MINISTRY OF FOREIGN AFFAIRS OF DENMARK
DANIDA | INTERNATIONAL DEVELOPMENT COOPERATION

GUIDING PRINCIPLES FOR DANIDA BUSINESS FINANCE

Introduction

This paper includes a vision and mission, and guiding principles, for the use of Danida Business Finance and how Danida Business Finance contributes to the overall Sustainable Development Goals. Finally, the paper outlines an overall results frame.

Danida Business Finance, managed by the VBE (Growth and Employment) department, was established in 1993 (then Mixed Credits). Over the years, Danida Business Finance has built a track record of providing access to finance for modern, sustainable infrastructure. This has been achieved by providing soft loans to projects totaling almost 14 billion DKK in 29 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 administrative procedures for Danida Business Finance are described in the Danida Business Finance project management guidelines.

The annual frame for Danida Business Finance is DKK 200 million (FL2016). This amount can generate projects with an overall contract value of approx. DKK 500 million.

Vision and mission

Danida Business Finance is a facility within MFA that provide access to finance and can leverage finance for sustainable infrastructure in developing countries tied to transfer of technology and knowhow through Danish companies, based on the countries' development strategies, delivering measurable results toward the SDG's that creates growth and employment in developing countries.

Danida Business Finance is: i) an integrated part of the overall Danish development assistance, ii) is demand driven, iii) eases the terms of repayment for the borrowing developing countries, iv) contributes to raising private capital for financing of development 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 – a narrative

The demand for investments in infrastructure in developing countries is huge, to ensure their sustainable growth and social development. Quality infrastructure is positively related to the achievement of social, economic and political goals. With the right, sustainable infrastructure in place it will create better conditions and opportunities for the local private sector to do business. For instance, better roads will reduce transport costs and enhance market access; 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.

Danida Business Finance contributes indirectly to poverty reduction by contributing to sustainable and transformational change in developing countries in line with the Sustainable Development Goals, by softening the terms of commercial loans for investments primarily in public infrastructure. The projects should be based on local 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 Business Finance support as equivalent to a sovereign guarantee and therefore practically risk free. With Danida Business Finance support financial institutions can therefore offer loans to stakeholders in high risk markets.

Besides raising private capital, Danida Business Finance 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 Business Finance brings in the knowledge and technology of private companies to provide solutions on local development challenges and thereby create shared value. Danida Business Finance support is considered a security stamp by private companies because of the value of the Danida brand in many developing countries. MoFA 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, Danida Business Finance 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 Danida Business Finance therefore also contain a training package to develop capacity for optimal operation and maintenance of the Danida Business Finance investment.

Principles for project selection

The following core principles form the foundation of Danida Business Finance project identification and selection. The principles are divided in two types where the first type reflects national and international rules and regulations and the second type reflects policy priorities.

Rule-based criteria:

Focus countries: Danida Business Finance is applicable in developing countries with a GNI per capita below USD 3.300 (2014/15) and in accordance with OECD consensus agreement, and where Denmark has a representation, to avoid piecemeal interventions and to increase impact in fewer selected countries with a Danish interest to be present through development cooperation.
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 where life-cycle costs 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 Danida Business Finance projects. Therefore, as a point of departure only projects where Danish companies are internationally competitive will be selected.
Acceptable guarantor/MoF 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.

Rule-based criteria:

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 organisational 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 DK: Project should contribute to growth and employment in recipient country and/or in Denmark.
Complementarity and synergy: Projects that can be 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)

DBF'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 DBF's guiding principles.
All DBF projects are monitored closely during implementation and verified when fully implemented.
DBF will continue to strengthen the results monitoring aspects. For each project specific output, outcome and impact indicators will be developed, with baseline and targets. DBF consider developing specific indicators to monitor the overall impact of the DBF facility. This could e.g. include annual leverage of additional funding (million DKK) and total number of employment created (number of employment years in Denmark/Partner countries).
DBF's project portfolio is regularly reviewed. Reviews typically focus on sector specific project types in selected countries.

Kontakt

Udenrigsministeriet
Danida
Asiatisk Plads 2
1448 København K

Tlf. 33 92 00 00
um@um.dk

ToC illustration: Strategic and thematic objectives