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Project Document

Impact Fund Denmark Development Guarantees

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KLIMA

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LIST OF ABBREVIATIONS

AFR	Access to Finance Rwanda
BC	Board Clearance
BPR	Bankque Populaire du Rwanda
CIP	Clearance in Principle
CRO	Chief Risk Officer
DAC	Development Assistance Committee of the OECD
DG	Development Guarantees
DKK	Danish krone
ECL	Expected Credit Loss
EMDEs	Emerging Markets and Developing Economies
ESG	Environmental, social, and governance
FTE	Full Time Equivalent
GHG	Greenhouse gas
IC	Investment Committee
IFDK	Impact Fund Denmark
KPI	Key Performance Indicators
LGD	Loss Given Default
MDB	Multilateral development banks
MFA	Ministry of Foreign Affairs of Denmark
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
PD	Probability of Default
REC	Recommendation
REPP2	Renewable Energy Performance Platform 2
SDG	Sustainable Development Goals
Sida	Swedish International Development Cooperation Agency
SMEs	Small and medium-sized enterprises
TA	Technical Assistance
USD	US dollars

1 Introduction

The present project document outlines the background, rationale and justification, objectives and management arrangements for support to the permanent Impact Fund Denmark Development Guarantees (DG) covering from Q1 of 2027 to end of 2030 as agreed between the parties: Impact Fund Denmark (IFDK) and the Ministry of Foreign Affairs of Denmark (MFA). The project builds on the lessons learned from the pilot phase (2022-2026) and supports the expanded state-backed guarantee ceiling from DKK 2 billion to DKK 12 billion by 2030. The DG will support the 2025 Strategy for Development Cooperation – “A Changing World: Partnerships in Development” and the 2024 Africa Strategy – “Africa’s Century”. It will contribute to Denmark’s role in delivering climate finance goals and in advancing the EU’s Global Gateway agenda.

The project document defines the objectives and management arrangements for a grant to IFDK for:

1. subsidies to risk premium payments by guaranteed parties;
2. technical assistance to support lenders and borrowers.
3. management of the Development Guarantees (2027-2030);

The guarantee model has been confirmed as an effective way of mobilising private finance for climate and development purposes. The pilot phase and the permanent phase of the guarantees is expected to jointly mobilise more than DKK 27 billion in private capital by 2030. The allocations for subsidies and technical assistance enables IFDK to provide finance for underserved segments, such as SMEs, and mobilise climate finance at scale for mitigation and adaptation, also in poor and fragile countries.

The transition from the pilot phase to a permanent mandate marks a significant milestone in institutionalising development guarantees (DG) within IFDK. In line with IFDK’s 2024-2026 strategy, DG strengthen the organisation’s ability to deliver impact and mobilisation at greater scale by (i) mobilising private capital directly and indirectly, and (ii) expanding access to finance for underserved groups. Embedded as a core product alongside equity, loans, on-lending, and blended finance, guarantees broaden IFDK’s product mix and enable the institution to crowd in institutional investors and private lenders where risk perceptions otherwise constrain credit flows; particularly in Africa and other Emerging Markets and Developing Economies (EMDEs). The additionality and development impact generated through DGs directly contribute to IFDK’s existing key performance indicators (KPIs) across facilities and sectors. They are expected to play a key role in achieving IFDK’s owner’s priorities related to climate finance, investments in Africa, and poor and fragile states, as well as overall private capital mobilisation.

Looking ahead, increasing market and policy uncertainty - reflected in the outlook for IFDK’s 2027-2030 strategy period - further highlights the importance of scalable, risk-sharing instruments such as DGs to sustain investment flows and ensure continued mobilisation of private capital, particularly for climate and high-impact sectors.

2 Project objective and key features

The overall objective of the MFA-IFDK Agreement on the permanent phase of the IFDK DG is to contribute to development impact in developing countries by mobilising additional private capital for investments and support market creation by enabling financial institutions and investment vehicles to expand access to underserved SMEs, climate-relevant sectors, and other priorities in the Danish Strategy for Development Cooperation. This will be achieved by focussing on the IFDK Impact Priorities: i) Supporting the building of just and inclusive economies, focusing on poverty alleviation, gender equality, and job support in the most vulnerable communities; and ii) Fostering green economies through investments in climate mitigation, adaptation projects, and sustainable infrastructure, particularly in regions most affected by climate change.

By increasing access to climate finance and mobilising additional private capital towards addressing sustainable development challenges enterprises, especially small and medium-sized enterprises (SMEs) in poor and fragile

countries, will be enabled to grow their businesses, support jobs, and contribute to the just and inclusive economic development of their communities. This will lead to increased income and livelihood opportunities for individuals and families, as well as the development of local economies and the reduction of poverty. By providing technical assistance (TA) for capacity building of partners a stronger and more effective impact can be obtained in certain situations. Providing subsidies to make the guarantee premium affordable allows for use of guarantees in contexts with a higher risk. IFDK DG operational and management set-up ensures that development additionality is achieved by lowering the risk-return profile of lending and investment in underserved and climate-relevant segments through, amongst others, strengthened systems of financial institutions and technical assistance to partner institutions.

By mobilizing private capital towards climate finance DG contributes to the green transition and scaling up of private investments into renewable energy generation, GHG reductions in high-emitting sectors as well as investments in climate adaptation e.g. in agriculture and water management towards a higher climate resilience in vulnerable countries and communities. The DG will aim towards the three strategic targets and KPIs of IFDK with focus on Africa, Climate, and Poor & Fragile Countries. The KPI realisation will be measured as the amount contributing towards the KPI over the total guaranteed amount over a 3-year rolling period, in line with IFDKs existing Owner KPIs. This rolling average will include the guarantees from the pilot phase to cover the full instrument implementation.

2.1 Current pipeline, portfolio composition and expected pipeline development

Annex H gives an overview of the current pipeline of guarantees under development, including the expected mobilization rate or increased access to finance, the thematic priority and geographic focus. This also includes the estimated needs for TA in each possible guarantee as well as the estimated need for risk premium subsidies. Both of the estimation's sums exceed the amounts available from this project document grant.

The pipeline reflects the three guarantee types (Bank/Loan portfolio guarantees, Fund guarantees and Balance Sheet Guarantees), with bank guarantees providing the financial backbone, and fund and balance sheet guarantees contributing to large-scale climate mobilisation. Together, these guarantee types ensure both strategic impact and the long-term financial sustainability.

Across transactions, the DG team systematically applies IFDK's internal additionality tools, ensuring that each pipeline engagement addresses a clear financing gap—whether linked to underserved SME lending, high perceived climate risk, or structural barriers within financial institutions. TA and premium subsidies are considered early in the process and targeted only where necessary to unlock lending or investment in contexts with the highest development impact, consistent with the principles of minimum concessionality and state aid compliance.

Overall, the pipeline is expected to deliver a balanced and strategically aligned portfolio that supports IFDK's Owner KPIs while enabling scalable mobilisation of private capital toward 2030.

Portfolio Composition and Strategic Approach

The DG's portfolio strategy is designed to ensure financial sustainability while delivering on development priorities. The guarantee portfolio government risk has been deliberately structured to be self-financed through modelled premium income that matches the 1.4% Guarantee Framework Fee payable to the Danish Ministry of Finance. While this strategy aims to reduce liquidity risk for IFDK, alternative portfolio structuring strategies may be explored, recognising the trade off between balanced portfolio composition and liquidity considerations.

Bank guarantees are expected to generate guarantee fees above the 1.4% annual fee payable to the Danish State and thereby create a liquidity surplus at portfolio level. This surplus is needed to support MDB guarantees and other high-mobilisation structures where expected fees may be below the State fee, but where the development and mobilisation impact is substantial. Bank guarantees therefore provide the financial backbone that enables a balanced and financially sustainable guarantee portfolio.

Figure 1 below shows the projected guarantee portfolio composition to 2035, illustrating the accumulated guarantee volume distributed across the three main counterparty types.

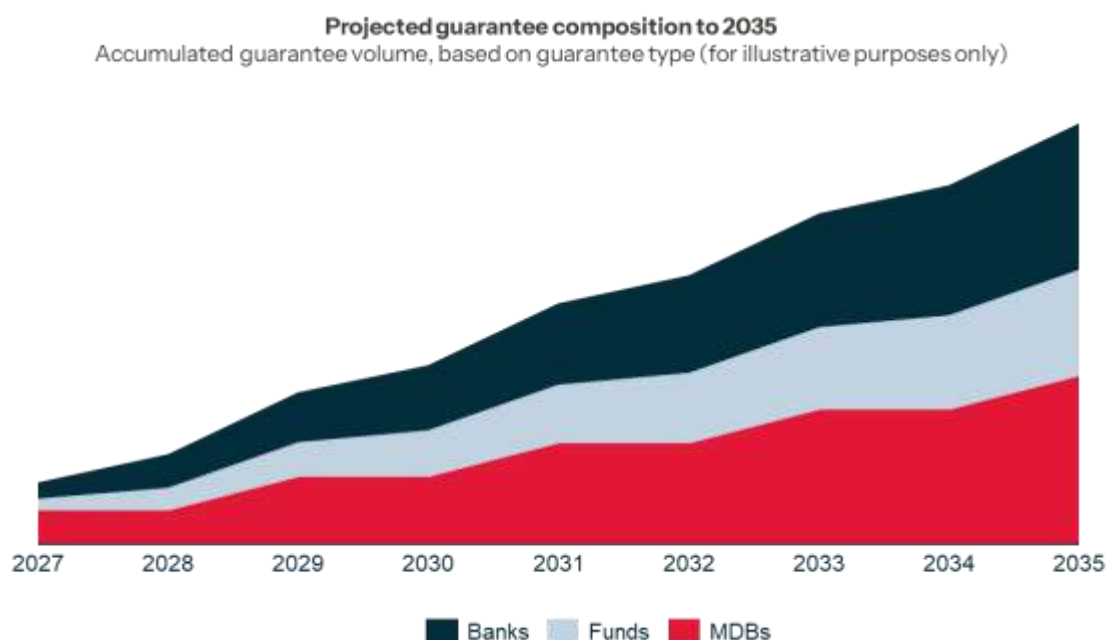


Figure 1 Projected Guarantee Portfolio. Source: DG team strategy 2026

The portfolio composition is designed to ensure financial sustainability and minimise liquidity risk while delivering on IFDK's Owner KPIs. The final composition of the guarantee portfolio will remain demand-driven and may vary from the indicative targets for number of guarantees and annual guaranteed volume. IFDK will manage the portfolio with flexibility across guarantee types, geographies and counterparties to optimise mobilisation, development impact, efficient delivery, financial sustainability and alignment with Owner KPIs.

The strategic portfolio composition ensures that the DG can meet both its financial obligations under the Agreement on a Guarantee Instrument and its development impact targets as outlined in Denmark's Development Cooperation Strategy and IFDK's strategic KPIs. Based on the expected mobilisation rates, bank guarantees are estimated to mobilise approximately 2 times the guaranteed amount, fund guarantees approximately 3 times, and multilateral development banks (MDB) guarantees approximately 4 times. In aggregate, the modelled portfolio is expected to mobilise DKK around 24 billion over the period 2027–2030, including DKK 6.5 billion mobilised during the pilot phase 2022-2026.

3 Project context, rationale and justification for support

Developing countries face numerous challenges when it comes to financing their development agendas. These challenges include limited fiscal space, inadequate infrastructure, low levels of private investment, and vulnerability to external shocks. Additionally, the scale and complexity of development projects often require substantial capital injections that cannot be fully met through traditional funding mechanisms alone. Mobilizing finance for development through innovative financing instruments, therefore, becomes imperative to bridge the existing financial gap and ensure sustainable progress. It is widely recognized that mobilizing finance for development

remains crucial for sustainable economic growth and for alleviating poverty. The SDG financing gap in developing countries has grown from USD 2.5 trillion in 2015¹ to approx. USD 4 trillion annually today, and is projected to raise to USD 6.4 trillion without major reforms, according to the OECD².

There are three primary strengths associated with development guarantees. Firstly, they have an unrivalled power in mobilizing private capital; secondly, guarantees are cost-effective; and thirdly they provide access to finance for underserved groups.^{3 4 5 6 7} Guarantees in this context will be deployed to provide access to financial markets for underserved groups and economic sectors. As guaranteed parties pay for guarantees (to the extent of their means), the risk of supporting recipients and activities that do not have a real need for the guarantees is very limited. A full context analysis is included in Annex E.

3.1 Thematic context: supporting access to finance

Access to finance is a critical tool for addressing development challenges, including the consequences of climate change, inequality, and poverty reduction.⁸ Not least in Africa. Guarantees can unlock existing liquidity from the private sector into new investments that are needed to create sustainable employment opportunities. By assuming



Figure 2 Structural challenges and access to finance (Source: IFDK DG Team Strategy, 2026)

a portion of the risk, guarantees encourage commercial banks and private investors to provide financing that they might otherwise be perceived as too risky. This expanded access to funding promotes investment in sectors and regions that are typically underserved or deemed 'high-risk'. Development guarantees thus expand access to finance for SMEs and underserved groups such as women and youth. Access to finance promotes the creation of jobs, inclusive growth and delivery of essential services in communities that need them the most.

3.2 Thematic context: climate finance

Climate change poses a significant challenge for billions of people and for the macroeconomic performance and balances in developing countries not least for countries in Africa that are highly vulnerable to the impacts of global warming. Rising temperatures and changing weather patterns are affecting agriculture, water resources, and by implication economic opportunities and prospects for many citizens. In addition, extreme weather events such as floods and droughts are becoming more frequent and severe, causing economic and non-economic losses and damages, displacement and insecurity. The third report of the Independent High-Level Expert Group on Climate

¹ OECD, 2023, World Investment Report.

² OECD, 2025, Global Outlook on Financing for Sustainable Development 2025

³ OECD/DAC (2021) The Role of Guarantees in Blended Finance

⁴ Blended Finance Task Force (2023) Better Guarantees, Better Finance

⁵ Convergence (2022) Profiling Sida's Guarantee Programme

⁶ Center for Strategic Studies (2019) Innovations in Guarantees for Development

⁷ DIIS (2020) Evaluation Study Guarantees and Incentives in Development Aid

⁸ Making financial services meet the needs of the world's most vulnerable, Consultative Group to Assist the Poor (www.cgap.org) a global partnership, which Denmark has been a member of for many years.

Finance concluded that EMDEs will need USD 2.4 trillion per year by 2030 and USD 3.3 trillion per year by 2035 to finance the clean energy transition, adaptation and resilience as well as responding to losses and damages and finance the just transition.^{9 10} The COP30 Circle of Finance Ministers further concluded that whereas global climate finance flows reached a high of USD 1.9 trillion in 2023 – only 10 percent of this amount flows into EMDEs.¹¹

Development guarantees mobilise private capital for climate action and the energy transition by lowering investment risks in sectors that provide climate solutions. Whereas, the energy transition in developed countries primarily faces institutional, administrative and political barriers, developing countries also face barriers related to, amongst others - poverty, inadequate energy infrastructure, lack of institutional capacity and regulatory uncertainty leading to higher barriers for the energy transition and climate action¹². Development guarantees are one of the financial instruments that can address the barriers related to investment risks and financial barriers. They can enable financing for green technologies, climate-resilient infrastructure, and sustainable production and consumption; supporting the transition to a low carbon, environmentally sustainable economy. Increasing climate finance and investments in EMDEs can facilitate economic growth, job creation, innovation and deliver crucial co-benefits for mitigation, adaptation and sustainable development priorities at large.¹³



Figure 3 shows the significant gap of almost USD 250b to meet the demands for climate finance in Africa and the annual investments in renewable energy in Sub-Saharan Africa between 2020-2030. (Source: IFDK DG team strategy)

Figure 3 Gap between actual investments and needs to reach RE targets in SSA

3.3 Thematic context – crosscutting priorities

Cross-cutting priorities for development guarantees include poverty reduction, gender equality, and climate adaptation. All guarantees are screened for their contribution to these priorities. Dedicated premium subsidies and technical assistance are used to expand access to finance for women, youth, and underserved SMEs, and to promote adaptation alongside mitigation in climate-relevant sectors.

Issuance of guarantees aimed at providing access to finance will follow the principles and intentions presented in the *How-to-Note on Job Creation and Sustainable Growth*, and be guided by the principles of Doing Development Differently, where “opportunities for synergy will be sought out continuously during the formulation and implementation of Danish development cooperation”¹⁴.

⁹ Independent High-Level Group (IHLEG) (2024) Accelerating Sustainable Finance for Emerging Markets and Developing Economies.

¹⁰ Finance for climate action, Scaling up investment for climate and development, Report of the Independent High-Level Expert Group on Climate Finance (November 2022)

¹¹ Report of the COP 30 Circle of Finance Ministers – on the Baku to Belem Roadmap to 1.3T (2025)

¹² See for example: Salvador Pereira, et al: Barriers to energy transition: Comparing developing with developed countries, Energy for Sustainable Development, Volume 87, 2025,

¹³ WRI (2019) The Triple Dividend of Building Climate Resilience

¹⁴ How-to note for implementation of “The world we share”, Job creation and sustainable growth Ministry of Foreign Affairs of Denmark (August 2022).

3.4 How guarantees unlock finance for development

Similarly to the pilot phase, the DG permanent phase will seek to address two central development priorities: 1) providing access to finance for population segments that do otherwise not have access; and 2) mobilising private capital to address climate change, in particular climate adaptation. Guarantees are highly effective for capital mobilisation especially where perception of **risk** rather than liquidity is a constraint. The guarantee works as an insurance instrument with the purpose to share risk with financial institutions to create new impactful lending. The IFDK DGs will operate with three different kinds of guarantees – with each covering risk in different ways:

i) loan portfolio guarantees, covering losses in a pre-defined portion of a bank's future portfolio. The guarantee reduces the risk for the banks and improves the possibility to lend to higher-risk and underserved segments such as SMEs, women and young entrepreneurs.

ii) fund guarantees aimed at mobilising private capital for investment funds that focus on impact investments and projects. These can be sector-specific such as renewable energy or infrastructure, or target broader development goals. The guarantee makes it attractive for private capital to flow into impact and development projects otherwise considered too risky.

iii) balance sheet guarantees, the guarantee covers a portion of the financial institution's balance sheet. This allows the institution to increase their lending capacity for impact investments and projects. Often provided to MDBs and/or other larger financial institutions.

The guarantee counter parties can be either commercial banks, MDBs, regional and national banks and/or private debt fund and fund managers, but typically not direct project level finance. The current portfolio and counter parts are available in Annex H.

Bank guarantee, the case of BPR Rwanda:

In 2024, IFDK provided a first development guarantee to BPR Bank Rwanda of DKK 40m. The bank targets loan financing for small and medium sized companies in Rwanda for growth, jobs and economic development. BPR Bank Rwanda has a network of close to 40.000 depositing SME clients. The portfolio guarantee has already delivered considerable results. After ten months, 93% of the guarantee framework had been used, and 180 loans were granted. A large part of these loans have gone to underserved groups, 41% of the borrowers are women and 19% are young.

Technical Assistance has been delivered via Access to Finance Rwanda and strengthened underwriting as well as the bank has reduced collateral requirements allowing cash-flow based lending policies .

The expected impact of the guarantee is the creation of jobs among SME clients; increased incomes and business resilience; strong financial inclusion amongst rural women and youth as well as considerable demonstration effect for Rwanda's banking sector.

3.5 Ensuring financial, value and development additionality

Ensuring financial, value and development additionality is a core requirement for all IFDK engagements, including for Development Guarantees. Guarantees may only be issued where: i) financing is not available at reasonable cost without public support, ii) the risk of market distortion is limited, and iii) the intervention delivers meaningful development impact. Additionality must be documented ex ante as part of each investment decision.

To operationalise these requirements, IFDK applies two complementary tools: the Financial Additionality Screening Tool, which assesses additionality at both country and deal level, and the Market Assessment Tool, which evaluates the broader financial sector landscape to ensure interventions complement rather than displace

existing actors. Development additionality is ensured through IFDK's Impact Management System, which screens all engagements against criteria for green transition and just and inclusive growth. All assessments, financial additionality, market analysis, subsidy justification, expected mobilisation, and development rationale, are documented in the CIP and BC and reviewed by the Investment Committee prior to approval. IFDK retains the flexibility to update its tools and processes without further notification or approval.

IFDK maintains the flexibility to continuously update, improve and change the tools, systems and processes used internally without further notification or approval.

Allocation of Premium Subsidies Grant Funding by MFA

The DG operates as a demand-driven instrument in which IFDK controls neither the timing of guarantee opportunities nor the pace of post-commitment deployment. Equipping IFDK with a significant proportion of subsidy funding at the outset of the permanent mandate is therefore an operational necessity, ensuring IFDK can respond decisively when commercially and developmentally optimal opportunities arise. The subsidy absorptive capacity is directly linked to the approved guarantee volume targets, and accountability is ensured through the existing governance framework described in section 7.

The accountability and financial prudence of front-loaded subsidy funding is ensured through the DG's existing governance framework. The subsidy absorptive capacity is directly linked to the DKK 4-12 billion guarantee volume targets already approved by MFA, meaning that if the volume ambitions are realistic, as the pilot phase has demonstrated, then the corresponding subsidy requirements are equally realistic and justified.

3.6 IFDK as implementing partner

IFDK activities were untied from Danish commercial interests in 2017. Since then, IFDK has achieved promising results in its transition towards becoming a development finance institution with a clear mandate to mobilise private capital and invest for impact at scale and in line with Danish development priorities. This strategic direction was reinforced with IFDK's 2024-2026 Strategic Plan, which emphasises increased funding and investment activity, strong alignment with Danish climate and development policy, and delivering as “One-Impact Fund Denmark” through a more integrated use of instruments and impact management frameworks. Being an established impact investor, IFDK has an existing and trusted governance set-up, policies, processes and tools for evaluating investments and assessing impact that will be utilised for the development guarantees. IFDK's impact management system is fully integrated into its due diligence and investment cycle, involving a number of steps from initial project screening to exit. Through IFDK's impact screening tool, all investment opportunities are checked against strategic objectives, including the impact criteria for green transition and for just and inclusive growth.¹⁵

While regular IFDK investments, deployed through equity and loans, require a risk-adjusted financial return, Development Guarantees play a distinct role. Existing funds mobilised under IFDK management, such as the SDG Funds with participation from pension funds prioritise investments with a relatively low risk profile and strong and clear exit prospects (often in developing countries with relatively mature markets). In contrast, development guarantees do not carry a return requirement but seek to strike a long-term balance between income and losses, thereby allowing IFDK to enter higher-risk markets and fragile states. The integration of guarantees into IFDK's product range therefore provides a new strategic lever that directly supports the strategic KPIs of IFDK on climate finance (50%), Africa (50%) and poor and fragile states (30%), while substantially expanding IFDK's capacity to mobilise private investors at scale to a larger extent than previously.

Please refer to Annex A for a full partner assessment.

¹⁵ The Theory of Change presented in Section 6 contains more details.

4 Lessons learned from the pilot phase

The Inception Review conducted in November 2024 made twelve recommendations to enhance the operational setup of the pilot phase of the DG.

Table 1: Inception review recommendations

REC #1	Formalise access to shared resources and Gating / IC / Board submissions
REC #2	Ensure the board is equipped with competencies aligned with IFDK's evolving product mix. Invite Head of Risk to attend and provide input and guidance to GC.
REC #3	Draft granular product level investment policies and risk appetite statements.
REC #4	Proactively develop legal agreement templates aligned with market standards and based on case studies drawn from Sida's past guarantees.
REC #5	Allocate a share of additional BI FTE resource to carry DGF BI work.
REC #6	Work towards independence, not separation from Sida
REC #7	Seek to optimise structuring of balance sheet and fund guarantees.
REC #8	Consider introducing a risk dimension to the measurement of the DGF portfolio's alignment with strategic priorities.
REC #9	Articulate origination policy to protect DGF resources.
REC #10	Make a share of quantitative risk analyst FTE available to DGF to replicate and subsequently improve the current risk assessment and pricing methodology.
REC #11	IFDK to consider joining GEMs consortium. Acquire access to Moody's / S&P data.
REC #12	Cooperate with peers to build guarantee pricing database.

Building on these recommendations, the transition from the pilot phase to a permanent Development Guarantee mandate has been further shaped by a number of concrete lessons that emerged through implementation. The pilot period demonstrated that development guarantees are operationally feasible within IFDK and that the instrument delivers on both mobilisation and access-to-finance objectives when supported by the right institutional arrangements. It should however be noted that experience highlighted several areas where targeted strengthening was required to ensure that guarantees can be deployed at scale under the permanent framework.

It was thus necessary to work towards the consolidation of internal governance and the establishment of a clear three-lines-of-defence model adapted to guarantees. During the pilot phase, reliance on shared corporate capacities - Legal, Risk, Business Integrity, Safeguards and Finance - proved essential, but also revealed the need for more predictable access to specialised resources in line with REC#1, particularly as volumes increase. In the permanent phase, these arrangements have now been formalised, and the Investment Committee benefits from reinforcement of competencies, including the participation of the Chief Risk Officer (CRO), thereby addressing REC#2. This provides stronger anchoring for risk-based decision-making and clearer alignment with IFDK's wider investment governance.

The development of a fully internal risk assessment and pricing capability was in addition found to be necessary. Whilst the pilot phase relied on external modelling, which was appropriate for early learning, the permanent mandate requires that IFDK should be able to assess and price guarantees independently.

Recommendations pertaining to the build-up of internal risk assessment and pricing capabilities (including REC #10) were therefore addressed through the hiring of a new CRO in June 2025, and subsequently of Risk Director in November of the same year. A further full time equivalent (FTE) is expected to be added to the team in H1-2026. The build-up of this strengthened risk function was accompanied by the development of a proprietary model for the calculation of probability of default (PD) and loss given default (LGD) metrics. This was done with external support from specialist consultancy d-Fine from Germany. A new credit risk policy was adopted in December 2025. This process benefited from the wider credit capacity building exercise across IFDK.

REC #11 pertained to enhancing access to credit data led IFDK to add Fitch to existing sources, and it is intended that IFDK will join the Global Emerging Markets Risk Database, thereby gaining access to a much wider range of development finance credit risk data. The contributions that will be made to the database are also conducive to the achievement of REC #12, although it may still be useful to consider working towards a guarantee specific data repository.

These enhancements allow pricing to be undertaken earlier in the process, improve consistency, and support the new 95%/5% risk sharing model between the State and IFDK respectively.

Operational lessons have also been central to shaping the permanent facility. The pilot phase demonstrated the need for guarantee-specific templates; particularly for CIP, BC and legal documentation to streamline internal processing and reduce the transaction time. These tools have now been developed and incorporated into the design of the new IMS/ERP system, enabling more efficient execution and strengthening monitoring, reporting and claims management capacity. This addresses and goes beyond the steps suggested in REC#4.

In terms of origination, the pilot phase benefited from close cooperation with Sida. While this cooperation remains valuable, the experience highlighted the importance of building independent origination capacity to ensure full alignment with Danish strategic priorities. The DG team has therefore strengthened its sourcing capabilities, including through systematic banking sector assessments, country-level outreach, and deeper engagement with MDBs and fund managers. This will be complemented by continued but nondependent collaboration with likeminded sovereign guarantors. Together, these measures created the conditions for the implementation of REC #6, enabling IFDK to deploy guarantees independently from Sida, while retaining the optionality to continue working in close cooperation with its guarantee programme.

Finally, the structuring of the guarantee portfolio and operationalisation has been informed directly by lessons learned from the pilot. The permanent phase adopts a deliberate portfolio strategy in which bank guarantees form the financial backbone due to their predictable premium income, while fund and balance sheet guarantees contribute to mobilising larger volumes of climate finance and supporting access-to-finance objectives. Portfolio sequencing will be guided by the need to balance development impact, financial sustainability and risk diversification over time, with sequencing principles applied as an integral part of portfolio management. This balanced approach ensures financial sustainability, supports the long-term cost-neutrality of the facility, and positions IFDK to deliver on Owner KPIs for Africa, climate mitigation and adaptation, and poor and fragile countries.

It should be noted that whilst the strength of the pipeline of opportunities built throughout the pilot phase is reassuring in the context of the transition to a permanent Development Guarantee mandate, it also served to vindicate the importance of REC#9, and the need to articulate an appropriate pipeline management policy.

Taken together, these actions demonstrate that the pilot phase generated the institutional readiness, operational insights, and strategic clarity needed to anchor development guarantees as a permanent IFDK instrument. The

recommendations from the Inception Review have been integrated into the design of the facility and now provide the foundation for scaling the instrument responsibly toward 2030. The DG team has expanded and is well integrated in IFDK. The team brings relevant experience from multilateral development banks, commercial banking, export credit guarantees, development finance institutions and agencies, and from private consulting companies.

Overall, the pilot phase established a strong foundation for transitioning to a permanent mandate. The lessons learned have directly informed the design, governance structure, and operational modalities of the permanent inclusions of development guarantees in IFDK (2026–2030), including a strengthened risk function, an enhanced results framework, and an increased emphasis on financial and development additionality.

4.1 The development guarantee model in the permanent phase

The permanent phase of the development guarantees introduces four structural changes compared to the model applied during the pilot phase and the Sida-based framework. In general, the development guarantee model is based on risk sharing between IFDK and the Danish State to unlock lending and investment that would not otherwise materialise. A guarantee operates as a financial insurance instrument: by covering a share of potential losses, IFDK enables financial institutions to provide credit or mobilise capital in higher risk markets and for underserved segments.

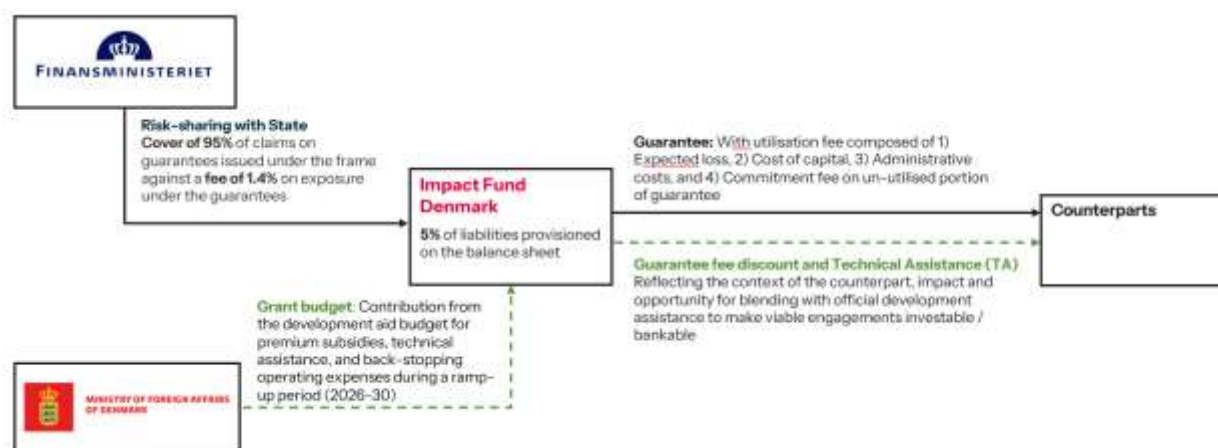


Figure 4 Development Guarantee model

The permanent phase of the development guarantees is organised to reflect distinct lines of governance in IFDK:

1. Under the permanent mandate, guarantees are issued under a 95/5 risk sharing arrangement—95% borne by the State and 5% by IFDK—ensuring prudent incentives while maintaining the AAA-rated structure of the guarantees. Guarantees are never used to de-risk IFDK’s own investments. If IFDK defaults, the government will cover IFDK’s 5%. The guarantees as such de facto 100% AAA rated, which is an important signal to the guarantee takers.
2. Guarantees must be cost neutral over time. The counterpart pays a utilisation fee reflecting expected credit losses, cost of capital, and administrative costs. A key difference from the pilot phase is the introduction of a portfolio-level sovereign fee: IFDK pays an annual 1.4% fee to the Ministry of Finance on the State-backed exposure.

3. Risk assessment and pricing are now conducted internally by IFDK through a strengthened risk function, including a CRO and dedicated credit risk team, enabling consistent pricing delivered earlier in the process, reducing reliance on the external credit risk assessments used during the pilot phase, and allowing operational learning on structuring, legal frameworks and pricing methodologies to inform the permanent model. The risk team is responsible for periodic refinement of the pricing methodologies, assumptions and model performance based on lessons learned and experiences gained on methodology used, new guarantee types and deviations encountered.

4. Premiums generated by the guarantee portfolio are expected to fully cover IFDK's operating costs by 2030 and onwards. MFA will provide transitional support for administration during 2027–2030. Premium subsidies and TA will be financed through ODA. Premium subsidies and TA are used selectively to ensure affordability in high impact markets. Subsidies reduce premiums on guarantees where justified and required, while TA strengthens counterpart capacity—for example in SME or green lending practices, and/or reporting systems—thereby enhancing the development effectiveness of each guarantee.

The permanent mandate employs the same three guarantee types as the pilot phase (loan portfolio, fund, and balance sheet guarantees) each targeting distinct market failures.

It is envisaged that the portfolio will deliberately be structured to ensure financial sustainability while delivering development impact. Bank guarantees stand to provide stable premium income, while fund and balance sheet guarantees can contribute to large scale mobilisation and climate impact. This balance is designed to allow IFDK to meet Owner KPIs for at least: 50% Africa, 50% climate, and 30% poor & fragile countries, while maintaining the long-term viability of the guarantee instrument. Outcomes from the development guarantees will be monitored at portfolio level and will be regularly reported on as part of the annual reporting to the MFA.

The main steps from origination to signing are illustrated in Figure 5 below.

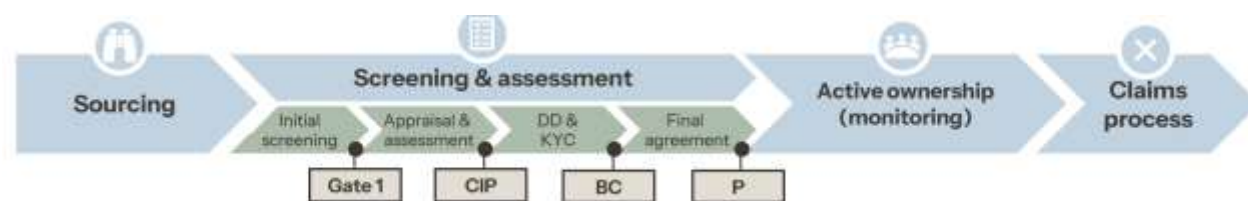


Figure 5: Main Steps in Guarantee Process – Origination to Signing

4.2 Risk premium and risk premium subsidy

IFDK can after a negotiation process elect to subsidise a share of the guarantee premium in cases where the impact is deemed to be high enough to justify this subsidisation and where the private counterparty is unable to service the full guarantee premium. For each subsidised guarantee, the rationale and additionality case, including the basis for determining the subsidy level, will be documented in the approval documentation.

It is suggested to allocate between 70-75 million DKK annually of the project document grant towards risk premium subsidies for the DG permanent phase 2027-2030 (see more details in Annex C). This amount is based on the experience drawn from the pilot phase and calculations based on expected portfolio development. Experience from the pilot phase shows that premium subsidies are a decisive enabler in high impact markets where risk-based pricing would otherwise make guarantees unaffordable for local financial institutions.

In the **BPR Rwanda** loan portfolio guarantee example, the subsidy was essential to lower the risk premium to a level compatible with SME lending in a market characterised by high collateral requirements and elevated perceived risk. Without the subsidy, BPR would not have been able to expand lending to women and youth owned SMEs at

the targeted scale. Similarly, in the **REPP2** fund guarantee for small and medium sized renewable energy projects in Sub-Saharan Africa, a calibrated subsidy was required to make the structure viable for the fund and to crowd in investors into earlystage climate projects that would not otherwise attract commercial capital. These examples illustrate that subsidies are used with careful consideration, targeted to segments where the expected development impact is high, and always justified on the basis of additionality, minimum concessionality, and market consistent pricing.

4.3 Technical assistance

The guarantee model is underpinned by a TA element, which ensures that the guarantee is sufficiently implemented and utilised among the counterparts achieving its impact objectives. Examples of use-cases are competence development programmes in banks in impact areas with less experience, e.g. green lending, and setting up report functions for the guarantee coverage. TA will be demand-driven by partner institutions and targeted to narrow gaps identified during IFDK's due diligence, with due respect for the proprietary boundaries of partner banks' credit processes. The amounts allocated for TA are relatively limited and are therefore primarily designed to support the banks' capacity to implement the guarantee in line with the guarantee agreement, rather than broad institutional capacity building. The project document foresees an annual budget of 15-25 million DKK for TA based on experience and calculations of expected portfolio development (see details in Annex C). TA is procured by IFDK or guarantee counterpart if services are delivered by a company. TA can also operate as a grant to a capacity building NGO where relevant in the context.

In connection with the BPR Rwanda loan portfolio guarantee, a dedicated TA component is implemented by Access to Finance Rwanda (AFR). The TA aims to strengthen BPR's capacity to expand lending to underserved SMEs, including women and youth owned enterprises, by improving credit processes, enhancing loan officer skills, and supporting the development of tailored SME and green lending products where such needs have been identified. AFR also assists the bank in establishing appropriate reporting systems for guarantee utilisation and portfolio monitoring, ensuring that the guaranteed lending reaches the intended beneficiaries and supports sustainable impact. Such reporting support is distinguished from broader capacity building and is included where needed to meet IFDK's portfolio monitoring and compliance requirements under the guarantee. This targeted TA has been essential in enabling BPR to scale new lending rapidly and effectively under the guarantee framework.

5 Theory of change and key assumptions

Large segments of SMEs, women- and youth-led enterprises, and climate-related projects in EMDEs, particularly in Africa and poor and fragile contexts, lack access to finance due to high perceived risk, regulatory capital constraints, limited institutional capacity to originate impact-aligned lending, and underdeveloped investment pipelines. As a result, private capital does not flow at the scale required to support inclusive growth, job creation, access to essential services, and the green transition including increased climate resilience and adaptation.

IF IFDK deploys loan portfolio guarantees, fund guarantees, and balance sheet guarantees to financial institutions and investment vehicles - pricing the guarantee so that the risk premium reflects underlying risk, and applying ODA subsidy selectively, transparently, and sparingly to address affordability only where development additionality is demonstrated, and delivering technical assistance to partner institutions- **THEN** the risk-return profile of lending and investment in underserved and climate-relevant segments will improve.

IF these guarantees become active and are utilised, so that priced exposure builds across the portfolio, **THEN** financial institutions experience reduced risk exposure, released capital, and strengthened systems and mobilise additional private and climate capital -investment that would not have occurred at the same scale, terms, or timing without the guarantees.

IF financial institutions increase lending and investment to underserved SMEs, including women- and youth-led businesses, and scale investment in renewable energy, energy access, climate mitigation and adaptation, and other

inclusive sectors, **THEN** underserved enterprises and climate projects gain access to appropriately structured finance - longer tenors, reduced collateral, and tailored products.

IF underserved enterprises and climate projects gain access to such finance, **THEN**, as the underlying investments mature over the portfolio's horizon, they invest in productive assets, adopt climate-relevant technologies, expand operations, support jobs, and improve resilience, with a material share of these development outcomes accruing late in or beyond the programme period.

The Theory of Change for each guarantee type is set out in Annex F.

5.1 Assumptions

The Results Framework is developed based on the following assumptions:

1. Financial institutions have both the incentive and the regulatory ability to utilise guarantees to expand lending and investment in target climate and inclusive segments, rather than substituting existing portfolios.
2. Capital relief, risk-sharing, and first-loss protection translate into actual new financing for SMEs, underserved groups, and climate-relevant sectors, supported by sufficient pipelines of bankable transactions.
3. Technical assistance is delivered in a timely and integrated manner and results in operational changes within partner institutions, including new products, improved credit processes, and functional ESG and climate reporting systems.
4. Borrowers and portfolio companies financed through partner banks, fund managers, and MDB lending windows are willing and able to absorb and productively use finance, leading to business growth, job support, and increased climate mitigation and adaptation.
5. Mobilised private capital represents additional investment that would not have occurred at the same scale, terms, or timing without the guarantees.
6. Macroeconomic, political, and regulatory conditions in target markets remain sufficiently stable to allow lending, investment implementation, and repayment.
7. Gender- and youth-focused financial products effectively reach the intended underserved beneficiaries.
8. Partner institutions can generate reliable data for impact, climate related results, and mobilisation reporting across guaranteed portfolios.
9. Partner institutions are able to identify, reach, and serve climate-vulnerable segments and adaptation-relevant projects within their portfolios.
10. A pipeline of bankable adaptation-relevant transactions exists in the markets served, sufficient for guarantees to mobilise finance toward resilience outcomes rather than mitigation alone.

A summary of the overall portfolio level Theory of Change for Development Guarantees is available in Annex F.

Via financial institutions, guarantees and TA enable lending for otherwise underserved impact segments and climate-related projects

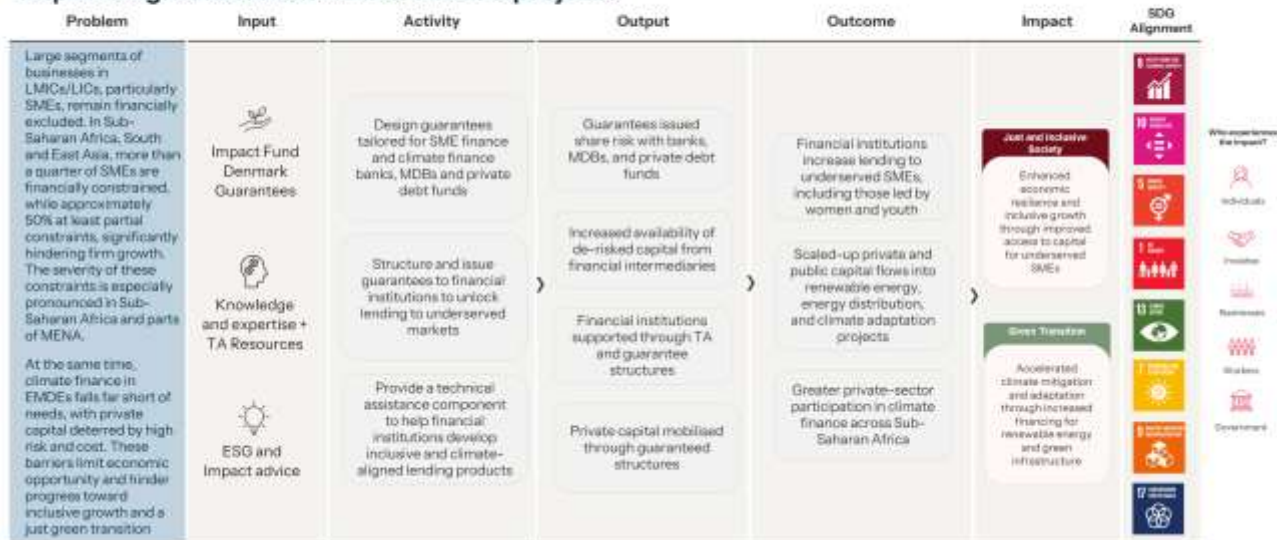


Figure 6. Development Guarantees - Theory of Change

Similarly, the IFDK team has developed detailed ToCs for each type of guarantee i) Loan Portfolio Guarantees; ii) Fund Guarantees and iii) Balance Sheet Guarantees. These are also available in Annex F.

6 Summary of the results framework

IFDK will report on the outputs and outcomes generated by the IFDK DG through the results framework building on monitoring at the level of individual guarantee agreements and the underlying DG-supported portfolios. It captures the establishment of risk-sharing facilities, the operationalisation of lending and investment frameworks with partner institutions, and the delivery of technical assistance, as well as the mobilisation and deployment of financing into inclusive and climate-relevant sectors. Baselines are established on the basis of the pilot phase of the development guarantees.

Summary results framework IFDK Development Guarantee (DG) 2027-2030

Project	Development Guarantees
Project objective	Mobilise additional private capital for investments and support market creation by enabling financial institutions and investment vehicles to expand access to underserved SMEs, climate-relevant sectors, and other priorities in the Danish Strategy for Development Cooperation. IFDK Impact Priorities: - Supporting the building of just and inclusive economies, focusing on poverty alleviation, gender equality, and job support 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
Impact Indicators	Private capital and climate finance is mobilised at scale to expand access to finance and climate investments, particularly in Africa and other EMDEs, contributing to inclusive growth, job support, poverty reduction, climate resilience and the green transition, with a focus on underserved groups and poor and fragile contexts. <i>(composite impact indicator)</i>
Key Portfolio Indicators	Share of guarantee portfolio aligned with IFDK strategic KPIs (including Pilot Phase portfolio) a. Climate Finance b. Africa c. Poor & Fragile

		d. Average annual Risk Premium (defined as expected annual risk premium received, divided by expected annual exposure). Expected to reach 1.4% in [2040].			
Baseline	2026	a. 94%	b. 13%	c. 13%	d. 1.8%
Target	2030	a. >50%	b. >50%	c. >40%	d. 1.9%

Outcome 1		Mobilised capital supports jobs, expands MSME access to finance, reduces emissions, and builds resilience in underserved and climate-vulnerable segments	
Outcome indicator 1.1		Direct and indirect jobs expected to be supported (FTE) – <i>cumulative</i>	
Baseline	2026	30,000	
Target	2030	150,000	
Outcome indicator 1.2		Number of SMEs expected to be reached through DG-supported bank guarantees – <i>cumulative, Disaggregated by: women-led; youth-led</i>	
Baseline	2026	4000	
Target	2030	20000	
Outcome indicator 1.3		Amount of GHG emissions avoided annually (tCO ₂ e) – <i>Climate finance mobilisation Measured on:</i> a. GHG avoided emissions for Fund Guarantees b. GHG avoided emissions for Balance Sheet Guarantees (MDBs)	
Baseline	2026	a. 37,440	b. 0
Target	2030	a. 340,860	b. 405,600
Outcome indicator 1.4		Direct and indirect beneficiaries reached via adaptation interventions through guarantees - <i>proxy indicator (See note on target-setting approach in Annex B)</i>	
Baseline	2026	270,000	
Target	2030	TBD	
Outcome indicator 1.5		Number of new and existing infrastructure assets made climate and disaster resilient (<i>See note on target-setting approach in Annex B</i>)	
Baseline	2026	390	
Target	2030	TBD	

Note: Outcome 1 results are achieved through the mobilisation and institutional outcomes. Targets for this tier are indicative and refined annually as portfolio data accumulates. Outcome indicator 1.5 mirrors IF-CAP, ADB's guarantee-based climate facility results framework and reporting. The indicators used will be open to revisions in the future as the field of measuring eg. climate adaptation as part of MDBs delivery models is still maturing. We recognise that measuring the "number of [...]" is a somewhat weak indicator for results/impact achieved and this indicator will be improved going forward to the extent possible and in collaboration with the relevant MDBs.

Intermediate Outcome 1		Guarantees mobilise additional private and climate capital and strengthen partner institutions’ capacity to originate and manage impact-aligned finance		
Intermediate indicator 1.1	Outcome	Capital mobilised by guarantees (DKKm) – <i>cumulative</i> <i>Measured on:</i> a. Capital mobilised by Bank guarantees b. Capital mobilised by Fund guarantees c. Capital mobilised by MDB guarantees		
Baseline	2026	a. 125	b. 850	c. 5500
Target	2030	a. 6000	b. 4500	c. 13500
Intermediate indicator 1.2	Outcome	Volume of climate finance mobilised by guarantees (DKKm) – <i>cumulative</i> <i>Measured on:</i> a. Climate finance by Fund guarantees b. Climate finance by MDB guarantees		
Baseline	2026	a. 850	b. 5500	
Target	2030	a. 4500	b. 13500	
Intermediate indicator 1.3	Outcome	Percentage of partner institutions that have launched at least one new or improved inclusive or green lending product		

Baseline	2026	0%
Target	2030	20%
Intermediate indicator 1.4	Outcome	Number of partner institutions that have adopted revised lending criteria (reduced collateral requirements, alternative collateral acceptance or adjusted risk scoring) for target borrower segments
Baseline	2026	1
Target	2030	9

Output 1	Risk-sharing facilities established		
Output indicator 1	Measured on: a. Number of new DG agreements signed – <i>cumulative</i> b. Number of new DG agreements signed with an adaptation/resilience objective ¹⁶ – <i>cumulative</i>		
Baseline	2026	a. 6	b. 1
Target	2030	a. 32	b. TBD

Output 2	Priced guarantee exposure built and active		
Output indicator 2	Active guarantee exposure, priced (DKKb) – <i>cumulative</i>		
Baseline	2026	0.3	
Target	2030	3.9	

Output 3	Technical assistance delivered to partner institutions		
Output indicator 4	Number of partner institutions with technical assistance delivered, resulting in integration of guarantees into credit processes, establishment of SME targeting and allocation plans, staff trained on cash-flow-based lending tools, OR operational pipeline monitoring and reporting systems in place – <i>cumulative</i>		
Baseline	2026	4	
Target	2030	19	

The full results framework, including a note on the target setting approach is available in Annex B.

7 Project budget and financial management

The budget for the Development Guarantees in the period 2027–2030 reflects the gradual scaleup of the guarantee framework and the institutional transition from a pilot facility to an integrated IFDK instrument. The financial framework is designed to ensure predictable and transparent resourcing of the three core budget components:

- (i) subsidies to guarantee premiums,
- (ii) technical assistance to financial institutions and counterparties, and
- (iii) net administrative costs incurred by IFDK in managing the guarantee portfolio.

The budget is structured based on the expected annual allocation of DKK 100 million in ODA from MFA to IFDK, which forms the basis for all subsidy, TA and administrative cost calculations. It also forms a binding constraint to the development of the guarantee portfolio over the period 2027-2030.

¹⁶ An agreement qualifies where climate adaptation is tagged as a principal or significant objective under the Rio markers.

Table 2 below provides an overview of the DG budget for 2027–2030, while the full budget is set out in Annex C.

Table 2: ODA budget for the IFDK DG covering 2027-2030, million DKK

	2027	2028	2029	2030
Total Administrative Costs	11.3	12.5	13.8	13.8
Total Administrative Fees (income)	7.6	14.7	21	24.3
Administrative Cost Grant from MFA	3.7	0	0	0
Project Implementation Grant	11.5	10.8	6.2	3.4
Subsidies of Guarantee Fees	75.1	78.3	79.9	81.9
Technical Assistance	14.7	16.9	21.9	24.2
Mid-term Review (retained by MFA)		0.5		
Total ODA	105	106.5	108	109.5

Budget Structure and Underlying Assumptions

As shown in Table 2, the budget for the IFDK Development Guarantees covers the period 2027–2030 and amounts to DKK 400 million in new MFA commitments. The budget is structured around three core components: subsidies of guarantee fees, technical assistance, and transitional administrative support to IFDK.

Subsidies of guarantee fees constitute the largest budget component. They are used selectively where full risk-based pricing would otherwise make guarantees unaffordable for financial institutions or other counterparties, and where public support is justified by expected development impact and additionality. Subsidy needs are calculated based on expected guarantee volumes, counterparty type, risk profile, pricing and portfolio development, and are determined on a transaction-by-transaction basis.

Technical assistance is targeted to support the effective implementation and utilisation of guarantees by partner institutions. This may include support for integrating guarantees into credit processes and branch workflows, strengthening SME portfolio development, improving cash-flow based lending tools, and establishing pipeline, portfolio and reporting systems required for monitoring guarantee implementation and results.

The budget also includes management support for the Development Guarantees during the scale-up phase. This covers IFDK’s net administrative costs related to origination, structuring, risk assessment, legal processing, monitoring, reporting and claims management. As the guarantee portfolio grows, administrative fee income is

expected to increase and gradually cover a larger share of IFDK's operating costs. The management allocation is therefore transitional and expected to decline over the period. Should the fee income from issued guarantees not cover administrative costs, as expected, resulting in a costs surpassing 7 % in administrative fees to the programme from the MFA, then a dialogue will be initiated between the MFA and IFDK.

Overall, the budget structure in Table 2 reflects the gradual scale-up of the Development Guarantees from the pilot phase to an integrated IFDK instrument. It ensures predictable financing for the main cost components required to implement guarantees at scale, while targeting ODA resources where they are most additional: making high-impact guarantees affordable, supporting effective implementation by partner institutions, and providing temporary administrative support while the instrument reaches scale.

Across 2027–2030, the combined budget for subsidies, TA and administrative support reflects the steady issuance of guarantees and the gradual increase in the number of active guarantees. Subsidy and TA requirements are expected to grow as more guarantees enter the portfolio; and the administrative contribution from MFA is expected to decline as fee income increases with portfolio expansion. While the exact distribution of costs across years depends on the timing of guarantee signatures and the resulting fee flows, the cost structure remains consistent. All financial management and implementation will be carried out in accordance with MFA's Financial Management Guidelines (FMG) and Aid Management Guidelines (AMG).

Principles for calculating subsidy needs

The need for subsidies under the Development Guarantee Programme is calculated using a transparent, riskbased methodology that reflects the expected cost of providing guarantees while ensuring affordability and development additionality.

Subsidy requirements are derived from the expected costs associated with each guarantee. These costs represent the expected credit loss (ECL) of the guaranteed exposure and administrative costs calculated as a percentage of the guaranteed amount.

$$\text{Expected Cost} = \text{Expected Credit Loss} + \text{Administrative Costs}$$

Risk premiums vary by counterparty type, reflecting differences in underlying risk profiles. In the current model, indicative risk premiums are assumed at approximately 4.2 percent for bank guarantees, 2.5 percent for fund guarantees, and 0.2 percent for MDB guarantees, calculated on the full guaranteed exposure.

Administration fees are added to the risk premiums and charged to cover IFDK's costs of originating, managing, and monitoring guarantees, including cost of capital.

The fee structure comprises:

- (i) one-off front-end fees charged at signing
- (ii) recurring administration fees linked to the outstanding (utilization fee) as well as unutilised guarantee exposure (commitment fee)

As the guarantee portfolio scales up over time, fee income is expected to increasingly cover administrative costs; any temporary shortfall in the early years is covered through an administrative subsidy.

Subsidies are calculated as a defined share of the expected costs, reflecting the level of public support required to make guarantees affordable while preserving IFDK's costrecovery principle. For bank guarantees, 75 percent of

the calculated guarantee fees is expected to be subsidised, reflecting higher risk levels and the development objective of expanding SME lending through local financial institutions. For fund guarantees, 50 percent of the guarantee fees is expected to be subsidised, reflecting a lower risk profile and stronger commercial viability. These discounts are indicative only and will be determined separately in each guarantee transaction. Guarantees issued to MDBs are not expected to be subsidised, as these counterparties are expected to fully cover the cost of the guarantee fees. Actual subsidies in each transaction are subject to negotiations with the guarantee beneficiary and differences across local markets. IFDK only provides subsidies when motivated by the expected impact. Table 3 below summarises the applicable guarantee fees and the indicative extent to which these are subsidised across different guarantee types.

Table 3: Summary of applicable guarantee fees

Guarantee type	Indicative risk premium	Indicative subsidy share of guarantee fee	Rationale
Bank guarantees	~4.2%	75%	Higher risk profile; subsidy used to keep risk-based pricing affordable for FI partners in lower-income markets. Actual subsidy per transaction remains subject to negotiation and impact rationale.
Fund guarantees	~2.5%	50%	Lower risk profile and stronger commercial viability than bank guarantees; therefore lower subsidy share.
MDB guarantees	~0.2%	0%	Not subsidised; MDB counterparties are expected to cover full cost of guarantee fees.

Subsidy funding is provided on an upfront basis. At the time a guarantee is issued, the full subsidy requirement is calculated and allocated to cover the risk premium over the entire lifetime of the guarantee. This ensures that all future obligations are fully funded from the outset. This provides certainty and guards against funding gaps.

Subsidy calculations are based on expected guarantee volumes by counterparty type, using conservative assumptions reflecting the anticipated pipeline. For known transactions, subsidy needs are calculated on a transaction by transaction basis using deal specific ECL estimates rather than portfolio averages and market aligned pricing of the guarantee. This ensures that subsidy requirements accurately reflect the underlying risk of each guarantee.

Overall, this approach ensures that subsidy needs are directly linked to underlying risk, differentiated by counterparty type, fully funded upfront, and calibrated to support development additionality while maintaining the financial sustainability of the Development Guarantee Programme.

Technical assistance for portfolio guarantees

The bank (or counterparty) will have input on the terms of reference and selection of the provider to ensure practical relevance and ownership. To strengthen commitment and ensure effective use of the TA, the bank will co-finance the TA through in-kind contributions, such as staff time for workshops, branch engagement, and data provision.

This model ensures the TA is lean, targeted, and directly linked to guarantee utilisation and SME lending impact, while maintaining shared responsibility between IFDK and the partner bank. TA can also be provided in

connection with fund guarantees if deemed necessary and relevant. See section 4.3 for an in-depth description of the rationale for providing TA in a demand driven and cost effective manner. The below TA focus areas will be applied as relevant and in support of driving inclusive economic development and improve local adaptive capacity.

TA Focus Areas

1. Activation & Operational Integration – 20% (DKK 0.8m)

Support the effective rollout of the guarantee within the bank by integrating it into credit templates, approval processes, and branch workflows. Activities include internal guidance for credit committees, branchlevel workshops, and designation of guarantee focal points.

2. SME Portfolio Development – 20% (DKK 1.0m)

Support the bank's own SME growth strategy by strengthening its capacity to identify priority segments (e.g. womened SMEs and agrivalue chains), translate strategic priorities into branchlevel targets, and manage the allocation of guarantee volumes across the network. TA will focus on advisory support, analytical inputs, and facilitation, enabling the bank to take ownership of portfolio development and execution at branch level.

3. Cash-Flow Lending Tools – 40% (DKK 2.0m)

Support the bank in strengthening its own cashflowbased lending practices by refining and embedding simplified cashflow analysis tools, sector benchmarks, and portfolio monitoring dashboards within existing credit and reporting systems. TA will focus on advisory support, practical tool adaptation, and onthejob coaching, enabling credit officers and risk functions to apply cashflow lending methodologies consistently and independently in daytoday operations.

4. Pipeline & Portfolio Analytics – 20% (DKK 0.80m)

Support the bank in strengthening its own pipeline management and portfolio analytics by improving the use of existing data, reports, and management information systems. TA will provide advisory support and analytical inputs to help the bank monitor guarantee utilisation, portfolio performance, defaults, and sector concentration, and to draw operational lessons on a quarterly basis. The focus is on embedding analytics into the bank's internal decisionmaking processes rather than creating parallel reporting structures.

TA budget allocation

Component	Share	DKK Allocation
Activation & Operational Integration	20%	800,000
SME Portfolio Development	20%	1,000,000
Cash-Flow Lending Tools	40%	2,000,000
Pipeline & Portfolio Analytics	20%	800,000
Total	100%	4,600,000

This represents an indicative breakdown of likely budget items within a TA programme and their relative magnitude. Actual totals will vary on a case-by-case basis and will be adjusted to align with the overall funding available for TA.

8 Project management

This section presents the management arrangements in place for the DG covering 2027-2030.. In December 2025, the pilot programme on development guarantees, originally intended to, but was granted extension until end-2026. A new administrative agreement for the pilot programme has been agreed between MFA and IFDK to govern the implementation of the Development Guarantees until 2026, as mandated in the state budget of 2025. Pending the

results of the current programming process for the permanent phase of the DG, an updated administrative agreement will also govern the issuance of development guarantees from 2027 onwards.

According to the Agreement on a Guarantee Instrument from 2023 between MFA and IFDK, the Board of Directors of IFDK have the final decision authority for issuance of guarantees. During the pilot phase the guarantees were managed independently of IFDK's balance sheet. This will change as the new management model requires that 5% of the guarantee risk exposure is on the balance sheet of IFDK. The guarantees are not intended to de-risk IFDK investments or other bilateral DFIs. The IFDK Investment Committee (IC) is responsible for clearing guarantee proposals and headed by the chief investment officer. The MFA participates in the IC when guarantees are presented. The IC is mandated to approve guarantees up to 200m DKK. Guarantees above this amount require Board approval. The IC has participation of IFDK senior management, investment professionals, legal experts as well as impact and safeguards specialists. IFDK is required to assess outstanding receivables, commitments, and risk of default associated with each issued guarantee on an annual basis, ensuring that beneficiaries provide necessary information and reporting to enable such assessment, including on development results.

In accordance with the technical agreement, IFDK will provide regular reporting on portfolio composition, utilisation, concentration, defaults and claims, enabling informed portfolio oversight and management action where relevant. As the portfolio matures, scenario analysis and stress testing methodologies may be further developed based on actual portfolio experience.

KLIMA is responsible for relations and coordination with IFDK including the DG team. This work stream focuses on strategic alignment between the development policy priorities and the pipeline of guarantees, as well as monitoring the implementation of the MFA-IFDK agreement on development guarantees.

Under Clause 8.2 of the Agreement, IFDK shall ensure that each guarantee agreement provides rights for IFDK or any third party appointed by IFDK or the MFA to conduct audits, reviews, evaluations, or similar activities, as deemed necessary and appropriate by IFDK.

KLIMA shall have the right to carry out any technical or financial supervision mission that is considered necessary to monitor the implementation of the project. After termination of the present project period KLIMA reserves the right to carry out evaluation in accordance with this article.

The Agreement comprises two sets of clauses that represent a significant evolution from the pilot phase, and that may have fundamental implications for the manner in which IFDK manages DG. These are addressed in the risk section of this document.

8.1 Guarantee framework fee structure (clauses 4.5-4.7)

Under the Agreement, IFDK is required to pay an annual Guarantee Framework Fee to the Danish Ministry of Finance equivalent to 1.4% of the aggregate outstanding Guaranteed Exposure from the preceding calendar year. This fee is calculated based on the exposure in Year t, confirmed through audited financial reports in Year t+1, and must be paid by 24 January of Year t+2. IFDK aims to achieve an average ECL of 1.4% across its guarantee portfolio to match these payments to the Ministry of Finance over time. In addition to ECL payments to the Ministry of Finance, IFDK will provision against ECL for its own share of the exposure.

8.2 Risk sharing arrangement (clauses 5.1-5.3)

The risk associated with guarantees issued under the Agreement is shared on a *pari passu* basis, with IFDK bearing 5% and the Danish state bearing 95% of the exposure. Importantly, IFDK's 5% share is fully backed by the Danish state in the event of IFDK's insolvency or bankruptcy, ensuring the state ultimately underwrites the entire guarantee framework.

The Agreement includes provisions for renegotiation should sustained external developments threaten either IFDK's equity position due to its 5% risk share, or the state's target average expected loss of 1.4%. In such circumstances, either party may trigger good faith negotiations within 60 calendar days of written notice, supported by reasonable evidence and analysis, to adjust the terms of the agreement accordingly.

9 Project management, planning and reporting

9.1 Managing the risk premiums and subsidies

Under the forthcoming Agreement on a Guarantee Instrument, guarantees can be issued to sovereign states, public bodies, international, multilateral and intergovernmental organisations, and legal entities governed by private law. Each guarantee shall have a limited term of validity not exceeding twenty-five (25) years and be capped to a maximum amount.

The utilisation fee charged to beneficiaries comprises: (i) ECL for the state and IFDK, (ii) Administration Fee attributable to IFDK and (iii) Cost of Capital fee applied annually on outstanding exposure to compensate IFDK for the capital allocated to cover the 5% retained risk under the risk-sharing arrangement. This fee is essential to ensure internal pricing consistency across IFDK's product suite. IFDK's direct lending and equity investments incorporate cost of capital into their pricing structures, reflecting the opportunity cost associated with balance sheet deployment. Without a comparable capital charge on guarantees, the instrument would appear artificially expensive from IFDK's perspective when assessed on a risk-adjusted basis relative to direct lending and equity, potentially distorting internal resource allocation decisions and undermining the guarantee facility's attractiveness as a financing tool within IFDK's portfolio. The Cost of Capital Fee therefore ensures that guarantees are evaluated on equivalent terms to IFDK's traditional instruments, supporting sound portfolio management and strategic decision-making. The Guarantee Premium may include an additional margin where necessary for compliance with state aid regulation under European and Danish law.

The size of any subsidy is based on the guaranteed party's ability to pay the guarantee premium, taking into account an assessment of whether a subsidy is necessary to achieve the developmental additionality of the guarantee (including any potential market distortions). The rationale, additionality case and basis for any subsidy level will be documented in the approval note, including the relevant methodology and development rationale.

Administration fees are retained by IFDK to cover related costs. Under the forthcoming technical Agreement, where IFDK's annual Administration Costs cannot be covered by aggregate Administration Fees received from beneficiaries, the MFA shall (until end of 2030) provide an additional administration contribution to cover any remaining costs. IFDK will submit an audited yearly financial report of administration fees and costs to the MFA.

IFDK is responsible for conducting risk assessments and pricing guarantees independently. Each guarantee may only be issued where it is possible to reliably assess and quantify the risks, which shall constitute the basis for calculating the Expected Credit Loss. IFDK will continuously monitor each guarantee to ensure that the guaranteed party adheres to the guarantee agreement, and that agreed reporting and guarantee fees are submitted to IFDK in due time. Under Clause 8.2 of the Agreement, IFDK ensures that each guarantee agreement provides rights for IFDK or any third party appointed by IFDK or the MFA to conduct audits, reviews, evaluations or similar activities as deemed necessary. Disbursements from MFA to IFDK are planned to take place twice annually, in Q1 and Q3. IFDK will provide financial reporting to MFA on a continuous basis, and each disbursement from MFA is subject to a formal disbursement request submitted by IFDK.

9.2 Financial reporting

Under the forthcoming Agreement, IFDK must report to the MFA for the preceding year no later than end of June the following year, commencing with 2027 to be submitted no later than June 2028.

Annual reporting covers financial performance, guarantee volume and exposure, mobilised capital, subsidy use, additionality assessments, and progress against strategic KPIs, and portfolio-level information on composition, utilisation, expected credit loss assumptions and concentration risks.

The full reporting requirements are set out in the forthcoming Agreement. All financial management and implementation will be carried out in accordance with MFA's Financial Management Guidelines (FMG) and Aid Management Guidelines (AMG).

Financial reporting on the use of grants will be integrated into IFDK's overall financial reporting as part of the audited annual report. The Guarantee Framework Fee of 1.4% of aggregate outstanding Guaranteed Exposure is calculated based on the exposure in Year t, confirmed through audited financial reports in Year t+1 and paid to the Ministry of Finance no later than by 24 January of Year t+2.

9.3 Monitoring of financial and impact additionality

IFDK's impact management system is fully integrated into its investment cycle and involves a number of steps from initial project screening to exit. Development guarantees benefit from the same system with a few pertinent adjustments where necessary.

Through IFDK's project screening tool, all investment opportunities are checked against IFDK's investment safeguards and impact criteria for green transition and for just and inclusive growth. Under Clause 3.2(x) of the Agreement, each issued guarantee must have financial and developmental additionality in accordance with the PSI rules of OECD DAC (see table 1 for additionality types). Such additionality must be documented before a guarantee may be issued.

Table 1 Additionality Types. Source: OECD 2024, Reporting Directive

Table 1. Classification of additionality types

Additionality category	Additionality code	Additionality type	Description
<i>For any individual PSI activity reported in ODA, indicate whether it is considered additional as it:</i>			
Financial additionality	11	Targets underserved geographies	This includes LICs, LDCs, SIDS or other high-risk or capital-constrained markets.
	12	Targets underserved sectors or segments	This includes high-risk or capital-constrained sectors of economic activity (or parts thereof), or underserved population groups.
	13	Conveys investment terms unavailable on the market	This includes both volume and qualitative aspects (e.g. currency, maturity, interest and/or fees, amortisation schedule, flexible collateral, return expectations etc.) to promote a project bankability. Anchor investments or investments that enable financial close are included here too.
	14	Mobilise private finance	This includes interventions that aim to mobilise private finance which would not have otherwise been invested.
Value additionality	21	Mitigate non-financial risks	This includes various country, regulatory, project, macroeconomic, political and other risks. The official sector may use its reputation, convening power or good relationship with authorities and/or the private sector in developing countries to mitigate such risks.
	22	Promotes pro-development business models	This includes various capacity-building activities that specifically aim to improve the business models of private sector partners to improve their development impact beyond the adoption of environmental, social and governance (ESG) standards.
	23	Promotes knowledge transfer and generation	This includes various capacity-building activities in support of in-house research and development (R&D), access to networks and associations, growth etc.
	99	Other, please specify	

Development guarantees will be part of the overall IFDK portfolio and reported in the annual report, which will include financial performance data as well as a narrative description of the guarantees. IFDK's annual report will also include progress and performance of selected guarantees including the rationale, the additionality as well as the expected climate and development outcomes. The DG will follow IFDK policies and practices with regards to transparency and amongst others publish information on its portfolio on an annual level. As a state-owned

development finance institution, Impact Fund Denmark is committed to transparency and accountability towards the Danish public, its partners and the communities it invests in. Every year, the Fund publishes its financial results and impact data in its Annual Report, including data on Development Guarantees. It reports results against its impact targets and discloses its methods, so stakeholders can follow how its capital creates value and impact over time. IFDK also tracks and reports on its climate and social impact metrics in its annual sustainability statements as a response to the EU sustainable finance legislation, EU Sustainability Reporting Standards (ESRS), and the EU's Corporate Sustainability Reporting Directive (CSRD) as relevant and as it applies to IFDK.

Under Clause 8.3 of the Agreement, IFDK is required to assess, on an annual basis, any outstanding receivables, commitments, and risk of default associated with each issued guarantee, ensuring that beneficiaries provide necessary information and reporting to enable such assessment, including on development results. Monitoring of financial performance, application of ESG safeguards, as well as business integrity screening and impact monitoring of the engagements feeds into annual reporting. IFDK is continuously developing the monitoring and evaluation system for documenting development effects of engagements based on standard indicators such as: number of direct and indirect jobs (total, female, youth); installed capacity of renewable energy; avoided CO2 emissions and number of female clients in financial institutions.

9.4 Project review

Under the forthcoming Agreement, the MFA shall conduct a LEARNING-led midterm review of the guarantee instrument in late 2028, in due time ahead of the programming in 2029 for a successor programme starting in 2031. This will provide an opportunity to assess portfolio development, additionality, subsidy efficiency and governance arrangements. It will also inform any need for recalibration and potential adjustments of the instrument based on experience gained. The review will specifically focus on experiences gained with regards to risk models applied and the application of escalation procedures. Further a review in 2028 will be based on actual portfolio data with regards to, inter alia, portfolio composition, subsidy consumption, additionality and market effects. The mid-term review conclusions and recommendations will enable the MFA to make decisions with regards to continuation, recalibration and/or adjustments in the guarantee model and facility.

Guarantees underwritten during the permanent phase will remain in effect until they expire, with maximum tenors of up to 25 years as specified in Clause 3.2(vi) of the Agreement, irrespective of any subsequent amendments to the Agreement.

10 Risk management

There are several risks related to the issuance of development guarantees in developing countries. Managing these risks is an integral part of all guarantee schemes. A detailed risk matrix is included in Annex D addressing the main risks in relation to IFDK DG. A short summary of the overall risks associated with the financial instrument is provided here below.

Contextual risks: IFDK DG is implemented in developing markets, and there is a risk that losses are greater than what had been expected and priced in. This could be due to factors such as negative macroeconomic developments, adverse political interventions, and arising conflict/unrest. In situations where risks cannot be properly quantified and assessed guarantees are not considered. The newly established Risk department at IFDK conducts careful and diligent risk assessments to manage such risks as described in the Lessons learned section.

Programmatic risks: Programmatic risks relate primarily to the availability of a sufficient pipeline of relevant opportunities. Experience from the pilot phase, including a probability-weighted pipeline significantly exceeding the available guarantee frame, provides reassurance on this point. Maintaining a broad and solid pipeline remains the key risk response. Portfolio-level reporting to MFA will include composition, utilisation, concentration, defaults and claims, supporting informed oversight of emerging portfolio risks.

Institutional risks: Both IFDK and the MFA are exposed to reputational risks linked to the guaranteed party. Accusations of any fraudulent, corrupt behaviour or not operating according to well-established policies and procedures can damage the reputation of both IFDK, the MFA and the Minister as the owner of IFDK. The likelihood of this risk is lowered through the well-established policies and procedures of IFDK. These guide careful guarantee preparation and execution, including significant checks and screening of the targeted partners ensuring significant mitigation of institutional risks. The MFA is aware that engagements in developing and fragile countries come with an inherited risk. As a shareholder of the African Guarantee Fund, specific attention will be given to potential overlaps with AGF.

11 Closure

The present Development Guarantee grant from the MFA will end in 2030. IFDK will provide a final report in mid-2031 including a report on the final, accumulated results as well as a final financial report including a final audit, and return of any unspent funds. Terms and conditions for exit and closure will be stipulated in a separate technical legal agreement between MFA and IFDK.

Annexes:

Annex A: Partner assessment

Annex B: Results framework

Annex C: Project budget

Annex D: Risk assessment matrix

Annex E: Context analysis

Annex F: Project description

Annex G: Process action plan for implementation

Annex H: Five Guarantees

Annex F: IFDK's Project Description

Project Summary – Development Guarantees (DG)

Implementing Partner: Impact Fund Denmark (IFDK)

Partner Authority: Ministry of Foreign Affairs of Denmark (MFA)

Project Period: 2027–2030

Instrument: State-backed development guarantees, supported by grant funding for premium subsidies, technical assistance, and administration

1. Introduction

This project concerns the permanent phase of **Development Guarantees (DG)** implemented by Impact Fund Denmark (IFDK) in cooperation with the Ministry of Foreign Affairs of Denmark (MFA) for the period 2027–2030.

The project builds on the pilot phase of development guarantees (2022–2026) and reflects the Government's decision to expand the state-backed guarantee framework. DG is established as a permanent instrument within IFDK, complementing equity and loan investments and strengthening Denmark's ability to mobilise private capital for development and climate objectives.

2. Project objective and key features

2.1 Project objective

The overall objective of Development Guarantees (DG) is to **mobilise additional private capital for investments and support market creation by enabling financial institutions and investment vehicles to expand access to underserved SMEs, climate-relevant sectors, and other priorities in Denmark's Strategy for Development Cooperation**. This objective is pursued through two interlinked priorities:

1. **Improved access to finance** for underserved segments, particularly small and medium-sized enterprises (SMEs), including women and youth-led businesses; and
2. **Mobilisation of private climate finance** for mitigation and adaptation investments, with a strong focus on Africa and poor and fragile contexts.

By sharing risk with financial institutions, DG enables financing that would not otherwise be available on reasonable commercial terms.

2.2 Key features

- State-backed guarantees issued by IFDK under a defined risk-sharing arrangement
- Portfolio-level guarantees targeting banks, funds, and large financial institutions
- Selective use of premium subsidies and technical assistance to maximise development impact
- Integration of DG as a core instrument within IFDK's product suite

3. Project context

3.1 Development context

Developing countries face substantial financing gaps related to inclusive growth, job creation, and climate action. While global capital is available, high perceived risk, limited institutional capacity, and regulatory constraints prevent private capital from flowing into high-impact markets and sectors.

Guarantees address these constraints by reducing risk for financial institutions and investors, thereby unlocking lending and investment without replacing market mechanisms.

3.2 Danish strategic context

DG supports the Danish Strategy for Development Cooperation *A Changing World: Partnerships in Development* and Denmark's Africa Strategy *Africa's Century*. The instrument contributes directly to Danish priorities on climate finance, private sector development, job creation, and engagement in Africa and poor and fragile states.

4. Rationale and justification of support

Development guarantees are recognised as a **highly cost-effective instrument** for mobilising private capital. Experience from the pilot phase demonstrated strong mobilisation effects and confirmed that guarantees are particularly effective where risk perception, rather than lack of liquidity, constrains finance.

Public support is justified as:

- Guarantees address clearly identified market failures;
- Beneficiaries contribute financially, limiting distortion;
- Development assistance is used catalytically, crowding in private capital; and
- Interventions are assessed ex ante for financial and development additionality.

The transition to a permanent DG mandate institutionalises these benefits and enables significantly greater scale.

5. Theory of Change and key assumptions

5.1 Theory of Change

If IFDK provides development guarantees to financial institutions and investment vehicles, **then** risk exposure is reduced and capital constraints are eased.

If guarantees are combined with targeted technical assistance and, where necessary, premium subsidies, **then** partner institutions expand lending and investment into underserved and climate relevant segments.

This leads to increased access to finance, mobilisation of private capital for climate and development, job support, and improved climate resilience, particularly in Africa and poor and fragile contexts.

5.2 Key assumptions

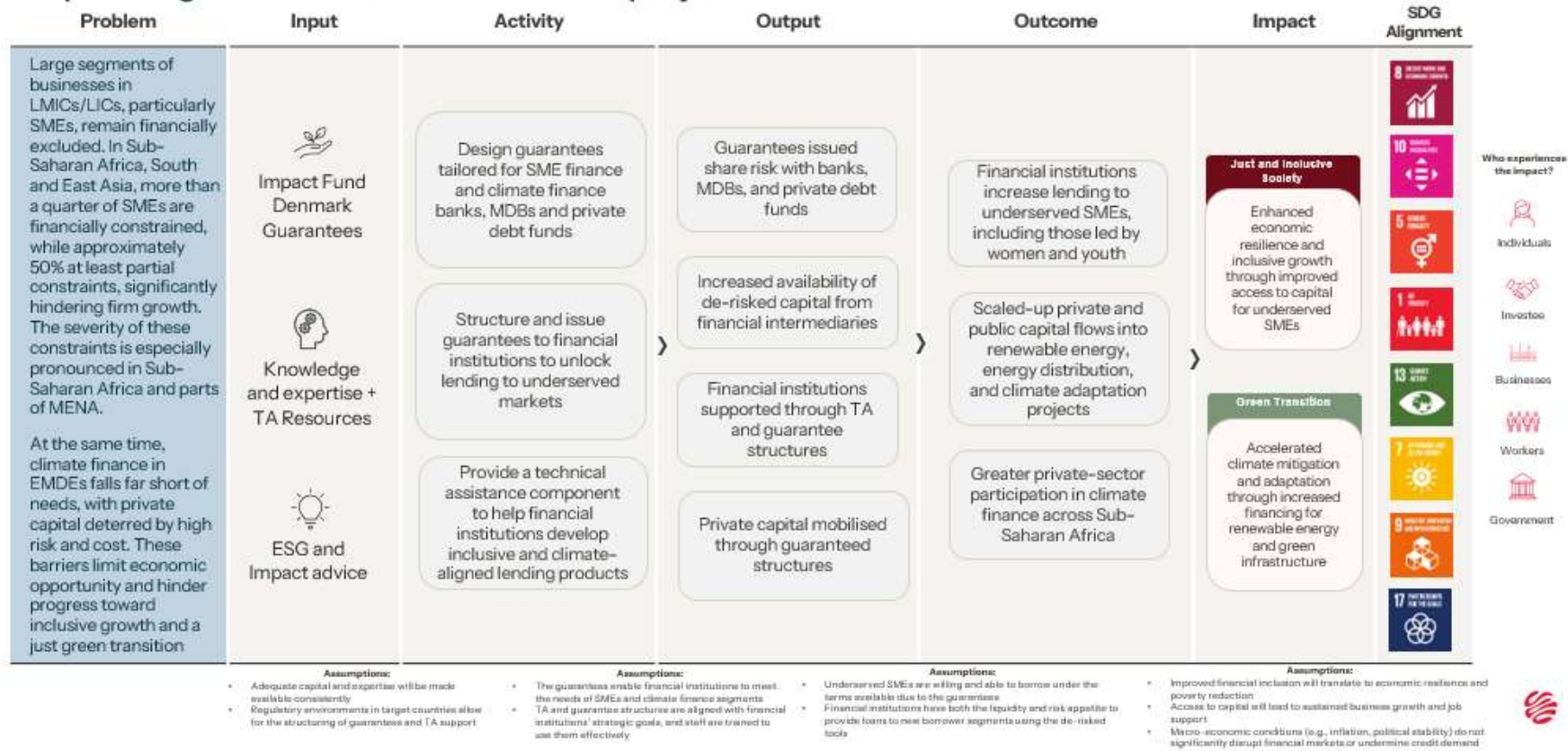
- Financial institutions respond to risk sharing by expanding new, additional lending and investment;
- Technical assistance leads to lasting institutional capacity improvements;
- Mobilised capital is additional and would not have occurred at similar scale or terms without DG;
- Macroeconomic and regulatory conditions remain sufficiently stable.

IFDK has developed detailed Theory of Change for each type of guarantee:

- I) Portfolio level: ToC for Development Guarantees
- II) Theory of Change: Loan Portfolio Guarantees
- III) Theory of Change: Fund Guarantees
- IV) Theory of Change: Balance Sheet Guarantees

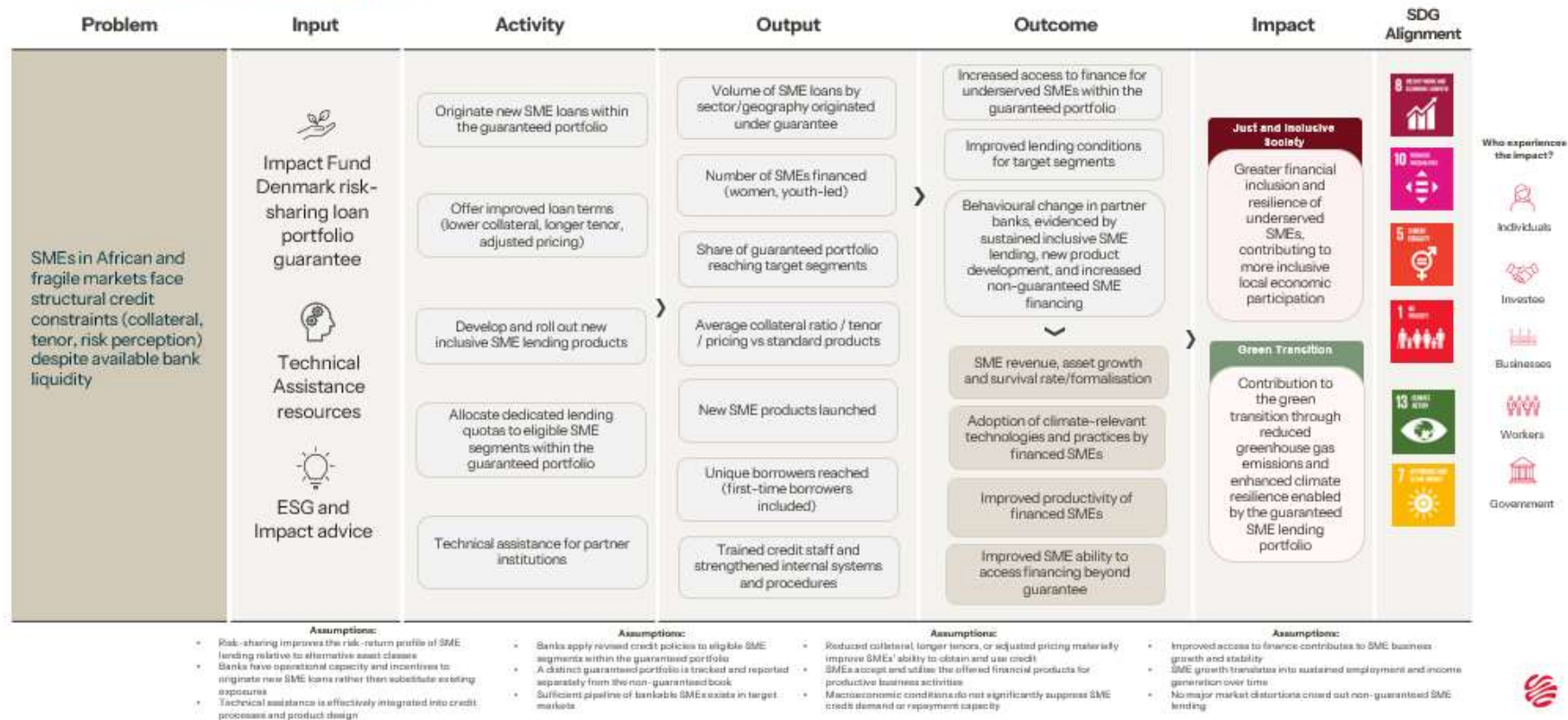
Portfolio-level Theory of Change: Development Guarantees

Via financial institutions, guarantees and TA enable lending for otherwise underserved impact segments and climate-related projects



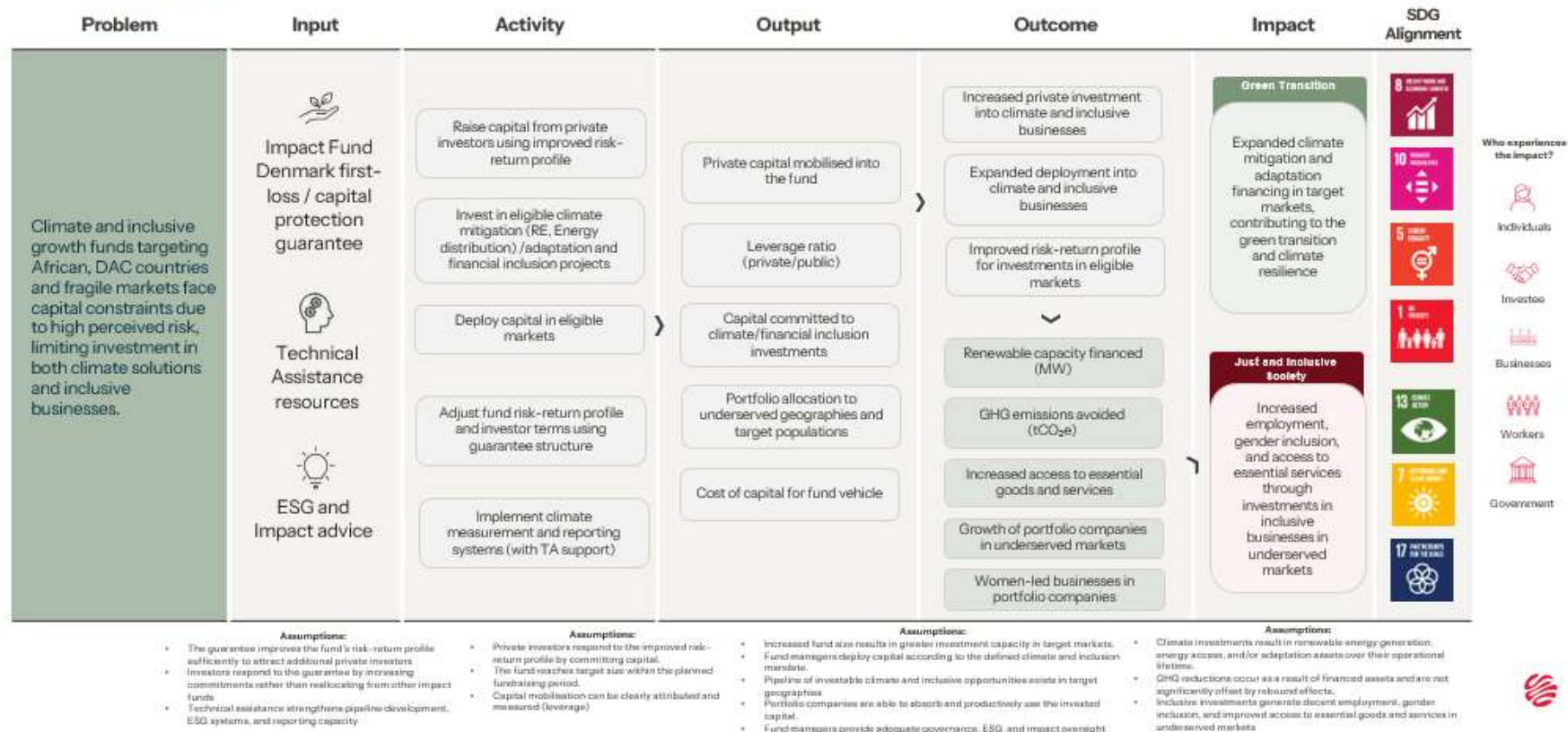
Theory of Change: Loan Portfolio Guarantees

Via banks, loan portfolio guarantees enable increased lending to underserved SMEs



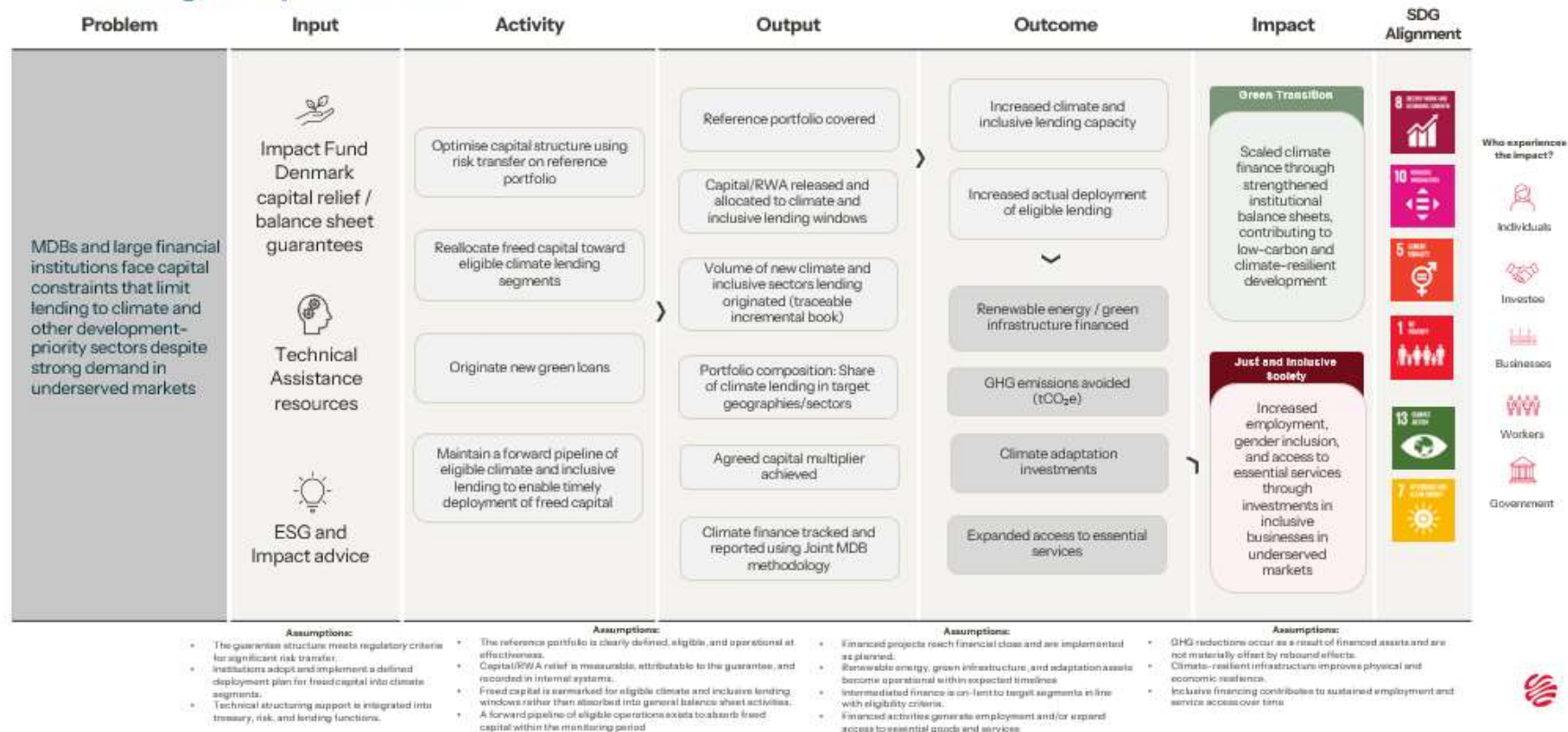
Theory of Change: Fund Guarantees

Via fund guarantees, private capital is mobilised into climate investment vehicles



Theory of Change: Balance Sheet Guarantees

Via MDBs, balance sheet guarantees increase climate lending capacity through capital relief



6. Summary of results framework

At **output level**, DG will deliver:

- Signed guarantee agreements with banks, funds, and financial institutions;
- Operational lending and investment frameworks aligned with development priorities;
- Delivery of targeted technical assistance programmes.

At **outcome level**, DG is expected to:

- Increase access to finance for underserved SMEs, including women and youth;
- Mobilise private capital for climate and inclusive investments at scale;
- Strengthen partner institutions' capacity for inclusive and green finance.

At **impact level**, DG will contribute to:

- Job support and income generation;
- Increased renewable energy generation and climate adaptation;
- Reduced greenhouse gas emissions and improved financial inclusion.

7. Project budget and financial management

The project is supported by grant funding from MFA to cover:

- **Guarantee fee subsidies**, enabling guarantees in high impact markets;
- **Technical assistance**, strengthening institutional capacity of partners;
- **Administrative costs** during a ramp-up period (2027–2030).

Guarantee fees paid by counterparts are gradually expected over time to cover operating costs, with the objective of achieving financial sustainability. However, it is expected that guarantees in African markets will still require subsidies in the foreseeable future. All expenditures comply with Danida financial management guidelines, OECD DAC rules, and applicable state aid regulations.

8. Project management, monitoring and reporting

IFDK is responsible for origination, risk assessment, pricing, monitoring, and reporting of all guarantees. DG is governed under a formal agreement between MFA and IFDK.

Guarantees are approved through IFDK's Investment Committee, with Board approval for larger transactions. Financial performance, mobilisation, use of subsidies, and development results are reported annually to MFA and integrated into IFDK's audited reporting.

9. Project risk management

Key risks relate to credit losses, market distortion, institutional capacity, and macroeconomic volatility. These risks are mitigated through:

- Conservative pricing and provisioning;
- Portfolio diversification across regions and counterparties;
- Ex ante assessment of additionality and subsidy justification; and
- A rebalancing clause allowing renegotiation should financial sustainability be threatened.

A detailed risk matrix is included in the project annexes.