Ministry of Foreign Affairs of Denmark **Danida**

Draft Programme Document

Danida Green Business Partnerships

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Annexes

List of Abbreviations

DAC	Development Assistance Committee of the OECD
DIBE	Danida Innovation and Business Explorer
DKK	Danish krone
DMDP	Danida Market Development Partnerships
EU	European Union
GHG	Greenhouse gas
ILO	International Labour Organisation
MFA	Danish Ministry of Foreign Affairs
NGO	Non-governmental organisation
OECD	Organisation for Economic Cooperation and Development
P4G	Partnering for Green Growth and the Global Goals 2030
SDG	Sustainable Development Goal(s)
SME	Small and medium.
UN	United Nations

1 Introduction

The present programme document outlines the background, rationale and justification, objectives and management arrangements for the development cooperation concerning Danida Green Business Partnerships 2022-2026. Through partnerships with non-commercial partners, the programme will engage the private sector in developing and implementing market-based solutions with high impact that address environmental degradation, the climate change and biodiversity crisis and contribute to sustainable, economic growth in partner countries.

In line with the new Danish strategy for development cooperation *The World We Share,* and the political ambition to launch a new green partnership facility, this four-year programme constitutes an important effort provided through Denmark's development cooperation to lead the way in the fight for climate, nature and environment by combining private sector led economic growth and the green transition. Through commercially oriented partnerships, the programme will contribute to sustainable and socially just economic recovery, green transition and create hope and opportunities through decent jobs and green growth. By engaging private sector finance and competencies in combination with local development knowledge of non-commercial partners, the programme aims to contribute to Sustainable Development Goals (SDG), and in particular addressing climate change mitigation, climate change adaptation, environmental protection, biodiversity and sustainable growth. Notably SDG 1 (no poverty), SDG 8 (decent jobs and economic growth), SDG 12 (responsible consumption and production), SDG 13 (climate action), and SDG 17 (partnerships).

2 Programme Context

Through partnerships between commercial partners with a market-based solution at hand and non-commercial partners with local knowledge and experience from delivering on the sustainable development goals, Danida Green Business Partnerships will address important needs in developing countries and demonstrate models for combining the green transition with economic development.

The UN Sustainable Development Goals (SDGs) have since their adoption in 2015 enjoyed global recognition, also by businesses that strive to increase their value proposition by addressing the SDGs. From an initial focus on doing business responsibly and not doing harm, more and more companies have not only developed further their social and environmental compliance framework, but are also increasingly directing business solutions towards global or local challenges in order to create positive impact.

Private businesses can address climate related challenges and contribute to a green growth trajectory by bringing to the market services and products that are cleaner, less dependent on carbon-based fuels and contribute to enhanced resource efficiency. For example, in relation to new technologies for drying or storing food, recycling of materials (for instance plastic), generating clean and affordable power, marketing products aiming at more efficient water management, less use of energy, waste-to-energy, etc.

Global supply chains are subject to public scrutiny and represent an opportunity not only to avoid doing harm, but also to increase the benefits for people deprived of opportunities and rights. Also, local value chains represent opportunities to lead firms that may extent services and benefits to small-scale suppliers, for instance in the agriculture sector, representing an opportunity to introduce more sustainable production technologies and practices and higher productivity while improving agricultural resilience to climate change and reducing the pressure on natural resources and systems.

In addition to the solutions they bring to the market, companies contribute to economic development through salaries and local purchase as well as their tax contribution. All companies have a responsibility towards own employees and the broader community in which they operate. Responsible business conduct includes minimising environmental impacts, ensuring decent working conditions and respecting UN Guiding Principles on Business and Human Rights.

2.1 Background and thematic context

The programme will offer market-based solutions to climate and environmental challenges while contributing to economic growth and job creation.

The effects of climate change are already felt in many countries around the world and the expected future effects of climate change will be severe. Developing countries are hit the hardest and lack the capacity to withstand extreme weather events, global warming and changes in precipitation patterns. There are close linkages between the Paris Agreement's climate objectives and the UN Sustainable Development Goals. Unsustainable use of natural resources, pollution and biodiversity loss impact on poor people's livelihood negatively and reduce their resilience to climate change. Climate change adaptation is therefore a high priority in developing countries, and more efficient production technologies will not only increase productivity but also contribute to resource and energy efficiency.

> "Green and decent jobs aim to contribute to sustainable growth and a way out of poverty. Without a flourishing private sector, long-term development is impossible. It is vital to focus not only on the welfare of the individual but also on contributing to society's overall prosperity, in which weak and vulnerable groups who are temporarily unable to care for themselves have access to help."
>
> The World We Share, 2021

Although current per capita greenhouse gas emissions from developing countries on average are considerably lower than for OECD countries[1], future economic growth is expected to change this, and it is therefore important that many developing countries have embarked on a green transition and are planning for a future economic development less dependent on fossil fuels. While being responsible for a large share of greenhouse gas (GHG) emissions, the private sector is also key to stabilizing greenhouse gas emissions by bringing solutions to the market that contributes to a lower carbon emission trajectory.

Inclusive growth induced by foreign and domestic private investments is essential to reach the sustainable development goals and the importance of partnering with a broad range of stakeholders including civil society, government and private sector is emphasized in SDG 17.

The investment climate is considered challenging in many developing countries, private capital is prohibitively expensive and international companies will consider their investment or establishment as high-risk compared to other markets. Development finance institutions and private investors in many cases look for companies with a proven business model in the market and it may therefore be challenging to raise funding for initiating and testing a new business model or a new product in these countries, even when the business solution has been successful in other markets. This is especially valid for fragile and least developed countries. Public support has a role in promoting private investments in these countries, for instance by reducing private investors' risks or by subsiding technical assistance in relation to the investments, thereby contributing to impact and enhancing the chances of success.

Civil society and other non-commercial partners have the competence and experience from operating in the targeted markets. They can play a role that goes further than enabling private sector entry to the market. Through knowledge and insight in local development challenges, and the context in which they

[1] Among the countries eligible for this programme, several countries are high emitters in absolute terms, but the average per capita emission for the group of Low- and Middle-Income Countries is 5.86 t CO2e, while it is 12.89 t CO2e per capita for OECD members (Our World in Data, 2012)

operate, non-commercial partners are well positioned to identify potential development impact, assess the developmental relevance of proposed market solutions and mitigate risks in relation to local communities, not least in relation to human rights-based issues. Non-commercial partners engage increasingly in partnerships with commercial partners in relation to specific environment and climate-related challenges, where non-commercial partners succeed in unleashing the developmental potential of commercial solutions for instance by ensuring that under-served people get access to and fully benefit from the service or the product brought to market.

2.2 Lessons learned

This programme benefits from previous Danida experience within partnership business instruments and follows five years of implementation of Danida Market Development Partnerships (DMDP). Following an initial pilot phase in 2016, DMDP has launched five calls for applications, of which the last call in 2021 was directed specifically at greening existing DMDP projects. A total of 439 concept notes have been received until 2020 among which 36 projects were selected for funding in 15 of the 26 eligible countries. These projects are currently under various stages of implementation. 50 projects were initially envisaged under the programme, but with the expansion of the budget threshold from DKK 8 million to DKK 10 million, this number was reduced. From 2019, DMDP has been administered by an external secretariat, selected through a public tender, under the overall governance of the Danish Ministry of Foreign Affairs (MFA).

All DMDP projects have SDG 8, economic development and job creation, as principal objective. 20 projects (56%) are within the agri-business sector and the remaining in green technologies/circular economy, services and manufacturing. Of the 36 projects, 19 involve small- and medium-sized enterprises as the key commercial partner. 69% of the partnerships involve Danish partners and around half of the partnerships involve Danish commercial partners. The overall budget frame for DMDP 2017-2021 was DKK 340 million. Furthermore, DKK 246 million were invested in the projects from commercial partners.

The following lessons learned and experience from DMDP have been highlighted during the formulation of the new programme:

- Considerable interest and many applications to DMDP from a large diversity of partners. Annual calls increased the predictability for interested partners to apply;
- Attracting applications from the right level of commercial partners was initially a challenge. A requirement was introduced that the key commercial partner should be an international company;
- Local anchorage of the projects has been an issue. The administrative partner should now have country experience and there should be at least one local partner in the project;
- Engagement of Danish embassies in the screening and selection process has generally been good, but the potential seems underexploited in some countries;
- The administrative solution with an external DMDP secretariat has provided good opportunities for projects to access assistance, especially on administrative issues;

Project example: Reducing food losses in Tanzania
Tanzania is an important producer of maize, but post-harvest losses constitute 15-40%. The DMDP project Save Safe Food addresses this by introducing hermetic bags and other products that can reduce losses considerably which benefits food supply systems and the climate. The project targets 5,850 farm households to adopt good post-harvest practices, including the use of hermetic bags, while up to 90,000 farm households will adopt the usage of hermetic bags to safely store grains free from pest damages and storage pesticides.

- Considerable time and resources are required for preparing a full application, which represents a burden especially felt by commercial partners. Higher flexibility during implementation would be beneficial due to the many unpredictable aspects of a project;
- The procedures are to some extent considered skewed towards the non-commercial partners and the companies are not always fully engaged in the development-oriented activities;
- Implementation delays have been common in the projects. The time from approved application to actual start of implementation has in many instances been considerably longer than expected. This is due to a range of issues ranging from developing a common project vision among the partners to practical coordination and start-up in the country. The Covid-19 pandemic has exacerbated this situation;
- Many DMDP projects provide opportunities for synergies with other Danish activities in the country, but lack of coherence and linkages to Danish interests is an issue in relation to some projects and countries;
- A number of projects considered interesting may not be granted funding because the business idea is at a too early stage;
- Development of the business models requires ample time and so far, few of the business models in the DMDP projects have reached a stage where they can be scaled up;
- The number of direct jobs being created in the partner companies is modest and the indirect effects seem at least as important to capture, to the extent possible.

Project example: Circular economy and pollution control Bangladesh
The DMDP Value from Plastic Waste project seeks to create a new market for a stream of plastic waste which currently has no commercial value. The project will introduce pyrolysis technology to the most polluted points of the Padma River in Bangladesh and will integrate waste pickers into a plastic-collection and processing workstream, creating new jobs, improving working conditions and creating commercial value out of plastic waste.

In DMDP there has been an emphasis on introducing and strengthening responsible business conduct[2]. It has been required that jobs that are being established are compliant with ILO's decent job definition, or at least aspire to become decent, and that project activities are implemented with a strong focus on risks, i.e. that partners pay due attention to mitigating potential negative impact of their activities and ensure to work actively with human rights, workers' rights, environmental concerns and governance/anti-corruption issues. Although there is a considerable variance in the level of business conduct in the partner businesses, it has generally been considered an important and welcome additionality of the project. This emphasis will be continued in the new programme.

A separate outcome related to the expected wider market effects was introduced in DMDP from 2019. Wider market effects include changes that go beyond the partners engaged in the partnership project, for instance in relation to the introduction of new standards or regulations, improved industry coordination and dialogue, establishment of infrastructure and demonstration of new technologies. Although difficult to measure, these wider effects, intended or unintended, could constitute an important longer-term outcome of the programme and the requirement will therefore be maintained in the new programme.

Financial support under DMDP has only been granted to non-commercial partners, but the issues has frequently been brought up by both commercial and non-commercial partners that would like to see the possibility of providing training to local companies and of providing co-funding of certain activities. This

[2] Responsible Business Conduct is an element in the OECD Policy Framework for Investment, which is one of the most comprehensive guides for defining framework conditions for private sector investments.

possibility is therefore included in the new programme and will be administered in coherence with EU State Aid rules.

A mid-term review was undertaken of DMDP in mid-2019 at a time when only ten partnerships had started implementation. It commended the DMDP for developing a sound and professional partnership facility and furthermore presented a number of issues for consideration for DMDP and a possible follow-up programme, including:

- Whether a challenge fund and partnership modality is the most adequate instrument;
- How to target and engage particularly Danish companies, including SMEs;
- How to strengthen coherence and synergies with other Danish funded programmes and embassy activities
- Outsource the fund management function and enable enough time and resources for implementing on-going projects and ensure learning and gathering of experience.

A challenge fund continues to be considered the most adequate instrument, primarily because of the demand-driven nature of the activities, but also because of the flexibility it represents in adjusting calls and administrative procedures. The necessary dialogue with potential partners and aspects of co-creation are integrated in the programme approach. The fund management was outsourced since 2019, which continues to be relevant as well for the new programme. The remaining two issues are considered in section 2.3 below.

The mid-term review furthermore emphasized the need to strengthen systematic collection, sharing and dissemination of lessons learned, which is an aspect that will be strengthened in the new programme.

Project example: Greening value chains in Burkina Faso
The DMDP project Innovating for Impact in Sesame aims to boost the organic sesame value chain to create sustainable livelihoods and strengthen the resilience of smallholder farmers. The commercial partners investing in the project aims to upscale sesame production in Burkina Faso by addressing the systemic constraints on the production side of the value-chain including organic certification. In the 2019/20 season the project had increased its reach to 7,090 farmers organised in five producer organisations. The project has mobilised additional funding of 1 million Euro from GIZ with a target to onboard additional 5,000 farmers.

2.3 Coherence and synergies

As a centrally managed programme, seeking linkages to other Danish-funded initiatives in the countries will be specifically addressed in a number of ways in line with the approach of doing development differently. With the green transition as the overall programme theme, this in itself will provide a more focused programme within an area of high priority for Denmark's foreign policy priorities.

Furthermore, the coherence will be sought by encouraging applications within 3-4 thematic areas and sectors prioritised by the embassies in the eligible countries. The sectors should be determined on the basis of the Country Strategic Framework, i.e. relevant areas of the bilateral programme, including the Strategic Sector Cooperation, and relevant priority areas for the Trade Council. Calls for applications will indicate priority sectors for each of the eligible countries and applying within these sectors will count positively when project proposals are assessed. The embassy's role in assessing the relevance of project applications is a central element of this effort.

The programme will have a clearly visible profile, especially towards Danish partners, but also in the countries. The programme will seek to benefit from existing platforms in Denmark and in the partner countries around which civil society and businesses have dialogue and cooperation on relevant topics. In connection with the annual calls, the secretariat will organise sector specific events with the inclusion of sector specialists and embassies and engage potential partners around the issues that could address through the programme.

In Denmark, a range of public funding facilities are available for supporting companies in their innovation and internationalisation efforts and the programme will strengthen cooperation and information exchange with these in order to make it easier for companies to identify this programme as an opportunity. These include initiatives like the Trade Council, the Danish Export Credit Agency's Green Accelerator, Vaekstfonden, Innobooster of Innovation Fund Denmark and SMV International, which is managed by the Danish decentralised entities for business promotion ("Erhvervshusene").

Danida Green Business Partnerships should be seen in the context of two other programmes funded by the Danish Ministry of Foreign Affairs: Danida Innovation and Business Explorer (DIBE) and Partnering for Green Growth and the Global Goals 2030 (P4G). DIBE provides support to market exploration for Danish companies with a co-funding of 50% of expenses up to DKK 500,000. P4G brings together business, government and civil society organisations in public-private partnerships to advance market-based solutions in 12 countries. In the Danish companies' efforts to go to these markets, DIBE is considered a possible first entrance and the Danida Green Business Partnership and P4G are possibilities to follow-up with a specific investment, and it is therefore important that these three programmes are coherent in terms of administrative criteria and that there is a regular exchange of experience.

Following a successful partnership project, both the international and the local commercial partners would in many cases be expected to scale up their activities. Access to finance is a prerequisite for scaling up both for national and international commercial partners and this area will be included in the partnership projects from the beginning by seeking to include potential financiers at an early stage and identify obstacles for further investments. Examples of possible funding channels for an international/Danish company after a Danida partnership project in these markets include export credits, blended finance mechanisms, development finance institutions, private equity funds and funding raised on commercial terms through their mother/holding companies. Local companies could add soft loans through development/government programmes, local banks, development banks, regional/national blended finance mechanisms, local business angels and possibly crowd funding to the list. Linkages to IFU will be established in order for sufficiently mature commercial partners to consider whether growth capital from a development finance institution is relevant.

2.4 Justification of programme design

Relevance: As indicated above, the programme is well aligned to Denmark's strategy for development cooperation *The World We Share* with its focus on the linkages and mutual dependency between climate change, environmental and biodiversity degradation and human development. However, ensuring relevance for the potential applicants, notably the commercial partners, who are requested to co-fund the projects, is key. The commercial partners are to a large extent expected to be international companies that are in the process of testing a new business model or establishing themselves in the market. However, the programme may also be relevant to support greening of existing business models of international commercial partners already operating in the country.

Effectiveness: Results will be sought in relation to a broad array of SDGs, but mainly in relation to climate mitigation, climate adaptation, environmental protection and biodiversity in combination with inclusive growth. The programme will target poverty eradication by and inclusive approach to supply chains and by supporting business cases related to bottom of the pyramid products for unserved segments of the population. Each project will define indicators and targets relevant for the programme-level results framework.

Efficiency: The efficiency of the programme hinges on the challenge fund approach, which allows a certain predictability for partners considering applying, while there is a competitive element that urges partners to present good proposals. Approximately 100 proposals have applied for funding in each call of DMDP and only 10 selected, which enables MFA to maintain high standards for the projects, but also entails loss of time and efforts from unsuccessful applicants. In the new programme, application templates will be developed that are easier to complete with clear minimum requirements to projects so that fewer are discarded due to non-compliance. Furthermore, the requirements to detailed planning will be lighter for the projects including and an inception phase (see below). An efficient programme implementation and partnership support will be ensured through the external secretariat.

Coherence: As indicated above, the programme will seek linkages to other Danish intervention areas and priorities, especially at country level. For the non-commercial partners, notably the Danish organisations that have a Strategic Partnership Agreement with the MFA, there will furthermore be a possibility to establish synergy with their activities directed at cooperation with the private sector. The diversity of non-commercial partners in the programme is an advantage and provides opportunities for exchanging experience at an international level. The programme is coherent with OECD/DAC rules of untied aid and EU State Aid rules.

Impact and sustainability: Each project should be based on a solid business case and the viability of the business should enable the delivery of long-term impact. Not only are the partnership projects requested to aim for wider market effects beyond the project level. The experience gained with the partnership approach for the SDGs will lead the partners to engage in other partnerships between the private sector and non-commercial partners, whereby more private finance for development could be raised. The sustainability of the results will be ensured through a solid business case in each of the partnerships approved for funding.

Additionality: Raising private investments in developing countries is an important purpose of the programme, especially in relation to the most difficult markets, where the additionality is greatest. Furthermore, the additionality of the projects is considered in the sense that the project brings about more significant impact than would have taken place if the commercial partner had undertaken the investment without the non-commercial partner. This will be part of the project selection criteria.

3 Programme Presentation

3.1 Objectives and outcomes

The partnership is anchored in a business case and each partnership project will have its own results framework and will contribute to the overall objectives of the programme by linking to specific indicators in the overall results framework. The success of the partnerships is dependent on both commercial and non-commercial partners. Good partnerships involve a joint understanding of both commercial and development aims. By engaging private sector finance and competencies in combination with development knowledge of non-commercial partners, the programme aims to contribute to the Sustainable Development Goals, and in particular climate change, environmental and biodiversity degradation, and sustainable growth.

The longer-term objective of the programme is:

Enhanced global green transition and private-led sustainable economic growth through innovative partnerships.

The longer-term impact on climate, the environment and economic growth envisaged for the programme should be created by the business continuing to operate beyond the lifetime of the project and by wider market effects of the partnership project.

The programme aims at contributing to two outcomes through the viable business solutions established:

1. *Reduced vulnerability to climate change, reduced strain on natural resources and the environment and a stabilisation of GHG emissions*
2. *Inclusive private sector growth and improved livelihoods for beneficiaries*

Through inclusive and sustainable market-based solutions, the partnership projects will combine inclusive economic growth and the green transition and promote partnerships and interventions with a broad SDG approach. Inclusive growth involves targeting under-served communities with business models and through employment and increased income and these are the indirect beneficiaries of the partnership projects where livelihood changes should be sought.

At programme level, at least 80% of the financing should contribute to climate and environmental objectives. This means that all approved partnership projects should have climate change mitigation and adaptation, environment or desertification and biodiversity as either a principal or a significant objective as determined by the OECD/DAC Rio Markers on climate and the environment. At least 60% of the projects should qualify as having climate/environment as a primary objective and the remaining (maximum 40%) should have economic growth and increased incomes as their primary objective. In order to ensure the programme's contribution to address climate change, at least 50% of all funding most be climate related.

3.2 Eligible countries

The countries eligible for the programme are the countries eligible for the DMDP programme and eight new countries, which are selected on account of being part of the Strategic Sector Cooperation and having a strong link to activities of the Danish Trade Council. In total, the programme will include 34 countries of which 16 countries with Strategic Sector Cooperation and 18 countries with other Danish bilateral development activities.

Low Income Countries	**Lower Middle-Income Countries**	**Upper Middle-Income Countries**
Ethiopia Burkina Faso Uganda Afghanistan Mali Niger Somalia	Ukraine Tunisia Palestine Tanzania Nigeria* Indonesia* Vietnam* India* Ghana* Bangladesh* Kenya* Myanmar Egypt* Morocco* Philippines Pakistan Rwanda	Georgia Lebanon Jordan Argentina* Brazil* China* Colombia* Mexico* South Africa* Turkey*

* Countries with Strategic Sector Cooperation

3.3 Project selection criteria for climate and the environment

The green selection criteria for the programme are currently defined on the basis of the five OECD DAC *Rio and Environmental Aid Markers*. However, this may be adjusted based on any new developments in terms of the MFA general reporting framework on green financing. The definitions of these are:

Climate Change Mitigation: Contribution to the objective of stabilisation of greenhouse gas (GHG) concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system by promoting efforts to reduce or limit GHG emissions or to enhance GHG sequestration.

Climate Change Adaptation: Activities aimed at reducing the vulnerability of human or natural systems to the current and expected impacts of climate change, including climate variability, by maintaining or increasing resilience, through increased ability to adapt to, or absorb, climate change stresses, shocks and variability and/or by helping reduce exposure to them.

General environmental protection: To produce an improvement, or something that is diagnosed as an improvement, in the physical and/or biological environment of the recipient country, area or target group concerned. It includes specific action to integrate environmental concerns with a range of development objectives through institution building and/or capacity development.

Biodiversity: Activities promoting at least one of the three objectives of the Convention: The conservation of biodiversity, sustainable use of its components (ecosystems, species or genetic resources), or fair and equitable sharing of the benefits of the utilisation of genetic resources.

Desertification: Combating desertification or mitigating the effects of drought in arid, semi-arid and dry sub-humid areas through prevention and/or reduction of land degradation, rehabilitation of partly degraded land, or reclamation of desertified land.

Recognising linkages and mutual dependency between different environmental and human development challenges and their effects, the selection criteria will encourage projects that take into account the multifaceted approaches to the developmental and environmental challenges.

A provisional list of eligible partnership objectives is included as Annex 2. The project selection criteria will furthermore emphasise avoidance of significant negative impact on any of the environmental goals. This will be ensured by having an extensive exclusion list of activities and an effort in responsible business conduct, as indicated above.

3.4 Project selection criteria for private sector growth and improved livelihoods

Partnership projects must build on a commercially viable business idea driven by the commercial partner(s). The assessment of how well substantiated the business case is, the risk mitigation and the capacity of the commercial partners to implement it, will therefore constitute important selection criteria. If a business plan has not yet been developed that should be addressed as part of the initial activities in the project formulation phase of the application or in an inception phase.

The potential economic or livelihood effects of the project should be explained in terms of who would benefit, what is their current situation and what is the depth and scope of the expected development effects on income and livelihoods. For example, is the product/service targeting and underserved group of customers and what is the change envisaged for their livelihoods? Will the project increase income opportunities for poor people, for instance in the value chain? How many people affected and is the change sustainable or temporary? Are there special considerations in relation to the targeted population, for example gender, youth or ethnic minorities. These issues will subsequently be followed up with disaggregated reporting.

3.5 Other strategic considerations

It is an important principle of the programme that private sector partners should have a stake in the projects and that they have a long-term vision for developing a viable business. Commercial partners will be expected to contribute their own time and resources in project development and implementation with a minimum of 25% of the total project budget.

The Danida Green Business Partnerships will be adapting and testing business models in new markets and over the project period provide proof of market opportunities. Furthermore, the programme will introduce the possibility of supporting proof of concept projects where the technological solution may require some adaptation to the new market. The programme will introduce the possibility of co-funding the production, shipment and installation cost for essential equipment. Furthermore, the cost of trainers and technical assistance for training activities to local companies in connection with the introduction of new technology will be eligible for support. This support will be administered in coherence with the EU State Aid rules (see Annex).

Through its component on responsible business conduct, the programme will provide focus on business and human rights. Companies have a responsibility to avoid and address negative impacts on human rights be their employees, contracted workers, workers in the supply chain, local communities or consumers. The UN Guiding Principles on Business and Human Rights provide that all businesses have a responsibility to respect internationally recognised human rights. This responsibility applies regardless of a business' size, sector, ownership or country of operation. The programme will ensure proper guidance in this respect through its cooperation with the Danish Institute for Human Rights.

Gender and youth will be included in the partnership selection criteria and reporting on results will be disaggregated.

4 Theory of change and key assumptions

The overall theory of change of the programme is that **if** Danida provides funding and advice for partnerships between commercial and non-commercial partners **then** this will improve the business case of commercial partners and provide an impact on climate change, the environment and economic growth, **which subsequently** will be sustained by the commercial partner and replicated by others.

As described above, the basic premise for this partnership programme is that businesses can create and sustain positive environmental and climate impact, as well as contribute to economic development in partner countries. Non-commercial partners, most often NGOs, can play a role of ensuring that impact happens for the relevant beneficiaries, for instance by providing technical assistance in the supply chain or by ensuring that the business solution is relevant in the market. There is a considerable element of risk in the programme, because not all commercial partners will succeed with their investments. The commercial partners are in many cases not making a profit in the first years and there will always be uncertainties about their business plan, so it should be expected that some will fail despite the efforts undertaken.

The first key assumption for achieving the programme outcomes is that potential partners have knowledge and interest in the programme. The programme design is important in this respect, and it is also important that an effort is undertaken to make the programme known. Subsequently, it is an assumption that when partnerships are formed, they will last for the project period. This requires that good partnership relations are built and maintained. The secretariat has a role in ensuring that partnerships have access to the necessary tools and knowledge to succeed in partnership building and to act if partnerships develop in the wrong direction.

It is also an assumption that external factors related to security and the economy in the country are not developing in a negative direction as it has recently been the case due to the spread of the Corona virus and in some countries caused by civil unrest and war.

In order to achieve the overall objective of the programme, the climate, environmental and development effects should be sustained beyond the partnerships, either by the business becoming profitable and scaling up, by other companies replicating the activities or the business model or by the partnership having wider market effects or influencing the framework conditions. The wider market effects could come from projects that work with specific product standards, with regulation or with infrastructure that will benefit other economic activity. For each of these areas there are some assumptions.

In order for companies to continue and scale-up their activities, a number of factors should be in place, including access to finance. The programme will work with this by including specific activities in each partnership project which aim at identifying funding sources both for local and international commercial partners. If other partners should replicate the business model, the assumption is that the commercial partner shares the information. Obtaining information regarding a business model is straightforward, whereas new technology will normally not be shared by the commercial partner. Replication is therefore only a realistic possibility in cases where the technology is widely available. In relation to the wider market effects, the assumption is that a dialogue with authorities is initiated in the case of regulations or standards. If it is not already in the project, it may require outreach to business member organisations or other entities that would be interested to advocate for a specific issue based on the experience in the Danida partnership project.

5 Summary of the results framework

The effects of the programme are monitored through a set of impact and outcome indicators as presented below. At the level of the programme objective, the longer-term impact will be achieved through effects beyond the individual partnership, either by a continued business case, by the partnership model or the business model being replicated.

At outcome level, the effects will be diverse, because climate change and environmental protection can be addressed in a number of different ways under outcome 1. The indicators refer to the areas of the OECD/DAC Rio Markers for climate and the environment that are expected to be affected by the partnership projects. Each project may contribute to one or a few of the indicators under outcome 1. In relation to outcome 2, it is expected that all projects will contribute to all five indicators, which together will provide evidence on the economic and livelihood effects.

The achievements of the programme in relation to climate, environment, jobs and income are dependent on the business and developmental targets set in the incoming applications and subsequently the funded projects for green transition and sustainable economic growth. Therefore, the related targets below are set as a percentage (75%) of the (expected) targeted outcomes in the applications. The absolute values will be reported, but are less meaningful to use as targets due to the nature of the challenge fund. 2029 is indicated as the target year, because the projects approved in the last call are expected to run until 2029.

Programme		Danida Green Business Partnerships	
Programme Objective		Enhanced global green transition and private sector led sustainable economic growth through innovative partnerships	
Impact Indicator		a) Climate, environment and social effects continue to be delivered by partner companies with positive earnings continue at least one year after the end of the partnership project period b) Commercial and non-commercial partners who have engaged in other partnerships for development by the end of the partnership project period c) Business solutions replicated from the partnership projects	
Baseline	Year	2022	a) 0% b) 0% c) 0%
Target	Year	2029	a) 50% b) 25% c) 25%

Outcome 1		Reduced vulnerability to climate change, reduced strain on natural resources and the environment and a stabilisation of GHG emissions	
Outcome indicator 1.1		Number of vulnerable persons related to the effects of climate change	
Baseline	Year	2022	None
Target	Year	2029	75% of the expected figure upon project approval materialise
Outcome indicator 1.2		Avoided GHG emissions	
Baseline	Year	2022	None
Target	Year	2029	75% of the expected figure upon project approval materialise
Outcome indicator 1.3		Efficiency of the use of water, energy, materials and/or other natural resources	
Baseline	Year	2022	None
Target	Year	2029	75% of the expected figure upon project approval materialise
Outcome indicator 1.4		Area under sustainable land management	
Baseline	Year	2022	None
Target	Year	2029	75% of the expected figure upon project approval materialise
Outcome indicator 1.5		Reductions in the amounts of polluting substances released to soil, water bodies and/or air	
Baseline	Year	2022	None
Target	Year	2029	75% of the expected figure upon project approval materialise
Outcome 2		Inclusive private sector growth and improved livelihoods for beneficiaries	
Outcome indicator 2.1		Amount of private investments mobilised in partnership projects	
Baseline	Year	2022	N/A
Target	Year	2029	Final target dependent on 2025 application window
Outcome indicator 2.2		Viable business cases developed and proved	
Baseline	Year	2022	N/A
Target	Year	2029	50%
Outcome indicator 2.3		Number of decent jobs created with commercial partners	
Baseline	Year	2022	To be defined as application windows are finalised
Target	Year	2029	75% of the expected figure upon project approval materialise

Outcome indicator 2.4		Number of people with increased income opportunities	
Baseline	Year	2022	None
Target	Year	2029	75% of the expected figure upon project approval materialise
Outcome indicator 2.5		Percentage of partner companies with responsible business conduct	
Baseline	Year	2022	To be defined as application windows are finalised
Target	Year	2029	100%

Target ratio between OECD DAC Rio and Environmental marker principal and significant objectives:

Principal objectives 60%
Significant objectives 40%

6 Budget

The table below indicates the amounts available for commitment under the programme, provided the provisions are made in the annual Finance Act.

With a maximum budget of DKK 15 million per partnership project, it is expected to approve at least 25 full projects during the programme period (see further below). The first call for applications and project commitments will take place in 2022. If necessary, the selection criteria will be calibrated for the following two rounds in 2023 and 2024. When a project is approved it will run for up to five years, requiring technical and financial monitoring of the disbursements that could run 4-5 years after approval. The project approvals have therefore been frontloaded and will be finalised in 2024, which means that the last project should be completed in 2029.

An allocation for the external administration of the programme for 2022-2025 has been committed under the DMDP programme as a framework contract, and a further allocation will be required in 2025 for managing the projects from 2026 and on-wards.

Programme Budget (million DKK)

	2022	**2023***	**2024***	**2025***	**Total**
Partnership Projects	99	149	147.5	0	395.5
Programme manage-ment**				15.0	15.0
Mid-term review	-	-	1.5	-	1.5
Communication etc.**	1.0	1.0	1.0	1.0	4.0
Total	100.0	150.0	150.0	16.0	416.0

* Dependent on annual provisions in subsequent annual Finance Act
** Communication activities, public meetings for mobilisation of applicants, outreach to related support mechanisms, cost for the selection panel

7 Management arrangements

7.1 Challenge Fund

The partnership programme is managed as a challenge fund by an external secretariat. It is a demand driven programme and partners can only be expected to apply if they find the challenge and the conditions attractive.

There will be two funding windows in the new programme: Full projects of up to DKK 15 million and maturation projects of up to DKK 1 million. The funding window for maturing early-stage projects is established in order to accommodate the need experienced under DMDP to fund smaller projects to test a technology and mature the partnership. Partners can apply to this window for a project of 1-2 years' duration. If the partners want to continue beyond the 2 years, they will have to make a new application for a full grant for a duration of up to 3 additional years, so the total project period does not exceed 5 years. The project maturation window will only be open in 2022 and 2023 in order to ensure that completed maturation projects can apply for full funding in 2024. A total of ten maturation projects are envisaged over the two years.

When partnerships are created and initial applications prepared, there will normally still be a number of uncertain elements regarding the partnership or the business plan of the commercial partner. The overall, joint vision of the partnership should be in place, but a very detailed planning and budgeting may be futile. In order not to spend too much time on initial planning, it is therefore expected that partners will present revised plans and budgets within the overall objectives of the project for approval during the partnership period.

The annual partnership selection process will include:

- The challenge fund administered by an external secretariat makes an annual call for applications and undertakes various activities to spur interest in Denmark and in the partner countries.
- Commercial and non-commercial partners agree on a project and develop a concept note, which is submitted. It is a requirement that the key commercial partner is international and that the non-commercial partner has country experience. The partnership should include a local partner.
- Application concept notes fully compliant with the criteria are selected for further scrutiny by the secretariat. Relevant embassies are requested to provide comments and external technical experts are consulted to the extent necessary.
- A project selection committee reviews the concept notes of the shortlisted projects, meets the partners (virtually) and provide recommendations for funding of number of maturation projects and full projects. The committee furthermore provides recommendations for the issues to consider during the project formulation phase.
- The MFA makes the funding decision and prepares commitment letters.
- The approved partnerships prepare a full project proposal. They may receive a grant of up to DKK 500,000 for covering up to 75% of the cost of preparing a full project proposal (DKK 250,000 for maturation projects). Full proposals are subsequently submitted for approval by the MFA.
- The non-commercial partner is the administrative partner of the project and enters into an agreement with Danida.

7.2 Secretariat

The tasks of the external secretariat will include (full details provided in the framework service contract):

- Administer the annual calls and application process as indicated above, including providing advice to potential applicants, linkages to embassies, external experts and the project selection committee;
- Provide secretarial support to the project selection committee;
- Develop and implement a plan for communication and outreach to relevant potential partners in Denmark and in the partner countries, including events in connection with call announcements related to some of the key sectors of the programme;
- Organise events between partners for sharing of knowledge and experience;
- Monitor the progress of the projects under implementation compared to plans and intentions.
- Collect annual progress reports and project completion reports and prepare a programme level annual report for the MFA;
- Provide support to financial management and closure of the projects, including ensuring that anti-corruption measures are in place and enforced;
- Manage a website with information for potential applicants, existing partnerships and annual results;
- Provide services as requested to the mid-term review and possible evaluations;

Danida's link to reporting corruption will be included in the materials as well as information to partners in order to ensure that information is in place on how corruption is dealt with.

7.3 Project Selection Committee

A committee for scrutinizing the applications and making recommendations for funding will be introduced in the new programme. Although the formal decision rests with the MFA, the establishment of a committee provides the possibility to include a greater diversity of knowledge and experience in the selection process, while also clarifying the role of the secretariat in its support to the applicants as regards specific technical issues. The process for engaging the selection committee is kept simple with only one step of approval at concept note stage required. The Committee will consist of:

- A person with experience from Danish business support facilities (chairman)
- A financial investment professional
- A climate change / environmental specialist
- A development impact specialist
- A person from MFA (observer)

The Committee members will be appointed by the MFA in their personal capacity and should have solid experience from work in developing countries. At least one of the experts should preferably be from the global South and the financial investment professional could possibly be a person from IFU. The secretariat will serve as secretariat to the panel and participate in the meetings

8 Financial Management and reporting

The agreement with the MFA and the administrative responsibility will rest with the non-commercial partners, who will also be responsible for progress and financial reporting and audits. Previous experience and organisational capacity in relation to project management is considered in the project selection process. The partners should enter into a binding agreement, which will to be submitted as part of the full project proposal.

The secretariat will provide advice and instructions to the administrative partners in relation to budgeting, reporting and audits, but the funds will be disbursed directly to the administrative partners from MFA in agreed instalments.

9 Risk Management

Private investments in the markets concerned are risky for a number of reasons. The general risks are mentioned below, but the project specific risks will be identified in relation to each project and described in the partnership application. Many of these will be related to the applicant's business plan and uncertainties regarding in-country permits, licenses and tax regime. It is expected that up to 50% of the commercial partners will not succeed in creating a viable business case, due to the high level of risks taken in these projects.

The main *contextual risk* factors in the countries are related to security and safety, including as a result of conflict. These risks are likely to occur in some of the countries and will be assessed at the time of each project application in close collaboration with embassies. In relation to the fragile states eligible for support, it will be important to include relevant considerations from Danida's Fragility Risk and Resilience Tool.

Furthermore, there are contextual risks related to the economic development and the market, closely related to the national and regional economic development. Such risks are likely to occur and could influence the companies' willingness to invest and take risks. However, due to the large number of potential countries for the programme, this is only expected to have minor impact on its implementation.

The *programmatic risks* of the programme are especially related to the challenge fund approach and the partnerships. In relation to the challenge fund approach, the major risk is that the calls are of limited interest for potential applicants. There were ten times more applications than grantees under DMDP, but with the focus on climate and the environment, there are fewer potential applicants. However, the consultations indicate that there still is sufficient appetite for the programme. Furthermore, a special effort to strengthen the communication and visibility of the programme will be undertaken in connection with calls. Lastly, it will be possible to adjust the selection criteria within the framework of the programme from year to year. There are also risks related to the management of multi-stakeholder partnership projects, which require a high level of effort that is often underestimated by participating partners. This risk will be mitigated by a diligent selection of partnerships, and funding being available for a considerable effort devoted to joint project preparation. Although efforts are made to make the initial project formulation stage leaner, it is important to maintain a good due diligence and partnership formation process in the new programme and have capacity to support partnerships in need of external moderation. Programmatic risks also include the risk of corruption. The programme will ensure clear anti-corruption guidelines as well as follow-up on financial reporting and audits.

Major *institutional risks* include possible lack of respect of human rights and risks related to compliance to responsible business conduct, including environmental standards and occupational safety and health standards as well as corruption. Institutional risks will be mitigated among others by the inclusion of responsible business conduct in individual projects in conformity with international principles and guidelines and monitoring of the compliance. Monitoring of these risks will be included in the general risk monitoring performed by partner consortia.

10 Closure

By embarking on this new partnership programme, a number of very concrete projects will be launched over the coming 2-3 years and subsequently implemented over a 4-5 year period. They will thereby continue to provide tangible models for solutions to climate and environmental challenges in the years to come by combining the knowledge and resources of commercial and non-commercial partners. The partnerships will support the Danish priorities in the countries in relation to development cooperation and trade and provide new possibilities for linkages to other initiatives within the same field. These are relatively small projects in and by themselves, but by seeking linkages with other activities, they could lead to more. When the partnership projects have been terminated, commercial partners will in a large number of cases likely be able to continue delivering their impact as an integrated element in their business plan and inspire new partnerships for change.

Annex 1 EU State Aid Rules

A company that receives government support gains an advantage over its competitors. Therefore, the EU Treaty article 107 prohibits State aid unless it is justified by reasons of general economic development. All member state government support requires prior approval from the Commission, unless the amount is minor (covered by the EU commission de minimis regulation no. 1407/2013) or covered by the General Block Exemption Regulation (GBER) no. 651/2014.

De minimis regulation

De minimis aid refers to small amounts of state aid to undertakings (essentially companies) that EU countries do not have to notify the European Commission about. The maximum amount of support is EUR 200,000 for each undertaking over a 3-year period and it is the undertaking's responsibility to observe that this threshold is respected. The amount should be calculated on a 3-year rolling basis and should include all State Aid received by the company during that period. All entities which are controlled (on a legal or on a de facto basis) by the same entity should be considered as a single undertaking.

Several Danish support facilities administer their grant support with reference to the de minimis rules, for example Danida Innovation and Business Explorer (DIBE) and the Danish Export Credit Agency's tool EKF Green Accelerator.

However, in relation to this programme it should be noted that the de minimis rule does not apply to primary production of agricultural products, fishery and aquaculture, and it does not apply to export aid or aid contingent upon the use of domestic over imported products. In particular, it does not apply to aid financing the establishment and operation of a distribution network in other member states or in third countries.

General Block Exemption Regulation (GBER)

The GBER allows member states to provide aid without going through the EC's full notification process. However, there is a requirement for the authority administering the aid scheme to ensure that it is within the GBER, to publicise information regarding the aid scheme on a centralised State aid reporting site and to report it to the Commission. The GBER does not apply to certain types of aid schemes, for instance related to primary production of agricultural products, fishery and aquaculture (with some exceptions) and to aid measures where the grant of aid is subject to the obligation for the beneficiary to have its headquarters in the relevant member state or to be predominantly established in that member state or aid granted with the obligation for the beneficiary to use nationally produced goods or national services. The aid scheme should explicitly exclude the payment to an undertaking which is subject to an outstanding recovery order following a previous Commission decision declaring an aid granted by the same member state illegal and incompatible with the internal market.

Several Danish support facilities refer to the GBER, including Innovation Fund DK. and Danish Environmental Protection Agency among others. To provide an impression (not a full description) of the possibilities within GBER, the articles that seem most relevant to consider under this programme are indicated in the table below.

Overview of selected state aid exemptions covered by the GBER

GBER Article	Exemption	Aid intensity (max)
Art. 17	Investment aid to SMEs* (a) costs of investment in relation to a new establishment/extension and (b) wage costs in relation to the investment	20% for small companies 10% for medium-sized companies
Art. 18	Aid for consultancy in favour of SMEs	50%
Art. 22	Aid for start-ups Unlisted, small enterprise less than 5 years old	Up to 0.4 or 0.6 million Euro
Art. 25	Aid for research and development projects, i.e. experimental development**. Costs of research and technical staff. Costs of equipment, buildings and land during the period of testing (value of depreciation). Costs of feasibility studies.	Experimental development: 25% Feasibility studies: 50%
Art. 31	Training aid Personnel costs and operating costs for the hours of the training	70% for small companies 60% for medium-sized companies 50% for other companies
Art. 36	Aid for environmental protection, Investment aid enabling undertakings to go beyond European Union standards for environmental protection or to increase the level of environmental protection in the absence of Union standards	60% for small companies 50% for medium-sized companies 40% for other companies

*EU SME Definition

The category of micro, small and medium-sized enterprises ('SMEs') is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million. Within the SME category, a small enterprise is defined as an enterprise which employs fewer than 50 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 10 million. Within the SME category, a micro-enterprise is defined as an enterprise which employs fewer than 10 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 2 million.

**Definition of experimental development by GBER and as applied by Innovation Fund DK

Experimental development means acquiring, combining, shaping and using existing scientific, technological, business and other relevant knowledge and skills with the aim of developing new or improved products, processes or services. This may also include, for example, activities aiming at the conceptual definition, planning and documentation of new products, processes or services; Experimental development may comprise prototyping, demonstrating, piloting, testing and validation of new or improved products, processes or services in environments representative of real life operating conditions where the primary objective is to make further technical improvements on products, processes or services that are not substantially set. This may include the development of a commercially usable prototype or pilot which is necessarily the final commercial product and which is too expensive to produce for it to be used only for demonstration and validation purposes.

Annex 2 Provisional list of eligible partnership objectives

The following list is a provisional overview of the objectives for the green and inclusive partnership projects. The business cases of the partnerships should be formed with the purpose of addressing one or several of these objectives in relation to outcome 1, *Reduced vulnerability to climate change, reduced strain on natural resources and the environment and a stabilisation of GHG emissions,* but always in combination with outcome 2, *Inclusive private sector growth and improved livelihoods for beneficiaries.*

Sustainable food production, agriculture, fisheries and other natural-resource management

- Climate-smart agriculture and sustainable food systems,
- Prevention of food loss and food waste
- Promote agro-organic cultivation methods
- Strengthening of green value chains
- Eco friendly alternative crops
- Sustainable forest management
- Food production and other production that reduces the pressure on ecosystems and enhances biodiversity
- Sustainable management of sea resources
- Sustainable forest management
- Reduction of desertification and land degradation
- Protection of water bodies and other
- Natural resources management and production that preserves biodiversity and restores ecosystems

Production and consumption (circular economy)

- Technologies and business models for increased resource productivity
- Sustainable tourism
- Measures to suppress or reduce pollution in land, water and air
- Cleaner production processes
- Sustainable transport systems

Energy services

- Increased energy efficiency
- Renewable energy production and use

Water services

- Sustainable water resources management
- Sustainable waste water management and reuse
- Climate smart water infrastructure for supply and sanitation

Enabling business models and technologies

- Climate finance
- Information systems and technologies

Annex 3 Process Action Plan (PAP)

Date	Activity	Responsible
Nov. 26, 2021	Delivery of draft ProDoc to programme committee	FP
Dec. 16, 2021	Programme Committee meeting	KP/FP
Dec. 22, 2021	Final draft ProDoc including programme committee comments	FP
Jan. 3-17, 2022	Final appraisal of the ProDoc	ELK/Hanne Carus
Feb. 7, 2022	Submission of final ProDoc to UPR	KP/FP
February, 2022	Development of programme guidelines	FP
Feb. 24, 2022	UPR meeting	KP/FP
March, 2022	Final approval by UDVM	
March, 2022	Launch of the new programme	FP
April, 2022	Launch of application round 2022	FP
Sept., 2022	Approval of concept notes for new partnerships	KP/FP
Oct. 31, 2022	Commitment for the 2022 challenge funding	FP