IFU Impact Ventures

Key results:

- Investment-ready/scalable climate and social inclusion projects developed attracting commercial private, IFU and/or other DFIs follow-on investment.
- Adoption of technology, know-how, and new business models, and increased capacity of local partners.
- IFU will strengthen its capacity for early stage project development, network and outreach with a focus on climate change and green transition in developing markets

Justification for support:

- Fully in line with the Danish strategy for development cooperation "The World We Share" and IFU's priorities and strategy: engagement of the private sector in developing and implementing market-based solutions that address environmental degradation, climate change and the biodiversity crisis and contribute to inclusive economic growth in partner countries.
- Complements other Danida business instruments as well as bilateral and multilateral engagements that aim at promoting inclusive economic growth and employment opportunities, among others through increased trade, investments and business development.
- Filling a gap in the climate investment market by investing seed capital in early-stage companies/projects, which are not yet commercial, hence comprise a high-risk investment. Sector stakeholders consistently point to the shortage of bankable projects and need for innovative approaches.
- Mobilisation of additional commercial and private capital for investment in developing countries of an expected minimum DKK150mil. Successful projects are expected to raise manyfold in private capital over time

Major risks and challenges:

The overriding risk is that there would not be sufficient investment-ready projects to achieve the climate goals. Other risks relate to deficient regulatory environment that disincentivise private climate investments and the deteriorating crises in the wake of Covid-19, the Ukraine war and steeply rising interest rates and debt problems.

File No.	2023-20340					
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	50	50	50			150
Projected disbursement	11	43	54	42	0	150
Duration	November 2023 – October 2027					
Previous grants	50 mil DKK (Climate Envelope 23 mil DKK, Danida's Business Platform 27 mil DKK) + 15 mio DKK					
Finance Act code	§06.38.01.11					
Head of unit	Karin Poulsen					
Desk officer	Charlotte Just					
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	Partnerships for Goals	

Objective

IFU Impact Ventures will develop investment-ready projects that commercial, including private investors would invest in, scaling up the green transition with a focus on climate mitigation and adaptation in line with IFU´s investment strategy and standards.

Environment and climate targeting **All investments will have climate as principal objective.*

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

Justification for choice of partner:

IFU is the Danish Development Finance Institution with a mandate to promote the SDGs and climate goals through private/commercial investments. IFU has experience and a good track record in such impact investments with a strong focus on climate with an ambitious climate policy. IFU has demonstrated ability to manage early-stage investments when sufficient resources have been set aside. Although it has taken longer for IFU to implement the first allocation for early-stage investments (project development programme), IFU has now approved strategic principles for such (IFU Impact Ventures) and is setting up a dedicated team with sufficient resources allocated for timely execution.

Summary:

IFU Impact Ventures will invest in early-stage companies, climate ventures, with potential to generate impact and become profitable. IFU will source pipeline through its local offices, partnerships with likeminded investors and incubators such as Danida Green Business Partnerships, Partnering for Green Growth and the Global Goals (P4G), and initiatives from Danish companies, NGOs etc. The impact focus will predominantly be climate mitigation and adaptation. Gender equality and reduction of inequality will be considered in the prioritisation of projects. Through active ownership, IFU will support a venture in becoming profitable with a view to attract commercial investments for further growth and scale and thereby climate impact. Investors could include IFU, other DFIs and private sector, including successor SDG fund.

Budget (DKK million):

Investments in projects	139.0
Programme management and review	11.0
Total	**150.0**

DRAFT

Programme Document

IFU Impact Ventures

May 2023

File no: 2023-20340

Definitions

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

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.

Investment ready project/companies

Companies/projects that have grown to a level where commercial investors (DFIs, private commercial investors, banks) are ready to invest in the further growth of the company thereby also scaling impact.

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

Impact objectives

IFU has 2 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)).

Impact Venture

A company/project that has the potential to contribute to climate and/or SDG impact, become profitable, and grow significantly, but which has not yet reached a level where it is profitable and can attract private capital at a larger scale. Typically, companies which are first with for instance new green technology or a new business model in a country/market.

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

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. Ventures are typically riskier than established companies and need more equity to raise the same amount of debt. As a venture grows it typically become less risky and can raise more debt. Example, a construction of a new solar energy plant is more risky than operating and existing plant which is already supplying power to customers. Therefore, companies in the operation phase can leverage more debt, i.e. finance a larger share of their operations with debt.

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

The climate change and other sustainable development challenges facing the world require more investments into transitions to create the changes needed. A large part needs to be market based. Private and market-based investments need to scale up significantly and fast especially in emerging and developing markets. DFI´s 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.

Lack of impactful investment ready projects and companies, particularly in lower-middle income and low-income countries is recognised as a key constraint for attracting private capital to investments needed to achieve the climate and sustainable development goals.

IFU has approved strategic principles for a facility for early-stage project development investments called IFU Impact Ventures, and is setting up a dedicated team to manage this facility (see box). These decisions have been made on the back of lessons learned from the Project Development Programme of DKK 65m, that the Ministry of Foreign Affairs provided funding for in 2016[2] and the priorities of the ministry for IFU. The aim is to support the development of investment-ready projects and companies in developing countries that is lacking. IFU can invest in all OECD DAC eligible countries.

Impact Ventures
Project development, early stage and venture investment are in many respects different words for projects/companies that are not yet at a stage of maturity where private or other commercial investors would invest without some risk mitigation. IFU Impact Ventures has been chosen as name as it signals in the market, the intent of IFU to provide risk willing capital to very early-stage businesses, where a business has a very low revenue, is loss making, but with a business model that has good impact potential and potential to grow and become commercially viable.

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 green transition and sustainable development in lower income countries and fragile countries, not least in Africa.

This project document describes how IFU intends to implement its evolving strategy for impact venture investments in line with Danish policies and strategies[3]. A new overall IFU strategy is expected to be developed by 2024 that would also include the strategic principles to early stage project development and be in line with the IFU reform and the accompanying “ownerhip document” (“ejerskabsdokument”), that defines the overall strategic and governance frame for IFU.

2 Programme context

2.1 Background and Thematic Context

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[4] leaving a huge gap, mostly in low and lower-middle income countries.

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[2] The Project Development Programme has been reviewed several times and the scope has evolved over the years. Please refer to section 2.2. on lessons learned.
[3] Notably The World We Share and the Government’s Global Climate Action Strategy
[4] 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.

Private finance is available, but as, e.g., IMF has found that "…issues related to scaling up private sector finance … include … the lack of investment-ready projects." Institutional investors face difficulties in identifying investments in emerging markets and developing economies that are relatively safe and liquid, and "this limits private sector exposures to only 12 to 15 investment-grade emerging markets and developing economies leaving many other emerging markets and developing economies without needed private sector climate funding."[5]

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[6]. Risks include:

- **Macroeconomic risks:** exchange rate, economic crises, including related to deficient governance 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 such as spill over effects from neighbouring countries in conflict
- **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
- **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, but more so the development of investment-ready projects for those commercial investors, that are able to invest. Even state owned development finance institutions face challenges related to absorption capacity and development finance saturation, particularly in lower income countries, because the number of investment-ready projects at a sufficient size are not available.[7] Most DFI´s prefer investment sizes of USD 15m or more.

The lack of investment-ready projects is the basis for the call for more investments into early-stage/venture investments in emerging markets and developing economies by the International Energy Agency, IEA, the IMF, the G7, and research organisations such as Overseas Development Institute, ODI etc. These are calls to provide more capital to be used by DFIs for risk mitigation in blended instruments[8]. ODI finds that there is both a "scarcity of private investors willing to take on early-stage risks in low-income countries, and a limited use of subordinate (risk willing) instruments by DFIs, i.e., that blended finance may not be meeting the risk-mitigation needs of the private sector in challenging markets."[9]

Early-stage investments often entails societal benefits (positive externalities) that cannot be monetised as income by "first mover" ventures, which therefore may not succeed. However, such first movers can pave the way for followers who can learn from mistakes, benefit from regulatory changes, and from other lessons learned in the business model etc. The costs of the "followers" are lowered considerably increasing the chances of success. Other market failure relate to economies of scale of venture investing. Most ventures fail. If you are not able to invest in a sufficient number of ventures, you are reducing the likelihood that one of your

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

[6] '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.

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

[8] 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.

[9]Attridge and Blended finance in poorest countries - the need for a better approach, ODI 2019. The criticism is that even some of the capital that DFI are receiving from ODA budgets (blended finance) are not being applied in a manner that take on sufficient risk to reduce risk of commercial/private investors sufficiently to allow them to invest.

investments would be successful and could compensate you for the losses of all the failed ventures. In venture capital it is not unusual that only 1 or 2 out of 10 ventures succeed become commercially viable.[10]

It is the assessment that without a massive increase in development of investment-ready projects, there would be too few of these in the coming years for private capital to invest in; projects that are required to reach the climate (and SDG) goals.

In IFU, Denmark has an experienced and professional impact investor in emerging markets and developing economies that has demonstrated its ability to invest profitably and with 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 SDG Equity 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.

Through the existing project development programme, IFU has since 2016 gained experience in early-stage investing (see next section, 2.2).

More funding for early-stage investment alone would not be sufficient to attract the required amount of finance for investments, but it is a necessary condition. Working with governments to reduce some of the macroeconomic, governance and regulatory risk mentioned above is also required. Some early-stage ventures require changes in regulations, and work with authorities[11]. The more impact ventures that are developed, the more incentives would governments and countries have to consider investment conducive regulatory changes and other reforms. IFU is increasingly engaging with Ministry of Foreign Affairs, Danish embassies, sister DFI and the EU to jointly built 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

11 projects were approved by IFU's Investment Committee under the previous Project Development Programme for a total of DKK 33m. Of them, one project, Azur is close to having developed two separate bankable waste-to-energy projects and has mobilised DKK 70m from other investors following IFU's DKK 10m investment. Another project successful project, Africa GreenCo has raised follow-on investments of more than DKK 100m one year after the DKK 6m from the Project Development Programme. This amount includes DKK 30m from IFU's High Risk High Impact facility, supporting the thesis that providing capital to early-stage projects can create attractive opportunities for larger investments from IFU's other facilities. These two projects have as such managed to mobilise more than 10 times the amount of capital invested, or USD 10.5 per each USD invested. The Project Development Programme as a whole has, through these two projects, mobilised about 5x the invested capital. This is on par with or above the expectations of most impact accelerators[12].

However, this result is dominated by these two investments, totalling less than half of the total investment volume. A significant share of the investments in the Project Development Programme were not as successful. One project never started and 6 projects were terminated during the investment period and did not result in an investment-ready project nor further investments. This could be because of regulatory constraints (not enabling wind energy), because of changed market conditions (cost of inputs increasing significantly), or governance issues etc. Two additional projects are yet to start, respectively in the very initial start-up stages.

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10 No meta study on success rate has been identified. However please see the following for some evidence: Startup Genome: The Global Startup Ecosystem Report 2022; "The Better Africa Report" (2020); IBM Study: Innovation Key to Startup Success in India (2017)

11 AfricaGreenCo has worked closely with the Zambian authorities to establish the basis for its operations, develop templates and processes for approval of licenses etc. See Annex 6 for more information.

12 For example, Climate Policy Initiative reports a 4-to-1 mobilisation.

Below is an overview of the main projects invested in the Project Development Programme, their current valuation, the use of IFU's funds, amounts mobilised following or together with IFU's project development funding:

Project	Country	Sector	Commitment / disbursed	Use of funds	Valuation, end 2022	Mobilised
Africa GreenCo	Southern African countries	Green Energy	6.0m DKK / 6.0m DKK	Working capital	At par (6m USD)	~100m DKK (~30m from IFU)
Azur Waste-to-Energy	Thailand	Waste	10m DKK / 7.6m DKK	Development funding	N/A (projects are not realised yet)	~70m DKK
Falck Serbia	Serbia	Healthcare	4.3m DKK / 0 DKK	Business dev.	N/A (in approval process)	None yet
CerCa	Cuba	Pig production	2.4m DKK / 2.3m DKK	Business dev.	N/A (project not realised yet)	2.5m DKK from Danish partner
DLG Pilot	India	Cattle feed	0.3m DKK / 0.1m DKK	Market research	0 (closed)	0.6m DKK from DLG, Indian partner
C2SI	Guatemala	Biomass	3.2m DKK / 3.2m DKK	Business dev.	0 (closed)	25m DKK from partners
Anji Salmon Farm	China	Agriculture	1.3m DKK / 1.3m DKK	Business dev.	0 (closed)	1.3m DKK from Danish partner
Coop	Kenya	Agriculture	0.3m DKK / 0.3m DKK	Business plan	0 (closed)	0.3m DKK from Danish partner
Benpower	Benin	Power infra.	5m DKK /	Development costs	0 (closed)	45m DKK from partners

In addition, IFU has faced challenges in developing a portfolio of Project Development Programme projects and finding suitable investment opportunities in a timely manner. Of the initial funding of DKK 50 mil in 2016 and additional DKK 15 mil in 2022, DKK 32m remains to be invested which are expected to be deployed during 2023. As such, the average investment volume per year has been just DKK 5.5m per year, which is significantly below the initial expectations and also below the expectations for IFU Impact Ventures. The causes for the slower disbursement rate are further expanded on in the "Lessons learned" section below, including how these lessons are followed up on to ensure that IFU Impact Ventures is able to invest more efficiently.

Please see annex 6 for more detailed analysis of the projects funded so far under the project development programme

2.3 Lessons learned

Several lessons have been learned internally and through a mid-term review undertaken by the Ministry of Foreign Affairs. Key lessons learned and follow-up on those include:

- Initial tying of investments to Danish companies and later the protracted COVID-19 period's impact hampered pipeline and investments. The Project Development Programme has since been untied.
- There has been a lack of a thematic geographical focus. The focus will now mainly be on climate and green projects.
- During the first years of the Project Development Programme, IFU assessed projects as thoroughly as large investment opportunities. This was assessed not to be appropriate as early-stage investing requires different screening tools and assessment processes. IFU has now developed a new adapted process and legal documentation to appropriately consider the risk profile of early-stage investments (see below section 7 and annex 3).
- IFU had not been giving early-stage investment the required priority, including in terms of allocating human resources to work on executing the Project Development Programme. Incentives in IFU had been towards larger facilities of IFU, including the SDG Fund, GFF and HRHI facilities. IFU has now

decided to set up a small, dedicated team, which will be responsible for IFU Impact Ventures and investing the funding available in 3-4 years. This would ensure sufficient resources dedicated to the task. IFU has since last year given the task more priority and has a reasonable pipeline (annex 7)
- The review found that stakeholders confirmed a clear need for a Project Development Programme. Partner companies and sector stakeholders emphasised that companies have difficulties in finding risk sharing capital for project development and that the Project Development Programme fills a gap in the market. IFU was, in general, perceived to be more involved, supportive, and proactive than other similar funds. Sector stakeholders also consistently pointed to the shortage of investment-ready projects and need for innovative approaches.

2.4 Coherence and synergies

Successful projects coming out of IFU impact venture investments would fit well with IFU´s strategy (same focus areas) and therefore be good candidates for follow on investments from IFU´s regular capital as well as from other DFIs and private investors. Some could even over time become candidates for a follow-on SDG Fund investments. By investing with other investors in venture platforms/funds, IFU would get access to more investment-ready projects over time as IFU would reserve its right to invest in the successful ventures coming out of such venture platforms/funds.

IFU impact ventures would partner with initiatives/organisations that incubate partnerships and start-ups. These would include P4G, Danida Green Business Partnerships (DGBP) as well as international incubators such as the Dutch Fund for Climate and Development and local ecosystems in the markets such as Kenya Climate Venture[13]. IFU would continue to develop partnerships with evolving initiatives such as Techvelopment and initiatives from Danish companies and civil society organisations[14]. This would complement and could increase the impact of such initiatives.

Concrete examples include IFU´s engagement in Techvelopment and engagement with P4G to establish a Climate Action Investment Fund (CAIF) that would focus on climate ventures and is part of the pipeline for IFU Impact Ventures. IFU has received approval from the EU of a first loss guarantee for this fund of up to USD 33 million. Other key partners, which would also be co-investors, would include development finance institutions and the blended facilities that they manage, including the European Development Finance Management Company, international and national development finance institution etc. (please refer to pipeline Annex 7)

The development of partnerships will help built pipeline of projects (originating from partners such as international and local incubators) and do co-investments with partners that have relevant experience, are placed in the markets and can share risk with IFU, enabling IFU to diversify investment and manage risks better.

2.5 Justification of programme design

Relevance
IFU Impact Ventures is set up to help overcome the challenges related to lack of investment-ready projects. Larger scale investment opportunities are costly and risky to explore and develop. Providing risk capital to ventures can help mobilise private companies more in development of investment opportunities than would otherwise be the case. As a recognised impact investor, IFU is a relevant institution to manage early-stage investment and ensure that relevant sustainability policies, including environment and social standards, human rights standards, anti-corruption standards are held.[15]

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[13] Kenya Climate Venture is supported by the Danish programme in Kenya, please see https://kcv.co.ke/
[14] Please refer to P4G Techvelopment Danida Green Business Partnerships Dutch Fund for Climate and Development
[15] For a full overview, please refer to IFU Sustainability Policy

Efficiency
Management of the IFU Impact Ventures will draw on IFU's well established management systems, appraisal and risk management procedures, financial value, and impact creation processes. IFU has improved the efficiency of the Project Development Programme by introducing more simple screening and approval processes that are suitable to small high-risk projects. IFU has experience investing in emerging and developing economies, including high risk markets, with presence in key markets and extended networks. There are clear synergies to be tapped into internally in IFU through its capacity as fund manager for the Small and Medium-sized Enterprise Facility, High Risk High Impact programme and IFU´s evolving portfolio of blended finance with the EU. Establishing a specific team with experience and competencies in venture investing in the markets to manage IFU Impact Ventures with 2-3 staff is envisaged to further improve efficiency as improved competences and capacity would enable improved processing of investments with higher quality and speed.

Effectiveness
It has taken a long time for IFU to make 10 investments under the existing project development programme. The streamlined processes for screening, selecting, and assessing projects, and establishing a dedicated IFU impact venture team will increase the execution of investments and hence effectiveness. Approximately 70 percentage of all projects considered for project development programme funding failed in the initial screening and 10 projects have received funding until now under the project development programme. The new streamlined processes and the establishment of a specific team managing IFU Impact Ventures-3 staff would also improve effectiveness.

Impact
IFU Impact Ventures is expected to have a direct impact on the number (and quality) of impact investment-ready (profitable) investment projects and companies. Because of the increased organisational focus on IFU Impact Ventures in the IFU organisation (including a dedicated team and an adapted investment process), the programme is expected to be significantly better positioned to find relevant projects than the hitherto. The expectation is to complete 3-4 investments annually, compared to 10 over the full life-time of the previous programme over the last 7 years. Projects that are developed into investment-ready projects would over time attract more investors and scale up their impact. Key longer-term outcomes will include climate mitigation, adaptation, access to services for the underserved, gender equality, creation of decent jobs for women and men etc. Investments will be implemented in accordance with IFU´s sustainability policies.[16] IFU will continue improving its monitoring framework and approach, including with a view to capture outcomes of ongoing projects in the programme.

Sustainability
IFU Impact Ventures would be financially sustainable as a separate facility if over time the financial returns on the investments into ventures were positive and able to cover the management costs. As the scope of IFU Impact Ventures is to enable more investments into ventures by offering capital with a higher risk willingness than the market and considering that part of the impact would be positive externalities[17], it would not be expected that IFU Impact Ventures would be financially self-sustainable over time. Based on experience from similar initiatives, the expectation is that there would be a negative net return of -10%-5% (net of management costs). It is however expected that there would be successful ventures that become investment-ready by commercial investors. These companies would over time mobilise significant investments from commercial investors. And that the growth of these companies would sustain commercial financial returns and impact at a level that would justify the investments undertaken by IFU Impact Ventures.

[16] IFU Sustainability Policy include principles of the UN Global Compact, the UN guiding principles for business and human rights, the IFC Performance Standards, gender policy, climate policy etc. IFU´s screening processes for expected impact (green transition and social inclusion) and results monitoring would be applied.
[17] It would be likely that all the investments would add to general knowledge in the market on which business models would be viable and thereby reduce the risk of late comers into those markets.

The success rate of ventures that IFU would invest – ventures that reach the next stage of attracting additional funding for further growth – is expected to lie between 10-30%. The experience so far has been that one out of 10 IFU investments under the project development programme reached a second round of investments (see section on lessons learned[18].

Additionality
Experience shows that even large companies are hesitant to embark on developing large-scale investment projects in developing countries and emerging markets and developing economies or investing in climate ventures with new technologies and business models and potential to scale. This is due to the risk factors mentioned above[19]. It is also the assessment that unless many more projects and companies, including green infrastructure, are developed, to support transitions, the world will not achieve the climate or sustainable development goals. The costs related to the risk of not achieving those could be very large, globally. Better and more flexible access to risk capital in ventures and project development is critical for the projects to be developed at the pace and in the form and quality that makes them sufficiently attractive to commercial, including DFIs and private investors. The market is not by itself making sufficient capital and human resources available for investing in impact ventures and project development in high-risk markets.

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. This kind of additionality is assessed to be particularly high in the case of early-stage investing. Providing IFU with funding for such purposes would be additional to the market and contribute to more of the needed investment-ready companies and projects in emerging markets and developing economies. IFU will ensure that ventures consider inequality, how to promote gender equality and live up to international environmental, social and governance standards, including relating to human rights and anti-corruption in line with IFUs Sustainability Policy already referred to. These factors are included in IFU's general screening processes.[20]

3 Programme presentation

3.1 Objectives and outcomes

The programme objective of IFU Impact Ventures is to succeed in developing early-stage companies (ventures) addressing climate change and the need for social inclusion into profitable impactful businesses which can attract private finance and scale impact. The ventures will have business models with potential to mitigate and/or adapt to climate change and thereby contribute to low carbon, climate resilient economies (SDG 13 on Climate Action). IFU Impact Ventures could also be seen as "laboratory" for testing innovative business model that addresses the need for climate adaption, where there is a particular gap. These projects would also contribute to impacts that would relate to:

- Access to affordable clean energy in as much as the ventures would enable increase in production of renewable energy (SDG 7)
- Sustainable cities and communities (SDG 11), e.g. by investing in access to cleaner transportation such as electricity driven public transport (buses, minibuses, two-wheelers)

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[18]). Measured by invested amount the ratio is about 1 out of 5. A total of DKK 31.2m has been disbursed to projects out of which DKK 6.6m has been disbursed to the company, Africagreenco, which has since expanded and attracted additional capital.
[19] Difficult political and regulatory contexts, corruption, volatile markets, exit challenges etc.
[20] 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.

- Biodiversity (SDG 15), to the extent ventures are in sustainable forests or nature-based solutions that also address socio-economic challenges (e.g. planting trees to fight coastline erosion in agricultural areas also supports food security).
- Hunger (SDG 2), to the extent ventures are in sustainable agriculture
- Gender equality (SDG 5) in ventures that promote gender equality (2X)
- Decent jobs and economic growth (SDG 8) as successful ventures would enable increased incomes and the creation of direct decent jobs in the companies as they scale and indirect jobs through the upstream and downstream links in the relevant value chains.

An immediate outcome of the programme would be the number of ventures that reach a stage where their business has demonstrated sufficient potential for impact and profitability and attracted additional finance from commercial investors, including DFIs and the private sector for scaling (increasing) production. At that stage IFU Impact Ventures can decide to exit (sell its investment) to other investors or stay in for an additional period. Similarly, IFU could consider investing in the company with IFU´s other facilities. A spinoff outcome would be the attributable amount of capital mobilised from other investors during IFU Ventures´ investment period. Further, IFU's investments will help adoption of technology, know-how, and new business models, and increase capacity of local partners.

A key output of the programme would be number of investments signed in terms of numbers and in terms of capital invested.

Key activities include pipeline sourcing, partnership building and maintenance, communication and marketing, screening, and assessing investment opportunities, investing and active ownership in the ventures, providing advice and monitoring investments, exiting as well as reporting and communication on the programme, including on challenges, progress and results.

IFU will also strengthen its capacity for early stage investments, network and outreach with a focus on climate change and green transition in developing and emerging markets and continuously build an interesting portfolio of green investment projects.

3.2 Eligible countries

Eligible countries
IFU Impact Ventures would follow IFU's mandate in terms of eligible countries, which are defined by the OECD Development Assistance Committee and updated annually. However, it is expected that a considerable part of the investments would go to Sub-Saharan Africa and to low and lower-middle income countries, where additionality would be highest and with most of investments going to IFU Core countries as defined IFU 2021-24 Investment Strategy[21] as well as other countries in Africa.

It is also expected that special attention would be given to the partner countries of P4G (such as South Africa, Kenya, Ethiopia, Indonesia, Vietnam and Colombia).

3.3 Project selection criteria

The key selection criteria for projects have been informed by the lessons learned from the Project Development Programme and have been aligned with IFU´s strategy, and would include the following necessary conditions:

[21] A revised IFU strategy is envisaged to be ready by 2024.

- Significant potential for **climate and green impact** in line with IFU´s impact criteria for green transition and sustainability policies. These criteria are basically identical to the EU taxonomy for green, except that IFU will not – according to IFU´s Climate Policy – invest in any fossil fuel based energy production.[22] A minimum of 80% of the budget would be made in projects where this is the main objective, including both mitigation and adaptation
- Significant potential to promote social inclusion in line with IFU´s impact criteria for social inclusion.[23] Up to 20% of the budget would be made available for projects where this would be the main objective.
- In line with IFU´s Sustainability policy, which include policies on human rights (in line with UN Guiding Principles on Business and Human Rights), gender equality, anti-corruption, good corporate governance etc.
- In DAC countries

In addition, the following impact criteria would be assessed with a view to prioritise projects that would also fulfil these impact criteria:

- Potential for promoting social inclusion in climate projects; this could be through increasing accessibility for products and services or improving livelihoods (income etc.).
- Potential to promote green transition in social inclusion projects. This would be done by assessing the potential for projects to support climate mitigation and/or adaptation.
- Whether the company lives up to the 2X challenge on **gender equality**. It is the ambition that all projects should be assessed with a view to achieving 2X, and that at least 30% of all companies invested into should be or have a plan to become 2X compliant.

These criteria are fully in line with IFU´s existing framework. It is expected that IFU´s impact screening framework will continue to evolve as more experience is gained, lessons are learned and more data and better methods/models for assessing impact become available and are developed.

The following thematic areas/sectors would be expected to dominate investments with respect to

- Climate mitigation: Renewable energy, energy efficiency, e-mobility, energy-efficient/sustainable buildings, green cities. Consideration would always be given to ensure resilience to climate change.
- Climate adaptation: agriculture, forestry, water, and nature bases solutions.
- Access to adequate finance, education, health, food for those who do not have access.

The average investment size for the IFU Impact Ventures is expected to be approximately USD 1 millon (DKK 7 million). Based on IFU experience (with e.g. Africa GreenCo), this ticket size represents a good trade-off between impact and risk. It will allow IFU to diversify the portfolio across a wider range of sectors and impact areas, while at the same time ensuring that the capital provided is significant enough to make a meaningful change for the venture. Further, it will ensure that IFU's resources are not spread too thinly across the investments and will be able to support the ventures to scale.

Other key criteria would relate to the financial returns and viability of the projects in line with IFU practices. The following is a list of key issues that would be part of any commercial assessment of a concrete project to be invested into. For investments into platforms/funds the assessment would be of the quality of the platform´s systems and capabilities to undertake screening and assessing projects and their fit to IFU´s criteria:

- Business model

[22] Please refer to annex 1 on IFU´s impact screening tool.
[23] Please refer to annex 1 on IFU´s impact screening tool.

- Technology
- Market
- Management and other key persons
- Regulatory
- Financial value drivers
- Risks including related to the above (country, market, regulatory etc.)
- Business plans, budgets, and profitability
- Exit route for IFU

3.4 Other strategic considerations

IFU´s board has approved an outline of strategic principles. These are reflected in this document.

In terms of investment channels, it is foreseen that IFU would invest through 2 channels:

- Through platforms such as venture funds or through platform(s) that IFU develops with others to ensure active ownership and close alignment with IFU priorities. IFU is working on an early-stage climate investment fund, CAIF, with an existing platform company. IFU has secured an EFSD+ guarantee of up to EUR 33m to cover loss for other investors than IFU.
- Through direct investments into ventures. This help develop and maintain capabilities in the early stage/venture investment field and help IFU make better assessments and investment decisions when it comes to investments in platforms.
- Direct investment in support of specific Danish commercial and/or political interest and/or very high impact potential. It is also proposed that IFU Impact Ventures to a limited degree could invest in projects (with Danish partners) that does not fulfil green requirements but do reduce inequality and do no harm on the climate and green transition. Thereby IFU could help support the development of the Danish impact investing community.[24]

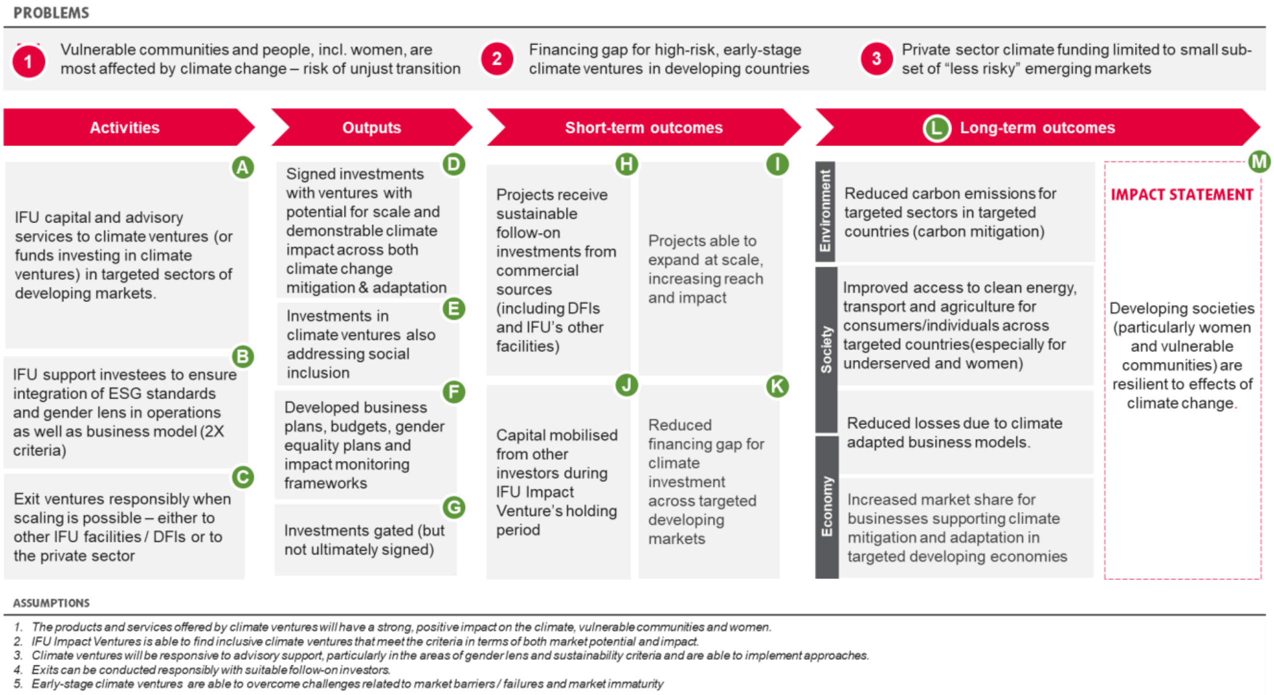
Other considerations would include to what extent an investment would complement other Danish initiatives and programmes and Danish policy initiatives such as Danida Market Development Partnership and Danida Green Business Partnership, bilateral programmes such as Partnering with Denmark, or interventions supporting in country private sector development.

[24] This would enable IFU to invest initiatives such as Techvelopment and initiative that several Danish NGO´s are developing for platforms for market based investments addressing needs of people living in poverty such as in refugee situations.

4 Theory of change and key assumptions

4.1 Theory of Change

The theory of change is shown below:



The Theory of Change is based on the assumption that the lack of financing for early-stage climate ventures (especially from the private sector) in emerging markets impedes a green transition, with a disproportionate impact on vulnerable communities and people (incl. women) who are often most affected by climate change. The components of the Theory of Change are (highlighted in green in the figure):

Activities:

A. IFU provides capital and advisory support to ventures that specifically target climate challenges in developing markets
B. IFU would support these companies on ESG-related matters and integrating a gender lens in their operations (e.g. by establishing Envoronmental & Social Action Plans or Gender Equality Action Plans)
C. Following the investment, IFU would exit the investment, either to another more commercially oriented IFU facility or to a responsible private sector investor who is deemed to be able to continue to support the impact of the venture

Outputs

D. The immediate output is IFU signing investment agreements with early-stage ventures with a clear potential to achieve climate and/or social impact – either through climate change mitigation (e.g. renewable energy, e-mobility, energy efficiency), adaptation (e.g. climate-smart agriculture, forestry or water) or both (**Output 1** in the results framework – see annex 7)
E. In addition, IFU expects a significant share of the climate investments to also directly address social inclusion in addition to the climate impact – e.g. addressing access to electricity by providing renewable energy sources. (**Output 2**)
F. The output of IFU's support during the investment period will be evidenced through creation of business plans, budgets, impact monitoring frameworks and impact-related action plans e.g. addressing gender equality. (**Outputs 3, 4 and 5**)

G. As an intermediate output, IFU will track the number of investments that are gated (with a Gate 1 Paper presented to IFU's Vice President Group) but not necessarily invested in. (**Output 6**)

Short-term outcomes

H. With IFU support and capital during the early stages, the ventures are expected to become investment-ready/scalable and able to attract more commercially-minded funding – either from private investors, IFU's other facilities or other DFIs (**Outcome 1.1**)
I. The projects will be able to expand their reach and increase both their business activities and their impact (**Outcome 1.2**)
J. IFU's funding will allow the companies to lever the capital, to also raise external debt funding, which will further allow them to grow their impact. **(Outcome 1.3)**
K. These factors will together serve to reduce the financing gap that climate ventures experience at an early critical stage

Longer-term outcomes

L. More investments in these companies will in the longer run both support the green transition (reducing carbon emissions and lessening the impact of climate change), and also have wider social and economic benefits in terms of e.g. improved access to energy and improved agricultural yields (**Outcome 2**)

Impact

M. Ultimately, ensuring risk-willing capital at an early stage is available for unproven but high-potential climate ventures will support the building low-carbon, inclusive and resilient societies in developing countries.

4.2 Key assumptions:

As outlined in the Theory of Change, there are several key assumptions related to the expected impact. These relate not least to the ability of the likely relatively untested and novel ventures to have a tangible impact.

Another key assumption is IFU's ability to identify relevant investees and their ability and willingness to make benefit of IFU's support.

Finally, the early-stage ventures will have to be able to overcome market related issues, that may be substantial in new sectors in developing regions of the world.

5 Summary of the results framework

Below the results framework reflecting the theory of change. As IFU Impact Ventures will invest in early-stage companies, impact in terms of climate mitigation, adaption, access to goods and services, and jobs at any level of significance would only be expected after IFU Impact Ventures have exited (sold) investments.

For such impact to happen, the investments need to help develop investment-ready companies with potential for impact (strong on mitigation, adaptation, gender equality etc.).

Below the high-level results framework at the level outcomes (please refer to annex for more details).

Programme Title		**IFU Impact Ventures**	
Programme Objective		Investment-ready projects developed that address climate and sustainable development needs which has mobilised IFU and/or other DFIs and/or private follow-on investment.	
Impact indictors			
Baseline and targets			
Outcome 1		Investment-ready/scalable climate projects developed attracting commercial private, IFU and/or other DFIs follow-on investment.	
Outcome indicator 1.1		Number of projects that have raised additional equity funding (cumulative)	
Baseline	Year	2023	1 project
Target	Year	2028	10 projects (include ventures in platforms IFU invest in)
Outcome indicator 1.2		Number of projects reporting increase in business activity (e.g. increased turnover)	
Baseline	Year	2023	N/A
Target	Year	2028	15
Outcome indicator 1.3		Number of projects that have leveraged equity and raised external debt funding	
Baseline	Year	2023	1
Target	Year	2028	10
Outcome indicator 1.4		Number of projects exited profitably (incl. to IFU facilities)	
Baseline	Year	2023	N/A
Target	Year	2028	4
Outcome 2		Social impact achievable from investing in early-stage climate ventures	
Outcome indicator 2.1		Number of projects directly addressing social outcomes (e.g. access to electricity) in addition to climate / environmental impact	
Baseline	2023	0	
Target	2028	Minimum 10	
Outcome indicator 2.2		Percentage of projects meeting 2X criteria for gender lens investments[25]	
Baseline	2023	0	
Target	2028	30%	
Outcome indicator 2.3		Number of direct jobs created in climate ventures	
Baseline	2023	0[26]	
Target	2028	140 (TBD)[27]	

6 Budget

The budget table below shows the expected budget in terms of IFU´s signing of investments agreement with impact ventures. The amount includes the DKK 150m of the present appropriation of DKK 150m. The DKK 150m of this appropriation is expected to be invested in 2023 - 27.

[25] Based on IFU experience. IFU has a target of 40% in all investments. In general women are severely underrepresented in ventures – hence the ambitions of 30% for IFU Impact Ventures. Please refer to annex 1.4 for definition of the 2X challenge.
[26] Baseline for IFU Impact Ventures.
[27] Direct employment created in the venture from IFU Impact Venture investments till exit.

Further, in 2023 IFU will also invest DKK 32m, equal to the remaining funds under the present project development programme in already identified projects. IFU expects that IFU Impact Ventures will continue after 2026 with funding being part of the expected general capital contributions, in line with the ongoing and expected IFU reform and the related new IFU investment strategy expected in 2024.

In line with the intentions of the ongoing IFU reform, the contribution of DKK 150m would be in the form of a capital contribution, earmarked for IFU Impact Ventures investments and its management

Table 3: Programme budget (million DKK)

	2023	2024	2025	2026	2027***	Total
Investments in projects*	10	40.0	50.0	39	0	139
Programme management, communication etc **	1	3.0	3.0	3.0	0	10
Mid-term review			1			1
Total	11	43.0	54	42	0	150

* At least 80% has climate mitigation or adaptation as the principal objective ** Programme management include remunerations and overhead. *** In 2027, management costs etc. are expected to be an integrated part of IFU's general budget.

7 Management arrangements

7.1 Facility modality and management

The investment process would follow the existing IFU policies and draw on IFU´s capacities in sustainability, legal, financial management and communication.

A separate IFU Impact Ventures team will be established during 2023 and consist of 3 persons This team will be responsible for the sourcing, screening, processing, and conducting due diligence of investments as well as managing the portfolio of venture investments and eventually exiting them. A job advertisement has been posted for the role of the Head of IFU Impact Ventures. The desired profile is someone with significant experience of venture investing in emerging markets, and ideally also with blended finance. Further staffing requirements and team profiles will be defined together with the Head of IFU Impact Ventures, once hired. It is envisaged that investment professionals from IFU´s other sector-based team would be part of relevant "deal teams" that would be established for each venture investments in line with IFU´s practice for all investment projects. It is the assessment that a specialised team will help ensure sufficient focus and resource allocation to invest the budget of this programme. Please also refer to 2.2 Lessons Learned above.

The strategy for IFU Impact Ventures would be a part of the expected IFU investment strategy in 2024.

Once a project has been screened by the IFU Impact Ventures Team, a "Gate Paper" is developed. The Gate Paper is a short overall description of a project that provide initial assessment of development impact (based on IFU´s development impact screening tool), potential for profitability and growth, key drivers for impact and profitability, basic information on the key partners in the company (KYC), key risks and some principal questions to be discussed.

The Gate Paper is presented to IFU´s VP-meeting[28] which discusses, provides advise and approve the project for next step. If needed a budget for external consultants is approved.

After approval a project "deal team" is established consisting of a project manager from the IFU Impact Venture Team (once established) and other relevant investment professionals as well as professionals from IFU´s sustainability team and legal team. The deal team undertake thorough assessment (due diligence) of the project, including contracting external consultants.

When the "deal team" is satisfied that the project is feasible a proposal (Binding Commitment) is submitted to IFU´s Investment Committee.[29]

If approved the "deal team" work towards closure (signing) of the investment.

IFU would normally require to be presented on the board of an investee company. This would also be the case for IFU Impact Ventures. This enables IFU to be an active owner, providing advice and monitor the investment closely.

IFU would exit investments once a company is able to attract private or other commercial capital or if it turned out that the company would not be viable in which case all paid in capital could be lost.

Please refer to annex 3 for an overview of the investment process.

8 Financial management, monitoring and learning

Financial reporting on the IFU Impact Ventures will be integrated into IFU's overall financial reporting to the Ministry of Foreign Affairs. The IFU Impact Ventures will also be integrated into the overall monitoring and coordination of Ministry of Foreign Affairs funded IFU projects, including quarterly meetings between Ministry of Foreign Affairs and IFU Management.

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. There would also be a dedicated section for reporting on IFU Impact Ventures in IFU´s annual report. In addition, there would be regular informal dialogue on IFU Impact Ventures with the responsible unit in the Ministry of Foreign Affairs as well as dialogue with relevant units in the ministry and among embassies with relevant activities.

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. This would also be the case for IFU Impact Venture investments.

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.

For IFU Impact Ventures, there would regular meetings in the Ventures team with the responsible Senior Vice President during the first 2 years to ensure that all lessons learned are applied in the investment process. There will be 2 annual team sessions on key issues, including lessons learned, where these would be documented. A

[28] 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.

[29] IFU´s Investment Committee consist of IFU´s CEO and Deputy CEO, IFU´s General Counsel, head of legal, head of sustainability and heads of IFU investment sector teams.

review is foreseen to be undertaken by Ministry of Foreign Affairs in the second quarter of 2025 to assess progress, identify critical issues and advise on improvements.

9 Risk management

The overriding and significant risk is that there would not be enough investment-ready projects and companies developed in emerging markets and developing economies over the coming years to help achieve the SDG and climate goals. This is a risk that is highlighted by the UN Convention on Climate Change and its expert panel (IPCC) among many others. This is the risk that this programme will be addressing and reducing within the possibilities available in the context of other Danish efforts at the international level to promote the achievement of the international climate goals at the political, technical, and financial level.

Underlying the above are the risk that there over time would be lower political support to provide risk willing capital for early-stage investments. This risks can be mitigated by ensure high quality in the execution of climate venture investments and communicating the challenges and achievements. Investing in climate ventures will not be sufficient. Climate venture investing would be more impactful if combined with policy and regulatory changes that enable climate investments. such as tax and tariff reforms that lower taxes of tariffs on climate friendly technologies for instance related to e-mobility, renewable energy (reducing subsidies for fossil fuels) or to sustainable agriculture. [30]

IFU has been slow in executing the project development programme. There is a risk that IFU will not be able to source climate venture opportunities and invest the full amount effectively. The setting up of a separate team with dedicated resources and target for climate venture investments and the development of network in the relevant markets and with international partners, will reduce this risk. IFU has over the last year given more priority to building a pipeline of investments as seen in annex 7.

There could also be a risk that IFU will not be able to attract high quality staff for IFU Impact Ventures. It is the assessment based on the ongoing recruitment process that there is a significant interest in these positions by qualified people.

10 Closure

IFU Impact Ventures is expected to continue after the 5-years period in which the earmarked contribution from MFA comes to an end. It is expected to be part of IFU´s overall investment strategy. Funding would hence be allocated from the IFU´s capital including any general capital contributions from the Danish state budget to IFU as envisaged in the work on the IFU reform.

With respect to the individual venture investments, these will be exited through sale of any shares (equity) or repayments of loans. Funds would be paid into IFU and become part of IFUs funding for future investments (ref also annex 3).

For each investment exited a final evaluation report would be presented. IFU has a process established for this. IFU will update its guidelines for the final evaluation with a view to better capture key lessons learned and document impact and financial return. This work would also include IFU Impact Venture investments.

[30] Such as tax and tariff reforms that lower taxes of tariffs on climate friendly technologies for instance related to e-mobility, renewable energy (reducing subsidies for fossil fuels) or to sustainable agriculture.

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[31] leaving a huge gap, most in low and lower-middle income countries.

Private finance is available, but as, e.g., IMF has found "…issues related to scaling up private sector finance … include … the lack of investment-ready projects." Institutional investors face difficulties in identifying investments in emerging markets and developing economiess that are relatively safe and liquid, and "this limits private sector exposures to only 12 to 15 investment-grade emerging markets and developing economiess leaving many other emerging markets and developing economiess without needed private sector climate funding."[32]

Risk is assessed to be too high to allow most private investors (for regulatory issues) 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 investments into project development/early-stage investment in emerging markets and developing economies. The calls are to provide capital to be used by DFIs for risk mitigation in blended instruments that can attract private investors at early stages. ODI finds that there is a "scarcity of private investors willing to take on early-stage risks in low-income countries, and limited use of subordinate instruments by DFIs, suggesting that blended finance may not be meeting the risk-mitigation needs of the private sector in challenging markets."[33]

Without a massive increase in development of investment-ready projects, there would be too few investment ready projects in the coming years for private capital to invest in; projects that are required to reach the climate (and SDG) goals.

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[31] 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.

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

[33]Attridge and Blended finance in poorest countries - the need for a better approach, ODI 2019

Development institutions that channel public resources to private sector projects face challenges related to absorption capacity and development finance saturation, particularly in low-income countries.[34]
In IFU, Denmark has an experienced impact investor in emerging markets and developing economies that has demonstrated it ability to invest profitably and with increasing focus on impact. IFU has successfully mobilised Danish institutional investors in various PE funds.

Through the project development programme, IFU has since 2016 gained experience in early-stage investing. 10 investments have been made, of which 6 are closed, 3 still in early stages and 1 (AfricaGreenCo) has reached growth stage, is in operation and attracted more than DKK 100m from investors.

project development programme has faced challenges in developing a portfolio of projects. Several lessons have been learned internally and through a mid-term review undertaken by Ministry of Foreign Affairs. Initial tying of investments to Danish companies and later the protracted COVID-19 period's impact limited the pipeline. The project development programme has since been untied. There has been a lack of a thematic or geographical focus. The focus will now be on climate. During the first years of the project development programme, IFU assessed projects as any other investment opportunity, which is not appropriate as early-stage investing require different screening tools and assessment processes. IFU has now developed a new project development programme-specific screening, investment process and legal documentation to appropriately consider the risk profile of early-stage investments. IFU has not been giving early-stage investment the required priority in terms of allocating human resources to work on executing the project development programme programme. Incentives in IFU has been towards larger facilities of IFU, including the SDG Fund, GFF and HRHI facilities. IFU would set up a small, dedicated team who would be responsible for the project development programme and implementation of the project development programme strategy, based on the experience with the Guarantee Team.

The review found that stakeholders confirmed a clear need for project development programme. Partner companies and sector stakeholders emphasised that companies have difficulties in finding risk sharing capital for project development and that the project development programme fills a gap in the market. IFU was, in general, perceived to be more involved, supportive, and proactive than other similar funds. Sector stakeholders consistently pointed to the shortage of bankable projects and need for innovative approaches.

2. Political economy and stakeholder analysis

Key stakeholders of the project development programme including institutions that invest in project development in emerging markets and developing economies such as PE Funds with a relevant mandate at international, regional and national level, development finance institutions in the markets who are capable of managing risk due to their closeness to the markets; institutions which are able to promote change in the regulatory environment which are needed to enable successful scaling of early-stage investments (such as ministries, associations, international development agencies/institutions, EU, embassies with relevant programme engagement etc.). It would also include international initiatives such as P4G and similar "incubators" of ideas that could turn into commercial oriented businesses in need of

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

early-stage investments. Companies, including Danish which have a commitment to engage and invest in emerging markets and developing economies would also be key stakeholders. At a more strategic level, the Danish Ministry of Foreign Affairs, and other Danish 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 Senior management	High Interest - High Influence	Keep engaged
Danish Ministry of Foreign Affairs Minister of Development	High Interest - High Influence	Keep engaged
Danish Ministry of Foreign Affairs Development Departments, excl. GDK	Low Interest - Medium Influence	Maintain interest
Danish Ministry of Foreign Affairs Trade Departments	Low Interest - Medium Influence	Maintain interest
Danish Ministry of Foreign Affairs Embassies with PDF projects and potential for pipeline	Medium-High Interest - Medium Influence	Engage
International platforms for early stage investments.	High interest – high influence	Engage
National based development finance institutions, platforms in countries with project development programme potential	High interest – high influence	Engage
Institutions able to positively affect relevant regulatory environment importing for project development project.	High interest – high influence	Engage
Companies, including Danish, with an interest in investing in project development investment with potential for scalability	High interest – high influence	E-ngage

3. Fragility, Conflict and Resilience

The project development programme is not expected to focus on countries in fragility or conflict. Pursuing investment opportunities in such countries would be considered for IFU´s investments into these countries, including the 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.

In assessing opportunities for investing in project development, IFU always assesses risks related to fragility and conflict as part of its due diligence following IFU standards for these[35] (reference to IFU sustainability policy).

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

IFU´s sustainability policy[36] 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).

It is not foreseen that there would be a particular focus on youth. However, it is envisaged that there would be a bias towards youth as most of the companies that would receive an investment would be innovative companies drawing on new technology and innovative models that youth would be expected to be more familiar with.

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.[37]

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
	Describe the assumed way they product / service is impacting / benefiting women?	
Investments through FI	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%

[35] This is done in line with IFU´s Sustainability Policy
[36] Sustainability Policy
[37] See https://www.2xchallenge.org/

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,[38] 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).

The investments of IFU Impact Ventures are expected to result in some of the companies being successful in becoming commercially viable and result in significant impact in terms of sustainable growth, climate change and environment and to live up to international environmental standards.

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

IFU would not expect to invest in publicly/state owned companies. It would however be likely that co-investors into ventures could be publicly/state owned companies/financial institutions/organisations. IFU always conduct 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.

The investments in early-stage businesses can be enabled by improved public sector capacity, including in terms of developing and implementing policies and regulations that enable more sustainable – climate impactful – investments.

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

The IFU Impact Ventures would help build pipeline for other IFU facilities, including IFU´s own investments (HRHI, green debt facilities and other IFU funding) and could also help develop investments for follow on funds to the SDG Equity Fund.

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 the venture investments.

Increased cooperation, including co-creation of investment initiatives with Danish partners is also expected (please refer to annex 6 with examples of the IFU pipeline). These could be Danish companies or civil society organisations working in a refugee context.

The relationship with other Danish supported programmes, such as development cooperation at the bilateral or multilateral level would also be pursued. This would for instance include furthering collabo-

[38] Sustainability Policy

ration with organisations such at the climate venture fund initiative in Kenya (related to the Climate Innovation Centre) supported by Denmark or with African Development Bank that are working to promote access to renewable energy through supporting new ventures. It would also include cooperation with Danish embassies with relevant Partnering with Denmark Programmes that help enable the green transition in countries such and India, Indonesia, Ethiopia, South Africa, Kenya.

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[39]	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

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

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?
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 by the Government in 1967. The legal basis for IFU is §9 in the Law for International Development Cooperation. The Ministry of Foreign Affairs manages the ownership of IFU on behalf of the State. The Minister for Development Cooperation and Global Climate Policy nominates the Board of Directors and its Chairperson. An ownership document lays out the rationale and principles for the state ownership of IFU. As the owner (and de facto sole shareholder), the Minister for Development Cooperation and Global Climate Policy meets annually with the Board's Chairperson, Deputy Chairperson, the CEO and the Deputy CEO to take stock of performance as presented in the annual report. The MFA is represented by an observer to the Board of Directors and participates in all board meetings. Senior management of Ministry of Foreign Affairs meets quarterly with senior management of IFU to discuss issues of common strategic interest. The ownership documents is under revision to further strengthen governance as part of work on the reform of IFU to become a more impactfull instrument for Danish development, climate and foreign policies.

IFU is regularly subject to assessment by the Ministry of Foreign Affairs and subject to audits from the Danish Auditor General.

IFU is audited annually by independent auditors. There has been no remarks from auditors to IFU´s accounts.

IFU´s policies and management and organisational capacities have been assessed thoroughly by the EU and IFU is approved by EU to manage EU funding.

Over the years, IFU has invested in more than 1,300 companies in more than 100 countries in Africa, Asia, Latin America and Eastern Europe.

According to IFU policies, all engagements must support the green transition and contribute to poverty alleviation and reduced inequality. IFU has a strong focus on safeguards and ESG requirements.

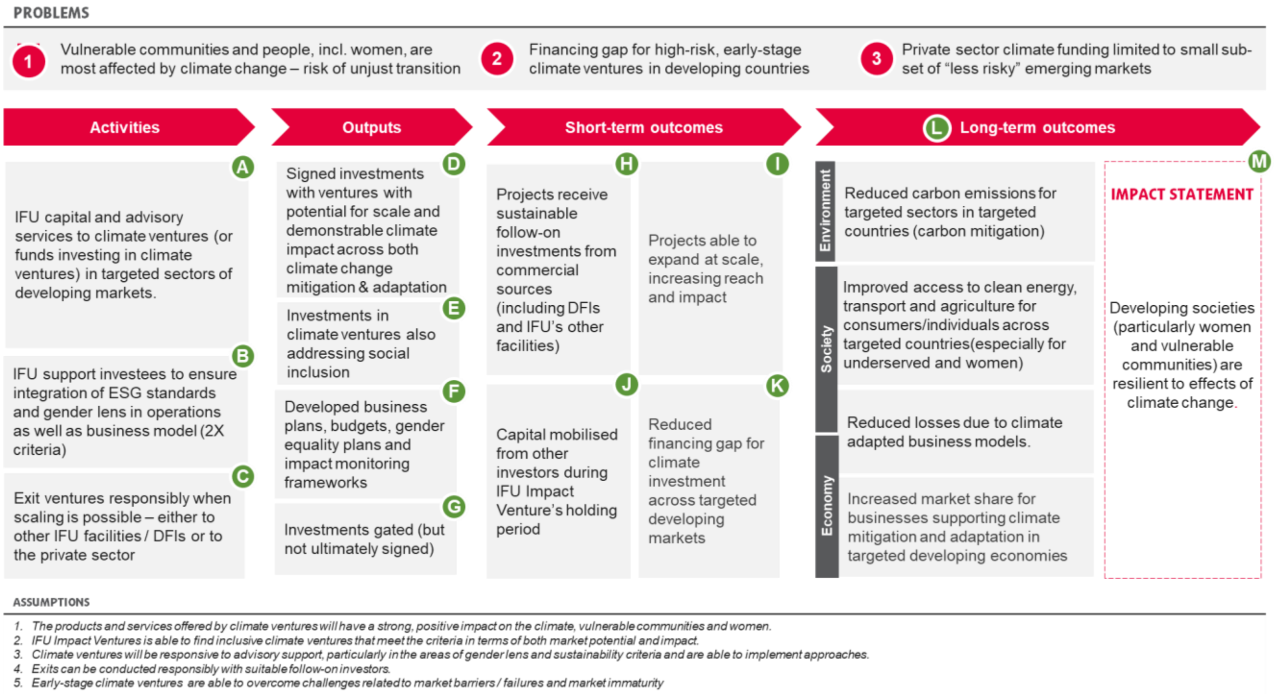
IFU offers risk capital and advice to companies that want to invest in commercial investment activities in developing countries. IFU has built up a strong experience with investments in developing countries including low-income countries, and IFU has the required capacity and networks to develop and implement the new instrument.

Annex 3 IFU Impact Ventures Investment process

Step	Description
Screening	• IFU's screening tool is used to ensure that the investment aligns with overall IFU impact focus areas • Focus is on confirming "green" impact – on the climate/environment • Societal impact (e.g. inequality reduction, local market development, gender equality) and job creation) is also considered – especially through the lens on how climate change mitigation / adaptation in the considered investment also can address these challenges • Given the early-stage focus, emphasis will be on the probability and scale of future impact – and the contribution IFU's investment would have to achieve such impact. • Additionality is also a key area for the investment as IFU's funding should go to ventures that have significant impact potential but are struggling to raise funding from other sources due to the perceived riskiness.
Gate 1 Paper	• The investment is presented using IFU's standard "Gate 1 Paper", used for all investments for the first-stage approval. • Focus of the gate paper is to present a compelling case around the impact and the potential for IFU's investment to mobilise private capital at a later stage. • Emphasis is also put on the attractiveness for future financing to the project by IFU managed facilities (essentially potential for "exiting" to an IFU facility). • The Gate 1 Paper is approved by IFU's VP Group, which consists of all the Vice Presidents as well as the CEO and Deputy CEO.
DD budget approval	• To reflect the smaller scale of the Impact Ventures investments, an approved Clearance in Principle from IFU's Investment Committee will not be required to get budget approval for due diligence. • Instead, two Senior Vice Presidents can jointly approve a budget of up to DKK 200,000 • The approval will be based on negotiated (but potentially still in draft stage) Heads of Terms (main terms and conditions, including IFU policy requirements regarding environment, social and governance, including anti-corruption) for the transaction, the Gate Paper previously presented as well as the uses for the DD budget
IFU Impact Ventures Paper & IC approval	• A new standard format for Investment Committee approval papers has been developed for the IFU Impact Ventures investments • It includes: Project description; development budget; development timeline; partner description; financial structure; DD outcomes; indicative financial analysis of the follow-on financing; potential impact; and indication of ESG works • The paper is discussed and approved by IFU's internal Investment Committee that is able to provide a binding approval, making the project ready for signing a final agreement • Having signed Heads of Terms is a prerequisite to present the project to the Investment Committee
Agreement	• The projects will generally be funded through signing a Convertible Loan Agreement, which will generally include: o Allowance for an exit if desired by IFU while still capturing the upside o Conversion rights to secure rights / shares in project o Securing potential discount for future rounds of investment

		◦ Secure upside, i.e. that IFU is getting a reasonable part of profit in return for taking high risk ◦ Simplified reporting (Impact, ESG; financial) requirements compared to IFU standard reflecting the early-stage characteristics of ventures • For construction funding, the Convertible Loan Agreement will be appended to also reflect IFU's standard terms for equity, but in a non-binding capacity • For projects where a Convertible Loan Agreement would not make sense (e.g. fund investments), suitable agreements will instead be signed
	Development & monitoring	• Financial reporting will be based on non-audited accounts, or initially spending accounts if the company is not yet incorporated • Progress reporting to two Senior Vice Presidents internally in IFU quarterly, as well as to Ministry of Foreign Affairs • Any changes to IFU committed capital to require Investment Committee approval • Changes to the agreements can be approved by the same two Senior Vice Presidents who approved the DD budget internally
	End	There are three potential ways the project can end: **1. IFU invests follow-on capital** • For the follow-on construction financing, IFU is treated as a any other buyer except it has a first right • The standard IFU investment processes will be followed (Gate1; CIP; BC) • The projects are eligible for any IFU managed funds. Should none of these want to take up the project, the project goes to a sales or liquidation process **2. IFU sells its stake in the project** • **Other investors continue project:** IFUs loan is never converted but is instead redeemed under the terms described in the CLA, including an upside element. • **All investors sell the project together:** Project is sold on whatever best market terms can be achieved **3. The projected is liquidated** • IFU exits by terminating loan • If relevant and preferred, any remaining values are divided between investors according to normal regulations.

Annex 4 Theory of Change and Results Framework



From problem to activities:

As presented in the introduction, developing countries, and especially vulnerable communities and people (including women) are in many ways to a greater extent exposed to the consequences of climate change. Initiatives that try to address the challenges of climate change in these regions are faced with a significant financing gap, as they are perceived by investors – including state-funded investors such as DFIs with explicit or implicit return expectations – to be too risky. The funding that does go to addressing climate change in developing markets tends to go to a small sub-set of countries that are considered more stable or investment-ready, but that are often not the regions where the need or the perils of climate change are the greatest.

From activities to outputs

IFU will through IFU Impact Ventures support early-stage climate ventures that either due to the business model or the geographical focus (or both) are facing difficulties with attracting funding. Alternatively, the facility will also be able to support funds that may be better positioned to reach relevant ventures (e.g. due to geographical presence) than IFU is able to directly. Through its active ownership approach, IFU will support the investees both to take the business model to the next stage, but also to establish a strong ESG and impact foundation in the company. IFU's capital and support will e.g. enable to investee to conduct feasibility testing, data gathering and further development of business plans. By being involved in the early stages of a company / project, IFU will transfer knowledge and channel capital to improve a new companies' standards (with the assumption that ODA-compliance is both good for the ESG issues, but equally important, will attract commercial capital later on).

Finally, when a company has reached a stage where it is mature and proven enough that it becomes attractive to more commercially minded investors, IFU will ensure that the investment is exited to an investor that is well-suited to support the company on its continued growth and impact journey.

From outputs to short-term outcomes

The key outputs would be the number of investments signed and the amount of capital allocated to the various focus sectors. As an intermediate output, the internal pipeline building in IFU will be tracked, including the number of proposals considered and the share that make it through IFU's investment process. A key factor will be to verify that IFU's funding is additional, i.e. that funding goes to investees that are expected to generate demonstrable impact but that are not able to raise funding from other sources. Another indirect output, which sits outside of the overall Theory of Change, is greater knowledge building internally in IFU around venture investments, which are likely to play an increasingly important role in the economy of developing countries.

In the shorter term, the main impact is that IFU's support will allow the investee companies to go from a more proof-of-concept stage (potentially pre-revenue) to a proven business model that can attract commercial capital. IFU's involvement in these companies may also serve as a positive, de-risking, signal to the wider market, to mobilise additional capital both for the investees but potentially also for similar ventures in other markets. This is then expected to allow the ventures to continue maturing and scaling, increasing their impact and reducing the financing gap for climate investments in developing markets.

From short-term outcomes to longer-term outcomes and impact

However, the more substantial outcomes lay further down the road, most likely long after IFU has exited the investments and the investees have been able to reach scale with commercial funding. Given the significant consequences posed by climate change, and the growth and potential in sectors addressing it (whether through mitigation or adaptation), the longer-term outcomes are both climate-related but also related to the economy and society as a whole. The ventures are expected to reduce or avoid emissions and reduce economical losses through more climate-adapted business models. Providing access to clean energy, transportation and agriculture in a sustainable manner will have wide-reaching positive effects, not least on underserved populations and women.

The ultimate impact is that supporting climate-focussed ventures (and enable them to get past a stage where funding is difficult to procure) will create climate-resilient societies in developing countries.

Programme level results framework:

Programme Title		**IFU Impact Ventures**	
Programme Objective		**Investment-ready projects developed that address climate and sustainable development needs which has mobilised IFU and/or other DFIs and/or private follow-on investment.**	
Impact indictors			
Baseline and targets			
Outcome 1		**Investment-ready/scalable climate projects developed attracting commercial private, IFU and/or other DFIs follow-on investment.**	
Outcome indicator 1.1		**Number of projects that have raised additional equity funding (cumulative)**	
Baseline	Year	2023	1 project
Target	Year	2028	10 projects (include ventures in platforms IFU invest in)
Outcome indicator 1.2		Number of projects reporting increase in business activity (e.g. increased turnover)	
Baseline	Year	2023	N/A
Target	Year	2028	15

Outcome indicator 1.3		Number of projects that have leveraged equity and raised external debt funding	
Baseline	Year	2023	1
Target	Year	2028	10
Outcome indicator 1.4		Number of projects exited profitably (incl. to IFU facilities)	
Baseline	Year	2023	N/A
Target	Year	2028	4
Outcome 2		Social impact achievable from investing in early-stage climate ventures	
Outcome indicator 2.1		Number of projects directly addressing social outcomes (e.g. access to electricity) in addition to climate / environmental impact	
Baseline	2023	0	
Target	2028	Minimum 10	
Outcome indicator 2.2		Percentage of projects meeting 2X criteria for gender lens investments[40]	
Baseline	2023	0	
Target	2028	30%	
Outcome indicator 2.3		Number of direct jobs created in climate ventures	
Baseline	2023	0[41]	
Target	2028	140 (TBD)[42]	

Output 1		Investments made in climate ventures.	
Output indicator		a. Number of projects signed (cumulative)	
Target	2024	a.	4
Target	2026	a.	10
Target	2028	a.	20
Output 2		Investments with a social inclusion impact in addition to climate objective	
Output indicator		a. Number of other projects signed (cumulative)	
Target	2024	a.	2
Target	2026	a.	5
Target	2028	a.	10
Output 3		Investments with a gender equality plan for achieving 2x	
Output indicator		b. Percentage of projects	
Target	2024	b.	30%
Target	2026	b.	40%
Target	2028	b.	50%

[40] Based on IFU experience. IFU has a target of 40% in all investments. In general women are severely underrepresented in ventures – hence the ambitions of 30% for IFU Impact Ventures. Please refer to annex 1.4 for definition of the 2X challenge.
[41] Baseline for IFU Impact Ventures.
[42] Direct employment created in the venture from IFU Impact Venture investments till exit.

Output 4		Number of projects with a business plan and budget	
Output indicator		Number of projects (cumulative)	
Target	2024	4	
Target	2026	10	
Target	2028	20	
Output 5		Number of projects gated	
Output indicator		Number of projects gated (cumulative)	
Target	2024	7	
Target	2026	13	
Target	2028	25	

Annex 5 Risk Management

The overriding risk is that there would not be enough investment-ready projects and companies developed in emerging markets and developing economies to help achieve the SDG and climate goals.

Contextual risks					
Risk Factor	**Likelihood**	**Impact**	**Risk response if applicable**	**Residual risk**	**Background to assessment**
That the political priority towards climate and/or early-stage interventions would reduce.	Small	Big	Focus on quality in implementation of IFU Impact Ventures and communication of results.	Small	Unlikely in view of the ever increasing focus on green and climate transition.
To slow or no policy and regulatory changes in emerging economies and emerging markets needed to enable venture investing succeed in developing investment-ready projects/companies	Medium	Big	Work with partners such as Danish Embassies, international and local stakeholders in pursuit of reforms that enable investments for green and social transition.	Medium	Many low and lower-middle income countries face debt and other macroeconomic challenges because of the impact of Covid-19, the Ukraine war and steep increasing interest rates. Remedial policies are needed, and this could increase the likelihood of enabling reforms. It could also lead to increased levels of political and governance crises.

Programmatic Risks					
Risk Factor	**Likelihood**	**Impact**	**Risk response**	**Residual risks**	**Background to assessment**
Not enough demand for early-stage investment finance	Small	Large	Developing stronger network at local level with relevant partner, incubators (including those supported by Danida) and co-investors as well at international level with initiatives such as P4G, Dutch Fund for Climate and Development.	Small	Evidence shows that there are multitude of promotors who are looking for early-stage finance (e.g., IEA, Convergence, World Bank, P4G, Kenya Climate Venture etc.). The lack of funding available for early-stage investment may in itself limit the demand for such finance.

Institutional Risks					
Risk Factor	**Likelihood**	**Impact**	**Risk response**	**Residual risk**	**Background to assessment**
That IFU does not give sufficient priority to early-stage development, but prioritizes other facilities such as SDG Fund investments.	Medium	Large	IFU board has approved the strategic outline of IFU Ventures and the setting up of a specialised team, IFU Impact Ventures Team. Active ownership with regular consultations between IFU and Ministry of Foreign Affairs	Small	

Annex 6 Lessons Learned in Project Development Programme

General lessons learned by IFU since 2016 include:

- Project Development Programme is more human resource intensive per invested amount. These resources are scarce and have not been sufficiently allocated – tendency to prioritise larger deals.
- Project Development Programme require specific competences not available/deployed/developed to the degree needed.
- No dedicated Project Development Programme team with responsibility for meeting budgets – getting investments done.
- The initial tying of Project Development Programme to Danish investors.
- The ticket size limitation initially.
- The cumbersome approval process, basically as for other IFU investments – now changed.
- That IFU was not considering investments in venture/early-stage funds.
- Little top management attention and limited adaptive management
- Lack of strategic approach, more a trial and error without coherent learning approach. The sectorial/thematic scope too broad, not focused.
- Reactive approach vs. proactive and pipeline building.
- Project Development Programme design with no explicit requirements for focusing on human rights, gender equality, inequality, etc. – therefore no reporting on these issues.
- Limited progress reporting against programme indicators and targets.

Lessons learned from individual projects

AfricaGreenCo (PID: 16426) - Project Development Programme project

Commitment USD	Disbursed	Closed/Active	Valuation, End 2022	Country	Sector
1 m USD	1 m USD	Active	At par	Southern African countries (Zambia, DRC, RSA, Zimbabwe, Mozambique, Namibia)	Green Energy

Lessons learned specific to the project

1) Backing the right team is key and in GreenCo, IFU essentially is backing the team, given the innovative business model.
2) Deployment of Project Development Programme needs to match adequate quantitative commitment of the founders of the project (ensuring they have skin in the game)
    a. For example, for GreenCo we did this by having them temporarily taking a pay cut on their salaries to ensure they were committed to working on the key deliverables
3) Once approved deployment of Project Development Programme needs to be at the discretion of the IFU IC and the team based on the fluidity of the business case (to allow for variations in disbursement milestones)

4) Adequate to have Project Development Programme partnered with likeminded partners for example InfraCo to allow other "Project Development Programme" like funds to address activities (early stage ventures have many other moving parts that require patient capital)

GreenCo provides an opportunity to not only support increased renewable generation but also to support the development of the national and regional power markets and to unburden host governments from increasing demands for sovereign support. It also provides flexibility to react to future market developments, such as battery storage as discussed below and to the requirements of the system (such as ancillary services). It is recognised that GreenCo will only be part of the solution and needs to work with other stakeholders in the power sector. However, GreenCo provides an alternative solution to the more piecemeal model of supporting individual IPPs one at a time and will complement existing activities.

Project Development Programme facility stepped in at a time when necessary regulatory reform was achieved and therefore the Project Development Programme facility would assist in working capital as the GreenCo team worked with the utility ZESCO, the Energy Regulatory Board (ERB) and Southern African Power Pool (SAPP) to finalize on the terms of their agreements, license and membership respectively. The funding proved necessary in light of the negative effects of COVID and the exit of the Zambian DFI IDC (exited due to effect of covid on their funding). Measuring the development aspects of every impact will be a challenge. The developmental benefits from increasing the supply of energy generated from renewables is well documented, but so are the difficulties of apportioning certain benefits that accrue, such as indirect job creation, and the ability to attribute development impact between different entities that support the same project. Measuring the market impact discussed below will be even more challenging, particularly to agree a methodology for measuring and reporting.

Portfolio Development Impact

The anticipated key metrics for the Second Close Portfolio of 110MW are summarised in the table below, as is the impact of adding an additional 10MW that very roughly equates to each USD 1m of further investment to support the LB, and based on methodologies used by others in the market.

MW Built	Commercial Capital Mobilised (USDm)	Leverage effect of donor capital	New connections facilitated	Total Jobs (Direct and Indirect)	CO2 avoided (tCO2e)
Second Close 110MW	24.15	0.4x	110,130	9,597	4.3m
Each additional 10MW	242.4	3.8x	520,616	70,676	24.0m

Market Development Impact

GreenCo has already impacted certain market developments through its activities The initiative to open up the regional and country specific electricity markets to further, and wider, private sector involvement, is driven by a number of political imperatives that GreenCo's operations have helped to support. GreenCo has acted as a pathfinder for others to follow by:

- helping to shape the laws and regulations covering the open access market rules in Zambia, Namibia and SA, in particular from the view point as an intermediary/trader
- drafting and negotiating fees and agreements with host utilities to cover use of systems and systems operations, that will become template agreements for others in the market
- demonstrating that the trading of power is possible in Zambia by doing so on behalf of an existing hydro IPP. This trading was so successful that the IPP is now started to trade on its own behalf (which it could relatively easily do as it was already a member of the Southern African Power Pool (**SAPP**).
- agreeing the first commercial PPA with a trader in South Africa and finalising similar PPAs in other jurisdictions. As the host utility will no longer need to underwrite the financials for such IPPs, the financial obligations on the host utility and host government are significantly reduced

The principal quantifiable market-level impacts of GreenCo's business model can be summarised as follows:

- ***Impact 1: Avoided Sovereign Guarantees***

By establishing a creditworthy offtaker with the ability to diversify risk across a number of purchasers, GreenCo introduces stability into a system currently defined by high risk. This risk currently raises costs throughout the system: higher financing costs for IPPs leads to higher tariffs, which in turn dampen the growth prospects for the entire region. Mitigation is currently being achieved via sovereign guarantees covering the host utility's payment obligations – an unsustainable position for many countries – and usually backed in turn by multilateral guarantees of the sovereign.
In markets where GreenCo acts an independent offtaker, the requirement for sovereign guarantees is reduced or removed. For example, GreenCo's modelling, subject to external review, shows that a 25MWac solar PV IPP asset - reflective of the Pilot Project in Zambia - would impose an USD 34m contingent liability on the sovereign if backed by a sovereign guarantee.

- ***Impact 2: Avoided Capex via regional integration***

By contributing to the growth of regional power trade and SAPP integration, GreenCo is leveraging access to multiple supply and demand centres to lower the requirement for reserve capacity and peaking plants. The avoided cost of this generation infrastructure is a SAPP-wide impact. Public savings in particular can be redirected to support the delivery of other critical public services and infrastructure.

- ***Impact 3: Savings via power-market price efficiency***

Reserve capacity and peaking plants are typically sources of more expensive electricity. By evolving and improving the liquidity of the regional power market, GreenCo enables consumers to have better access to the cheapest source of power from across the region, delivering further savings.

Azur Waste to Energy (PID: 16561) - Project Development Programme project

Commitment DKK	Disbursed	Closed/Active	Valuation, End 2022	Country	Sector
10,000,000	7,632,008	Active	N/A	Thailand	Waste

Results

- *Total finance mobilised in the investment:* c. 70,000,000 DKK
- *Total expected investments following-up on Project Development Programme investment (if any):* c. 400,000,000

Short summary

Purpose of the company is to develop two separate waste-to-energy projects in Northern Thailand. Status is currently that the projects will soon be ready to bid for waste concession tenders.

Financial results/expected results: The ambition is that the projects will deliver commercial level returns.

Impact results and/or expected results: Burning waste instead of landfilling this has a number of benefits incl. reduction of GHG emissions, reduced pollution and improvement to the lives of those who live within close proximity to waste sites. IFU still hopes that the projects will still be realized by the current financiers (IFU and CFM) but are also considering divesting one or both projects, in either case making impact.

Lessons learned specific to the project

- The partners originally responsible for driving the development process turned out to be less qualified than originally assessed, leading to financial sponsors having to take over the project management.
- The development of greenfield waste to energy projects in Thailand, a nascent sector, has turned out to be more complicated and involve more stakeholders, leading to longer development timelines and additional development budget.

Falck Serbia (PID 17775) - Project Development Programme project

Commitment DKK	Disbursed	Closed/Active	Valuation, End 2022	Country	Sector
4.3m	0	Active	n.a.	Serbia	Healthcare

Results

- *Total expected finance mobilised in the investment:* Estimated at EUR 60-90m
- *Total investments following-up on Project Development Programme investment (if any):* n.a.

Short summary

Purpose of the company is to deliver state-of-the-art emergency medical services to the whole of Serbia through a PPP setup, with Falck, IFU and the Serbian state being shareholders. Status is that Falck is continuing lengthy discussions with Serbia on the scope and cost of the deliverables as well as the length of the PPP contract.

Financial results/expected results: n.a. (not known yet)
Impact results and/or expected results: Improved access to quality healthcare for the Serbian population through speedy and professional emergency medical services, standardised throughout the country.

Lessons learned specific to the project

The project has taken a lot longer to materialise than expected. This due to regulatory approval processes in Serbia and lack of transparency in their current setup. The project has full support of the Serbian president but needs multiple parliamentary and ministerial approvals.

CerCa A/S (PID: 15222) - Project Development Programme project

Commitment DKK	Disbursed	Closed/Active	Valuation, End 2022	Country	Sector
2.4m	2.3m	Active	0	Cuba	SFS

Results
Studies and investigations have been going on. The objective has been to:

- Understanding the operational conditions in Cuba. Good knowledge at this field has been gathered.
- Get the possibility to test the potential partners in Cuba. The project has still a high priority among the Cuban partners.
- Investigate the security on the supply and prices on the main input to the pig production. Investigations have been made and security on supply is a challenge.
- Follow the changes and reforms ongoing in Cuba. Close contact and information has been achieved from the Cuban embassy.
- Retain the position of Cerca in Cuba. There is still a good position in the official system in Cuba and the project has a possible first-over position if the conditions will improve in the future.

Short summary
Cerca A/S is established as a Project Development Programme project to investigate possibilities to establish pig production in Cuba. Investment is done together with CubAgro - a group of experienced Danish farmers.

Investments: The initial capital in the company is mobilized from CubAgro, owned by a group of Danish Farmers, who has invested DKK 2.5m together with 2.4m from IFU Project Development Programme facility. The project is still in the development phase and no further investment has been done.

Strategy: Cerca A/S was established with focus on establishing pig production in Cuba. Options have been investigated; however, business has so far not been feasible – mainly due to uncertainty of currency, feed supply (import) and feed prices. The shareholders are therefore currently changing focus to maize production for local human consumption.
The partners have identified a Danish businessman in Cuba – who has a very strong profile and position in Cuba. He has a 51% ownership in a Cuban company which has been running a pilot project on maize production in a joint concept with local farmers. The investment is to build on the experience of this pilot.

The project will give Cerca on-ground business experience in Cuba and enables huge opportunities for scaling up business in the future. First harvest is planned to 100 ha. growing to 2000 ha in 2025. Growth can be much accelerated if model works successfully.

Due to above, it has been decided to continue during 2023 and on to the general meeting in May 2024 to pursue possibilities based on adjusted model.

Lessons learned specific to the project
The Project Development Programme facility has made it possible for the Danish investor group (CubAgro) to investigate the possibilities to establish pig production in Cuba. It is our assumption that this would not have been possible without the support from IFU Project Development Programme facility.

CubAgro has been a strong partner with a good resources and contacts to do the investigation. Thus, the time consumption for IFU in this matter has been limited. However, if IFU would have been able to spend more resources on the project, the results would possible have been improved. A more intensive participation from a dedicated IFU team – with experience in project development would have strengthen the project significantly.

Due to local conditions in Cuba, the actual investment has still not materialized. However, the project is still ongoing and the attempts to implement the project will go on for at least the next 12 months

DLG Pilot (F1103-0/15671) - Project Development Programme project

Commitment DKK	Disbursed	Closed/Active	Valuation, End 2022	Country	Sector
266,667	94,573	Closed	-	India	Agri / Mineral feed for dairy cattle

Results
Total finance mobilised in the investment:

Financing (DKK)	Share capital	Loan	Total	%
IFU	266,667	0	266,667	33.33%
DLG	266,667	0	266,667	33.33%
Prabhat owners	266,667	0	266,667	33.33%
Total	**800.000**	**0**	**800.000**	**100%**

Total investments following-up on Project Development Programme investment (if any): 0 (none)

Short summary
IFU had been encouraging DLG to consider India as a next opportunity following their establishment in China. IFU also introduced DLG to various relevant stakeholders, including Prabhat, a dairy company operating in Western India. DLG assessed them to be a suitable potential local partner for their set up in India. DLG and IFU agreed to mandate Teknova, a local consulting firm, to carry out an extensive market research, based on the results of which further steps could be planned. The results of this research pointed towards the need for a pilot project entailing the testing of DLG's vitamin and mineral premixes for use in animal feed in India, focussing primarily on the dairy cattle segment. If successful, the plan entailed the establishment of joint venture with between DLG, IFU and the owners of Prabhat regarding the distribution and potentially production at a later stage of vitamin and mineral premixes for the Indian market, each owning 33%.

IFU only disbursed 94,573 DKK of its commitment, which was used to pay IFU's share of the market survey done by Teknova. No further costs were actually incurred as the individual cost incurred for the pilot project was paid by the partners DLG and Prabhat, and the products used during the trial was paid for by the farmers. As part of the pilot project, a trial was performed to test the effects of mineral premix on animal health and milk production in Indian climatic conditions. The trial was performed on 136 farms including 1043 animals. Production parameters were recorded on individual cow level. The trial was designed as a before/after trial, measuring a cattle population's performance before and after feeding on DLG's premix product. The trial ran from January 2019 to April 2019.

The trial was influenced negatively by a number of exogenous factors:

- A severe drought during the trial period led farmers to compromise on the quality and quantity of feed.
- Scarcity and deteriorated quality of drinking water reduced the water intake of cattle.
- Severe heat distress (up to 42 0C in milksheds) affected the performance of cattle.

These factors led Prabhat to abandon the trial at the end of April 2019. Further, the trial design did not include a control group allowing to accurately measure improvements in cattle performance a result of applying DLG's premix vs. a comparable, untreated cattle population.

All the above-mentioned factors combined resulted in the collected data having limited analytical value. In addition, collaboration with Prabhat did not develop as expected.

- Communication from Prabhat was inadequate and the agreed reporting intervals regarding the collection of data were not satisfied.
- During the trial period, Prabhat lost interest in the project, which may have been due to changes to the company's ownership structure being completed at the time.

The Joint Development Agreement governing the cooperation between the parties expired in May 2019 and there has been no correspondence between IFU/DLG and Prabhat since then.
DLG has repeatedly noted their continued interest in India and working with IFU again. IFU will explore opportunities in this regard as they arise.

Financial results/expected results: Fully written off, i.e. loss of 94,573 DKK
Impact results and/or expected results: N/A

Lessons learned specific to the project

- Quality of partners key for success. Neither DLG nor Prabhat had the sufficient capabilities and experience
- Hands-on management of Project Development Programme funded projects – IFU relied on Prabhat and DLG to manage trial. A third party consultancy would perhaps have implemented higher degree of discipline and scientific methodology, providing better output.

C2SI (PID 15172) – Project Development Programme project

Commitment DKK	Disbursed	Closed/Active	Valuation, End 2022	Country	Sector
3.200.000	3.200.000	Closed	0	Guatamala	Biomass

Results

- *Total finance mobilised in the investment:* IFU invested alongside Semco Maritime A/S, based in Esbjerg and a subsidiary of C.V. Obel. Semco invested approximately DKK 25m in the project development
- *Total investments following-up on Project Development Programme investment (if any):* None

Short summary

The purpose of the project was to develop 3 x 2MW biomass facilities in very remote areas of Guatemala. The main promoter, Semco Maritime A/S, had (and still has) a subsidiary in Guatemala with experience in the biomass space.

Lessons learned specific to the project

- Project finance (total capex was DKK 150m), was not available in Guatemala to a biomass project. Banks were concerned with the energy off-take agreement (public utility PPA) and the biomass fuel availability – no long-term contracts available.
- To some extent the project faced lack of local support and regulatory issues.

Based on the above it was decided to close the project.

Anji Salmon Farm (PID 15569) - Project Development Programme project

Commitment DKK	Disbursed	Closed/Active	Valuation, End 2022	Country	Sector
1.300.000	1.300.000	Closed	0	China	Aquaculture

Results

- *Total finance mobilised in the investment*: IFU invested alongside Assentoft A/S, Randers, in a 50/50 partnership. Total investment DKK 2,6m.
- *Total investments following-up on Project Development Programme investment (if any):* None.

Short summary

The plan was to establish a 1.000 tons capacity land-based salmon farm using RAS2000 technology (re-circulating water resources). The technology provider was Assentoft A/S who has experience from similar projects in OECD countries. China was chosen as project country due to the increased demand of high-quality salmon. Due to lack of management support from the Danish partner and a local partner unable to obtain the needed local licenses, it was decided to close the project.

Lessons learned specific to the project

Lack of management support from the Danish partner and a local partner in China without the required experience. The RAS2000 technology in China was (and still is) unproven which caused resistance from the local community, which didn't grant the needed permits.

COOP (PID 15516) - Project Development Programme project

Commitment DKK	Disbursed	Closed/Active	Valuation, End 2022	Country	Sector
300.000	300.000	Closed	0	Kenya	Organic Coffee

Results

- *Total finance mobilised in the investment:* IFU invested alongside COOP Denmark. COOP invested DKK 300.000. Total investment; DKK 600.000.
- *Total investments following-up on Project Development Programme investment (if any):* None

Short summary
Based on the experience with COOP, in Feb-2017 IFU gave a BC to participate in a project development company with COOP with the goal of developing one or several business plans for agri-processing operations in Africa – focus on chocolate and avocado. IFU was to finance 50% of the cost up to DKK 5m.

COOP decided not to pursue a broader strategy in the agri-space in Africa and the only cost within the project was a concept review made by Dalberg. Instead, COOP decided to focus on African Coffee Roasters (coffee roasting in Nairobi). COOP and IFU did split the Dalberg cost of DKK 600.000.

Lessons learned specific to the project
COOP decided to focus on ACR and not to pursue a broader strategy in the agri-space in Africa. Lack of experience and management competences was the key concern for COOP.

Benpower (PID 15356) - Project Development Programme project

Commitment DKK	Disbursed	Closed/Active	Valuation, End 2022	Country	Sector
5.0m	1.0m	Closed	0	Benin	Power – IPP Infrastructure

Results

- *Total finance mobilised in the investment:* A total of DKK 50m was committed by the investment consortium (incl BWSC A/S as Danish partner) to cover development costs (DKK 30m) and a bid bond (DKK 20m). Of this IFU contributed 10% equal to DKK 5m
- *Total investments following-up on PDP investment (if any):* Total forecasted CAPEX for the project of EUR 170m (DKK 1.27b) was not incurred as the project did not materialise.

Short summary

- Following a competitive tender by the Government of Benin (GoB) in 2016, the Consortium was awarded the contract to build, own, operate and transfer a 120mw dual fuel power plant in Cotonou, Benin.
- Following a protracted development process including the withdrawal of the Danish partner following a whistleblower case and a decision of GoB to conduct a new tender, IFU decided to withdraw from the project in Q2 2022 as a consequence of our new climate policy.
- Later in 2020 GoB decided to abort the project due to power sector considerations.

Lessons learned specific to the project

On a positive note, IFU's early stage participation with PDP development risk capital and support externally was helpful for the consortium to produce a bid and generally progress the project as a professional partner to the GoB and to be awarded the IPP concession. It was also positive that IFU in the process gained valuable experience in a relatively new field, not least with respect to an active engagement in the whole development phase of an infrastructure project in an LDC.

On the negative side, the main learning was about the inherent risks associated with complex, multi-year infra projects having a strategic value for the host country with little experience in promoting and managing projects like this. This resulted in delays due to GoB change of position and re-negotiations of key aspects like tariffs and taxation and eventually to abort the project. On the partnership side an unforeseeable whistleblower case turned up and made the DP a liability for the project and consortium.

Finally, the project has provided valuable knowledge around how IFU optimally can continue to deploy PDP capital to projects in the development phase while seeking to define a less labour intensive role in the development consortium.

Annex 7 IFU Impact Venture Pipeline

Venture fund initiatives with Danish origin

Name	**DRC (Dansk Flygtningehjælp)**
Geography	Uganda and Jordan
Sector	Financial inclusion of refugee communities. Agnostic in terms of business
Headline	Refugee Investment Facility (RIF) https://www.refugeeinvestmentfacility.net/
Summary	The RIF seeks to address the challenges of unemployment, lack of economic opportunity and limited access to services and goods that are faced by refugees and their host communities. The impact-linked loans provided through the RIF will allow the enterprises to maintain or build their focus on refugee and host community populations, grow their businesses, and be financially rewarded through interest rate reductions for direct and measurable impacts they have on the refugee and host communities they are serving. The RIF invests along four impact themes: - increasing the employability of displacement affected populations; - increasing decent employment for displacement affected populations; - improving financial inclusion of displacement affected populations; - increasing access to relevant products and services for displacement affected populations.
Investment	Initial fundraising (grants and soft loans) of USD 5-6m Ticket size: USD 100K-750K Loan tenor: 3 to 5 years
Impact	Contribute to long-term improvements in quality of life for refugees and host communities through making investments in companies or social enterprises with activities in Jordan and Uganda that address critical impact gaps. Specifically, the RIF Portfolio will employ a strategy to support refugees, other displaced persons and their host communities (as detailed below) by: (1) building relevant capacities (2) fostering decent work opportunities (3) promoting financial inclusion, and (4) supporting access to critical goods and services
Partner key risks	Key partner has limited experience in investment fund management.

Name	PlanBørnefonden
Geography	Ethiopia
Sector	Value chain of service providers in the humanitarian context in Ethiopia in the sectors of WASH, Health, Food and Energy using innovative finance to facilitate access to capital for suppliers who can deliver innovative products or services that are gender responsive.
Headline	Blended Finance Facility (BFF)
Summary	PlanBørnefonden propose setting up a Blended Finance Facility (BFF), using concessional funding (CF) from the ECHO-grant , together with private sector capital on a market return basis (PSC). As service providers in humanitarian contexts, the BFF will offer loans to companies that provide goods or services to people with humanitarian needs, in the following sectors: WASH , Health, Energy, Food. The companies receiving the loans will have to deliver services or goods that represents an improvement either in quality or price, in relation to the existing goods or services. The proportion between concessional funding and private sector capital will depend on how many of the gender indicators are met, so the final rate of the loan to be provided to the investee will ultimately depend on the impact performance. Purchaser (off taker) of the goods and services on behalf of the beneficiaries to ensure revenue to repay the loans, while avoiding additional financial burden on final beneficiaries with humanitarian needs. Big players like NGOs and aid agencies can play the role by buying these innovative products and services that will represent and improvement on the quality of life of their beneficiaries, while reducing the demand risk.
Investment	Fund is already established. Scope is being developed: - Grant from ECHO 1.5m usd (600k for investment, 900 to run the fund) - PlanBørnefonden 700, ECHO Grant 600, IFU 700 - total 2m EUR - 50 fund investments - Setup with local partner
Impact	Gender lens investing, the BFF will combine the CF and PSC according to impact indicators related to gender: - Women employees - Women in management - Products or services for women - Innovation that benefits disproportionally women.
Partner key risks	Key partner has limited experience in investment fund management.

Name	**Techvelopment Denmark** ***(association of Danish tech start-ups and business angels)***
Geography	Low- and middle-income countries
Sector	Agnostic – focus on tech
Headline	Set up a fund to be the hub as well as the catalyst for Nordic start-ups and over time also be an anchor for start-ups in Africa and elsewhere that want to partner with players in the Nordic region.
Summary	The idea is to set up a dedicated tech fund with Nordic roots with a focus on start-ups that: - Addresses an important global human or environmental issue. - Has a novel business model that can unlock a market opportunity. - A very solid founder and/or execution team that has the drive to build the business for at least the first 5 years. - Need exactly the type of specialist global incubation services that this fund offers to take-off. *Two models being explored:* - Deal-by-deal structure (interim): An interim deal-by-deal structure to get things initiated before stucturing a dedicated fund. Access to DKK 100m through 3-5 institutional and private investors to be deployed over 2-3 years. Could possibly be a mix of equity, mezzanine and debt. - Dedicated fund: A dedicated fund, but not deployed at full scale immediately The ambition is that the management team ultimately run a commercially variable fund, which means approximately Euro 100m Asset under Management. The initial target for this first fund is 100m DKK.
Investment	Investment sizes are between DKK 1 million (yearly start-ups) to 30 million for international expansion. Most investments are in the 5-10 million range.
Impact	To grow impactful solutions that are operating in markets with larger resource and capital constraints than in the Nordics.
Partner key risks	Not sufficient base for sourcing pipeline among Danish companies.

Name	Kenya Climate Ventures Limited
Geography	Kenya (EA expansion under consideration)
Target sector	Renewable Energy, Agribusiness, Commercial Forestry, Waste Management, and Water Management to include Commercial Forestry.
Summary	*Introduction:* Kenya Climate Ventures Limited (KCV), founded in 2016 by seed capital by Danida an UKAID. To date they have provided concessional risk capital in the form of debt, convertible debt, or equity to help plug the gap in climate financing. They have invested $4m in 18 early-stage businesses, achieved 4 successful exits, re-financed 3 portfolio enterprises of which 47% of portfolio is women owned enter-prises. *Going forward:* KCV has hired a consultant to help with the establishment of a fund with a target US$ 15-20 million first close. This will be an open-ended fund that will provide risk capital to over 40 enterprises. KCV aims to de - risk climate smart early growth stage enterprises to gain market traction, sustain business growth, market sta-bility & sustainable impact. *Technical Assistance Facility (TAF):* 10-20% of KCV's fundraise to be earmarked for a dedicated TAF to be managed by KCV/ External consultants. TAF co-financing ra-tio: 50:50 ratio for Fund investees. Uses of the fund will include: - Business Development Services: General support for business planning and accounting, specialized TA for management information systems and legal support, and identification of partnerships and distribution options for prod-ucts, reporting requirements. - ESG & Impact Measurement: Building out environmental, social, and gov-ernance (ESG) or impact measurement practices.
Impact	*Impact Targets by 2025/26:* - Assist portfolio businesses to mobilize additional funding of $20 million. - Cumulative CO_2 reduction by 1 million tons. - Cumulative renewable generation of 23.40MW. - 320,000 cumulative individual beneficiaries. - 8,400 new jobs created.

Name	CAIF –Climate Action Investment Fund
Geography	The geographic focus would prioritise markets where P4G is operating a national platform (Colombia, South Africa, Kenya, Ethiopia, Vietnam, Indonesia), but also be open to other developing markets.
Summary	In 2018, the governments of Denmark, the Netherlands, and South Korea, set up the organisation P4G ("Partnering for Green Growth and the Global Goals 2030") to catalyse political awareness and commitment in partner developing countries and particularly advise and provide catalytic grant funding to partnerships working on business model with potential to speed and scale up climate investments. IFU is considering partnering up with the organisation to establish an early-stage blended fund (the Climate Action Investment Fund, or CAIF) to invest in innovative, green companies at an early-stage – primarily ones with which P4G already partners. The fund is targeting a USD 50m first close supported by an EFSD+ first loss guarantee, ODA funding, as well as DFI funding. The fund has applied for an EFSD+ first-loss guarantee to cover a minimum EUR 20m and up to EUR 50m which was presented to the Technical Assessment Meeting in the European Commission, where FMO supported the initiative. The European Commission has endorsed the project for approval at the EFSD+ TAM Board meeting on 15-16 December 2022. The fund will invest in minority stakes in pre-revenue climate-focussed ventures that are innovative, transformative and with catalytic impact All investments will have a clear climate impact focus across five different themes: clean energy transition, zero waste industry, resilient agricultural value chain, sustainable land use, and climate-resilient water management. The fund will hold and support the investment during a period of 3 to 5 years, after which it will aim to exit primarily to DFIs – including IFU and other DFI LPs in the fund, thereby acting as an accelerator or incubator for DFI climate investments
Impact	*Project impact:* - Supporting innovative climate solutions by leveraging IFU know-how and processes - Providing catalytic DFI capital to mitigate early-stage development risk and to crowd-in private investments (according to a Dalberg study, less than 4% of DFI catalytic capital is directed towards early-stage risk) - Addressing climate change through both mitigation and adaptation with SDG 13 Climate Action as the underpinning goal - Providing replicable models for building capacity to scale climate finance in support of the Paris Agreement goals; - Expanding the capacity to achieve established climate goals working through local stakeholders; - Supporting women-led enterprises (at least 50% of investments targeted to be 2X gender-lens compliant)

Name	Agroforestry Project in Colombia
Geography	Colombia – Guaviare and meta
Project type	Agroforestry / Afforestation with selective harvesting

<table>
<tr><td>Summary</td><td><u>Description:</u>
IFU has been invited to co-investment together with FMO (Dutch development bank) in a Phase 1 rollout of replanting native forest as well as acai palms in the southern part of Colombia close the amazon region. Phase 1 is a trial phase with the purpose of demonstrating the feasibility to development at least 5,000 hectares (ha) of a native species. The trail phase will be to plant 200 ha native species and 50 ha acai with the purpose of measuring the plantation, establishing a nursery for further growth and study a broad area for scaling the project.

<u>Partners:</u>
FMO's forestry team has a long history of doing forestry investment in developing countries. Act Commodities is a climate consultancy provider from The Netherlands and has experience in developing carbon projects / solutions for organisations around the world. IFU has no former experience with the company, but FMO has worked with them on previous projects. Act commodities will be responsible for developing the project and managing the carbon credit framework – certification, compliance, monitoring etc. The local Colombian partner will be responsible for implementing forestry activities, making agreements with landowners etc. and has more than 10 years' experience on in the Agri- and forestry sector in Latin America. Throughout DD on partners will be needed to access all risk associated with this setup.</td></tr>
<tr><td>Investment</td><td><u>Total Investment size:</u> USD 20m – 100m (Phase 1: USD 2m)

Phase 1 requires approximately USD 2m which is to be split 50/50 between IFU and FMO. Promoter (Act commodities) and the local forestry partner has to this date spend approximately USD 200k to structure the project. Once the concept has been proven on the first 250 ha, the project will be expanded on 5000 ha by end of 2028 with the possibility of scaling further. Estimated total investment is USD 20m – USD 100m depending on scalability.</td></tr>
<tr><td>Impact</td><td>The project will directly lead to carbon sequestering and increased biodiversity from afforestation of a large area of degraded land. Certifications include Gold Standard for carbon credits, Forest Stewardship Council for sustainable forest practices and Rainforest Alliance for sustainable Acai production. Native species will be used to maximize natural biodiversity in the area. Furthermore, temporal, and permanent jobs will be generated according to leading standards to ensure that the rights and safety of people are respected.

<u>Targeted SDGs:</u>

</td></tr>
</table>

Name	Project Karidja: Reforestation project in Ivory Coast
Geography	Ivory Coast – 50-100 km North-West of Daloa (The Haut Sassandra Forest)
Project type	Reforestation
Summary	*Description:* Ivory Coast has suffered enormous deforestation. The Haus Sassandra Forest, where this project is, has lost 80% of its forest cover. The project spans 70,000 ha. IFU is pursuing an investment in this Phase 1. The goal is to test feasibility of reforesting a minor part of the forest regarding handling the planting and the social aspects related to the farmers currently crowing e.g. cocoa in the area. If successful, the project will raise money to reforest the entire area. IFU will have the option of participating. The project's revenue will be from the sale of voluntary carbon credits. *Partners:* aDryada: A French project developer with focus on large-scale nature-based solution (NBS) projects. This project is their flag-ship project. Co-investor to be identified: aDryada is engaging with several potential investors with NBS experience. STOA: A French impact fund. STOA is interested in this project but will not participate till a concession for the project agreement is signed. An MOU has been signed and the final agreement is currently expected to be signed and executed in August. AGRO-MAP: An Ivorian company specialised in the development of sustainability projects in the agricultural, forestry and environmental fields. AGRO-MAP will head the operational side of the project. Ardian: An international private investment house. Ardian is expected to fund a large part of the project once this Phase is successful.
Investment	*Total Investment size:* EUR 70m (Phase 1: EUR 7.5m) Phase 1 requires EUR 7.5m in total. Currently, the split is aDryada (the sponsors of the investment) EUR 1.8m, EUR 2.8m from IFU, and EUR 2.8m from a co-investor yet to be identified. STOA might be able to also participate, but at a later stage in Phase 1.
Impact	The project will directly lead to carbon sequestering and increased biodiversity (chimpanzees and the African forest elephant) from reforestation of a large area of deforested land. Native species will be used to maximize natural biodiversity in the area. Both seasonal and permanent jobs will be created according to leading standards to ensure that the rights and safety of people are respected. *Targeted SDGs:* 

Annex 8 Process Action Plan (PAP)

Month	**Activity**	**Responsible**
April / May	Problem and context analysis, results phase 1, lessons learned, phase 2 modalities, future strategic principles, outline of organisation and management, Results Frame-work, justification	IFU staff/management
8 May	IFU presents preliminary draft Concept Note	IFU
8-24 May	Revision and submission to GDK 19 May Comments from GDK 24 May	IFU GDK
May	Final concept note 26 May to GDK	IFU
2 June	Submission to MFA Programme Committee	GDK
27 June	MFA Programme Committee meeting	GDK
June – 15 August	Prepare full draft Programme Document for Phase 2 in-cluding all annexes Deadline: Submission to GDK for internal comments: 15th August	IFU
August	Updating draft Programme Document based on com-ments from GDK. Submission for Appraisal: Deadline: 21th August	IFU GDK
August – Sept.	Appraisal by ELK 21 August – 15 Sept. Submission and debriefing of Draft Appraisal Report on 8th Sept. Comments to be received by 13th Sept. Final Appraisal Report by 15th Sept.	ELK (GDK) IFU and GDK
18-28 Sep-tember	Integrate appraisal comments in draft programme docu-ment	IFU
September - October	Draft programme document to be submitted for internal approval by the MFA. Deadline: 29th September Submission to Council for Development Policy (UPR) Deadline: 9th October	IFU
26 October	Council for Development Policy meeting	GDK
Oct/Nov	Final version for approval by the Minister for Develop-ment Cooperation.	GDK

Annex 10: Plan for Communication of Results

Will be part of IFU´s overall communication plan, which include coordination with MFA communication.