate infrastructure exacerbates other risks. In time of more uncertainty long term investments such as infrastructure tend to fall and interest rates increase making capital intensive projects (like renewable energy projects) more expensive.
- **Lack of liquidity,** in the markets, which increases risk of not being able to exit. This is especially so in smaller economies such as most low-income and many lower-middle income countries.

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

The lack of investment in emerging markets and developing countries calls for more capital to be used by DFIs for risk mitigation in blended instruments[4]. Given the scarcity of private investors willing to invest in low-income countries, there is a need to step up efforts to use institutions like IFU as a source of subordinated (risk-willing) capital to ensure that the risk-reward equation becomes acceptable for the private sector in the more challenging markets.

DFIs also have a crucial role to contribute to investments that entail social benefits and have positive externalities that cannot necessarily be quantified or monetised as returns for an investor. Such investments would not be undertaken (by private investors) if assessed on a purely financial and commercial basis.

The risks perceived by private investors in developing markets may in certain cases be exaggerated and not reflect the actual risk level, compared to developed markets. DFIs such as IFU therefore also have an important role to play in demonstrating that investments can be carried out on commercial terms and that adequate risk-adjusted returns can be achieved.

In addition, by acting as “first movers”, DFIs and similar institutions, can pave the way for more commercial followers, who can e.g. learn from the mistakes of and benefit from regulatory changes initiated by DFI-like investors. These commercial followers can either refinance projects or acquire DFI holdings once the costs and risks are considerably lowered, increasing the likelihood of increased investment to impactful projects and companies.

Another reason that private investors may shy away from developing markets, is a failure to properly incorporate the effects of economies of scale in the return expectations. Many private investors tend to assess investments in less mature and challenging markets based on a “baseline” scenario, rather than a probability-weighted “expected” outcome taking into account both “upside” and “downside” outcomes. This leads to a situation where commercial investors find that the baseline scenario return does not meet their internal required return thresholds, which invariably will be high due to riskiness of these markets. Some, or even many, investments will not perform as expected or even fail. However, the ones that do perform according to expectations are likely generate outsized returns to

[4] A blended instrument or blended finance is a term which in this context can a blend of capital that has a high risk-willingness and can mitigate risk for private/commercial capital in such a way that private/commercial capital is mobilised.

compensate for the losses. By comparing each investment under a baseline scenario to the required risk premia, the diversification effect of holding several (mostly uncorrelated) investments in developing markets means that the performing investments will on average compensate for the losses.

DFI investments are, by definition, supposed to be additional to private finance, not competing with it. By pricing on commercial terms, DFIs can ensure that businesses who have no need for their support see no advantage in obtaining it. DFIs do not have an impact when they crowd-out private investors without adding value, and pricing on commercial terms can help prevent that. This does not however mean behaving in the same way as commercial investors. It rather means operating in market segments where finance is lacking but setting prices that would allow the entry of commercial investors, once the potential has been demonstrated.

In IFU, Denmark has an experienced and professional impact investor in emerging markets and developing economies that has demonstrated its ability to invest profitably, with a strong and increasing focus on SDG and climate impact. IFU has successfully mobilised Danish institutional investors (more than DKK 4bn) in various private equity funds (latest the Danish Sustainable Development Goals Fund in 2018) and has during the last 3-4 years invested more than DKK 400m in high-risk high impact investments in Africa, including with blended finance from the EU.

Nonetheless, further capitalisation of IFU, increased investment volumes from DFIs and more blended finance will not solve all problems – but it is likely a necessary step on the way. Working with governments to reduce the macroeconomic, governance and regulatory risks mentioned above will also be required. IFU is increasingly engaging with Ministry of Foreign Affairs, Danish embassies, sister DFIs and the EU to jointly build cases for regulatory changes that can help reduce risks and pave the way for increased private sector finance in emerging markets and developing economies.

2.2 Results

The last evaluation of IFU was carried out in 2018, just after IFU's mandate had been changed to no longer be tied to investing with Danish partners. Since then, IFU has undergone a significant transformation and steadily increased its annual investment volume. In 2022, IFU invested just short of 1.5 billion DKK, more than double the amount invested in 2017. During the period since 2017, IFU has also added both the SDG Fund and High-Risk High-Impact ("HRHI"), to its available facilities. IFU is thus now able to both undertake investments that are highly impactful but may have low risk-adjusted returns in Least Developed Countries in Africa through HRHI, as well as large-scale more commercial investments through the SDG Fund.

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

The current IFU portfolio contributes to employment of close to 380,000 people and supports 450,000 smallholder farmers. In addition, IFU's investments in microfinance institutions provide financial services to 16 million clients, of whom more than 90 percent are women. IFU's green energy investments produced more than 5 GWh of clean energy and avoided 3.4 million tons of CO2 emissions during 2022. IFU's investments also contributed to mobilise 1.4 billion DKK of private capital in 2022, equivalent to an almost 100% mobilisation rate on IFU's investments.

However, IFU has also faced issued during this period. COVID-19 negatively impacted a significant share of IFU's investment portfolio and limited IFU's ability to efficiently deploy its capital, especially in 2021 and first half of 2022. In addition, IFU experienced liquidity challenges related to the investments on its own balance sheet, where cash inflows (from e.g. selling earlier investments) were insufficient under stress scenarios to cover the expected cash outflows (in the form of new investments). IFU was forced to temporarily halt new investments using funding from its own balance sheet, and instead focus on investments for the SDG Fund, High-Risk High-Impact and the Green Future Fund ("GFF") facilities. The liquidity situation has been resolved, and as IFU was able to redirect its focus to investments from the SDG Fund and its other facilities, the impact on total investment volumes was limited.

2.3 Lessons learned

IFU has undergone a significant shift in terms of strategic focus over the past five years. The organisation has become more professional in many aspects, as IFU has gone from providing support to Danish partners in developing countries to becoming a fully-fledged impact investor. Several lessons have been learned internally as well as through the evaluation of IFU that was carried out in 2018. The evaluation was generally positive and considered IFU to be "fit-for-purpose", but highlighted a number of recommendations. IFU has since the evaluation worked on incorporating these recommendations in the organisation and its strategy:

Strengthen the development expertise within the organisation at all levels: IFU has significantly staffed up its Sustainability team, including hiring a new Head of Sustainability & Impact, with experience from FMO. The team has also been complemented with members with experience in monitoring and reporting on impact, to ensure IFU follows up on its ambition to be a best-in-class impact investor. In addition, a new Business Integrity team has been established to ensure that IFU appropriately deals with matters relating to anti-bribery and corruption in its investments. Financial and commercial skills have also been improved systematically.

Focus on expansion in sectors where IFU has already built up (some) good expertise: IFU has followed up on this point. In IFU's strategy approved in 2020, four focus sectors were defined (Green Energy & Infrastructure, Financial Services, Healthcare and Sustainable Food Systems) which are intended to make up 90% of IFU's total investment volumes going forward. In the beginning of 2022, IFU underwent a reorganisation where all investment professionals were allocated to one of the four sectors, to ensure that the organisation continues to build the relevant sector experience.

Improve monitoring and evaluation: from focus on compliance with CSR standards to more pro-active monitoring and evaluation of actual CSR performance and development outcomes: As highlighted above, IFU has increased its focus and resourcing for sustainability and impact. IFU has also introduced several new processes and tools to ensure that development impact is ascertained in the investments. For example, a new screening tool has been developed (see Annex 1) to ensure at an early stage that the investment will have positive impact on either the social perspective or on the climate perspective, or both. IFU also establishes a results framework and an Environmental & Social Action Plan with each of its investees, with clear targets and actions, that are included in the legal documentation for the transaction.

Improve the transparency of IFU, its learning culture and communication further (e.g. in relation to sensitive issues raised by civil society and in the media): IFU strives to communicate openly about its investments, both the ones that do well and the ones where there are issues. When criticism has been raised regarding IFU investments, e.g. by media, IFU has provided a transparent and open response, which has also been published on IFU's website. IFU also engages in dialogue both with the MFA and the government on any potential issues. IFU will continue to further develop communication and transparency and work to become more proactive in its communication approach.

Set clear criteria for Board membership in investee companies to help increase the non-financial value that IFU can deliver to investee companies: IFU strives to have a Board seat in all of its equity investments, and especially in the investments for the SDG Fund. It is an explicit focus in IFU's strategy to ensure that it can exert active ownership in its investees, and IFU recognises that a Board seat is one of the most efficient ways to do so. In 2022, IFU held a multi-day training with all of its senior investment professionals on how to act in a Board role, and the specificities of Board work in developing markets.

Further strengthen and/or expand the role of the country/regional offices in order to procure increasingly scarce bankable projects: As IFU's investment organisation has matured, it has come to realise that the larger network of one-person offices it previously operated has not served its purpose under the new untied mandate. IFU has therefore conducted a review of its regional offices, and increased resourcing where the on-the-ground presence is most beneficial. For example, the Nairobi office has increased in size to four investment professionals and additional staff have been added in both the Accra and the New Delhi office. A recruitment process is also underway for the Kiev office, to support the expected increase in investments in Ukraine as IFU supports the rebuilding of the country. IFU also operates offices in Sao Paolo and Singapore. However, as a consequence of this increased focus on a smaller number of locations as well as a shift in geographical priorities since 2017, IFU has closed some of its regional offices, namely Bogotá, Pretoria, Lagos and Shanghai.

2.4 Coherence and synergies

IFU operates in coherence and alignment with the government's priorities, strategies and interventions, including the Strategy for Denmark's Development Cooperation *The World We Share*.

Where relevant, IFU's investments aim to contribute to the JTEPs (Just Energy Transition Partnerships), using a range of instruments. It supports the green transition while ensuring a focus on positive development outcomes, by providing equity investments of varying risk level through the SDG Fund and its own balance sheet, reducing risks through guarantee instruments and blended finance as well as providing support for critical government projects through Danida Sustainable Infrastructure Finance.

IFU's collaboration and alignment with the European Union has also deepened during the past five years. IFU has drawn upon EU support to allow it to complete some truly impactful investments in very difficult markets, including to support a debt fund for small enterprises in the Somali region. IFU has also participated in some of the EU funded initiatives set up to increase collaboration between European institutions working in developing markets, such as European Financing Partners and the Interact Climate Change Facility. IFU has also been granted three guarantees under the EU

Commission's scheme European Fund for Sustainable Development Plus (EFSD+), as one of the largest recipients of support under the scheme. Negotiations are still ongoing on the terms of the guarantees. In particular, the guarantee under the EFSD+ scheme would allow IFU to reduce the risk level for Danish pension funds in the upcoming SDG II Fund, ensuring continued support of the successful public-private partnership.

Due to not operating under a tied mandate anymore, IFU has also been able to increase its collaboration with other DFIs and participate in co-investments with its European peers.

The SDG Fund is a successful example of IFU being able to create synergies with Danish interests, without having to operate under a tied mandate. By leveraging IFU's long expertise in developing markets, the Danish pension funds have been able to direct funds towards positive development outcomes in the developing world, while still ensuring a good return for its policyholders.

IFU also operates using a wide range of sector and investment advisors, both Danish experts but also experts in its markets, such as India, South Africa and Indonesia. In addition, IFU has over the past five years sought to increase its collaboration with Danish embassies, the Danish Trade Council and organisations from Danish (and local) civil society in its investments. Collaboration with e.g. embassies is done both to identify potential investment opportunities and to gain valuable knowledge of the local conditions in the country, in the case IFU does not have its own presence.

This and further development of partnerships will help build pipeline of projects (originating from partners such as international and local incubators) and allow IFU to execute on co-investments with partners that have relevant experience, are placed in the markets and can share risk with IFU, enabling IFU to diversify investments and manage its risks better.

2.5 Justification of programme design

Relevance
IFU helps overcome the challenges related to investments in developing markets. Supporting the growth of the private sector in these countries is considered as one of the most important components for continued development.[5] As a recognised impact investor with more than 50 years of experience, IFU is a relevant institution to manage investment and ensure that relevant sustainability policies, including environment and social standards, human rights standards, anti-corruption standards are upheld.[6]

Efficiency
IFU has made significant strides when it comes to its internal processes over the past decade. The further capital injection into IFU will leverage IFU's well established management systems, appraisal and risk management procedures, financial value, and impact creation processes. IFU has developed screening and approval processes that are suitable to large-scale investments as well as smaller high-risk projects. IFU has experience investing in emerging and developing economies, including high risk markets, with presence in key markets and extended networks.

Effectiveness
IFU has many years' worth of experience investing in developing markets and has proven that it is able to deploy capital also in fragile situations and during periods of macroeconomic headwinds. The

[5] For example: "Investment and Poverty Reduction", CDC (2021)
[6] For a full overview, please refer to IFU Sustainability Policy

effectiveness of IFU's investments depend on a variety of factors – not all investments are made with the explicit intention of achieving high returns. Some investments are made with a high risk tolerance, and the higher likelihood of them failing will be reflected in the returns. In other cases, IFU may accept a lower return in order to mobilise other investors. The choice of instrument (e.g. equity or debt) will also dictate the return expectations. Overall, and as confirmed by the 2018 evaluation, IFU has generally been able to live up to its mandate: it has contributed to positive development outcomes and been additional to other investors, while achieving a moderately positive return on capital to its owner. IFU has been able to significantly scale up its impact across priorities, including investing DKK 675m in green energy in 2022, and allocating 36% of investment volumes towards gender lens investing. IFU has also been able to use the High-Risk, High-Impact funding to reach geographies that have previously been considered too risky, such as the Somali region and the Democratic Republic of Congo. The additional capital contribution is expected to allow IFU to keep growing its investment volumes while creating both impact and returns.

Impact

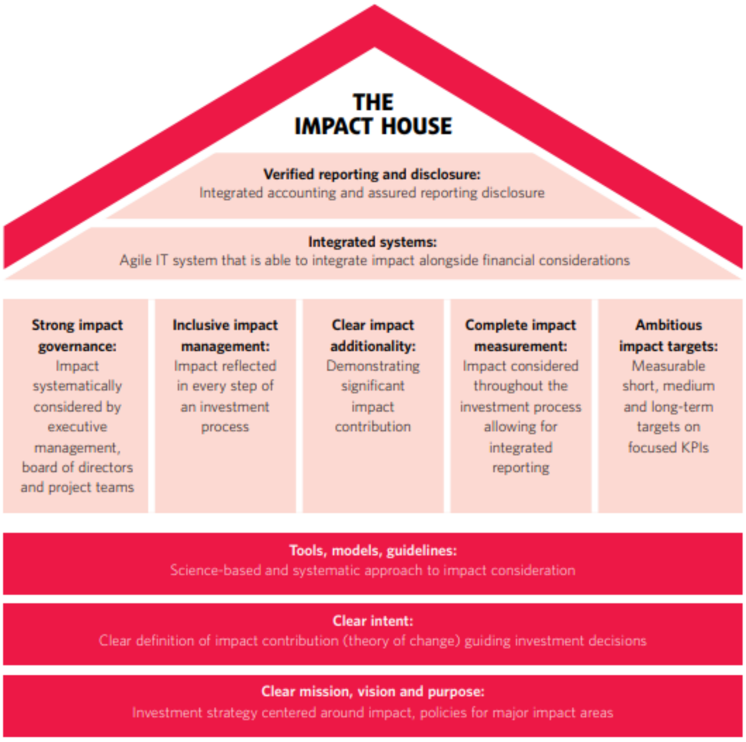
Impact is at the core of IFU's mandate as a DFI. Investments from IFU help to overcome many of the barriers that well-performing private companies in developing markets face when attempting to raise capital. IFU's impact philosophy is based on the need for financially sustainable investments to assist developing countries in improving the livelihood of people without jeopardising global sustainability. The investment strategy is correspondingly based on two impact priorities, which are directly linked to the SDGs:

- **Building green economies:** Green societies will assist the world in reducing the use of resources, preventing global temperature rise through climate mitigation, contributing to a circular economy, and allow developing countries to pursue a path of sustainable production and construction. Climate adaptation and biodiversity protection are at the core of the green transition and essential to building resilience.

- **Building just and inclusive economies:** Just and inclusive societies are a necessity because there is a strong need to reduce inequalities and poverty by addressing the fact that billions of people lack access to essential goods, services and basic human rights. Gender is an important dimension of inequality addressed by IFU, together with a just and fair transition that focuses on people at the bottom of the income pyramid and the underserved.

By investing in developing countries, IFU provides assurance to other investors that attractive investment opportunities are available in these markets and by doing so mobilise private investment that would not otherwise have taken place. In 2022, IFU further increased its ambition level in terms of impact with a new set of impact targets as well as a new climate policy. Among other targets, IFU aims to be completely net-zero in its portfolio by 2040, with decreasing carbon intensity each year until then. From 2025, IFU intends to make climate-related financial disclosures in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

IFU illustrates its impact management systems as a house. Each of the components of the system are under development and in its 2022 Annual Report, IFU shared the progress on them towards becoming a best-in-class impact investor:



Elements of the impact house	Summary of ongoing internal work	
Clear mission, vision and purpose	IFU has a strong policy framework and investment strategy that is centred around defined impact priorities, providing a clear purpose and alignment with the expectations of IFU's board and owners.	Strong progress
Clear intent	IFU has a focused screening process that promotes the selection of projects in high impact and priority sector areas. Refinement underway to strengthen sector strategies to sharpen project sourcing.	Strong progress
Tools, models, guidelines	IFU has tools to focus project selection during screening and performance monitoring during active ownership, ensuring delivering on impact. Tool and process development is ongoing, including building the impact narrative, business integrity, project evaluation and responsible exits.	Good progress
Strong impact governance	Impact is a shared and joint responsibility across IFU and a key consideration at investment committee and board meetings. Investment teams are responsible for securing investments that deliver on IFU's portfolio targets. Annual performance of investment staff considers impact and sustainability assessment skills, as well as sourcing and managing projects that deliver on the investment strategy.	Good progress
Inclusive impact management	Impact creation plans are developed early in the investment process and include impact targets for all new investments. The impact creation plan and impact targets are tracked during active ownership.	Good progress
Clear impact additionality	Impact additionality is considered at project, sector and portfolio level. Tools and methodologies to communicate and measure additionality more specifically are being developed.	Good progress
Complete impact measurement	Active ownership review conducted quarterly and reported annually. Reporting is based on the annual sustainability and results framework reporting from projects and being aligned with future EU regulation.	Good progress
Ambitious impact targets	Defined portfolio targets for climate action, gender equality and investment into Africa are defined and reviewed by IFU's board and stakeholders. Impact targets are defined for all new projects, through the results framework.	Strong progress
Integrated systems	Impact management systems are being improved through the evolution of the internal IT system, to strengthen data analytics and portfolio performance assessment, as well as steer decision making on new investment opportunities.	Good progress
Verified reporting and disclosure	IFU is strengthening internal and external communication, including storytelling, integrated formats for impact and ESG disclosure and auditing, to align with future regulation.	Under development

Sustainability
Sustainability is also at the forefront of everything IFU does. The foundational principle of IFU, and any DFI, is that "it is only sustainable, if it is financially sustainable". IFU invests in companies that, potentially with support and advice, can be self-sufficient and be reliant on private finance. The expectation is that the contributed capital would achieve a positive return for IFU, in line with historical returns, and would thus help further grow IFU's capital base for the future.

IFU also ensures that its investments are sustainable and support sustainable development in the countries they operate in – both on social and climate parameters. All investments are screened against the EU Taxonomy criteria for "do no significant harm", across six different climate-related areas. Furthermore, IFU has a revised version of the common EDFI exclusion list, which also incorporates commitments from IFU's climate policy. Among them, that IFU will not engage in any new investments related to fossil fuel power generation, or any associated infrastructure.

Additionality
Experience shows that even large companies are hesitant to embark on developing large-scale investment projects in developing countries and emerging markets. This is due to the risk factors mentioned above[7]. It is also the assessment that unless more investments in projects and companies, including green infrastructure, are undertaken, the world will not achieve the climate or sustainable development goals. As such there is a clear financing gap, where investment opportunities exist but private sector investors are not willing to seize them. This is the main case where DFIs such as IFU are additional, where contributions made to the private sector operations are beyond what is already available in the market and do not crowd out the private sector.

IFU assesses all its investment opportunities based on the potential additionality, both the financial additionality (where capital is provided that would otherwise not have been available to the same extent) and non-financial additionality (where IFU offers some non-financial value that would otherwise not have been available to the investee). The evaluation of IFU carried out in 2018 found that 82% of investments in the sample had high or medium financial additionality, and 78% had high or medium development additionality. However, more investments scored "high" on financial additionality than on non-financial additionality. IFU is working on proactively incorporate opportunities for non-financial additionality in its investment theses, and is currently engaged in a project with the Institute of Economics at Copenhagen University to further systematise and quantify financial additionality in its screening processes.

On a higher level, IFU investments can also be considered additional to the wider society, as development finance considers, and puts value on, positive externalities that private investors may not do, as they may not be easily monetised. If these positive externalities are not taken into consideration in making the investment decision, the investment may not be undertaken, and the positive impact not realised.

A key mandate for development finance institutions is to invest in companies that are not able to attract the same level and quality of investment from the private sector, help develop the business to create impact and become profitable and then eventually exit (sell shares, or get repaid) to the private sector. And in this process mobilise private finance. IFU will ensure that its investments consider

[7] Difficult political and regulatory contexts, corruption, volatile markets, exit challenges etc.

inequality, gender equality, environmental, social and governance standards, including relating to human rights and anti-corruption in line with IFU's Sustainability Policy.

Additionality as well as other related factors are included in IFU's general screening processes.[8]

3 Programme presentation

3.1 Objectives and outcomes

The objective of the capital contribution is to allow IFU to increase its investment volumes, and to increase the impact it is creating. As outlined in IFU's "ownership document", IFU is undergoing a reform to create a single, unified IFU that will be able to flexibly draw upon funds, regardless of risk profile or instrument, to meet its strategic goals.

The additional capital will be used for investments addressing climate change and social inclusion, that carry too high risk to be done under normal market conditions. IFU's investments can either reduce risks for other, commercial, investors so that they are willing to invest alongside IFU, or the investments can serve as a signal to the market that returns can be made in developing markets. A contribution of equity capital, rather than debt financing, will allow IFU flexibility to also invest in riskier geographies where additionality and impact are higher. The "ownership document" defines seven objectives for the reform of IFU:

- **Additionality:** The funding will be used for investments that are additional, in relation to the funding already available in the market. IFU will ascertain that the investments reach its requirements for additionality, in terms of both financial and non-financial additionality.
- **Climate investments:** In line with the "The World We Share" strategy and the government agenda, IFU will use the funding to strengthen its focus on climate investments and supporting the green transition. The updated climate policy adopted by IFU in 2022 will support this objective.
- **Investments in poor and fragile countries, especially in Africa:** The "The World We Share" strategy also emphasises the need for increased Danish commitment to the poorest, most fragile and least developed countries. IFU has through the High-Risk, High-Impact facility showed that it can find relevant investments in these challenging markets. IFU will work to deepen the engagement in these countries, together with new partners and through new types of investments.
- **Mobilisation of private investors:** In addition to creating preconditions for private investors to invest in developing markets, IFU will also more directly used its capital to mobilise Danish private investors through a successor fund to the SDG Fund.
- **Project development:** There is significant shortage of financing for early-stage investments and project development in developing countries. IFU has provided financing for project development since 2016 and will increase its focus on these types of investments as part of a new IFU Impact Ventures programme, funded with DKK 150 million.
- **Development guarantees:** In cooperation with Swedish SIDA, IFU has launched a pilot phase for development guarantee products running until 2025. The guarantees will be used to increase

[8] e.g. IFU applies the 2X Challenge criteria for gender lens investments to all projects it screens and investments are screened against IFC Performance Standards, ILO's criteria for decent work and EDFI's exclusion criteria, among others.

financing to unserved or underserved populations, as well as to mobilise private capital through providing risk reduction.
- **Ukraine:** IFU is one of the European DFIs with most investment experience in Ukraine, supported by IFU's office in Kyiv. IFU will use its funding to play a central role in the rebuilding of Ukraine.

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

Priority	Target
Africa	• Minimum 50% investments in Africa
Poor and fragile states	• Minimum 50% of investments, in countries where the GNI is 80% or less of the definition of Lower Middle Income Countries • Minimum 30% of investments in countries where the GNI is 50% or less of the definition of Lower Middle Income Countries, or is included on the World Bank list of fragile or conflict-afflicted states
Climate (Building a green economy)	• At least 50% of investments to be climate investments • Decreasing three-year rolling average of carbon intensity measured at sector level • Net-zero portfolio emissions by 2040 at the latest
Social inclusion (Building a just and inclusive economy)	• 30% of investments to have a gender equality focus by being 2X Challenge eligible • Minimum 40% of the number of invests are either 2X Challenge eligible or have plans to become eligible by the end of 2024

3.2 Eligible countries

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

3.3 Other strategic considerations

IFU is a signatory to the IFC Operating Principles for Impact Management, which is a framework for investors for the design and implementation of their impact management systems, ensuring that impact considerations are integrated throughout the investment lifecycle. The Impact Principles instil a discipline around impact investing, fostering greater mobilization of capital for impact and a high standard for the social and environmental impact that it can achieve.

4 Theory of change and key assumptions

4.1 Theory of Change

Rather than a typical Theory of Change diagram, IFU has developed an Investment and Impact Model to highlight how it achieves positive impact through its investments.

IFU'S INVESTMENT AND IMPACT MODEL

Investing risk capital in private companies in developing countries with the purpose of creating impact and return to investors.

INVESTEES

INPUT

IFU invests...
- Capital
- Knowledge and competencies
- Experience

in private companies in developing countries

SECTOR

...into focus sectors
- Green energy & infrastructure
- Sustainable food systems
- Financial services
- Healthcare

having impact creation plans with specific targets

IFU

that are reinvested

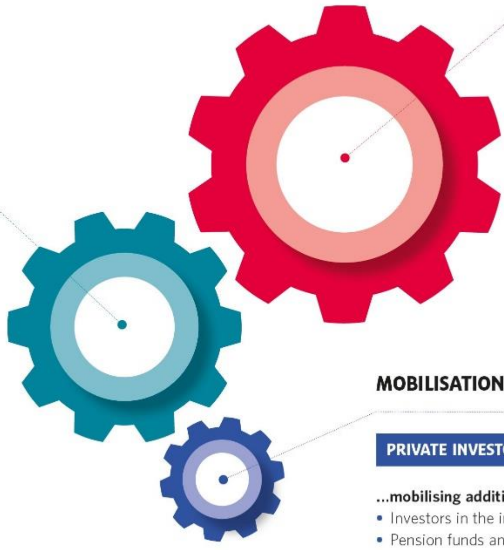
and value creation plans for generating profits

RETURN ON INVESTMENT

and commercial returns...
- Interest
- Dividends
- Capital gains

OUTPUT

...to achieve measurable results
- Circular business model
- Climate mitigation and adaptation
- Improved access to (basic) goods and services
- Quality jobs
- Women empowerment



SOCIETY

OUTCOME

...contribute to supporting
- Decent work and economic growth
- Reduced inequality
- Climate action
- Gender equality

IMPACT

...ultimately contributing to impact priorities
- Building a green economy
- Building a just and inclusive economy

MOBILISATION

PRIVATE INVESTORS

...mobilising additional capital from and distributing earnings to
- Investors in the individual investments
- Pension funds and private investors in IFU public-private funds

IFU invests capital into private companies in developing countries and provides knowledge and competencies based on its long experience. The companies operate primarily in IFU’s four focus sectors: green energy & infrastructure, sustainable food systems, financial services and healthcare. IFU agrees on impact creation plans together with the investees, including setting specific targets. The businesses create measurable impact, in terms of e.g. climate change mitigation/adaptation, providing goods or services to underserved groups, addressing gender equality challenges and by creating jobs. IFU also creates financial value creation plans with the companies, to support them TO grow their businesses and improve operations and profitability. This work results in commercial returns for IFU, in the shape of interest, dividends or capital gains once an investment is sold. These returns are then reinvested in other companies, so that the circle starts over.

The outcome of the investments is improved working conditions and economic growth, reduced inequality, increased climate action and improved gender equality. The ultimate impact is then expressed THROUGH IFU's two impact priorities: IFU's engagement will in the end result in contributing to build a green economy and a just and inclusive economy, on a global scale.

Mobilisation of private investors is also a key focus in IFU's model, whereby IFU both catalyses private investors to invest in developing countries but also distributes earnings back to pension funds and private investors in IFU's public-private funds.

4.2 Key assumptions:

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

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

5 Summary of the results framework

To monitor the delivery of impact, IFU has defined impact targets at portfolio level. To date, portfolio targets have been set for gender lens investing and climate finance.

Monitoring of financial performance, application of environmental, social and governance (ESG) safeguards, as well as business integrity screening and impact monitoring of the engagement feeds into annual reporting. IFU is continuously developing the monitoring and evaluation system for documenting development effects of individual projects based on standard indicators such as: Number of direct and indirect jobs (total, female, youth); Installed capacity of renewable energy; Avoided CO2 emissions and number of female clients in financial institutions.

The results framework is based on the impact targets IFU has committed to as of 2022, as well as the targets agreed in the "ownership document". As this programme document and the capital contribution relate to IFU's overall operations, no further targets are defined beyond what has been agreed and communicated.

The impact of the resulting investments and engagements will be determined on the basis of the individual investment projects which will be implemented across countries and thematic areas/sectors.

Programme Title		**IFU Capital Contribution**
Objective		Create positive developmental and climate effects in developing countries, that would not be possible under existing market conditions due to the high related risks
Impact indictors		Geographical focus, climate finance and gender lens investments
Baseline and targets		Baseline is IFU performance as of 2022, targets
Target	Year	2024 (and 2040 for net-zero)
Outcome 1		**Building a green economy**
Outcome indicator 1.1		Share of new direct investment volume qualifying as climate finance
Baseline		[TBC]
Target	2024	50% (aim to meet target every year)
Outcome indicator 1.2		Carbon intensity measured at sector level (three-year rolling average)
Baseline		[TBC]
Target	2024	Having decreased each year
Outcome indicator 1.3		Net portfolio emissions
Baseline		[TBC]
Target	2040	0
Outcome 2		**Building a just and inclusive economy**
Outcome indicator 2.1		Share of new investments with a gender equality focus (2X challenge eligible)
Baseline		[TBC]
Target	2024	30 % (aim to meet target every year)
Outcome indicator 2.2		Portfolio investments that are either 2X challenge eligible or have plans to become so by the end of 2024
Baseline		[TBC]
Target	2024	40%
Outcome indicator 2.3		Share of investments in poorer countries (GNI per capita < $3,277 in 2022; three-year rolling period)
Baseline		[TBC]
Target	2024	50% (aim to meet target every year)
Outcome indicator 2.4		Share of investments in countries with GNI per capita < $2,048 (in 2022, three-year rolling period) and fragile and conflict-afflicted countries
Baseline		[TBC]
Target	2024	30% (aim to meet target every year)

6 Budget

The overall budget of the proposed contribution is DKK 115 million as indicated below:

Use	Amount (DKKm)
Capital contribution to IFU	114.5
MFA review	0.5

Total contribution	**115.0**

7 Management arrangements

7.1 Facility modality and management

The capital contribution and the investments drawing on it would follow existing IFU policies and draw on IFU's capacities in sustainability, legal, financial management and communication.

Below follows a short overview of IFU's investment process, see Annex 3 for further details. An average investment process takes 6 months from sourcing to binding commitment, but there is a significant degree on variability depending on the complexity of the transaction.

Steps in IFU investment process:

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

Sourcing to FC ("First Contact"): Investment opportunities are identified and assessed based on their developmental impact (using IFU's screening tool, see Annex 1) as well as the potential for profitability and growth. The partners and management team are assessed, KYC checks are conducted, key risks considered and a number of principal questions are formulated for further evaluation of the opportunity. Sourcing is done through IFU´s regional offices, network of partners like other DFIs and investee companies, relevant conferences, and consultants.

FC to G1P ("Gate 1 Paper"): Once decided that the opportunity is worth exploring further, initial financial modelling is conducted, and negotiations are initiated with the aim to agree on the main terms of a potential transaction. A 3-4-page document is drafted outlining the investment opportunity and presented to IFU's VP meeting[9]. The VP meeting discusses, provides advice and approves the project for next step.

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

CIP to BC ("Binding Commitment"): After the CIP is approved, a formal due diligence process is started using both external advisors and internal resources. Commercial, legal, impact and sustainability (including gender and climate), financial, technical and tax matters are, among others, thoroughly investigated. The due diligence also includes at least one trip to the company for the deal team to inspect the sites and operations and meet with the management team in person. A longer presentation is again prepared summarising the findings of the due diligence and presented to IFU's Investment Committee and Board for a binding approval.

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

BC to P ("Project"): The transaction documentation is negotiated, ensuring that all IFU's standard requirements are implemented. External legal counsel is usually engaged to support on the drafting and negotiation of the documentation and to arrange for the closing of the transaction.

P to Exit (Active Ownership phase): IFU would normally require to be presented on the board of an investee company, so during the investment period IFU mostly exerts its active ownership in the Board room. IFU work together with the management and partners in the investment to ensure fulfilment of the value and impact creation plans. Once the company is deemed to be able to attract private or other commercial capital, an exit plan is prepared ensuring that the investment can be exited both sustainably (e.g. to a reputable, impact-minded investor) and profitably.

8 Financial management, monitoring and learning

Financial reporting follows IFU's overall financial reporting to the Ministry of Foreign Affairs, reflecting the use of the funds. In addition, the Ministry of Foreign Affairs will be updated through quarterly meetings with IFU Management, covering both financial, impact and other relevant reporting. IFU also publicly report on its operations and results in e.g. its annual report and the impact report for the SDG Fund.

Furthermore, Ministry of Foreign Affairs participates as observer in the IFU Board which receives reporting on pipeline, investments and exits as well as the annual report of IFU, which includes both the audited accounts audited by a certified external auditor and reporting on impact and financial results.

IFU´s monitoring of investments is mainly done through participation in the boards of the investee companies or advisory board of other investment funds that IFU may invest in. This will also be the main monitoring tool for IFU. All investments provide IFU with regular, normally quarterly financial reporting and annual reporting on impact.

IFU collects lessons learned during the lifetime of investments, which are collected and reported at the time of exit. IFU will update its guidelines for final evaluation of projects, expected in 2024 as well as it guidelines for responsible exits.

9 Risk management

IFU is operating in risky markets and there is a risk that capital is lost due to factors such as poor performance of the investees, negative macroeconomic development incl. currency depreciation, adverse political interventions or wars and conflicts. Many of these risks are however mitigated by IFU's global mandate. Returns across developing markets are not very highly correlated, not with developed markets but neither between different developing economies. For examples, when losses are realised in African investments, it is possible that Indian business sectors are doing well. Furthermore, IFU's investment focus stretches across sectors that tend to not be highly correlated with each other. This high level of diversification on both sector and geographical level reduces the risk of significant portfolio losses.

Another risk is that there would not be enough interesting investment opportunities in emerging markets for IFU to deploy the capital. IFU aims to address this risk by supporting companies across various stages, to ensure that also earlier stage companies receive sufficient funding to grow to a stage where they become relevant for IFU's main facilities, including the SDG Fund. Further, IFU has historically been able to invest its capital across the cycles in emerging markets and have found relevant investment opportunities both when markets are performing well and during downturns.

The opposite risk is also relevant, that investment opportunities are attractive enough to attract private investors and that IFU risks to “crowd out” these private investors. To avoid this risk, IFU carefully assesses its additionality at an early stage of screening and would not pursue opportunities where sufficient additionality cannot be established. IFU has initiated work to improve the assessment of financial additionality of a given investment opportunity together with the University of Copenhagen. Given the wide investment mandate IFU operates within, the risk of not being able to find any relevant opportunities where IFU can be additional is however considered low.

IFU, and in the extension Denmark, is also exposed to a reputational risk linked to the investees. If the investees engage in any fraudulent, corrupt behaviour or are not operating in line with e.g. labour standards or tax policies, it would be severely damaging to IFU as a reputable impact investor. IFU takes this risk very seriously and performs significant checks on the investees and the management team to minimise the risk of any such behaviour. IFU has also recently strengthened is capacity and established a specific anti-bribery and corruption function, which specifically screens all investments for any related risk indicators. IFU’s approach to active ownership also helps mitigate the risk; by being up to date on what the company is doing and actively engaging in decisions, IFU is better able to discover any inappropriate business behaviours at an early stage. It should however be expected that there would be incidents of fraud and corruption in relation to IFU´s investments as IFU operates in markets where corruption is perceived to be widespread by Transparency International. IFU has policies and procedures to ensure that measures are in place not only to mitigate the risk, but also to investigate allegations and follow-up according to international best practice.

Annex 1 Context Analysis

1. **Overall development challenges, opportunities and risks**

It is estimated that the annual climate funding gap is USD4.5tr, most of which in emerging markets and developing economies (emerging markets and developing economies). The present climate finance flow is estimated at less than USD 800bn[10] leaving a huge gap, most in low and lower-middle income countries.

Institutional investors face difficulties in identifying investments in emerging markets and developing economies that are relatively safe and liquid. This leaves the majority of emerging markets and developing economies without the private investment levels that are required for a more rapid and sustainable growth path.[11]

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

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

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

In IFU, Denmark has an experienced impact investor in emerging markets and developing economies that has demonstrated its ability to invest profitably and with increasing focus on impact. IFU has successfully mobilised Danish institutional investors in various PE funds.

2. **Political economy and stakeholder analysis**

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

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

Key stakeholders of IFU include institutional investors such as pension funds, PE Funds, with a relevant mandate at international, regional and national level, development finance institutions in the markets; institutions which are able to promote change in the regulatory environment which are need-ed to enable successful investments (such as ministries, associations, international development agencies/institutions, EU, embassies with relevant programme engagement, etc.). At a more strategic level, the Danish Ministry of Foreign Affairs, Danish businesses and their organisations, labour market organisations, and other Danish civil society organisations with a commitment to promote sustainable development in emerging markets and developing economies especially through promotion of market-based solutions.

Stakeholder	**Stakeholder mapping**	**Action Proposed**
Danish Ministry of Foreign Affairs	High Interest - High Influence	Keep engaged
Danish embassies	Medium-High Interest - Medium Influence	Keep engaged
Danish pension funds	High interest – high influence	Keep engaged
Private impact investors, including Private Equity funds	Medium interest – low influence	Engage
Companies, including Danish, with interests in emerging markets	Medium interest – medium influence	Engage
Other DFIs and IFIs	Medium interest – medium influence	Keep engaged
Danish and local civil society organisations focussing on emerging markets	High interest – medium influence	Keep engaged
Institutions able to positively affect relevant regulatory environment	High interest – high influence	Engage
Business associations and trade unions (Danish and in markets)	Medium interest – medium influence	Keep engaged
Citizens (Danish and in markets)	Low interest – medium influence	Engage
Media (Danish and international)	Medium interest – medium influence	Engage

3. Fragility, Conflict and Resilience

Several countries and situations in Africa are characterised by fragility and conflict. Investments are relevant in these situations for building resilience and putting these economies on a sustainable development path.

Building trust, security, and strong institutions is critical to helping fragile and conflict affected countries advance and gain stability. In this context, the role of the private sector is increasingly seen as essential. Rather than binary distinctions between e.g., stability and instability or conflict and peace, many situations will be more appropriately described by degrees of intensity on a continuum along different dimensions of e.g., fragility and conflict.

These countries tend to rank low on investment climate indicators—especially quality of infrastructure, market size, and institutional trust. As a result, the level of private investment remains insufficient.

In some of these situations, IFU engagement can play a key role. It can help pave the way for other types of engagements - signalling the feasibility of investments. Pursuing investment opportunities in such countries are mostly considered for IFU´s High Risk, High Impact facility. This facility can also invest in green field operations, as has been the case for the investment in CRDB Bank DRC, the Spark+ Fund investing in cleaner cooking stove value chains and the Horn of Africa SME fund in the Somali region. IFU would continue to work with relevant partners such as the EU and Danish embassies to identify and develop investment opportunities in these countries in line with IFU´s strategy. IFU is also able to use its High Risk / High Impact funding as a form of "first loss" or blended finance for its own investments, as well as for other investors. For example, IFU has structured investments where the HRHI facility would only receive a limited return after all other investors have received a satisfactory return. This reduces the risk and increases the upside for other investors (or other IFU facilities), which allows for greater investment volumes to these impactful projects. IFU has also made use of HRHI funding to increase funding from more commercial sources. The HRHI facility of a total of DKK 350m extended to IFU for 2019-2023 will be fully invested in this period. It is expected that going forward high risk, high impact investments would be funded by part of the general capital injections and earnings of IFU´s existing investment. The expectations would be that IFU would continue to increase financing under IFU management going to lower income countries in Africa as well as countries affected by fragility or conflicts.

4. Human Rights, Gender and Youth and applying Human Rights Based Approach

IFU´s sustainability policy[12] includes specific reference to the UN guidelines for Business and Human Rights as well as to the key ILO conventions of workers´ rights. IFU has adopted the 2x challenge and the ambition is that at least 40% of investments would live up to the 2x criteria (see below). IFU screening tool (see below) further screens for relevant job characteristics: including support for youth, that jobs are permanent and that jobs are skilled.

The 2X Challenge. For companies to be 2X compliant, the must fulfil at least 1 of the 5 criteria below. The 2X challenge is defined by DFIs, launched in 2018 and updated every regularly (every 2 years) with the aim to increase the ambitions over time. Below the 2021-22 2X challenge, which is expected to be revised in 2023.[13]

Entrepreneurship	**1A. Women ownership**	**51%**
	1B. Founded by women (and still active)?	Yes
Leadership	2A. Women in senior management OR	20-30%
	2B. Share of women on the Board or IC	30%
Employment	3A. Share of women in the workforce AND	30-50%
	3B. One "quality" indicator beyond compliance	Yes
	Describe any gender related policies, programmes or approaches in place. Any gender specific indicators?	
Consumption/clients	4 Product or service specifically or disproportionately benefit women	Yes

[12] Sustainability Policy
[13] See https://www.2xchallenge.org/

	Describe the assumed way they product / service is impacting / benefiting women?	
Investments through Financial Intermediaries	5A. On-Lending facilities: Percent of the DFI loan proceeds supporting businesses that meet the criteria for direct investment	30%
	5B. Funds: Percent of portfolio companies that 30% meet the criteria for direct investment	30%

5. Inclusive sustainable growth, climate change and environmental assessment

All investments would be screened by IFU´s impact screening tool (please see below), which basically means that the investments would fulfil EU taxonomy for green with focus on climate mitigation and climate adaptation and that investment should at least do no harm in terms of social inclusion (reducing inequality) and hopefully contribute to a more equal society. The rest of investments would fulfil the IFU requirement to contribute to reduction of poverty and doing no harm with respect to green transition (EU taxonomy).

Furthermore, IFU would require all investments to live up to IFUs sustainability policy,[14] that covers environmental and social standards (including IFC performance standards and other relevant standards e.g. such as those that refer to (potential) displacement of people (voluntary guideline on the responsible governance of tenure) as well as IFU´s climate policy (part of the sustainability policy).

Screening is also done for financial and non-financial additionality.

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

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

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

IFU has good relations with other DFIs and international finance institutions such as European DFIs, IFC and regional development banks. Working and co-investing with such institutions can help improve the likelihood of success of investments.

The relationship with other Danish supported initiatives will continue to evolve. During the last 5-6 years several joint initiatives have been undertaken with Danish embassies, such as in the case of African Guarantee Fund, AbI Finance in Uganda, Rural Development Fund in Ghana, PASS in Tanzania, Kenya Climate Ventures in Kenya, the India Climate Investment Initiative, Ukraine initiatives and more. In the cases, IFU has gradually taken on the responsibility for further developing institutions, by investing in them and supporting the business development.

[14] Sustainability Policy

IFU Impact Screening Tool

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

Area	Comment
General criteria	
Investment type	Whether IFU is investing in an existing project, or setting up something new
Sector	Alignment with IFU sector strategy
Sector transformational potential	Potential for the investment to fundamentally change the sector it is in
Geography	Alignment with IFU geographical strategy
EDFI Exclusion List[15]	Any activities on the EDFI Exclusion List will make an investment ineligible
Commercial investment considerations	Instrument, direct or intermediated investment, ticket size, expected return and certainty of exit are considered in the screening
Strategic Alignment	
Use of funds	Whether IFU's investment will provide new capital to the company, or buy existing shares
IFU experience	IFU's track record in the sector
Building a Green Economy	
"Do no significant harm"	Requires the investment professional to confirm that the investment will "Do no significant harm" as defined by the EU Taxonomy – hard requirement for all investments
Climate change mitigation	Whether the investment meets the EU Taxonomy criteria (sector-specific where available)
Climate change adaptation	Whether the investment meets the EU Taxonomy criteria (sector-specific where available)
Sustainable protection of water and marine resources	Whether the investment meets the EU Taxonomy criteria
Transition to a circular economy	Whether the investment meets the EU Taxonomy criteria
Pollution prevention and control	Whether the investment meets the EU Taxonomy criteria
Protection and restoration of biodiversity and ecosystems	Whether the investment meets the EU Taxonomy criteria
Building a Just & Inclusive Economy	
Investment in Least Developed Country	Whether a majority of the investment will go to a Least Developed Country
Bottom-of-the-pyramid focus	Whether the investment will increase incomes for the bottom 40% income segment in the country / region
Unserved / underserved populations	Whether the investment will provide access to goods/services for which access is currently not available or limited?

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

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

Annex 2 Partner Assessment

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

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

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

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

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

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

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

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

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

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

As responsible "owner" of IFU, the Ministry of Foreign Affairs has embarked on a reform process with the aim to strengthen IFU over the coming years (2024-2030) to significantly increase IFU´s capabilities to increase its investments and impact in climate and in lower income countries and countries affected by fragility or conflict with a strong focus on Africa.

The intention is to strengthen IFU in the coming years so that IFU can better support Denmark's global climate commitments and the development policy priorities as an innovative, trend-setting development financing institution.

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

The reform process takes place in close cooperation between the Ministry of Foreign Affairs, the Ministry of Finance and the IFU.

It is the intention of the reform to provide IFU with new funding in terms of:

- Equity with DKK 500m in annual capital injection (from the ODA budget)
- Debt from the refinancing facility (Statens Genudlånsramme)
- Increased guarantee frame from the Danish state.

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

IFU's finance instruments

Instrument	Primary function
1. IFU's Equity	• **Use:** Equity investments and loans (direct and funds) • **Financing**: Accumulated profits, capital injection, facilities, EU and other sources • **Geography**: lower income and fragile countries, particular Africa, middle income countries (MIC), Ukraine • **Effects**: More inclusive societies, climate (mitigation and adaptation),
2. Green loans	• **Use:** Loans to private companies, primarily in climate, but also other and green transition • **Financing**: State's refinancing facility (Statens genudlån) with co-financing from IFU's own equity • **Geography**: Lower middle-income countries (LMIC) – upper middle-income countries (UMIC)

	• **Effects**: Climate (mitigation, adaptation, resilience) and green transition
3. SDG Equity Fund	• **Use**: Equity investments with commercial returns • **Financing**: 60% equity injection from pension funds and other private investors and 40% from IFU • **Geography**: Lower middle-income countries (LMIC) – upper middle-income countries (UMIC) • **Effects**: Green transition and climate (mitigation mostly), more inclusive societies
4. Development Guarantee Facility	• **Use:** Guarantees, primarily to financial institutions • **Financing:** Danish state guarantee • **Geography**: Low income countries, fragile countries, middle-income countries (MIC) • **Effects**: More inclusive societies, climate (including adaptation)
5. DSIF	• **Use:** Subsidised loans to public infrastructure • **Financing**: State guaranteed loan, grant from ODA budget • **Geography:** Strong focus on Africa, Ukraine and Green Strategic Partner countries • **Effects**: Climate (mitigation/energy and adaptation, e.g. access to water), district heating (incl. Ukraine)

The vision is to create a unified IFU that operates flexibly as one unit independent of instrument and risk profile, and which is managed according to strategic goals aligned to the government's foreign and development policy priorities. In the Finance Law 2023 and towards 2030, the aim is to strengthen IFU's financial and human resource capacity to increase the scope of investment, including investing to a greater extent in climate projects in developing countries as well as in projects with a view to economic development, job creation and a strong green focus, especially in lower income and fragile countries, with a strong focus on Africa.

This includes an ambition (of the draft ownership document) to dedicate resources for project development, including developing a strategy for development of investment ready projects that can be implemented in 2024.

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

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

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

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

IFU has re-organised and strengthened its investment organisation with a more thorough and rigorous investment process (including due diligence) of potential projects. Focus is now on fewer sectors than

before (Green energy and infrastructure, financial inclusion, health, and sustainable food). Together with additional high-quality staff, this has led to a significant professionalisation of the investment organisation.
IFU has also strengthened is investment capacity in terms of high risk, high impact and deployed significant capital to such investments in Africa, including with funding mobilised by IFU from the EU, made possible through IFU´s pillar assessment.

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

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

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

Active portfolio at 31 December 2022 (no.)	
Investment Fund for Developing Countries (IFU)	139
Danish SDG Investemt Fund (SDG Fund)	20
Danish Climate Investment Fund (DCIF)	9
Danish Agribusiness Fund (DAF)	3
IFU Investement Partners (IIP)	3
Investment Fund for Central and Eastern Europe (IØ)	2
Total	**176**
Eliminations*	(10)
Consolidated total	**166**

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

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

IFU’s annual investments amount to DKK 2bn and involves 15 to 25 companies and the general requirements for companies to receive funding from IFU are:

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

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

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

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

Executive summary from IFU's 2022 Annual Results Report

Investments

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

Impacts New investments

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

Portfolio companies

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

Today IFU's organisational capacity is built around its head office in Copenhagen and regional offices in Ghana, Kenya, Ukraine, Brazil, Singapore and India. Directed by the Board, IFU's executive management team comprising the CEO and Deputy CEO provides the overall leadership of IFU. The organisation is structured around three main units: Investment, including Sustainability and Impact, People & Culture, and support units comprising Finance, Digitalisation, Legal, Strategy and Communications. See organisation chart in the Textbox.

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

IFU organisation chart

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

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

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

Annex 3 IFU Investment process

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

Annex 4 Risk Management

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

			investments in geographies exposed to climate change		will also increase the attention for green finance, including investments from IFU.

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

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

Annex 5 Process Action Plan (PAP)

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