Annex 4 Overview of IFU instruments

A4.1 Emerging market fund (IFV)

This fund was closed for investments in 2004 and during the evaluation period only capital from this fund was returned to the State.

A4.2 Investment Fund for Central and Eastern Europe (IØ)

The Government gave a capital injection of DKK 1.9 billion for IFU's sister-fund IØ, which was closed for new investments end 2010. During the evaluation period, from 2004 to 2010, new and follow-on IØ investments took place. When IØ investments are exited all capital- including financial returns- return to the State (see Chapter 6). IØ has made 123 investments into 93 projects at a total of DKK 1.4 billion.

A4.3 Arab Investment Fund (AIF)

The Arab Investment Fund (AIF) was set up in connection with the Arab spring in 2011 to contribute to economic development of countries in North Africa and the Middle East.[1] AIF has committed capital of DKK 150 million, provided by MFA and IFU.[2] AIF can co-invest with companies as well as developers wishing to supply, develop or operate businesses across all sectors - except the few on IFU's exclusion list.[3] AIF has made seven investments into six projects at a total of DKK 152 mn.

A4.4 Ukraine Investment Facility (UFA)

The Ukraine Investment Facility (UFA) was established as a temporary facility, to be implemented over a four-year period (2016-2019) by IFU.[4] UFA is an initiative under the Strategy for the Danish Neighbourhood Programme (2013-2017). UFA was established as a response to the realisation that international business abstained from investing in Ukraine due to the challenging economic and political situation in 2014/15. The aim has been to "*encourage Danish companies to engage in Ukraine, which they would otherwise not prioritize and thereby promote economic growth and employment in Ukraine. It is also expected that UFA will enhance employment in Denmark through more commercial cooperation between Ukraine and Denmark.*[5]*"* UFA should also focus specifically on SMEs. In 2018, a Mid-Term desk review was carried out of UFA. This review concluded that IFU appeared to be on track in terms of maintaining a portfolio of a minimum of 20 projects in Ukraine, although UFA was behind the target of accumulated 4-5 projects in 2017. A main challenge was that UFA projects were relatively small in size for IFU, especially in recent years. The review had a number of recommendations related to UFA results framework, reduction of UFA targets for investment, exit strategy of the UFA and further strengthening of IFU's reporting to MFA and general coordination and cooperation between MFA and IFU. In total, three investments via UFA were made, of which two

---

[1] AIF can invest in Morocco, Algeria, Tunisia, Libya, Egypt, Jordan and Iraq.

[2] Ministry of Foreign Affairs (2017). Strategy for IFU.

[3] As a minority investor, DAF can participate with equity, mezzanine or loan financing in projects with a Danish investor or a Danish commercial interest.

[4] Agreement between IFU and the Ministry of Foreign Affairs was signed on 14 December 2015.

[5] Ministry of Foreign Affairs (2015) Notis from Interne Bevillingskomite d. 3. november 2015.

were included in the case studies. The recommendations of the MTR were mainly addressed through the integration of UFA into the new NEIF facility.

A4.5 Project Development Programme

The Project Development Programme (PDP) was set up in April 2016. It was meant to complement other Danida instruments[6]. It is not a typical investment facility as the previous facilities. "*The purpose of PDP is to share risks with Danish companies wishing to develop medium to large-scale investment projects in developing countries with the aim of entering into investment cooperation with IFU and other investment partners in accordance with IFU's mandate*". There is a budget of DKK 50 million with two 'windows': 1) for projects with a climate objective, and 2) for projects within other thematic areas (IFU or DAF). PDP focuses on large Danish companies that are hesitant to development large-scale investment projects in developing countries because of the higher risks and the relatively high development costs involved. PDP envisages to finance part of the development costs of Danish companies to stimulate them to invest in developing countries and PDP is meant to be 100% demand driven. The funding will be provided on commercial terms after the BC approval, which means that PDP will accept the high risk of partially funding the project development in exchange for an appropriate part of the return if the project is fully developed.

A4.6 Danida Business Finance (DBF)

As per 1st of August 2017, the operational administration of Danida Business Finance (DBF) was transferred to IFU, while the strategic control and grant authority remains with the Minister for Development Cooperation. The reason behind this decision was to "*enable further development of DBF, better use of synergy possibilities and increased volume to the benefit of both developing countries and Danish business*[7]." IFU's new role as administrator of DBF should be classified as a separate MFA instrument managed by IFU.

DBF is a continuation of the Mixed Credit Scheme, which was approved by the Finance Committee by Act. 406 of 7 September 1993 and as last amended by Act. 106 of 16 June 2016, where it was decided to abolish the provisioning scheme administered by EKF.[8] Danida Business Finance (DBF) offers subsidised loans to government authorities for the financing of infrastructure projects in developing countries with an income per capita below USD 4,035 and with a Danish representation. There are two approaches under DBF:

- DBF Classic: Tender limited to Danish companies where DBF support has been approved prior to tender
- DBF Fast Track: International tender where DBF can provide support in case a Danish company is best evaluated bidder (DBF support approved after tender evaluation)

The Government allocated DKK 50 million on the 2017 Finance Act to launch a DBF related project development facility that covers part of the costs associated with the development of major public infrastructure projects.[9]

[6] MFA, Danida, Programme Document IFU Project Development Programme, April 2016.
[7] Ministry of Foreign Affairs (2017). Concept note for Danida Business Finance Project Development Facility, page 4.
[8] Danish Parliament (2017). Act 106.
[9] Ministry of Foreign Affairs (2017). Concept note for Danida Business Finance Project Development Facility.

A4.7 CSR Training Fund

IFU managed the Danida CSR Training Fund. The purpose is to support project companies to meet sustainability objectives and contribute to capacity building. There are two types of grants:

- an assessment grant (of up to DKK 75,000), which may be provided to cover actual costs of an expert assessment of significant sustainability issues and training needs at the company and/or at key suppliers;
- a main grant (of up to DKK 500,000), which may be provided to implement sustainability measures, technical assistance and sustainability training . No additional funds have been planned for the CSR Training Fund since 2016..

A4.8 SME Facility

In 2014, Danida approved an allocation of DKK 60 million for an IFU SME Investment Facility. The background of this facility is set out in Section 2.4 on SMEs. The Facility is implemented by IFU and the objective is *reduced poverty by creating employment and strengthening the competitiveness and social responsibility of Danish SME initiated investment projects in developing countries.*

A4.9 Neighbourhood Energy Facility (NEF)

NEF is a grant finance instrument linked to two IFU-managed investment funds: the Investment Fund for Developing Countries (IFU-Classic), and the Danish Climate Investment Fund (DCIF). The objective of NEF is "*Increased energy productivity and resulting lower costs of private companies and expanded green economy sector in Neighbourhood countries, as a result of investments undertaken by companies in which IFU through its managed funds is or has been an investor in or is considering investing in*"[10]. NEF promotes greening of non-climate related projects which IFU-managed funds invested in and development of new climate-related projects for possible co-financing by IFU-managed funds in the Neighbourhood region. Enterprises could apply for grants for greening of non-climate related projects or development of climate-related projects to a maximum of 75% of the project costs up to DKK 1.0 million[11]. Reacting to applications from private investors, NEF grants finance feasibility studies either (i) for the "greening" of companies which IFU have invested in or are about to invest in, or (ii) for new climate-related projects looking for finance from either IFU or DCIF.

A4.10 Neighbourhood Energy Investment Facility (NEIF)

NEIF is part of the Danish Neighbourhood Programme 2017-2021 and is its pillar for sustainable and inclusive economic growth. NEIF covers both Ukraine and Georgia. NEIF is managed by IFU. It builds further on UFA and NEF experiences, which had a slow start. The intention is to realise 5-7 NEIF supported projects with a preferred maximum IFU investment size of DKK 25 million, assuming that the SDG Fund or IFU Classic can support larger projects. NEIF includes a project development facility that will be able to provide grants of up to DKK 1.5 million per project, which is meant to complement the SME Facility. Unused NEF will be transfered into NEIF.

A4.11 IFU Investment Partners (IIP)

IFU Investment Partners (IIP) provides equity to larger projects where IFU is a co-investor. This allows Danish companies to gain access to additional equity funding in a one-step process reducing

[10] Ministry of Foreign Affairs (2014). External Grant Committee meeting 9 September 2014, page 6.
[11] Ministry of Foreign Affairs, European Neighborhood (EUN) (2015). Internal Grant Committee Meeting 3 November 2015.

bureaucratic burdens and financial risk as well as increasing the potential for profitable projects to be realised. IIP can invest in all 146 developing countries and in projects with a Danish investor or a Danish commercial interest. Until year-end 2017, IIP has made four investments in five projects at a total of DKK 255 million.

A4.12 Danish Climate Investment Fund (DCIF)

The Danish Climate Investment Fund (DCIF) is a PPP and offers risk capital and advice for climate-related projects in developing countries and emerging markets. DCIF can co-invest with companies as well as developers wishing to supply, develop or operate businesses that reduce greenhouse gas emissions. DCIF can participate with equity or mezzanine financing in the range of typically DKK 15-100 million in a single project. DCIF can invest in all 146 developing countries and in projects with a Danish investor or a Danish commercial interest. Until year-end 2017, DCIF has made investments in 18 projects at a total of DKK 926 million.

In the 2008 IFU strategy document 'Facing new Challenges', the idea of setting up a climate fund in view of the 2009 Climate Change Conference in Copenhagen was already presented. However, decision-making took some time. At the Copenhagen Summit, the developed countries committed to mobilise USD 100 billion a year by 2020 in climate finance for climate action in developing countries. The funding would come from a wide variety of sources including bilateral, multilateral and private.[12] Based on the recognition of the need for mobilizing significant private funds for climate investments, the Government decided in 2012 to set up the Danish Climate Investment Fund (DCIF). The government requested IFU to manage the fund because IFU's strategic objective is to promote investments in developing countries in collaboration with Danish companies.[13] As IFU had already experience through IIP in working together with the pension funds as co-investors, contact was sought with the institutional investors for setting-up the DCIF. DCIF was announced in 2012 and had its first close on 13 January 2014. The final close was on 1 July 2014 with a total capital of DKK 1.3 bn. DCIF was the first fund managed by IFU in which both MFA as well as institutional investors participate. Early 2016, Danida performed a review of DCIF.[14]

According to the programme document, DCIF's main objective is "to mobilise public and private capital for investments with a positive climate impact in developing countries" [15]. In line with the Copenhagen Summit, the main focus was on the mobilisation of climate capital "in order to meet the increasing investment needs for adaptation and mitigation in the developing countries".[16] There is no Theory of Change or results framework in the programme documents. In an Annex of the programme document, there are some indicators at output level:[17]

- Number of projects on the project list;
- Capital commitments from private investors and public sources;
- Implemented projects (investment level and climate effects).

[12] Danida (2016) – Review of the Danish Climate Investment Fund – Final Report, p.1.
[13] MFA (2013) - Grant Committee Meeting 8 May 2013, Danish Climate Investment Fund (DCIF), p.3.
[14] Danida (2016) – Review of the Danish Climate Investment Fund – Final Report.
[15] MFA (2013) - Grant Committee Meeting 8 May 2013, Danish Climate Investment Fund (DCIF), p.2
[16] Ibidem.
[17] MFA (2013) - Grant Committee Meeting 8 May 2013, Danish Climate Investment Fund (DCIF), Annex 3.

These indicators relate more to the input level, and not to the output or outcome levels, with the exception of climate effects, which are not further specified. The Private Placement Memorandum (PPM, which can be considered as the IFU programme document for DCIF, indicates that IFU will estimate all GHG reduction potential to ascertain whether projects are eligible for investment. GHG emissions avoided will be calculated as a difference between base-line emissions and project emissions. Furthermore, all DCIF projects are required to comply with IFU's CSR policy including fair salaries, health and safety standards, energy savings, etc.. In addition, the programme document states that the support to DCIF should be seen "*in conjunction with the existing Danish support to efforts within climate and climate and energy related technology development, capacity building and financing*"[18].

For DCIF to invest in a project, the project needs to imply a Danish economic interest either in terms of the Danish company acting as co-investor and/or in terms of the Danish company being involved in a project company as a supplier of technology and/or services. The mandate of IFU, which was still fully tied in 2013, was thus already partially broadened to 'Danish interest', which only happened for IFU Classic two years later. The 2016 DCIF review concluded that several programme documents used different criteria.[19] Nevertheless, the untying of IFU in 2017 does not seem to have had any major consequences for DCIF. In the Q4 2017 report to the investors, it is stated that "the investments have to be located in the developing countries and there has to be a Danish economic interest[20]". Further in the same report, it is stated: "*It has been decided that DCIF will not invest in (…) due to lack of Danish interest and uncertainty regarding the exit*". DCIF investments remain focused on Danish companies probably as this was agreed with the investors, and because this was perceived to be less risky.

Furthermore, the PPM indicates that DCIF is able to operate in all DAC countries, being all emerging markets except Russia[21]. This would mean another broadening of the applicable IFU mandate at the time, according to which 50% had to be invested in poorer countries (see Section 2.3). In the 2012 discussion in Parliament on the set-up of IFU there was still the idea to focus DCIF at least to some extent on poorer countries DCIF should invest in poorer countries (LICs and LMICs at the 80% limit) at least equivalent to the state funding.[22] The appropriation bill states that

[18] MFA (2013) - Grant Committee Meeting 8 May 2013, Danish Climate Investment Fund (DCIF), p.2.

[19] Danida (2016) – Review of the Danish Climate Investment Fund – Final Report, p.6: the Limited Partnership Agreement uses a broader approach than the DCIF documentation used for the Danida Grant Committee and the Finance Committee of the Danish Parliament. For the aforementioned committees, projects will need to involve a Danish economic interest either in terms of the Danish company acting as co-investor and/or in terms of a Danish company being involved in a project company as a supplier of technology and services. The Limited Partnership Agreement also includes pure financial entities (co-investing, lending, guaranteeing or otherwise taking financial risk) and expected long-term benefits for Danish enterprises.

[20] IFU (2017) – DCIF 1 K/S Quarterly report Q4 2017.

[21] Private Placement Memorandum DCIF, p.13.

[22] MFA (2011) - Etablering af "Klimainvesteringsfonden (KIF)", p.4. Unofficial translation indicates: DCIF can invest in all countries listed on the DAC-list, ie. even in countries that have an income level that exceeds IFU's maximum limit on pt. 6,138 USD per inhabitant; countries that in these years experienced the greatest increase in CO2 emissions and significant environmental problems. According to the DCIF Grant Committee Meeting document (8 May 2013), DCIF must provide investment to the poorest countries, ie countries with gross national income (GNI) per inhabitants of up to 80 per cent. of the World Bank's limit for lower middle-income countries (3.180 USD per capita). The amount invested in these countries must be at least equivalent to state funding from the funds transferred from Danida's business efforts and from the poverty-guided framework under the climate policy. In total, the amounts coming from these sources amount to DKK 100 million. This condition must be met when the fund's total funds are fully invested in climate projects.

parts of the government contribution should be invested in LICs and LMICs at the 80% limit. So no specific target for DCIF investments in poorer countries was set.

Regarding the type of investments, both climate mitigation and climate adaptation projects can be funded as stated above. There is a list with seven types of climate mitigation projects from renewable energy, energy efficiency and alternative energy projects to supplier projects of materials and equipment to transport projects. The PPM for DCIF indicates that the fund will undertake investments with a positive climate impact in developing countries to reduce the emission of greenhouse gasses. Furthermore, the PPM indicates that the fund can also invest in adaptation projects[23], which is in line with the MFA programme document. The investments are primarily expected to be in greenfield projects, where all investors enter on the same terms. Brownfield investments may occur, but in these cases the fund and the sponsor should enter at the same price.[24]

A4.13 Danish Agribusiness Fund (DAF)

The Danish Agribusiness Fund (DAF) offers risk capital and advice for agribusiness projects in developing countries and emerging markets. DAF can co-invest with companies as well as developers wishing to supply, develop or operate businesses across the value chain from farm to fork. As a minority investor, DAF can participate with equity or mezzanine financing in the range of typically DKK 15-100 million in a single project. DAF can invest in all 146 developing countries and in projects with a Danish investor or a Danish commercial interest. Until year-end 2017, DAF has made six investments at a total of DKK 305 million.

A4.14 SDG Equity Fund

The SDG Fund was announced in 2016 and launched in 2018. The MFA made a programme document for the SDG Capital Fund in August 2017, while in 2018 the PPM based on the first close was agreed upon for this PPP fund, which will promote the mobilisation of substantial private capital for impact investment in developing countries. The agreement with six pension funds and IFU was signed on June 7th, 2018. The capital will be invested over a 4-year period (see Section 7.2).

A4.15 Sustainability Facility

In October 2017, It was decided to set up an IFU Sustainability Facility to replace the CSR Training Fund . All projects financed through IFU or IFU managed funds will be eligible for a grant from this new Facility, while comapneis are expected to contrinute themeselves as well with significant resources. Four types of activities are foreseen:

1. ESG training grants;
2. Technical Assistance to improve the quality of ongoing investments in the area of ESG (consultancy, studies, etc.);
3. Information gathering, knowledge sharing and capacity building;
4. Assistance to project companies in distress.

---

[23] KIF (2013) – Private Placement Memorandum (second closing), p.5, p.13.
[24] KIF (2013) – Private Placement Memorandum (second closing), p.14.

The targeted amount is in the range of DKK 3-5 million per year, and will be allocated discretionary by IFU's Board of Directors as part of the approval of the year-end result. For 2018, the Board decided to allocate DKK 3 million available to this new facility.