Ministry of Foreign Affairs, Growth and Employment
F2 reference No.: 2015-46150

Grant Committee Meeting 3 May 2016
Agenda item No.: 2

1.	Title:	IFU Project Development Programme
2.	Partners:	Investment Fund for Developing Countries (IFU)
3.	Amount:	DKK 50 million
4.	Duration:	3 years, 2016 - 2019
5.	Presentation to the Programme Committee:	17 December 2015
6.	Previous grants:	N/A
7.	Strategies and policy priorities:	The Right to a Better Life, June 2012
8.	Guidelines:	Guidelines for Programmes and Projects above 37 mill. DKK, June 2015
9.	Danish National Budget account code:	§ 06.32.05.12. Danida business platform (27 mill. DKK) § 06.34.01.70. Climate envelope (23 mill. DKK)
10.	Desk Officer:	Lars Friis-Jensen
11.	Reviewed by Financial Officer:	N/A
12.	Head of Department:	Morten Elkjær

13. Summary:

The purpose of the IFU Project Development Programme is through risk sharing with Danish companies to generate bankable medium to large-scale investment projects with a potential for IFU co-investment in developing countries addressing development and climate challenges. The Programme will contribute to fulfil Denmark's commitment to implement the Global Goals for Sustainable Development and the agreement from COP21 in Paris on global cooperation to address climate change. The Programme will have a direct impact on the number and quality of bankable investment projects for investment by IFU and other investors in the commercial market, and will lead to sustainable and inclusive economic growth in developing countries.

Ministry of Foreign Affairs of Denmark
Danida

Programme Document

IFU Project Development Programme

April 2016
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List of abbreviations

BC	Binding Commitment
CIP	Clearance in Principle
CO_2	Carbon Dioxide
CSR	Corporate Social Responsibility
DAC	Development Assistance Committee
DAF	Danish Agribusiness Fund
DBP	Danida Business Partnerships
DBF	Danida Business Finance
DCIF	The Danish Climate Investment Fund
DFI	Development Finance Institutions
DKK	Danish Kroner
FDI	Foreign Direct Investments
GNI	Gross National Income
IFU	The Investment Fund for Developing Countries
IPM	IFU's Procedures Manual
IRR	Internal Rate of Return
LMIC	Lower Middle Income Countries
MFA	Ministry of Foreign Affairs
OECD	Organization for Economic Co-operation and Development
PAIR	Project Appraisal and Improvement Report
PDP	Project Development Programme
SDG	Sustainable Development Goals
SME	Small and Medium Enterprises
TOC	Theory of Change
IØ	The Investment Fund for Central and Eastern Europe

1. Introduction and context

Business development and Foreign Direct Investments (FDI) in developing countries is increasingly recognized as drivers of development. Investments play an important role for sustainable and inclusive growth in developing countries. One of the main constraints to private sector development in developing countries is the shortage of relatively cheap and risk oriented capital, both in terms of loans and private equity.

The IFU Project Development Programme is a new business initiative, which forms part of the government's priorities for the Danish Development Cooperation in 2016[1]. Within the overall aim of reducing poverty and promoting human rights, promotion of market-based sustainable growth and employment in the developing countries are emphasised among the key priorities for Danish development cooperation. The Project Development Programme thus complements other Danida business instruments as well as bilateral and multilateral engagements that aim at promoting inclusive economic growth and employment opportunities, among others through increased trade, investments and business development. Moreover, the Project Development Programme is situated within the framework of the Global Goals for Sustainable Development (SDGs) and the agreement from COP21 in Paris on global cooperation to address climate change.

The Investment Fund for Developing Countries (IFU) is an independent government-owned fund offering advisory services and risk capital to Danish companies wishing to do business in developing countries. Investments are made on commercial terms in the form of share capital, loans and guarantees for the purpose of promoting economic and social development in the investment countries and assist Danish companies in entering new markets. Furthermore, IFU is fund manager of a number of other investment funds, such as the Danish Climate Investment Fund, The Danish Agribusiness Fund, IFU Investment Partners and the Arab Investment Fund.

The Danish Climate Investment Fund (DCIF) launched in 2014 offers risk capital and advice for climate investments or climate- related projects in developing countries. The purpose of the DCIF is to contribute to reducing global warming through commercial investments and promote transfer of Danish climate technology.

The Danish Agribusiness Fund (DAF) was launched in 2016 with the purpose to contribute to sustainable economic growth, improved competitiveness and decent employment in developing countries by enhancing profitable and sustainable investments within agricultural production, food processing and related industries based on inputs of Danish technology and know-how.

The concept for the proposed Project Development Programme was presented to the Danida Programme Committee in December 2015, preceded by a public hearing process. The response from the hearing process was positive and the proposed initiative was welcomed by most business organisations as well as civil society organisations. At the same time, it was proposed that a project development programme specifically linked to the Climate Investment Fund should be established for financing under the 2016 Climate Envelope. A review carried out in late 2015 of the DCIF supported the establishment of the proposed programme to accelerate much needed project development for climate investments under DCIF. It was consequently decided to merge the two proposed project development instruments into one programme in order to reduce transaction costs, exploit synergies and to ensure greater transparency.

[1] The Government's priorities for the Danish Development Cooperation 2016. O**verview of the development cooperation budget 2016 – 2019**

2. Presentation of the Project Development Programme

The purpose of the PDP is to share risks with Danish companies wishing to develop medium to large-scale investment projects in developing countries with the aim of entering into investment cooperation with IFU and other investment partners in accordance with IFU's mandate.

The PDP will have a budget of DKK 50 million of which DKK 23 million is from the Climate Envelope and DKK 27 million is set aside on the 2016 Finance Act under Danida's business platform. As such, there will be two "windows" under the PDP. The funds from the climate envelope will be earmarked to projects with a specific climate objective, which could be eligible for investment by the DCIF. The remaining funds are eligible for development of investment projects within other thematic areas, and could be invested in by IFU either through the DAF[2] or with the use of IFUs statutory investment funds (IFU Classic). It would be a natural step for IFU to enter into co-investment of successfully developed projects, but it will not be a requirement.

The projects will be formulated with due consideration to IFU policies and principles, e.g. Global Compact and corporate social responsibility. For the Climate window, the guiding principles for the Climate envelope will apply. These principles establish objectives, outputs, outcomes and impact for funds spend from the envelope and hence guide climate investments.

2.1. Programme objective

The objectives of the IFU Project Development Programme are linked to the Global Goals for Sustainable Development and to the strategic objectives of IFU:

Development objective:

Sustainable and inclusive economic growth in developing countries

Immediate objective:

Bankable investment projects developed addressing climate and development challenges with a potential for IFU co-investment

Two outcomes are linked to the immediate objective, one for each 'window'/source of funding of the PDP:

Outcome 1: Climate investment projects developed and ready for implementation with the prospective of further investments through the Danish Climate Investment Fund (DKK 23 million).

Outcome 2: Investment projects developed and ready for implementation with the prospective of further investments through IFU or the Danish Agribusiness Fund (DKK 27 million).

For further details on the results framework including outputs, indicators and targets, reference is made to Annex 1 and to section 2.5 on Theory of Change below.

The PDP will be managed as an integral part of IFU's businesses and administrative procedures. The funds of the Programme will, however, be accounted for separately by IFU to ensure transparency. The Programme will be managed by IFU on clear commercial terms, ensuring that it targets financially sustainable projects.

[2] The DAF was officially launched immediately after the first DCIF review had taken place and it has been an ongoing discussion in the preparation of this programme, that DAF might experience the same challenges as DCIF with a shortage of bankable projects for investment. It was therefore natural to explicitly point to DAF in this programme, but other IFU managed investment funds could in principle also be relevant and eligible for making investments.

The Government's legal counsel, Kammeradvokaten, has advised that it is the expectation that investments under the programme do not constitute state aid to the companies that are invested in, nor to the co-investors on the condition that the programme is administered by IFU as described in the programme document.

Investments under the Programme will be made in compliance with OECD/DAC reporting rules and will be adjusted in line with the ongoing modernisation of ODA reporting on private sector instruments.

2.2. Justification

Relevance
In order to attract higher levels of FDI, there is a need for more and better investment opportunities in developing countries. The private sector in these countries is an engine of growth and increased levels of investments can lead to improved economic and social development. In the area of financing for climate projects, there exist several opportunities including the DCIF. As mentioned above, DCIF is however challenged by the shortage of bankable projects, which could in turn lead to lost opportunities and also to delay in the required investment under DCIF[3]. The PDP will help overcome these challenges. The same challenges may occur for DAF, which the PDP will also address.

The Danish Government has focus on how Danish development cooperation can engage, and also be of benefit to, the private sector in Denmark. Large-scale investment opportunities are costly and risky to explore and develop. In order to embark on these, companies have a need for risk sharing and risk capital, which the PDP can provide. The PDP will as such facilitate much needed investments projects that might otherwise not be implemented. In a global context, the programme will contribute to fulfil Denmark's commitment to implement the Goals for Sustainable Development[4] and the agreement from COP21 in Paris on global cooperation to address climate change.

It should also be noted that managing the Programme would require further development of IFU's capabilities within the field of project development. Through specific projects, IFU will gain experience, network and partners that Danish businesses turning to IFU can benefit from in a medium to long-term perspective.

Efficiency
Management of the PDP will be aligned with IFU's existing administrative systems and appraisal procedures. IFU will manage the finances of the Programme and implement the individual projects under the Programme as per international standards for DFIs. IFU has vast experience in identifying and assisting Danish companies in operating in developing countries and in complex environments. It is envisaged that IFU could invest in projects successfully developed under the PDP either as classic IFU investments or through DCIF or DAF. There are therefore clear synergies to be tapped internally in IFU. Even though IFU is new to project development, IFU has a project pipeline of investment opportunities through its capacity as fund manager for DAF and DCIF.

Effectiveness
The effectiveness of the PDP, i.e. the extent to which the Programme will be able to reach its objectives, will be influenced by a number of factors – internal and external to IFU and the Programme. These will be discussed in the below sections on risk assessment and theory of change. In summary, the effectiveness will depend on the interest from Danish companies making use of the PDP, the global

[3] DCIF is designed with an investment period of four years, which expires in January 2018. There will subsequently be a 'recovery period' of six years.
[4] The programme is considered relevant for several SDGs, but at the project level, some will be more directly applicable than others depending on the nature of the individual projects

financial outlook (if a new financial crisis should occur, companies may be less willing to invest even though risk capital is available) etc., cf. risk assessment in Annex 4.

Impact
It is reasonable to divide the foreseen impact of the Programme into direct and indirect impacts. The PDP is expected to have a direct impact on the number (and quality) of bankable investment projects readily developed for investment by IFU and other investors in the commercial market. The assumption for this Programme is that these projects, when implemented, will have a positive impact on the climate (carbon mitigation), agribusiness, industrial development, and any other thematic areas in which the investments projects are formulated. During and after implementation the projects will furthermore have a positive impact on sustainable growth and employment (creation of decent jobs) both upstream and downstream in the supply chain in the producer countries. Furthermore, the investment projects will be implemented in accordance with the principles of the UN Global Compact, the UN guiding principles for business and human rights and other relevant international frameworks that IFU aligns with, and in a manner that contributes to the implementation of the Global Goals for Sustainable Development (SDG).

Sustainability
The financial sustainability of the PDP, hence the extent to which the benefits of the Programme will continue after the funding has ceased, should be considered at both programme level (i.e. sustainability of the Programme) and at project level (i.e. sustainability of the individual investment projects). At the programme level, the return on investment of the projects that mature and develop into real investment projects will be available for funding of development of new investment opportunities. At the project level, it is expected that approximately 40% of the developed projects will succeed and mature for investment and implementation, which is at level or a bit above market standard. The return on a successful project is however expected to be of a considerable size, but it should be taken into account that this in certain cases can be a long-term process of up to 5-10 years. Sustainability at both project and programme level is likely to be positively influenced by the fact that IFU is acting as both manager of the Programme and as possible co-investor; and by the fact that IFU has a large network and pipeline of projects already at the offset.

It is important to emphasise that the development costs of the projects that do not materialise are not likely to be very high, i.e. they will most likely be considered unfeasible and be shut down before the full budget has been spent. Only the funds that have been spent at time of closure, i.e. debt that cannot be collected during a winding-up process, will be lost, and the unspent part of the budget will be used on the development of other investment projects.

Additionality
Experience shows that even large Danish companies are hesitant to develop large-scale investment projects in developing countries because of the higher risks (difficult political and regulatory contexts, corruption, volatile markets, exit challenges etc.) and the relatively high development costs involved. Better and more flexible access to risk capital and co-investment in project development is critical for the projects to be developed at the pace and in the form and quality that makes them interesting also to other investors. This has been confirmed by the first review of the DCIF and through discussions with key Danish business organisations.

Another issue that is emphasised is the time perspective of the investment capital (whether loan or private equity); investment capital with a long time perspective is not easily available in the market. The participation in project development by PDP will therefore be crucial for several of the more innovative but hence also 'risky' projects to be developed and be available for investment by DCIF, DAF, IFU and other external investors. With its long-term perspective, the PDP is additional to other funds and facilities that exist both within IFU and in the private sector. The participation of PDP will result in a larger volume of bankable investment projects as many projects, due to too high risk assessments or too long time perspectives, would otherwise not be able to attract capital for development. The results will be twofold; more sustainable investments in developing countries and increased business opportunities for Danish investors and companies.

It is IFU's experience, obtained through its own investment portfolio and as manager of various funds for Danida that there is a shortage of bankable projects in the market and also a clear lack of capacity for project development. This constitute an apparent bottleneck for investments and hence development in the host countries. Other DFI's are trying to overcome this bottleneck by providing more risk capital as international experience points to increased access to risk capital as one of the only solutions to overcoming this obstacle. The Netherlands is already addressing this issue by providing funds to Netherlands Development Finance Company (FMO) for project development. Danida and IFU are now following the same lines.

It is envisaged that the PDP, by financing part of the development costs, will encourage a number of Danish companies to start up new development projects to pave the way for investors, once proven feasible. Today, IFU is not participating in such initial project development investments. IFU's entrance in any given new project will only take place once the project has been thoroughly investigated, is considered viable and bankable and the financial close has been reached[5]. Before this stage is reached, it is the project developer's full risk to cover all costs for developing the project idea. Costs can be quite substantial and may be blocking the partner's desire for developing projects in especially the poorer developing countries.

2.3. IFU as manager of the Programme

The Programme will be managed by IFU according to IFU's governance structure. IFU is an independent government-owned institution that may receive support from the Government and which in turn can provide support and risk capital to Danish initiated private investments in developing countries.

IFU makes risk capital available in the form of equity, loans or guarantees for project companies established by Danish companies in one of the 150 countries eligible for IFU investment. In addition, IFU acts as an adviser during the establishment phase and a project company's first few years in operation, typically pulling out when the company can operate on its own. IFU makes annual investments of approximately DKK 600 million in 40-50 companies.

When the project company is consolidated and can operate on its own – often after 5-8 years – IFU will make its exit by selling the shares, typically to the Danish partner.

IFU's participation in investment projects have contributed to the transfer of knowledge and technology, and the generation of income, decent jobs, tax revenue in the host countries. IFU will help to highlight a project company's corporate social responsibilities by ensuring that employees are given proper working conditions and that a project company's production is socially and environmentally sustainable.

IFU has in average had an overall IRR of 4% on its completed investments. The profit is used to cover IFU's operating costs and for investing in new project companies. During the years, IFU, as a revolving fund, has multiplied the Danish Government's aggregate investment of around DKK 1 billion into IFU investments worth about DKK 11 billion and added with the capital from external sources the total

[5] Financial close occurs when all the project and financing agreements have been signed and all the required conditions contained in them have been met. It enables funds (e.g. loans, equity, grants) to start flowing so that project implementation can actually start.

invested capital in the projects is above DKK 100 billion. In 2014, IFU had DKK 2.6 billion in equity and managed an active portfolio of 222 project companies.

2.4. Organisational and operational principles of the Programme

The budget of the Programme derives from two different budget lines and as such, there will *initially* be an earmarking of DKK 23 million to development of climate projects. All projects will however follow the same operational principles, procedures and standards, and this programme document is therefore applicable to PDP in its entirety, to the total budget and to all projects in which the Programme participates.

Establishment of project development companies
The PDP provides risk capital to project development together with Danish partners. The funding will be provided on commercial terms, which means that the Programme will accept the high risk of partially funding the project development in exchange for an appropriate part of the return if the project is fully developed. A typical way of doing this is by establishing a special purpose company owned jointly by IFU and the Danish partner(s). The ownership of the project will reside in the special purpose company thereby ensuring that the Programme will obtain a significant return if the project is implemented. Depending on the circumstances of the project other company structures may however be used. IFU will have full flexibility to design such structures in collaboration with the project development partners as long as IFU ensures that the Programme will partake in the return on successful projects. The private project partners will invest a minimum of 50% of the budgeted development costs. IFU, through PDP, can participate with up to 50% of the budget, but with a maximum of DKK 5 million per project. The participation can possibly be either loans, equity or a mix of the two, but will depend on the outcome of the revision of the OECD/DAC reporting rules[6]. It will be up to IFU to decide on the most commercially reasonable way of participating in each project.

IFU will participate in the entire project development process, from inception to financial close through dialogue, oversight, appraisal, etc. It will be the responsibility of the Danish company prior to the PDP investment to draw up a business plan and a budget for the project development period. This process will follow the standard IFU investment process. The type of activities foreseen in the development of each project will vary depending on the nature of the project and the 'state of maturity' of the project when engagement with IFU through PDP is initiated. There will therefore remain full flexibility as regards the Programme's and IFU's engagement opportunities and hence which activities can be supported with the Programme's funds.

Flow of PDP Funds
When a project is implemented successfully, investors (including the Programme) will exit their participation, and when the assets are sold, receive a return on their investments. The revenue of the initial investment from the Programme will be channelled back to the IFU and will be used for development of new investment projects. In cases where a loan has been granted, this will also be repaid to the IFU. In both cases, there remains full flexibility for IFU to decide on the most opportune time for the PDP funds to exit from the project and capitalise on the investment. It could be at the point in time where IFU might invest with its own funds (or DCIF or DAF funds) and other investors enter the project, or it could be at a later stage. This will normally be after 4-10 years.

The return on investments or repaid loans in projects where the participation from IFU through PDP initially came from the climate envelope will not again be earmarked to climate projects. The type of projects that will be developed with support from the Programme will therefore in the long run be 100% demand driven - no earmarking. However, it is envisaged that a significant percentage of the recycled

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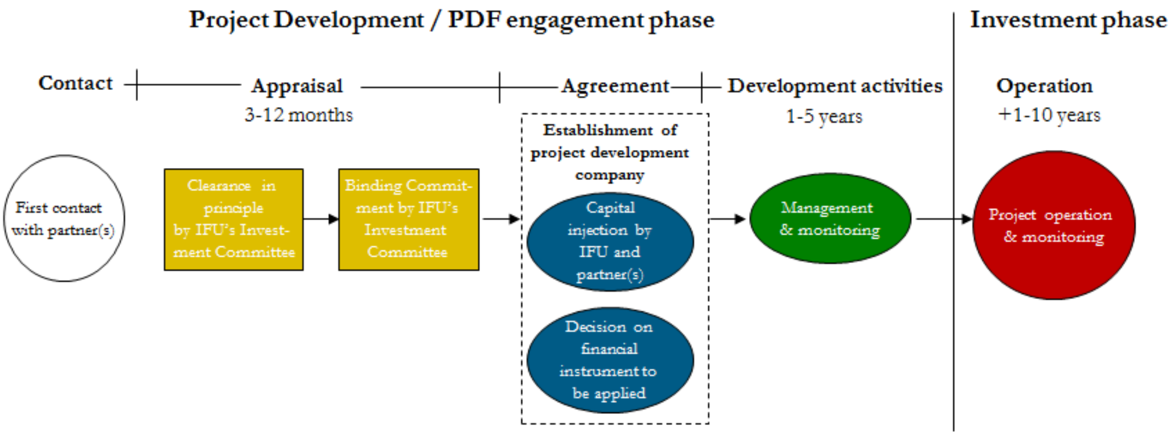
[6] Currently (April 2016) it is not possible to report loans as ODA.

funds will still be used for climate projects.

When a project is finally developed, it will be ready for investment by external investors and lenders on a larger scale in order for operation to begin. The original project developers, including IFU, may also participate at this stage. In fact, it is customary that the new investors and lenders expect the original developers to retain part of the ownership at least until successful construction (i.e. start of actual operation). IFU will try to obtain a right of first refusal to invest in the developed projects, but it will not be a requirement that the projects are acquired (neither solely nor in part) by IFU. The terms of the investment will remain on a commercial basis. Figure 1 below illustrates the process and the different activities contained in the different phases and steps.

Figure 1: Project Development Programme process



Time frame for the Programme and the investment projects and exit strategy
It is expected that the PDP budget of DKK 50 million will lead to a minimum of 10 engagements, taken into consideration the flexibility in size of investments (max DKK 5 million, no minimum). Since unspent funds from failed projects will be channelled back into the PDP it is possible that up to 15 projects can receive financing. IFU should be able to commit the DKK 50 million during the first 3-4 years of operation. It will take several years before the returns on investments are returned to the IFU and the loans are repaid. The time frame for developing the investment projects is expected to be between 1-5 years and will depend on a number of issues, which neither IFU nor the companies fully control. Concerns such as political and regulatory issues in the host countries, the sector context, the complexity and risk of the proposed project, competition from other projects, etc. all influence the time horizon. Some projects might be close to being fully developed but then experience a dormant period of several years, while the project developers await political and regulatory clarifications, etc. and then revived, finalised and prepared for further investments and implementation.

Programme Eligible countries
The Programme will follow IFU's mandate, and investments can therefore be made in all countries on the OECD/DAC list of development aid recipients. As is also applicable to IFU's regular portfolio, at least 50% of the budget must be invested in countries with a GNI per capita below 80% of the upper limit for Lower Middle Income Countries (World Bank's classification). In 2016 this limit is USD 3,300. Annex 3 provides a list of the countries eligible for support.

2.5. Overview of results framework and theory of change

The results framework and the Theory of Change (ToC) for the programme go hand in hand. The objective of the PDP is a two-step process. It is not expected that the project development phase, hence what IFU control with the use of PDP funds, will result in any significant number of new jobs or increased economic growth rates. This phase is, however, directly linked to the investment project phase. The investment project phase is expected to have a clear impact on job creation, economic growth, social development, climate, sustainable business conduct etc. This will be the long-term impact whether or not IFU choose to co-invest in the projects.

The Theory of Change for the PDP is illustrated in Figure 2 below where the first three vertical boxes are related to the PDP and the latter two are the long-term process of actual implementation of investment projects. The process and the theory of change are narratively described below.

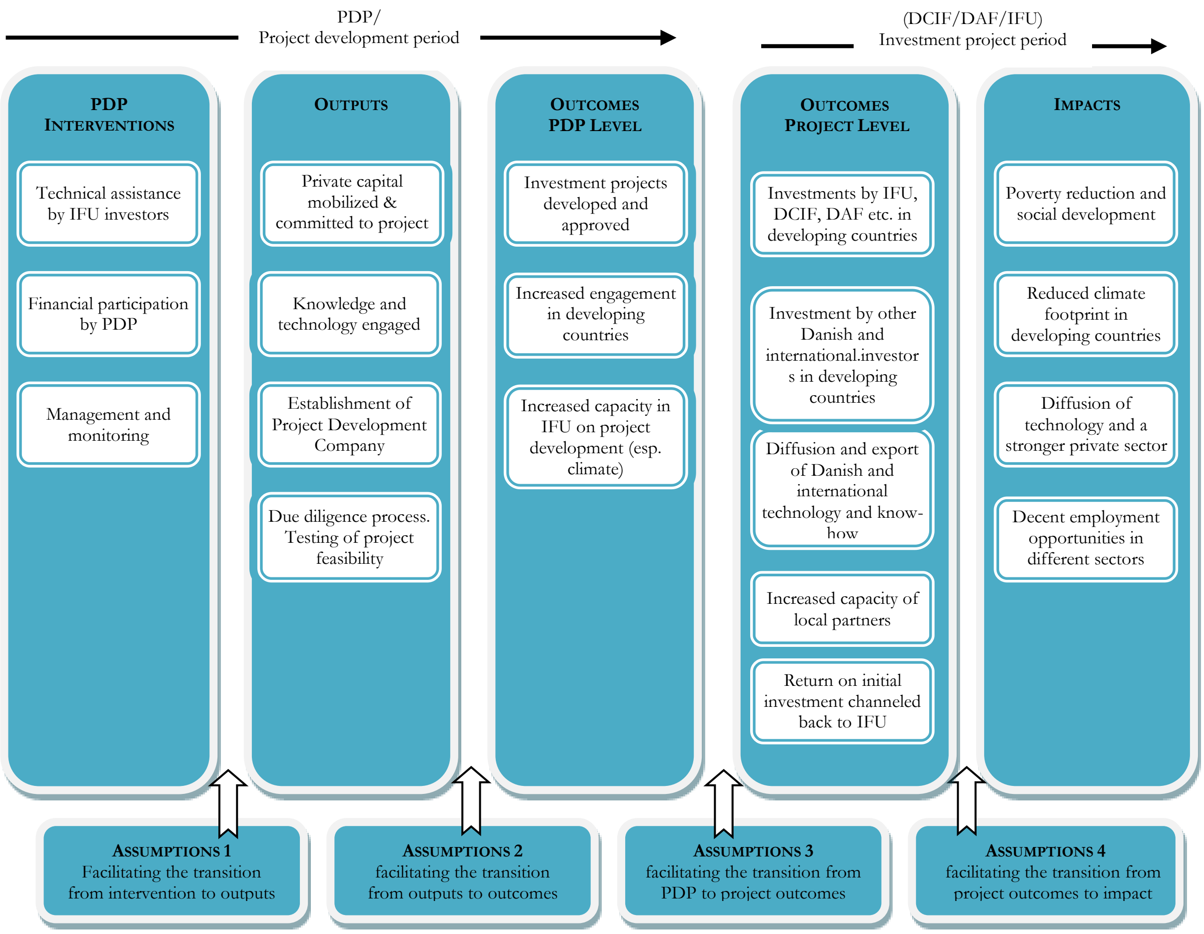
From interventions to outputs
The interventions/input in terms of financial participation in project development, technical assistance by IFU and IFU's active and thorough management and monitoring of the entire process, is expected to mobilise companies to use their technical knowledge in project development in developing countries. It is assumed that Danish companies and institutional investors are in fact interested in investing more in developing countries and also in large-scale projects. Small and medium-sized enterprises (SMEs) are by no means excluded from participating in the PDP but considering the financial robustness of most SMEs, they would probably benefit from partnering with larger companies. Furthermore, the Danida/IFU SME facility, which opposite to the PDP is designed as a subsidy scheme, is particularly targeting the SME segment.

From outputs to outcomes at PDP level
Feasibility testing, data gathering, formulation of business plans and careful due diligence processes will lead to successfully developed investment projects, bankable and matured for further investment. Another outcome will be increased engagement in developing countries by Danish companies and institutional investors. IFU investors and advisors already have a long track-record working with Danish companies and co-investing with them, and IFU has strict procedures for due diligence processes, which is considered key to ensure the success of the programme. Working with climate projects is a rather new area of engagement for IFU and a capacity upgrade of IFU within this field will also be an important outcome at PDP level.

From outcomes at PDP level to outcomes at investment project level
Even though the outcome at project level, as mentioned above, is considered outside the scope of the PDP, this level is actually of imperative importance in the ToC. A key feature of the ToC is how the engagements are actually moved beyond PDP and into actual investment projects because it is at this level the main outcomes of benefit to the host countries evolve. The project development companies need to be able to sell the projects to investors in order for real change to happen. The justification for the PDP ('the baseline') is however a clear need in the market, and for that reason it is expected that investors will be ready to embark on the implementation. A key outcome at this level is the active engagement and mobilisation of Danish skills, technology, knowhow and capital for development of large-scale investment projects. Denmark has a strong resource base when it comes to a range of different skills and technologies that can be used in large-scale investment projects. The capacity of local partners and contractors is also expected to increase as a result of the project implementation.

From outcome at project level to impact
The investment projects will contribute to income and job generation and thus to building a stronger private sector in the host countries. Due to the requirements for responsible business conduct embedded in the programme and in IFU's work in general, the jobs created will be decent with the aim of also promoting social development and poverty reduction. The projects will result in positive societal impacts such as lower CO_2 emission levels, improved food quality and food security, better and more reliable infrastructure depending on the target sector of the project, etc. Overall the projects are thus expected to contribute to placing the host countries on a more sustainable development path, and to the fulfilment of the Global Goals for sustainable development (SDGs).

Figure 2: ToC for the PDP



Assumptions 1: Interest among Danish companies to engage in project development: IFU is able to actively promote the PDP as part of its product line.

Assumptions 2: Feasible proposals for projects are presented to IFU: Continued interest by Danish companies to engage in developing countries.

Assumptions 3: The cost structure of the developed projects ensures that external parties are interested in investing: Danish technology is relevant and cost-efficient and Danish companies are able to identify relevant local partner companies.

Assumptions 4: Investment projects are implemented as planned: Project implementation uses local work-force and live up to international standards in terms of decent employment and spill-over of technology to local companies is embedded in projects.

2.6. Risk analysis

The risk matrix in Annex 4 illustrates the risks related to the PDP engagement areas under the three risk areas (contextual, programmatic and institutional). The responsibility for monitoring and taking action on the risks as regards PDP rests with IFU Management and Board, and IFU will also be responsible for handling any operational risks which may occur during implementation of PDP. IFU will keep Danida updated on any development in the risk assessment.

Contextual risks are related to a possible new global financial crisis and/or economic slow-down which are likely to have a negative impact on international investments and especially investment in more risky markets. Both risks are however considered unlikely at this point in time.

Programmatic risks include lack of knowledge and interest in the PDP as a product and lack of capacity in the market for developing investment projects. IFU will market the PDP as part of their ongoing dialogue with potential investors. IFU already has a project pipeline and these risks are therefore not considered likely. There is also risk of delay in project development or too many resources are spend on preparation of projects that does not materialise, which will have an impact on the revolving nature of the Programme. This risk will be managed through IFU's standard procedures, which include thorough appraisal and constant dialogue with companies.

On the institutional level, any risks are considered to be minimal. IFU is a well-established organisation with many years of experience in investment in developing. Project development is, however, a new area for IFU and there is a risk that the developed projects will not attract investors, which will have an impact on the returns to the Programme and also on the development impact. The constant monitoring and advisory support by IFU investment advisors will mitigate this risk.

3. Overview of management set-up

3.1. Management arrangements for allocations from PDP

All decisions regarding allocations from the PDP will be decided according to IFU procedures and governance principles. IFU's investment committee is granting Clearance in Principle (CIP) and Binding Commitments (BC) for all projects. Investee projects/companies may come out of the DCIF of DAF portfolios/pipeline or from the IFU Classic pipeline of investment projects.

3.2. Cost coverage

The Programme will be fully integrated into IFU's operation, and all costs related to the Programme will be covered under IFUs own operational budget.

3.3. Reporting to and interaction with Danida

IFU's reporting on the PDP funds will be an integral part of the existing governance and reporting structures between Danida and IFU. Danida is observer in IFU's board meetings and the parties have yearly high-level meetings at which also the PDP will be discussed.

4. Budget and financial management

The budget of the PDP is DKK 50 million (DKK 23 million from the Climate Envelope and DKK 27 million from the aid budget).

The use of the PDP budget will follow IFU's normal investment procedures. The total amount allocated to the PDP will be transferred to IFU at the beginning of the operation. IFU will handle the funds according to IFU's rules and procedures for accounting, auditing, procurement, etc. Until invested in project development, IFU will place the funds so that a sound interest rate is secured. An amount of DKK 0.5 million will be reserved for a review of the Programme.

5. Monitoring

Monitoring of the PDP will be part of IFU's regular monitoring principles. IFU has developed a comprehensive appraisal and monitoring system that comprises "Success Criteria Reports" for each enterprise invested in. Four main success areas are defined. Each area is divided into a number of sub-areas. For each sub-area specific indicators have been developed. A weighting system has subsequently been developed which gives a good overall picture of the weighted fulfilment of IFU's success criteria concerning a specific investment. The assessment is made primarily ex ante and ex post (only upon IFU's exit as investor in the specific investment). The four main success areas relate to: i) development impact, ii) IFU's contribution including investment type and capital mobilised from other sources, iii) project sustainability, and iv) fund efficiency.

In relation to the funds committed from the Government's Climate Envelope, special monitoring principles apply. There exist three indicators, which engagements should report on. The three indicators are:

- Tons of carbon dioxide equivalent (tCO2 eq) reduced as a result of Climate Envelope mitigation projects/programmes
- Total number of people supported to cope with the effects of climate change by Climate Envelope resilience programmes (direct and indirect, gender disaggregated)
- Volume of finance leveraged by Climate Envelope funding (disaggregated by public and private sources, annual)

The first two indicators are not considered relevant in relation to the PDP in itself but could be relevant indicators for the actual investment project implementation. The third indicator is, however, very relevant and has been included in the results framework in Annex 1. The basic idea with the PDP is to leverage private funding for project development and as the principle is a minimum of 50/50 funding, the target is that at least DKK 23 million of private finance will be mobilised as a result of the funds from the climate envelope[7].

A mid-term review will be carried out during 2018 conducted according to Danida procedures. The review will assess progress against targets established in the results framework but will also make careful consideration to the pipeline as well as to the perspective for actual project implementation after the PDP-investment. The mid-term review will also assess the likelihood of IFU participation in the investment projects and as appropriate provide recommendations to possible strengthening of IFU's engagement and capacity in project development and within the technical field of climate projects. Finally, the review will determine the exact exiting and closure of the PDP.

Programme baseline
To establish the baseline of a new type of Programme like the PDP is difficult. It is close to impossible to quantify the number of projects that are currently <u>not being developed</u> without this type of risk capital. The baseline for the programme is easier explained more narratively. In the comments received from the public hearing of the concept note, the idea of a project development Programme was welcomed. Both in its written response to the concept note and during meetings with Danish business organisations and also IFU – the need for a Programme such as PDP was emphasised.

Focus is on the need in the market for risk capital, shared risk and that the loan or private equity is not to be repaid or will be pulled out too quickly. A rather long-term perspective of the flow of funds from such a Programme is underlined as something not available on the commercial markets now. Hence, the projects that are considered more risky or are perceived to have a very long development period would be the typical projects that with the participation of a programme like the PDP, will be able to obtain financing. As such, the baseline for the programme is closely linked to the additionality of the programme; a larger volume of bankable projects and a greater capacity in the projects that are developed.

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7 In the longer run, hence on project implementation phase, a much greater leverage is expected. IFU has a leverage factor of 9,4 (2014), hence for each million IFU invests, 9,4 million is invested from other sources.

Impact indicators and target
At this stage, it will not be possible to quantify the long-term impact of the investments, facilitated by PDP very precisely. It will depend on countries, sectors and size of investment projects and vary greatly, e.g. a large investment in an industrial sector might have high impact on improved environment but not generate much employment, while a smaller investment in the agribusiness sector could generate high levels of employment.

As indicated above, the actual investment projects may have a 10-year outlook or more and is strictly speaking outside the scope of the PDP. The impact on growth levels and number of decent jobs created will show at a later stage. This will be monitored by IFU in the projects that IFU choose to invest in, and will form part of IFU's annual reporting, which include job creation. The results framework for the PDP will be limited to the result chain until the first repayment/recall of the finance provided for project preparation from the PDP.

Annex 1: Results framework

The development objective of the Project Development Programme is:

Sustainable and inclusive economic growth in developing countries

The immediate objective is:

Bankable investment projects developed addressing climate and development challenges with a potential for IFU co-investment

Two outcomes are linked to the objective, one for each 'window'/source of funding of the PDP:

Outcome 1: Climate investment projects developed and ready for implementation by using PDP funds with the prospective of further investments through the Danish Climate Investment Fund (DKK 23 million).

Outcome 2: Investment projects developed and ready for implementation by using PDP funds with the prospective of further investments through IFU or the Danish Agribusiness Fund (DKK 27 million).

IFU and Danida agree to measure progress of the programme through a number of outcome and output indicators as outlined in the tables below. It should be noted that the time perspective in the result framework is not defined, i.e. 'as of completion of support' is not related to a specific year. That will depend on the time perspective for the different investment proposals. The parties have however established yearly targets for entry into project development.

Outcome 1		**Climate investment development projects prepared and ready for implementation by using PDP funds with the prospective of further investments through Danish Climate Investment Fund**
Outcome indicator 1.1		**Number of Clearance in Principles (CIP) applied for climate investment development projects and approved by IFU's Investment Committee to be further assessed for PDP participation**
Baseline	At time of entry into programme	0
Target	As of completion of support	Minimum 10 CIPs approved for climate investment development projects
Outcome indicator 1.2		**Number of climate investment development project proposals found eligible for investment through partial funding using the PDP and approved by IFU's Investment Committee**
Baseline	At time of entry into program	0
Target	As of completion of support	Minimum 6 climate investment development projects approved by IFU Investment Committee through issuing BCs and with min. 50% partner contribution mobilised
Outcome indicator 1.3		**Number of climate investment development projects supported by PDP under implementation, possibly with DCIF investment**
Baseline	At time of entry into program	0
Target	As of completion of support	Minimum 4 climate investment projects becoming bankable and reaching financial close, followed by implementation
Outcome indicator 1.4		**Volume of finance leveraged by Climate Envelope funding**

(Climate envelope specific)		
Baseline	At time of entry into program	0
Target	As of completion of support	Minimum DKK 23 million mobilised from private sources.
Output 1		**Applications for PDP received by IFU from partners intending to invest under DCIF**
Output indicator 1.1		Number of project development investment proposals received and reviewed by IFU and found eligible for assessing eligibility for CIP
Target	2016/17/18	0/3-4/3-4
Output 2		**Investment project proposals applicable to be presented for IFU's Investment Committee**
Output indicator 2.1		Number of investment proposals appraised positively and submitted to IFU's Investment Committee for BCs (including assessment of process plans, budget for project development, partner contribution and agreements re. terms and conditions for PDP participation).
Target	2016/17/18	0/1-2/2-3
Output 3		**Project development company established and development activities ongoing**
Output indicator 3.1		Number of project development companies established where legal, financial and technical due diligence of project development company is finalised and where dialogue and negotiations with partner is finalized and investment project for external investment (possibly including DCIF) is ready for reaching financial close
Target	2016/17/18	0/0/1-2

Outcome 2		**Investment development projects prepared and ready for implementation by using PDP funds with the prospective of further investments through IFU or Danish Agri-business Fund.**
Outcome indicator 2.1		**Number of Clearance in Principles (CIP) applied for investment development projects and approved by IFU's Investment Committee to be further assessed**
Baseline	At time of entry into program	0
Target	As of completion of support	Minimum 12 CIPs approved for investment development project
Outcome indicator 2.2		**Number of investment development projects proposals found eligible for investment through partially funding using the PDP and approved by IFU's Investment Committee**
Baseline	At time of entry into the program	0
Target	As of completion of support	Minimum 8 projects approved by IFU's Investment Committee through issuing BCs and with min. 50% partner contribution mobilised
Outcome indicator 2.3		**Number of investment development projects supported by PDP under implementation, possibly with DAF or IFU investment**
Baseline	At time of entry into	0

	the support	
Target	As of completion of support	Minimum 6 investment projects becoming bankable and reaching financial close, followed by implementation
Output 4		**Applications for PDP received by IFU from partners wanting to prepare investments projects**
Output indicator 4.1		Number of investment proposals received and reviewed by IFU and found eligible for assessing eligibility for CIP
Target	2016/17/18	1/3-4/4-5
Output 5		**Investment project proposals applicable to be presented for IFU's Investment Committees**
Output indicator 5.1		Number of project development investment proposals appraised positively and submitted to IFU's Investment Committee for BCs (including assessment of process plans, budget for project development, partner contribution and agreements on terms and conditions for PDP participation)
Target	2016/17/18	0/1-2/2-3
Output 6		**Project development company established and development activities ongoing.**
Output indicator 6.1		Number of project development companies established where legal, financial and technical due diligence of project development company is finalised and where dialogue and negotiations with partner is finalized and investment project for and investment project for external investment (possibly including DAF and IFU) is ready for reaching financial close
Target	2016/17/18	0/0/1-2

Specific targets will be revised and adjusted based on the findings of the mid-term review of the PDP.

Annex 2: Brief description of IFU as Engagement Partner

IFU is an independent government-owned fund offering advisory services and risk capital to Danish companies wishing to do business in developing countries. Furthermore, IFU is fund manager of a number of other investment funds, such as the Danish Climate Investment Fund, IFU Investment Partners and the Arab Investment Fund.

IFU makes risk capital available in the form of equity, loans or guarantees for project companies established by Danish companies in one of the 150 countries eligible for IFU investment. In addition, IFU acts as an adviser during the establishment phase and a project company during the first years of operation, typically pulling out when the company can operate on its own.

Advisory services are provided by IFU's investment managers based in Copenhagen or at one of its seven regional offices in Africa, Asia and Latin America.

IFU and IFU managed funds have invested in nearly 1200 projects in more than 100 countries. Investments generally produce positive results and have turned out to be good business for all parties involved; for the host country, for the Danish company and for IFU.

Good business for developing countries
Total investments to date amount to DKK 155bn, of which IFU has contributed more than DKK 17bn. This has helped to create about 400,000 jobs in the host countries. In addition, IFU's presence has resulted in a transfer of knowledge and technology, the employees have received training and education, and economic activity and a basis of income have been created for the host countries.

IFU also helps to highlight a project company's corporate social responsibilities of ensuring that employees are given proper working conditions and that a project company's production is socially and environmentally sustainable.

Positive effects for Danish companies
IFU has co-invested with more than 500 Danish companies. In the vast majority of cases, the project companies established in developing countries have been a success, making a positive contribution to the overall performance of the co-investing Danish company.

The Danish companies have gained access to new markets, becoming able to plan and start up international and more efficient production. In many cases, this has also produced higher revenue in Denmark and stronger earnings.

Profitable return to IFU
Over the years, IFU has had a fair return on its invested funds. Gross return on investments has been above 10 % over the past years. The profit is used to cover IFU's operating costs and for investing in new project companies.

IFU and public financed funds including IØ and AIF had an aggregate commitment of DKK 4bn end of 2014. The Danish Climate Investment Fund and IFU Investment Partners are public-private funds with a total capital commitment of DKK 1.8bn.

PDP engagement and investment process
Figure 1 in the main document gives a picture of the overall process when IFU engage in development investment projects. After the first contact between IFU and project partner(s), the appraisal process is initiated. The first assessment by IFU includes a.o.:

- Background of partners

- Financial accounts of all partners
- Business idea and rationale
- Project country analysis
- Indicative financing structure – short term/long term
- Ownership structure
- CSR policies

After the first step of appraisal, the project partner/promoter receives a Clearance in Principle (CIP) by IFU's Investment Committee. The partners hereafter move on with the preparatory work and in the next step, the following additional elements are appraised (but not necessarily limited to):

- Full business plan
- Management & ownership
- 10 year financial modelling – P&L, balance sheet, cash flow
- Sensitivity analyses
- Fulfilment of IFU success criteria incl. CSR
- Updated financial accounts of all partners
- Terms & conditions for the PDP participation

A Binding Commitment is hereafter granted to the project partners and hereafter the legal agreement can be signed and activities initiated.

After having signed the agreement, funds are transferred to the development company according to agreed activity plans, capital needs and budgets and based on various conditions precedent agreed (including the disbursement of the other partners'/promoters' capital contribution). IFU will hereafter monitor the project and its development through financial reporting, board meetings and regular follow up with the partners/promoters.

PDP activities and outcome include but are not limited to:

- Feasibility studies
- Data gathering
- Legal assessments
- Disbursement
- Financial reporting
- CSR reporting

Once the development project has been successfully proven and has become ready for financial close, IFU's normal investment procedures (CIP, BC, Legal Agreements) hereafter will be applied for further appraising and possibly participating in the upgraded, large scale project.

Annex 3: List of eligible countries

DAC List of ODA Recipients
Effective for reporting on 2014, 2015 and 2016 flows

Least Developed Countries	Other Low Income Countries (per capita GNI <= $1 045 in 2013)	Lower Middle Income Countries and Territories (per capita GNI $1 046-$4 125 in 2013)	Upper Middle Income Countries and Territories (per capita GNI $4 126-$12 745 in 2013)
Afghanistan	Democratic People's Republic of Korea	Armenia	Albania
Angola	Kenya	Bolivia	Algeria
Bangladesh	Tajikistan	Cabo Verde	Antigua and Barbuda[2]
Benin	Zimbabwe	Cameroon	Argentina
Bhutan		Congo	Azerbaijan
Burkina Faso		Côte d'Ivoire	Belarus
Burundi		Egypt	Belize
Cambodia		El Salvador	Bosnia and Herzegovina
Central African Republic		Georgia	Botswana
Chad		Ghana	Brazil
Comoros		Guatemala	Chile[2]
Democratic Republic of the Congo		Guyana	China (People's Republic of)
Djibouti		Honduras	Colombia
Equatorial Guinea[1]		India	Cook Islands
Eritrea		Indonesia	Costa Rica
Ethiopia		Kosovo	Cuba
Gambia		Kyrgyzstan	Dominica
Guinea		Micronesia	Dominican Republic
Guinea-Bissau		Moldova	Ecuador
Haiti		Mongolia	Fiji
Kiribati		Morocco	Former Yugoslav Republic of Macedonia
Lao People's Democratic Republic		Nicaragua	Gabon
Lesotho		Nigeria	Grenada
Liberia		Pakistan	Iran
Madagascar		Papua New Guinea	Iraq
Malawi		Paraguay	Jamaica
Mali		Philippines	Jordan
Mauritania		Samoa	Kazakhstan
Mozambique		Sri Lanka	Lebanon
Myanmar		Swaziland	Libya
Nepal		Syrian Arab Republic	Malaysia
Niger		Tokelau	Maldives
Rwanda		Ukraine	Marshall Islands
Sao Tome and Principe		Uzbekistan	Mauritius
Senegal		Viet Nam	Mexico
Sierra Leone		West Bank and Gaza Strip	Montenegro
Solomon Islands			Montserrat
Somalia			Namibia
South Sudan			Nauru
Sudan			Niue
Tanzania			Palau
Timor-Leste			Panama
Togo			Peru
Tuvalu			Saint Helena
Uganda			Saint Lucia
Vanuatu[1]			Saint Vincent and the Grenadines
Yemen			Serbia
Zambia			Seychelles
			South Africa
			Suriname
			Thailand
			Tonga
			Tunisia
			Turkey
			Turkmenistan
			Uruguay[2]
			Venezuela
			Wallis and Futuna

(1) The United Nations General Assembly resolution 68/L.20 adopted on 4 December 2013 decided that Equatorial Guinea will graduate from the least developed country category three and a half years after the adoption of the resolution and that Vanuatu will graduate four years after the adoption of the resolution.
(2) Antigua and Barbuda, Chile and Uruguay exceeded the high income country threshold in 2012 and 2013. In accordance with the DAC rules for revision of this List, all three will graduate from the List in 2017 if they remain high income countries until 2016.

Annex 4: Risk Matrix

Risk Factors	Likelihood	Background to assessment of likelihood	Impact	Background to assessment of potential impact	Risk Response	Residual Risk
Contextual risks						
Global Macro-economic instability	**Unlikely**	In the short term there are no signs of an emerging global financial crisis	**Minor**	The last financial crisis showed that the economy in many emerging markets were less influenced by the crisis than the old economies		**Minor**
Continued drops in global commodity prices	**Unlikely**	The commodity prices (soft and hard) are still under pressure, influencing investment markets in emerging markets	**Major**	Many of the IFU target countries are dominated by commodity trading and processing, and continued drop in world market prices would affect investments	Refocus on other sectors, e.g. retail, banking etc. less influenced by commodity prices	**Minor**
Programmatic risks						
Partners not interested in PDP products	**Unlikely**	Investee companies have specifically and continuously demanded for project development funds	**Major**	If the financial products cannot be sold to partners, PDP becomes irrelevant	A redefinition of the products will be made	**Major**
Oversupply of capital in the climate investment market, and distortion of investment of the investment market, leading to less demand for investments from DCIF, due to the required investment returns from DCIF	**Unlikely**	There are at present more than 90 larger fund arrangements in the climate market, and many of these provide concessional financial products	**Major**	If the DCIF is not receiving demands for its investment funds, there will not be a demand for PDP to support projects under DCIF	A project development vehicle has been created, and supported by DCIF to identify and develop new investment opportunities, where the DCIF ownership of the investee project/company becomes better. PDP becomes a very important vehicle to mitigate this risk	**Minor**
Lack of knowledge about	**Unlikely**	There is still a hesitation	**Minor**	General awareness about	n.a.	**Minor**

sustainable energy investment and climate mitigation investment opportunities and viability		among investors to invest in renewables, due to the lack of knowledge of the business cases in the sector		renewables is increasing; The market is now developing fast in many emerging market countries, and there is a growing recognition of the financial viability of investments in climate mitigation and adaptation activities		
Drop in world market prices on soft commodities, creating difficulties identifying investee projects under the DAF Programme	**Likely**	The last year have shown large decrease in soft commodity prices, creating financial problems for agriculture and agroprocessing	**Major**	If the DAF is not receiving demands for its investment funds, there will not be a demand for PDP to support projects under DAF	Project development initiatives should be initiated, eventually by creating a project development company. The PDP funds becomes very important to mitigate the risk	**Minor**
No demand from IFU to use PDP funds to support investments from their statutory resources	**Rare**	IFU has already a list of projects ready to apply for funds from PDP. Demand for finance is generally high; this has not been a major problem in the past	**Major**	Obviously the lack of demand from IFU would have a major impact. However, the issue is not relevant at this stage	n.a.	**Insignificant**
Investee projects supported under PDP will be significantly delayed or they will not be launched	**Unlikely**	It has been foreseen that some of the projects that have received funds from PDP will not materialise, and that is also foreseen since PDP is considered a risk mitigation Programme for the companies investing, by reducing development costs and losses in case of abandoning investment projects	**Minor**	It is normal in the investment banking business that many projects, although well prepared will not be launched for many different reasons. In the results framework it is outlined how many of the projects is expected to be realized	n.a.	**Minor**
Poor repayment performance by	**Unlikely**	The track record in IFU is compared with industry	**Minor**	Obviously, the recapitalization of PDP	The final participation of the development company in	**Minor**

borrower's/equity holders, compromising the financial sustainability/recapitalization of PDP		standard fairly good. The repayment of the PDP contribution will also depend on the terms of payment (grace period, exit strategy etc.)		will depend on the performance of the investee companies/projects that has benefitted from PDP. It is also clear that the performance will vary over the portfolio, where some will perform better than others.	the investment project can be assured by taking a product mix of equity and loans in exchange for the contribution from PDP.	
The real value of PDP will not be sustained due to deterioration of the principal caused by little recycling of funds into the PDP	**Unlikely**	The IFU track record shows that looking from a portfolio view, some of the investments are expected to give good returns and as such refuel the PDP	**Major**	Failure to resolve sustainability of the fund would reduce the amount of funds available to continue supporting PDP objectives in future	It should be considered to speed up the recapitalization of the development companies, and thereby reduce the time before refuelling can take place	**Minor**
Institutional risks						
Most of the PDP funds are used to develop projects that are not implemented	**Rare**	This event will be mitigated through the fact that only CIP projects can get support from the PDP, thereby improving the probability that the development activities will result in investments and start-up of new initiatives	**Major**	Should the PDP funds be spent on projects that are not implemented, the objectives of the PDP are not fulfilled	If the monitoring shows that very few investment projects are launched, it will be difficult to avoid deterioration of PDP, even if stricter approval procedures are applied	**Major**
IFU is not able to facilitate investments in PDP target countries	**Rare**	IFU has the necessary competences and a long track record in investing in the countries and companies/investment projects that are eligible for project development support from PDP	**Insignificant**	The probability that IFU will not be able to manage these funds in an optimal way is very little	n.a.	**Insignificant**