IFU Africa Facility

Key results:

- Increased climate impact as well as economic and social inclusion in low-income countries and emerging markets through higher investment volumes that build on African and Danish commercial partnerships.
- Up to 14 investments that strengthen trade, investment and commercial partnerships between Africa and Denmark.

Justification for support:

- The Africa Facility supports the implementation of the Danish government's new strategy for strengthened Danish engagement with African countries. The Facility promotes economic and social development through increased investments in African markets, stronger trade relations between Africa and Denmark as well as increased opportunities for African exports to Denmark.
- The Facility will among other provide risk capital and TA to increase commercial investments in Africa. This will enhance market opportunities for African businesses and boost competitiveness, sustainable econ. growth and job creation.
- The Africa Facility will address the information gap and risk perception challenges which constrains Danish investments and commercial partnerships with African businesses. The facility will follow IFU's financial and non-financial additionality requirements, contributing to green, social or economic development as well as IFU's investment strategy. This includes screening for long-term financial sustainability of investments, as well as prior partner experience and knowledge of doing business in the region.

Major risks and challenges:

- That Danish partners not necessarily have needed experience and know-how to engage in African markets - this will be mitigated through screening for strong business plans.
- That Danish companies are not sufficiently ready to make immediate use of the facility. This will be mitigated by addressing the information gap in collaboration with other stakeholders and through active engagement with the Danish business member organisations. Increased flexibility in the use of financial instruments will also respond to the specific needs and dynamics of Danish and African companies.

File No.	24/47730				
Country	Africa				
Responsible Unit	KLIMA				
Sector	Green energy and infrastructure, healthcare, sustainable food systems, financial services, and adjacent sectors.				
Partner	Investment Fund for Developing Countries				
DKK million	**2025**	**2026**	**2027**	**2028**	**Total**
Commitment	100.0	100.0	100.0	50.0	350.0
Projected disbursement	100.0	100.0	100.0	5.0	350.0
Duration	Four years				
Previous grants	None				
Finance Act code	§ 06.38.01.11				
Head of unit	Karin Poulsen				
Desk officer	Marie Isacsson				
Reviewed by CFO	Karen Marie Hansen				

Relevant SDGs *[Maximum 1 – highlight with grey]*

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	

Objectives

The Africa Facility aims to support regional and local growth, employment and development in African countries through investments in African countries and increased commercial engagement between African and Danish businesses.

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

	Climate adaptation	**Climate mitigation**	**Biodiversity**	**Other green/environment**
Indicate 0, 50% or 100%		25 %		**35 %**
Total green budget (DKK)		30 million		**122,5 million**

Justification for choice of partner:

IFU has a long track record with investments in developing countries, including in the African continent. IFU provides ODA-compliant financing with a higher risk tolerance, particularly in low-income countries in Africa. IFU has long-term experience with investing in contexts where regulatory challenges often minimize access to other funding sources. IFU is also experienced at catalysing essential investments in sustainable development sectors and boosting climate resilience.

Summary:

Over the coming years, IFU will significantly increase its capability to support development and climate goals. With the IFU reform, it is expected that IFU will invest up to eight billion DKK in the African continent and mobilise an additional three billion DKK towards 2030. The Africa Facility will complement IFU's existing financial products and services. IFU will relax certain IFU standard requirements on minimum transaction size and returns, which have been identified as challenges setting up a barrier for increasing commercial engagement between African and Danish businesses. The facility will follow IFU's financial and non-financial additionality requirements, contributing to green, social or economic development as well as IFU's investment strategy. With the Africa Facility IFU will engage actively to address the information gap and risk perception challenges to facilitate Danish investments and commercial partnerships with African businesses.

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

Engagement 1 – IFU	314 DKK million
TA and support	35 DKK million
Reviews and studies	1 DKK million
Total	**350 DKK million**

Ministry of Foreign Affairs

Concept Note

Africa Facility

13 February 2025

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List of abbreviations

A2i	Access to Innovation
Dansk Erhverv	Danish Chamber of Commerce
DGBP	Danida Green Business Partnerships
DI	Danish Industries
DIBE	Danida Innovation and Business Explorer
DKK	Danish Krone
CSR	Corporate social responsibility
EIFO	Export and Investment Fund of Denmark
ESG	Environment, social and governance
EU	European Union
IFU	Investment Fund for Developing Countries
KYC	Know Your Customer
LMICs	Low- and middle-income countries
MFA	Ministry of Foreign Affairs
NEFO	Nordic Green Bank
OECD-DAC	Organisation for Economic Cooperation and Development, Donor Assistance Committee
ODA	Official Development Assistance
P4G	Partnering for Green Growth and the Global Goals
SDGs	Sustainable Development Goals
UPR	Council for Development Policy
US$	United States Dollar

Discussion questions

The MFA Programme Committee is invited to consider the following.

The Africa Facility must (i) meet Economic Development Cooperation Development Assistance Committee (OECD-DAC) system requirements (including state aid), (ii) comply with the Investment Fund for Developing Countries' (IFU's) impact objectives and financial and non-financial additionality requirements, and (iii) contribute increased commercial engagement between African and Danish businesses.

Is it clear from the design of the Africa Facility, presented in this document, how these requirements are met? If not, how can this be further clarified?

1. Introduction

This concept note is submitted to the MFA Programme Committee for its comments on formulating a Programme Document on the IFU Africa Facility. It outlines the rationale and proposed structure for an IFU-managed Africa Facility that will be presented to the Council for Development Policy (UPR) for approval in June 2025.

The Africa Facility aims to support regional and local growth, employment and development in African countries through investments in African countries and increased commercial engagement between African and Danish businesses. It will build on IFU's considerable experience as an impact investor in high-risk environments, enhancing IFU's investment offerings by modifying the risk-return requirements to create new opportunities for Danish interests while lowering the minimum ticket size. Providing a more flexible, tailored approach for Danish companies, IFU will offer clear guidance on its offerings and actively promote the facility within the Danish business community.

The Africa Facility is part of the Danish government's new strategy for strengthened Danish engagement with African countries: Africa's Century.[1] The strategy has a strong focus on equal partnerships. This includes increasing African and Danish commercial ties and following up on the great interest of many African countries in attracting investments and strengthening trade between Europe and Africa. Danish companies have much to offer the African markets. Danish companies can contribute to sustainable development across Africa through their technologies, management systems, and sector specialisations. This requires developing instruments and risk capital to support increased collaboration between Danish and African companies.

To support this, the Africa Strategy launched a financing scheme with two main components, which are to be implemented by IFU and the Export and Investment Fund of Denmark (EIFO). The first of these is the IFU Africa Facility – the subject of this document – which will promote social and economic development through investments in Africa and partnerships between African and Danish businesses. Three-hundred and fifty Danish Krone (DKK) will be provided to the facility, which IFU will manage. The facility will complement IFU's existing financial

1 Government of Denmark (2024) *Africa's century. Strategy for strengthened Danish engagement with African countries*, Ministry of Foreign Affairs, Copenhagen.

products and services. This may include investments in African companies collaborating with Danish businesses, co-financing direct Danish investment in African countries, and expanding investment opportunities that forge African-Danish linkages and partnerships contributing to positive development impacts and commercial viability in the African countries. The second component is a new EIFO Africa window to expand its product offerings to a broader range of countries with higher risk. DKK 150 million has been allocated to enable export credit financing for high-risk projects. These funds will serve as a loss coverage to cover the risk of export credit financing of approximately DKK 500 million, thereby supporting Danish exports to African countries.

IFU supports sustainable development in developing countries and contributes to realising the United Nations (UN) Sustainable Development Goals (SDGs) and the Paris Agreement. In 2023, the Government approved a reform to support IFU as a leading impact investor, enhancing IFU's capacity to fulfil central Danish development and climate priorities while supporting economic and social development in developing countries, including a specific focus on among other Africa. Over the coming years, IFU will significantly increase its capability to support development and climate goals. It will grow the capital it manages, introduce more instruments to engage different segments in various markets and blend these instruments with greater flexibility. With the reform, it is expected that IFU will invest up to eight billion DKK in the African continent and mobilise an additional three billion DKK towards 2030.

2. Context, strategic considerations, rationale and justification

2.1 Development Context

Africa is increasingly seen as the next frontier for global economic development, thanks to its rich natural resources, a growing youth demographic and significant potential for innovation. The continent boasts the world's youngest and fastest-expanding population, alongside rapidly urbanising cities and groundbreaking advancements in areas like fintech and clean energy. Nevertheless, numerous African countries continue to grapple with significant challenges. Approximately 60 per cent of Africa's population lives in poverty, attributed to an average per capita income growth of only 1.1 per cent per year over the past several decades. Youth unemployment exceeds 25 per cent, and over 85 per cent of Africans experience severe or moderate food insecurity. Low productivity across various sectors has contributed to a 35 per cent decline in Gross Domestic Product growth in the last decade. At the same time, governance and the regional and national institutions that support it face obstacles in many areas of the continent. Investment in infrastructure and essential social services, such as education and healthcare has lagged as many countries confront fiscal constraints.

Africa's sustainable development and poverty reduction are impeded by interest payments and high inflation, especially in food prices, exacerbating food insecurity. Moreover, African countries face energy shortages, water scarcity and inadequate infrastructure. Economic growth is forecast to improve to 3.7 per cent in 2025, but high inflation, mounting debt and climate vulnerabilities persist. The continent needs substantial investments in renewable energy, sustainable infrastructure and critical minerals management to foster resilience and growth.[2]

African countries are growing fast, and 11 of the 20 fastest growing countries in the world are to be found on the African continent. Africa offers diverse investment opportunities across key sectors, such as energy, agriculture, healthcare, and infrastructure. The continent's growing middle class, technological advancements, and untapped resources present promising prospects. Fintech, e-commerce, and renewable energy are emerging as significant growth markets.

Denmark's 2024 strategy for strengthened Danish engagement with African countries recognises that Danish investment in Africa is too low (i.e., only 1.5% of Denmark's exports went to Africa between 2021 and 2023, while imports from Africa were merely 0.8%), and highlights the need to "develop instruments and raise risk capital that can assist Danish companies" in conducting business in and with Africa.

Danish companies play a role in supporting social and economic development in Africa, although still at a modest scale. By investing in key sectors such as energy, water, agribusiness, and healthcare, Danish firms can increase their contribution to job creation and economic growth. Danish solutions in areas such as urbanisation, technological development, and digitalisation can make a lasting positive impact. Danish investments, particularly through institutions like IFU, can help strengthen the private sector and create employment opportunities for Africa's growing youth population. Additionally, by engaging in strategic partnerships and fostering trade relations, Danish companies can support sustainable growth and contribute to poverty reduction across the continent. Danish companies can also play a significant role in contributing to African countries addressing climate-related vulnerabilities through investments related to renewable energy, water management and sanitation, climate-smart agriculture, green infrastructure development, energy efficiency, as these are among the Danish commercial positions of strength. By engaging in these areas, Danish companies can contribute to Denmark's Official Development Assistance (ODA) commitments while mobilising private sector investments crucial for achieving the SDGs.

Denmark follows the Organisation for Economic Development Cooperation Development Assistance Committee (OECD-DAC) system to determine if an activity qualifies as ODA. All IFU activities comply with these standards and qualify as ODA. Because the primary objective of ODA is to promote economic and social development in a developing country, supporting private Danish investment in Africa is focused on mobilising Danish solutions to address the development challenges African countries face.[3] Thus, efforts should be taken to align Danish commercial interests better to create positive developmental effects in African countries that would not be possible under existing market conditions due to the high risks[4]. Denmark seeks to support private investments in Africa that benefit regional and local growth, employment, and

2 Brooking Institution (2025) *Foresight Africa; top priorities for the continent 2025-2030*, Africa Growth Initiative, Brooking Institution, Washington DC.

3 The recipient must be on the DAC List of ODA-eligible countries and territories. All countries in Africa are on this list.

4 Following the IFU definition and guidance on financial additionality.

development in African countries with ever-closer economic integration between Europe and Africa.

Supporting private investment in African markets holds the potential for far-reaching impacts. Nine out of ten African jobs are created in the private sector. As businesses grow in Africa and become more profitable, they contribute more to local tax bases, potentially improving public services and welfare. Commercial investments in Africa can increase export earnings for African countries, bolstering their economies while catalysing additional investments. Private investments often attract further private investments, amplifying the impact of the initial investment. IFU can help Danish investors participate in projects they might have otherwise considered too risky or uncertain by providing initial funding or risk-sharing mechanisms. Thus, investments can leverage additional funds from domestic and international sources, increasing the size and impact of the project.

Danish investments can contribute to developing and transforming African economies, including support for the green transition. IFU has been investing across the entire African continent for decades and is an experienced and capable investment organisation. Private Danish investments often involves partnerships with local institutions, enhancing capacity building and innovation in African countries. However, economic and market transformation takes time. Danish investors need access to patient capital to adopt a long-term perspective that balances risk and return. Because initial investments plant the seeds for lasting change, catalytic support from agencies like IFU can help Danish investments in Africa improve the sustainability of critical sectors and projects. There are many examples in Africa where government assistance in getting Danish investments off the ground has led to decades of continued commercial partnerships and private sector growth.

However, Danish companies face several challenges when considering investments in Africa, leading to relatively low engagement. These include:

- **Diverse, complex markets:** Africa is diverse, consisting of 54 countries with unique economic conditions, regulatory frameworks, and cultural contexts. This diversity makes it challenging for Danish companies to navigate and identify suitable investment opportunities, as each market demands tailored strategies and approaches.
- **Perceived risk:** A substantial level of perceived risk is associated with investing in Africa. Numerous African countries undergo political volatility and economic uncertainty, which can dissuade potential investors. Worries regarding governance, corruption, and legal frameworks foster a risk-averse mindset among Danish firms.
- **Inadequate infrastructure:** In many African regions, inadequate infrastructure presents significant barriers for foreign investors, affecting logistics, supply chains, and overall business operations.
- **Lack of knowledge:** Many Danish companies lack sufficient knowledge about African markets, including consumer behaviour and local business practices. This gap can hinder their ability to make informed investment decisions.
- **Lack of experience with local partners:** Successful investments often require local partnerships to navigate the complexities of the market. Danish firms may struggle to find reliable local partners or hesitate to engage with unfamiliar entities.

- **Preference for established markets:** Many Danish companies tend to prioritise investments in more familiar and stable markets, such as Europe or North America, where they have established networks and experience. This preference limits their exploration of opportunities in Africa.

2.2 Development problems to be addressed

The IFU Africa Facility addresses the development problems associated with the low levels of investment and trade between African and Danish markets, which are consequently tied to the challenges and market failures outlined in the previous section. The Africa Facility centres on two key aspects:

- There is a need to overcome the information gap preventing Danish companies from understanding the financing opportunities and risks associated with engagement in African countries. This hampers investment and trade between Africa and Denmark and the opportunity for Danish companies to contribute to social and economic development.
- There is a lack of risk-willing capital to support Danish business engagement in Africa. Thus, there is a need to provide risk migration instruments that help reduce the perception of risks and costs that hold back investment and trade between Africa and Denmark.

An underlying related problem is the decline in demand from Danish companies for engagement with IFU. This trend began before IFU was untied from Danish companies in 2017 and has continued since. When IFU was untied it allowed IFU to significantly boost its overall investment activities and impact in developing countries; it also resulted in a broader global pool of viable, impactful investment cases, which introduced greater competition for IFU's funding. The Africa Facility will tackle this by providing complementary investment services that are more flexible and relevant to the dynamics of potential Danish investors.

The Africa Facility presents a new approach to helping Danish investors become more engaged in African markets and contribute directly to the social and economic development and green transformation of African economies. Through this approach, IFU will:

- Adjust the risk-return requirements to open new opportunities for Danish interest.
- Reduce the minimum ticket size from DKK 75 million to approx. DKK 25 million.
- Make more technical assistance available to support promising applications (i.e., enhancing access to technical assistance available to Danish companies and Danish-African projects).
- Provide clear information on IFU's offerings and enhanced guidance through the application process for the African Facility as well as guidance to non-IFU relevant investee candidates to other platforms for information about other financing opportunities.
- Own and adopt a forward-leaning promotion of the facility, taking advantage of upcoming rebranding and communication initiatives.

The Africa Facility will apply an expanded interpretation of Danish interests to accommodate the multitude of needs in African markets and the multiple pathways Danish companies can engage with local partners in Africa.

In addition, the MFA will create an Africa advisory group to bring in relevant stakeholders to among other consider the challenges and opportunities for enhancing private Danish investment in and trade with Africa.

2.3 The landscape of the Africa Facility: financing instruments and advisory services available

Many Danish investors have been unaware of the ecosystem of support services available to them from Denmark, the European Union (EU), and other sources when considering entering or expanding in African markets. Therefore, in partnership with others, the Africa Facility will assist Danish investors in becoming better informed about the resources available and help them navigate these services.

Denmark has established a range of support offerings for companies exploring opportunities to expand their business into the African continent. Therefore, it is crucial that the Africa Facility adds value to the existing landscape and complementing other services.

The Africa Facility will target companies with viable, sustainable and impactful investment cases that require financing and technical assistance to engage in African markets. It is acknowledged that Danish companies also need early-stage business development services, which fall outside the Africa Facility's scope. However, IFU will collaborate with other support schemes and organisations that hold this mandate to provide information on identifying relevant support schemes. Consequently, the Africa Facility will foster connections with other financial and technical service providers, strengthening the investment and advisory services ecosystem available to Danish companies.

Some of the key actors in the ecosystem include:

- **EIFO.** Denmark's national export credit agency supports Danish companies' growth, internationalisation, and green transition.[5] EIFO provides risk-tolerant capital, loans, guarantees, and insurance solutions for Danish companies of all sizes. Specific emphasis is given to facilitating the global green transition, leveraging Denmark's strength in wind energy and new green technologies while supporting various sectors, including agrifood, energy, and digital platforms. EIFO's initiatives are mandated to enhance Danish business and industry prospects for export and internationalisation. Its financing must reflect Danish economic interests. The 2023 document on reforming IFU outlines how IFU's work intersects with EIFO.[6] IFU's reform document describes how there may be instances where IFU and EIFO can collaborate on joint financing solutions, albeit with differing motivations.

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5 Established on 1 January 2023, EIFO is the result of a merger between three state funds: EKF Denmark's Export Credit Agency, Vaekstfonden (The Growth Fund), and the Danish Green Investment Fund.

6 Ministry of Foreign Affairs and Ministry of Finance (2023) *Reform of the Investment Fund for Developing Countries*, 28 September, Ministry of Foreign Affairs, Copenhagen.

- **Economic Diplomacy.** Denmark's Trade Council, a part of the Danish MFA, promotes Danish economic interests globally. It assists Danish companies in expanding their international presence and accessing new markets. Invest in Denmark serves as the official agency for attracting foreign investments to Denmark while supporting Danish companies in navigating global uncertainties and strengthening Denmark's relations with other countries and international organisations. The Trade Council is present in East Africa (Kenya, Tanzania and Uganda), West Africa (Ghana and Nigeria), North Africa (Algeria, Egypt and Morocco) and Southern Africa (South Africa). The Trade Council has lowered the hourly rates charged for supporting Danish companies in Africa as part of the Africa Strategy.
- **Business membership organisations.** Danish business membership organisations play a crucial role in supporting and advocating for their members and facilitating engagement in African markets. The Confederation of Danish Industry (DI) is Denmark's largest and most influential business organisation, representing around 20,000 companies across the manufacturing and service sectors. The Danish Chamber of Commerce (Dansk Erhverv) ranks among Denmark's largest professional business organisations, representing 17,000 companies and 100 trade associations in trade, tourism, business services, information technology, welfare services, and transportation. Meanwhile, the Danish Agriculture and Food Council represents Denmark's agriculture and food sector, which employs 150,000 people and exports over 100 billion DKK annually.
- **Government programmes and facilities.** A range of government-supported programmes and facilities support increasing Danish investment in Africa. These include:
    - **Partnering for Green Growth and the Global Goals (P4G)** – financial and non-financial support for partnerships implementing innovative business models in various developing countries (in Africa: Ethiopia, Kenya and South Africa).
    - **Danida Green Business Partnerships (DGBP)** – funding and support to market-based projects between commercial and non-commercial partners addressing climate and environmental challenges while contributing to inclusive growth and improved livelihoods.
    - **Danida Innovation and Business Explorer (DIBE)** – financial support to Danish companies to conduct activities in developing countries such as studies, market research, workshops, testing, and preparing commercial engagement.
    - **Nordic Green Bank (NEFCO)** – Offering a range of support opportunities including the Nordic Project Fund's fast-track loans and scale-up financing.
    - **The Nordic Project Fund (Nopef) –** strengthens the international competitiveness of Nordic small and medium-sized enterprises (SMEs) by providing grants for demonstration, scale-up and growth of Nordic green and sustainable solutions on global markets.
- **Other programmes and facilities.** Other private and non-government programmes and activities support Danish investment in Africa, including the family foundations and organisations such as Access to Innovation (a2i), Capital for Impact Foundation, Danish Church Aid, and Nordic Impact Funds.

An Africa advisory group to be established

In parallel with establishing an Africa Facility under IFU and EIFO, the MFA and the Ministry of Industry, Business and Financial Affairs will chair an Africa advisory group that includes government, business and investment community representatives. This group will provide a platform for among other addressing and discussing the new IFU and EIFO Africa facilities. The advisory group will provide regular input into the facilities' approaches. However, the advisory group will not have a direct mandate over the design or execution of the facilities.

Thus, the Africa advisory group will assist the government in better understanding the constraints that Danish companies encounter when engaging with African markets and supporting social and economic development in Africa. This will enhance the nature of demand for support services from Danish companies. Furthermore, the need for improved synergies among financing instruments will be an important topic of discussion.

2.4 Lessons learned

The Africa Facility is built on previous experience in supporting development finance across Africa and collaborating with Danish investors. The lessons include:

- There is limited or low demand from Danish companies seeking to establish long-term business operations in Africa, with only a few investment proposals received by IFU in recent years. This may be because Danish companies consider there to be better market opportunities elsewhere, even though there is a higher proportion of other European investors participating in African markets. While this should not necessarily be viewed as a lack of interest among the Danish business community, it suggests a promotion and information gap. Danish companies and investors need to be better informed about the opportunities and how to navigate the range of services available.
- There are opportunities to identify linkages between projects that support social and economic development in Africa through the flexible promotion of Danish business interests. The Africa Facility can support more significant development impacts by facilitating Danish investment in projects in African markets and value chains in Africa.
- In recent years, a significant portion of the investment proposals IFU has received from Danish companies has exhibited limited commercial viability and the capacity to meet IFU requirements. This may be for many reasons, including ticket size and the risk-return ratio. Denmark offers a range of investment support services to companies and projects of varying sizes and types. The IFU Africa Facility mainly focuses on mature business proposals ready to invest in African countries.
- Since the untying in 2017, there has been a lack of clarity within the Danish business community over the mandate of IFU vis-à-vis other financing and supporting instruments – which suggests a need for additional outreach and promotional efforts to Danish business community of IFU's mandate and offerings.

2.5 Rationale and justification

The Africa Facility will promote economic and social development through increased investments in African markets, stronger trade relations between Africa and Denmark and increased opportunities for African exports to Denmark. This will be done by utilising instruments and publicly backed risk capital to increase investments in Africa by supporting projects with collaboration between African and Danish companies. This will enhance market opportunities for African producers as well as boost African competitiveness, competition and sustainable economic growth.

With the Africa Facility, IFU will relax certain IFU standard requirements on minimum transaction size, sector focus and returns, which have been identified as challenges that reduce Danish companies' engagement with IFU and possibilities for obtaining financing from IFU. Thereby, reducing Danish investments in Africa. The facility will follow IFU's financial and non-financial additionality requirements, contributing to green or social impacts and IFU's investment strategy. This includes screening for long-term financial sustainability in investments, and partner experience and knowledge of doing business in the region.

The Danish MFA has allocated DKK 100 million in 2025 to the facility and expects to allocate a total of DKK 350 million in the coming years. The facility is expected to be able to provide a range of investment and technical support instruments. Supported projects will promote economic and social development in African countries and follow IFU's standard requirements for additionality, sustainability and development effects.

2.6 IFU's role in mobilising Danish investment for Africa

Untying IFU from Danish commercial interests in 2017 allowed IFU to pursue more opportunities for impact investments, significantly expanding its impact within the Danish government's climate and development priorities. However, the share of Danish companies in the IFU portfolio has reduced to about 40 per cent. With Danish companies represented in only five per cent of IFU's pipeline of new projects from 2017 to 2024, the decline in the number of Danish companies in IFU's portfolio is likely to continue. Danish companies sell world-class products and technologies, and as such, there is a strong opportunity to increase Danish business engagement in Africa, which the Africa Facility is designed to facilitate.

The Danish government regards IFU as the most suitable organisation for promoting increased Danish investment in Africa. IFU has a long track record with investments in developing countries, including in the African continent. IFU provides ODA-compliant financing with a higher risk tolerance, particularly in low-income African countries. IFU has a track record of engaging in significant investments where regulatory challenges often deter traditional funding. This approach is vital for fostering private sector development and sustainable growth in regions that struggle to attract capital due to instability and investment risks. IFU is also experienced at catalysing essential investments in sustainable development sectors and boosting climate resilience.

IFU's purpose, stated in the law for international development cooperation (§9), is to promote investments that support sustainable development and contribute to the realisation of the SDGs in these countries.[7] All IFU's investments must align with its mandate, as laid out in Danish and

[7] The overall strategic framework for IFU is set out in a hierarchy of documents: (1) Law for International Development Cooperation (*lov om internationalt udviklingssamarbejde*), (2) Danish

EU law, the strategic ownership document, and IFU policies. In addition, IFU operates according to international principles for supporting sustainable private sector operations and OECD-DAC guidelines for private sector instruments, which are observed by all DFIs.

These foundations underpin the following cross-cutting requirements:

- **Financial Additionality.** Contributing to what is available or otherwise absent from the market and not crowding out.
- **Crowding-in.** Catalysing market development and the mobilisation of private sector resources.
- **Commercial sustainability.** Supporting the private sector and achieving sustainable impact during and after involvement.
- **Promoting high standards.** Promoting adherence to high standards of conduct in investees.
- **Impact.** Contributing positively to IFU's impact objectives (i.e., building a green economy and a just and inclusive economy).

The Africa Facility will align with these operating principles to ensure its delivery generates lasting impact and sustainable companies.

IFU is responsible for ensuring that its investments are additional, covering both financial and developmental aspects while also upholding high environmental, social, governance (ESG), and human rights standards. IFU is required to document additionality appropriately in all investments in accordance with relevant OECD standards.

2.7 Defining the target group for the Africa Facility

Aligned with the overall aim of the Danish government's strategy for strengthened Danish engagement with African countries, the Africa Facility targets equal partnership constellations between African and Danish stakeholders to grow trade, collaboration and investments to the benefit of economic and social development in Africa. The partnerships will take multiple forms depending on the African and Danish partners' points of departure, but the emphasis is on facilitating the establishment of strengthened linkages and collaboration that promote development in the African countries.

Danish companies invest in African markets for different reasons, employing various strategies and pathways to enter the continent. While some firms might view their engagement in Africa through the lens of corporate social responsibility (CSR), partially or entirely, most recognise the growth opportunities arising from participating in these markets. For some, the journey into African markets begins with efforts to boost exports or procure supplies. In other cases, Danish companies seek opportunities to leverage their technology and expertise or to establish partnerships with local businesses, leading to the creation of new plants and projects. Thus, Danish interests in Africa are diverse and multifaceted. Establishing and sustaining genuine partnerships between African and Danish actors that promote social and economic growth

development policy strategy (i.e., *Africa Strategy*, *The World We Share* and related political agreements), (3) the Ownership Document is based on *Statens Ejerskabspolitik* (i.e., the Danish State's policy for ownership of companies), and (4) IFU's statutes, strategies and policies as approved by the IFU Board.

requires flexibility to ensure support services are tailored to the needs, opportunities, and capabilities of all parties.

The Africa Facility will apply a broad perspective when supporting African and Danish partnerships to accommodate a wide range of possible investment opportunities while complying with state-aid rules and ODA requirements, contributing to green transition and economic and social development in Africa. Thus, the facility must be in line with current rules for private sector instruments in ODA as agreed in OECD DAC in 2023.

Successful delivery of the Africa Facility requires that the investee candidate landscape is large enough to offer a sufficient set of commercially viable and impactful investment opportunities commensurate with the targeted investment volumes. The Africa Facility will mobilise Danish economic activity in Africa across a broad set of possible commercial partnership scenarios.

What this could entail is being examined in close collaboration with TILSKUD. The following is examples of partnership scenarios being pursued:

- Co-investments with Danish businesses where Danish partner companies establish or expand business in the region.
- Investments in local partner companies with commercial ties to Danish companies, including the buyers of Danish technology, know-how, or services.[8]
- Investments in local African partner companies with commercial ties to Danish companies interested in sourcing from African supply chains.
- Investments into Danish or African capital funds with view to invest smaller ticket sizes in African companies that have commercial linkages to Danish companies.
- Partnerships with Danish private capital funds investing in Africa.

The Africa Facility would also be able to support African businesses' partnerships with Danish companies in other various ways e.g., joint distribution, commercial project development, through Danish intermediate funders, etc.).

3. Programme objective

The objective of the Africa facility is "a strengthened Danish engagement with African countries - through investments that benefit regional and local growth, employment, and development in Africa."

The Africa Facility will report on performance targets focused on promoting collaboration, trade, and investments through African partnerships with Danish companies that contribute to economic and social development in Africa.

In pursuing the programme objective, the Africa Facility will provide investees with a more flexible, informative and strategically relevant investment mechanism while ensuring compliance with IFU's mandates, regulations and investment criteria. IFU will work with other relevant

8 For example, through IFU's SDG Fund, IFU supported FLSmidth, a Danish company supplying the global mining and cement industries with equipment and services, as well as Continental Blue Investments Ghana (CBI) to reduce carbon emissions in cement production.

investment and service providers. Thus, IFU will continue to focus on its main competencies and comparative advantages while providing support in a relevant and impactful manner.

The Africa Facility will recognise the variety of entry points for Danish investment in Africa, adopting a broad and encompassing approach to Danish interests that accommodates a variety of engagement models and approaches.

The key features of the facility are presented in the text box below.

KEY FEATURES OF THE AFRICA FACILITY	
IFU investments with reduced ticket size	IFU will reduce its minimum transaction ticket size for the Africa Facility from the standard DKK 75 million to approximately DKK 25 million. This will not be a rigid threshold. Rather, it will be flexibly applied to respond to the needs of the project and its proponents.
Investments with room to adjust risk-reward requirements	Increased flexibility will be given to adjusting the risk-reward requirements of IFU's investments. Under the Africa Facility, IFU will enable greater flexibility for investments regarding its risk and return requirements. Return requirements will be in line with IFU's product-level investment policy for donor-funded facilities, reflecting a higher tolerance for high or uncertain country risk. • Equity investments will be assessed against a returns benchmark, but will allow for accommodations in cases with high country risk premiums above a certain floor. • Loan-pricing will be based on IFU's risk rating and risk margin matrix but allow accommodations with respect to high country risk. IFU will also allow for a longer period before the projects generate profit.
Expanded sector focus	IFU's four focus sectors (i.e., green energy and infrastructure healthcare, sustainable food systems, financial services, and, through Danida Sustainable Infrastructure Finance, water, sanitation and infrastructure) will be the core focus of the facility. However, IFU will consider all relevant proposals from Danish investors and accept proposals that are in adjacent sectors, if they live up to the other IFU requirements.
Technical assistance and supporting due diligence	IFU is committed to providing the best possible foundation for selected investees to succeed through the investment process. Acknowledging IFU's high standards within market and context knowledge, due diligence and ESG, IFU will support investees under the Africa Facility who has undergone appraisal and assessment and passed Clearance in Principles with technical assistance. IFU will give guidance to Danish companies on the evaluation process, giving more

	time to applications that under normal circumstances would otherwise be dismissed. Specifically, IFU suggests allocating a specific share of the Facility funding towards technical assistance for: • Investment due diligence and KYC (Know Your Customer), including cost covering of external market and sector due diligence (commercial opportunities, and risks), technical, legal, tax and impact due diligence as well as KYC screenings and assessments. • ESG, including support to implement action plans with regards to, e.g., environmental, social, business integrity, and impact management and reporting – (this is pre-committed ahead of investment. • The technical assistance will offer valuable input for Danish companies, with regards to complying with EU regulation in line with IFU's standards.
Engaging with partners to enhance information	The Africa Facility will engage with relevant organisations to improve the relevance and accessibility of its investment services. Engagements will be forged based on identified areas of mutual interest and complementary mandates and capabilities. Partnerships can include agreements for information dissemination (e.g., investor conferences and expos), investor field tips, and technical advisory services.
Improving information services	With the Africa Facility IFU will strengthen its communications with the Danish business community to provide relevant and accessible information on its investment services. IFU will develop relevant information approaches. Enhancing digital guidance on IFU's offering vis-à-vis other financing instruments, by introducing intuitive guidance on IFU website (to be developed in collaboration with EIFO/ other financing instruments). In addition, IFU will work with Danish business membership organisations and other stakeholders in the Danish investment ecosystem to improve the information available to Danish companies of the opportunities and support available for investing in African markets.

The diagram below shows how the Africa Facility will accommodate a smaller ticket size than a typical IFU investment and how IFU Impact Ventures supports even smaller ticket sizes. IFU Impact Venture also support less mature projects.

<table>
<tr><th>Ticket size (DKK million)</th><th>0</th><th>15</th><th>25</th><th>75</th><th>Beyond</th></tr>
<tr><td rowspan="4">Instrument</td><td colspan="4">Others (e.g., Trade Council, DIBE, DGBP. See section 2.3)</td><td></td></tr>
<tr><td></td><td colspan="3">IFU Impact Ventures</td><td></td></tr>
<tr><td></td><td></td><td colspan="3">IFU Africa Facility</td></tr>
<tr><td></td><td></td><td></td><td colspan="2">IFU Classic</td></tr>
</table>

Annex 1 provides an overview of IFU's financing instruments and services.

A **mid-term review** (MTR) of the Africa Facility will occur in the second quarter of 2027. The MTR will evaluate the facility's performance and gather input from relevant stakeholders (e.g., Danish business membership organisations, Danish investors, IFU clients, Trade Councils, and other organisations regarding the relevance and effectiveness of the program).

4. Theory of change and key assumptions

The theory of change for the Africa Facility builds on the mandate, objectives and theory of change for IFU's overall operations. The facility will align with the main impact objective of IFU, which is to promote sustainable investments that contribute to the achievement of the Sustainable Development Goals (SDGs) and climate targets in developing countries by:

- Supporting the building of just and inclusive economies, focusing on poverty alleviation, gender equality, and job creation in the most vulnerable communities.
- Fostering green economies through investments in climate mitigation, adaptation projects, and sustainable infrastructure, particularly in regions most affected by climate change.

The facility will also have a core objective of mobilising private capital into Africa, which supports Danish-African partnerships.

By reducing risk and information gaps and fostering collaboration, the African Facility will increase African-Danish partnerships through a wide range of possible investment opportunities. This will enhance African competitiveness and productivity while creating local jobs and boosting incomes, government revenue, and market opportunities.

Private sector capital and investments are pivotal in developing and transforming African economies, including aiding the green transition. Denmark's private sector can increase its direct engagement in Africa, bringing private capital, relevant technologies, and know-how, helping strengthen local capacity and innovation in Africa, and supporting the achievement of the UN SDGs.

Under the Africa Facility, IFU collaborates with investee companies whose projects meet the requirements of facilitating partnerships as defined in the mandate. The Africa Facility will support the mobilisation of capital in Africa that participates in operations with a Danish partner. For each investment undertaken, IFU creates a specific and detailed theory of change overview, highlighting how IFU's investment will make the expected change and impact and how it complies with the Danish partner definition of the Africa Facility.

Input	IFU invests risk capital (equity, mezzanine and loans) in private companies in developing countries in Africa who participates in operations with a Danish partnership and shares knowledge and skills drawn from many years of experience on the African continent. IFU can further support with relevant technical assistance for e.g., ESG purposes and due diligence.
Sector	The companies operate in IFU's four key sectors or in sectors adjacent to these: green energy and infrastructure, sustainable food systems, financial services, and healthcare. IFU formulates an impact creation plan with the investee company, which includes establishing specific targets for relevant impact indicators.
Output	IFU's capital enables Danish private investors and companies to expand their engagement in business activities in African countries, enabling the local business to grow further. The businesses generate measurable impact (e.g., regarding climate change mitigation or adaptation, providing goods or services to underserved groups, tackling gender equality issues and creating jobs). IFU develops financial value creation plans outlining how the business will grow and enhance their profitability and impact. IFU follows up on these plans by participating on the boards of the investee companies.
Return on investment	Ultimately, IFU's investments yield commercial returns in the form of interest, dividends, or capital gains when an investment is exited. IFU then reinvests the returns in new companies.
Outcome	Growth in businesses fuelled by increase in capital from IFU and the Danish private sector, results in improved working conditions and economic growth, reduced inequality, increased climate action, and enhanced gender equality. The impact is represented through IFU's two overarching impact priorities: contributing to creating a green economy and a fair and inclusive economy.
Mobilisation	IFU facilitates local, Danish and global private investors to commit to engaging in developing countries in African. The Africa facility will increase Danish businesses direct and indirect exposure to Africa and reduce the information gap, encouraging further engagement in African countries.

The key assumptions are that a lack of financing in African markets is expected to hinder economic development and a green transition. The model also presumes that businesses with Danish partners are operating profitable models but currently lack sufficient market funding.

It is also assumed that IFU can identify and act on relevant investment opportunities. Thus, IFU, with the input and support from other entities (e.g., Danish business membership organisations, the Trade Council, etc.), can connect with Danish investors and identify suitable opportunities in Denmark's interests.

The political, regulatory and macroeconomic conditions of African markets are also presumed to allow investments by development finance institutions, such as IFU. Additionally, investee companies and projects are anticipated to be willing and capable of executing their impact and value-creation plans, and positive returns can be realised despite the inherent risks linked with investing in developing markets in Africa.

5. Draft results framework

The Africa Facility will increase IFU's annual investment volume and the amount IFU invests using its own capital. Investments funded by the facility will, therefore, contribute to IFU's impact key performance indicators (KPIs) as outlined in IFU's ownership document, both in setting the target levels and delivering on these. The investments will also contribute to delivering on the targets specified in the results framework for IFU overall, defined in the 2024-2030 capital contribution programme documents. All investments will conform to IFU's ESG requirements and its additionality and impact documentation requirements.

The specific results framework for the facility has not yet been finalised but will focus on its features that separate it from IFU's other instruments. As such, the facility will include considerations on:

- Number and value of investments made in the Africa Facility that meets the criteria for Danish partnerships.
- Private capital mobilised for investments and businesses with Danish partners.
- Long-term financial sustainability of the companies funded by the Africa facility.
- The companies' contributions to IFU's two impact priorities.
- Contribution to non-sector specific indicators (e.g., employment).

6. Inputs/budget

The overall budget is DKK 350m over four years, divided into a capital contribution and an amount set aside to support promotion.

YEAR	CAPITAL CONTRIBUTION (DKK million)	SUPPORT (DKK million)	TOTAL (DKK million)
2025	100	Up to 10%	100
2026	100	Up to 10%	100
2027	100	Up to 10%	100
2028	50	Up to 10%	50
Total	**350**	Up to 10%	**350**

The capital contribution will support investments with a minimum ticket size of approximately DKK 25 million. This means up to around 14 investments can be backed over the period. If the demand exceeds this, it can be covered by the general capital.

Funds will be set aside to support activities that target the information gap to help Danish companies better understand the opportunities and support services available for investment in Africa. This could be activities such as:

- Special promotion activities, such as joint country and trade visits and events in collaboration with African partners, to help Danish companies explore investment opportunities and support services, understand local market dynamics and develop contacts with local African businesses and organisations.
- Partnership and outsourcing business advisory services to help Danish companies structure projects and comply with the necessary standards and regulatory requirements.
- Studies and reviews on demand for Danish investment.

In addition, funds (DKK 1 million) will be set aside for reviews and studies.

7. Institutional and Management Arrangements

Since 2020, IFU has developed significantly and made numerous improvements to its investment strategy, process and operating model. IFU's ability to deliver impact and deploy capital at scale has improved, aiding the organisation in fulfilling the Africa Facility. Furthermore, a stronger emphasis on fostering investments and partnerships with Africa aligns with the IFU reforms that commenced in 2023.[9]

With the new capital contribution and IFU's strategic plan for 2024-2026, IFU has significantly boosted its delivery capacity and anticipates investing over DKK 2.5 billion in 2025 and exceeding DKK 4 billion in 2030. The strategic plan includes enhancing the capability of its staff, particularly on the African continent. In 2024, IFU expanded its workforce by 25 employees and plans to hire more than 40 additional staff in 2025. Furthermore, IFU will open offices in Lagos and Johannesburg in 2025 to enhance its engagement in Africa. At the management level, IFU has established a new senior team well-positioned to implement reforms within IFU and will also prioritise advancing the Africa Facility.

Organisational and management considerations

IFU will commit to delivering the Africa Facility by allocating relevant resources across the organisation, benefiting from IFU's growing presence and staff in Africa. When establishing the Africa Facility, IFU will, in terms of the management setup, draw on experiences from the Ukraine Facility; the main accountability for delivery is anchored at senior level in IFU's headquarter in Copenhagen while leveraging the broad sector expertise and country context across the investment organisation for delivery.

IFU's communication organisation will support the external promotion of the facility by targeting stakeholders in Denmark. IFU's management will also support external engagement activities, including prioritising joint engagements with business organisations to mobilise Danish companies. In addition, IFU will take proactive steps to engage directly with Danish companies to inform them of the opportunities created by the Africa Facility.

The Africa Facility will link with other relevant organisations supporting Danish investments in Africa, such as Danish business membership organisations, EIFO and the Trade Council.

8. Process action plan

4 February 2025	Consultants submit first draft concept note for the Programme Committee
7 February 2025	Workshop between KLIMA and LÆRING

9 The IFU reform process, which commenced in 2023, aims to enhance IFU over the coming years and significantly boost its capabilities to increase investments and impact in climate change initiatives and in lower-income countries, particularly those affected by fragility or conflict, with a strong emphasis on Africa. The reforms bolster IFU's ability to better support Denmark's global climate commitments and development policy priorities as an innovative, trend-setting development financing institution. The reform allocated new funding to IFU for the period 2024-2030, providing an annual capital injection from the ODA budget of DKK 500 million and access to debt from the refinancing facility of the Central Bank of Denmark, amounting to up to DKK 13.7 billion.

13 February 2025	Submission of concept note to Programme Committee
21 February 2025	Written comments from the Programme Committee
25 February 2025	Programme Committee Meeting
February 2025	Follow up interviews
23-26 February 2025	Field Trip to Kenya – Consultants, IFU and KLIMA
24 March 2025	Submission of first draft PD to KLIMA
1 April 2025	Consolidated comments from KLIMA and IFU
7 April 2025	Final documentation submitted by consultants
22 April 2025	KLIMA submits PD to appraisal
April/May 2025	Appraisal
28 April to 2 May 2025	Possible appraisal mission to Kenya
7 May 2025	Appraisal team present initial findings to KLIMA and consultants. Revision of documents initiated.
9 May 2025	Appraisal submit draft appraisal report
14 May 2025	KLIMA and IFU submit comments to Appraisal report
14 May 2025	Consultants submit final version of document
16 May 2025	KLIMA and LÆRING meeting / workshop
19 May 2025	Appraisal team submit final appraisal report
21 May 2025	KLIMA submits final draft PD for approval by the Council for Development Policy incorporating the findings and recommendations of the appraisal
12 June 2025	Council for Development Policy
June 2025	Final version of PD to be submitted for approval by the Minister for Foreign Affairs, incorporating possible specific comments (if any) from the Council for Development Policy

Annex 1. IFU's finance instruments

The table below shows the existing IFU instruments.

Instrument	Primary function
1. IFU's Equity	**Use:** Equity investments and loans (direct and funds). **Financing:** Accumulated profits, capital injection, facilities, EU and other sources. **Geography**: lower income and fragile countries, **particularly Africa**, Ukraine, middle income countries. **Effects:** More inclusive societies, climate (mitigation and adaptation).
2. Green loans	**Use:** Loans to private companies, primarily in climate, but also other and green transition. **Financing:** State's refinancing facility (Statens genudlån) with co-financing from IFU's own equity. **Geography:** Lower middle-income countries – upper middle-income countries. **Effects:** Climate (mitigation, adaptation, resilience) and green transition.
3. SDG Fund	**Use:** Equity investments with commercial returns, mezzanine, loans. **Financing:** 60% equity injection from pension funds and other private investors and 40% from IFU. **Geography:** Lower middle-income countries – upper middle-income countries. **Effects:** Green transition and climate (mitigation mostly), more inclusive societies.
4. Development Guarantee Facility	**Use:** Guarantees, primarily to financial institutions. **Financing:** Danish state guarantee. **Geography:** Low-income countries, fragile countries, middle-income countries. **Effects:** More inclusive societies, climate (including adaptation).
5. DSIF	**Use:** Subsidised loans to public infrastructure. **Financing:** State guaranteed loan, grant from ODA budget. **Geography:** Strong focus on **Africa** and Green Strategic Partner countries. **Effects:** Climate (mitigation/energy and adaptation, e.g. access to water), district heating (including Ukraine).
6. Impact Ventures	**Use:** Equity **Financing:** Minimum 50 percentage direct investments into venture companies or projects; up to 50 percentage indirect investments with a partner (e.g., a platform or a venture fund manager that would invest in early-stage climate companies or projects). **Geography:** In DAC countries globally (minimum 50 percentage in Sub-Saharan Africa). **Effects:** Minimum 80 percentage climate focus, with minimum half of investments also directly promoting social inclusion; up to 20 percentage directly addressing social inclusion, with focus on Least Developed Countries.