

## Information Note

<b>Title of Project</b>	<b>IFU Project Development Programme</b>
<b>File Number</b>	<b>2015-46150</b>
<b>Completion date of preparation and quality assurance</b>	<b>12-04-2016</b>
<b>Grant Committee Meeting Date</b>	<b>03-05-2016</b>

### **The programme**

The IFU Project Development Programme (Programme) is a new IFU instrument which form part of the government's priorities for Danish Development Cooperation in 2016. The investments required to achieving the Sustainable Development Goals and the COP 21 climate agreement are enormous and requires substantial mobilisation of private capital for investments in developing countries. However, it is broadly recognised by international finance institutions, that there is a serious shortage of bankable investment projects in the market. Development Finance Institutions and other financial institutions face challenges both in terms of identifying relevant projects for investments and in covering the relatively large project development costs. The risk, time and costs involved in the development of investment projects in developing countries are often a non-starter for many private companies, developers and financial institutions even though the long-term benefits and opportunities for implementing an operation successfully would normally far outweigh the initial development costs.

The Programme addresses these project development challenges. The funds will be allocated to IFU, which will be responsible for the management of the Programme. The Programme will have a budget of DKK 50 million of which DKK 23 million is from the 2016 Climate Envelope and DKK 27 million is earmarked on the 2016 Finance Act. The Programme provides risk capital to project development together with Danish partners, and the programme will be implemented on pure commercial conditions. The private project partners will invest a minimum of 50% of the budgeted development costs, and IFU can participate with programme funds for the remaining part but with a maximum of DKK 5 million per project. The Programme funds can according to IFU's mandate be invested in any DAC country, but 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 (currently USD 3,300/per capita). It is envisaged that the Programme will contribute to the successful development and subsequent implementation of at least 10 investment projects within climate, agribusiness, industrial production etc.

### **Justification of the proposed project**

Relevance: The Project Development Programme is highly relevant, and in line with the government's priorities for Danish Development Cooperation in 2016. The Programme is also in line with IFU's 2014-2018 strategy where early-stage project development with key partners is highlighted as one of five growth initiatives. It is broadly recognised that there is a serious shortage of bankable projects for investments in developing countries. Even large companies are hesitant to invest in the development of projects in developing countries due to the relatively high risk and costs involved. Several donors have recently taken steps to address this issue in cooperation with their respective DFIs through the development of specific risk sharing and risk capital modalities that can facilitate private investors' ability to invest in project development. The proposed Programme should be seen in this respect. It will facilitate the development of much needed investment and impact development projects that might otherwise not be developed and implemented. In a global context the Programme will help to fulfil Denmark's responsibility towards the SDGs' and the COP21 climate agreement.

**Additionality:** The additionality is envisaged to be high. The Programme will contribute to the development of relevant investment projects that would otherwise not be realised or at the best be realised in a minor scale or at a much slower pace. It is also envisaged that the Programme will encourage IFU, Danish companies and developers to build up strongly needed capacity and networks in relation to the development of investment projects in developing countries.

**Impact:** The Programme will contribute to the development of bankable projects in developing countries and emerging economies, but the impact of the Programme will only occur on a medium to long-term perspective. The development impact will only occur once the developed bankable investment projects have been successfully implemented, and that could be more than five years after the start of the project development phase.

**Sustainability:** At the project development level it is envisaged that the Programme will strengthen IFU's project development experience and networks, and ensure that IFU develops a sustainable project development business in cooperation with Danish companies, developers and institutional investors. It is therefore envisaged that IFU will continue to invest in project development, and increase its project development portfolio, after the concerned allocation of DKK 50 million has been invested. Preliminary indications from other DFIs indicate that project development can be a good and very relevant business. That would be a very important outcome in order to reduce the current shortage of bankable projects. At the project investment level it is expected that IFU's strong investment experience in cooperation with the participating companies and investors will ensure satisfactory impact and sustainability.

### **Major issues addressed during preparation and quality assurance process**

**Modalities of the Programme:** Comprehensive considerations have been made to ensure that the Programme modalities are based on: a) clear commercial terms (*pari passu* conditions) and demand driven principles, and that the support under the Programme does not constitute state aid, and b) that the support can be reported to the DAC. With regards to a) the Government's legal counsel (Kammeradvokaten) has advised that investments by IFU, which are made on normal commercial terms and in accordance with market economic investor principles, do not constitute state aid to the companies that are invested in, nor to the co-investors. With regards to b) it is expected that the OECD/DAC reporting procedures will be adjusted at the end of 2016, but it is not envisaged that the adjustments will have any major negative impact on the planned modalities and reporting requirements. IFU will, as a starting point, only apply equity in the project development investments, and the flow of funds will be reported according to the applicable DAC procedures.

**Cost structure:** The cost structure has been subject for certain considerations including possible management fees. However, the Programme will have a pure commercial approach and be fully integrated into IFU's operation, and all costs related to the management of the Programme will therefore be covered under IFU's own operational budget. Budgets are therefore not reserved for payment of any management fees.

**Revolving fund:** It was originally envisaged to allocate the funds through a revolving fund structure where the future proceeds would finance new project developments. However, this approach was later abandoned due to the administrative complexity caused by the long project development process and the required separate administration etc. Instead it was decided to allocate the funds through a programme structure where the flow of funds is fully integrated into IFU's own financial and administrative systems. This change will not have any influence on the expected impact and sustainability of the Programme.

Result framework: It is important to emphasise that the Programme and the related project development phase will not result in any significant direct development impact. The Programme will contribute to the development of a number of relevant and bankable investment projects, and it is only when these projects have been successfully implemented that development impact will be generated in the form of income and job generation, reduction in greenhouse gas emission etc. The joint formulation/appraisal team has considered possible options to better address the expected impact of the future investment projects but has concluded that this would be arbitrary at this stage of the Programme. However, the issues should be addressed during the planned mid-term review scheduled for 2018 when the developments of the first investment projects are envisaged to be completed. The mid-term review will also determine the exact procedures and timing for Programme exit. It should be emphasised that the monitoring of the programme will be part of IFU's regular monitoring and evaluation procedures that will ensure a satisfactory monitoring and evaluation of each investment project.