Ministry of Foreign Affairs of Denmark
Department for Green Growth

Concept Note

Danida Business SDG Partnership

Investment Project Development

December 2015

File No.: 2015 - 46150

Strategic questions proposed to guide the Programme Committee Meeting

1. ***Danida Business SDG Partnership is proposed to support multi-stakeholder partnerships. This is different from previous Danida business facilities where the support primarily has been based on business-to-business partnerships. Is it prudent and acceptable to change the partnership modality and will this lead to better development results in terms of sustainable jobs and systemtic changes than was the case in the past?***
2. ***Danida Business SDG Partnership is proposed to be available in countries with a GNI per capita below USD 3,300 and with a Danish representation, whereas Investment Project Development will be available in all DAC countries according to the IFU mandate. This is in line with Danida guidelines. Will the limited number of countries available for Danida Business SDG Partnership offer sufficient opportunities to Danish companies and CSOs to create sustainable jobs in a cost effective manner?***
3. ***Investment Project Development is proposed to provide loans or investment capital to develop investment projects. Is this the right approach to incentivize companies to develop new projects in developing countries?***

1. Context

The Government has allocated DKK 67 million in 2016 to promote growth and employment in developing countries through mobilization of Danish technology and competences. It is proposed to launch two programmes: Danida Business SDG Partnership and Investment Project Development.

Danida Business SDG Partnership will support commercially oriented multi-stakeholder partnerships that contribute to the achievement of the Sustainable Development Goals (SDGs). The aim is to support Danish companies identifying innovative solutions and efficient and sustainable business models by combining the expertise of stakeholders in order to pave the way for systemic changes at the sector or industry level.

Investment Project Development will support companies in their efforts to develop investment projects which could potentially become viable investments for the Investment Fund for Developing Countries (IFU) and other investment partners in accordance with IFU's mandate.

Danish companies have strengths in a number of relevant areas and are respected for their high standards of human rights, decent working conditions, the environment and efficient use of resources and zero tolerance of corruption.

The private sector plays a key role in contributing to sustainable growth by addressing many of the challenges faced by developing countries, e.g. in relation to job creation, increasing the tax base, environmental concerns, and clean energy solutions. Increased investments, technology and knowledge transfer to the private sector from countries such as Denmark is needed to address these development needs. Private investments today accounts for about 75% of the total capital transfer to developing countries (primarily private finance flows to MICs); a trend that creates new opportunities to provide more funds for development in cooperation with the private sector in a more catalytic manner.

Civil society organisations (CSOs) are increasingly engaging with the private sector as partners with the mutual aim of contributing to more sustainable and responsible business models. CSOs have an important role to play in pushing forward the inclusive growth agenda, facilitating multistake-holder partnerships, promoting dialogue between social partners and developing new markets and innovative business models in collaboration with the private sector.

The strategy for Denmark's development cooperation "The Right to a Better Life" (2012) affirms that poverty must be fought with human rights and economic growth. Growth must be sustainable and focus is on green growth and promotion of social progress. During the last years, trade has become an integral part of the development agenda. This is also apparent in the Danish Government Platform that has a continued focus on integration of trade and development activities and how this can also come to benefit the Danish business community.

The 2030 Agenda for Sustainable Development will serve as framework for the design and implementation of the programmes. The 2030 Agenda includes a set of 17 Sustainable Development Goals (SDGs) and 169 associated targets, mobilising all countries and stakeholders, including businesses, towards their achievement and affecting domestic policies. In relation to the proposed programmes, several goals are considered relevant, but at the project level, some will be more directly applicable than others depending on the nature of the individual projects.

1.1. Lessons learned

The formulation of the new programmes will be guided by lessons learnt from the former Danida Business Partnerships and the B2B Programme, best practise by likeminded donors, and dialogue with the private sector and civil society.

2. Presentation of the programmes

2.1. Objective

The objective of Danida Business SDG Partnership and Investment Project Development is to support sustainable and inclusive economic growth in the recipient country in terms of decent jobs and sustainable business ventures. This should be achieved through financial support to stakeholders engaging in business partnerships in eligible countries that will contribute to achieving the SDGs, and be in compliance with UN Guiding Principles on Business and Human Rights and OECD Guidelines for Multinational Enterprises.

The programmes will seek to put Danish core competencies to use where they are likely to make a sustainable development impact. The programmes will contribute to a greater internationalisation of Danish businesses, and it will open up to new markets where they would otherwise not be likely to do business.

2.2. *Danida Business SDG Partnership*

The purpose of the programme is to promote commercially oriented partnerships for sustainable development between civil society organisations, companies, governments, business market organisations and trade associations. The aim is to support Danish companies identifying innovative solutions and efficient and sustainable business models by combining the expertise of stakeholders in order to pave the way for systemic changes at the sector or industry level.

The programme could be open for applications for projects implemented by civil society organisations or social partners, including business member organisations, trade unions, university colleges/business schools and research institutions. The applied principle would be that support is granted to organisations that can present a solid business plan for a multi-stakeholder partnership, including a Danish company, that addresses key development issues and with the aim of becoming commercially sustainable.

It is proposed that individual companies do not qualify as lead applicants, since effort must address challenges at the sector or industry level rather than single business case. Nonetheless, it is suggested that a Danish company or a group of companies representing a sector or part of the same value chain should be included in a project.

Applications for support will be granted or rejected based on an overall assessment of the proposed project in relation to its ability to contribute to the objectives of the programme, and of the Danish partner(s)' financial capacity, technical capability, human resources, and prior international experience. A comprehensive *due diligence* process will be applied.

The financial support could be provided as grants with a condition that partners should contribute minimum 50 percent of the cost of the business plan, which could include in kind or cash or a mix of the two.

It is recommended that the programme will be made available in Denmark's priority countries and in countries with a GNI below USD 3,300 per capita where there is a Danish representation. See Annex 1.

2.3. *Investment Project Development*

The purpose of Investment Project Development is to support companies, which wish to develop investment projects which could potentially become viable investments for the Investment Fund for Developing Countries (IFU) and other investment partners in accordance with IFU's mandate. Experience shows that even large international companies are hesitant to develop investment projects in developing countries because of the higher risks and relatively high development costs. Risk sharing and co-investment in such projects is often crucial for them to be established.

The financial support under the proposed programme would for instance be given as a loan or investment capital on market terms to a project development company established by the partner companies. If the investment project does not materialise the investment is written off. If the project is developed then Investment Project Development and the partner companies will receive a return on their investments, and the revenue returned to Investment Project Development will be used for new development projects.

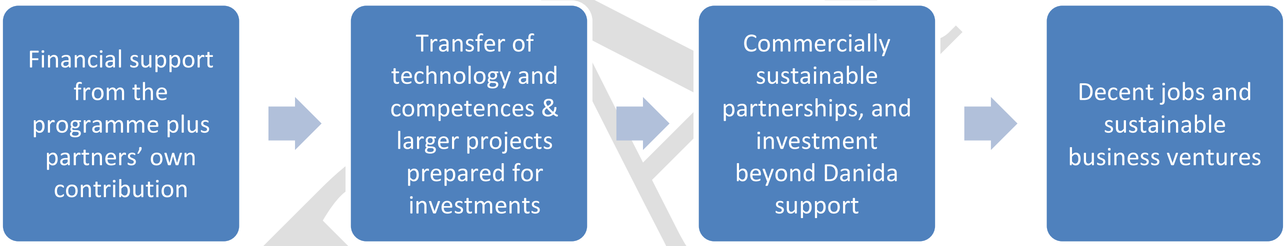
The programme would be linked to IFU's mandate and administration and would therefore be available in all DAC countries. The suggestions is that 50% of the budget being allocated to countries with a GNI below USD 3,300 per capita. The programme will be jointly formulated with the IFU Climate Project Preparation Facility.

IFU is an independent government-owned fund, offering advisory services and co-investing with Danish companies in developing countries (link). IFU makes risk capital available in the form of equity, loans or guarantees for project companies established by Danish companies or with a Danish economic interest in one of the 120 countries eligible for IFU investment. In addition, IFU acts as an adviser during the establishment phase and a project company's first few years in operation, typically withdrawing when the company can operate on its own. IFU has co-invested with Danish companies in 780 project companies in 88 developing countries.

IFU has endorsed the 10 UN Global Compact principles, and is committed to implementing and advancing these, together with the project companies they invest in.

2.4. Theory of change

The rationale behind the programmes is that financial support to or co-investment with Danish companies and CSOs to engage commercially in developing countries would result in decent employment and sustainable business ventures.



The financial support should motivate Danish companies and other organisations to allocate resources to do business or promote development of markets in developing countries, where the framework conditions are not as favourable, and the risks are higher as compared with more developed and better known markets. The justification for supporting Danish companies to do business in a developing country is that a strategic investment of resources in a project that could eventually become commercially viable on the terms of the market in a developing country would promote sustainable development and in addition could lead to long term benefits for the Danish company(ies) in terms of growth and internationalisation.

The financial support would be given on conditions that the businesses are committed to responsible business conduct, promoting the UN Guidelines on Business and Human Rights and OECD Guidelines for Multinational Enterprises and they comply with the requirements for monitoring and evaluation necessary to measure results. This will enable Danida to monitor the results of the programme interventions.

2.5. Summary of risk management framework

Investment in projects located in developing countries is often associated with a high risk element. Political and economic conditions may be turbulent, and the investments are often subject to high commercial risks. Assessment of the capacity and capability of the Danish company/organization and the potential for commercial viability and sustainability results of the proposed investment will be strengthened to reduce the risk of failure.

In addition to the above mentioned contextual and commercial risks, the major programmatic risk is lack of interest by Danish businesses to invest in developing countries. Major institutional risks include possible violation of human rights and occupational safety and health standards, damage to the environment as well as corruption. The preliminary Risk Management Matrix in Annex 6 will be elaborated during programme formulation.

Major assumptions are that:

- The terms and conditions of the two programmes are sufficient to attract Danish businesses with adequate capacity and a strategic interest to engage in promoting sustainable development in developing countries;
- Political commitment of host countries to ensure conducive legal and regulatory regimes for foreign investors to do business;
- Danish businesses, CSOs and their partners exercise responsible business conduct.

A mid-term review will be carried out in order to assess the progress versus targets and to review lessons learnt.

2.6. Monitoring mechanisms

The results framework, indicators and monitoring mechanisms will be developed as part of the programme formulation phase. The preliminary indicators for measuring the programmes' objective are:

- Number of engagement operating on a commercial basis
- Level of investment by the Danish companies in the country
- Number of decent jobs established and maintained (men and women)
- In-country turnover and level of contribution to tax payment
- The effect on the Danish companies' performance resulting from their engagement in projects supported under the programme
- Projects developed to a stage where bank finance can be achieved

Whereas projects granted under Investment Project Development are proposed to follow IFU's result framework, specific performance indicators to measure success at the project level will be developed for Danida Business SDG Partnership during the programme formulation process. The preliminary indicators for measuring Danida Business SDG Partnerships at the project level are:

- Strengthening of local productivity
- Contribution to employment (men and women)
- Transfer of knowledge and technology
- Promotion of Corporate Social Responsibility

3. Management set-up

In order to utilize administrative resources in a cost effective manner it is recommended that the day-to-day administration of Danida Business SDG Partnership is centralised at MFA. Further, the administration of Investment Project Development is handed over to an organisation with capacity. The administration of Investment Project Development would be placed with IFU as this programme would be in line with the core business of IFU. According to the EU Procurement Directive, IFU, being a contracting authority may be given the exclusive right to administer the programme[1].

The Danish representations (embassies) would play a role vis-à-vis Danish companies and CSOs during preparation and implementation of their activities. Commercial assistance to Danish companies and CSOs would be subject to the payment regulations. It is not envisaged that IFU will provide in-country project related assistance to Danish companies and CSOs concerning Danida Business SDG Partnership.

Assistance to Danish companies in connection with Investment Project Development will be given according to normal IFU practice or by the representation/Trade Council where relevant.

4. Budget

The budget is DKK 67 million. Funds will be set aside for review, marketing etc. It is proposed to divide the budget between the two programmes with 60 % to Danida Business SDG Partnership and 40 % to Investment Project Development.

5. Annexes

1. List of eligible countries for Danida Business SDG Partnership
2. Process Action Plan
3. HRBA/Gender Screening Note
4. Preliminary Results Framework
5. Risk Management Matrix
6. Environmental and climate screening note

[1] Directive 2004/18/EC, Article 18 (Directive 2014/24/EU, Article 11 expected to be in effect as of January 2016)

Annex 1

Danida Business SDG Partnership

List of eligible countries and GNI in USD per capita 2014

Priority countries

Afghanistan	680
Bangladesh	1,080
Burkina Faso	710
Ethiopia	550
Ghana	1,620
Kenya	1,280
Mali	720
Myanmar	1,270
Niger	430
Palestine	N/A
Somalia	N/A
South Sudan	960
Tanzania	930
Uganda	660

Other countries below USD 3.300 with DK representation:

Egypt	3,280
India	1,610
Morocco	3,020
Nigeria	2,950
Pakistan	1,410
Philippines	3,440[2]
Vietnam	1,890

[2] This is the first year that the Philippines are above the DKK 3,300 limit.

Annex 2

Process Action Plan

Activity	**Responsible**	**Date**
Concept Note finalised and delivered to KVA	GRV	24 November 2015
Concept Note in public hearing	KVA	26 Nov. to 10 Dec. 2015
Programme Committee meeting	KVA/GRV	17 December 2015
Presentation to the Minister	GRV	22 December 2015
Draft Project Document	GRV	
Appraisal	TAS	Real time appraisal
Final Appraisal Report	TAS	Ultimo March 2016
Final Programme Document	GRV	Ultimo March 2016
Deadline for submission of grant proposal	GRV	April 2016
External Grant Committee meeting	KVA/GRV	April 2016
Presentation to the Minister	KVA	April 2016
Presentation to the Finance Committee	UGS/GRV	May 2016
Administration agreement with IFU	GRV/ IFU	May 2016
Public launch	GRV/IFU	June 2016
Effective start of the Programme	GRV/IFU	July 2016

HRBA/Gender Screening Note - to be elaborated during formulation

Title	Danida Business SDG Partnership & Investment Project Development
Country/ region	Danida Business SDG Partnership will be available in countries with a GNI below USD 3,300 per capita (80% of the World Bank's definition of Lower Middle Income Countries) with a Danish representation. Investment Project Development will be available in all DAC countries with 50 % in countries with a GNI below USD 3,300 per capita.
Budget in DKK mio.	DKK 67 million
Starting date and duration	July 2016 - two years.

Human Rights Based Approach

Assess whether a Human Rights (HR) Based Approach has been applied in the programme:

Human Rights Assessment and Standards			
Issues:	**yes**	**No**	**Explain:**
Have major HR analysis relevant for the country been consulted (UPR, OHCHR, EU HR Strategy, other relevant donor documents)		**X**	Not applicable given the regional nature of the programmes.
Have key international **HR standards** and/or mechanisms influenced choice and formulation of outcome areas?	**X**		It will be a fundamental principle that partners contribute to respect for human rights and exercise responsibility in relation to labour rights, environment and anti-corruption in developing countries. Adherence to international recognised CSR principles will be a precondition for support.
Where relevant, is application at national level, including **major gaps between human rights in principle**		**X**	Not applicable given the regional nature of the programmes.

vs. human rights in practice, evaluated and identified?			
Are **key recommendations from UPR** for the thematic programmes and from any treaty bodies, special procedures, INGOs, HNRIs etc. that require follow up at national level considered?		**X**	Not applicable given the regional nature of the programmes.
Are rights-holders identified?	**X**		People employed though the project and people and communities affected by the project.
Are duty-bearers identified?	**X**		Authorities responsible for private sector regulations and framework.

Assess whether Human Rights Principles have been applied in the preparation and in the design of the programme?			
Non-discrimination: Are any groups among rights-holders excluded from access and influence in the thematic programme areas identified?		**X**	Partners must ensure that their policies and practices promote equal opportunity and prevent discrimination.
Are disaggregated data available on most vulnerable groups?		**X**	Not applicable given the regional nature of the programmes. The issue will be covered at project level.
List any key support elements included to promote non-discrimination	**X**		Will be based on the UN Global Compact self-assessment tool which includes an assessment of all human rights including discrimination.
Participation and inclusion: Are barriers for participation, inclusion and empowerment of rights holders identified?		**X**	Not applicable given the regional nature of programmes. Issue will be covered at project level.
List any key support elements included to promote participation and inclusion	**X**		Will be based on the UN Global Compact self-assessment tool which includes an assessment of all human rights including participation/inclusion
Transparency: Is the extent to which information is accessible to rights holders including marginalised groups assessed? Where relevant, whether information is available in other than official languages of the country in question should be indicated.		**X**	Not applicable given the regional nature of the programmes. Issue will be covered at project level.
List any key support elements included to promote transparency	**X**		Will be based on the UN Global Compact self-assessment tool which

			includes an assessment of all human rights including communication /participation /transparency – e.g. free prior and informed consent (FPIC)
Are key **accountability** mechanisms in the relevant area – both horizontal and vertical listed?		**X**	Not applicable given the regional nature of the programmes.
Are obstacles, e.g. capacity and political-economy incentives that duty-bearers and rights holders face to exercise their obligations and rights listed?		**X**	Not applicable given the regional nature of the programmes.
List any key support elements included to promote accountability	**X**		Will be based on the UN Global Compact self-assessment tool which includes an assessment of all human rights including communication and reporting towards stakeholder and vulnerable groups – e.g. free prior and informed consent (FPIC)

Results/Indicators			
List any indicators designed to monitor the realisation of specific human rights	**X**		Will be based on the UN Global Compact self-assessment tool which includes an assessment of all human rights issues, core labour standards, environmental issues and anti-corruption.
List any indicators designed to monitor the integration of the four principles	**X**		See above
List any key indicators chosen to track capacity of key partners (both rights holders and duty bearers)	**X**		See above

Dialogue Partners			
Define key dialogue partners (duty bearers) to be addressed by the country programme		**X**	Not applicable given the regional nature of the programmes.
Define key alliance partners, including other likeminded donors, multilateral partners and CSO's	**X**		Will be based on the UN Global Compact self-assessment tool which includes an assessment of all human rights issues and prepared by the Danish Institute of Human Rights
State major dilemmas/risks associated with the policy dialogue and proposed mitigation measures (incl. reference to		**X**	Not applicable given the regional nature of the programmes.

Framework for Risk Assessment)			

Gender Screening Tool			
Are key challenges and opportunities for gender equality identified?			Not applicable given the regional nature of the programmes. Issue will be considered at project level.
Are reference made to CEDAW-reporting, UPR, and other relevant gender assessments?			Not applicable given the regional nature of the programmes.
Identify opportunities/constraints for addressing gender equality issues			Not applicable at programme level given the regional nature of the programmes. Issue will be considered at project level.
Describe key strategic interventions to promote gender equality within each thematic programme?			The policies and activities of the project company must respect women's rights and promote financial, social and political equality between men and women.
Explain how gender specific purposes with be reached, which strategic approach, what activities are planned			See above
Define expected outputs.			Not applicable at programme level given the regional nature of the programmes. Issue will be considered at project level
Identify gender equality indicators aligned with national targets on gender if possible.			Not applicable at programme level given the regional nature of the programmes. Issue will be considered at project level.

The Results Framework will be finalised as part of the preparation of the project document.

Preliminary Results Framework

Thematic Programme		Danida Business SDG Partnerships & Investment Project Development	
Thematic Programme Objective		The objective for the programmes will be to support sustainable and inclusive economic growth in the recipient country in terms of decent jobs and sustainable business ventures.	
Impact Indicator			
Engagement Title		Same as Thematic Programme	
Outcome indicator		• Number of engagement operating on a commercial basis • Level of investment by the Danish companies in the country • Number of decent jobs established and maintained (men and women) • In-country turnover and level of contribution to tax payment • The effect on the Danish companies' performance resulting from their engagement in projects supported under the programmes	
Baseline	Year	2016	0
Target	Year	2020	The specific targets will be developed during the formulation phase

The Risk Management Matrix will be detailed during the project formulation phase.

Contextual risks

Risk Factor	**Likelihood**	**Background to assessment of likelihood**	**Impact**	**Background to assessment to potential impact**	**Risk response**	**Combined residual risk**
A possible new global financial crisis will limit Danish companies' ability and willingness to invest in ventures in developing countries.	Unlikely	A global financial crisis is not considered likely within the next two years.	Major	A global financial crisis will limit Danish companies' interests in investing in developing countries. This was also the case during the recent crisis.	The effects of a possible global financial crisis will be part of the assessment of project applications, and on consequences for possible continued support to ongoing projects.	Minor
Political and/or financial developments in individual countries limiting Foreign Direct Investments.	Unlikely	During recent years financial or political turbulence have taken place in a number of developing countries.	Major	Political or financial turbulence will be likely to have a major negative impact on the project/investments.	Potential political and financial turbulence will be part of the assessment of project applications and ongoing support.	Minor

Programmatic Risks

Risk Factor	Likelihood	Background to assessment of likelihood	Impact	Background to assessment to potential impact	Risk response	Combined residual risk
Lack of interest and/or capability by Danish enterprises to establish projects and invest in developing countries.	Unlikely	Danish enterprises may be hesitant to do business in developing countries.	Major	If Danish enterprises loose interest or capability to establish projects and invest in developing countries it will be difficult or impossible to reach the targets of the programmes.	Support and assistance to enterprises will make investments less vulnerable and provide better changes for success and sustainability. Promotion of the programmes will be included in the budget.	Minor
Commercial failure of individual projects.	Likely	Unless investments are carefully appraised they can easily lead to commercial failure.	Major	Commercial failure of investments will mean that the concerned enterprise will have high probability for losses.	Applications for support under DB SDG Partnership will be subject to a thorough due diligence assessment. Support under Investment Project Development will follow IFU investment procedures.	Minor

Institutional (reputational) Risks

Risk Factor	Likelihood	Background to assessment of likelihood	Impact	Background to assessment to potential impact	Risk response	Combined residual risk
Violation of human rights and occupational safety and health standards	Likely	Assessments of private sector activities in developing countries indicate that underpaid labour, child labour and hazardous use of pesticides happens often in local enterprises	Major	Any possible violation will have a negative effect on employees and will undermine the objectives of the programmes.	Businesses must demonstrate a commitment to responsible business conduct including respect for human rights as set out in United Nations Guiding Principles on Business and Human Rights (UNGP), and show responsible conduct in relation to labour rights, environment and anti-corruption in accordance with the OECD Guidelines.	Minor
Misuse, corruption and fraud by companies involved in projects and investments	Likely	According to International Transparency Index, corruption is widespread in most developing countries	Major	Implementation of project interventions may be seriously damaged if funds are mismanaged and it will undermine efforts by local authorities and donors to combat corruption.	As above.	Minor

Annex 6

Environmental and climate screening note

Not applicable given the regional approach and the diverse nature of the individual projects. Environmental and climate screening will be part of the appraisal of individual commitments.