

# India Green Finance Initiative

## Key results:

With this capital contribution, IFU will be able to invest in 2-3 projects that will contribute to the green transition in India. The individual investment projects will contribute to the acceleration of India's green transition through e.g. installation of more renewable energy, wastewater treatment, reduction in GHG emission, etc. Each investment project will also contribute to socially just job creation in India through the application of IFU's ESG standards. The Danish Embassy will use IFU's investments as a lever to strengthen policy dialogue with Indian authorities and strategic stakeholders within relevant thematic areas and sectors, thereby contributing to the creation of more favourable conditions for the green transition in India and the investment areas. Through the Initiative, IFU and the Danish Embassy will strengthen their collaboration within the area of green transition and jointly build an interesting portfolio of investment projects which will be in line with the priorities of both IFU, the Danish Embassy and India.

## Justification for support:

The India Green Finance Initiative is fully in line with promotion of Indo-Danish collaboration under the Green Strategic Partnership, the significant climate and finance ambitions detailed in the Danish development strategy "The World We Share," as well as IFU's priorities and strategy. India is experiencing a financing gap in terms of financing available for green transition. With this capital contribution, an expected total of minimum DKK 1 billion will be invested in relevant sectors in India, with a particular focus on SDG 6: Clean Water and Sanitation; SDG 7: Affordable and Clean Energy; SDG 13: Climate Action; and SDG 17: Partnerships. IFU has a well-developed portfolio and pipeline of green projects in India, and the Danish Embassy has expertise within the green thematic areas (SSC, TC). With the deployment of an Investment Advisor at the Danish embassy, there are great opportunities for ensuring even better synergies between the work of IFU and the Danish Embassy for the benefit of India's green transition. The India Green Finance Initiative will contribute to facilitating this collaboration.

## Major risks and challenges:

- COVID-19 pandemic has slowed down the world economy including the Indian economy potentially limiting the appetite for investments and hence companies' ability to grow and create jobs.
- Political challenging environment and challenging framework conditions for green transition.

In line with the adaptive approach, IFU will be flexible in planning and implementation, in order to respond adequately to changes and potential risks.

## Objectives

Support green transition and sustainable development in India, and contribute to the fulfilment of the India-Denmark Green Strategic Partnership.

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

	Climate adaptation	Climate mitigation	Biodiversity	Other green/environment
Indicate 0, 50% or 100%	0%*	100%*	0	0
Total green budget (Mill. DKK)	0*	200*	0	0

\*25% will target adaptation & 75% mitigation, with a 50/50 split in 2022 coming from GCF, and 100% to mitigation in 2023.

## Justification for choice of partner:

It is important to strengthen IFU's capacity to invest more in green transition and climate change in line with the Danish strategy for development cooperation. This commitment will allow IFU to increase investments in relevant SDG projects that would otherwise not be realised. Lastly, the commitment will stimulate closer cooperation between IFU and the Danish Embassy in building an impactful pipeline of new projects.

## Summary:





MFA makes investment capital available to IFU, which enables IFU to invest in green projects in India. A more flexible concessionality profile of the funds will allow IFU to be more innovative and consider investments that might not be possible with the current IFU instruments. It is expected that IFU will be able to leverage other sources of funding. With a small budget, the Investment Advisor at the Danish Embassy will engage in identification of potential IFU investment projects aligned to the current portfolio of engagements at the Embassy of Denmark. At the same time, the Advisor will explore opportunities for improvement of framework conditions in relevant areas for IFU's investments, which can further enhance the impact of the investment projects.

## Budget (engagement as defined in FMI):

Engagement 1 – Capital contribution to IFU	DKK 198 million
Engagement 2 – Technical Assistance	DKK 2 million
<b>Total</b>	<b>DKK 200 million</b>

File No.	2022-2650			
Country	India			
Responsible Unit	GDK			
Sector	MSME, renewable energy, agriculture, water etc.			
Partner	Investment Fund for Development Countries (IFU)			
<i>DKK million</i>	2022	2023	2024	Total
Commitment	100	100	0	200
Projected disbursement	99,5	100	0,5	200
Duration	2022-2024			
Previous grants	Other commitments to IFU but none directly linked to this commitment			
Finance Act code	§06.38.01.11 (udbetalingsstyret)			
Head of unit	Karin Poulsen			
Desk officer	Josephine Pihl Carlson			
Reviewed by CFO	Rasmus Tvorup			

## Relevant SDGs

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

# **India Green Finance Initiative**

**Presentation to the Danida Programme Committee**

**07 June 2022**

**Draft**

**F2 No.: 2022-2650**

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## Abbreviations

CAPEX	Capital Expenditure
CIP	Clearance in Principle
DDD	Doing Development Differently
DKK	Danish Krone
ESG	Environmental, Social and Governance
GDP	Gross Domestic Product
GFF	Green Future Fund
GHG	Greenhouse gas
HIPSO	Harmonised Indicators for Private Sector Operation
HRHI	High Risk High Impact
IFU	Investment Fund for Development Countries
IPR	Intellectual Property Rights
MFA	Danish Ministry of Foreign Affairs
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
PDP	Project Development Programme
SDG	Sustainable Development Goal
SSC	Strategic Sector Cooperation
USD	United States Dollars

# 1. Context, strategic considerations, rationale and justification

## 1.1. Introduction

In 2020, Denmark and India formalized the Green Strategic Partnership, with an accompanying Joint Action Plan covering 2021-2026.<sup>1,2</sup> The purpose of the partnership is to expand, and significantly strengthen, the bilateral relationship and cooperation between India and Denmark. In support of the India-Denmark Green Strategic Partnership, the Danish government in May 2022 announced the India Green Finance Initiative – an earmarked capital contribution of DKK 200 million to the Investment Fund for Developing Countries (IFU) in support of investments in green transition. The capital contribution will contribute to an IFU finance target of USD 500 million for two years. The present project document outlines the rationale and proposed structure for the India Green Finance Initiative.

The Covid-19 pandemic has had a significant negative impact on the Indian economy. In 2020, the gross domestic product (GDP) growth rate plunged to -7.3%, whereas pre-pandemic growth rates in the previous decades were steadily rising with 7-8% per year. Today, the Indian economy is slowly returning to pre-pandemic growth rates, and India could become an upper middle-income country within the next decade. Rapid economic growth comes with both challenges and opportunities. Data from the Organisation for Economic Co-operation and Development (OECD) shows that 75% of the Indian population is exposed to harmful levels of air pollution, and less than 50% of the population has access to safely managed drinking water. Moreover, two-thirds of India's 718 districts are affected by extreme water depletion, and the current lack of planning for water safety and security is a major concern.<sup>3</sup> India has also become the world's third-highest greenhouse gas (GHG) emitter and is expected to become the world's third largest energy consumer by 2030. To alleviate these challenges, investments in green energy, improving natural resource management and initiating climate adaptation is crucial.<sup>4</sup>

India has a growing middle class, and with a population of approximately 1.3 billion, it is vital that India avoids some of the environmentally damaging development traps. It is, for example, important to both develop and modernise the infrastructure and transportation sectors in a way that is less dependent on fossil fuels. This could be done by electrifying public transport or rendering car-sharing more attractive through policy initiatives, combined with investments in renewable energy. In general, investment in clean energy in India is projected to become increasingly lucrative.<sup>5</sup>

The India Green Finance Initiative is aligned with the Development Strategy's – The World We Share – high climate and finance ambitions and supports in particular SDG 6: Clean Water and Sanitation; SDG 7: Affordable and Clean Energy; SDG 13: Climate Action; and SDG17: Partnerships. Through the India Green Finance Initiative, IFU will engage in green financing of the private sector in India with a focus on 1) renewable energy, which the market is not able to mobilize on commercial terms (e.g. repowering, distributed generation targeted the poorest segments, clean cooking); 2) Energy efficiency (e.g. buildings or industrial manufacturing) or 3) adaptation (e.g. storage of food, micro finance for small scale farmers; 4) Water (e.g. waste water, water efficiency).

This will contribute to the Danish government's target of ensuring that 30% of development assistance under §6.3 of the finance act is green by 2023. While all investments will have a commercial return, they will also pursue solid developmental outcomes that promote green sustainable development,

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<sup>1</sup> [Green Strategic Partnership \(um.dk\)](https://um.dk/en/india-green-strategic-partnership)

<sup>2</sup> [Action-Plan \(1\).pdf](#)

<sup>3</sup> <https://www.unicef.org/india/what-we-do/water-sanitation-hygiene>

<sup>4</sup> [Action-Plan \(1\).pdf](#)

<sup>5</sup> <https://blogs.worldbank.org/ppps/green-capex-tightrope-walk-india>

and address environmental challenges, contributing to improved climate conditions, efficient use of natural resources, and/or promoting nature-based solutions as well as socially just and local job creation.

The OECD has projected that the financing gap of the Sustainable Development Goals (SDG) and the Paris Agreement could increase to USD 4.2 trillion due to the impact of the Covid-19 pandemic. In comparison, official development aid (ODA) amounts to USD 160 billion, which constitutes 3.8% of the identified financing gap.<sup>6</sup> There is, therefore, an urgent need to promote private investment in order to accelerate the sustainable green transition and create socially just jobs. Denmark's Strategy for Development Cooperation "The World We Share" includes an objective to "increase mobilisation of finance and promote green Danish solutions within climate, nature and the environment". IFU plays a key role in this respect, and the India Green Finance Initiative feeds directly into this agenda.

## 1.2. Danish engagements in India

As the Green Strategic Partnership outlines, Denmark is expanding its partnership with India, and the Embassy of Denmark in India already works within a range of technical areas, which are relevant to the India Green Finance Initiative. Strategic Sector Cooperation (SSC) projects within the areas of Energy, Environment (Water), Urban Development, and Intellectual Property Rights (IPR), are in operation; and the Trade Council at the Embassy of Denmark in India prioritises the Food & Agriculture, Green Energy, Healthcare & Life Science, Information Technology, Transport, Infrastructure & Defence, and Water & Environment sectors. There is, therefore, ample opportunity for IFU to align the India Green Finance Initiative with the existing Danish engagement. An overview of current bilaterally funded activities can be found in Table 1.

**Table 1: Overview of Danish development finance, including ODA, to green projects in India**

<b>IFU Financing</b> DKK 913 million active portfolio (DKK 581 million equity and DKK 332 million loans) DKK 785 million green pipeline (likely to translate into investments of DKK 300 million)
<b>Strategic Sector Cooperation</b> Approximately DKK 116 million for engagements in Energy, Environment (Water), IPR, and Urban Development (more details available in Annex 2).
<b>Bilateral water project</b> DKK 42 million for UNOPS and the "Urban Living Lab"
<b>Multilateral projects targeting India</b> Approximately DKK 62 million for amongst other renewable energy, energy optimisation, phasing out coal.
<b>Business instruments</b> India is an eligible country for Danida business instruments such as the Danida Green Business Partnership (DGBP), the Danida Innovation and Business Explorer (DIBE) and Danida Sustainable Infrastructure Finance (DSIF). Currently, no projects are approved in India.

*Source: Danish Ministry of Foreign Affairs*

## 1.3. The Investment Fund for Developing Countries (IFU)

The objective of IFU is to promote investments, which support sustainable development in developing countries and contribute to the realisation of the Sustainable Development Goals. Table 2 presents the two overall impact priorities, to which all IFU projects must contribute.

<sup>6</sup> OECD-UNDP Closing the SDG Financing Gap in the COVID-19 era, 2021

**Table 2: IFU Impact Priorities**

IFU's Impact Priorities	
<p><b>Building a green economy</b></p> <p>By supporting businesses that create decent jobs and mitigate or adapt pressures from climate change, change production and consumption patterns, or provide other environmental services and benefits.</p>	<p><b>Building a just and inclusive economy</b></p> <p>By supporting businesses that create decent jobs and provide access to essential services, goods and solutions, including to underserved groups such as women, youth and smallholders.</p>

Source: IFU Investment Strategy 2021-2024

IFU has significantly increased its focus on the green transition and climate change. A new Climate Policy was approved by the IFU Board in April 2022. Guided by its new Climate Policy, IFU will further strengthen its effort to contribute to the stabilisation of GHG concentrations in the atmosphere by financing projects that avoid or reduce GHG emissions or increase sequestration. Furthermore, IFU will continue to invest in climate adaptation to build resilience and reduce vulnerability for countries and populations in areas of operation. This policy will set the direction for the identification and selection of all investment projects.

**Table 3: IFU Climate Policy targets**

IFU's Climate Policy Targets
1. Achieving net-zero portfolio emissions by 2040 at the latest: IFU will continuously report on the current GHG emissions in the portfolio and present an outlook for the future, with a road-map towards its target of net-zero by 2040.
2. Decreasing 3-year rolling average of carbon intensity measured at sector level.
3. Having minimum 50% of all new direct investment volume contracted between 2022-2024 qualifying as climate finance.
4. Screening of all new investment opportunities against do no significant harm on climate

Source: IFU Climate Policy

IFU has a range of investment instruments, with various distinctive characteristics, that can be implemented depending on the nature of the investment (see Annex 3 for an overview of the various IFU instruments). IFU currently has a green pipeline of almost DKK 6 billion (total investments) in India under the SDG Fund and the Green Future Fund (GFF), and IFU estimates that it could invest at least DKK 300 million annually in India. Currently, 10 potential investments are being considered.<sup>7</sup>

IFU already has 14 projects in India, amounting to a total commitment of DKK 913 million (DKK 581 million in equity and DKK 332 million in loans), and will play a leading role in the implementation of the India Green Finance Initiative in terms of identifying, screening and investing into relevant projects. IFU has an office in India, a regional office in Singapore, and has invested in more than 100 projects in India, over the years, leading to total projected investments of DKK 21.9 billion (including mobilised capital). India is one of 22 core countries in IFU's Investment Strategy, with adequate project opportunities that offer financial additionality and commercial interest.

<sup>7</sup> One investment within the IFU focus area "Healthy Foods & Healthy Lives," six investments within "Energy, Water & Waste," two investments within "Financial Inclusion," and one investment within "Transformational Businesses" (see Annex 3 for further information).

IFU has initiated efforts to engage in the project development processes at an earlier stage, and act as risk sharing partner in the preparation of bankable investment projects. Related to this, IFU manages the Project Development Programme (PDP), funded by the Danish Ministry of Foreign Affairs (MFA) to address the shortage of mature bankable investment projects in developing countries.

In 2019 the IFU Board approved a gender equality policy which guides IFU's work on gender equality. IFU believes that opportunities exist to create value in companies and communities by integrating gender equality in company leadership and corporate culture, business practices, workplace policies and health initiatives to strengthen empowerment of employees. Accordingly, IFU seeks to apply a “gender lens” to decision-making related to its investment processes, as applicable, and to demonstrate that investing with a gender lens can reap business returns in addition to social returns. In line with this, gender equality is an integrated part of IFU's project screening and scoring processes and IFU has defined clear targets for the overall portfolio. Moreover, the Gender Strategy seeks to expand the number of investments that qualify for the 2X Challenge launched by development finance institutions (DFIs) to advance opportunities for women.

## 1.4. Justification

**Relevance:** At the 2021 United Nations Climate Change Conference (COP26), India announced a CO<sub>2</sub> emission reduction target of 45% of GDP by 2030, aiming to achieve 50% of its total energy requirements from renewable sources. For India's climate change action to succeed, material progress must be made across multiple sectors. Significant capital expenditure (CAPEX) will be necessary if concrete progress is to be made. The Indian government estimates investment needs of up to USD 250 billion from 2023 to 2030 in ‘Green CAPEX’ —technology enabling clean energy transition.<sup>8</sup>

The India Green Finance Initiative is highly relevant to the overall ambitions of the Government of India, the Danish Government and Denmark's Strategy for Development Cooperation (“The World We Share”), to promote investments in green transition and counter climate change, as well as for the promotion of Indo-Danish collaboration under the Green Strategic Partnership. The initiative is well-aligned with Denmark's ambition to mobilise climate finance from public and private sources (to reach at least 1 pct. of the global climate finance target of USD100 billion) as well as to contribute to the decarbonisation of the large CO<sub>2</sub> emitters globally (India being the third largest emitter after China and the US).

The investments will take into consideration the poorer segments of the population, who are vulnerable in terms of access to clean energy, clean water, and exposure to pollution, including thorough screening of the socio-economic impact of the project and subsequent monitoring. The individual investment cases will include reflections on contribution to poverty reduction, job creation and gender equality.

**Coherence:** The Green Strategic Partnership builds on a whole-of-government approach involving a range of sectors and authorities on both sides. At multiple levels, numerous cooperation agreements and other ongoing joint activities have been initiated, of which the India Green Finance Initiative is only one. Therefore, synergies between the India Green Finance Initiative and other bilateral initiatives will be explored systematically. The Danish Embassy has a range of engagements that contribute to the sustainable green development agenda in India, which are relevant to the India Green Finance Initiative. Further strengthening of the dialogue and cooperation between IFU and the Danish Embassy will contribute to a stronger overall Danish portfolio of engagements in India. IFU can benefit from the Danish Embassy's network and sector knowledge and the Danish Embassy can use IFU investments as

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<sup>8</sup> <https://blogs.worldbank.org/ppps/green-capex-tightrope-walk-india>



leverage e.g. to strengthen framework conditions. As such, there is a strong coherence between the India Green Finance Initiative and the overall Danish portfolio of engagements in India.

**Effectiveness:** The MFA expects the India Green Finance Initiative to have a high level of effectiveness, as IFU already has an existing pipeline of green investments in India, which is projected to expand over the coming years. The current project is, therefore, a unique opportunity to combine IFU's strong focus on commercially viable impact investments with the Danish Embassy's portfolio of interventions that strengthen regulatory framework conditions and promote Danish interests.

**Efficiency:** The MFA expects the India Green Finance Initiative to have a high level of efficiency as it will be fully aligned to IFU's existing systems and procedures related to project identification, screening, management, and reporting. IFU and the MFA have agreed on a well-tested approach to manage MFA capital contributions to IFU, and the India Green Finance Initiative will be fully aligned. Given IFU's typical equity participation in an investment, the capital contribution of DKK 200 million will finance few projects to reduce transaction costs.

**Impact:** IFU, as an impact investor, has well-developed procedures to ensure the highest possible impact, while maintaining the principle of investing in commercially viable projects only. The development results can be obtained within several thematic areas, in particular but not limited to, the green transition (such as renewable energy, energy efficiency and water), the generation of decent jobs, agriculture and food, and gender equality. Beyond the individual green investments, the India Green Finance Initiative is also expected to contribute to the fulfilment of the Green Strategic Partnership and strengthening the long-term relations between Denmark and India.

**Sustainability:** IFU has a strong focus on sustainability in accordance with its new climate policy and international sustainability standards. Typically, five to eight years following the initial investment, IFU will sell their stakes in the company, retaining the capital gain from the dividends. This capital will contribute to IFU's equity, which IFU can reinvest.

**Additionality:** IFU has a range of well-established financing instruments, such as the SDG Fund, the GFF, and IFU-equity investments (sometimes referred to as "IFU Classic"), which each have distinctive characteristics. The additionality of the India Green Finance Initiative consists of three elements: 1) additional investment capital to fill the financing gap, 2) flexibility for IFU to be more innovative, which increases the potential of undertaking investments that may not otherwise have been possible under the current instruments, and 3) stronger coherence between the Danish Embassy and IFU with their many financing instruments.

## 1.5. Strategic considerations

**Concessionality Approach:** The capital contribution of DKK 200 million will, as a point of departure, have a risk profile similar to that of IFU-equity investments — with a lower expected return and higher risk profile than that of the SDG Fund. However, the additionality of the India Green Finance Initiative is such that it will encourage IFU to explore beyond its IFU Classic standards if it is relevant to unleash impactful and innovative investments. Parameters where flexibility could be built into the investment include, amongst others, loan tenure (overall duration, grace periods etc.), a mix of financing instruments (equity, debt, mezzanine, etc.), ticket size, mobilization, level of return, choice of partners, and risk profile. These innovative deviations will be captured and discussed in the submissions to the IFU Investment Committee (Gate 1, Clearance in Principle (CIP), and Binding Commitment).

**Leverage:** The MFA capital contribution to IFU will feed into an IFU target of investing USD 100 million in India in the coming two years. Globally, IFU's share of investments had a leverage factor across

funds of 6.2 in 2020.<sup>9</sup> As a point of departure, it is expected that the average leverage factor for this initiative will be slightly lower. Assuming that overall, IFU can achieve a minimum leverage factor of five, IFU can facilitate total investment decisions of minimum USD 500 million in the period 2022-2023.

**Focus on green investments:** The India Green Finance Initiative will contribute to the Danish government's target of 30% green development assistance under §6.3 of the finance act by 2023. IFU has a system in place to assess the extent to which investments contribute to the green transition agenda. In practical terms, IFU applies its climate policy to all its investments, which among others use the European Union Taxonomy in its screening for green projects. The MFA, Danish Embassy, IFU, and India share thematic priorities, including renewable energy and energy efficiency, water and wastewater, climate-smart agriculture and sustainable food production, which serve as a good point of departure for building a joint vision and portfolio. As the investments will focus on climate adaptation, mitigation and green transition, the entire India Green Finance Initiative will be in line with the Rio Markers definition for climate as principal objective. IFU's systems will ensure that this is adhered to in relation to each individual investment.

The initiative supports in particular SDG 6: Clean Water and Sanitation; SDG 7: Affordable and Clean Energy; SDG 13: Climate Action; and SDG17: Partnerships. Investments are expected to focus on:

- Renewable energy, which the market is not able to mobilize on commercial terms (e.g. re-powering, distributed generation targeted the poorest segments, transmission, solar solutions, clean cooking);
- Energy efficiency (e.g. buildings or industrial manufacturing)
- Adaptation (e.g. storage of food, micro finance for small scale farmers, climate smart agriculture etc.);
- Water (e.g. waste water, water efficiency)

**Synergies between IFU and the Embassy of Denmark in India:** The Green Strategic Partnership identifies the importance of regulatory framework conditions in supporting public and private green investments. IFU's interest lies within the specific commercially viable and bankable investments, whereas other Danish stakeholders will often have, either a wider and more long-term focus on strengthening framework conditions, or a narrower focus on Danish commercial interests. The India Green Finance Initiative will contribute to building a mutual understanding, and synergies, between IFU and the Embassy of Denmark in India, where IFU can use the partnership and the Embassy as political leverage for its project specific needs. The Embassy, in turn can drive the policy agenda and dialogue with relevant Indian authorities and other Indian stakeholders, and also work on relevant projects with longer lead time in parallel to the concrete projects IFU is developing.

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<sup>9</sup> IFU Annual report, 2020, p-13.

**Building a viable investment portfolio:** To further strengthen the coherence between policy work to improve framework conditions and tangible investments, the Ministry of Foreign Affairs has recently deployed an Investment Advisor at the Danish Embassy in New Delhi. The Investment Advisor will work to promote increased private investment in sustainable economic growth and the green transition. More specifically, the tasks include: 1) The identification of framework conditions that constrain international investments, 2) engaging in dialogue with relevant authorities and stakeholders, and 3) the identification of projects with maturation potential for investment within the framework of the SSC or the Denmark-India Energy Partnership. The Investment Advisor will be a key liaison to IFU. Figure 1 illustrates how the Investment Advisor is strategically placed and can play a facilitative role between IFU, the Embassy of Denmark in India, and in particular the SSC, and relevant Indian authorities and stakeholders. Further, the investment advisor will work on bridging development priorities and Danish commercial interest.

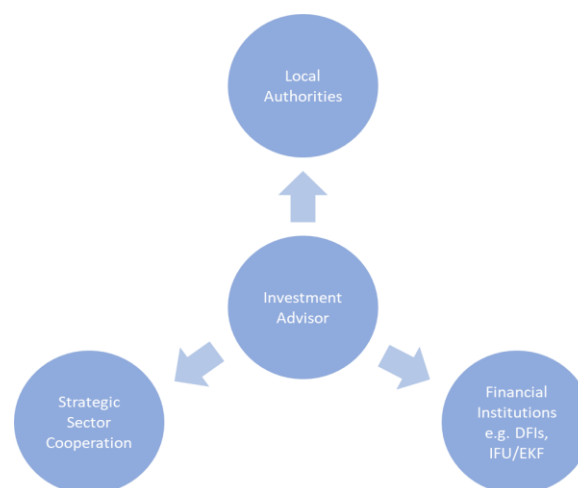
IFU and the Danish Embassy will jointly identify an investment pipeline which, both, fulfils IFU's investment criteria, and is aligned with the Danish priorities. The funded projects will benefit from strengthened framework conditions through IFU and the Danish Embassy's network and ongoing activities, and the funded projects can also be used as leverage to engage in discussions about reforms in the framework conditions.

A 2020 review of the IFU PDP confirmed the importance of IFU's engagement in project development at a much earlier stage.<sup>10</sup> However, the review also indicated that IFU had underestimated the challenges related to engaging in project development at an earlier stage. The India Green Finance Initiative is an interesting opportunity for IFU, through partnerships, to implement this learning.

The India Green Finance Initiative will allocate a small, flexible, budget to the Investment Advisor with targeted activities that can align efforts to strengthen framework conditions and the identification and undertaking of green investments. This budget can be spent on studies and related travel, technical analytical work, training, etc. The funding will not replace IFU's project identification and preparation processes, but be used to prepare the ground for IFU's engagement, e.g. feasibility studies under the PDP.

**Danish strongholds:** IFU will be responsible for investment decisions, which will be based on IFU's standard criteria for commercial viability and impact. IFU investments are no longer tied to Danish companies nor Danish interests and, as such, these will not constitute the main driving force for an investment decision. However, Danish companies and authorities have multiple strongholds within technologies for green transition, and the Indian context offers many interesting opportunities for Danish companies. The India Green Finance Initiative is expected to strengthen coordination and will involve multiple stakeholders, such as the Trade Council at the Danish Embassy, which can pro-actively facilitate relevant linkages to Danish commercial interests.

**Figure 1: Investment Advisor's facilitative role**



Source: *Investeringsrådgivere – formålsbeskrivelse. MFA*

<sup>10</sup> Review of IFU PDP programme, January 2021.

**Responsible Business Conduct/Environmental, Social and Governance (ESG) Requirements:** IFU has a strong focus on the sustainability of investments. Careful preparation and monitoring shall ensure that the sustainable investments will, on average, achieve a satisfactory financial return. IFU will apply sustainability standards, including the International Finance Cooperation standards and the United Nations Guiding Principles for Business and Human Rights, in accordance with its sustainability policy.

**Doing Development Differently (DDD):** IFU will incorporate the components of DDD, introduced in 2020, in the collaborations selected under the India Green Finance Initiative. DDD comprises two main strands to strengthen the relevance and effectiveness of Danish development cooperation, including reinforcing a holistic approach, and introducing an adaptive approach with an increased emphasis on learning. The India Green Finance Initiative will focus on ensuring a holistic approach to tackling the identified financing gap, which will draw on, and reinforce, the priorities of the different stakeholders. Aside from contributing to a green transition in India, IFU must qualify potential investments under this initiative in terms of their direct and indirect bearing on poverty reduction such as e.g. job creation and providing access to affordable green energy. The implementation of the India Green Finance Initiative takes place in a rapidly changing context. It is, among others, an opportunity to gain important learnings from the placement of an Investment Advisor at the Embassy in India, which is a new initiative.

## 2. Project Objective

With this initiative the MFA is providing DKK 200 million to green investment projects in India as part of an effort to contribute to the Green Strategic Partnership between Denmark and India. There is a financing gap in terms of securing enough finance for investments in a sustainable green transformation of India. As impact investor, IFU is instrumental in realisation of the efforts of the India Green Finance Initiative.

**The overall objective of the India Green Finance Initiative:** Support green transition and sustainable development in India and contribute to the fulfilment of the India-Denmark Green Strategic Partnership.

The project comprises two key elements, which translate into two outputs:

1. MFA makes investment capital available to IFU, which enables IFU to invest in green projects in India. A more flexible concessionality profile of the funds will allow IFU to be more innovative and consider investments that might not be possible with the current IFU instruments. It is expected that IFU will be able to leverage other sources of funding.
2. With a small budget, the Investment Advisor at the Danish Embassy will engage in identification of potential IFU investment projects aligned to the current portfolio of engagements at the Embassy of Denmark. At the same time, the Advisor will explore opportunities for improvement of framework conditions in relevant areas for IFU's investments, which can further enhance the impact of the investment projects.

The individual investment projects will contribute to the acceleration of India's green transition by e.g. installation of more renewable energy, wastewater treatment, reduction in GHG emission etc. Each investment project will also contribute to socially just job creation in India by application of IFU's ESG standards. All projects will be contributing to IFU's two impact areas – building a green economy and building an inclusive and just economy – with emphasis on the first impact area (see above).

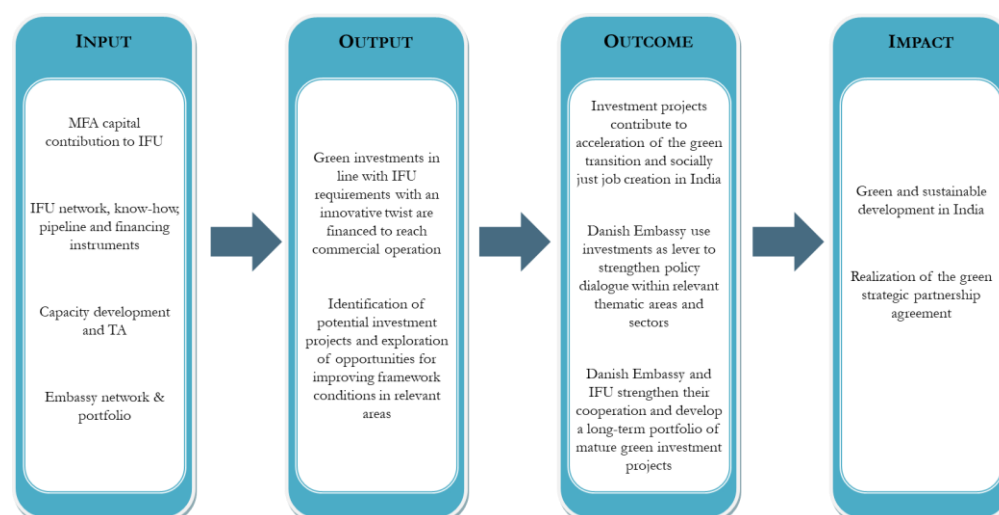
The Danish Embassy will use the investments done by IFU as a lever to strengthen policy dialogue with Indian authorities and strategic stakeholders within relevant thematic areas and sectors thereby contributing to the creation of more favourable conditions for the green transition in India and the investment areas.

All in all, the India Green Finance Initiative will contribute to IFU and the Danish Embassy strengthening their collaboration within the area of green transition and jointly build an interesting portfolio of investment projects which will be in line with the priorities of both IFU, the Danish Embassy and India. In order to build the portfolio, IFU will engage in feasibility studies and maturation of relevant project e.g. by applying the PDP facility.

### 3. Theory of Change and key assumptions

The intervention logic of the India Green Finance Initiative is presented in Figure 2.

**Figure 2: Intervention logic of India Green Finance Initiative**



The theory of change for the India Green Finance Initiative is:

**If...**

- The MFA contributes capital to IFU to finance 2-3 green projects (with an innovative twist);
- IFU and the Embassy provide technical assistance within areas relevant to India's green transition and the investment project pipeline/portfolio in the form of analytical work, study tours, workshops etc.;
- IFU and the Embassy Investment Advisor mobilise additional finance from Danish, Indian, or international sources for the selected projects;
- IFU and the Embassy of Denmark use their expertise, network and political leverage in India to improve the enabling environment and develop a portfolio of relevant, mature and in turn bankable green investment projects.

**Then...** (contingent on the projects selected for funding)

- Greenhouse gas emissions will be avoided and/or reduced;
- Renewable energy will be generated;
- Communities will gain access to clean water;
- Local populations will gain access to socially just jobs.;
- The Embassy of Denmark in India will be able to use the investments as a lever to strengthen policy dialogue with relevant thematic areas and sectors in India;
- The Danish Embassy and IFU will strengthen their cooperation within the green thematic areas and develop a long-term portfolio of mature green investment projects.
- Opportunities for advancing Danish commercial interests will emerge.

### Because...

- A more flexible concessionality profile of the funds will allow IFU to be more innovative and consider investments that might not be possible with the current IFU instruments;
- The Embassy will contribute to the early identification of potential investment projects aligned to the current portfolio of engagements (mainly SSC and Energy partnerships);
- IFU will engage in the feasibility studies and maturation of relevant projects e.g. by applying the PDP facility or similar;
- The Investment Advisor will facilitate access, through the political leverage anchored in the Green Strategic Partnership and the Embassy, to undertake dialogue and technical advisory support between relevant Danish and Indian authorities. The dialogue will focus on: 1) the improvement of framework conditions for investments, and the achievement of a comprehensive, coherent and cost-effective approach to creating an enabling environment for green SSC and Energy Partnerships in India.

### Ultimately...

- This will accelerate the green transition in India through green and sustainable financing of the local private sector, thereby supporting green transition and sustainable development in India, and contributing to the fulfilment of the India-Denmark Green Strategic Partnership.

## 4. Draft Results Framework

Project Title	India Green Finance Initiative
Project Objective	Support green transition and sustainable development in India and contribute to the fulfilment of the India-Denmark Green Strategic Partnership.
Outcome 1	2-3 investment projects contribute to acceleration of the green transition and socially just job creation in India
Outcome 2	Danish Embassy uses the India Green Finance Initiative as a lever to strengthen policy dialogue within relevant thematic areas and sectors
Outcome 3	Danish Embassy and IFU strengthen their cooperation and develop a long-term portfolio of mature green investment projects
Output 1	Green investments in line with IFU requirements with an innovative twist are financed to reach commercial operation
Output 2	Identification of potential investment projects and exploration of opportunities for improving framework conditions in relevant areas

See Annex 2 for details on indicators and targets related to the impact, outcomes, and outputs.

## 5. Inputs/budget

Table 4: Budget

Activity	2022	2023	2024	Total (million DKK)
Capital Contribution	99	99	0	198
Technical Assistance	0.5	1	0.5	2
<b>Total</b>	<b>99.5</b>	<b>100</b>	<b>0.5</b>	<b>200</b>

The funding will be transferred in two tranches respectively in 2022 and 2023, and IFU will commit to investing the full amount before the end of 2023. IFU will remain engaged in the individual investments in line with agreed timelines (typically 5-8 years). Once the funds are successfully invested, this

appropriation will close.<sup>11</sup> Reflow of funds from the investments will be an integrated part of IFU's capital and business activities, in line with the investment mandate. The Investment Advisor at the Danish Embassy will manage the funds for technical assistance. Follow-up activities in 2024 are also foreseen.

## **6. Institutional and Management arrangement**

### **6.1. Governance set-up**

IFU is an independent government-owned fund offering advisory services and risk capital to companies wishing to do business in developing countries and emerging markets. IFU, and IFU managed funds, have co-invested directly in 1,300 companies in 100 countries across the world. Committed investments in these companies total DKK 209 billion, of which IFU has contributed DKK 23 billion. IFU works on a commercial basis grounded in the logic that business investment is a long-term solution to economic improvement, and thus development. The procedures and governance set-up for MFA capital contributions to IFU are well established.<sup>12</sup> The India Green Finance Initiative investments will be integrated into IFU's governance structure and managed according to IFU policies and procedures, as well as, the priorities outlined in this document.

To support the work of the Investment Advisor, a Green Investment Advisory Board was established in 2021, serving as a sounding board related to the advisor's work and arising opportunities. This is key for the identification of opportunities in India and the development of concrete proposals for working with framework conditions. The India Green Finance Initiative is also expected to benefit from the work undertaken with and by the Green Investment Advisory Board.

When deciding on the concrete projects, the India Green Finance Initiative will adopt the practice from the High Risk – High Impact (HRHI) facility, where IFU informs the MFA of concrete investment proposals prior to IFU CIP approval. This practice ensures a transparent discussion with the MFA early in the process, in order to, for example, address key issues in relation to the type of investment, additionality, concessionality, development outcomes, result measurement, sustainability, risk, and rate of return. Considering the strong MFA attention to possible synergies with planned and ongoing MFA development programmes and instruments in India, the HRHI practice of pre-CIP information on concrete proposals will be adopted in the India Green Finance Initiative.

### **6.2. Financial Management**

Financial reporting on the India Green Finance Initiative will be integrated into IFU's overall financial reporting to the MFA. The India Green Finance Initiative will be integrated into the overall monitoring and coordination of MFA funded IFU projects, including quarterly meetings between MFA and IFU Management. Furthermore, MFA also participates as observer in the IFU Board.

### **6.3. Monitoring and Evaluation**

IFU's impact management system is fully integrated into the IFU investment cycle, and involves a number of steps from initial project screening to exit. All initial investment opportunities are screened using IFU's project screening tool – introduced in 2020 – and which ensures alignment with IFU's investment strategy, including the impact criteria for green transition and for just and inclusive growth.

During the due diligence process, projects are assessed for their potential positive and negative contribution to the SDGs, and how IFU can enhance development effects, for instance by strengthening

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<sup>11</sup> In line with guidance in "Vejledning for håndtering af kapitalindskud fra Udenrigsministeriet til IFU".

<sup>12</sup> IBID

ESG requirements, providing technical assistance to the company. The investee company will elaborate a results framework with specific indicators, baseline values, and targets as an integrated part of the investment agreement and the investee's reporting obligations. Through its active ownership, IFU supports the investees in identifying options for improving their sustainability performance. The projects are required to report progress on impact targets annually.

The investments under the India Green Finance Initiative will be part of the overall IFU portfolio, and IFU will report on India Green Finance Initiative investments in the IFU annual report. In 2019 and 2020, IFU published a separate "Impact and Sustainability Report", but from 2021 forwards this is included in the annual report<sup>13</sup>. At present IFU reports on five areas of impact; financial capital, intellectual capital, human capital, social capital and natural capital. IFU reports on the performance of the full portfolio on a few results, including greenhouse gas emissions and indirect employment, while the remainder are project-specific. As seen in the 2021 annual report, some indicators are still under development. One area is adaptation, where the MFA is also in the process of consolidating reporting standards and will engage with IFU on this topic.

IFU is currently in the process of developing a new IT system, a project approved by the board in December 2021 running until the end of 2025. The new system among others focuses on impact measurement and management, aligned with IFU's investment strategy, and with a view to improving data quality and reporting on impact the coming years.

This appropriation will run until 2024 when all funds are expected to be invested by IFU. IFU M&E system will monitor implementation of the investment projects and the results hereof until the projects are closed (typically after 5-8 years). IFU will capture the outcome and impact of these investments in its results measurement system.

## 7. Risk Management

IFU will monitor and respond to developments in contextual, environmental, programmatic, and institutional risks in close dialogue with the MFA's Green Diplomacy and Climate Finance team and other project partners as relevant.

IFU has a well-developed risk management system, and the individual investments projects will be assessed according to IFU's risk management principles and be subject to thorough due diligence (appraisal). The process includes screening projects for development impact and eligibility, preliminary approval by IFU Vice Presidents (Gate 1), CIP in IFU's Investment Committee and Board, and a final approval, Binding Commitment, in IFU's Investment Committee and Board. The due diligence draws on in-house expertise and external consultants to assess opportunities and relevant risks related to policies and regulations, market potential, financials, governance and compliance, environmental, social and human rights risks etc. Adequate measures will be taken to manage and mitigate the risks. IFU will normally be an active owner with board representation and monitor financial and impact performance.

The main risks identified at this point in the identification stage are:

- Covid-19 pandemic health measures limiting project implementation. Slow projected Gross Domestic Product growth recovery after Covid-19 may impact the business environment and hence companies' ability to grow and create jobs. Risk response: the funding will have more flexibility in terms of risk profile, and thus be more 'patient'.

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<sup>13</sup> [https://www.ifu.dk/wp-content/uploads/2022/05/IFU\\_AR\\_2021\\_280421.pdf](https://www.ifu.dk/wp-content/uploads/2022/05/IFU_AR_2021_280421.pdf)



- Potential global financial recession triggered by the Russian aggression in Ukraine, current increasing world commodity prices and increased inflation rates.
- Political complexity in the region. Risk response: make use of both IFU's and the Danish Embassy's in-depth knowledge of India to avoid investments in too risky regions.
- Rigid framework conditions for the investments. Risk response: Close collaboration between Embassy and IFU and technical assistance initiatives to address such issues.

In line with the adaptive approach, IFU will be flexible in planning and implementation, in order to respond adequately to changes and potential risks.

## Annex 1: Process Action Plan

Deadlines	Action/product	Responsible	Comment/status
<b>Formulation, quality assurance and approval</b>			
June 2, 2022	Presentation to the Programme Committee forwarded to ELK	GDK (Josephine/Maike)	Draft TOR for appraisal, revised draft PAP and Draft Program Document and associated partner documentation
June 28, 2022	Meeting in Danida Programme Committee	ELK/GDK	List of received responses from the consultation
June 28-August 15, 2022	Address comments from Programme Committee in programme documents	Consultant	
August 15-31, 2022	Quality assurance: Appraisal	ELK/Lasse	An independent view must be safeguarded during appraisal
September 5, 2022	Programme Document, including Appropriation Cover Note and Presentation to the Programme Committee forwarded to ELK	GDK (Maiken)	Summary conclusions from the Programme Committee taken into account
September 22, 2022	Presentation to the Council for Development Policy	GDK/ELK	
End September	Address comments from Council for Development Policy in programme documents	Consultant	
End September/Beginning October	Presentation of project proposal to the Minister for Development Cooperation	ELK submits the proposed project/programme together with the minutes	After Council for Development Policy meeting
<b>Initial actions following the Minister's approval</b>			
December 2022	ELK facilitates that grant proposals are published on Danida Transparency after the Minister's approval	ELK	
December 1, 2022	Document for Finance Committee (Aktstykke) finalised & Presentation to the Parliamentary Finance Committee	GDK/ELK	Legal basis for commitment
Mid-December	Sign agreement with IFU	GDK + IFU	
After agreement(s) are signed	Register commitment(s) in MFA's financial systems within the planned quarter	GDK (Maiken)	
Mid-December	Disbursement of funds to IFU	GDK (Maiken)	

## Annex 2: Draft detailed results framework

<b>Project Title</b>		<b>India Green Finance Initiative</b>
<b>Project Objective</b>		Support green transition and sustainable development in India and contribute to the fulfilment of the India-Denmark Green Strategic Partnership.
<b>Impact Indicators</b>		<ul style="list-style-type: none"> <li>Indo-Danish policy dialogue has contributed to creating an enabling environment to accelerate the green transition in India.</li> </ul> <p>India on a pathway to a green economy: The impact indicators will depend on the specific investment projects to be determined and be based primarily on IFU's impact priority "building a green economy" (cf. table 2), and contribute to SDGs 6, 7, 11, and 13.</p>
<b>Outcome 1</b>		<b>2-3 investment projects contribute to acceleration of the green transition and socially just job creation in India</b>
<b>Outcome indicators</b>		<p>The outcome indicators related to green transition will be drawn from IFU's results measurement system, which is based on international standards, e.g. HIPSO<sup>14</sup>. Applied indicators will depend on the sectors in which investments will take place. The present IFU outcome indicators most relevant for India Green Finance Initiative include:</p> <ul style="list-style-type: none"> <li>Avoided/reduced GHG emission</li> <li>Installed capacity of renewable energy</li> <li>Wastewater treated (m3)</li> <li>Number of direct jobs sub-divided into female and youth</li> <li>Etc.</li> </ul>
Baseline	2022/2023	Baseline values for selected indicators will be established for each project funding agreement prior to project commencement
Target	Target year depends on investment horizon	Targets will be set for selected indicators for each project funding agreement prior to project commencement and will be captured in IFU results measurement system
<b>Outcome 2</b>		<b>Danish Embassy uses the India Green Finance Initiative as a lever to strengthen policy dialogue within relevant thematic areas and sectors</b>
<b>Outcome indicator</b>		<ul style="list-style-type: none"> <li>Improved enabling environment within relevant areas</li> <li>No. of cases where SSCs and other Embassy staff use IFU investment projects (portfolio or pipeline) actively in their engagement with authorities</li> </ul>
Baseline	2022	TBD
Target	Target year depends on investment horizon	TBD

<sup>14</sup> Harmonised Indicators for Private Sector Operation (HIPSO) developed by group of 28 DFIs to harmonise results measurement

<b>Outcome 3</b>		<b>Danish Embassy and IFU strengthen their cooperation and develop a long-term portfolio of mature green investment projects</b>
Outcome indicator		<ul style="list-style-type: none"> <li>• Volume of green IFU investments realised in India 2022-2023</li> <li>• Relevance of the investments realised directly with India Green Finance Initiative funding (DKK 200 million) for the portfolio of the Danish Embassy</li> <li>• Additional green investment opportunities in India are identified and in line with Danish Embassy interest and relevant for the IFU 2022/23 investment target for India.</li> <li>• Number of project preparation initiatives taken by IFU in India to build investment portfolio in sectors relevant to the Embassy</li> </ul>
Baseline	2022	<ul style="list-style-type: none"> <li>• TBD</li> <li>• NA</li> <li>• TBD</li> <li>• TBD</li> </ul>
Target	2024	<ul style="list-style-type: none"> <li>• USD 100 million</li> <li>• All investments are of relevance for the Danish Embassy</li> <li>• At least 50% of the total IFU green investment target for India (50% of USD 100 million) are in sectors of relevance for the Danish Embassy portfolio and contributing to fulfilment of the Green Strategic Partnership.</li> <li>• 1-2 PDP projects</li> </ul>
<b>Output 1</b>		<b>Green investments in line with IFU requirements with an innovative twist are financed to reach commercial operation</b>
Output 1 indicator		<ul style="list-style-type: none"> <li>• Number of green projects financed</li> <li>• Number of green projects that have reached commercial operation</li> <li>• Amount of additional finance leveraged (measured in DKK)</li> </ul>
Baseline	2022	<ul style="list-style-type: none"> <li>• 0</li> <li>• 0</li> <li>• 0</li> </ul>
Target	2023-2030	<ul style="list-style-type: none"> <li>• 2-3 projects by 2023</li> <li>• 2-3 projects by 2030</li> <li>• 1,000 million DKK (leverage factor 5) from Danish, Indian, or international financing sources</li> </ul>
<b>Output 2</b>		<b>Identification of potential investment projects and exploration of opportunities for improving framework conditions in relevant areas</b>
Output 2 indicators		<ul style="list-style-type: none"> <li>• Number of initiatives taken by Investment Advisor to pro-actively identify investment opportunities (studies, study tours, workshops etc.)</li> <li>• Number of initiatives taken by Investment advisor, IFU and other embassy staff to pro-actively leverage investments to improve the framework conditions (studies, study tours, workshops etc..)</li> </ul>
Baseline	2022	TBD
Target	2023-2030	<ul style="list-style-type: none"> <li>• 5-10 initiatives</li> <li>• 5-10 initiatives</li> </ul>

## Annex 3: DMFA Strategic Sector Cooperation in India

*Source: Danish Embassy website*

**Energy:** The Indo-Danish cooperation on renewable energy started in 2018 with a Strategic Sector Cooperation with the Ministry of New and Renewable Energy (MNRE) focused on offshore wind and the new 5-year India-Denmark Energy Partnership is now expanding the cooperation to include both MNRE and the Ministry of Power (MOP). The thematic focus areas are; offshore wind, integrated renewable power, energy planning and modelling, power system flexibility, integration of high share of renewable energy and electricity markets. India's approach to energy transition will have a significant impact on the country's economic growth and job creation as well as on the success of the Paris Agreement and the SDGs.

**Environment (Water):** India is home to 18 percent of the world's population but only 4 percent of its water resources. The country is suffering a significant water crisis with economic growth, livelihoods, human well-being and ecological sustainability at stake. Wastewater pollution from industry and households is putting pressure on the already scarce resources. As a progressive leader in wastewater management, the Danish Environmental Protection Agency is planning a Strategic Sector Cooperation (SSC) with the Government of India to help tackle this urgent issue. Danish strongholds in this sector comprise of river basin management, environmental water quality monitoring, management of point-source pollution and dialogue-based compliance promotion toward industry.

**Intellectual Property Rights:** World Intellectual Property Organization's Global Innovation Index successively ranks Denmark among the top 10 most innovative countries of the world. India and Denmark are working towards building a long-term technical partnership in the field of Intellectual Property Rights. Through this cooperation between the Danish Patent and Trademark Office and the Indian Patent Office, both countries are committed to sharing best practices and building mutual capacities in areas such as quality management systems, commercialization of IP and awareness raising and outreach. India, with its large demography and developmental trajectory, can play a vital role in realizing the global goals and curb climate change. Technology transfer, collaborative innovation as well as export of green tech solutions are central to realising this ambition, which makes the existence of a robust IPR system a pre-requisite. Therefore, the Indo-Danish partnership on IPR will not only accelerate India's economic development but also significantly contribute to the aims of the Green Strategic Partnership by promoting India's green transition.

**Urban Development:** Given Danish expertise in this field, the City of Aarhus Denmark and the City of Udaipur, India are implementing a Joint Project on Sustainable Urban Water Management. The expected outcomes of the cooperation are; enhanced liveability through sustainable development; improved water quality by reduced proportion of untreated water; improved drinking water services and water quality, increased water-use efficiency and enhanced integrated water management; and local and global city partnerships on sustainable cities and urban water management established. The project is expected to contribute not only toward the activities of City of Udaipur and Udaipur Smart City Limited (USCL) but also to the Green Strategic Partnership between India and Denmark and in particular to SDG 11 on Sustainable Cities and Communities and SDG 6 on Clean Water and Sanitation.

## Annex 4: IFU engagement in India

### Overview of IFU investments in India

Projects	Number of Investments	IFU contracted participation (Million DKK)	Total projected investment (Million DKK)
Active	14	913.5	11,515
Closed	86	1,023	10,395
<b>Total</b>	<b>100</b>	<b>1,604</b>	<b>21,910</b>

Source: IFU Website

### Overview of IFU pipeline of potential investments in India

Project	IFU Focus Area	Projected investment (Million DKK)
Sourcing of organic products	Healthy foods & healthy lives	199
Post-consumer PET waste recycling	Energy, water and waste	107
Off-grid energy	Energy, water and waste	140
Solar energy and green technology	Energy, water and waste	0
Waste management and recycling	Energy, water and waste	125
Wind power and green technology	Energy, water and waste	6.5
Renewable energy based on biomass	Energy, water and waste	130
Green transportation	Transformational Businesses	170
Fintech impact investment	Financial inclusion	110
SME Impact investment	Financial inclusion	280

Source: Extract from IFU database

### Overview of IFU instruments

