DANIDA SUSTAINABLE INFRASTRUCTURE FINANCE

2020

GUIDING PRINCIPLES

Danida Sustainable Infrastructure Finance

IFU

Introduction

This paper includes a vision and mission, and guiding principles, for the use of Danida Sustainable Infrastructure Finance (DSIF) and how the loan facility contributes to the overall Sustainable Development Goals (SDGs).

Danida Sustainable Infrastructure Finance was established in 1993 (then called Mixed Credits). Over the years, DSIF has built a track record of providing access to finance for sustainable infrastructure. This has been achieved by providing soft loans to projects totaling almost 18,7 billion DKK in 31 countries across Africa, Asia and Latin America, where Danish representations in partner countries play a key role in the strategic and complementary use of the instrument.
The annual frame for Danida Sustainable Infrastructure Finance is app. 400 million (FL2020). The projects financed under DSIF typically has a contract value of 500 million to 1 billion DKK.
The Minister for development Cooperation approves all projects under DSIF, while the Investment Fund for Developing Countries has the technical and operational responsibility for the implementation (https://www.ifu.dk/danida-sustainable-infrastructure-finance-dk/)

Vision and mission

Danida Sustainable Infrastructure Finance is a facility that provides access to soft loans and can leverage finance for sustainable and climate relevant infrastructure in developing countries. A DSIF project is part of a country's national development strategy and will deliver measurable results toward the SDG's that creates growth and employment in developing countries. DSIF is tied to transfer of technology and knowhow through Danish companies,

Danida Sustainable Infrastructure Finance is: i) an integrated part of the overall Danish development assistance, ii) demand driven, iii) eases the terms of repayment for the borrowing developing countries, iv) contributes to raise private capital for financing of developing projects in selected developing countries, v) supports development projects which can neither be financed on ordinary commercial terms nor with grant assistance, vi) complements other Danish financed activities for the benefit of the recipient countries, and vii) actively involves the Danish private sector.

From vision and mission to action – narrative

The demand for investments in sustainable and climate relevant infrastructure in developing countries is huge. Quality infrastructure is positively related to the achievement of social, economic and political goals. Climate relevant sustainable infrastructure will contribute to sustainable growth. For instance, clean drinking water will improve health and living conditions, access to reliable energy will improve

conditions for private sector activity and generally improve living conditions; better roads will reduce transport costs and enhance market access.
Danida Sustainable Infrastructure Finance contributes indirectly to poverty reduction by contributing to sustainable and transformational change in developing countries, by softening the terms of commercial loans for investments primarily in public infrastructure. The projects are based on demands and development challenges, in line with the partner countries own development strategies and sector plans.

In many developing countries access to finance is limited, both in terms of public spending and in terms of commercial financing, the latter due to high risk and/or non-commercial viability of the projects. Financial institutions consider Danida Sustainable Infrastructure Finance support as equivalent to a sovereign guarantee and therefore practically risk free. With DSIF support financial institutions can therefore offer loans to stakeholders in high risk markets.
Besides raising private capital, DSIF may also leverage additional financing from other development partners and DFI's in related investments, for instance when financing is contingent on other financial means being secured.

Danida Sustainable Infrastructure Finance brings in the knowledge and technology of private companies to provide solutions on local development challenges and thereby create shared value. DSIF support is considered a security stamp by private companies because of the value of the Danida brand in many developing countries. The Danish Ministry of Foreign Affairs' economic diplomacy can influence important stakeholders that private companies would not otherwise be able to access. This can decrease the perceived risks from the private companies in terms of engaging in high risk markets that they would otherwise find too difficult or risky.
Technical knowhow and appropriate regulatory frameworks need to be in place to ensure a viable and sustainable investment. Therefore, DSIF offers technical assistance and support to authority-to-authority cooperation, if necessary, to transfer institutional knowledge in the relevant sector area. All contracts financed by DSIF therefore also contain a training package to develop capacity for optimal operation and maintenance of the DSIF investment.

Principles for project selection

The following core principles form the foundation of Danida Sustainable Infrastructure Finance project identification and selection:

Focus countries: Danida Sustainable Infrastructure Finance is applicable in developing countries with a GNI per capita below USD 3.995 (2020) and in accordance with OECD consensus agreement. DSIF is applicable in countries where Denmark has a representation, to increase impact in fewer selected countries with a Danish interest.

Involvement of Danish companies that are internationally competitive based on "life cycle costs": Projects in sectors with Danish core competencies - where Danish companies provide goods with life-cycle costs that are internationally competitive - will be prioritized. This means that goods should be competitive based on not only the purchase price, but on total cost, including operating cost (e.g. cost effectiveness of energy and water efficiency). As a rule, only Danish companies can act as main contractor in DSIF projects. Therefore, as a point of departure only projects where Danish companies are internationally competitive will be selected.

Acceptable guarantor/ministry of finance or other credit institution: To reduce risk, an acceptable guarantor on the loan for each project is required, preferably a sovereign guarantee (ministry of finance) or other acceptable credit institution.

Sustainable Development Goals should be reflected: Projects will be assessed based on the extent to which they address at least one of the Sustainable Development Goals.

Sustainability criteria: Projects will be assessed on sustainability criteria in the following areas, including IFC performance standards and UN guiding principles for business and human rights:

- Environment & climate – Projects should address adverse effects on environment or climate, supporting a transition to low carbon economy.
- Economic – Projects should be economically sustainable in the long run, e.g. socioeconomic benefits should be positive.
- Institutional – The institutional and organizational capacity should be in place to ensure longer term sustainability of the project, including risk management.
- Social risks and impacts – Projects should address possible negative social effects on e.g. workers, community and culture.

Country development strategy and sector plan in place: Projects should be based on local demand and needs. This is achieved by requiring that projects are reflected in national development strategy and sector plans.

Project size: Projects should have a minimum size of DKK 100 million. Upper limit depends on budget available.

Growth and employment in developing country and Denmark: Projects should contribute to growth and employment in recipient country and/or in Denmark.

Complementarity and synergy: Projects considered complementary to other Danish activities - development activities as well as trade and investment related activities – will be favoured. Also, scaling up or new phases of previous projects would be considered positive.

From projects to results (Results framework)

DSIF’s monitoring, evaluation and results documentation activities will continue to rely on the following main pillars:

1. Project identification, screening and appraisal methodology,
2. Continuous project monitoring,
3. Project performance rating (output/outcome indicators), and
4. Ex-post reviews

The project identification, screening and appraisal methodology will help to ensure that the projects selected for financing are in line with DSIF’s guiding principles.
All DSIF projects are monitored closely during implementation and verified when fully implemented.
DSIF will continue to strengthen the results monitoring aspects. For each project specific output, outcome and impact indicators will be developed, with baseline and targets. DSIF has specific indicators to monitor the overall impact of the DSIF facility.
DSIF’s project portfolio is regularly reviewed. Reviews typically focus on sector specific project types in selected countries.

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Guiding Principles for Danida
Sustainable Infrastructure Finance