

**IFU**

INVESTMENT FUND FOR  
DEVELOPING COUNTRIES

# OPERATING REPORT 2017

**Record investment** level of DKK 1.3bn

**37 investments** in 2017

New **sustainable development goals** funds



CAPITAL FOR **SUSTAINABLE INVESTMENTS**

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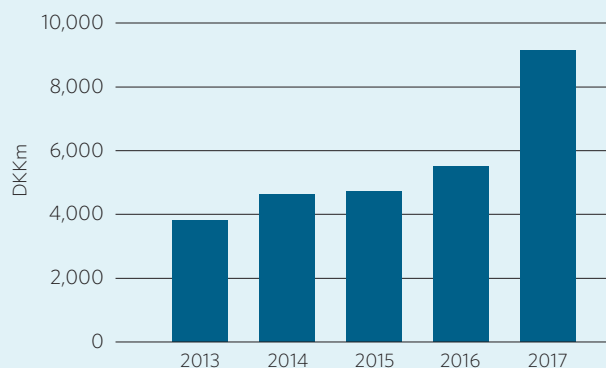
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# CREATING **IMPACT AND RETURN**



## Development in capital under management



Comprised by equity in IFU, IØ, AIF and UFA, committed capital from private investors and the Danish State in DCIF and DAF, committed capital from private investors in IIP and guarantees outstanding for DBF.

## **In 2017, IFU and IFU managed funds set a new record by contracting investments of DKK 1.3bn.**

During the year, we continued to focus on investing in projects that have a solid development impact and are able to generate an attractive return to their investors.

The 22 new investments made in 2017 are expected to impact 12 of the 17 UN Sustainable Development Goals and will contribute with new jobs, renewable energy and microloans, for example. The more than 200 project companies in our active portfolio have reported local taxes of DKK 2.8bn, and in total they employ more than 180,000 people.

In 2017, focus has been on establishing the necessary capital base of DKK 5-6bn to fulfil our ambition to support the aspirations for a better world by 2030 as set out in the UN Sustainable Development Goals.

First step has been on the equity side of IFU's activity, where emphasis has been on establishing an SDG Equity Fund with a targeted size of DKK 4-5bn. So far, the SDG Equity Fund has been well received by potential institutional and private investors, who are set to provide 60 per cent of the total funding.

The second step will focus on IFU's loan activity with the aim of establishing the parameters for a potential SDG Loan Fund. It is expected that the Danish SDG Equity Fund will be in place during 2018, and that the SDG Loan Fund will follow.

Across IFU and IFU managed funds, the consolidated net financial result for 2017 was DKK 186m. Gross yield was 8.8 per cent on share capital and 6.5 per cent on loans.

# INVESTMENTS 2017

In 2017, IFU and IFU managed funds invested DKK 1.3bn in 37 commercially viable projects, which will generate solid development effects by means of jobs, training, technology transfer and tax revenue.



EXPECTED DIRECT  
EMPLOYMENT IN  
PROJECTS RECEIVING  
FINANCING IN 2017 IS  
**5,117** PEOPLE

## Regional Meat Moldova



**Danish farmers will** establish large-scale full-line pig production in Moldova, introducing Danish technology and management expertise.

- ➔ Total expected investment: DKK 58.0m
- ➔ IFU investment: DKK 11.3m
- ➔ Expected total employment: 100 people

CASE

**2** PROJECTS  
FINANCED  
IN EUROPE

**4** PROJECTS  
FINANCED IN  
LATIN AMERICA

## APMT Callao, Peru



**Expansion of existing** port facilities in Port of Callao, Peru, the largest port of the South American Pacific coast.

- ➔ Total expected investment: DKK 254.0m
- ➔ IFU investment: DKK 71.4m
- ➔ Expected total employment: 1,380 people

CASE

## Alliance, Myanmar



**Alliance improves** the livelihood of small business borrowers by offering 37,000 microloans to clients, primarily women.

- Total expected investment: DKK 98.0m
- IFU investment: DKK 18.1m
- Expected total employment: 537 people

### CASE



IFU AND IFU MANAGED FUNDS INVESTED A TOTAL OF

DKK **1.3bn**  
IN **37 PROJECTS**

**15** PROJECTS  
FINANCED  
IN ASIA

**15** PROJECTS  
FINANCED  
IN AFRICA

## Saraf Foods, India



**Saraf Foods is a** fast-growing processing company producing freeze-dried fruits and vegetables using state-of-the-art technology from Denmark.

- Total expected investment: DKK 65.0m
- IFU investment: DKK 14.6m
- Expected total employment: 450 people

### CASE

## SwiCorp, Egypt



**The construction of** a solar power plant near Aswan will increase capacity in Egypt, which experiences severe power shortage.

- Total expected investment: DKK 1,228.0m
- IFU investment: DKK 86.0m
- Total capacity: 150MW

### CASE



**1** PROJECT  
WITH A GLOBAL  
FOCUS

# IFU IN BRIEF

**For more than 50 years, IFU has been engaged in making direct investments in developing countries and emerging markets. Today, IFU is also operating as fund manager for several investment funds based on public-private partnerships. Total investments have reached DKK 20bn.**

IFU is a state-owned fund operating on a commercial platform. The purpose is to promote economic and social development by making private sector investments in developing countries. In recent years, we have stepped up our efforts by establishing several investment funds based on public-private partnerships, which target different

regions or business sectors like climate and agribusiness.

This has enabled us to more than double our annual investment level, reaching an all-time record of DKK 1.3bn in 2017. Capital under management at year end was DKK 9.1bn.

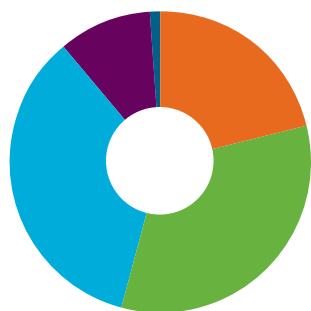
## **Being profitable is vital**

To continue investments and attract private investors, IFU and IFU managed funds need to be profitable. In 2017, the funds – on a consolidated basis – had a positive net result of DKK 186m. Gross yield was 8.8 per cent on share capital and 6.5 per cent on loans.

## **Most experienced Danish investor**

In total, IFU and IFU managed funds have invested in over 1,250 projects in more than 100 countries in Africa, Asia, Latin America and Europe. The total expected investment in these projects is almost DKK 185bn, with IFU and IFU managed funds contributing DKK 20bn in share capital and loans. This makes IFU the most experienced Danish investor

Total number of projects distributed by region



Africa	269
Asia	414
Europe	440
Latin America	126
Global	11



*Q Works in Indonesia.*



## SDG GOALS

*New investments in 2017 will install renewable energy capacity of 345MW and contribute to greenhouse gas savings of 9,400,000t CO<sub>2</sub>e during their lifetime*

tor when it comes to direct investments in developing countries and emerging markets.

### Investments create development

When investing, IFU is always focussed on the double bottom line: creating development and profitable business. IFU has a strong focus on sustainability, upholding fair conditions for employees,

safeguarding the environment and promoting basic human rights while creating economic growth and jobs.

### More than 200 active investments

At year-end 2017, IFU had an active portfolio of more than 200 investments. Total investments at cost in these projects was DKK 3.4bn.



**IFU AND IFU  
MANAGED FUNDS**  
HAVE INVESTED IN OVER  
**1,250** PROJECTS  
IN **MORE THAN 100**  
**COUNTRIES** IN AFRICA,  
ASIA, LATIN AMERICA  
AND EUROPE

## 2017 RESULT

### Financial highlights 2017

Combined, IFU and IFU managed funds recorded a net income of DKK 186m in 2017. Gross yield was 8.8 per cent on share capital and 6.5 per cent on loans.

The figures below are consolidated across IFU and IFU managed funds.

EXECUTIVE SUMMARY	DKKm
Gross contribution from projects	294
Operating income	189
Net income for the year	186
Total investment in projects at cost	3,405
Total equity capital	4,351
Total balance	4,523

### KEY RATIOS

Gross yield from share capital investments	8.8%
Gross yield from project loans and guarantees	6.5%
Gross yield from projects (total)	8.2%
Average number of employees (no)	84

# WE OFFER **RISK CAPITAL** AND **PROFESSIONAL ADVICE**

**IFU provides financing for companies operating in developing countries and emerging markets. Our more than 40 investment professionals based in Copenhagen or in one of our ten regional offices in Asia, Africa, Latin America and Europe are ready to assist you.**

If a company wants to do business in a developing country or emerging market, IFU can assist. We provide risk capital on commercial terms, including share

capital, mezzanine financing, loans and guarantees. IFU has a long-term investment horizon and participates in start-up companies, joint ventures, acquisitions and typically in projects with a Danish economic interest. IFU's investments range from DKK 1m - DKK 100m in a single project.

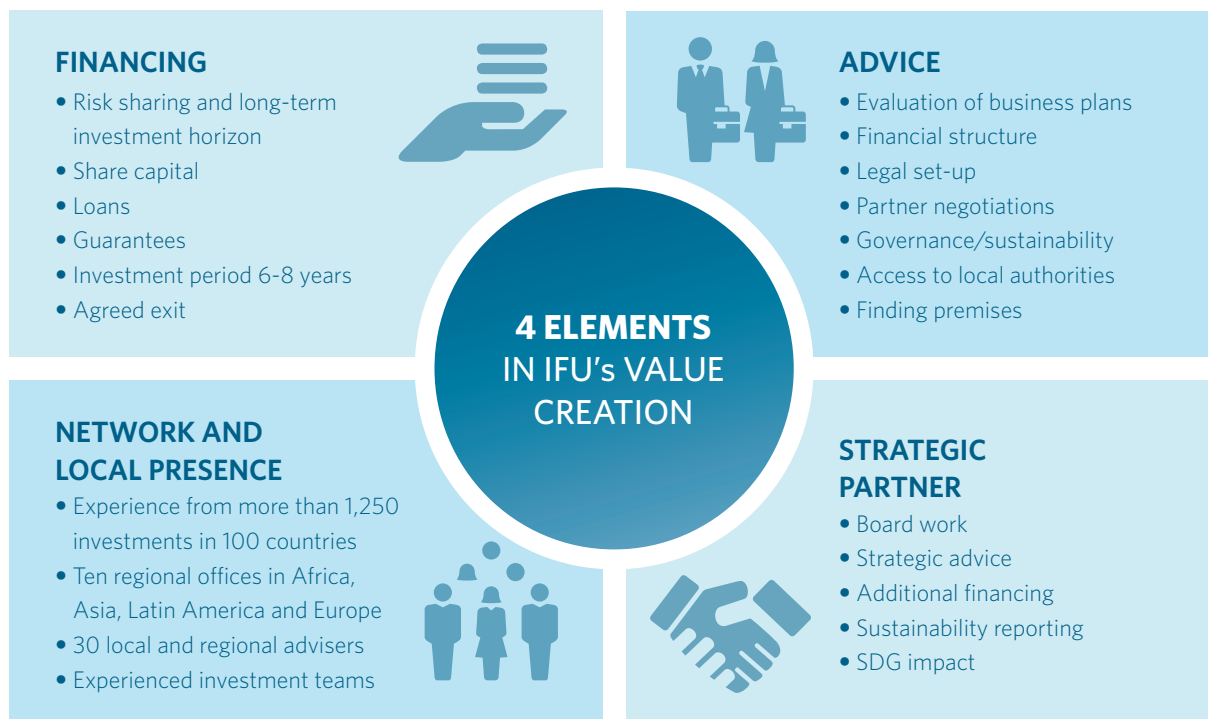
### **Professional advice all the way**

Usually, IFU is involved from the initial considerations, during the establishment, and until the company is economically viable. To handle investments, we have set up a five-step process guiding the cooperation with our partners throughout the process.

## **IFU 5 STEP** INVESTMENT PROCESS

	<b>FIRST CONTACT</b>	<b>DUE DILIGENCE</b>	<b>APPROVAL OF INVESTMENT</b>	<b>ACTIVE OWNERSHIP</b>	<b>AGREED EXIT</b>
<b>Project company /partner</b>	Presentation of company and business idea/plan	Data collection and presentation of the final business plan	Signing the final agreement Obtaining legal opinion Developing sustainability policy	Appointment of competent management and board Execution of business plan	Prepare future ownership structure Possible purchase of IFU's shares
<b>IFU</b>	Assessment of company's business plan/idea Advice on next steps Approval in principle of partner, investment location and business idea	Evaluation of the business plan Discussion of market strategy, management, budget, finance and ESG Visit to the partner company etc.	Approval of the project by IFU's board of directors/investment committee Presentation of agreement	Using IFU's local knowledge and network Active participation in board work Additional funding	Valuation of company Retail price Exit agreement





This includes IFU's professional advice on the business plan, financial structure, legal set-up, governance and sustainability, negotiations with local partners and authorities as well as board participation.

### Ten regional offices abroad

Professional advice is provided by more than 40 experienced investment professionals based in Copenhagen or at one of our ten regional offices covering Africa, Asia, Latin America and eastern Europe. Moreover, IFU has an extensive network of external advisers with experience in business operations in developing countries.

### Tailor-made solutions

Over the years, IFU has teamed up with

more than 900 Danish companies. Among these are large Danish enterprises like A.P. Møller-Mærsk, DLG and FLSmidth, but also a wide variety of small and medium-sized companies within numerous sectors. Regardless

of the size of the company, IFU always tries to create tailor-made solutions, which include financing, advisory services and exit agreements with all partners.



Site visit to power plant project in Benin.

# IFU IS DRIVING CHANGE

In order to create sustainable societies in the developing world, private capital and investments are vital. This is also the conclusion in the 2030 Agenda for Sustainable Development and its 17 Sustainable Development Goals set forward by the UN in 2015.

By providing risk capital and professional advice, IFU is assisting private companies and investors in making investments in developing countries and emerging markets, which have a direct as well as indirect impact on creating better societies.

The investments lead to the establishment of companies contributing with jobs and producing valuable goods and services. As nine out of ten jobs in low and middle-income countries are created in the private sector, the investments play a crucial role in generating local income, which improves the livelihood of people.



**THE GLOBAL GOALS**  
For Sustainable Development

### Taxes lead to local development

Moreover, well driven companies are able to generate a positive return to their investors and pay local income tax that can be transformed into public investments in infrastructure, health and education.

In 2017, the companies in IFU's portfolio employed more than 180,000 people in total and reported local taxes of DKK 2.8bn.



VALUABLE  
GOODS AND  
SERVICES



DIRECT  
JOB CREATION



INVESTMENT



FINANCIAL  
RETURN



TAX  
PAYMENTS

IN 2017, **PROJECT  
COMPANIES REPORTED**  
DKK **2.8bn**  
**IN TAXES TO HOST  
COUNTRIES**

PROJECT  
COMPANY

SOCIETY



EDUCATION

INFRASTRUCTURE



HEALTH

## CASE DCIF

### Sainshand Windfarm Mongolia

The Danish Climate Investment Fund has invested in Sainshand Windfarm, which is located in the Gobi desert and will cater for the increasing demand for electricity in Mongolia. The project will significantly enlarge Mongolia's renewable energy capacity and thereby supports Mongolia's strategy that renewable energy should account for 30 per cent of all energy supplies in 2030.

Partners in the project are a French energy leader, a German project developer as well as a local investor and development banks. Financing was agreed following an environmental and social management review, focusing on improving living conditions of a number of nomadic people and their animals in connection with the development of the project.



- **Partner:** Danish interest
- **Investment year:** 2017
- **Expected total investment:** DKK 790m
- **DCIF investment:** DKK 117m
- **Total capacity:** 54MW
- **CO<sub>2</sub> savings:** 4.4m tCO<sub>2</sub>e

# WE CREATE IMPACT AND SUPPORT **THE SUSTAINABLE DEVELOPMENT GOALS**

For more than 50 years, IFU has created positive impacts by investing in developing countries. The investments have led to new jobs, training of employees, transfer of modern technology, economic growth and local tax revenues etc. This is in line with the aspirations set out by the UN in the Sustainable Development Goals for creating a better world towards 2030.



## Decent jobs alleviate poverty

New investments in 2017 are expected to create and preserve more than 5,000 decent jobs and as such have a direct impact on SDG no 1 and 8 being “No poverty” and “Decent work”.

In total, IFU has during the years created and preserved close to one million direct and indirect jobs in developing countries, and in 2017, the over 200 active investments in IFU’s portfolio employed more than 180,000 people. Close to one hundred thousand were employed in Asia and close to fifty thousand in Africa. The rest was employed in Latin America and Europe.



*Microfinance loan recipient selling food in Myanmar.*



## Sound businesses pay taxes

An important impact is local tax payments from the companies that IFU has invested in. The tax revenues enable local governments to invest in for example education and health that will support SDG no 3 and 4 being “Good health and well-being” and “Quality education”. Consequently, risk capital from IFU is in itself an important contribution to goal 17 “Partnership for the goals”.

In 2017, 168 of the companies in IFU’s active portfolio reported local taxes of a total of DKK 2.8bn in their most recent financial year.

## IN 2017, **PROJECT COMPANIES EMPLOYED**

MORE THAN  
**180,00**  
PEOPLE





*The new investments contracted by IFU and IFU managed funds in 2017 have a broad impact on the Sustainable Development Goals (SDG). In total, the new investments will impact 12 of the 17 goals. The impacts vary across the new investments. Some will affect several, and some only a few of the goals.*



**Climate investments reduce greenhouse gas emissions**

In general, developing countries lack access to energy and are at the same time the ones facing the most severe consequences of climate change. Against that background, installing and producing renewable energy is of major importance and has a direct impact on SDG no 7 and 13 being “Affordable and clean energy” and “Climate action”.

New investments made in 2017 will install renewable energy capacity of 345MW, which is expected to produce 548GWh when fully operational. In total, this will lead to GHG savings of approximately 9,400,000t CO<sub>2e</sub> during the projects’ lifetime.



**Microfinance empowers small businesses**

Capital is a scarce resource in developing countries, but by investing in microfinance, IFU is making loan financing available for clients to develop their small businesses. In 2017, IFU invested in a microfinance institution in Myanmar, which is expected to convert the funds into more than 37,000 microloans, of which 90 per cent will target female clients.

This will enable clients to improve their own as well as the livelihood of their employees and thereby impact SDG no 1 and 5 being “No poverty” and “Gender equality”.

# IFU TO ESTABLISH NEW SUSTAINABLE DEVELOPMENT GOALS FUNDS

For several years, IFU has been developing new innovative public-private partnerships to increase investments and impact in developing countries as well as to assist more Danish companies in new markets. Next step is an SDG Equity Fund and an SDG Loan Fund, which is included in our Sustainable Development Goals initiative aiming at engaging public and private financial resources in the range of DKK 5 - 6bn.

Based on the positive experience from the Danish Climate Investment Fund

and the Danish Agribusiness Fund, IFU has developed a concept for a Danish

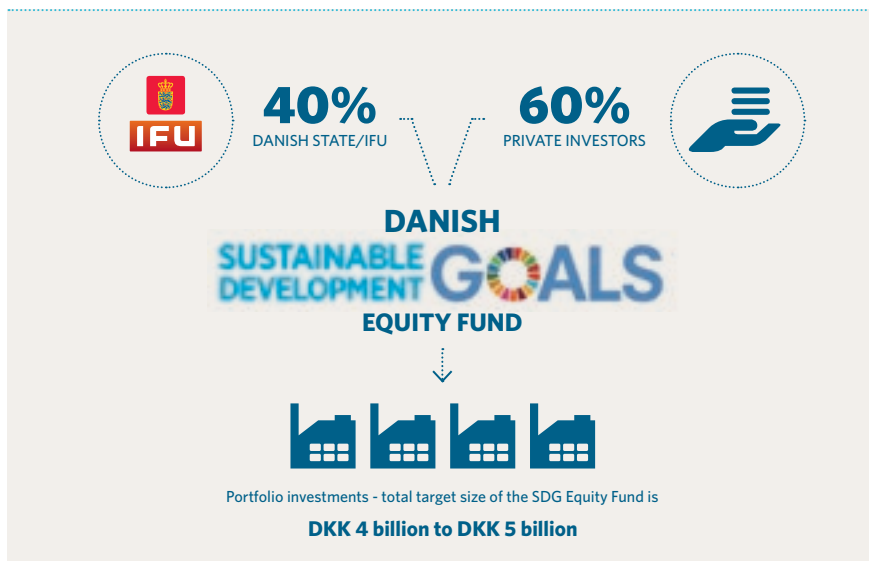
SDG Equity Fund, which has been presented to and well received by potential institutional and private investors.

The SDG Equity Fund has a target of DKK 4 - 5bn based on a 60/40 partnership between private investors and IFU funding. IFU will invest part of its own equity, and the Danish government has approved that IFU can obtain DKK 800m in loan financing through Danmarks Nationalbank.

## Providing an attractive return

The mandate will enable the fund to invest across sectors supporting the Sustainable Development Goals and in all developing countries in Africa, Asia, Latin America and parts of Europe.

## New SDG Equity Fund



In addition to supporting the Sustainable Development Goals, the ambition is to provide investors with an attractive annual net return of 10 - 12 per cent in DKK. This currently corresponds to approximately 13-15 per cent in USD.

## Supplemented by a loan fund

The second part of the initiative is to set up an SDG Loan Fund that can provide loan financing for commercially based projects in developing countries, supporting the Sustainable Development Goals. The loan fund is, as the equity fund, expected to be based on a public-private partnership securing funding in the range of DKK 1 - 2bn.



# DANIDA BUSINESS FINANCE MOVED TO IFU

**Danida Business Finance (DBF) offers financing on favourable terms to sustainable infrastructure projects in developing countries, which would not otherwise have obtained financing on commercial terms.**

DBF is financed by the Danish State and has since 1993 contributed to water and sanitation and energy projects based on state-of-the-art Danish technology and knowhow in 29 developing countries in Africa, Asia and Latin America.

## **IFU takes over the administration**

In September 2017, the administration of DBF was taken over by IFU, who will handle all future cases and requests regarding DBF. The strategic framework for DBF and the authority to allocate funds to the individual projects are maintained at the Danish Ministry of Foreign Affairs.

The objective of moving the administration was to create more strategic, daily cooperation between Danida Business Finance and IFU, which is believed to create a solid framework for handling more large infrastructure projects to the benefit of the developing countries as well as to generate more business opportunities for Danish trade and industry.

## **A new team in place**

To handle the new tasks and service DBF's clients, IFU has employed a new team, which mainly consists of staff members previously employed with the Ministry of Foreign Affairs.

## CASE **DBF**

### **Saidabad III** Water Treatment Plant

Huge investments are needed to meet the growing water demand in Bangladesh. In 2017, Danida Business Finance granted support of DKK 978m to Saidabad III. The purpose is to improve water supply in Dhaka with a population of 15 million, expecting to increase to 29 million by 2035. The estimated output is clean drinking water for 7 million people.

The Government of Bangladesh has decided to make a shift from using groundwater to using surface water as a source for clean water production, so the programme includes water intake and transmission lines, water treatment plant and sludge treatment facilities as well as distribution network. In addition to DBF's soft loan, the project will receive financing from other European development finance institutions.



- **Partner:** Dhaka Water Supply and Sewerage Authority
- **Investment year:** 2017
- **Expected total investment:** DKK 1,399m
- **DBF investment:** DKK 978m

# WORKING WITH SUSTAINABILITY

**High sustainability standards add value to the company and enhance business opportunities in developing countries. IFU has extensive experience with sustainability issues and assists partners and project companies in finding the right solutions.**

In developing countries, companies have a greater responsibility in upholding proper sustainability standards by creating e.g. decent jobs, following high environmental standards and promoting community engagement.

## **Sustainability throughout the investment process**

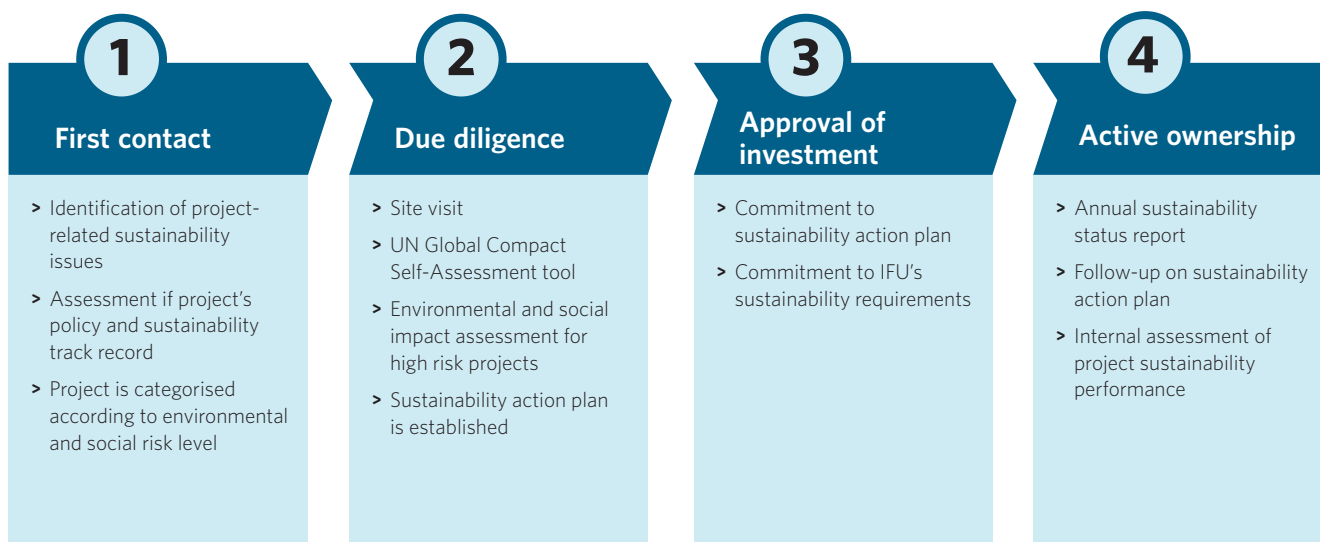
IFU is a signatory to the UN Global Compact and has set up a process to identify and solve sustainability issues that need to be addressed. The process

consists of four phases; first contact, due diligence, approval of investment and active ownership. In every investment, IFU and the company engage in a dialogue of relevant challenges and issues regarding a number of areas, including the environment, health and safety as well as human rights and corporate governance.

## **Must comply with national legislation**

The starting point is that project companies must comply with national legislation in the country in which they operate, and that they have to work towards implementing relevant international standards. If gaps are identified during first contact, a written action plan will be required describing the measures

## IFU'S **SUSTAINABILITY WORKFLOW** MODEL







## SDG GOALS

*One new investment in microfinance in Myanmar will provide more than 35,000 loans to local clients, of which more than 90 per cent are women.*

that need to be implemented within an agreed time frame.

Moreover, when entering into an investment agreement, IFU requires project companies to:

- Adopt a written sustainability policy
- Appoint a person with overall responsibility for sustainability
- Establish a system to ensure continuous improvements
- Promote sustainability to partners and suppliers
- Prepare an annual sustainability report

### Sharing experience with partners

IFU has extensive experience in creating sustainable businesses and shares this knowledge with its partners on an ongoing basis. Moreover, IFU has launched a sustainability handbook and a handbook on board work and corporate governance, organises regional seminars on Environmental, Social and Governance topics and is able to provide economic support for training of local employees in handling sustainability issues.



*Packing cocoa beans at Ingemann Food in Nicaragua.*

## CASE DCIF

### Roserve

#### India

Roserve offers a full turnkey waste water recycling unit to industrial companies in sectors like textile, pharmaceuticals and tanneries. The business concept is to buy the units from an Indian manufacturer and lease them on to clients, including service and maintenance.

Backed by an DCIF investment, Roserve started operating in India. Now the company is expanding sales abroad in new markets in other developing countries where access to water is limited, prices are high and regulation on waste water is increasingly tightened and enforced.

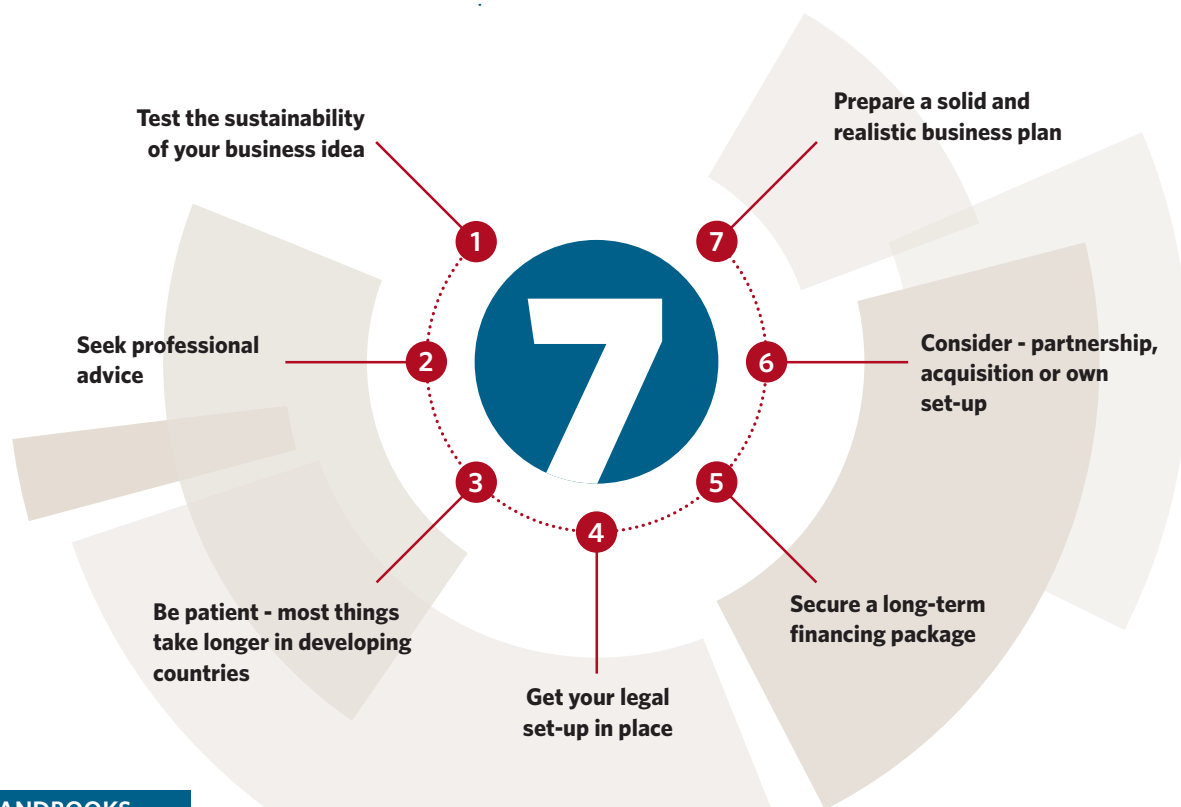
The waste water recycling units are using pumps from Grundfos, and the expansion to new markets will consequently also have a positive impact on the Danish company's sales.



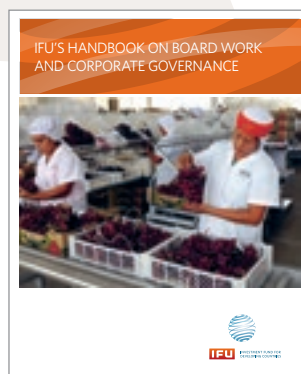
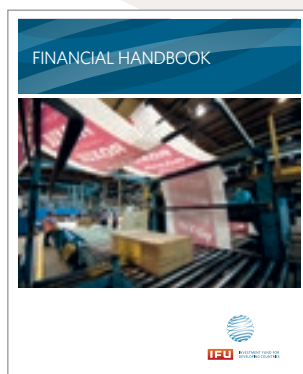
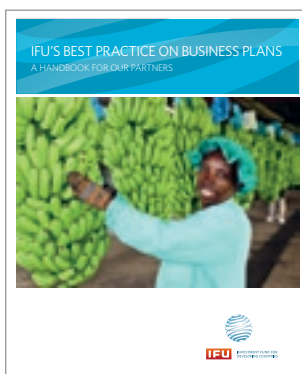
- **Partner:** Grundfos/Danish interest
- **Investment year:** 2016/2017
- **DCIF investment:** DKK 35m
- **Expected total investment:** DKK 169m
- **Expected direct employment:** 70 people

# SEVEN INVESTMENT TIPS

Investing and doing business in developing countries is often a challenge. Solid and thorough preparation is crucial for success. Our seven investment tips will guide you in the right direction, and our handbooks on business plans, finance, board work and sustainability can help you avoid the worst blunders.



## IFU HANDBOOKS



# IFU'S GLOBAL PRESENCE

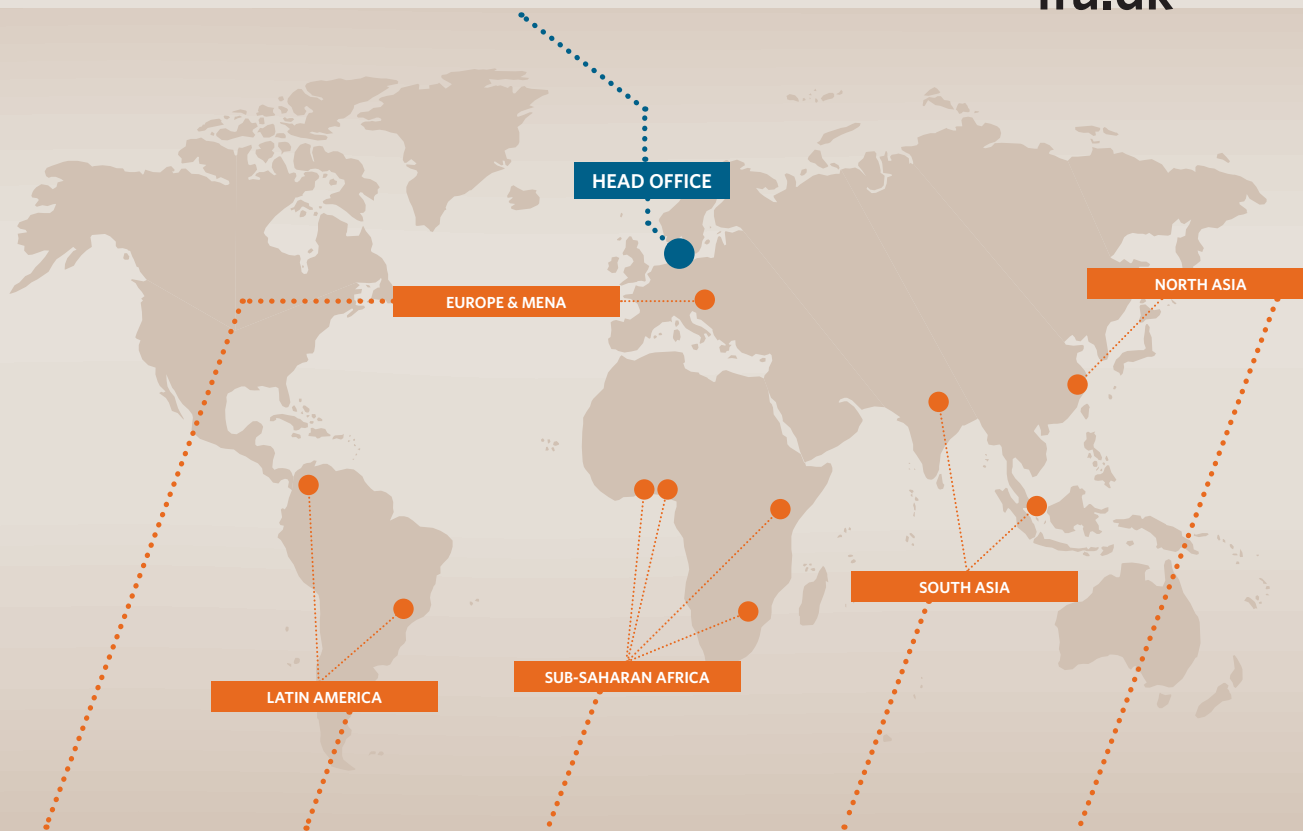


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**IFU SOUTH ASIA**, New Delhi  
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DEVELOPING COUNTRIES

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# IFU AND IFU MANAGED FUNDS CONTRIBUTE TO SUSTAINABLE GROWTH AND IMPROVED LIVING CONDITIONS



## IFU MANAGED FUNDS

