INVESTMENT FUND FOR DEVELOPING COUNTRIES

IFU ANNUAL REPORT 2022

CONTENTS

This report covers activities in IFU and IFU managed funds for the financial year 1 January to 31 December 2022. The report also represents IFU's statutory statement on corporate social responsibility and gender diversity at management level, in accordance with section 99 a and b of the Danish Financial Statements Act. Furthermore, it serves as IFU's Communication on Progress to the UN Global Compact. See Sustainability and impact reporting principles on page 108.

LETTER FROM THE CEO

IN 2022, IFU AND IFU MANAGED FUNDS INVESTED DKK 1.5 BILLION AND MOBILISED ADDITIONAL PRIVATE CAPITAL OF DKK 1.4 BILLION

As we approach the midpoint of the 2030 Agenda for Sustainable Development, the UN has made clear that it will take urgent, scalable multi-stakeholder action to achieve the 17 SDGs by 2030. The private sector plays a vital role in reaching the goals.

The challenges are many. The Covid-19 pandemic pushed millions of people into poverty, and flooding, drought and extreme weather are becoming the new normal due to climate change. Moreover, Russia's invasion of Ukraine has had a devastating impact on the Ukrainian people, as well as been a driving force in rising inflation, including higher prices on energy and food.

In general, developing countries are vulnerable to these crises, and low-income people are hit disproportionately hard.

For several years, IFU has worked on mobilising private capital for impact investments in developing countries. In 2022, IFU and IFU managed funds invested DKK 1.5 billion and mobilised additional private capital of DKK 1.4 billion.

The investments were made within IFU's focus sectors green energy & infrastructure, sustainable food systems and financial services.

IFU invested in the first ever blended investment fund for creating access to safe drinking water for 30 million people, primarily in Africa and Asia. The initiative will hopefully demonstrate the financial viability of a safe drinking water market worldwide and be a showcase for attracting more private capital to improve the livelihood of people, and come closer to realising SDG 6 on creating access to safe water for all.

The Danish SDG Investment Fund invested in Sumintér, an Indian company assisting smallholder farmers in becoming certified organic producers, securing off-take of the crops and increasing the farmers' income. The new financing will contribute to doubling the number of smallholder farmers to 180,000, primarily in India, Uganda and the Philippines.

Based on funding from Denmark's Green Future Fund, new investments also included focus on recycling businesses in India and Ecuador transforming billions of plastic bottles into yarn and scrap paper into cardboard boxes for food. The investments in renewable energy continued with a large investment by the Danish SDG Investment Fund of DKK 300 million in Augment Origo that is expected to install up to 1,300 megawatts of solar power in Brazil.

The overall companies in IFU's active portfolio achieved solid impact as well. They directly employed almost 380,000 people, reported local taxes of DKK 5.4 billion, supported 450,000 smallholder farmers and issued microloans to 16 million clients, of whom more than 90 per cent were women. Moreover, the companies produced 5,300 GWh of renewable energy.

IFU is one of the largest investors in Ukraine among the European Development Finance Institutions. During the year, we continued to support our project companies in navigating through tough and difficult circumstances, as well as offering additional finance, to support their continued operations. Moreover, Danida Sustainable Infrastructure Finance succeeded in providing finance for 20 boiler units that will deliver heating and hot water for 180,000 people. Going forward, IFU stands ready to assist in the rebuilding of Ukraine.

In 2022, IFU recorded a net loss of DKK (57) million. The result was heavily impacted by the Russian invasion of Ukraine with a total negative contribution of DKK (298) million from the Ukranian portfolio. Excluding this contribution, the result would have been a profit of DKK 241 million, meaning that the portfolio outside Ukraine performed satisfactorily. •

Torben Huss, CEO

IFU AT A GLANCE

IFU IS A COMMERCIALLY BASED IMPACT INVESTOR

The Investment Fund for Developing Countries (IFU) is Denmark's development finance institution. It is founded and financially supported by the Danish State and acts as an integrated part of Denmark's development aid strategy. Moreover, IFU is providing opportunities for institutional and private investors to deploy capital in developing countries, based on blended finance arrangements.

IFU's purpose is to promote commercially viable investments that support sustainable development in developing countries and contribute to the realisation of the Sustainable Development Goals.

IFU is a commercially based impact investor. To deliver on IFU's purpose and address global challenges, the investments are based on a set of impact priorities aiming at creating green, just and inclusive societies.

Green societies will support climate mitigation and/or adaption, circular economy, pollution prevention and control, sustainable protection of water and marine resources, and/or the conservation or restoration of biodiversity and ecosystems.

Just and inclusive societies will reduce inequalities and poverty by addressing the fact that billions of people lack access to essential goods, services and equal rights.

IFU's investments are focused in four primary sectors:

- Sustainable food systems
- Green energy & infrastructure
- Healthcare
- Financial services

As most of IFU's other investments in Ukraine, Perejmy continued its business during 2022 despite the war.

"One IFU" overview* - IFU's impact capital under management

IFU's own account and facilities – state capital and borrowing	IFU managed funds – with participation of private investors	IFU managed facilities – on behalf of public donor partners
• **Investment Fund for Developing Countries (IFU)** • **On-balance sheet facilities:** - Denmark's Green Future Fund - High Risk High Impact - Project Development Programme - Neighbourhood Investment Facility - India Climate Finance Initiative - IFU Sustainability Facility • **Investment Fund for Central and Eastern Europe (IØ)** (separate account)	• **IFU managed funds with capital contribution of 40 % from IFU and 60 % from private investors** - Danish SDG Investment Fund - Danish Climate Investment Fund - Danish Agribusiness Fund • **IFU Investment Partners** (co-investment facility for private investors)	• **IFU managed on behalf of Danida:** - Danida Sustainable Infrastructure Finance (DSIF) - IFU Development Guarantee Facility (DGF) • **Grant facilities:** - SME Facility - Neighbourhood Energy Investment Fund - Project Development Facility (for DSIF)

* The present annual report is reporting on activities and impact deriving from IFU's own account and facilities as well as IFU managed funds. Financial accounts presented is related to the first column only with the exception of IØ.

OVER TIME, IFU AND IFU MANAGED FUNDS HAVE INVESTED IN 1,336 PROJECTS

Based on its investment strategy, IFU provides risk capital in the form of equity, loans and guarantees to companies operating in OECD DAC defined developing countries across Africa, Asia, Latin America and parts of Europe.

IFU and IFU managed funds overall
Over time, IFU and IFU managed funds have invested in 1,336 projects covering more than 100 different countries in Africa, Asia, Latin America and Europe.

At year-end, the active portfolio covering all funds contained 166 project companies. Total expected investment in the active portfolio is DKK 112bn of which IFU has contributted 13bn.

This makes IFU the most experienced Danish investor in developing countries and emerging markets.

IFU as a fund manager
IFU is fund manager of several investment funds and facilities based on public or public-private capital. See overview on page 6.

Active portfolio at 31 December 2022 (no.)	
Investment Fund for Developing Countries (IFU)	139
Danish SDG Investemt Fund (SDG Fund)	20
Danish Climate Investment Fund (DCIF)	9
Danish Agribusiness Fund (DAF)	3
IFU Investement Partners (IIP)	3
Investment Fund for Central and Eastern Europe (IØ)	2
Total	**176**
Eliminations*	(10)
Consolidated total	**166**

* Ten projects are eliminated due to inter-fund investments, or because they have received financing from more than one fund.

AS PER 2022, TOTAL CAPITAL UNDER MANAGEMENT BY IFU WAS DKK 15.6BN

Statutory framework

IFU was established by the Danish State in 1967 and is governed by the Danish Act on International Development Cooperation. The fund's revenues are comprised of income from interest, dividends and capital gains.

As per 2022, total capital under management by IFU was DKK 15.6bn. Capital under management is comprised by IFU's and IØ's equity and financing from Danmarks Nationalbank and the Nordic Investment Bank at a total of DKK 6.8bn, capital from private investors in the SDG Fund, DCIF, DAF and IIP of DKK 3.6bn, outstanding DSIF guarantees of DKK 4.7bn, and outstanding and available guarantee amount under the IFU Development Guarantee Facility. ▪

IFU managed funds and facilities – an overview

	Estab-lished	Purpose	Capital** DKKm end of 2022	Capital available DKKm from 2023****	Capital provided by
IFU's own account and facilities – state capital and borrowing					
IFU's own capital	1967	Private sector development in developing countries supporting the SDGs	4,631	N/A (revolving fund)	State and accumulated profit
Hereof facilities included in IFU's capital					
Project Development Programme (PDP)	*2016*	*Project development (additional top-up made in 2022)*	*65*	*32*	*State*
*NEIF – Neighbourhood Energy Investment Fund**	*2018*	*Investments in energy efficiency and renewable energy in Ukraine and Georgia /emergency financing for IFU's Ukraine projects*	*123*	*30*	*State*
High Risk High Impact (HRHI)	*2019*	*High risk investments in Africa with high impact and climate potential*	*350*	*67*	*State*
India Climate Finance Initiative (ICFI)	*2022*	*Projects that will contribute to the green transition and counter climate change in India*	*100*	*100*	*State*
Lending line - Denmark's Green Future Fund (GFF)	2020	Financing for climate investments in developing countries	1,000	227	Danmarks Nationalbank
Lending line – DSDG Fund	2018	Financing of SDG Fund	800	375	Danmarks Nationalbank
Lending line – Nordic Investment Bank	2019	Refinancing of IFU loans fullfilling NIB mandate	372	268	The Nordic Investment Bank
Investment Fund for Central and Eastern Europe* ***	1989	Private sector development in Eastern Europe (being wound down)	3	N/A (winding down)	State and accumulated profit
Total			**6,806**		
IFU managed funds (including IFU's share of the funds)					
IFU Investment Partners*	2012	Joint investments in larger IFU projects	409	0 (holding period)	Two Danish pension funds
Danish Climate Investment Fund*	2014	Climate investments in developing countries	1,007	0 (holding period)	IFU and institutional and private investors
Danish Agribusiness Fund*	2016	Agribusiness and food investments in developing countries	355	0 (holding period)	IFU and institutional investors
Danish SDG Investment Fund	2018	Large investments supporting the SDGs in developing countries	4,858	1,034	IFU and institutional and private investors
Total			**6,628**		
of which private capital included in capital under management			**4,150**		

IFU managed facilities - Danida Sustainable Infrastructure Finance (DSIF) and IFU Development Guarantee Facility					
Danida Sustainable Infrastructure Finance	1993	Guaranteed loans with a grant element for public infrastructure projects, which cannot be funded through private investments	2,691	200 in grant capital	State
IFU Development Guarantee Facility	2022	Guarantees that contribute to reducing the risk of investors and thereby create access to increased mobilisation of private capital in developing countries.	2,000	2,000	State
Total			**4,691**		
Grand total (capital under management)			**15,648**		

Other – grant facilities not included in capital under management					
IFU Sustainability Facility	2019	Grants to IFU projects for training and other support related to ESG, impact and Covid-19 relief	21	7	IFU
Project Development Facility - DSIF	2017	Project development of infrastructure proposals for possible financing under DSIF	75	12	State
SME facility	2014	Grants for improving investments with Danish SMEs in developing countries	60	30	State
NEIF – Neighbourhood Energy Investment Fund	2018	Grants for improving energy investments in Ukraine and Georgia (pending decision for future use)	10	7	State

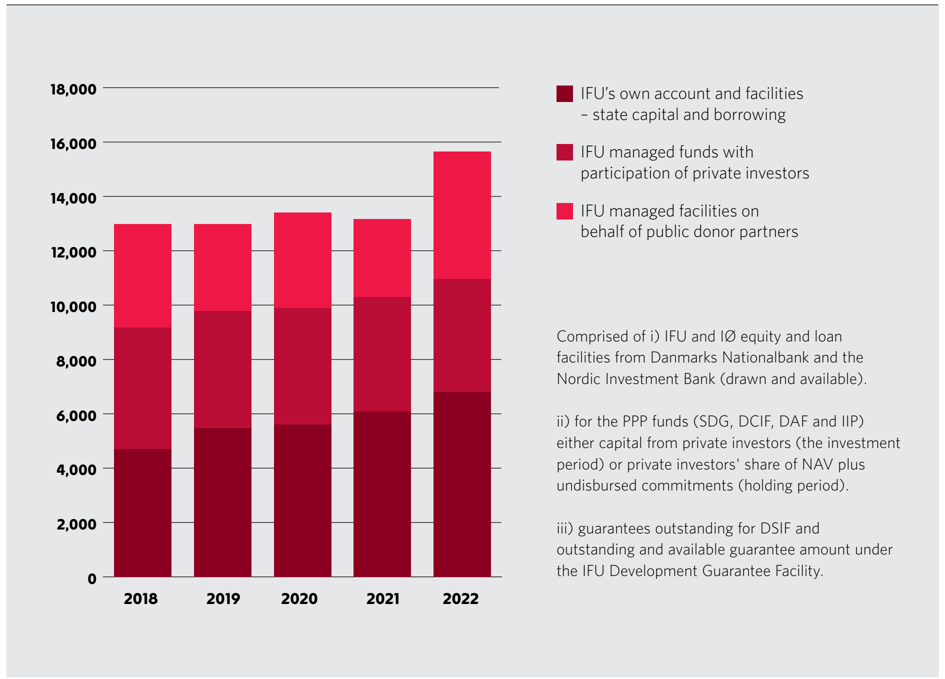
* Closed for new investments.

** Either current equity capital for IFU and IØ, outstanding guarantee commitment for DSIF or available guarantee commitment for DGF or full lending lines, i.e. both drawn and available. For facilities included in IFU's equity the amount is full contribution received. For managed funds, the amounts stated are either capital committed from investors (the investment period) or NAV plus undisbursed commitments (holding period).

*** Total capital contribution to IØ was DKK 1,898m in the period 1990-2001, and DKK 3,800m has been paid back as per end of 2022. Both figures in nominal prices.

**** For new commitments in active funds/facilities at balance sheet date. Stated amount after deduction of internally approved commitments (binding commitments), that may not materialise into contracts. Stated amount for the SDG Fund is for new projects and assumes 80 % of the fund is utilized for new projects. Stated amount for the lending lines for GFF and NIB are amounts available for new commitments for these initiatives, whereas stated amount for the lending line to the SDG Fund is remaining amount to be drawn on the lending line.

Development in capital under management in DKKm



EXECUTIVE SUMMARY 2022

EXECUTIVE SUMMARY 2022

INVESTMENTS

- IFU and IFU managed funds contracted investments of DKK 1.5 billion in 2022, compared to DKK 1bn in 2021
- Mobilising private capital of DKK 1.4 billion
- The investments were made in 20 project companies
- 35 per cent of the new investments were made in Africa
- IFU provided additional finance to support portfolio companies in Ukraine
- Total capital under management is DKK 15.6 billion
- IFU's financial result was a net loss of DKK (57) million
- The Ukrainian portfolio contributed negatively to IFU's result with DKK (298) million

IMPACTS

New investments

- Creating access to clean cooking for 4.5 million households
- Creating access to safe drinking water for 30 million people
- Installing up to 1,300 megawatts of renewable energy
- Assisting 90,000 smallholder farmers in becoming organic producers
- Installing new district heating for 180,000 people in Ukraine
- 87 per cent of the volume contracted in new direct investments was climate finance
- 36 per cent of the number of new investments was investments with a gender lens focus

Portfolio companies

- Close to 380,000 people were employed by the portfolio companies
- Microfinance institutions served 16 million clients, of whom more than 90 per cent were women
- Supported 450,000 smallholder farmers
- Portfolio companies reported taxes in developing countries of DKK 5.4 billion
- 87 per cent of investments have a written sustainability policy
- Portfolio emissions attributed to IFU was 817,000 tons CO_2e
- More than 5 GWh of renewable energy was produced avoiding 3.4 million tons CO_2e
- Avoided emissions attributed to IFU was 430,000 tons CO_2e

Mary Wambui Karanja, Kenya. Customer of Juhudi Kilimo, Abler Nordic portfolio company. Source: Abler Nordic.

THE PORTFOLIO COMPANIES EMPLOYED CLOSE TO 380,000 PEOPLE

HOW TO READ THE REPORT
When reading this Annual Report, it is important to note that IFU is investing both its own capital, as well as capital on behalf of a number of investment funds and facilities based on public and private funds.

Typically, the reported facts and figures on impacts and development effects are consolidated across investment funds and facilities, whereas figures in the financial statement, including key figures, are for IFU only. To underline this, the term "IFU and IFU managed funds" is used. Where facts and figures are not consolidated, there is a specific reference to the fund or facility in question. The blended finance programme Danida Sustainable Infrastructure Finance, which is managed by IFU on behalf of the Ministry of Foreign Affairs, is only included in the capital under management overview and in a separate section in the report.

MANAGEMENT'S REVIEW

IFU STANDS WITH UKRAINE

THE COMPANIES HAVE NAVIGATED THROUGH TOUGH AND DIFFICULT CIRCUMSTANCES

The Russian attack and invasion of Ukraine continued during the year leading to the destruction of lives and livelihood for the Ukrainian people. Despite the military fighting and shelling of civilians and critical infrastructure across the country, the companies that IFU has invested in have coped relatively well.

IFU is one of the largest investors in Ukraine among the European Development Finance Institutions. Historically, IFU has made close to 60 investments in Ukraine. End of 2022 the funds had 14 active investments with a total invested amount (acquisition cost) and receivables of DKK 440m.

Of the 14 investments only one has stopped operation. This is a large windfarm, Syvash, located in the Kherson region close to Crimea, which was shelled and damaged already on the first day of the invasion. At the time of this report, the windfarm's location was still under occupation.

The remaining investments, which are primarily within agriculture, renewable energy and manufacturing, have continued their business supporting the Ukrainian people with important goods and services as well as contributing to stabilising the economy.

The companies have navigated through tough and difficult circumstances. The main concern has been the security of the employees and their families. Moreover, complicated logistics, broken supply chains, devaluation of the hryvnia and mobilisation of male staff have been some of the major challenges. The management and staff of the companies have demonstrated stamina, resilience and outstanding loyalty to their activities. On top of regular business, the companies support local communities and refugees, and contribute to different nation-wide programmes.

Companies are expanding their business
Due to foreign exchange restrictions under martial law, the portfolio companies are not allowed to transfer payments to IFU servicing their loans. This has not stopped IFU from supporting the companies. IFU's office in Ukraine has continuously been assisting IFU's partners, and new additional finance has been issued to secure the continued operations of some of the companies.

Despite the situation, several of the portfolio companies have even expanded their business during the year. For example, one company has erected a brand-new production facility to be equipped with CNC machinery.

Securing critical infrastructure
Danida Sustainable Infrastructure Finance (DSIF), which is managed by IFU, has in cooperation with the Nordic Green Bank (Nefco) supported Ukraine with new containerised mobile boiler units that will ensure district heating supply to over 180,000 people. DSIF also works on other projects in Ukrainian cities suffering from war.

Let's rebuild Ukraine better
Going forward, IFU continues to focus on assisting the portfolio companies in managing the situation and contributing to the Ukrainian economy. But IFU is also engaged in discussions on future initiatives to assist in rebuilding Ukraine, and how to mobilise private finance and Danish companies in that endeavour. ▪

THE DANISH DEVELOPMENT FINANCE INSTITUTION

IFU is the Danish Development Finance Institution investing in private sector enterprises that have major importance for sustainable economic and social development in developing countries and are imperative for achieving the UN Sustainable Development Goals (SDGs) by 2030.

The aim of IFU is to make catalytic investments, which would not usually be made under the existing conditions due to the way that risks are perceived in the private markets. IFU's investments must demonstrate both financial and development additionality, thereby contributing to mobilising additional capital to private sector companies and provide positive impacts in host countries.

To get funding from IFU, private sector companies must be deemed commercially viable. This ensures that the businesses are making a profit on invested capital and can continue to operate, creating decent jobs, producing important goods and services and paying taxes to society, for example.

In the last ten years, IFU has gradually been increasing its investments in developing countries. This has been achieved by raising new funding from Danish pension funds and other private investors in IFU managed funds, and by receiving additional funds from the Danish government to advance activities with a high-risk high-impact as well as a green profile.

In parallel, IFU has developed its investment strategy and sustainability policy in alignment with international best practice framework principles for impact management. Consequently, IFU has a well-developed position as a strong impact investor with the ambition to be best in class.

BEING AN IMPACT INVESTOR

IFU's investment strategy defines two impact priorities that steer the selection of new investments, based on the investments' potential and ability to assist developing countries in improving the livelihood of people without jeopardising global sustainability:

- **Building green societies:** Green societies will assist the world in reducing the use of resources, preventing global temperature rise through climate mitigation, contributing to a circular economy, and allow developing countries to pursue a path of sustainable production and construction. Climate adaptation and biodiversity protection are at the core of the green transition and essential to building resilience.
- **Building just and inclusive societies:** Just and inclusive societies are a necessity because there is a strong need to reduce inequalities and poverty by addressing the fact that billions of people lack access to essential goods, services and basic human rights. Gender is an important dimension of inequality addressed by IFU, together with a just and fair transition that focuses on people at the bottom of the income pyramid and the underserved.

The two priorities are directly linked to three of the SDGs, which are guiding IFU: focusing on decent work and economic growth, reduced inequalities and climate action. IFU tracks impact in relation to these at portfolio level, along with the mobilisation of private capital for development. Additional SDGs are sector-specific and are included and monitored in relation to the four selected focus sectors, in which IFU invests, see page 18-21.

IFU's approach as an impact investor involves incorporating the impact perspective, along-side commercial considerations, in decision-making throughout our investment process and as an active owner and

IFU'S INVESTMENT AND IMPACT MODEL

Investing risk capital in private companies in developing countries with the purpose of creating impact and return to investors.

INVESTEES

INPUT

IFU invests...
- Capital
- Knowledge and competencies
- Experience

in private companies in developing countries

SECTOR

...into focus sectors
- Green energy & infrastructure
- Sustainable food systems
- Financial services
- Healthcare

IFU

having impact creation plans with specific targets

that are reinvested

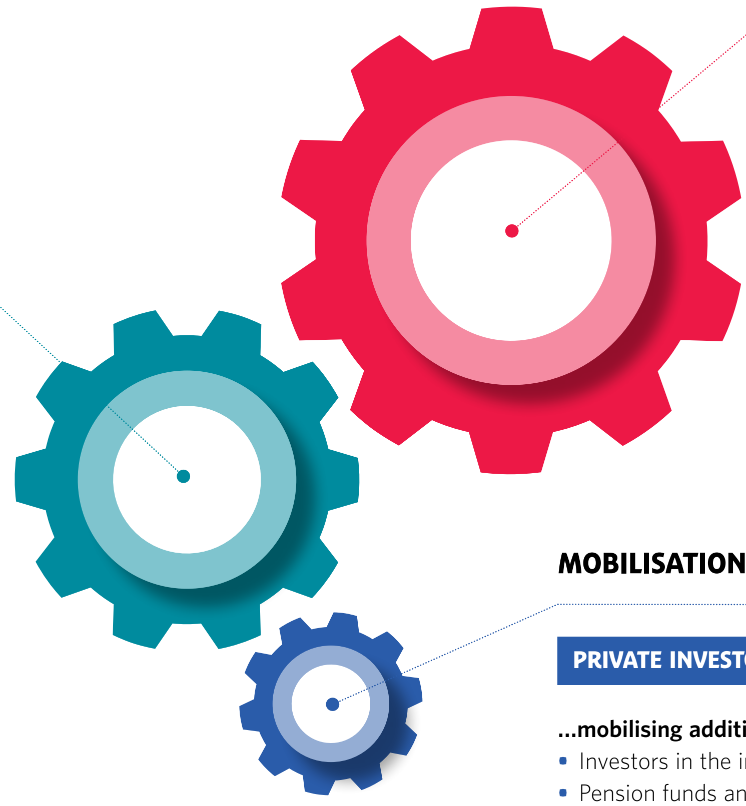
and value creation plans for generating profits

RETURN ON INVESTMENT

and commercial returns...
- Interest
- Dividends
- Capital gains

OUTPUT

...to achieve measurable results
- Circular business model
- Climate mitigation and adaptation
- Improved access to (basic) goods and services
- Quality jobs
- Women empowerment



SOCIETY

OUTCOME

...contribute to supporting
- Decent work and economic growth
- Reduced inequality
- Climate action
- Gender equality

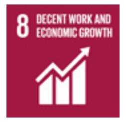
IMPACT

...ultimately contributing to impact priorities
- Building a green economy
- Building a just and inclusive economy

MOBILISATION

PRIVATE INVESTORS

...mobilising additional capital from and distributing earnings to
- Investors in the individual investments
- Pension funds and private investors in IFU public-private funds

Impact priorities	Impact targets	SDG linkage	Read more
Building a green economy	• Minimum 50 per cent of new direct investment volume contracted between 2022-2024 qualifying as climate finance		Page 14
	• Decreasing three-year rolling average of carbon intensity measured at sector level		
	• Net-zero portfolio emissions by 2040 at the latest		Page 38
Building a just and inclusive economy	• 30 per cent of the number of new investments have a gender equality focus by being 2X Challenge eligible		Page 23
	• Minimum 40 per cent of the number of investments in the portfolio are either 2X eligible or have plans in place to become eligible by the end of 2024		Page 45
	• Minimum 50 per cent of investments over a three-year rolling period into countries with a maximum GNI per capita of USD 3,277 for investments contracted in 2022		Page 27
	• Minimum 30 per cent of IFU's own investments over a three-year rolling period in 35 poor African countries		Page 29

financier. We apply this approach in all our activities and believe it is the best way we can help our clients to achieve good long-term results as relevant, resilient and growing enterprises.

We have dedicated a large portion of this year's management review to present IFU's approach as an impact investor in detail to our stakeholders, providing the broader context to the year's new investments and their impact contributions.

IFU HAS REPORTED THE GHG EMISSIONS FROM THE PORTFOLIO SINCE 2020

New ambitious impact targets
As we approach the midpoint to accomplishing the 2030 Agenda for Sustainable Development, the UN has made it clear that it will take urgent, scalable multi-stakeholder action to achieve the 17 SDGs by 2030 – and that the private sector should demonstrate bold leadership by setting measurable, credible, and ambitious targets to advance the SDGs. The UN has also highlighted that core actions for the present decade are to tackle growing poverty, empowerment of women and girls and addressing the climate emergency.

This aligns well with IFU's impact priorities and to further steer the investments, IFU in April 2022 introduced a revised climate policy with new climate targets at both sector and portfolio level. Hence, both impact priorities have associated targets that are strategic measures of IFU's progress and investments in climate action, gender equality and least developed countries.

Across the investments, IFU also has a strong focus on improving living conditions and livelihood for low-income people. This is achieved by supporting smallholder farmers, providing microfinance, increasing access to energy and water, as well as extending healthcare services, for example.

Climate policy supporting the green transition
With the revised climate policy[1], IFU takes another step in aligning all investments with the Paris Agreement on Climate Change and assisting developing countries in increasing their resilience, improving local livelihoods and reducing climate-related migration.

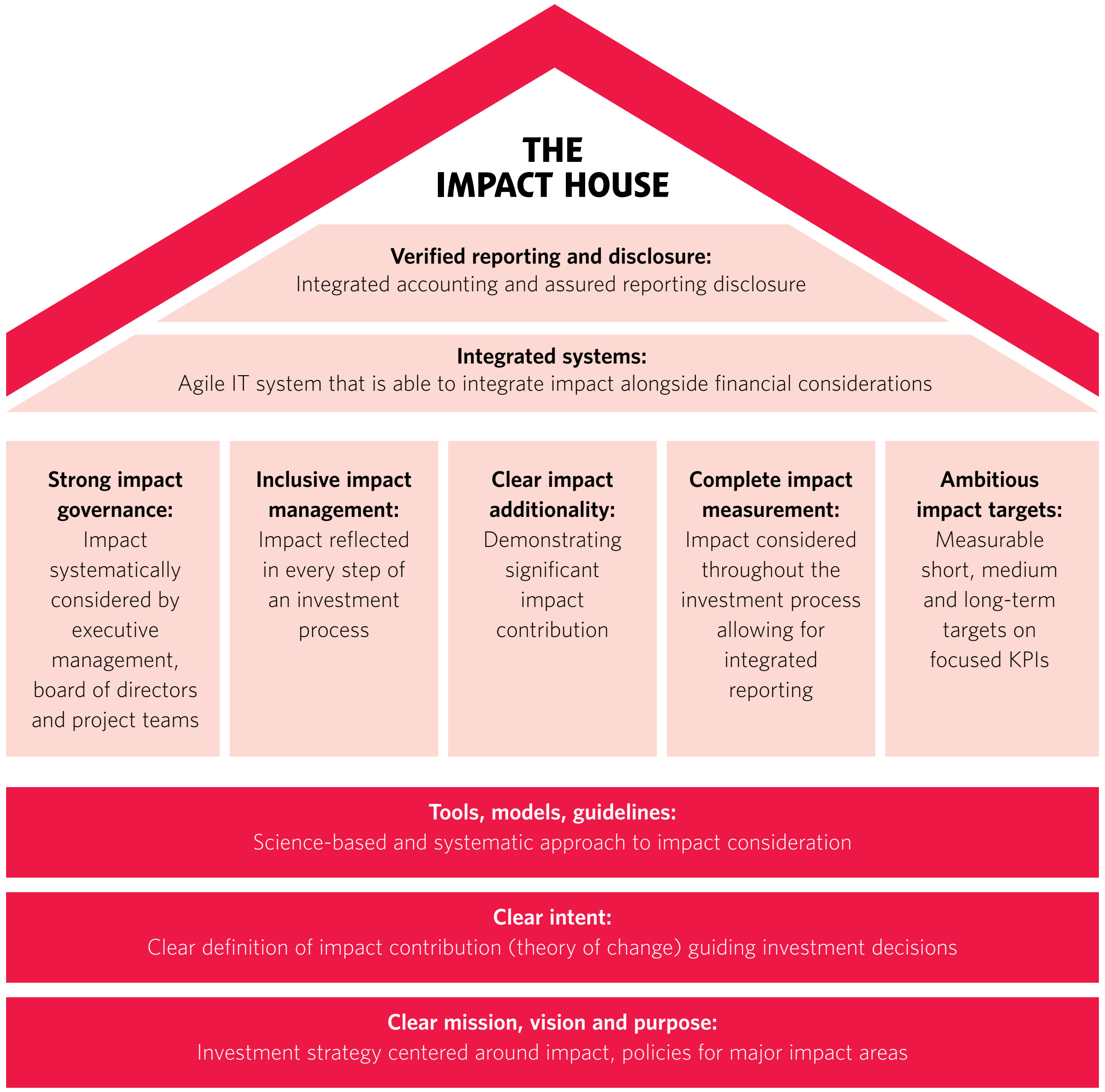
In 2022, IFU published a revised exclusion list[2], based on the EDFI exclusion list, which also incorporates commitments from the climate policy. Amongst others, IFU will not engage in new investments linked to fossil fuel power generation, nor associated infrastructure. The exclusion list is used prior to project screening.

IFU is committed to screening all new investment opportunities against "do no significant harm" on e.g. climate impact and biodiversity. Moreover, at least half of IFU's new direct investments - measured by contracted amount - have to qualify as climate finance, i.e. investments that make a substantial contribution to climate mitigation and/or adaptation. For example, the latter includes aligning with the EU taxonomy, or, if the sector is not covered by the taxonomy, at least providing 20 per cent lower emissions than the most likely alternative.

In all investments, IFU's ambition is to reduce greenhouse gas (GHG) emissions as much as possible. However, IFU agrees with the OECD that the rate of country transitions to a low carbon economy will vary, as due consideration should be given to fundamental development needs, like decent jobs and access to water, food and energy. Consequently, IFU has the option to make investments that meet fundamental development needs in the least developed and low-income countries, even if it is in high emitting sectors. But the conditions that qualify these investments are stringent, and for example include that the risk of lock-in to emission intensive production is low, that lower emitting alternatives are unfeasible for technical or economic reasons, and that the investments are in line with the country's Nationally Determined Contributions (NDC), for example.

IFU has reported the GHG emissions from the portfolio since 2020 in accordance with the Partnership for Carbon Accounting Financials (PCAF) standard and the GHG protocol, see page 47.

From 2025, IFU will also make climate-related financial disclosures in line with the recommendations of the Task Force on Climate-related Financial



1) https://www.ifu.dk/wp-content/uploads/2022/06/IFU-Climate-policy-of-April-2022.pdf
2) https://www.ifu.dk/wp-content/uploads/2022/06/Exclusion-list-2022.pdf

IFU's self-assessment of progress on impact management

Elements of the impact house	Summary of ongoing internal work	
Clear mission, vision and purpose	IFU has a strong policy framework and investment strategy that is centred around defined impact priorities, providing a clear purpose and alignment with the expectations of IFU's board and owners.	Strong progress
Clear intent	IFU has a focused screening process that promotes the selection of projects in high impact and priority sector areas. Refinement underway to strengthen sector strategies to sharpen project sourcing.	Strong progress
Tools, models, guidelines	IFU has tools to focus project selection during screening and performance monitoring during active ownership, ensuring delivering on impact. Tool and process development is ongoing, including building the impact narrative, business integrity, project evaluation and responsible exits.	Good progress
Strong impact governance	Impact is a shared and joint responsibility across IFU and a key consideration at investment committee and board meetings. Investment teams are responsible for securing investments that deliver on IFU's portfolio targets. Annual performance of investment staff considers impact and sustainability assessment skills, as well as sourcing and managing projects that deliver on the investment strategy.	Good progress
Inclusive impact management	Impact creation plans are developed early in the investment process and include impact targets for all new investments. The impact creation plan and impact targets are tracked during active ownership.	Good progress
Clear impact additionality	Impact additionality is considered at project, sector and portfolio level. Tools and methodologies to communicate and measure additionality more specifically are being developed.	Good progress
Complete impact measurement	Active ownership review conducted quarterly and reported annually. Reporting is based on the annual sustainability and results framework reporting from projects and being aligned with future EU regulation.	Good progress
Ambitious impact targets	Defined portfolio targets for climate action, gender equality and investment into Africa are defined and reviewed by IFU's board and stakeholders. Impact targets are defined for all new projects, through the results framework.	Strong progress
Integrated systems	Impact management systems are being improved through the evolution of the internal IT system, to strengthen data analytics and portfolio performance assessment, as well as steer decision making on new investment opportunities.	Good progress
Verified reporting and disclosure	IFU is strengthening internal and external communication, including storytelling, integrated formats for impact and ESG disclosure and auditing, to align with future regulation.	Under development

Disclosures (TCFD) and further embed management of climate related risks and opportunities into the investment process. This will strengthen IFU's ability to consider climate risk in the portfolio, avoid investing into stranded assets and implement adaptation measures in the individual investments.

Approach to being best in class

IFU has been a signatory of the Operating Principles for Impact Management (OPIM) since 2019. The principles have guided IFU's impact approach and ensured that impact considerations are integrated throughout the investment life cycle. In 2021, BlueMark conducted an independent verification of the alignment of IFU's impact management system with the OPIM, and their recommendations are forming the basis for ongoing system improvements. Furthermore, IFU embraces the five dimensions of impact set forth by the Impact Management Project (IMP) when considering investments, assessing expected impact and tracking performance during the investment period.

IFU has developed a bespoke approach to impact management as presented by the impact house, representing the necessary elements required to be a successful impact investor and a leader in the field. This approach has been adopted from ongoing interactions with EDFI counterparts and IFU stakeholders, and is based on the OECD-UNDP Impact Standards for Financing Sustainable Development.

Assessment of progress

IFU's self-assessment of progress against the elements of the impact house informs areas of internal focus and development, and the status in 2022 is disclosed above, to ensure transparency.

Verified reporting and disclosure is an area of focus and increasing attention. In 2022, IFU published its first integrated annual report, and as part of the reporting process IFU in 2022 had a readiness assessment on ESG assurance conducted by Deloitte with a view to having verification in the future. This is in line with the incoming EU Corporate Sustainability Reporting Directive (CSRD) that also requires limited assurance over sustainability reporting.

Furthermore, to guide IFU's strategic priorities and ensure that IFU responds to and reports on material sustainability issues, IFU will prepare for a double materiality assessment process, as required by the CSRD. This includes an assessment of financial effects on IFU from sustainability-related risks and opportunities, i.e. financial materiality. It also includes an assessment of actual or potential positive or negative impacts caused or contributed to by IFU's activities on people or the environment.

The insights IFU gains from engaging with key stakeholders will feed into the materiality assessment process, see page 40.

In September 2022, IFU's board, members of the SDG Investment Committee and IFU's management paid a visit to India, which is an important investment country to IFU.

SECTOR IMPACT FOCUS

The sector strategies further develop and specify which impact priorities and focus areas are given priority when building pipeline and entering into new investments.

GREEN ENERGY & INFRASTRUCTURE

Lack of access to energy is a distinct challenge in developing countries. In Africa alone 600 million people are without access.

To support sustainable development that is in line with the Paris Agreement, a priority for IFU is to invest in increasing access to clean and affordable renewable energy from large-scale utility projects to residential home solar systems and off-grid solutions. Indirectly, this will lead to growing business activities and job creation as well as mitigating climate change.

Water is a scarce resource, and access to clean drinking water is generally low in developing countries. IFU invests in business models and companies within water and water management that will increase sustainable supply and improve access to water.

Moreover, IFU gives priority to waste recycling and management to address growing urban challenges such as sanitation, congestion, and rising air pollution. Circular business models supporting the green transition and creating new local jobs are also promoted.

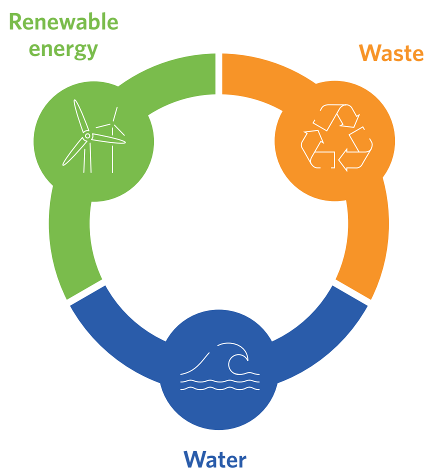
Across all areas IFU also focuses on energy efficiency as the most affordable way to decarbonise the economy and ensure reliable and renewable energy for all.

Selected SDGs

Impact priorities

- Clean, affordable renewable energy
- Waste recycling and management
- Energy efficiency
- Water access and management

Focus areas



HEALTHCARE

Poor health and health inequality continue to limit economic prosperity in developing countries and emerging markets. Around 400 million people lack access to vital healthcare services, which results in high mortality rates, lost productivity and poverty. This is especially the case in developing countries in Africa and South Asia.

Healthcare services are often out of pocket expenses that have significant negative impact on accessibility and lead to increased poverty for low-income groups.

On this backdrop, IFU invests in healthcare to increase access to affordable and high-quality healthcare services, especially for middle and low-income people. Consequently, focus is on business models supported by universal healthcare programmes or insurance schemes.

Noncommunicable diseases like diabetes and cancer are becoming more common in developing countries. But treatment options are insufficient, and therefore IFU, besides investing in primary healthcare and hospitals, also has attention on services targeting chronical and noncommunicable diseases.

Moreover, IFU focuses on investments within diagnostic technologies and pharmaceutical companies to improve prevention and treatment as well as provide better access to medicine.

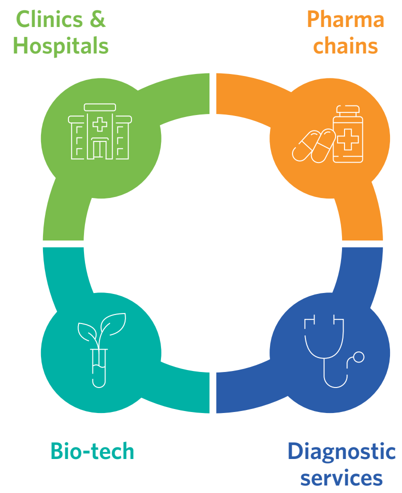
One of the impact priorities when investing in private healthcare is to secure that it compliments public healthcare strategies. This can be achieved by introducing new technologies, educating staff, and engaging in outreach activities targeting low-income groups, maternal and child health and people living in rural areas. Upgrading the healthcare system will also make it more attractive for doctors and nurses to stay at home or return from abroad, thereby reducing brain drain.

Selected SDGs

Impact priorities

- Accessibility
- Affordability
- Quality
- Giving back/ adding value

Focus areas



SUSTAINABLE FOOD SYSTEMS

Producing enough food to feed the world population is a major challenge. Today, around 800 million people in the world do not have enough food to live a healthy, active life, and with a growing population food waste must be reduced and food production needs to increase. The latter will put further pressure on global warming, as 30 per cent of global GHG emissions stems from agriculture and food processing activities.

Consequently, an impact priority for IFU is to invest in climate-smart farming that can increase access to healthy and affordable food products with high nutrition. In all investments, there is a strong focus on supporting cultivation and production methods that reduce GHG emissions and increase yield.

As developing countries are the most vulnerable and less prepared for climate change, IFU also has focus on adaptation, including drought resilient crops and irrigation.

Smallholder farmers are normally the main producers of food in developing countries. But the output per hectare is low, and often the farmers lack access to value adding processing, as well as distribution systems, leading to low-income levels. Therefore, IFU gives priority to investments that improve living conditions by supporting fair trade and increased productivity.

Annually, one third of all global food production is wasted. In developing countries most waste is due to inadequate and insufficient storage and distribution systems. An impact priority for IFU is therefore to invest in food waste management, as this will reduce pressure on land resources and GHG emissions, for example.

Selected SDGs

Impact priorities

- Access to healthy food products
- Energy efficient processing
- Food waste management
- Smallholder inclusion

Focus areas

FINANCIAL SERVICES

Globally, 1.7 billion people are unbanked. Furthermore, micro, small and medium enterprises (MSME) across the developing markets are not able to access finance to grow their businesses. MSMEs are the growth engines for emerging economies, as well as the backbone for employment. They are providing billions of people with a livelihood and are critical to achieving the SDGs and climate goals.

By investing in financial services, IFU's ambition is to increase financial inclusion, drive economic growth and job creation, as well as reduce inequality. Moreover, the ambition is to work with financial institutions to promote their contribution to the green transition, and work towards increased adoption of digital technologies increasing resilience and outreach simultaneously.

Microfinance provides access to finance to people, not least in rural areas, through small loans that are used for livelihood enhancement activities. This helps improve their living conditions while also providing access to savings that help improve resilience. A majority of microfinance clients are women, who are empowered to improve their rights through access to finance.

Providing finance for banks and other financial institutions that serve MSMEs, is a priority as well. More small companies and entrepreneurs get access to financial services that help them grow their businesses and, in many instances, adopt greener practices.

As an equity investor, IFU's investments help financial institutions mobilise private capital from the market, multiplying IFU's impact. IFU has also embarked on providing green loans to financial institutions to promote energy efficiency, solar energy, etc.

Selected SDGs

Impact priorities

- Inclusion
- Growth/jobs
- Green finance
- Gender equality

Focus areas

INVESTMENTS IN 2022

35 PER CENT OF THE NEW INVESTMENTS WERE MADE IN AFRICA

In 2022, IFU continued to make investments based on its own finances, including state sponsored facilities with specific purposes and funding for public-private investment funds managed by IFU.

In 2022, IFU and IFU managed funds contracted 20 investments at a total of DKK 1.5bn.

Of these investments, 15 are contracted by IFU at a total of DKK 844m, four are contracted by the Danish SDG Investment Fund at a total of DKK 618m, and the last two are contracted by the Danish Climate Investment Fund and the Danish Agribusiness Fund.[3]

Eleven of the 20 investments made by IFU and IFU managed funds were new investments close to a total of DKK 1.2bn, while the remaining investments were additional finance for ongoing projects.

Across funds, investments in Africa were at DKK 508m, which corresponds to 35 per cent of total contracted investments. DKK 413m, representing 28 per cent of total contracted investments, was invested in Latin America. DKK 331m or 23 per cent was invested in Asia, and the remaining part was invested in Europe (Ukraine) and in projects with a global purpose.

Creating impact

The new investments were distributed within the priority sectors, including green energy & infrastructure, sustainable food systems and financial services, and are expected to contribute to substantial impact when the projects are fully implemented.

Mobilising private capital and adding value to society

From a financial point of view, the investments will contribute to mobilising capital, including private capital, to the developing countries, and by operating in the host countries, the companies will add value through salaries, taxes and profits, for example.

The total added value derived from the new investments when they reach full capacity is expected to be close to DKK 5bn annually.

In 2022, the total expected investment in new projects and additional financing for ongoing projects was DKK 7.6bn, of which DKK 2bn was private capital. According to OECD rules, two thirds of the private capital can be attributed to IFU. Consequently, IFU mobilised DKK 1.4bn in private capital by its investments in 2022.

IFU MOBILISED DKK 1.4BN IN PRIVATE CAPITAL BY ITS INVESTMENTS IN 2022

Part of IFU's investments qualify as finance supporting the objectives of the Rio Convention on biodiversity, climate change and desertification. In 2022, the investments calculated as so-called Rio markers 1 and 2 were DKK 872m. Including private mobilised capital attributed to IFU the total figure was DKK 1.9bn.

Generating jobs

A part of IFU's impact is to contribute to creating and sustaining direct jobs in the investees. In 2022, the number of expected jobs in new investments was 2,300.

The expected number of direct jobs is likely to be higher. The reason is that for three of the new investments, which are made in other investment funds or platform companies, IFU cannot estimate the expected employment figure at the appraisal stage, as jobs are created and sustained in portfolio companies, which have not yet been established or acquired. Consequently, these investments have initially not been included in the estimate for expected direct employment.

Moreover, the new investments will create indirect jobs in the supply chain of the companies or by creating infrastructure, for example. The estimate is that the total number of indirect jobs will be close to 75,000.

Creating access and outreach

The lack of access to basic needs and services like energy, water and financial services is widespread in developing countries. This hampers people's living conditions and reduces small businesses in reaching their full potential.

The new investments are contributing to increasing access to a number of these services. This includes creating access to clean cooking for 4.5 million households, which will lead to better health and less deforestation. The investments will also create access to microfinance for three million people, access to financing for 11,000 SMEs and support close to 200,000 small-scale farmers in organic farming.

This will in general support the livelihood of people, expand business activities and benefit small-scale farmers that are often in a vulnerable position.

Reducing climate change

One of IFU's priority sectors is renewable energy. Financing and implementing more wind and solar power will improve economic development and reduce negative climate effects. The new investment in Augment Origo in Brazil is expected to install additional 1,300 megawatt of renewable energy.

When the project reaches full capacity, it is expected to produce close to 2,000 GWh annually. Thereby the total expected avoided GHG emissions are close to 350,000 tCO_2e during the project lifetime, of which around 45,000 can be attributed to IFU based on its share of investment.

IFU has set an impact target that a least 50 per cent of new direct investment volume contracted between 2022 - 2024 must qualify as climate finance. In 2022, it was 87 per cent.

Supporting gender equality

Gender lens investing is a strategic priority, and IFU has set a gender equality target, which states that 30 per cent of the number of new investments must be 2X Challenge eligible. The 2X Challenge is a joint initiative by a wide range of development finance institutions to finance projects with an intentional gender equality focus.

In 2022, 36 per cent qualified as 2X Challenge investments, thereby exceeding the target.

CBI Ghana, cement production.

NEW INVESTMENTS AND EXPECTED IMPACT

INPUT

Financing for new investments	
Equity:	865m
Loan:	320m
Human resources	
Employees (FTE):	98

INVESTMENTS

Green energy & infrastructure	
Investments (no.):	5
Total investment (DKKm):	2,723
IFU investment (DKKm):	675
Sustainable food systems	
Investments (no.):	3
Total investment (DKKm):	490
IFU investment (DKKm):	316
Financial services	
Investments (no.):	3
Total investment (DKKm):	2,563
IFU investment (DKKm):	194

IMPACT (EXPECTED)

Financial capital	
Value added (salaries, taxes and profits) (DKKm):	4,974
Intellectual capital	
Human capital	
Direct employment (no.):	2,337
Social capital	
Indirect employment (no.):	73,922
Farmers reached (small-scale farmers supported in organic farming)	196,769
Access to clean cooking (households)	4,500,000
Total number of clients	11,040
Number of microfinance clients	>3,000,000
Natural capital	
Renewable energy installed (MW):	1,300
Annual RE produced (GWh):	1,997
Annual total GHG emissions avoided (tCO_2e):	347,921
Annual attributed GHG emissions avoided (tCO_2e):	43,747
Contribution to impact priorities:	
Gender lens investments (no.):	4
Gender lens investments (%):	36
Direct climate investments (no.):	4
Direct climate investments (%) volume:	87

3) One of the projects received additional financing from IFU as well as DAF and is consequently only counted as one investment reducing the total number of investments to 20.

INVESTMENTS CONTRACTED IN 2022

	PROJECT NAME	COUNTRY	FUND/ FACILITY	IFU'S CONTRACTED INVESTMENTS IN DKKM		
				SHARES*	LOANS**	TOTAL
	NEW PROJECTS					
	AFRICA					
1	CBI Ghana	Ghana	SDG	80.7	26.6	107.3
2	CRDB DRC subsidiary	DR Congo	IFU/HRHI	45.2		45.2
	of which financed by HRHI			45.2		
3	Social Bites	Kenya	IFU		6.2	6.2
4	Spark+	Africa (Regional)	IFU/HRHI	107.6		107.6
	of which financed by HRHI			26.6		26.6
	of which financed by EU			74.4		74.4
	Subtotal Africa			**233.5**	**32.8**	**266.3**
	ASIA					
5	Revalyu Recycling	India	IFU/GFF		106.5	106.5
6	Suminter Organics	India	SDG	204.1		204.1
	Subtotal Asia			**204.1**	**106.5**	**310.6**
	EUROPE					
7	AkLease	Türkiey	IFU/GFF		74.4	74.4
	Subtotal Europe				**74.4**	**74.4**
	LATIN AMERICA					
8	Augment Origo DG	Brazil	SDG	303.1		303.1
9	Surpapel Group	Ecuador	IFU/GFF		106.1	106.1
	Subtotal Latin America			**303.1**	**106.1**	**409.2**
	GLOBAL					
10	ICCF	Global	IFU/GFF	74.4		74.4
11	W2AF	Global	IFU	50.2		
	Subtotal Global			**124.6**		**124.6**
	TOTAL NEW PROJECTS			**865.3**	**319.8**	**1,185.1**

	PROJECT NAME	COUNTRY	FUND/ FACILITY	IFU'S CONTRACTED INVESTMENTS IN DKKM		
				SHARES*	LOANS**	TOTAL
	ADDITIONAL FINANCING OF ONGOING PROJECTS					
	AFRICA					
12	Africa GreenCo	Zambia	IFU/HRHI/PDP	41.7		41.7
	of which financed by HRHI			33.5		
13	African Guarantee Fund	Africa (Regional)	IFU	197.3		197.3
14	Global Tea	Africa (Regional)	SDG	3.1		3.1
	Subtotal Africa			**242.1**		**242.1**
	ASIA					
15	Asia Clean Capital***	China	GFF		17.1	17.1
16	Scandinavian Farms Pig Industries	China	IFU		2.6	2.6
	Scandinavian Farms Pig Industries	China	DAF		0.9	0.9
	Subtotal Asia				**20.6**	**20.6**
	EUROPE					
17	Dan-Farm Ukraine	Ukraine	IFU		1.5	1.5
18	DanMilk Ukraine	Ukraine	IFU/NEIF/UFA		2.0	2.0
19	Halychyna-Zahid IFU	Ukraine	IFU/NEIF		10.8	10.8
	Subtotal Europe				**14.3**	**14.3**
	LATIN AMERICA					
20	NPP Coremas I-III	Brazil	DCIF		3.9	3.9
	Subtotal Latin America				**3.9**	**3.9**
	TOTAL ADDITIONAL FINANCING			**242.1**	**38.8**	**280.9**

	SHARES*	LOANS**	TOTAL
TOTAL IFU			
Total new projects	277.4	293.2	570.6
Total additional financing	239,.0	34.0	273.0
TOTAL	**516.4**	**327.2**	**843.6**
of which financed by HRHI	71.8		71.8
of which financed by GFF	74.4	287.0	361.4
of which financed by EU	74.4		74.4
of which financed by NEIF/UFA		12.8	12.8
TOTAL SDG			
Total new projects	587.9	26.6	614.5
Total additional financing	3.1		3.1
TOTAL	**591.0**	**26.6**	**617.6**
TOTAL DAF			
Total new projects			
Total additional financing		0.9	0.9
TOTAL		**0.9**	**0.9**
TOTAL DCIF			
Total new projects			
Total additional financing		3.9	3.9
TOTAL		**3.9**	**3.9**

TOTAL IFU + SDG + DAF + DCIF

		IFU'S CONTRACTED INVESTMENTS IN DKKM		
		SHARES*	LOANS**	TOTAL
11	**Total new projects**	**865.3**	**319.8**	**1,185.1**
9	**Total additional financing**	**242.1**	**38.8**	**280.9**
	GRAND TOTAL IFU AND IFU MANAGED FUNDS	**1,107.4**	**358.6**	**1,466.0**

Totals may not add up due to rounded figures.

* Including overrun commitments.
** Including guarantees.
*** The investment in Asia Clean Capital is in principle a new investment for IFU, but as DCIF previously has invested in the company, it is shown as an additional financing. This is to avoid double counting.

IFU

IN 2022, IFU CONTRACTED 15 INVESTMENTS AT A TOTAL DKK 844M

IFU's own funds are based on capital injections from the Danish State, as well as contributions from the investments. Part of the capital injections is based on a number of facilities with a specific target, including the High Risk High Impact initiative, an investment facility with focus on the green transition in India, and Denmark's Green Future Fund.

In 2022, IFU contracted 15 investments at a total DKK 844m. Eight of these were new investments at DKK 571m, and seven were additional investments in ongoing projects at DKK 273m.

One investment of DKK 42m was additional finance for Africa GreenCo, which IFU has previously assisted in starting up its business by providing development finance trough the Project Development Programme (PDP). Africa GreenCo offers to mitigate risk by acting as a creditworthy off-taker for independent power producers of renewable energy in Zambia and Southern Africa. Thereby the company can be a lever for attracting more private capital to renewable energy projects.

IFU has increased its shareholding in the African Guarantee Fund, which facilitates access to finance for small and medium-sized enterprises enabling them to grow their business and the African economy. Originally, the Danish state was the initiator to establish and co-fund the African Guarantee Fund. But as it is not considered the role of the Ministry of Foreign

CASE / AFRICA GREENCO

FACTS

Investment year:
2020 & 2022

IFU investment:
DKK 41.7m (equity)

Expected total investment:
DKK 133m

Scaling up renewable energy investments in Africa
Africa has some of the lowest electrification rates in the world and is a region severely impacted by climate change. But private investments in renewable energy are hampered due to lack of public credit-worthy purchasers of power.

An innovative business model
Africa GreenCo has set up an innovative business model that acts as an intermediary between Independent Power Producers (IPPs), public utility companies and large corporate off-takers.

The concept is based on Africa GreenCo being a well-capitalised company buying power from IPPs and selling it to African utilities, large private companies or through the Southern African Power Pool. This reduces risk for the private investors and gives Africa GreenCo a more reliable revenue, even if public utilities default on a contract.

IFU has supported the company with project development funds and subsequently invested share capital.

IMPACT

2,300
megawatt renewable energy expected to be installed

2,700,000
tons of greenhouse gas emissions avoided annually

4.3
DKK billion mobilised for renewable energy investments

LINK TO SDGs

AT LEAST 50 PER CENT OF IFU'S INVESTMENTS MUST BE IN POORER DEVELOPING COUNTRIES

Affairs to be a shareholder for the longer term, their shareholding has continuously been transferred to IFU. In 2022, IFU received the final shareholding of DKK 197m. Including IFU's own share capital investments in the African Guarantee Fund, the total investment now stands at DKK 420m.

IFU can invest in all DAC countries, but at least 50 per cent of IFU's investments must over a three-year rolling period be made in poorer developing countries with a maximum 2020 GNI per capita of USD 3,277 for investments contracted in 2022. The threshold is calculated as 80 per cent of the upper limit for Lower Middle-Income Countries, according to the World Bank's classification.

Investments in projects with a regional focus, typically fund investments, covering countries above and below the threshold, where the actual distribution is not yet known, are partially included. This is based on a weighted actual distribution for similar regional investments.

In 2022, 58 per cent of the investments were made in countries below the threshold, and over the three-year period 2020-2022, the percentage was 68.

Denmark's Green Future Fund
IFU is managing a part of Denmark's Green Future Fund, which was set up by the Danish State to support the national and global green transition.

CASE / REVALYU RECYCLING

FACTS

Investment year:
2022

IFU investment:
DKK 106.5m (loan)

Expected total investment:
DKK 328m

Recycling 20 million plastic bottles daily
Plastic waste is a major problem causing considerable environmental pollution along shores and riverbanks. Single-use PET bottles account for much of the waste, and it is estimated that around 660 billion PET bottles are discarded globally every year. In India, Revalyu Recycling is recycling plastic bottles to textile filament yarns that are used by international global fashion and sportswear brands.

Reducing energy and water consumption
Using a breakthrough chemical recycling process, the transforming of used PET bottles consumes 90% less energy and 65% less water compared to conventional production. Greenhouse gas emissions are also around a third lower.

Financing new production lines
The financing from the Green Future Fund is used to construct two new production lines that will enable the company to process more than 20 million used plastic bottle daily.

IMPACT

20
million plastic bottles recycled daily

400
decent jobs created and sustained

179,900
ton of greenhouse gas emissions avoided annually

LINK TO SDGs

MANAGEMENT'S REVIEW

IFU INVESTED IN PAPER RECYCLING IN ECUADOR

During the year, IFU contracted five investments on behalf of Denmark's Green Future Fund at a total of DKK 361m.

One of the investments was in Revalyu Recycling in India. The company is recycling plastic bottles, which are processed into rPET chips and sustainable textile filament yarns for the textile industry. The proceeds from IFU's loan financing will enable the company to increase its process capacity to 200,000 tons of PET plastic waste a day.

Similarly, IFU provided loan financing for the Surpapel Group in Ecuador, which over the last decade evolved from a traditional paper producer to becoming a circular business with own paper mill and a unit for collecting paper waste. Today, around half of the production is based on locally sourced and recycled raw materials.

The total fund size of Denmark's Green Future Fund is DKK 25bn, of which DKK 1bn has been allocated to IFU through access to the central government re-lending scheme at Danmarks Nationalbank. At year-end 2022, IFU had invested a total of close to 600m of the allocated funds.

High Risk High Impact initiative

In 2022, IFU continued to invest in the poorer African countries. One investment supported the Tanzanian Bank CRDB in opening a subsidiary in DR Congo. The new operation in DR Congo has a special focus on improving financial inclusion, increasing access to financial services for SMEs and women, as well as reducing GHG emissions through financing of green projects.

Another investment was made in Spark+, which will provide financing for pioneering companies that offer

CASE / SPARK+

Source: Sistema.bio (prospective Spark+ investment).

FACTS

Investment year:
2022

IFU investment:
DKK 107.6m (equity)

Expected total investment:
DKK 478m

Boosting clean cooking in Africa
900 million people in Sub-Saharan Africa lack clean and modern cooking solutions. Using open fires, charcoal and kerosene is unhealthy, pollutive and costly. Spark+ Africa Fund is an investment fund that catalyses finance for profitable and scalable companies offering biomass, biogas, ethanol, electric, as well as LPG-based cooking technologies to low-income consumers.

Creates better health
Providing these technologies will enable millions of African families to stay safe and healthy as well as save them time and money. Moreover, it has several additional social and environmental benefits like enabling greater gender equality, creating industrial and economic development, and decreasing greenhouse gas emissions.

One of the fund's first investments is in a company designing and manufacturing biomass, electric, and LPG cookstoves, being sold in 15 African countries.

IMPACT

CO_2

16,000,000
tons of greenhouse gas emissions avoided annually

4,500,000
households get access to clean cooking

15%
in cost savings for average users

LINK TO SDGs

3 GOOD HEALTH AND WELL-BEING
7 AFFORDABLE AND CLEAN ENERGY
12 RESPONSIBLE CONSUMPTION AND PRODUCTION

IFU's staff resumed travelling to project companies in 2022. Visit by members of IFU investment team and legal unit to Surpapel Group, producing packaging products in Ecuador.

HIGH RISK HIGH IMPACT INVESTMENTS IN 35 POORER AFRICAN COUNTRIES

clean cooking technologies leading to better health and improved indoor air quality for low-income consumers.

The investments are partially financed by the High Risk High Impact Initiative, which was initiated to accelerate private sector investments in the poorer African countries defined by a maximum GNI per capita of 40 per cent of the upper limit for Lower Middle Income Countries, according to the World Bank's classification. The group includes 35 countries including DR Congo, Benin, Malawi, Zambia, Somalia and Uganda, for example.

Since 2019, the Ministry of Foreign Affairs has allocated DKK 350m to the initiative, of which DKK 50m must be invested in projects that can be reported as 100 per cent climate relevant in accordance with the Rio markers. To further support the initiative, IFU agreed to deploy at least 30 per cent of its own capital on average in the period 2020-2023 in the countries included in the initiative. From 2020-2022 the percentage was 32.4.

In 2022, IFU contracted three investments of DKK 155m, which were co-financed by the High Risk High Impact Initiative with a total of DKK 105m. At year-end, IFU had invested DKK 282m of the allocated funds in seven project companies covering Somalia, Uganda, DR Congo, Zambia or investment funds that can operate in all 35 countries. •

THE DANISH SDG INVESTMENT FUND

IN 2022 THE DANISH SDG INVESTMENT FUND INVESTED DKK 618M

The Danish SDG Investment Fund is a public-private partnership, which includes the Danish State, IFU and the institutional and private investors PKA, Pension-Danmark, PFA, ATP, P+, Pensam, Navest, SEB Life & Pension, Secure SDG Fund and Chr. Augustinus Fabrikker Akts. The fund was established in 2018 with the purpose of investing in projects in developing countries supporting the Sustainable Development Goals. Total committed capital is DKK 4.86bn.

In 2022, the Danish SDG Investment Fund made three new and one additional investment at a total of DKK 618m.

The largest investment was in Origo Energia, which is a leading distributed generation company in Brazil. The company owns and operates a number of solar parks across the country and serves more than 50,000 customers being residential households as well as small and medium enterprises.

CASE / SUMINTER

FACTS

Investment year:
2022

IFU investment:
DKK 204.1m (equity)

Expected total investment:
DKK 385m

Supporting smallholder farmers in going organic
The Indian based company Suminter is assisting smallholder farmers in India, Uganda and the Philippines in becoming organic producers by sponsoring their certification, as well as creating market access, better yield and pricing, thereby improving living conditions.

Doubling the number of smallholders to 180,000
Suminter sources the crops produced by smallholder farmers, processes them in own factories and exports organic, GMO free products like soybean, cotton, coconut, spices, oilseeds and sugar to more than 250 food brands across 20+ countries in the Americas and European regions.

Currently, Suminter has a farmer base of about 90,000+ and 175,000+ hectares under organic cultivation. The capital raise funded by Morgan Stanley India Infrastructure and the Danish SDG Investment Fund is expected to assist the company in doubling the number of farmers and hectares in the coming years.

IMPACT

90,000
additional smallholders convert to organic farming

1,575
decent jobs created and sustained

175,000
more hectares under organic cultivation

LINK TO SDGs

THE NIGERIAN SOLAR COMPANY DAYSTAR POWER GROUP WAS SOLD TO SHELL

The fund also invested in Suminter Organics being an Indian based company that sources, processes and exports organic products such as soybean, cotton, coconut, spices, oilseeds and sugar. Producers are around 100,000 smallholder farmers from primarily India, Uganda and the Philippines, which Suminter assists in converting to certified organic cultivation. The new finance from IFU will contribute to doubling the number of smallholder farmers in the coming years.

The first exit
In 2022, the Danish SDG Investment Fund made its first exit by selling its shares in the Nigerian solar company Daystar Power Group to Shell. The company has during the fund's co-ownership evolved to be an attractive business with a solid potential for further development into a pan-African supplier of renewable energy. The Danish SDG Investment Fund's mission to contribute to develop high impact commercial businesses in developing countries and mobilising private capital has in this case been achieved.

Total investments of DKK 2.7bn
At year-end 2022, the Danish SDG Investment Fund had contracted investments at a total of DKK 2.7bn in 22 projects.

More information on the impact of the Danish SDG Investment Fund can be found in the fund's impact report, which is available on www.ifu.dk.

IFU DEVELOPMENT GUARANTEE FACILITY

THE GUARANTEE FRAME IS DKK 2BN FOR 2022-2025

The Danish State has set up a new guarantee scheme, the IFU Development Guarantee Facility, that is manged by IFU. The guarantee frame is DKK 2bn for 2022-2025, and losses under the guarantees are covered by the state reserve account.

The guarantees will contribute to reducing the risk of investors and thereby create access to increased mobilisation of private capital to projects in developing countries. Focus is on climate financing in developing countries.

Close partnership with Sweden
IFU will issue guarantees as co-guarantees with Sida, the development institution of the Swedish Government. This is because Sweden has several years of experience with a similar model. Denmark and Sweden share fundamental development and climate priorities, and by working closely with the Swedes over the next few years, IFU will be able to accelerate its capacity to deliver impact using guarantees.

The model is backed by Denmark's AAA rating and is similar to that of an insurance company, where the premium payments cover the costs of claims (credit losses). The goal is to break even in the long run - neither profit, nor loss.

While the IFU Development Guarantee Facility is not intended to generate returns, it is also not development aid in the traditional sense. It is a new and strong supplement to Denmark's overall commitment to better opportunities and a sustainable future for everyone.

Financial and development additionality are conditions for use of guarantees. Guarantees can be used where financing at a reasonable cost is not available through financial markets, without the support of a guarantee. Guarantees should never compete with a market-based alternative. This principle helps create new markets, and limits the risk of market distortion.

A new dedicated team
To manage the guarantee facility, IFU has set up a dedicated team of investment professionals that has been working on setting the parameters and building a pipeline of potential projects to support.

DANIDA SUSTAINABLE INFRASTRUCTURE FINANCE (DSIF)

DSIF OFFERS FINANCING ON CONCESSIONAL TERMS TO SUSTAINABLE AND CLIMATE-RELEVANT INFRASTRUCTURE PROJECTS IN DEVELOPING COUNTRIES

DSIF offers financing on concessional terms to sustainable and climate-relevant infrastructure projects in developing countries, which would not otherwise have obtained financing on commercial terms. DSIF is financed by the Danish State and has since 1993 contributed to water, sanitation and energy projects based on state-of-the-art Danish technology and know-how in 31 developing countries in Africa, Asia and Latin America.

New strategy
In 2022, DSIF launched a new investment strategy, which defines impact priorities, regional and sector focus, and SDG contribution. The strategy aims to build on strengths in Danish industries and Danish international development priorities to enhance the impact of DSIF's work.

DSIF's geographic focus has been expanded to include countries such as South Africa and Indonesia, where potential for climate impact is high. The green transition is now a crosscutting focus for all DSIF projects combined with the strong existing focus on poverty reduction.

The strategy's regional approach provides a clear link to other Danish country-specific initiatives or programmes, particularly the Danish Strategic Sector Cooperation initiative (SSC), which was launched by the Danish government in 2015 to provide funding for partnerships between Danish public authorities and their counterparts in strategically important developing countries and growth economies.

It is also a strategic priority to further develop DSIF by engaging in new innovative partnerships, new financial models, and different technologies to what DSIF has supported so far. The aim of these innovative approaches is to broaden the scope and potential impact of DSIF projects.

Delivering on the strategy
During the year, DSIF scoped and developed new projects in line with the new strategic approach. This includes three water sector projects in South Africa in line with the SSC on water. The projects will provide valuable lessons on how to build on Danish industrial strengths in the context of an untied model, as well as on engaging with local and international partners to share risk and increase impact. A fourth project concerning biomass on the island of Lombok in Indonesia was scoped and is under assessment. The project will support the Indonesian government's ambitions for a just energy transition. Finally, a new project for improving the water supply and sanitation infrastructure in Jinja and Iganga, Eastern Uganda has been scoped, with a feasibility study due to start in 2023.

Pipeline development in 2022
The tender processes for design and supervision contracts of four water treatment projects in East Africa and South Asia were also finalised in 2022. The projects will be implemented in Saidabad in Bangladesh, Faisalabad in Pakistan, Thika & Githunguri in Kenya, and Wakiso West in Uganda - and have a total expected budget of DKK 6.4bn. The projects are expected to enter construction in 2023 and 2024.

A new water project in Burkina Faso was cleared in principle in early 2022. The project is expected to deliver clean and affordable drinking water to 850,000 people in Bobo-Dioulasso and surrounding communities based on modern energy efficient technology. The project has an estimated budget of DKK 870m.

Finally, additional projects were added to the pipeline in Indonesia, Uganda and South Africa with an expected total budget of DKK 2.1bn.

New project development facility
The DSIF project development facility (PDF) aims to develop sound project proposals for sustainable and climate-relevant infrastructure projects for DSIF financing, primarily in the water and energy sector. The focus on whole life cost / total cost of ownership is a key principle in the project development phase, which integrates input from relevant Danish and international stakeholders. The facility has been active since 2017 and was fully deployed in 2022. Additional finance for a second five-year period (PDF 2.0) was apportioned by the Ministry of Foreign Affairs in 2022, with DKK 25m allocated in 2022 and an additional DKK25m expected in 2023.

DSIF DELIVERED ENERGY EQUIPMENT TO UKRAINE

To facilitate consultancy contracts for feasibility studies to be financed under the PDF 2.0 a new framework agreement with several consultancy consortia was initiated in 2022 following an EU tender process. This framework agreement can facilitate contracts up to DKK 70m in total until 2026.

Assisting Ukraine
Before the war in Ukraine, three DSIF infrastructure projects in the water and heating sectors for several cities in Ukraine were in the preparation phase in collaboration with Nefco and are now on hold. However, with additional funds from the Danish aid budget for emergency measures in Ukraine, DSIF and Nefco were able to continue implementation, deliver emergency equipment and start to develop new projects to be implemented in the post-war period. These results were made possible due to well established partnerships with the Ukrainian municipalities and a solid cooperation model between DSIF and Nefco. ▪

CASE

Source: Nefco.

FACTS

Investment year:
2022

DSIF investment:
DKK 34m (grant)

Expected total investment:
DKK 34m (grant)

Rebuilding district heating in Ukraine
The Russian invasion of Ukraine has led to a massive destruction of Ukrainian infrastructure leaving people without access to for example basic electricity, heating and water. DSIF has through Nefco provided grant financing of DKK 34m for 20 new containerised boiler units to rebuild district heating in a Ukrainian city.

New district heating to 180,000 people
With a total capacity of 39 megawatts the new boilers will ensure district heating to more than 180,000 people, covering around 80 per cent of the population in the city where they are to be installed. The project also includes assembling of boilers, new piping and maintenance to ensure continued and reliable operations. DSIF also supported the rebuild of a boiler house in the same city.

The new boilers are more efficient and will on an annual basis reduce gas consumption by around 1.70 Mm^3, saving approximately 3,400 tons of CO_2 emissions per year.

IMPACT

39
megawatt of new district heating boilers

3,400
tons of greenhouse gas emissions avoided annually

180,000
people get access to new district heating

LINK TO SDGs

IFU'S INVESTMENT PROCESS

IFU has a well-defined investment process covering six phases – from when a new potential investment is identified to the point when IFU exits the investment. The following sections describe the investment process, and how IFU focusses on impact and value creation during selection and appraisal, as well as ownership of projects.

Based on the sector strategies, IFU has a strong focus on new investments with solid value proposition and impact potential that IFU can contribute to unfold. Investments come from many sources, but it has been found that projects with high likelihood of meeting IFU's impact priorities and passing the rigorous appraisal process, are those that come from impact investors,

Focused sourcing	>	Screening	>	Due diligence	>	Reaching agreement	>	Active ownership	>	Responsible exits
Identification of potential projects and check against IFU's exclusion list	>	Screening of project against IFU´s investment strategy and impact priorities	>	Identification and assessment of risk and adverse impacts, as well as oppertunities for value and impact creation	>	Negotiation of investment agreement	>	Monitoring and driving value and impact creation	>	Ensuring responsible exit

THE INVESTMENT PROCESS IS GUIDED BY FINANCIAL RETURN REQUIREMENTS AND IMPACT PRIORITIES THROUGH SECTOR FOCUS AREAS

The investment process is guided by financial return requirements and impact priorities through sector focus areas and is based on IFU's sustainability policy framework. Specfically on financial return, IFU evaluates all investments against a return benchmark reflecting the particular risk in the individual investments. As a state-owned institution IFU has a special responsibility and duty to protect human rights as described in the UN Guiding Principles on Business and Human Rights. This commitment is reflected in IFU's Sustainability Policy and the underlying Human Rights Policy and applied in the investment process. IFU considers respect for human rights to be a minimum standard applied in all its operations, and expects its employees and its projects to actively encourage those involved in their business activities to adopt the same or similar standards.

1. Focused sourcing
IFU has a proactive sourcing approach, building on and utilising an extensive network of advisors, investment bankers, fund managers and like-minded investors. other development finance institutions, and partners from previous projects. These projects are typically well aligned with IFU's impact priorities and high ESG standards. This is one of the many reasons why IFU cultivates deep relationships with its project partners and does multiple investments with the same partners.

At the same time, IFU continuously expands its network by maintaining a close presence across the markets in which it operates, amongst others via IFU's regional offices in Africa, Asia, Latin America and Europe. The investment professionals aim to ensure that IFU is always at top of mind when companies in IFU's focus sectors are looking to raise capital. The investment strategy has clearly defined focus sectors, and also helps inform potential investees on what type of deals are relevant and interesting to IFU.

When a potential project is identified, IFU sets up a deal team. Team members include investment professionals, as well as professionals from the legal unit, sustainability unit and finance unit. An investment professional is appointed as project manager and is responsible for the entire investment process. A vice president has overall responsibility for the deal team and the deliverables, reviewing investment papers prepared for investment committee meetings, ensuring fundamental analysis is sufficient for decision-making, and that team members are fulfilling their tasks.

THE PURPOSE OF SCREENING IS TO ASSESS IF THE POTENTIAL INVESTMENT IS ALIGNED WITH IFU'S IMPACT PRIORITIES

2. Screening
The purpose of screening is to assess if the potential investment is aligned with IFU's impact priorities, as defined by the investment strategy. The return on investment, how the investment size (value) aligns with IFU's funding instruments and high-level risks are also considered to ensure strategic alignment, and that projects do not compromise IFU's general policies. IFU has developed a screening tool to identify high impact and strategically aligned investments, providing a decision-point on whether an investment should be further considered. If a project does not meet the screening criteria, the investment opportunity is turned down to avoid spending resources on poorly aligned projects.

The alignment with the impact priorities is met by one of the following criteria:

For the impact priority of building green societies, screening is performed against substantial contribution to the environmental objectives of the EU Taxonomy. The "do no significant harm" criteria are also considered.

For the impact priority of building just and inclusive societies, projects are positioned in relation to least developed countries, incomes for the bottom 40 per cent segment, underserved populations, gender lens investing as well as decent work and minimum social standards.

Furthermore, the decision-making is informed by an assessment of financial and value additionality. Financial additionality typically relates to accessing finance that cannot be obtained from commercial investors. The value additionality typically relates to the unique role of development finance institutions, who can influence design, improve management performance, support responsible business conduct and embed good ESG practices in the company. In 2023, IFU is reviewing internal corporate governance tools to further enhance this approach.

IFU'S SUSTAINABILITY POLICY

	Environment & social	Corporate governance	Impact
Underlaying policies	• Human Rights Policy • Animal Welfare Policy	• Corporate Governance Policy • Anti-Corruption Policy • Tax Policy	• Climate Policy • Gender Equality Policy
International standards and best-practice	• IFC Performance Standards • EDFI E&S Guidelines • UN Guiding Principles on Business and Human Rights	• Corporate Governance Development Framework • OECD Principles of Corporate Governance	• Sustainable Development Goals • COP26 Paris Agreement & EU Taxonomy • 2X Challenge on Gender
	UN, ILO and OECD Conventions, Declarations and Agreements UN Principles for Responsible Investment UN Global Compact National laws		

Climate screening
IFU screens all potential new investments against the commitments in IFU's climate policy. Direct Investments are either aligned as climate finance, including projects that are low GHG emitters, or conditionally aligned by satisfying "do no significant harm" principles and further specified requirements (for details see IFU's Climate Policy[4]). If potential investments are on IFU's exclusion list[5] or do not meet the above criteria they are misaligned and will not qualify for further screening.

IFU's climate policy recognises that a significant contribution to climate change mitigation and/or adaptation can involve the following categories that are aligned with established green/climate finance frameworks, like the EU Taxonomy and the Common Principles for Climate Mitigation Finance developed by the International Development Finance Club (IDFC) and Multilateral Development Banks (MDBs).

For new indirect investments, IFU will work with its financial institutions and funds to make their finance flows consistent with the SDGs and the Paris Agreement. Specifically, IFU will require new indirect investments to apply IFU's exclusion list to all new transactions and will work with its financial institutions and funds to develop a corporate climate governance framework.

Gender lens screening
IFU takes part in the 2X Challenge launched by development finance institutions of the G7 countries in 2018. The aim is to advance opportunities for women through enterprise support, leadership and career progression, quality employment and products, as well as services that enhance women's economic participation. IFU uses the 2X Challenge criteria to screen if an investment is 2X eligible, which entails that one of the below criteria is fulfilled:

				Threshold
Direct criteria	1	Entrepreneurship	1A. Share of women ownership	51%
			OR	
			1B. Businesses founded by a woman	Y/N
		OR		
	2	Leadership	2A. Share of women in senior management	30%
			OR	
			2B. Share of women on the board or IC	30%
		OR		
	3	Employment	3A. Share of women in the workforce	30 - 50%*
			AND	
			3B. One "quality" indicator beyond compliance	Y/N
		OR		
	4	Consumption	4A. Product or service specifically or disproportionately benefits women	Y/N
		AND		
Indirect	5	Investments *through* financial intermediaries (FIs)	5A. *Onlending facilities:* Per cent of the investor/FI loan proceeds or per cent of FI's portfolio supporting businesses that meet direct criteria	30%
			OR	
			5B. *Funds:* Per cent of portfolio companies that meet the direct criteria	30%

*Sector specific threshold

4) https://www.ifu.dk/wp-content/uploads/2022/06/IFU-Climate-policy-of-April-2022.pdf
5) https://www.ifu.dk/wp-content/uploads/2022/06/Exclusion-list-2022.pdf

Types of due diligence

3. Due diligence
When an investment opportunity is approved for further consideration, IFU conducts a thorough due diligence assessment of the project. This includes a comprehensive examination of numerous aspects of the potential transaction with specific focus on identifying risks arising from the business activities and reviewing to what extent policies, systems and processes are in place to manage and reduce these risks.

In addition, the impact potential is further assessed in relation to the SDGs, and project-specific impact areas are developed. The deal team discusses investment papers in two investment committee meetings to seek approval, the first being the clearance in principle stage at the start of the assessment. The second is the binding commitment stage, where the results of the due diligence are presented. These investment papers are furthermore reviewed and discussed with IFU's board, prior to final investment approval. As such, investments are thoroughly considered during due diligence.

IN 2022, 64 PER CENT OF THE NEW INVESTMENTS WERE CATEGORISED AS HIGH-RISK PROJECTS

Value creation – ways to drive company performance and actions taken to manage ESG risks
IFU's value creation plan is a set of actions that follow a detailed commercial and financial due diligence and peer review, typically supported by use of external consultants. Based on the investment targets' competitive position and market fundamentals, IFU determines an appropriate investment structure using equity and loan instruments. IFU and the investment target will jointly agree to a business plan with agreed milestones and commercial drivers that will be tracked carefully during the operational stage.

The environmental and social (E&S) due diligence includes a comprehensive assessment of project-related E&S risks, potentially adverse impacts and mitigation measures, which can also contribute to a positive value creation.

IFU applies the risk categories A, B+, B and C that are defined and used by all EDFIs. Category A and B+ projects are high-risk projects with significant potential E&S risks or adverse impacts, while category B and C projects are low-risk projects with minimal or no E&S risks or adverse impacts. In 2022, 64 per cent of the new investments were categorised as high-risk projects.

For all direct investments, IFU requires alignment with relevant international standards, in addition to complying with national regulations. For high-risk projects, the primary standards that guide the scoping of IFU's due diligence assessment are the IFC Environmental and Social Performance Standards (2012). These are based on a number of international core conventions, declarations and agreements, including the ILO conventions and the UN Guiding Principles on Business and Human Rights (UNGPs).

For high-risk projects, IFU also investigates if an environmental and social impact assessment (ESIA) has been conducted. If an impact assessment has been based on national requirements alone, and if these are below international standards, IFU initiates an E&S social due diligence against the IFC Performance Standards to identify gaps that may need to be addressed.

In low-risk projects, the E&S performance is assessed using the UN Global Compact Self Assessment Tool, co-developed by IFU.

Depending on the outcome of the E&S due diligence for high as well as low-risk projects, IFU can decide to conduct a supplementary human rights due diligence against the UNGPs. If risks of severe adverse human rights impacts are identified, IFU will conduct a more thorough human rights impact assessment to identity the need for addition mitigation measures to those included to comply with the IFC Performance Standards.

The human rights due diligence considers country and project risks like projects in fragile states, projects in countries with no guarantee of workers' rights and projects involving a number of risk aspects such as land take, use of migrant workers, location in water scarce areas or handling of personal data, etc.

AS AN INTEGRATED PART OF THE E&S DUE DILIGENCE, IFU CONDUCTS OR INITIATES SITE VISITS TO HIGH RISK PROJECTS

During the investment process, the corporate governance structures and processes of the project company and other relevant governance structures are assessed using IFU's Corporate Governance Toolkit. Gaps in corporate governance or means of contributing to value creation through improving corporate governance are discussed with the investment partners, and where relevant, a Corporate Governance Action Plan is negotiated into the investment agreements.

Climate impacts are assessed by calculating the absolute GHG emissions for all investments and the avoided or reduced emissions for the relevant investments. The assessment of the absolute emissions includes scope 1, 2 and 3 emissions. Avoided emissions are calculated for investments in renewable energy and reduced emissions are calculated for energy efficiency projects, or in projects where reduced or avoided emissions are clearly evident. To proactively reduce future emissions, IFU also identifies climate change resilient technologies and adaptation measures to be put in place as part of the investment. These activities support the individual investment and its climate strategy, and at the same time support IFU's monitoring of its own target going towards net-zero portfolio emission by 2040.

As an integrated part of the E&S due diligence, IFU conducts or initiates site visits to high risk projects, to identify areas that require further attention. For projects with issues regarding community health, safety and security, land acquisition and involuntary resettlement or indigenous people, IFU requires an external consultant to conduct the E&S due diligence and include stakeholder engagement with affected stakeholders. In greenfield projects with a construction phase, IFU also focuses on special risks and impacts during construction. This could include occupational health and safety risks, issues related to land ownership and land use, as well as impacts on the local community.

If the E&S due diligence identifies any gaps in relation to the requirements in IFU's sustainability policy and the relevant sustainability standards, IFU ensures commitment from the project to a written environmental social action plan describing the measures to be implemented within an agreed timeframe to meet the performance requirements.

Review of anti-bribery and corruption measures

In all projects, IFU conducts an anti-corruption due diligence by screening key parties for critical media coverage, reviewing the business model for anti-bribery and corruption risks, and assessing the anti-bribery and corruption management system for compliance with the IFU Anti-corruption Policy and best practice standards. Where the assessment identifies any gaps in relation to requirements in the IFU Anti-corruption Policy, IFU ensures commitment from the project to a written anti-bribery and corruption action plan, describing the measures to be implemented within an agreed time frame.

Impact creation - developing an impact results framework

A crucial part of the due diligence is identifying how a project can create positive impact. For all new investments, impact hypotheses based on theory of change are developed in close dialogue with the project partners. The hypothesis outlines the link between the outputs generated by the project and the SDGs. Based on the hypotheses, IFU and the project partners agree on an impact results framework, which establishes KPIs, baselines and targets to measure and track performance during the investment period. The framework serves as a reference point in IFU's ongoing dialogue with the management and the board of the project, on how to ensure impact creation. This impact creation framework also supports the final evaluation of the investment, to support an overall assessment of the project's achievements.

4. Reaching agreement

If the project is approved by IFU's investment committee, following due diligence, the investment agreement is negotiated with the project partners. The agreement typically includes all relevant commercial, legal and sustainability related requirements. IFU has a vital role in the negotiations and provides full legal review of the agreement. The environmental and social action plan and the impact results framework will be attached to the investment agreement. Often there are conditions precedent, which are specific matters that must be resolved before the signing of the agreement.

5. Active ownership

The investment professionals have the overall responsibility for ensuring IFU's active ownership. This includes monitoring project performance and driving value and impact creation as well as ensuring the implementation of the actions in the environmental social action plan and the impact results framework. IFU conducts quarterly reviews of progress across segments of the portfolio.

Example of theory of change at project level (healthcare)

Key healthcare challenges in developing countries

Problem identification

Public healthcare systems struggling to finance expensive medicine leading to lack of access	High out of pocket costs of medicines force people into deep poverty or to opt out of treatment	Least developed countries are the first ones to run out of vital medicines when global supply chains are disrupted

Expected contribution to solving the problem

1. INPUT	2. ACTIVITIES	3. OUTPUT	4. OUTCOME	5. IMPACT	6. SDG's
The Danish SDG Fund provides...	...enabling pharma company to:	achieving measurable results such as...	... which contributes to:	... and works towards the 2030 SDG agenda by:	Direct: 3 Good health and well-being; 17 Partnerships for the goals
• Growth capital • Management advice through active ownership	• Expand production capacity	• Additional 72 million boxes of medicines supplied • 24 million additional patients served • Additional 47 products introduced • Healthcare cost savings of USD 118m	• Improved access to critical medicine • Increased affordability by reducing cost of medicine for the end-user • Substitution of imports from multinationals • Local manufacturing reduces vulnerability to e.g. supply chain disruptions	• Providing affordable access to essential medicines for all • Contributing to reducing the mortality rate of non-communicable diseases • Building capacity in pharma sector, improving supply and building trust in the supply of safe medicines	Indirect: 10 Reduced inequalities

Part of IFU's leverage in the projects is conducted by being member of the board of directors of the direct investments. However, board positions are only possible in equity investments. In 2021, IFU was a board member or observer in 75 per cent of its equity investments.

Projects are required to prepare an annual sustainability report to be discussed and approved by its board of directors. Furthermore, annual progress reporting on the targets defined in the impact results framework is also required. Both reports serve as an important tool for the annual stocktaking of the project's sustainability performance and impact creation. The reports must be submitted to IFU and are essential for IFU's ability to perform active ownership and provide transparent sustainability information about its investments.

6. Responsible exits

Exiting an investment at the end of the investment period is a natural part of the investment process, and typically occurs five to eight years after the investment was approved. In the exit phase, IFU evaluates the project results, including the value and impact creation achieved during the investment period.

The concept of responsible exit is evolving and involves responsible exit practices to support operations that address sustainability risks and opportunities beyond the investor's involvement, addressing financial, impact and ESG considerations.

This concept is a moving target for IFU, and in 2022 IFU was supported by the Danish Institute for Human Rights, who developed a memorandum from a human rights perspective. Based on their recommendations, IFU is considering how to further support projects in attracting 'likeminded' buyers with high impact creation ambitions, as well as how to take precautionary measures to ensure projects maintain their focus on mitigating ESG risks. •

STAKEHOLDER ENGAGEMENT

IFU's vision
By 2050, 10 billion people will be living well and achieving their fullest potential within the boundaries of the planet.

To define what IFU's vision means for people and societies in developing countries, and how it influences our strategy and individual investments, IFU engages with a number of different stakeholders.

The stakeholders represent a wide variety of interests, knowledge and insights into topics that are relevant for IFU to consider when making private sector investments in developing countries. For example, IFU has signed up to a number of international conventions that are integral to IFU's due diligence process and active ownership. Moreover, IFU must be able to respond to demands from IFU's owners and investors, as well as meet expectations from the investment partners in developing countries and local communities.

IFU acknowledges that the investments can create positive, as well as negative impacts, and that the value of the impact can vary depending on the interpretation by different interest groups and affected people. In addition, an initially positive impact can over time become a negative impact. This is for example the case for energy investments based on fossil fuel that used to be seen as a positive contribution to development, but now jeopardises the opportunity to improve peoples' lives within the boundaries of the planet due to GHG emissions and their contribution to climate change.

This illustrates that defining impact is a moving target, and that IFU therefore continuously engages, discusses and defines the risks and opportunities, on a general level and for the individual investments.

Below is an overview of IFU's stakeholder engagements, including fora where IFU participates to keep up to date with stakeholder expectations and the international developments within sustainability and impact creation.

Ongoing assessment of materiality
Looking at impact, IFU has an inside-out, as well as an outside-in perspective on managing risks and seizing opportunities. This implies an ongoing assessment of materiality issues covering both the effects IFU's investments have on businesses, people and the planet, and the issues that may pose a significant risk to IFU's investments. Identifying risks and opportunities, and gaining a better understanding of how these can be mitigated and realised, are key elements in IFU's engagement with stakeholders. In 2023, IFU will use the insights from the ongoing stakeholder engagement and start preparing for a comprehensive double materiality assessment, as also required by the CSRD.

IFU welcomed Søren Peter Andreasen, right, as Deputy CEO in February 2023. To the left Torben Huss, IFU's CEO.

THE WHISTLEBLOWER MECHANISM ENABLES ALL INTERNAL AND EXTERNAL STAKEHOLDERS TO RAISE A GRIEVANCE

Raising grievances
IFU has a grievance mechanism – also referred to as the whistleblower mechanism – which is maintained by an external law firm. The whistleblower mechanism enables all internal and external stakeholders to raise a grievance if they identify or experience irregularities with IFU's commitments, policies and procedures, or any breaches of applicable law, including misconduct on the part of investee companies. Concerns can also be raised anonymously.

Reported concerns or complaints are processed by IFU's Investigations Oversight Committee. Measures to investigate and remedy the concerns raised depend on the nature and severity of the concern, and may include third-party investigations, negotiated settlements, contractual remedies and reports to relevant authorities, amongst other methods. Furthermore, IFU will, whenever justified, seek and ensure access to remedy for affected individuals and communities and/or notify the appropriate authorities. IFU received one report in 2022, which concerned allegations in a project company. ▪

IFU's stakeholder groups	Why IFU engages with stakeholder group	How IFU uses inputs from stakeholder group
Owner • Ministry of Foreign Affairs (MFA)	IFU's owner sets overall strategic direction and targets	Owner's inputs are implemented in IFU's investment strategy and impact priorities.
Investors • Danish pension funds • Other private investors	IFU's investors provide capital for investment in developing countries through public-private partnerships, aligned with IFU's investment strategy and supporting the SDGs.	Investor needs and intentions are embedded into IFU's investment strategy and the sourcing of appropriate investment opportunities. Investor inputs form part of IFU's investment process and board decisions.
Investment partners in projects • European Development Finance Institutions (EDFIs) • Multilateral development banks • Private impact funds • Local investors	Investment partners include different public and private partners who co-invest and have valuable regional and global experience that adds to a best in class approach to impact investment.	Investment partner inputs and experience provide inspiration, networks, standards and harmonisation and support value creation in projects, while maximising positive impacts to society.
Industry initiatives • UN Global Compact Network Denmark • DFI Gender Finance Collaborative • 2X Global • International Solar Alliance • Hipso • GIIN • OPIM	In order to develop and maintain a best-in-class approach to impact investing and monitor trends and technical advances in the field of sustainability, IFU engages with international organisations and global initiatives.	Knowledge, approaches and tools that are relevant to IFU are incorporated into internal policies and procedures, as well as used to inform project-level interventions.
Civil society groups • IFU Sustainability Advisory Board (incl. Danish Institute for Human Rights, WWF Danmark, Danish Trade Union Development Agency, DanChurch Aid, Care Denmark, Danish Family Planning Association and FLSmidth) • NGOs incl. Transparency International, Etisk Handel Danmark, etc. • Local communities	IFU recognises the importance of engaging with civil society groups, to stay informed on the global needs and expectations from for example, NGOs and local community groups. Furthermore, IFU collaborates with key civil society organisations represented on IFU's Sustainability Advisory Board. This provides both IFU and civil society organisations with insights into sustainability and developmental challenges and opportunities in developing countries.	IFU uses insights gained from civil society interactions to strengthen its' impact investment approach, specific due diligence work and/or active ownership.

MANAGEMENT'S REVIEW

VALUE AND IMPACT CREATION IN THE PORTFOLIO

SUSTAINABLE IMPACT FROM PORTFOLIO COMPANIES

The following sections present key results in terms of created financial, intellectual, human, social and natural capital supported by IFU's active portfolio in 2021, 2020 and 2019. The reason for not presenting figures for 2022 is that figures are primarily gathered based on direct reporting from the portfolio companies in the form of for example annual reports and sustainability reporting, which are only partially available at the time of preparing IFU's annual report 2022. Thus, reporting on 2021 ensures a more comprehensive data and reporting period and provides a more accurate representation of annual results. Some results like value added, indirect employment and GHG emissions are based on additional analyses and modelling of the performance of the portfolio. The below results do not include figures from either DSIF or IFU's new Development Guarantee Facility.

For a full overview of IFU's policy commitments and impact priorities in support of the SDGs, see table on page 50.

PORTFOLIO COMPANIES REPORTED LOCAL TAXES OF DKK 5.4 BN

FINANCIAL CAPITAL

The financial impact of IFU's portfolio is based on the Joint Impact Model developed by IFU's sister organisations in the United Kingdom (BII), the Netherlands (FMO) and France (PROPARCO) to estimate the value added. Value added is equivalent to the sum of wages, taxes and profits of the company.

The total value added by IFU's entire investment portfolio is estimated at DKK 73.4bn for the calendar year of 2021, which includes the payment of local corporate taxes amounting to DKK 5.4bn. It is also worth noting that the value added is approximately seven times greater than the total contracted investments at year-end 2021. This multiple has increased since 2020, due to improved reporting from fund investments and their portfolio companies. The result shows how indirect investments are responsible for the majority of the value added. This is illustrated by comparing the value added for direct investments for 2020 and 2021, being DKK 8.2bn and DKK 9.3bn respectively, showing that over 80 per cent of the value added is due to indirect investments.

INTELLECTUAL CAPITAL

It is IFU's experience that careful and continuous attention to sustainability governance in projects is essential for creating value and impact. IFU encourages all projects to work strategically with sustainability and formally anchor the activities in the business plans and daily practices. Since 2015, projects have been required to adopt a written sustainability policy and establish an environmental and social management system. The requirements must be met within a reasonable timeframe and are thus not an entry condition for funding. As IFU contracts tens of new projects each year, there will always be projects that do not

PORTFOLIO INVESTMENTS AND REPORTED IMPACT

INPUT

	2021	2020	2019
Financing			
Investments contracted (DKKm):	9,778	9,350	7,939
Investments disbursed (DKKm):	7,429	6,536	5,825
Human resources			
Employees (FTE)	97	92	88

INVESTMENTS

	2021	2020	2019
Africa			
Investments (no):	75	74	74
Total investments (DKKm):	53,233	54,370	47,334
IFU investment (DKKm):	4,122	3,658	2,993
Asia			
Investments (no):	50	62	67
Total investments (DKKm):	31,489	31,388	30,175
IFU investment (DKKm):	2,570	2,535	2,445
Latin America			
Investments (no):	21	22	21
Total investments (DKKm):	5,313	5,737	5,020
IFU investment (DKKm):	1,383	1,396	1,010
Europe			
Investments (no):	21	22	23
Total investments (DKKm):	7,185	7,457	6,909
IFU investment (DKKm):	819	871	737
Global			
Investments (no):	11	12	11
Total investments (DKKm):	5,930	5,824	3,930
IFU investment (DKKm):	884	891	755

IMPACT

	2021	2020	2019
Financial capital			
Value added all investments (DKKbn):	73.4	34.8	-
Value added for direct investments (DKKbn):	9.3	8.2	-
Including local taxes (DKKbn):	5.4	3.2	3.1
Intellectual capital			
Written sustainability policy (%):	87	83	83
Written stand against corruption (%):	82	76	70
ES Management System (%):	65	61	59
Dedicated sustainability person (%):	87	84	82
Grievance mechanism (%):	67	59	52
Human capital			
Direct employment (FTE):	377,094	308,174	259,068
Female employment (%):	34	37	27
Youth employment (%):	13	15	16
Gender finance on number of projects (%):	44	41	41
Social capital			
Indirect employment (million no.):	2.3	2.7	-
Microfinance clients reached (million no):	16.2	17.8	20.1
Female microfinance clients reached (%):	92	62	81
Small-scale farmers supported (no):	454,802	342,187	107,600
Natural capital			
RE produced (GWh):	5,291	5,079	2,431
Attributed GHG emissions (tCO_2e):	816,889	740,348	-
Attributed GHG emissions avoided (tCO_2e):	432,728	359,093	-
Total GHG emissions avoided (million tCO_2e):	3.38	2.86	1.34
GHG emissions sequestered (tCO_2e):	0	0	0

meet the requirements yet, but are in the process of implementing them.

Written policies
The sustainability policy is a key performance indicator that offers evidence of the projects' sustainability commitment and performance. IFU finds it satisfactory that 87 per cent of the projects in 2021 reported that they have a written sustainability policy, being a 4 percentage-point increase from 2020.

82 PER CENT OF PORTFOLIO COMPANIES HAVE A WRITTEN STAND AGAINST CORRUPTION AND/OR AN ANTICORRUPTION POLICY

IFU recognises that combating corruption is a key element to improving equality and maintaining a zero-tolerance policy regarding corruption, including bribery, fraud and facilitation payment. All projects are required to publish a commitment against corruption, either included in a sustainability policy or a separate policy. In 2021, 82 per cent of the projects reported that they have a written stand against and/or an anti-corruption policy, which is a 6 percentage-point increase since 2020. IFU will update internal corporate governance tools in 2023, to support all projects having policies in place and making their stand known to business partners.

Management processes
For direct investments, the environmental and social management system is an indicator of the projects' ability to manage their specific adverse impacts, while for the funds and financial institutions it expresses their ability to address sustainability risks related to their portfolio companies and clients.

In 2021, 65 per cent of the projects reported that they have an environmental and social management system. IFU finds the 4 percentage-point increase since 2020 satisfactory, with many direct investments being greenfield projects, where the establishment of the management system is not in place at the start of the project. IFU is also satisfied to see that 87 per cent of the projects have appointed a dedicated person responsible for sustainability, an increase of three percentage points since 2020. This has been an IFU requirement since 2015 and is considered essential for managing sustainability at an operational level. Since 2019, projects have been required to establish a grievance mechanism for receiving, processing, and settling complaints by individuals and communities. In 2021, 67 per cent of the projects reporting have indicated that they have a grievance mechanism for external stakeholders in place, which is an increase of eight percentage points on the 2020 result.

IN 2021, ALMOST 300,000 PEOPLE WERE EMPLOYED IN THE PROJECTS

IFU continues to support projects in implementing processes to identify, assess and address sustainability risks and impacts and ensure continuous improvement of the sustainability performance. The lower performance on the implementation of an environmental and social management system and the establishment of a grievance mechanism require attention and are receiving it, through IFU's internal review of corporate governance tools.

HUMAN CAPITAL

The Covid-19 pandemic has unleashed the worst economic crisis in decades, with a severely damaging impact on working time and income. Especially this has left workers in informal employment and their families in a highly precarious position, exposed to sudden income losses and heightened risks of falling into poverty. Estimates suggest that close to 95 million more people - many of them informal workers - have fallen below the threshold of extreme poverty in 2020 compared with pre-pandemic projections. Gender inequality is also increasing as millions of women who are informal workers, have been forced to stop working since the start of the pandemic[6].

Growing the formal sector is a precondition for the workforce to move to better and more decent jobs and an important strategy towards overall economic and social development. Moving into formal employment not only benefits individuals and their families, but also benefits society, notably in the form of enhanced human capital.

Securing decent jobs
IFU is committed to support growth of businesses in the formal sector in developing countries and to contribute to securing decent jobs that live up to international labour standards. This means that all workers must have an employment contract specifying the terms of employment, including reasonable wages and working hours, and migrant workers must have adequate housing and living conditions. IFU's requirements for decent work also include occupational health and safety initiatives that effectively prevent and protect workers against health and safety risks in the workplace. Furthermore, projects must respect workers' right to privacy, freedom of association and collective bargaining, as well as promote equal opportunities and prevent discrimination.

In 2021, almost 380,000 people were employed in the projects included in IFU's active portfolio, which is a minor decrease since 2020. The share of employees below 25 years of age in the project portfolio was 13 per cent, whereas the share of female employees was 34 per cent. This is below the 2020 result, due to improved reporting from IFU's fund investments and their underlying portfolio companies. These have reported female employee percentages that lower the 2021 result.

6) https://www.imf.org/en/News/Articles/2021/07/28/na-072821-five-things-to-know-about-the-informal-economy

Supply chain management company, Suminter Organics, assists smallholder farmers in converting to certified organic cultivation.

OCCUPATIONAL ACCIDENTS INCREASED SIGNIFICANTLY

64 per cent of the direct investments in 2021 have reported that they pay workers more than the national minimum wage, and only 71 per cent of the direct investments stated that they pay overtime. This is a slight decrease since 2020 due to some of the new investments coming into the portfolio, where overtime pay is not relevant. It is in the lower range of the acceptable and is being addressed as part of IFU's active ownership.

In 2021, the total number of occupational accidents reported to IFU was 1,753, which is a significant increase from the 882 occupational accidents reported in 2020. Both direct and indirect investments contributed to this result, with the increase also resulting from more detailed reporting requirements. However, the high increase does not reflect a general issue, as 75 per cent of the total number of reported accidents stem from seven investments. Tragically, 19 of the accidents were fatal, with 15 occurring in the portfolio companies of fund investments. Although this is a decrease from 2020, every fatality is one too many.

IFU only gets information on occupational accidents related to health and safety from all projects when they are reported in the Annual Sustainability Report. However, IFU receives information on occupational accidents that result in fatality within a few days of the accident occurring, as required by IFU's Sustainability and Impact Rules. IFU requires follow-up action from the project to avoid similar accidents in the future, such as root-cause-analysis and procedural improvements. Follow-up actions on occupational fatalities will be included as part of IFU's active ownership review going forward.

Gender lens investing
As part of the 2X Challenge, see page 36, the DFIs in 2021 set a new ambitious goal to achieve a total of USD 15bn in commitments to finance projects with an intentional gender equality focus by the end of 2022. By year-end 2021, 44 per cent of investments in the portfolio are either 2X eligible or have plans in place to become 2X eligible, thereby exceeding IFU's 2024 target of 40 per cent.

MICROFINANCE INSTITUTIONS SERVED 16 MILLION CLIENTS

450,000 SMALLHOLDER FARMERS WAS SUPPORTED

Empowerment of women
IFU is committed to contributing to unlocking business opportunities for female entrepreneurs and advance women as business leaders, employees, and consumers. Thus, women's economic empowerment (WEE) opportunities like equal pay, gender equality in management and board work, leadership training, leave/return procedures and improved health at the workplace and gender-inclusive community engagements are a part of the impact discussions with project partners, and specific targets for gender equality are included in the impact creation plan.

In 2021, 23 per cent of the projects reported that the share of women in senior management is more than 40 per cent, which is an increase since 2020. This agrees well with an increase in the share of direct investments that have taken initiatives to advance women in the workforce. 64 per cent of the direct investments have reported that they have focus on gender wage equity, fair career advancement, fair compensation, and flexible work arrangements.

In 2021, 78 per cent of the direct investments reported that they have taken initiatives to promote health and reproductive health. The most common initiatives include time off for medical care, providing health check-ups, separate functional facilities and offering health insurance for employees.

SOCIAL CAPITAL
According to the World Bank, about a quarter of the global population was living on less than USD 3.20 per day in 2020, and almost half of the population was living on less than USD 5.50. Lockdowns and related public health measures due to Covid-19 have severely affected the informal economy, and the income losses threaten to roll back global progress on reducing working poverty. This is especially critical for vulnerable groups such as indigenous people and smallholders. Furthermore, women have in general less access to assets and services, which could propel them out of poverty. Worldwide, less than half of the people have a formal bank account, and for women it is only 37 per cent. These gender gaps affect, in particular, entrepreneurship, as they restrict women's access to finance and wider economic opportunities.

Financial inclusion
IFU is committed to supporting essential financial service provision to underserved populations and small and micro companies in developing countries, thereby helping to build markets and create business opportunities. Investing in local banks enables IFU to better reach the local business community compared to direct investments in individual companies.

At year-end 2021, IFU had an active portfolio of four microfinance institutions (MFIs) serving 16.2 million microfinance clients. IFU's total contracted investments in these projects is almost DKK 900m. The decrease since 2020 is mainly due to one microfinance institution exiting the portfolio.

IFU is also integrating a gender lens into its investments in financial inclusion to contribute to redressing power imbalances and give women better options for becoming financially independent. Therefore, IFU is very pleased to see that the share of female clients in microfinance institutions have increased from 62 per cent reported in 2020 to 92 per cent in 2021.

Indirect jobs
The direct employment and income opportunities provided by IFU's projects only constitute a small part of the total job effects in the economy. However, measuring the indirect employment effects, for instance in the supply chain or the effect induced in the economy from employees spending their salaries, is highly complex.

IFU uses the Joint Impact Model to obtain an overall estimate of the indirect employment effects of its portfolio. The results indicate that IFU's investments have supported approximately 2.3 million jobs in the supply chain and through the induced effects in the economy. This equates to approximately eight times the number of direct jobs supported by IFU's investments, similar to the 2020 result.

The investments also create impact by supporting smallholder farmers in rural areas. In total, 23 of the project companies have reported that they are directly supporting more than 450,000 smallholder farmers.

NATURAL CAPITAL
The Sixth Assessment Report from the Intergovernmental Panel on Climate Change (IPCC) in February 2022 emphasizes the urgency of immediate and more ambitious action to address climate risks and states that half measures are no longer an option.

Climate change affects us all, but people in developing countries are much more vulnerable to its consequences, affecting livelihoods, private sector development and economic growth. At the same time, access to safe water and affordable and clean energy are big challenges for people, as well as businesses. In Sub-Saharan Africa alone, around 50 per cent on average do not have access to electricity, and 40 per cent of businesses report that access to energy is a major operational constraint. Since 2015, water stress levels have increased significantly in Western Asia and Northern Africa.

IN TOTAL, THE PORTFOLIO GENERATED 5,291 GWH RENEWABLE ENERGY

Renewable energy
In recent years, IFU has increased its investments in wind and solar projects in several developing countries like Brazil, Egypt, Nigeria and Mongolia, as well as in Ukraine. In total, IFU's current portfolio includes renewable energy projects with an overall current installed capacity of 2,615 MW. In total, the portfolio generated 5,291 GWh renewable energy in 2021. This corresponds to 3.38 million tCO_2e emissions avoided in 2021, of which 432,728 tCO_2e avoided emissions can be attributed to IFU.

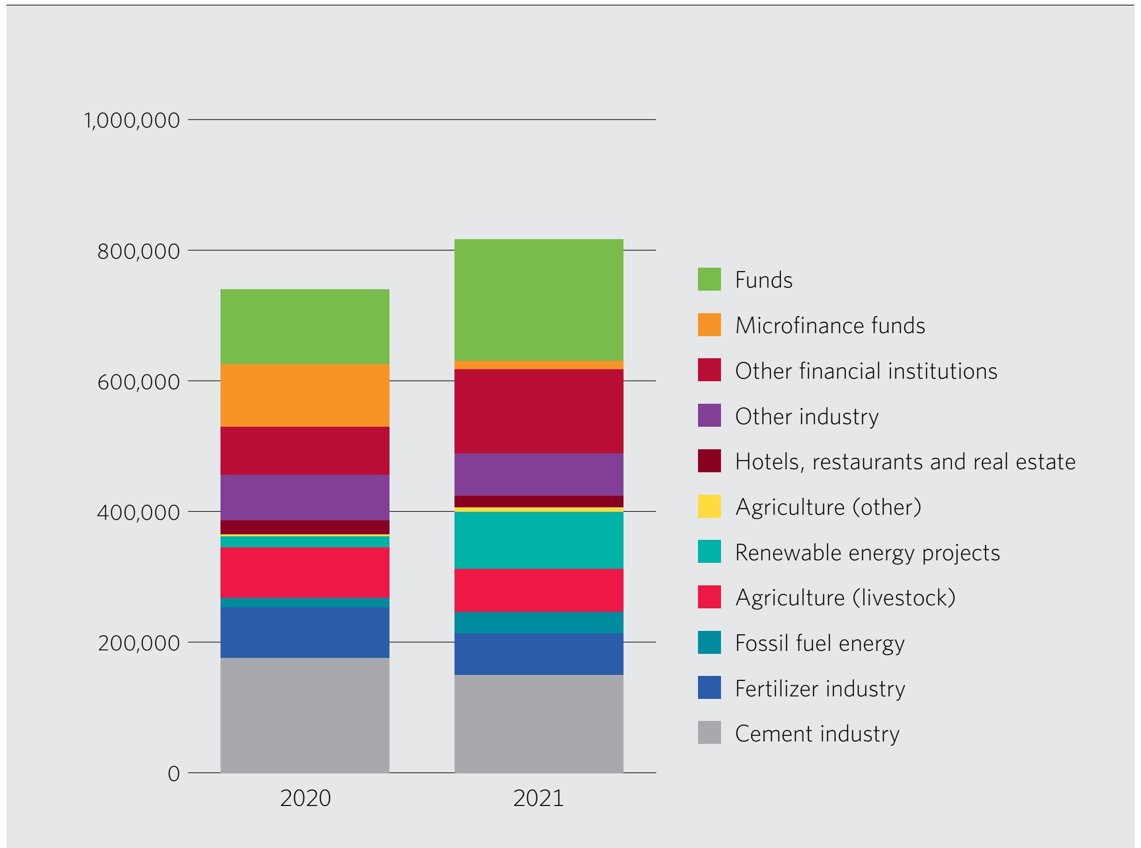
Climate footprint
In the 2020 annual report, IFU calculated the climate footprint of its outstanding portfolio for the first time. The assessment was a pilot effort to learn and refine relevant methodologies. In 2021, IFU recalculated this footprint considering changes to the methodology and the availability of improved data collected through the year. In 2022, the portfolio assessment has again been strengthened and is based on 2021 data.

The climate footprint is estimated as the total annual emissions generated by IFU's outstanding portfolio and based on the methodology described in the Global GHG Accounting Standard developed by the Partnership for Carbon Accounting (PCAF). IFU uses an attribution calculation related to both GHG emissions and avoided GHG emissions as defined by the standard, see page 108. It also includes considerations that are specific to IFU and expands on the PCAF standard to allow for a full assessment of IFU's portfolio. A full methodology paper is available on IFU's website.

The emissions calculated are related to the Scope 1, 2 and 3 emissions of companies and projects in which IFU is investing. The financed emissions are defined in alignment with the "follow the money" principle, meaning that the money from loans and investments should be followed, as far as possible, to understand and account for the climate impact in the real economy.

IFU will repeat the calculation of the climate footprint every year to measure how IFU's portfolio is performing on GHG emissions over time, allowing IFU to track the journey to net-zero emissions.

GHG emissions attributed to IFU (tCO_2e)



IN CONCLUSION, HE AVERAGE GHG EMISSION INTENSITY ESTIMATE IS 129 TCO2E PER MILION DKK INVESTED.

As such, IFU is developing a GHG emission tracking tool to measure against commitments set in IFU's 2022 climate policy.

Portfolio emissions attributed to IFU in 2021 are estimated at 817,000 tCO_2e, an increase of 10 per cent on the 2020 estimate of 740,000 tCO_2e. This is due to an increase in the portfolio size, which has grown by 23 per cent from 2020 to 2021. The largest proportion of emissions comes from funds, banks and the cement sector investments. Renewable energy projects also feature high in proportion, due to a large number of the projects being in the construction phase and thus having high emissions. The increase in emissions resulting from fossil fuel energy investments is explained in the case study on Eranove.

Changes in the portfolio footprint and emission intensity between 2020 and 2021 are a result of different factors, including new investments entering the portfolio, investments exiting the portfolio, changes in project activities (increase or decrease in production or the use of new technology), changes in the type and quality of data reported by projects, and the respective assessment methodology applied. IFU is continually increasing efforts to improve the quality of the reported data and assessment methodology. The changes in the portfolio emission estimates from 2020 to 2021 reflect the above factors.

The more significant changes to the footprint can be explained by fertilizer and fossil fuel investments entering the GHG assessment, including Eranove and Ramagundam. Yet reductions are also observed, for example in a reduction in cement sales in Misr Cement Minya. The granularity of data reporting from indirect investments has improved, resulting in further disaggregation and improved emissions estimates.

In conclusion, the average GHG emission intensity estimate for 2021 is 129 tCO_2e per milion DKK invested. This is a decrease of approximately 10 per cent, when compared to the 2020 estimate of 143 tCO_2e/ per million DKK invested. To meet climate policy targets, IFU will need to keep reducing the average GHG emission intensity across the portfolio, to support the net zero pathway.

Climate footprint in transition project

In 2021, IFU invested into Eranove group, through the company ECP Power & Water Holding. Eranove is a utility company supporting the governments in supplying electricity and drinking water in West Africa with operations in Côte d'Ivoire and Togo. The electricity generation plants are hydropower plants and plants based on fossil fuels (natural gas). Eranove has recently constructed new plants one in Côte d'Ivoire and one in Togo, both with newest technologies to reduce the GHG emissions. In 2021, Eranove improved its methodology to estimate the scope 2 and 3 GHG emissions. In the investment agreement IFU required Eranove to develop a climate policy for Eranove to be committed to be Paris aligned. Eranove's pipeline includes development of renewable energy projects, which will enable a further reduction in emissions beyond 2025. IFU has provided a grant to Eranove's development of an overarching environmental and social management system, for Eranove to assess, manage and report on potential environmental and social risks of its operation.

WATER CONSUMPTION OF MORE THAN 300 MILLION M³

Water and waste management

IFU's efforts to support the green transition also include requirements for direct investments to demonstrate efficient water consumption and proper handling of waste. Furthermore, IFU is pursuing investment opportunities in the recycling and circular economy sector. New performance indicators supporting SDG 6, Clean water and sanitation and SDG 12, Responsible consumption and production have been added to IFU's reporting on progress. In 2021, 77 per cent of direct investments have reported water consumption figures equivalent to more than 300 million m^3 in total, while 71 per cent reported waste generation figures equivalent to approximately 382,000 tonnes in total. ▪

IFU's staff resumed travelling to project companies in 2022. Visit by IFU investment professional to Ramagundam Fertilizers in India.

OVERVIEW OF CONTRIBUTIONS TO THE SDGs

This overview summarises IFU's policy commitments and impact priorities in support of the SDG agenda and the SDG targets that IFU's investments contribute to the achievement of. Listed are also key figures for the development impacts in 2019, 2020 and 2021. These figures are either aggregated to portfolio level based on data reported by project companies or the result of analysis of the performance of the portfolio.

IFU will continue to set up more commitments, align the performance indicators with the SDG targets and improve the data collection to strengthen the reporting on the development impact of IFU's investments. This includes more performance analysis within IFU's impact priority areas.

SDG	IFU commitments and priorities	SDG targets relevant to IFU	Indicators	Unit	2021	2020	2019
1 NO POVERTY	Prioritising investments furthering financial inclusion. Especially promoting quality financial services to women, including female entrepreneurs.	**1.1** Eradicate extreme poverty. **1.4** Ensure that all men and women have equal rights to economic resources, including microfinance.	Invested in microfinance institutions.	DKK million	0	> 267	> 96
			Total active investment in microfinance (MF) portfolio.	DKK million	> 885	> 900	> 600
			MF clients served.	No. million	16.2	17.8	20.1
			MF loans granted to female clients.	%	92	62	81
2 ZERO HUNGER	Prioritising agribusiness investments with clear link to small-scale farmers. Enhancing sustainable and climate smart agriculture and protecting biodiversity.	**2.3** Double the agricultural productivity and incomes of small-scale food producers. **2.4** Ensure sustainable food production systems and implement resilient agricultural practices.	Total projects supporting small-scale farmers.	No.	23	26	20
			Total small-scale farmers benefitting.	No.	454,802	342,187	107,600
3 GOOD HEALTH AND WELL-BEING	Prioritising investments providing enhanced access to health services. Supporting companies to demonstrate a commitment to healthy lives, including issues related to women's health and sexual and reproductive health.	**3.7** Ensure universal access to sexual and reproductive healthcare services. **3.8** Achieve universal health coverage.	Healthcare investment projects.	No.	0	2	1
			Invested into healthcare projects.	DKK million	0	360	63
			Direct investments that have taken initiatives to promote health & reproductive health activities.	%	78	77	73
4 QUALITY EDUCATION	Supporting skills development, especially amongst young people in Africa.	**4.3** Ensure equal access to affordable and quality technical, vocational, and tertiary education. **4.4** Substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills.	Employees in investments under the age of 25.	%	13	15	16
			Indicators under development.				
5 GENDER EQUALITY	Supporting companies to address and demonstrate a commitment to empowerment of women related to e.g. leadership, pay equity, workplace benefits, workforce participation and workplace environment.	**5.1** End all forms of discrimination against all women and girls. **5.5** Ensure women's full and effective participation and equal opportunities for leadership.	Female employees in investments.	%	34	37	27
			Direct investments with more than 40% women in senior management.	%	23	20	18
6 CLEAN WATER AND SANITATION	Investment in water sector fall under IFU's investments in climate adaptation (see SDG 7).	**6.1** Achieve universal and equitable access to safe and affordable drinking water for all.	Water consumption reported by direct investments.	Million m^3	315	-	-
			Direct investments that have reported water consumption figures	%	77	-	-
7 AFFORDABLE AND CLEAN ENERGY	Promoting renewable energy investments and investments in greener technologies as part of supporting the green transition. Share of climate-relevant projects like renewable energy, energy efficiency and climate adaptation by 2030.	**7.1** Ensure universal access to affordable, reliable and modern energy services. **7.2** Increase the share of renewable energy efficiency. **7.3** Double the global rate of improvement in energy efficiency.	Total expected capacity of renewable energy investments, including new expected capacity.	MW	4,649	2,084*	1,292*
			New expected capacity of renewable energy investments.	MW	2,615	792*	416*
			New capacity of renewable energy investments (hydropower only).	MW	0	602	0
			Renewable energy produced (all investments).	GWh	5,291	5,079	2,431
8 DECENT WORK AND ECONOMIC GROWTH	Supporting and promoting decent work, covering working conditions and terms of employment, collective dismissals, gender equality, privacy, occupational health and safety, grievance mechanisms and worker accommodation.	**8.2** Achieve higher levels of economic productivity through diversification, technological upgrading and innovation. **8.5** Achieve full and productive employment and decent work for all. **8.6** Reduce the proportion of youth not in employment, education or training. **8.8** Protecting labour rights and promote safe and secure working environments.	Total direct employees in all investments.	No.	377,094	308,174	259,068
			Direct investments that pay more than the national minimum wage.	%	64	65	72
			Direct investments that pay overtime.	%	71	76	71
			Investments reporting accidents involving workers.	%	33	38	32
			Occupational injuries in all investments	No.	1,753	882	533
			Occupational fatalities in all investments	No.	19	24	18

*In previous reports, the calculation for this metric has been one year ahead but, in this report, the calculation has been corrected to ensure that all reporting is consistent with the same year.

MANAGEMENT'S REVIEW

SDG	IFU commitments and priorities	SDG targets relevant to IFU	Indicators	Unit	2021	2020	2019
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	Overall contribution to industrialisation (not focus areas) and infrastructure development.	**9.17** Promote inclusive and sustainable industrialisation and significantly raise industry's share of employment and gross domestic product.	New direct investments in manufacturing, outside the agricultural sector.	No.	0	0	0
10 REDUCED INEQUALITIES	Promoting economic inclusion of poor people by extending access to services and goods to underserved populations. Respecting that all human beings are equally entitled to human rights without discrimination.	**10.2** Empower and promote social, economic and political inclusion of all. **10.b** Encourage official development assistance foreign direct investment to states where the need is greatest, including least developed countries and African countries.	Percentage of IFU's own funds invested in the poorest countries in Africa, covered by the HRHI initiative.	%	46	31	N/A
11 SUSTAINABLE CITIES AND COMMUNITIES	No specific commitment.	**11.1** Ensure access to adequate, safe and affordable housing.	No suitable indicator/s.				
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	Supporting and promoting a preventative and precautionary approach to environmental challenges. Ensuring that local stakeholders are not exposed to unhealthy environments, and that they have access to and benefit from biodiversity and ecosystem services.	**12.2** Achieve the sustainable management and efficient use of natural resources. **12.3** Reduce food losses along production and supply chains. **12.4** Achieve and environmentally sound management of chemicals and all wastes and significantly reduce their release to air, water and soil. **12.5** Reduce waste generation through prevention, reduction, recycling and reuse. **12.6** Encourage companies to adapt sustainable practices and to integrate sustainability information into their reporting cycle.	Direct investments that have an environmental management plan in place to manage and monitor their environmental performance.	%	81	77	71
			All investments that have a written sustainability policy	%	87	83	83
			All investments that have an Environmental and Social Management System	%	65	61	59
			All investments that have a dedicated person responsible for sustainability	%	87	84	82
			All investments that have a grievance mechanism for external stakeholders	%	67	59	52
			Reported waste generation by direct investments	Tonnes	382,506	-	-
			Direct investments reporting on waste generation.	%	71	-	-
13 CLIMATE ACTION	Adopting an investment approach that is aligned with the objective of the Paris Agreement.	**13.a** Mobilise capital to address the needs of developing countries in the context of meaningful mitigation actions.	Avoided emissions (attributed), based on GWh of renewable energy produced.	tCO_2e	432,728	359,093	-
			Avoided emissions (not attributed), based on GWh of renewable energy produced.	Million tCO_2e	3.38	2.86	1.34
			Direct investments that report GHG emissions to IFU.	%	10	13	15
14 LIFE BELOW WATER	No specific commitment.	Not applicable yet.	No suitable indicator/s.				
15 LIFE ON LAND	Striving to protect biodiversity and invest in sustainable and resilient agriculture and forestry.	**15.2** Promote the implementation of sustainable management of forests. **15.5** Take action to reduce the degradation of natural habitats and halt loss of biodiversity.	Indicators under development.				
16 PEACE AND JUSTICE STRONG INSTITUTIONS	Maintaining a zero-tolerance policy regarding corruption, including bribery, fraud and facilitation payment, as well as avoiding money laundering.	**16.5** Reduce corruption and bribery in all their forms.	All investments that have a written stand against corruption or an anti-corruption policy.	%	82	76	70
17 PARTNERSHIPS FOR THE GOALS	Ensuring proper payment of taxes to host countries.	**17.1** Strengthen domestic resource mobilisation to improve domestic capacity for tax and other revenue collection. **17.17** Encourage and promote effective public, public-private and civil society partnerships.	Investments paying corporate tax.	No.	130	147	146
			Corporate taxes reported for all investments, with continent breakdown below:				
			Africa	DKK '000	3,292,825	1,608,370	1,092,760
			Europe	DKK '000	471,014	(63,174)	80,813
			Asia	DKK '000	1,525,968	1,044,477	1,137,949
			Global	DKK '000	124,878	327,733	630,210
			Latin America	DKK '000	(4,718)	314,046	146,628
			Total	**DKK '000**	**5,409,967**	**3,231,453**	**3,088,361**

IFU'S STAFF AND PREMISES

IFU'S STAFF IS KEY TO A SUCCESSFUL EXECUTION OF THE INVESTMENT STRATEGY

A diverse staff
IFU's staff comes from diverse backgrounds, and IFU believes that a diverse workforce is pivotal to being a successful impact investor and a leader in the field of investing into developing countries and emerging economies. With its head office in Copenhagen and regional presence in Asia, Africa, Latin America and Europe, IFU works across geographies, and all jobs in IFU offer the opportunity to work and deliver results in a global context creating development, in line with IFU's impact priorities.

Gender composition
IFU's policy and objectives for the gender composition of the board and leadership positions in IFU follow the guidelines of the Danish Business Authority, Section 11 (2) of the Danish Gender Equality Act and Section 99 b of the Danish Financial Statements Act.

IFU's board of directors consists of up to ten members and is appointed by the minister for development cooperation. To have a balanced composition on the board of directors, the objective is to have representation of at least one third of each gender. Currently, the board consists of eight members and one observer (observers are not included as per the guidelines from the Danish Business Authority). Three are male (38 per cent), and five are female (62 per cent).

The objective for the gender composition of leadership positions at IFU is the same as the above. End of 2022, the composition was a 36/64 per cent female/male split. For all employees, IFU had a 40/60 per cent female/male split end of 2022.

HR statistics 2022	
Full-time employees	98
Regional representation	18%
Nationalities	18
Female employees	40%
Average age of employees	43.5 years
Average seniority	9 years*
Employee turnover	1.99%*
New people onboarded	22

* Excluding students and others on hourly wage. All figures are based on FTE.

Learning culture
IFU's staff is key to a successful execution of the investment strategy. As a global knowledge organisation, the ability to deliver results relies on teamwork, knowledge sharing and on-going organisational learning and development. In 2022, a special effort was made in regard to being an impact investor. In connection with the annual staff seminar, firstly a panel with invited key stakeholders (IFC, Minestry of Foreign Affairs, IFU's board, Danish institutional investors and a Danish partner company) discussed how they viewed the impact investor space now and in the future. All staff took part in the meeting. Later the same week, following the panel discussion, the annual staff seminar was kicked off by key notes from BII, sharing their journey and learnings to become an impact investor and responsAbility sharing insights from their business model as impact fund.

To support IFU's investment strategy and learning culture, IFU is currently engaging in a major digital transformation, which covers improved system support for core investment processes, as well as talent management, organisational learning and development, data analytics, collaboration and knowledge management. As part of the change management and adoption efforts, targeted IT training, as well as access to third party courses and training material are offered when rolling out new systems and services. Training is based on skills mapping surveys and informal feedback gathered across the organisation. Furthermore, the IT department is continuously working with data, compliance and cyber security awareness within the organisation.

Health and safety
IFU has a joint cooperation and health and safety committee (SMU) that discusses work-related issues, including health and safety. In 2022, an engagement survey was performed that showed satisfaction and motivation just below the level of the financial services industry in Denmark and global, and that loyalty was almost at par. With a response rate of 85 per cent, the results are viewed as good, but nevertheless a process across the organisation was carried out to understand the details behind the results and identify actions for improvement. A pulse survey will be carried out Q1 2023 to follow up, and a workplace assessment will be conducted in Q3 2023, both in line with the overall timeline for surveys.

MANAGEMENT'S REVIEW

Indicator	Unit	2022	2021	2020	2019
GHG emissions	tCO_2e	669	208	304	1,052
Scope 2: electricity, heating	tCO_2e	10	11	70	76
Scope 3: flights, hotels, canteen	tCO_2e	659	197	234	976
Water consumption	m^3	552	436	455	585
Waste generation	kg	9,630	7,151	10,640	14,919
Waste recycling	kg	3,400	955	2,210	3,400
Paper	kg	2,270	535	1,550	2,940
Cardboard	kg	535	420	660	460
Electronic	kg	595	-	-	-

IN 2022, IFU RECYCLED 35 PER CENT OF ITS WASTE

Environmental efforts
IFU is working to reduce the environmental footprint from own operations, which is primarily related to office activities and business travel. At the premises, the efforts focus on increasing efficiency of energy and water consumption, as well as waste recycling. IFU also includes environmental considerations in purchasing of goods and services. For example, all office paper is FSC certified and recycled paper with the EU Ecolabel. Furthermore, environmental, as well as health and safety considerations are reflected in the terms and conditions of contractors working at IFU's premises. IFU's canteen at the head office in Copenhagen prepares a lunch buffet with healthy food and a selection of vegetarian dishes. The canteen now serves 60 to 90 per cent organic food.

IFU's total CO_2e emissions constitute scope 2 and scope 3 emissions, as IFU has no direct emissions from owned or controlled sources (scope 1). Scope 2 emissions relate to IFU's consumption of purchased electricity and district heating for the head office in Copenhagen. In 2021, IFU signed a certificate with electricity supplier Norlys to supply 100 per cent renewable energy, which explains the significant decrease in scope 2 emissions in 2021 and 2022.

Scope 3 comprises CO_2e emissions from business travel and paper usage by employees. After two years with Covid-19 travel restrictions, business-related travel activities resumed at IFU in 2022, although with lower intensity than pre-pandemic levels. The Covid-19 restrictions have provided good experience of replacing a number of physical meetings with digital, and IFU will strive to maintain reduced travel-related emissions on a more permanent basis. However, IFU's employees will still need to visit projects to conduct due diligence and participate in board meetings as part of our active ownership. Going forward, IFU aims to include GHG emissions from data hosting and storage in the calculation of scope 3.

In 2022, IFU recycled 35 per cent of its waste, which is a significant improvement since 2021, where the recycling rate was 13 per cent.

Hardware management
Given the relatively high environmental impacts of IT hardware production, equipment longevity is the most environmentally safe use of resources. Therefore, IFU aims to keep equipment operating as long as possible, investing in repairs and long-term maintenance and support agreements. When the equipment is no longer fit for purpose, IFU collects and disposes of all electronic equipment in an environmentally safe manner, either through refurbishment or recycling. In collaboration with the vendor or with a certified third party, IFU ensures data erasure and resource reclaiming and recycling according to the EU Waste from Electrical and Electronic Equipment (WEEE) directive.

When purchasing new IT equipment, software and services, vendors must live up to sustainability standards as set out in IFU's sustainability policy, including requirements for energy efficiency and durability.

Digital transformation

IFU is currently engaging in a major digital transformation to improve the internal IT investment management system, including supporting ESG and impact-related activities throughout the investment lifecycle. This will ensure more effective performance assessment and steer decision-making on new investment opportunities, aligned with future EU regulation reporting requirements.

Initiatives include:

- Providing better data quality through system support, self-service and automation
- Improving data analysis, forecasting and scenario planning
- Visualizing current state and trends at portfolio and sector levels
- Delivering just-in-time reporting, with improved data quality
- Actively managing sourcing, screening, active ownership and exit processes to optimize the investment portfolio and increase efficiencies
- Improving IFU's ability to execute through better collaboration tools

Data security and data ethics

IFU continuously works on maintaining and improving its cyber security posture and data integrity. As new systems and IT services are implemented, protection of personal data, as well as data ethics considerations, are included in the architecture, following the privacy by design principles.

At the current stage, IFU does not use data extensively, apart from the data and processes required to comply with relevant legislation, or as part of our recruitment efforts, and hence no policy for data ethics is currently relevant.

To clarify, IFU does not:

- Collect and compile large amounts of data for analyses
- Use personal data for segmentation or profiling
- Share or sell personal data
- Harvest data on social media platforms
- Apply artificial intelligence for decision support or automatization

IFU does acquire data from third parties for due diligence purposes, including for anti-money laundering and know your customer purposes. This data is however not used for cross-referencing or in any way used as part of any mosaic efforts. •

FINANCIAL HIGHLIGHTS 2018 - 2022

	2022 DKKm	2021 DKKm	2020 DKKm	2019 DKKm	2018 DKKm
INCOME STATEMENT					
Contribution from projects[1]	10	200	(160)	46	(121)
Operating income[2]	(63)	180	(170)	31	(155)
Net income for the year	(57)	182	(174)	28	(161)
BALANCE SHEET AT 31 DECEMBER					
Share capital investment in projects at cost	4,250	3,668	3,247	2,829	2,332
Project loans at cost	1,498	1,408	1,069	1,053	1,002
Total investment in projects at cost	5,748	5,076	4,316	3,883	3,334
Accumulated allowance for impairment and value adjustments	(344)	(293)	(300)	(87)	(29)
Investments in projects, net[1]	5,404	4,783	4,016	3,796	3,306
Cash and bonds, net	166	94	330	518	538
Paid-in capital during the year	224	50	60	337	306
Repaid capital/Paid-out dividend during the year	0	0	0	(50)	(50)
Total equity capital	4,631	4,276	4,040	4,161	3,802
Total balance	5,699	5,080	4,442	4,416	3,970
ADDITIONAL DATA					
New projects contracted (no.)	9	3	10	9	25
Portfolio of projects end of year (no.)	139	145	161	170	178
Investments contracted	844	502	745	670	3,070
Investments disbursed	883	978	775	903	849
Undisbursed contracted investments incl. guarantees end of year	2,156	2,417	2,877	2,977	3,645
Binding commitments not yet contracted end of year	211	279	723	460	765
KEY RATIOS					
Yield from share capital investments[3]	5.0%	4.4%	(4.5%)	1.1%	(7.6%)
Yield from project loans and guarantees[3]	(14.8%)	5.6%	(2.2%)	2.2%	5.4%
Yield from projects (total)[3]	0.2%	4.5%	(4.1%)	1.3%	(3.9%)
Net income for the year/Average total equity capital	(1.3%)	4.4%	(4.2%)	0.7%	(4.3%)
Solidity ratio	81.3%	84.2%	90.9%	94.2%	95.8%
Average number of full-time employees	98	97	92	88	89

Totals may not add up due to rounded figures.

1) Information about composition of the contribution from projects including value adjustments and allowance for impairment can be found in "Financial review" on page 58.

2) Operating income comprises contribution from projects, management fees, other income and less operating expenses.

3) Contribution from projects/Average investment in projects - value adjusted.
Contribution from share capital investments/Average share capital in projects - value adjusted.
Contribution from project loans and guarantees/Average project loans - net of allowance for impairment and value adjustments.

FINANCIAL REVIEW

YIELD FROM SHARE CAPITAL INVESTMENTS WAS 5.0 PER CENT

IFU recorded a loss of DKK (57)m in 2022 compared to a profit of DKK 182m in 2021.

Given the Russian invasion of Ukraine on 24 February 2022 and IFU's exposure to Ukraine, the expected result for the year was subject to considerable uncertainty, and the invasion and the consequences hereof ended up having a significant negative effect, both directly on the valuation of IFU's own portfolio in Ukraine, and, to a lesser extent, indirectly via the exposure to Ukraine in funds managed by IFU.

In total, the negative contribution from Ukraine included in IFU's result is DKK (298)m. Excluding this contribution, the result would have been a profit of DKK 241m, meaning that the portfolio outside Ukraine performed satisfactorily, especially when considering the wider adverse market development in 2022, affecting many countries. Currency effects provided an overall positive contribution in 2022, but at a lower level than in 2021.

Yield from share capital investments was 5.0 per cent against 4.4 per cent in 2021, whereas yield from loans was a negative (14.8) per cent in 2022 against 5.6 per cent in 2021. Especially the yield from loan was affected by higher allowances for impairment on IFU's loan portfolio in Ukraine.

Management fees and other income fell in 2022, related to lower management fees from managed funds. Operating expenses increased with the increase dispersed on several items, including travel expenses starting to normalise after lifting of Covid-19 related restrictions. Net financial income increased, mainly due to currency gains on cash positions in USD.

IFU's equity end of year 2022 was DKK 4,631m.

Appropriation of net income for the year
Due to the negative result and in accordance with IFU's dividend policy, no declaration of dividend for 2022 is proposed.

Contribution from projects
Total contributions from IFU's primary project-related activities were DKK 10m against DKK 200m in 2021.

Share capital investments contributed DKK 196m in 2022 against DKK 146m in 2021. Included in the contribution is an estimated positive DKK 35m contribution from currency appreciation, primarily from those investments with an exposure towards the USD. In 2021, the estimated contribution from currency appreciation was DKK 156m. Negative value adjustments on the Ukraine portfolio accounted for DKK (77)m in 2022.

Project loans and guarantees contributed negatively DKK (178)m in 2022 against DKK 63m in 2021, the negative contribution being overwhelmingly due to higher allowances for impairment on IFU's loan portfolio in Ukraine in the amount of DKK (221)m. Without this, the contribution would have been a positive DKK 43m or a yield of 4.1 per cent. Net effect of exchange rate adjustments and hedges was DKK 14m, compared to DKK 26m in 2021, and due especially to the higher USD.

Other contributions from projects were DKK (9)m in 2022 at the same level as in 2021.

Management income and operating expenses
Management income was DKK 66m in 2022, down from DKK 98m in 2021. The lower level was expected and according to plan.

Overall expenses covering both IFU and IFU managed funds rose to DKK 138m from DKK 118m in 2021. Several expense items reflected the increase, including travel, regional offices, IT and various expenses.

Financial income, cash flows and balance sheet items
Net financial income was DKK 5m compared to DKK 3m in 2021. The result mainly reflects currency gains on USD cash positions during the year.

Net cash flow for the year was DKK 75m after sale of DKK 4m in bonds. Financing activities provided a net of DKK 606m comprised mainly of loan financing from Danmarks Nationalbank of DKK 426m and new capital contributions from the State of DKK 224m. New disbursements to investments were DKK 883m, and IFU received DKK 446m from investments and investment-related receivables.

END OF YEAR, IFU'S EQUITY WAS DKK 4,631M

The capital contribution from the State (Ministry of Foreign Affairs) of DKK 224m is comprised of DKK 100m for the HRHI initiative, see page 28, DKK 100m being first tranche of a new India Climate Finance Initiative, expected to reach DKK 200m in total, a top-up of DKK 15m towards the Project Development Programme, and finally transfer of DKK 10m related to the Nordic Fund Project in Somalia approved in 2021.

The average value-adjusted portfolio of share capital investments grew to DKK 3.9bn in 2022 from DKK 3.3bn in 2021. For loans and guarantees, the average value-adjusted portfolio grew to DKK 1.2bn from DKK 1.1bn in 2021.

Cash and bonds, net end of year was DKK 166m, up from DKK (13)m in 2021, the 2021 figure including liabilities on repo transactions. Undisbursed commitments end of year were DKK 2.4bn, down from DKK 2.7bn in 2021. A draw of DKK 6m was made on overdraft facilities end of 2022 compared to a draw of DKK 106m end of 2021. Other cash balances were positive with DKK 68m end of 2022.

According to IFU's liquidity policy, the aim is to always have a positive cash position. With net cash and bonds at DKK 166m, the cash position at year-end 2022 is fulfilling this objective. The high level of commitments compared to cash underlines the continued need for continued stringent management of IFU's liquidity position. However, considering that commitments normally only translate into disbursements over a multi-year period, the planned future cash flow as well as existing and expected funding, it is expected that IFU will be opening up for making commitments for new projects funded by IFU's own capital at a modest level in 2023. All initiatives with earmarked funding, including Denmark's Green Future Fund, the HRHI initiative and the ICFI initiative, see page 6, will continue to invest unaffected by the current restraint on new commitments from IFU's own capital.

The liquidity position is backed by the overdraft and loan facilities in the table below.

Including the positive cash and bonds balance of DKK 172m, total liquidity resources available to IFU, of which some are earmarked, thus amounted to DKK 2.0bn at year-end 2022.

As per 31 December 2022, IFU's equity was DKK 4,631m, up from DKK 4,276m on 31 December 2021. The net change reflects the net loss, paid-in capital from the State (Ministry of Foreign Affairs) in the year of DKK 215m and an in-kind transfer of the Ministry of Foreign Affairs' shareholding in the African Guarantee Fund of DKK 197m, see page 26.

Risk management

IFU invests in projects located in developing countries. Political and economic conditions may be volatile, and the projects are often subject to high commercial risk.

Overdraft and loan facilities				Status on 31 December 2022 (DKKm)	
Type	Purpose	Issuer	Amount (DKKm)	Drawn (by IFU)	Available
Overdraft facility[1]	General	Danske Bank	300	6	294
Overdraft facility	General	Danske Bank	200	0	200
EU funding	Financing of specific projects	EU	174	77	97
Loan facility	Financing of SDG Fund	Nationalbanken	800	425	375
Loan facility	Financing of Denmark's Green Future Fund (GFF)	Nationalbanken	1,000	405	595
Loan facility[2]	Refinancing of IFU loans fullfilling NIB mandate	The Nordic Investment Bank	372	104	268
Total credit and loan facilities					**1,830**

1) Shared with IØ.
2) Loan facility is EUR 50m.

As a result of this exposure, and in particular because IFU measures its investments at estimated fair value or recoverable amount in accordance with the accounting principles set out in the Danish Financial Statements Act, IFU's net results may fluctuate considerably from year to year due to value adjustments on the investments.

INCLUDING IFU MANAGED FUNDS, IFU EXPECTS TO INVEST IN THE RANGE OF DKK 1,500-2,000M

In preparing the financial statements, management makes a number of estimates and assumptions of future events that will affect the carrying amount of assets and liabilities. The areas where estimates and assumptions are most critical to the financial statements are the fair value measurement of share capital investments and the assessment of the need for specific allowances for impairment on project loans. The notes to the financial statements provide more details.

To manage the overall risk in IFU's investment portfolio, a set of risk policies have been implemented in the investment policy. These policies include guidelines for appraisal of commercial risk for project, partner and country risk exposure, as well as guidelines for managing direct financial risk.

Commercial risk for each project is evaluated at the time of appraisal using a risk model based on IFU's experience from previously exited projects as well as on sensitivity analyses of key performance parameters specific to the project in question.

Órigo's solar farm, Tiradentes-São Francisco, Minas Gerais, Brazil.

Distribution of project commitments as at 31 December 2022 – five largest single country portfolios *

Country	2022 (%)	2021 (%)
India	8.5	8.3
Brazil	6.2	4.6
Ukraine	4.6	5.0
China	4.2	4.8
Egypt	3.6	3.9

* Based on IFU and IFU's share of portfolio investments in own managed funds

Project risk (and commercial risk) is further managed by the limit for IFU's participation in individual projects, which is DKK 150m, whereas partner risk is limited through the indicative limit that a partner (at group level) should not account for more than 20 per cent of the fund's total project commitments (the sum of investments at acquisition cost, remaining commitments and binding commitments).

Country risk is managed by the indicative limit that the total commitment in any single country should not exceed 30 per cent of the fund's total project commitments.

Details on equity, credit, currency, interest rate risk and liquidity risk are provided in notes 23 to 26 to the financial statements.

Events after the balance sheet date

No events have occurred after the balance sheet date, which have materially affected IFU's financial position.

Outlook for 2023

In 2023, IFU expects to invest own funds in the range of DKK 600-800m, including investments within Denmark's Green Future Fund, the HRHI initiative and the India Climate Finance Initiative. IFU expects a positive result in 2023 in the range of DKK 200-300m, the amount however subject to considerable uncertainty as the wider geopolitical and economic volatility seen in 2022 may continue into 2023, especially in developing countries.

Including IFU managed funds, IFU expects to invest in the range of DKK 1,500-2,000m. •

STATEMENT BY THE MANAGEMENT ON THE ANNUAL REPORT

The executive management and the board of directors have today considered and approved the annual report of the Investment Fund for Developing Countries (IFU) for the financial year 1 January – 31 December 2022.

The annual report has been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the annual report gives a true and fair view of IFU's financial position as per 31 December 2022 and of the results of IFU's operations and cash flows for 2022.

Further, it is our opinion that business procedures and internal controls have been set up to ensure that the transactions covered by the financial statements comply with the appropriations granted, legislation and other regulations and with agreements entered into and usual practice; and that due financial consideration has been taken of the management of funds and operations covered by the financial statements.

In addition, it is our opinion that systems and processes have been established to support economy, productivity and efficiency.

It is further our opinion that the management's review includes a true and fair account of the development in the operations and financial circumstances of the fund of the results for the year and the financial position of IFU.

Copenhagen, 14 April 2023

Executive management:

Torben Huss, CEO

Søren Peter Andreasen, Deputy CEO

Board of Directors:

Michael Rasmussen, Chairman

Anette Eberhard, Deputy Chairman

Thomas Bustrup

Emilie Agner Damm

Nanna Hvidt

Hanna Line Jakobsen

Jarl Krausing

Irene Quist Mortensen

INDEPENDENT AUDITOR'S REPORT

To the Board of directors of the Investment Fund for Developing Countries (IFU)

Report on the financial statements

Opinion
We have audited the financial statements of IFU for the financial year 1 January to 31 December 2022, which comprise the income statement, balance sheet, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies, as stated on pages X-Y. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of IFU's financial position at 31 December 2022 and of the results of its operations and cash flows for the financial year 1 January – 31 December 2022 in accordance with the Danish Financial Statements Act.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark as well as the public auditing standards as the audit is performed based on the Articles of Association of IFU. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of this auditor's report. We are independent of IFU in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional ethical requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's responsibilities for the financial statements
Management is responsible for the preparation of financial statements that are accurate in all material respects, i.e. prepared in accordance with the state accounting rules, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing IFU's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate IFU or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark as well as the public auditing standards, as the audit is performed based on the Articles of Association of IFU, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs and the additional requirements applicable in Denmark as well as the public auditing standards, as the audit is performed based on the Articles of Association of IFU, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risk of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of IFU's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on IFU's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause IFU to cease to continue as a going concern.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statement on the management's review
Management is responsible for the management's review.

Our opinion on the financial statements does not cover the management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the management's review and, in doing so, consider whether the management's review is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the management's review provides the information required under the Danish Financial Statement Act.

Based on the work we have performed, we conclude that the management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement of the management's review.

Report on other legal and regulatory requirements

Statement on compliance audit and performance audit
Management is responsible for ensuring that the transactions covered by the financial statements are in accordance with appropriations granted, laws and other regulations, and with agreements entered into and usual practice, and for ensuring that sound financial management is exercised in the administration of the funds and the operation of the activities covered by the financial statements. Management is also responsible for setting up systems and processes supporting financial prudence, productivity and efficiency.

As part of our audit of the financial statements, it is our responsibility to perform compliance audit procedures and performance audit procedures on selected subject matters in accordance with the public auditing standards. In our compliance audit, we test the selected subject matters to obtain reasonable assurance about whether the examined transactions covered by the financial statements comply with the relevant provisions of appropriations, laws and other regulations, and with agreements entered into and usual practice. In our performance audit, we make an assessment to obtain reasonable assurance about whether the systems, processes or transactions examined support the exercise of sound financial management in the administration of the funds and the operation of the activities covered by the financial statements.

If, based on the procedures performed, we conclude that material critical comments should be made, we are required to report this in this statement.

We have no material critical comments to report in this connection.

Copenhagen, 14 April 2023

Deloitte
Statsautoriseret Revisionspartnerselskab
Business Registration No. 33 96 35 56

Jens Ringbæk
State-Authorised Public Accountant
Identification number (MNE): mne27735

Lars Hillebrand
State-Authorised Public Accountant
Identification number(MNE): mne26712

35 PER CENT OF THE NEW INVESTMENTS WERE MADE IN AFRICA

INCOME STATEMENT

Note		2022 DKK 1,000	2021 DKK 1,000
2/	Contribution from share capital investments	196,420	146,264
3/	Contribution from project loans and guarantees	(177,662)	62,536
4/	Other contributions from projects	(8,550)	(8,946)
	CONTRIBUTION FROM PROJECTS	**10,208**	**199,854**
5/	Management fees and other income	65,568	97,784
5/	Operating expenses	(138,423)	(118,131)
	OPERATING INCOME	**(62,647)**	**179,507**
6/	Financial income, net	5,452	2,878
	NET INCOME FOR THE YEAR	**(57,195)**	**182,385**

BALANCE SHEET AT 31 DECEMBER

ASSETS

Note		2022 DKK 1,000	2021 DKK 1,000
	FIXED ASSETS		
	Share capital investment in projects at cost	4,249,532	3,667,595
	Value adjustments	57,020	(120,295)
7/	Share capital investment in projects	4,306,552	3,547,300
	Project loans at cost	1,498,316	1,408,298
	Allowance for impairment and value adjustments	(400,811)	(172,276)
8/	Project loans, net	1,097,505	1,236,022
9/	Investment in subsidiaries	2,230	2,230
10/	Fixed assets and leasehold improvements	3,027	2,610
	Total fixed assets	**5,409,314**	**4,788,162**
	CURRENT ASSETS		
11/	Interest receivable related to projects	32,637	50,897
12/	Other receivables	85,287	40,881
	Bonds	103,686	107,673
	Cash	68,067	92,293
	Total current assets	**289,677**	**291,744**
	TOTAL ASSETS	**5,698,991**	**5,079,906**

FINANCIAL STATEMENTS

BALANCE SHEET AT 31 DECEMBER

LIABILITIES AND EQUITY

Note		2022 DKK 1,000	2021 DKK 1,000
	EQUITY		
	Paid-in capital	3,009,490	2,597,717
	Repaid capital	(1,250,000)	(1,250,000)
	Proposed dividend	0	0
	Retained earnings	2,871,390	2,928,585
13/	**Total equity**	**4,630,880**	**4,276,302**
	PROVISION FOR LOSSES		
14/	Provisions for guarantees and loan commitments	2,110	3,450
	NON CURRENT LIABILITIES		
15/	Long-term debt	985,242	496,383
	CURRENT LIABILITIES		
	Drawn on bank credit facility	5,882	105,519
	REPO with Danske Bank	0	107,551
16/	Other current liabilities	74,877	90,701
		80,759	303,771
	Total liabilities	**1,066,001**	**800,154**
	TOTAL EQUITY, PROVISION FOR LOSSES AND LIABILITIES	**5,698,991**	**5,079,906**

1/ ACCOUNTING POLICIES
17/ UNDISBURSED COMMITMENTS TO PROJECTS
18/ CONTINGENT LIABILITIES
19/ RELATED PARTY DISCLOSURES
20/ RECOMMENDED APPROPRIATION OF NET INCOME
21/ FINANCIAL HIGHLIGHTS AND INVESTMENTS CONTRACTED IN 2022
22/ FINANCIAL RISK MANAGEMENT
23/ EQUITY AND CREDIT RISK
24/ CURRENCY RISK
25/ INTEREST RATE RISK
26/ LIQUIDITY RISK
27/ CLASSIFICATION OF FINANCIAL INSTRUMENTS
28/ FAIR VALUE MEASUREMENT BASIS

CASH FLOW STATEMENT

Note		2022 DKK 1,000	2021 DKK 1,000
	CASH FLOW FROM OPERATING ACTIVITIES		
	Dividends from projects received	104,945	40,795
	Interest from projects received	55,769	45,177
	Other project-related payments	27,192	(25,006)
	Operating expenses, net	(86,724)	(10,374)
	Net payments related to financial income and expenses	5,269	6,399
	Net cash from operating activities	**106,451**	**56,991**
	CASH FLOW FROM (TO) INVESTING ACTIVITIES		
	Received from sale of shares	122,930	250,386
	Received from project loans	143,854	92,563
	Received from derivatives, loans	(8,887)	(4,862)
	Collateral received regarding derivatives	(16,200)	(5,000)
	Paid-in share capital in projects	(629,502)	(596,318)
	Disbursement of project loans	(253,138)	(381,940)
	Received from (invested in) bonds	3,520	3,733
	Net cash from (to) investing activities	**(637,423)**	**(641,438)**
	CASH FLOW FROM (TO) FINANCING ACTIVITIES		
	Loan from Danmarks Nationalbank	425,792	205,068
	Loan from the Nordic Investment Bank	(12,455)	12,053
	Financing from EU	76,722	0
	Financing from REPO	(107,551)	107,551
	Paid-in capital received during the year	223,875	50,000
	Paid-out dividend during the year	0	0
	Paid-out/received payment from MFA related to planned project loan	0	(22,000)
	Net cash from (to) financing activities	**606,383**	**352,672**
	NET CHANGE IN CASH	75,411	(231,775)
	NET CASH BEGINNING OF YEAR	**(13,226)**	**218,549**
	NET CASH END OF YEAR	**62,185**	**(13,226)**
	- Shown as cash in current assets	**68,067**	**92,293**
	- Shown as drawn on bank credit facility	**(5,882)**	**(105,519)**

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Note

1/ Accounting policies

This annual report has been prepared in accordance with the provisions of the Danish Financial Statements Act concerning Class C enterprises (large).

In accordance with Section 37 (5) in the Danish Financial Statements Act, IFU applies the International Financial Reporting Standards (IFRS) as regards measurement of financial assets and financial liabilities (IFRS 9) and related disclosures (IFRS 7).

The accounting principles applied are unchanged from previous year.

Presentation and classification
To better reflect IFU's activities, the presentation of the income statement and balance sheet as well as the order of the line items in the income statement deviate from the standard format in the Danish Financial Statements Act. By presenting the primary statements on the basis of IFU's special character as an investment fund (long-term investments), the financial statements hereby provide the reader with the best possible overview of IFU's activities. The deviation is in accordance with Section 23 (4) of the Danish Financial Statements Act.

Recognition and measurement
Assets are recognised in the balance sheet when it is probable that future economic benefits will flow to IFU, and provided that the value of the assets can be measured reliably.

Liabilities are recognised in the balance sheet when IFU has a legal or constructive obligation as a result of a prior event, and it is probable that future economic benefits will flow out of IFU, and the value of the liabilities can be measured reliably.

On initial recognition, financial assets and liabilities are measured at fair value, which is generally equivalent to cost. Adjustment subsequent to initial recognition is affected as described below for each item.

Information brought to IFU's attention before the time of finalising the presentation of the annual report, and which confirms or invalidates affairs and conditions existing at the balance sheet date, is included in the recognition and measurement.

Income other than value adjustments is recognised in the income statement when earned, just as costs are recognised by the amounts attributable to this financial year. Value adjustments of financial assets and liabilities are recognised in the income statement as value adjustments. Danish kroner is used as the measurement currency. All other currencies are regarded as foreign currencies.

Fair value measurement
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted price, without any deduction for transaction costs.

For all other financial instruments not traded in an active market, the fair value is determined by using valuation techniques deemed to be appropriate in the circumstances. ▸

NOTES

For assets and liabilities that are measured at fair value on a recurring basis, IFU identifies transfers to and from the three levels of the fair value hierarchy by reassessing the categorisation and deems transfers to have occurred at the beginning of each reporting period.

Foreign currency adjustment
Foreign currency transactions are initially recognised in DKK using the exchange rate at the transaction date. Loans, receivables, payables and other monetary items denominated in foreign currencies, which have not been settled at the balance sheet date, are converted into DKK using the exchange rate at the balance sheet date. All exchange rate adjustments, including those that arise at the payment date, are recognised in the income statement as contribution from projects or financial income and expenses, depending on their nature.

Non-monetary items
Monetary balance sheet items are translated at the exchange rates at the balance sheet date, whereas non-monetary items are translated at transaction date rates.

Derivative financial instruments
On initial recognition in the balance sheet and subsequently, derivative financial instruments are measured at fair value. Positive and negative fair values of derivative financial instruments are recognised under other receivables or other payables, respectively, and are only offset when IFU has the legal right and the intention to settle several financial instruments net.

Changes in the fair value of derivative financial instruments are recognised in the income statement as either "Contribution from project loans and guarantees", if related to economical hedging of project loans, or "Other contributions from projects", if related to economical hedging of receivables from sale of shares.

INCOME STATEMENT

Contribution from share capital investments
Contribution from share capital investments includes declared dividends (net of non-refundable taxes), gains and losses from divested share capital investments and value adjustments in relation to the outstanding portfolio at year-end. Dividends are included in the income statement at the declaration date.

Contribution from project loans and guarantees
Contribution from project loans and guarantees includes interest income, guarantee commissions and value adjustments, including impairment provisions, reversals of impairment provisions and exchange rate adjustments.

Other contributions from projects
Other contributions from projects include value adjustments, including exchange rate adjustments in relation to receivables, the effect of derivative hedges and interest from receivables.

Management fees and other income
Management fees comprise fees received for the management of IFU managed funds.

Operating expenses
Operating expenses comprise expenses for management, administrative staff, office expenses, depreciation of fixed assets and leasehold improvements, etc.

Income from investments in associates and subsidiaries
Dividends from associates and subsidiaries are included in the income statement at the declaration date.

Financial income, net
Financial income, net comprises interest income on cash and bonds, realised and unrealised capital gains and losses on bonds, interest expenses, exchange rate adjustments on cash and bank charges.

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BALANCE SHEET

Share capital investment in projects
Share capital investments in projects are recognised when they are disbursed. Share capital investments in projects are measured both at initial recognition and throughout the investment period at fair value with changes recognised through profit or loss as contribution from share capital investments.

Share capital investments in projects where IFU has significant influence (typically 20-50 per cent of the voting rights) are associates and are accounted for as share capital investments.

Project loans
Project loans are designated as loans and receivables and are recognised when they are disbursed. Project loans are initially recognised at fair value and are subsequently measured at amortised cost less an allowance for impairment provided that they meet the so-called "SPPI" test (solely payments of principal and interest).

The allowance for impairment is measured in accordance with IFRS 9 by applying the simplified approach, whereby the expected loss in the remaining life of the loan is recognised irrespective of whether the loan is allocated to stage 3 (credit impaired), stage 2 (significant increase in credit risk) or stage 1 (all other loans).

The expected loss is measured loan by loan by applying an estimated loss percentage based on IFU's past experience, current expectations and internal rating of the individual project loans.

Provisions for losses on guarantees and loan commitments are calculated in the same way as the allowance for impairment of project loans.

Impaired project loans, together with the associated allowance amount, are written off when there is no realistic prospect of future recovery, and all collateral has been realised or has been transferred to IFU. If a previous write-off is later recovered, the recovery is credited to "Contribution from project loans and guarantees".

Project loans, which do not meet the "SPPI" test, e.g. loans which include equity features such as profit participation or equity conversion options, are measured at fair value. Value changes are recognised in profit or loss as contribution from project loans.

Investments in subsidiaries
Investments in subsidiaries are included in the balance at cost less accumulated impairment losses. Subsidiaries are insignificant in size and consolidated accounts have therefore not been made.

Fixed assets and leasehold improvements
Fixed assets and leasehold improvements are measured at cost less accumulated depreciation and impairment losses.

Straight-line depreciation is made on the basis of an estimated useful life of the fixed asset varying from three to ten years. Depreciation is recognised in the income statement under operating expenses.

Fixed assets and leasehold improvements costing less than DKK 50,000 per unit are recognised as costs in the income statement at the time of acquisition.

Interest receivable related to projects and other receivables
Interest receivables related to projects and other receivables are designated as receivables and are recognised over the period when they are earned.

Interest receivables related to projects and other receivables are recognised at nominal value less any allowance for impairment.

Interest receivable related to projects includes accrued interest on project loans. Other receivables include receivables from sale of shares and loans, dividends receivables, administrative and other project-related receivables. ▸

NOTES

Cash and cash equivalents
Bonds are stated at the official prices quoted on the balance sheet date except for drawn bonds, which are stated at par value. Realised and unrealised gains or losses on bonds are recognised in the income statement under financial income, net.

Non-current liabilities
Non-current liabilities are recognised at the date of borrowing as the proceeds received less transaction costs paid. Subsequently, non-current liabilities are measured at amortised cost. Liabilities are designated as long-term debt according to the repayment conditions at the balance sheet date.

Current liabilities
Current liabilities are initially recognised at fair value and are subsequently measured at amortised cost.

Commitments
Undisbursed commitments to projects are comprised of undisbursed contractual commitments and binding commitments not yet contracted. The existence of such liabilities will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within IFU's control.

CASH FLOW STATEMENT

The cash flow statement has been prepared in accordance with the direct method and shows IFU's cash flow from operating, investing and financing activities as well as IFU's cash position at the beginning and end of the year. Cash comprises cash at hand less short-term bank debt. ■

FINANCIAL STATEMENTS

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Note		2022 DKK 1,000	2021 DKK 1,000
2/	Contribution from share capital investments		
	Dividends from projects	140,236	46,529
	Realised gain (loss) from divested share capital investments	1,418	52,391
	Value adjustments, portfolio	54,766	47,344
	Contribution from share capital investments	**196,420**	**146,264**
3/	Contribution from project loans and guarantees		
	Interest income and fees related to project loans and guarantees	98,924	66,962
	Allowance for impairment, interest and fees	(45,777)	(10,280)
	Allowance for impairment and value adjustments, loan portfolio	(245,826)	(24,018)
	Allowance for impairment, remaining commitments on loan portfolio	1,137	3,872
	Allowance for impairment, guarantees	203	(337)
	Exchange rate adjustments, project loans	25,156	43,739
	Value adjustments, derivatives	(11,479)	(17,402)
	Contribution from project loans and guarantees	**(177,662)**	**62,536**
4/	Other contributions from projects		
	Value adjustments, receivables, excl. exchange rate adjustments	(2,014)	(752)
	Exchange rate adjustments, receivables	(4,337)	(1,627)
	Interest from receivables	587	212
	Other income and expenses	(2,786)	(6,779)
	Other contributions from projects	**(8,550)**	**(8,946)**

NOTES

Note		2022 DKK 1,000	2021 DKK 1,000
5/	Management fees, other income and operating expenses		
	Management fees and other income		
	Management fees	64,913	97,307
	Board member fees	555	377
	Various income	100	100
	Total management fees and other income	65,568	97,784
	Expenses		
	Salaries, head office	74,860	71,321
	Rental expenses, head office	7,926	7,274
	Travel expenses, head office	5,742	1,316
	Regional office expenses	18,742	13,782
	Fees for board of directors	1,340	1,122
	Fees for external assistance	7,081	6,066
	IT expenses	10,211	7,699
	Office expenses, head office	1,782	1,258
	Various expenses	9,031	6,031
	Depreciation of fixed assets and leasehold improvements (note 10)	585	493
	Total expenses before payroll tax	137,300	116,362
	Payroll tax	1,123	1,769
	Total operating expenses	138,423	118,131
	Fee to the auditor of the funds included in "Fees for external assistance" and "Various expenses":	**665**	**1,070**
	- hereof audit fees*	477	487
	- hereof other assurance engagements	112	365
	- hereof tax and VAT advice	17	0
	- hereof other non-audit services	59	218

*) Hereof DKK 375 directly related to IFU (DKK 382 in 2021).

NOTES

Note		2022 DKK 1,000	2021 DKK 1,000
	Specification of personnel expenses (salaries etc.)*		
	Salaries, remunerations etc.	81,336	74,304
	Pension contributions	7,579	7,393
	Other expenses for social security	402	390
	Payroll tax	1,123	1,769
	Personnel expenses in total	**90,440**	**83,856**

*)The figures are included in "Salaries, head office", "Travel expenses", "Regional office expenses", "Fees for board of directors" and "Payroll tax".

	2022	2021
Total remuneration to the board of directors	1,340	1,122
Total remuneration to the executive board	4,631	5,068
Total remuneration to the board of directors and executive board	**5,721**	**6,190**
Average number of employees, head office	80	81
Average number of employees, regional offices	18	16
	98	**97**

NOTES

Note		2022 DKK 1,000	2021 DKK 1,000
6/	Financial income, net		
	Financial income		
	Interest income, cash and bonds	1,729	(74)
	Gain on bonds	0	4
	Financial income	**1,729**	**(70)**
	Financial expenses		
	Interest expenses, bank charges and exchange rate adjustments	4,190	2,948
	Loss on bonds	(467)	0
	Financial expenses	**3,723**	**2,948**
	Financial income, net	**5,452**	**2,878**

NOTES

Note		2022 DKK 1,000	2021 DKK 1,000
7/	Share capital investment in projects		
	Share capital investment in projects beginning of year at cost	3,667,595	3,246,979
	Paid-in share capital in projects during the year	826,775	596,318
	Project loans or interest converted into share capital during the year	7,236	1,644
	Proceeds from divestment of shares	(130,943)	(249,860)
	Realised gain (loss) from divestment of shares relative to cost, net	(121,131)	72,514
	Share capital investment in projects end of year at cost *	**4,249,532**	**3,667,595**
	Accumulated value adjustments beginning of year	(120,295)	(145,872)
	Reversed value adjustments, divested share capital investments	122,549	(20,123)
	Value adjustments, portfolio during the year	54,766	47,344
	Value adjustments related to conversions during the year	0	(1,644)
	Accumulated value adjustments end of year	**57,020**	**(120,295)**
	Share capital investment in projects end of year	**4,309,298**	**3,547,300**
	Hereof associated companies:		
	Share capital investment in projects end of year at cost	2,263,176	1,931,931
	Accumulated value adjustments end of year	(26,099)	(236,623)
		2,237,077	**1,695,307**
	Accumulated value adjustments end of year are comprised of:		
	Positive value adjustments	673,222	564,061
	Negative value adjustments	(616,202)	(684,356)
		57,020	**(120,295)**

*) DKK 393.2m guaranteed by the Danish State (DKK 284.8m in 2021).

NOTES

Note

7/ Share capital investment in projects, net

Associated companies:

DKK 1,000

Name/domicile:	Form of company:	IFU's ownership interest (%)	2022 Result	2022 Equity*)
			According to the latest approved annual report	
aBi Finance Limited, *Uganda*	Ltd.	28.14%	18,751	318,343
AC Capitales Infrastructure Fund II, *Canada*	Fund	20.27%	(1,885)	4,469
Aerial & Maritime Ltd., *Mauritius*	Ltd.	35.17%	(2,102)	20,800
Africa Coffee Roasters Limited, *Kenya*	Ltd.	20.00%	(2,064)	41
AfriNord Hotel Investment A/S, *Denmark*	A/S	20.00%	(68)	2,758
Afro Farm Limited, *Tanzania*	Ltd.	40.00%	(1,801)	(4,164)
Al Quseir Hotel Company SAE, *Egypt*	SAE	20.00%	(1,331)	12,193
Alliance for Microfinance in Myanmar Limited, *Myanmar*	Ltd.	23.55%	373	150,076
BOPA PTE Ltd, *Cambodia*	Ltd.	30.31%	20,454	199,623
CerCa A/S, *Denmark*	A/S	48.00%	(46)	1,142
COT Africa Limited, *Mauritius*	Ltd.	49.99%	N/A	N/A
CRDB Bank Congo SA, *DR Congo*	SA	22.50%	N/A	N/A
Danish Agribusiness Fund K/S, *Denmark*	K/S	37.50%	(95,997)	230,998
Danish Climate Investment Fund I K/S, *Denmark*	K/S	39.92%	(43,503)	649,499
Danish Microfinance Partners K/S, *Denmark*	K/S	24.92%	(18,829)	181,642
Danish Sustainable Development Goals Investment Fund K/S, *Denmark*	K/S	40.00%	(1,693)	1,535,972
Danper Agricola La Venturosa S.A.C., *Peru*	S.A.C	45.00%	8,562	52,536
Danper Agricola Olmos S.A.C., *Peru*	S.A.C	25.00%	7,446	180,587
Dansani Kina Holding A/S, *Denmark*	A/S	50.00%	(1,263)	1,205
Dynatest South America Holding ApS, *Denmark*	ApS	33.33%	(1,026)	6,449

NOTES

Note

Associated companies:

DKK 1,000

Name/domicile:	Form of company:	IFU's ownership interest (%)	2022 Result	2022 Equity*)
			According to the latest approved annual report	
Emerging Markets Power (Ghana) Limited, *Ghana*	Ltd.	27.00%	(345)	621
Enara Bahrain SPV W.L.L., *Bahrain*	WLL	41.43%	12,125	136,734
Equilibrium Management Co. Ltd., *China*	Ltd.	31.60%	N/A	N/A
Fibertex South Africa, *South Africa*	Pty. Ltd.	25.80%	(9,784)	(12,938)
Foss India Private Limited, *India*	Ltd.	24.15%	877	(4,233)
Ghana Emulsion Limited, *Ghana*	Ltd.	26.10%	N/A	N/A
House of Odin Ltd., *Nigeria*	Ltd.	20.20%	2,012	9,879
Jema Autolife Co., Ltd, *China*	Ltd.	44.01%	N/A	N/A
Kenya Property Holding ApS, *Denmark*	ApS	49.00%	(253)	5,055
Kjaer Group A/S, *Denmark*	A/S	20.00%	(8,022)	76,530
NMI Fund IV KS, *Norway*	KS	20.03%	(7,446)	397,520
NMI GP IV AS, *Norway*	AS	22.37%	494	81,670
Nordic Horn of Africa Opportunities Fund, *Canada*	Fund	45.45%	(1,491)	97,182
Nordic Microfinance Initiative AS, *Norway*	AS	33.33%	10,257	81,082
Nordic Microfinance Initiative Fund III KS, *Norway*	KS	24.40%	20,993	494,197
Rabai Power Holdings Limited, *United Kingdom*	Ltd.	20.00%	32,371	417,775
Smart Solar International Holding, *France*	SA	49.00%	(74)	(1,596)
Spark+ Africa Fund SCSp, *Luxembourg*	SLP	45.33%	N/A	N/A

*) Excluding undisbursed commitments/not paid-in capital.

NOTES

Note		2022 DKK 1,000	2021 DKK 1,000
8/	Project loans, net		
	Project loans beginning of year at cost	1,408,298	1,068,522
	Disbursements during the year	253,138	381,940
	Interest and fees converted into project loans during the year	10,626	15,226
	Repayments during the year	(143,854)	(92,563)
	Project loans converted into share capital during the year	(7,236)	(1,564)
	Exchange rate adjustments, project loans	25,156	43,739
	Project loans transferred to other receivables during the year	(30,229)	0
	Write-offs during the year	(17,583)	(7,002)
	Project loans end of year at cost *	**1,498,316**	**1,408,298**
	Accumulated value adjustments incl. allowance for impairment beginning of year	(172,276)	(153,938)
	Reversed allowance for impairment, loans written off	(15,881)	(7,396)
	Value adjustments including allowance for impairment for the year	(212,362)	(9,619)
	Allowance for impairment related to conversions during the year	(292)	(1,323)
	Accumulated value adjustments incl. allowance for impairment end of year	**(400,811)**	**(172,276)**
	Project loans, net end of year	**1,097,505**	**1,236,022**
	Hereof project loans at amortised cost:		
	Project loans at amortised cost end of year at cost	1,414,650	1,329,564
	Accumulated allowance for impairment end of year	(395,791)	(174,638)
		1,018,859	**1,154,926**
	Hereof project loans at fair value:		
	Project loans at fair value end of year at cost	83,666	78,734
	Accumulated value adjustments end of year	(5,020)	2,362
		78,646	**81,096**
	*) Project loans end of year at cost are comprised of:		
	Senior project loans	1,132,084	1,050,111
	Subordinated loans	306,348	315,273
	Equity loans	59,884	42,914
		1,498,316	**1,408,298**

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*) Project loans end of year at cost in DKK distributed according to currency denomination:

	2022 Currency	2021 Currency	2022 DKK 1,000	2021 DKK 1,000
DKK			307,732	321,496
USD[1]	92,442	90,979	644,526	596,930
EUR	66,015	58,158	490,921	432,491
INR	500,000	500,000	42,150	44,150
Other currencies			12,987	13,231
			1,498,316	**1,408,298**

[1] USD 46.3m is hedged against DKK (USD 32.6m in 2021)

NOTES

Note		2022 DKK 1,000	2021 DKK 1,000
9/	Investment in subsidiaries		
	Investment in subsidiaries beginning of year at cost	2,230	2,230
	Investment in subsidiaries end of year at cost	**2,230**	**2,230**
	Accumulated value adjustments end of year	**0**	**0**
	Investment in subsidiaries, net end of year	**2,230**	**2,230**

Investment in subsidiaries comprises of:

Name / Domicile:	Form of company:	IFU's ownership interest (%)	2022 Result	2022 Equity
			According to the latest approved annual report	
IFU Investment Komplementar Copenhagen, Denmark	ApS	100%	21	221
IFU Investment Partners GP Copenhagen, Denmark	P/S	100%	(33)	282
DCIF I GP Komplementar Copenhagen, Denmark	ApS	100%	10	112
DCIF I GP Copenhagen, Denmark	P/S	100%	(19)	388
DAF I GP Komplementar Copenhagen, Denmark	ApS	100%	8	90
DAF I GP Copenhagen, Denmark	P/S	100%	(17)	423
DSDG GP Komplementar Copenhagen, Denmark	ApS	100%	7	74
DSDG GP Copenhagen, Denmark	P/S	100%	(15)	453

Subsidiaries are insignificant in size and consolidated accounts have not been made.

NOTES

Note		2022 DKK 1,000	2021 DKK 1,000
10/	Fixed assets and leasehold improvements		
	Cost beginning of year	12,689	12,281
	Additions during the year	1,002	408
	Cost end of year	**13,691**	**12,689**
	Depreciation beginning of year	10,079	9,586
	Depreciation for the year (note 5)	585	493
	Depreciation end of year	**10,664**	**10,079**
	Book value end of year	**3,027**	**2,610**
11/	Interest receivable related to projects		
	Interest receivable related to projects before allowance for impairment	119,835	96,378
	Allowance for impairment	(87,198)	(45,481)
	Interest receivable related to projects	**32,637**	**50,897**
12/	Other receivables		
	Dividend receivables	36,875	6,310
	Receivables from sale of shares	9,258	10,706
	Receivables from sale of loan	3,086	911
	Receivable front-end fees	1,353	894
	Other project-related receivables	153	141
		50,725	18,962
	Value adjustments	(3,984)	(3,465)
		46,741	15,497
	Derivatives *	5,662	2,249
	Collateral paid regarding derivatives	16,200	0
	Administrative receivables	13,486	20,129
	Accrued interest receivables from bonds	145	0
	Rental deposits	3,053	3,006
		85,287	**40,881**

*) Stated amount for 2022 concerns a hedged amount of USD 11.9m with term from 2023 to 2030.

NOTES

Note		2022 DKK 1,000	2021 DKK 1,000
13/	Total equity		
	Paid-in capital beginning of year	2,597,717	2,538,342
	Nordic Fund Project (Horn of Africa)	0	9,375
	High Risk High Impact Initiative	99,500	50,000
	African Guarantee Fund (in kind contribution)	197,273	0
	Project Development Programme	15,000	0
	India Climate Finance Initiative	100,000	0
	Paid-in capital end of year	**3,009,490**	**2,597,717**
	Repaid capital beginning of year	(1,250,000)	(1,250,000)
	Repaid capital end of year	**(1,250,000)**	**(1,250,000)**
	Dividend proposed for the year	**0**	**0**
	Retained earnings beginning of year	2,928,585	2,751,200
	Transfered income for the year	(57,195)	177,385
	Retained earnings end of year	**2,871,390**	**2,928,585**
	Total equity end of year	**4,630,880**	**4,276,302**
14/	Provisions for guarantees and loan commitments		
	Allowance for impairment on remaining commitments beginning of year	3,450	6,985
	Allowance for impairment on remaining commitments on loans	(1,137)	(3,872)
	Allowance for impairment on remaining commitments on guarantees	(203)	337
	Allowance for impairment on remaining commitments end of year	**2,110**	**3,450**

NOTES

Note		2022 DKK 1,000	2021 DKK 1,000
15/	Long-term debt		
	Loan from Danmarks Nationalbank	827,090	402,498
	Loan from the Nordic Investment Bank	81,430	93,885
	Loan from EU	76,722	0
		985,242	**496,383**

The term of the bullet loans issued by Danmarks Nationalbank are seven to nine years and with an annual interest rate of 0.5% - 0.0% and an annual fee to the Danish State of 0.15%.

The term of the equal instalment loans issued by Nordic Investment Bank are five to six years and with a semi-annual variable interest rate.

Loan from EU has no terms and is related to a specific share capital investment.

Note		2022 DKK 1,000	2021 DKK 1,000
16/	Other current liabilities		
	Other project-related debt	1,013	9,032
		1,013	9,032
	Derivatives*	10,679	4,674
	IFU Sustainability Facility	12,793	16,342
	Administrative debt	47,802	35,985
	Current accounts	1,388	24,182
	Other liabilities	1,202	486
		74,877	**90,701**

*) Stated amount for 2022 concerns a hedged amount of USD 34.3m with term from 2023 to 2028.

17/ Undisbursed commitments to projects

Undisbursed commitments to projects are comprised of undisbursed contractual commitments and binding commitments not yet contracted. The stated amount of guarantees is net of provision for losses, if any.

	2022 DKK 1,000	2021 DKK 1,000
Amounts payable on share capital and loan agreements	2,123,878	2,375,118
Guarantees*	32,160	42,228
Binding commitments	211,435	279,250
Undisbursed commitments to projects	**2,367,473**	**2,696,596**

*) Net outstanding guarantees after provision for losses amount to 32,021 (41,886 in 2021).

NOTES

Note		2022 DKK 1,000	2021 DKK 1,000

18/ Contingent liabilities

The total lease and rental commitments amount to DKK 8.6m (DKK 9.2m in 2021)
- hereof due within the following year DKK 8.4m (DKK 9.2m in 2021).

19/ Related party disclosures

IFU project investments - shares and loans
For a list of project investments where IFU has significant influence, see note 7.

Transactions conducted during the year with the project companies include dividends, interest income and fees and directors' fees from the companies in which IFU representatives are board members.

In accordance with section 98 c (7) of the Danish Financial Statements Act, the amount of the related party transactions have not been disclosed in the financial statements as they were conducted on an arm's length basis.

Board of directors and executive board
IFU's other related parties are the members of the board of directors and the executive board.

During 2022, IFU had business transactions with PKA where four pension funds under PKA have invested in funds managed by IFU - these investments are managed for PKA by IIP Denmark in which the deputy chairman is managing partner.

The rules of procedure for the board contain detailed rules regarding conflict of interest – as well as a reference to the conflict of interest rules in the Danish Public Administrations Act which the board is subject to – and the above-mentioned business transactions are not considered to be of a nature as to impair the general independence of the chairman or the deputy chairman.

Furthermore remuneration was paid to the members of the board of directors and the executive board.

20/ Recommended appropriation of net income

	2022	2021
Dividend proposed for the year	0	0
Distribution to IFU Sustainability Facility	0	5,000
Transfered to reserve under equity	(54,449)	177,385
	(54,449)	**182,385**

21/ Financial highlights and Investments contracted in 2022
Financial highlights (table) - see page 57
Investments contracted in 2022 (table) - see page 24

NOTES

Note

22/ Financial risk management

Introduction
Through investments, IFU is exposed to financial risks such as equity and credit risk on investments, currency risk, interest rate risk and liquidity risk.

The board of directors has established limits to avoid excessive concentrations of risk and through its investment policy and due diligence procedures, IFU further seeks to identify and mitigate the equity and credit risk.

23/ Equity and credit risk

Equity risk
Equity risk arises from changes in the fair values of share capital investments in projects.

Credit risk
Credit risk is the risk that IFU will incur a financial loss due to a counterparty not fulfilling its obligation. These credit exposures occur from project loans, derivatives and other transactions.

Managing equity and credit risk
At portfolio level, IFU mitigates equity risk and credit risk by investing in a variety of countries and by limiting the concentration of risks per partner. IFU assesses concentrations of risk on the basis of total commitments, which include acquisition cost of both share capital investments and project loans, binding commitments and amounts payable on share capital and loan agreements. Furthermore, through the due diligence process IFU assesses the specific risks for each share capital investment and project loan and seeks to mitigate associated equity and credit risks.
For some of IFU's share capital investments, IFU has the opportunity to sell the shares through pre-agreed exit agreements. In this way, IFU mitigates the risk of not being able to exit the investments. See note 28 for fair value measurement basis.

On an ongoing basis, the credit quality of the projects is assessed based on among other things:
- Specific terms as agreed
- Current and expected operational results of the company
- Expected sales value and pledges
- Historical records of debt service

NOTES

Note

The table below shows the distribution of the cost of IFU's investments by the OECD country risk classification.
This classification takes into account the political and economic environment of each country, including risk of force majeure such as war, etc. The classification of each country is updated twice a year.

2022	Share capital investments		Project loans		Total		Commitments (off balance)	
OECD	DKK 1,000	%	DKK 1,000	%	DKK 1,000	%	DKK 1,000	%
2	91,158	2%	101,561	7%	192,719	3%	55,128	2%
3	238,902	6%	76,200	5%	315,102	6%	153,414	6%
4	131,161	3%	48,219	3%	179,380	3%	15,358	1%
5	189,342	4%	263,846	18%	453,188	8%	20,519	1%
6	306,733	7%	384,925	26%	691,658	12%	7,986	0%
7	274,164	6%	439,496	29%	713,660	13%	110,982	5%
Africa regional	1,222,502	29%	81,542	5%	1,304,044	23%	306,378	13%
DAC	1,617,060	38%	32,513	2%	1,649,573	29%	1,619,687	68%
Asia regional	173,354	4%	0	0%	173,354	3%	30,969	1%
Latin America Regional	5,156	0%	0	0%	5,156	0%	47,052	2%
Not rated	0	0%	70,014	5%	70,014	0%	0	0%
Total	**4,249,532**	**100%**	**1,498,316**	**100%**	**5,747,848**	**100%**	**2,367,473**	**100%**

2021	Share capital investments		Project loans		Total		Commitments (off balance)	
OECD	DKK 1,000	%	DKK 1,000	%	DKK 1,000	%	DKK 1,000	%
2	97,508	3%	109,942	8%	207,450	4%	49,350	2%
3	232,230	6%	80,394	6%	312,624	6%	169,263	6%
4	127,186	3%	53,098	4%	180,284	4%	16,289	1%
5	189,342	5%	186,484	13%	375,826	7%	27,690	1%
6	336,501	9%	481,997	34%	818,498	16%	164,100	6%
7	167,741	5%	238,721	17%	406,462	8%	246,635	9%
Africa regional	1,035,178	28%	180,417	13%	1,215,595	24%	193,184	7%
DAC	1,354,779	37%	15,083	1%	1,369,862	27%	1,751,100	65%
Asia regional	2,445	0%	0	0%	2,445	0%	32,215	1%
Latin America Regional	124,685	3%	0	0%	124,685	2%	46,770	2%
Not rated	0	0%	62,162	4%	62,162	0%	0	0%
Total	**3,667,595**	**100%**	**1,408,298**	**100%**	**5,075,893**	**100%**	**2,696,596**	**100%**

NOTES

Note

Credit quality/impairment (IFRS 9)
All outstanding project loans valued at amortised cost have been classified into three stages:
- Stage 1 includes project loans with no credit deterioration and no specific allowance for impairment. The allowance for impairment according to IFRS 9 are based on IFU's historical annual credit loss.
- Stage 2 includes project loans where payments are delayed with more than 30 days at the end of the year but without specific allowance for impairment. The allowance for impairment according to IFRS 9 are based on IFU's historical credit loss.
- Stage 3 includes credit impaired project loans with a specific allowance for impairment.

The table below shows the project loans at cost according to stages.

DKK 1,000	2022	2021
Project loans (stage 1)	715,078	844,419
Project loans (stage 2)	148,164	275,057
Project loans (stage 3)	551,408	210,088
Total	**1,414,650**	**1,329,564**

The table below illustrates the credit quality by OECD country risk for project loans in stage 1.

DKK 1,000	2022	2021
OECD 0	128,984	235,867
OECD 2	4,183	15,747
OECD 3	74,100	88,792
OECD 4	6,000	9,000
OECD 5	239,151	161,790
OECD 6	138,049	154,545
OECD 7	124,611	178,678
Total	**715,078**	**844,419**

NOTES

Note

The table below shows project loans according to stages.

DKK 1,000	Allowance for impairment %	Project loans at cost	Accumulated allowance for impairment	Project loans carrying amount 2022
Project loans (stage 1)	(1.3)%	715,078	(9,233)	705,845
Project loans (stage 2)	(7.5)%	148,164	(11,140)	137,024
Project loans (stage 3)	(68.1)%	551,408	(375,418)	175,990
Total		**1,414,650**	**(395,791)**	**1,018,859**

DKK 1,000	Allowance for impairment %	Project loans at cost	Accumulated allowance for impairment	Project loans carrying amount 2021
Project loans (stage 1)	(1.8)%	844,419	(14,969)	829,450
Project loans (stage 2)	(13.6)%	275,057	(37,341)	237,716
Project loans (stage 3)	(58.2)%	210,088	(122,328)	87,760
Total		**1,329,564**	**(174,638)**	**1,154,926**

NOTES

Note

Project loans at amortised cost before allowance for impairment	Stage 1	Stage 2	Stage 3	Total 2022
Project loans beginning of year at cost	844,419	275,057	210,088	1,329,564
Disbursements during the year	249,867	0	3,271	253,138
Interest and fees converted into project loans during the year	9,599	735	292	10,626
Repayments during the year	(139,105)	(3,149)	(1,600)	(143,854)
Project loans converted into share capital during the year	(7,236)	0	0	(7,236)
Exchange rate adjustments, project loans	12,607	6,595	1,022	20,224
Project loans transferred to other receivables during the year	(27,229)	0	(3,000)	(30,229)
Write-offs during the year	(1,186)	0	(16,397)	(17,583)
Project loans end of year at cost before change of stages	941,736	279,238	193,676	1,414,650
Change in loan value from stage 1	(251,758)	116,957	134,801	0
Change in loan value from stage 2	25,100	(248,031)	222,931	0
Project loans end of year at cost	**715,078**	**148,164**	**551,408**	**1,414,650**

Accumulated allowance for impairment	Stage 1	Stage 2	Stage 3	Total
Accumulated allowance for impairment beginning of year	(14,969)	(37,341)	(122,328)	(174,638)
Reversed allowance for impairment, loans written off	0	0	15,881	15,881
Allowance for impairment for the year	(86,747)	(143,460)	(6,535)	(236,742)
Allowance for impairment related to conversions during the year	0	0	(292)	(292)
Accumulated allowance for impairment end of year before change of stages	(101,716)	(180,801)	(113,274)	(395,791)
Change in loan value from stage 1	92,483	(6,759)	(85,724)	0
Change in loan value from stage 2	0	176,420	(176,420)	0
Accumulated allowance for impairment end of year	**(9,233)**	**(11,140)**	**(375,418)**	**(395,791)**

NOTES

Note

Project loans at amortised cost before allowance for impairment	Stage 1	Stage 2	Stage 3	Total 2021
Project loans beginning of year at cost	586,205	313,259	169,058	1,068,522
Disbursements during the year	360,020	21,675	245	381,940
Interest and fees converted into project loans during the year	5,233	1,836	8,157	15,226
Repayments during the year	(52,861)	(6,170)	(33,532)	(92,563)
Project loans converted into share capital during the year	0	0	(1,564)	(1,564)
Exchange rate adjustments, project loans	23,384	14,902	5,453	43,739
Transferred to loans at fair value	0	(78,734)	0	(78,734)
Write-offs during the year	197	0	(7,199)	(7,002)
Project loans end of year at cost before change of stages	922,178	266,768	140,618	1,329,564
Change in loan value from stage 1	(207,125)	192,676	14,449	0
Change in loan value from stage 2	120,366	(184,387)	64,021	0
Change in loan value from stage 3	9,000	0	(9,000)	0
Project loans end of year at cost	**844,419**	**275,057**	**210,088**	**1,329,564**

Accumulated allowance for impairment	Stage 1	Stage 2	Stage 3	Total
Accumulated allowance for impairment beginning of year	(9,305)	(27,265)	(117,368)	(153,938)
Reversed allowance for impairment, loans written off	(197)	0	(7,199)	(7,396)
Allowance for impairment, loans at fair value	0	(2,362)	0	(2,362)
Allowance for impairment for the year	(35,998)	3,226	23,153	(9,619)
Allowance for impairment related to conversions during the year	0	0	(1,323)	(1,323)
Accumulated allowance for impairment end of year before change of stages	(45,500)	(26,401)	(102,737)	(174,638)
Change in loan value from stage 1	32,513	(28,900)	(3,613)	0
Change in loan value from stage 2	(1,955)	17,960	(16,005)	0
Change in loan value from stage 3	(27)	0	27	0
Accumulated allowance for impairment end of year	**(14,969)**	**(37,341)**	**(122,328)**	**(174,638)**

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Note

Maximum exposure to credit risk
The following table shows the maximum exposure to credit risk for IFU. The table only includes derivatives with positive market value.

	2022		2021	
DKK 1,000	Carrying amount	Maximum credit exposure (contractual cash flow)	Carrying amount	Maximum credit exposure (contractual cash flow)
Project loans	1,097,505	1,498,316	1,236,022	1,408,298
Interest receivable related to projects	32,637	119,835	50,897	96,378
Other receivables	46,741	50,725	15,497	18,962
Derivatives	5,662	5,662	2,249	2,249
Cash	68,067	68,067	92,293	92,293
Commitments	0	179,682	0	108,965
Total	**1,250,612**	**1,922,287**	**1,396,958**	**1,727,145**

Description of collateral held and fair value hereof (accessibility of pledged assets for project loans)
In a number of cases, IFU has received securities to minimise credit exposure. IFU has received the following types of securities:
- Pledges
- Indemnities and counter-guarantees

The fair value of the pledges is DKK 196m (2021: DKK 300m) and for indemnity and counter-guarantee the fair value is DKK 166m (2021: DKK 238m).

NOTES

Note

24/ Currency risk

Currency risk is the risk that the value of a financial instrument fluctuates due to changes in foreign exchange rates.

IFU is exposed to currency risk through its investments denominated in currencies other than the functional currency (DKK). It is IFU's general policy to hedge foreign exchange exposures originated from project loans in other currencies than EUR, when the principal of the loan is greater than the equivalent of USD 1m and internal credit rating is above a certain threshold.

IFU does not hedge local currency exposure in share capital investments as costs are typically very high and by way of operation investments may have a natural built-in hedge, e.g. export-oriented businesses. IFU does not hedge commitments to disburse either as timing and amounts are often difficult to foresee.

IFU primarily uses cross currency swaps to hedge the exposure towards changes in foreign exchange rates on project loans. As exchange rate adjustments of the hedged item and fair value adjustments of the derivative financial instruments are recognised in the income statement, hedge accounting in accordance with IFRS 9 is not applied.

Currency exposure and sensitivity

The following table indicates the currencies to which IFU had significant exposure as of 31 December on its financial assets and liabilities excluding share capital investments. The analysis calculates the effect of a reasonably likely movement of the currency rate against DKK on profit or loss with all other variables held constant. There is no sensitivity effect on equity as IFU has no assets classified as available-for-sale or designated hedging instruments.

2022

DKK 1,000	Project loans	Interest receivables	Other project-related receivables	Hedged	Provision for losses Guarantees and loan commitments	Other project-related debt	Net exposure	Increase in foreign exchange rates	Effects on profit or loss
USD	594,767	19,597	36,683	(322,471)	(1,444)	0	327,132	10%	32,713
EUR	208,422	5,572	681	0	(80)	(49)	214,546	1%	2,145
INR	41,922	0	0	0	0	0	41,922	10%	4,192
DKK	252,394	7,468	9,187	322,471	(586)	(964)	589,970	N/A	0
Other	0	0	190	0	0	0	190	10%	19
Total	**1,097,505**	**32,637**	**46,741**	**0**	**(2,110)**	**(1,013)**	**1,173,760**		

2021

DKK 1,000	Project loans	Interest receivables	Other project-related receivables	Hedged	Provision for losses Guarantees and loan commitments	Other project-related debt	Net exposure	Increase in foreign exchange rates	Effects on profit or loss
USD	562,081	22,360	6,212	(213,739)	(2,399)	(366)	374,149	10%	37,415
EUR	364,937	23,822	424	0	(1,040)	0	388,143	1%	3,881
INR	43,691	0	0	0	0	0	43,691	10%	4,369
DKK	265,313	4,715	8,844	213,739	(11)	(8,666)	483,933	N/A	0
Other	0	0	17	0	0	0	17	10%	2
Total	**1,236,022**	**50,897**	**15,497**	**0**	**(3,450)**	**(9,032)**	**1,289,934**		

NOTES

Note

25/ Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

Most of IFU's investments in project loans carry variable interbank interest rates, thus changes in interest rates will mainly affect future cash flows and income.

Interest rate exposure and sensitivity

The annual effect of changes in the interest rate only affects the fair value of fixed rate loans. For variable rate loans, the effect on profit and loss will be a change in the interest payments for the coming year.
The annual effect of an increase in the interest rate of 100 basis points is shown in the table below for fixed and variable interest rate loans.

2022

DKK 1,000	Project loans	SWAP	Net exposure	Increase in interest rates	Effect on profit or loss
Fixed	210,862	(78,085)	132,777	100 bp	0
Variable	886,643	78,085	964,728	100 bp	9,647
Total	**1,097,505**	**0**	**1,097,505**		

2021

DKK 1,000	Project loans	SWAP	Net exposure	Increase in interest rates	Effect on profit or loss
Fixed	302,063	(80,653)	221,410	100 bp	0
Variable	933,959	80,653	1,014,612	100 bp	10,146
Total	**1,236,022**	**0**	**1,236,022**		

26/ Liquidity risk

Liquidity risk is defined as the risk that IFU will encounter difficulty in meeting financial obligations.

IFU is primarily equity financed except for current liabilities comprised of administrative debt and negative fair value of derivative financial instruments and long-term debt comprised of loans from Danmarks Nationalbank and the Nordic Investment Bank.

IFU's primary exposure to liquidity risk arises from commitments to disburse share capital investments and project loans. To meet these and other obligations, IFU, apart from capital contributions net of dividends, relies on a continuous positive cash flow from interest and repayments on project loans as well as dividends and sales of share capital investments to meet its obligations. It is IFU's policy to maintain a positive cash position. A DKK 300 million overdraft facility shared with IØ is in place to cover unexpected negative short-term fluctuations in cash flows. At year-end, DKK 294 million was available for drawing. In addition, an overdraft facility of DKK 200 million has been established also to cover fluctuations in cash flows. At year-end, DKK 200 million was available for drawing. Furthermore, IFU has access to loan financing of DKK 1,800m from Danmarks Nationalbank on two lending lines. At the end of 2022, DKK 829m was drawn on these lending lines. IFU has also a EUR 50m loan facility with the Nordic Investment Bank for refinancing of larger loan engagements fulfilling the Nordic Investment Bank's mandate. End of 2022, DKK 104m was drawn on this loan facility. Finally, IFU has agreed with the EU for financing of EUR 23.4m for three specific projects, of which EUR 10.3m has been drawn and EUR 12.1m remaining to be drawn. Total liquidity ressources available to IFU amount to DKK 2,001m at year-end 2022.

NOTES

Note

Contractual maturities

The contractual maturities based on undiscounted contractual cash flows are shown below for financial assets, liabilities, guarantees and commitments.

2022							
DKK 1,000	Carrying amount	Contractual cash flows	On demand	0-1 year	1-5 years	Over 5 years	No fixed maturity
Assets							
Project loans	1,097,505	1,498,316	132,180	187,179	639,942	539,015	0
Interest receivable related to projects	32,637	119,835	119,835	0	0	0	0
Other receivables	79,625	83,609	38,381	16,717	9,258	0	19,253
Derivatives	5,662	5,662	0	589	4,184	889	0
Cash and cash equivalents	171,753	171,753	68,067	103,686	0	0	0
Total assets	**1,387,182**	**1,879,175**	**358,463**	**308,171**	**653,384**	**539,904**	**19,253**
Liabilities							
Derivatives	10,679	10,679	0	2,178	8,361	140	0
Other current liabilities	64,198	64,198	0	64,198	0	0	0
Loan from Danmarks Nationalbank	827,090	879,105	0	0	0	879,105	0
Loan from the Nordic Investment Bank	81,430	81,430	0	14,687	56,518	10,225	0
Loan from EU	76,722	76,722	0	0	0	76,722	0
Drawn on bank credit facilities	5,882	5,882	0	5,882	0	0	0
Total liabilities	**1,066,001**	**1,118,016**	**0**	**86,945**	**64,879**	**966,192**	**0**
Off-balance							
Guarantees		32,160	0	0	0	0	32,160
Amounts payable on share capital and loan agreements		2,123,878	2,123,878	0	0	0	0
Binding commitments		211,435	0	211,435	0	0	0
Total off-balance		**2,367,473**	**2,123,878**	**211,435**	**0**	**0**	**32,160**

NOTES

Note

2021							
DKK 1,000	Carrying amount	Contractual cash flows	On demand	0-1 year	1-5 years	Over 5 years	No fixed maturity
Assets							
Project loans	1,236,022	1,408,298	61,616	228,403	661,489	456,790	0
Interest receivable related to projects	50,897	96,378	96,378	0	0	0	0
Other receivables	38,632	42,097	7,345	21,040	10,706	0	3,006
Derivatives	2,249	2,249	0	581	1,668	0	0
Cash and cash equivalents	199,966	199,966	92,293	0	107,673	0	0
Total assets	**1,527,766**	**1,748,988**	**257,632**	**250,024**	**781,536**	**456,790**	**3,006**
Liabilities							
Derivatives	4,674	4,674	0	868	3,318	488	0
Other current liabilities	86,027	86,027	0	86,027	0	0	0
Loan from Danmarks Nationalbank	402,498	394,012	0	0	0	394,012	0
Loan from the Nordic Investment Bank	93,885	93,885	0	12,456	58,747	22,681	0
Drawn on bank credit facilities	105,519	105,519	0	105,519	0	0	0
REPO with Danske Bank	107,551	107,551	0	107,551	0	0	0
Total liabilities	**800,154**	**791,668**	**0**	**312,421**	**62,065**	**417,181**	**0**
Off-balance							
Guarantees		42,228	0	0	0	0	42,228
Amounts payable on share capital and loan agreements		2,375,118	2,375,118	0	0	0	0
Binding commitments		279,250	0	279,250	0	0	0
Total off-balance		**2,696,596**	**2,375,118**	**279,250**	**0**	**0**	**42,228**

NOTES

Note

27/ Classification of financial instruments

The following table provides a reconciliation between line items in the balance sheet and categories of financial instruments.

2022					
DKK 1,000	Designated at fair value through profit and loss	Loans and receivables at amortised cost	Loans and receivables at fair value	Other liabilities at amortised cost	Total
Financial assets					
Share capital investment in projects	4,306,552	0	0	0	4,306,552
Project loans	0	1,018,859	78,646	0	1,097,505
Interest receivable related to projects	0	32,637	0	0	32,637
Other receivables	46,588	33,037	0	0	79,625
Derivatives	5,662	0	0	0	5,662
Bonds	103,686	0	0	0	103,686
Cash and cash equivalents	0	62,185	0	0	62,185
Total financial assets	**4,462,488**	**1,146,718**	**78,646**	**0**	**5,687,852**
Financial liabilities					
Current liabilities:					
Derivatives	10,679	0	0	0	10,679
Other current liabilities	0	0	0	64,198	64,198
Long-term debt	0	0	0	985,242	985,242
Total financial liabilities	**10,679**	**0**	**0**	**1,049,440**	**1,060,119**

2021					
DKK 1,000	Designated at fair value through profit and loss	Loans and receivables at amortised cost	Loans and receivables at fair value	Other liabilities at amortised cost	Total
Financial assets					
Share capital investment in projects	3,547,300	0	0	0	3,547,300
Project loans	0	1,154,926	81,096	0	1,236,022
Interest receivable related to projects	0	36,181	14,716	0	50,897
Other receivables	15,356	23,276	0	0	38,632
Derivatives	2,249	0	0	0	2,249
Bonds	107,673	0	0	0	107,673
Cash and cash equivalents	0	(13,226)	0	0	(13,226)
Total financial assets	**3,672,578**	**1,201,157**	**95,812**	**0**	**4,969,547**
Financial liabilities					
Current liabilities:					
Derivatives	4,674	0	0	0	4,674
Other current liabilities	0	0	0	86,027	86,027
Long-term debt	0	0	0	496,383	496,383
Total financial liabilities	**4,674**	**0**	**0**	**582,410**	**587,084**

NOTES

Note

The carrying amount of project loans with fixed interest terms amounts to DKK 211m (2021: 302m). The fair value of these project loans amounts to DKK 199m (2021: DKK 307m) measured as the net present value of the future cash flow. The inputs used to measure the fair value for project loans are all level 2 inputs in the fair value hierarchy. For more information, see disclosure on fair value measurement, note 28. For other loans and receivables and other liabilities the carrying amount is measured at amortised cost at reasonable approximation of fair value.

28/ Fair value measurement basis

The calculation of fair value is based on a fair value hierarchy that reflects the level of judgement associated with the inputs used to measure the fair value. The fair value hierarchy has the following levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date
- Level 2 inputs are inputs other than quoted prices included within level 1 that are observable for the assets or liabilities, either directly or indirectly; and
- Level 3 inputs are unobservable inputs that have been applied in valuing the respective assets or liabilities.

In the following sections, a short description of the overall principle for IFU's calculation of fair value is provided. For all investments the value determined by using the methods described below will be adjusted, if considered necessary and appropriate, by taking the following factors into account:

1) Current and expected operational results of the project company
2) Risk of remittance, if any
3) Specific circumstances relating to the partners, project, country, region and/or sector
4) Current market conditions
5) Tax issues

Share capital investments

Most of IFU's fair value estimates are based on unobservable market data (level 3).

Indirect investments through financial intermediaries (funds) where the underlying investments are valued according to a fair value principle will be valued at net assets value according to the most recent financial statement received by IFU. Financial intermediaries include own managed funds, loan funds, (externally managed) funds where IFU has a managerial role and externally managed private equity funds. For own managed funds, IFU has made the fair value assessment of the indirect investments following the same principles as described here.

Direct investments are valued as follows:

- In the initial phase, all investments are valued at cost price less any impairment adjustment as this is deemed to provide a good indication of fair value. Hereafter investments will be valued by either the Discounted Cash Flow method (DCF), by an earnings multiple if appropriate and reliable transaction/earnings multiples are available or by the net assets methodology, if appropriate. For direct investments in financial institutions, book value of equity is applied in cases where it reflects fair value. For smaller investments, see below.
- If during the 12-month period prior to the reporting date IFU has received a binding offer in writing from a third party or a significant transaction has taken place, the shares will normally be valued based on the offer or the recent transaction.

NOTES

Note

The following general assumptions are applied when performing DCF or earnings multiple calculations:

- For DCF calculations, budgets and forecasts for the investments form the basis for the valuation.
- A weighted average cost of capital based on the cost of equity and the cost of debt weighted by the targeted financial leverage from the industry. Growth in terminal period is based on the estimated long-term inflation rate of the country.
- An illiquidity discount is applied and other specific adjustments may be applied where relevant for both DCF and earnings multiple calculations.

Valuing private investments in developing countries at fair value involves a large inherent uncertainty. Due to this uncertainty, a degree of caution is applied when exercising judgements and making the necessary estimates. For smaller investments (cost price or book value of equity below DKK 25m) uncertainties are deemed to be even higher and therefore these will be valued at book value of equity to reflect IFU's share of earnings in the companies. These investments constitute a minor part of IFU's portfolio.

Some share capital investments include a pre-agreed exit agreement. In these cases, the value of the exit agreements is taken into consideration as part of the fair value calculation. Investments valued according to exit agreements are in the table below disclosed together with investments valued based on a recent binding offer or transaction.

Project loans
Project loans, which do not meet the "SPPI" test (solely payments of principal and interest), e.g. loans which include equity features such as profit participation or equity conversion options, are measured at fair value.

In the initial phase, all loans are valued at cost price less any impairment adjustment as this is deemed to provide a good indication of fair value. Hereafter loans will be valued by the DCF method based on updated assumptions for future cash flow including equity features.

Valuing project loans in developing countries at fair value involves a large inherent uncertainty. For smaller project loans (cost price of loan below DKK 25m), uncertainties are deemed to be even higher and therefore these will be valued at amortised cost less an allowance for impairment. These project loans constitute a minor part of IFU's portfolio.

NOTES

Note

Fair value measurements and reconciliation
The following table shows financial instruments recognised at fair value by level in the fair value hierarchy and a reconciliation of all movements in the fair value of items categorised within level 3.

2022				
DKK 1,000	Level 1	Level 2	Level 3	Total
Share capital investments				
Opening balance	12,754	0	3,534,546	3,547,300
Transfers into the level	0	0	7,236	7,236
Total gains/ losses for the period included in profit or loss [1]	(7,041)	0	63,225	56,184
Paid-in share capital in projects	0	0	826,775	826,775
Proceeds from divestment of shares	0	0	(130,943)	(130,943)
Closing balance	**5,713**	**0**	**4,300,839**	**4,306,552**
Project loans at fair value				
Opening balance	0	0	81,096	81,096
Exchange rate adjustments	0	0	4,932	4,932
Total gains/ losses for the period included in profit or loss	0	0	(7,382)	(7,382)
Closing balance	**0**	**0**	**78,646**	**78,646**
Other receivables				
Opening balance	0	15,356	0	15,356
Closing balance	0	46,588	0	46,588
Derivative financial instruments (Assets)				
Opening balance	0	2,249	0	2,249
Closing balance	0	5,662	0	5,662
Derivative financial instruments (Liabilities)				
Opening balance	0	4,674	0	4,674
Closing balance	0	10,679	0	10,679
Total recurring fair value measurements	**5,713**	**62,929**	**4,379,485**	**4,448,127**

1) Recognised in Contribution from share capital investments.
Hereof DKK 66m (2021: DKK 112m) is attributable to assets held at 31 December for level 3.

NOTES

Note

2021				
DKK 1,000	Level 1	Level 2	Level 3	Total
Share capital investments				
Opening balance	15,518	0	3,085,589	3,101,107
Total gains/ losses for the period included in profit or loss [1]	(2,764)	0	102,499	99,735
Paid-in share capital in projects	0	0	596,318	596,318
Proceeds from divestment of shares	0	0	(249,860)	(249,860)
Closing balance	**12,754**	**0**	**3,534,546**	**3,547,300**
Project loans at fair value				
Opening balance	0	0	0	0
Transfers into the level	0	0	61,860	61,860
Exchange rate adjustments	0	0	6,043	6,043
Total gains/ losses for the period included in profit or loss	0	0	13,193	13,193
Closing balance	**0**	**0**	**81,096**	**81,096**
Other receivables				
Opening balance	0	10,628	0	10,628
Closing balance	0	15,356	0	15,356
Derivative financial instruments (Assets)				
Opening balance	0	14,788	0	14,788
Closing balance	0	2,249	0	2,249
Derivative financial instruments (Liabilities)				
Opening balance	0	754	0	754
Closing balance	0	4,674	0	4,674
Total recurring fair value measurements	**12,754**	**22,279**	**3,615,642**	**3,650,675**

1) Recognised in Contribution from share capital investments.
Hereof DKK 66m (2021: DKK 112m) is attributable to assets held at 31 December for level 3.

NOTES

Note

Valuation techniques and unobservable inputs used measuring fair value of level 3 fair value measurements.

2022					
Type of investment	Fair value at 31/12/2022	Valuation technique	Unobservable inputs	Reasonable possible shift in %	Change in fair value
Indirect investments through financial intermediaries					
Own managed funds, loan funds and funds where IFU has a managerial role	1,653,989	Net assets value			
Externally managed funds	845,971	Net assets value			
Direct investments	202,410	Cost			
	66,229	Quoted prices			
	63,216	Binding offers/transaction/ exit terms			
	1,030,222	Book value of equity			
	418,260	Discounted Cash Flow	WACC	+10%	(67,418)
			Growth in terminal value	- 20%	(13,398)
	12,244	Multiple valuation	EV/EBITDA	- 10%	(2,001)
			Price/Book	- 10%	0
	8,298	Book value of equity (small investments)			
Share capital investments	**4,300,839**				
Project loans at fair value	**78,646**	Discounted Cash Flow	Discount rate	+10%	(4,500)
Total investments at fair value	**4,379,485**				

2021					
Type of investment	Fair value at 31/12/2021	Valuation technique	Unobservable inputs	Reasonable possible shift in %	Change in fair value
Indirect investments through financial intermediaries					
Own managed funds, loan funds and funds where IFU has a managerial role	1,320,926	Net assets value			
Externally managed funds	867,043	Net assets value			
Direct investments	35,741	Cost			
	52,759	Binding offers/transaction/ exit terms			
	741,809	Book value of equity			
	366,914	Discounted Cash Flow	WACC	+10%	(59,324)
			Growth in terminal value	- 20%	(14,913)
	91,898	Multiple valuation	EV/EBITDA	- 10%	(2,148)
			Price/Book	- 10%	(7,965)
	57,457	Book value of equity (small investments)			
Share capital investments	**3,534,546**				
Project loans at fair value	**81,096**	Discounted Cash Flow	Discount rate	+10%	(2,422)
Total investments at fair value	**3,615,642**				

ASSISTING 90,000 SMALLHOLDER FARMERS IN BECOMING ORGANIC PRODUCERS

MANAGEMENT

BOARD OF DIRECTORS

The Danish minister for development cooperation appoints the chairman, the deputy chairman and the other members of the board of directors for three-year terms, according to Section 9 of the Danish Act on International Development Cooperation. Each appointment is personal. The current three-year term ends on 31 August 2024.

Since 1 January 2013, an observer from the Ministry of Foreign Affairs has been appointed to IFU's board of directors.

The board of directors usually convenes six to eight times a year. On the recommendation of the executive management, it makes decisions about investments and key issues.

It is noted that the chairman has been a member of the board for more than 12 years and as such cannot be considered independent in accordance with the recommendations by the Danish Committee on Corporate Governance. ▪

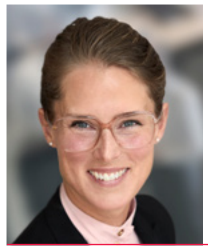
MICHAEL RASMUSSEN
Chairman, board member since 2000.
CEO, Nykredit.
Other board memberships: Nykredit Bank A/S (chairman), Totalkredit A/S (chairman), Finance Denmark (deputy chairman), Copenhagen Business School (deputy chairman), Sparinvest Holding SE (chairman), Sund og Bælt Holding A/S (chairman).

ANETTE EBERHARD
Deputy Chairman, board member since 2021.
Managing Partner, IIP Denmark.
Other board memberships: Alm. Brand A/S, chairman Audit Committee and membership Risk Committee.

THOMAS BUSTRUP
Board member since 2021.
Deputy CEO, DI – Confederation of Danish Industry.
Other board memberships: Baltic Development Forum (chairman), Business Europe US Network (chairman), Verdens Bedste Nyheder (deputy chairman), International Chamber of Commerce, Denmark, State of Green, Byggeriets Kvalitetskontrol, DIBD A/S and subsidiaries, DI-Asia Base A/S and subsidiaries.

EMILIE AGNER DAMM
Board member since 2021.
Senior Analyst, The Economic council of the Labour Movement.

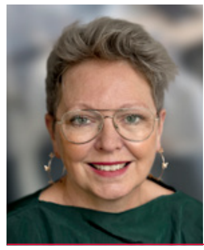
NANNA HVIDT
Board member since 2021.
Former director, Danish Institute for International Studies and Director of Evaluation, Learning and Quality, Ministry of Foreign Affairs.



HANNA LINE JAKOBSEN
Board member since 2021.
Director, Social & Humanitarian, Novo Nordisk Fonden.
Other board memberships: The Social Capital Fund.

JARL KRAUSING
Board member since 2021.
Deputy CEO and International Director, CONCITO.
Other board memberships: Udviklingspolitisk Råd (deputy chairman), Merkur Banks Klimafond, Rådet for Samfundsansvar og Verdensmål.

IRENE QUIST MORTENSEN
Board member since 2021.
Head of Sustainability, International Zone, Arla Foods.



KARIN POULSEN
Board observer since 2022.
Ambassador, Director, Department for Green Diplomacy and Climate, Ministry of Foreign Affairs.

EXECUTIVE MANAGEMENT

The Danish minister for development cooperation appoints the CEO.

TORBEN HUSS
CEO
Board memberships: Abler Nordic.

SØREN PETER ANDREASEN
Deputy CEO
Board memberships: EDFI Management Company (chairman).

ANNEX: SUSTAINABILITY AND IMPACT REPORTING PRINCIPLES

Reporting period
The sustainability and impact data presented in this report are from the 2021 financial year for each portfolio company, providing the most comprehensive representation of the portfolio performance. The report is based on sustainability and impact reports submitted to IFU in 2022 by the portfolio companies.

As each of the projects have different financial years due to differing country and regional contexts, each project is asked to submit data from their 2021 financial year. The following reporting periods are used and aligned with the financial year for each portfolio copmpany:
- Financial Year end in Q4 - Reporting Period: January 1, 2021 - December 31, 2021
- Financial Year end in Q1 - Reporting Period: April 1, 2021 – March 31, 2022
- Financial Year end in Q2 - Reporting Period: July 1, 2020 – June 30, 2021
- Financial Year end in Q3 - Reporting Period: October 1, 2020 – September 30, 2021

The relevant sustainability and impact data from 2019 and 2020 have been revisited to strengthen year-on-year comparability.

Sustainability reporting from portfolio companies
IFU has created standardized questionnaires to collect sustainability and impact reporting from its projects. These questionnaires are known as the Annual Sustainability Reports (ASR). Three different versions of the ASR have been developed for each of the investment classifications: direct investments, financial institution investments and fund investments. The distinctions have been created to refine the questions asked of each project to ensure relevancy. The data from this reporting are aggregated and consolidated to present portfolio-wide metrics on sustainability and impact.

The sustainability and impact data for 2021 are based on a total of 178 investments. Three of these projects are Project Development Programme, and 19 are inactive. Of the remaining 156 projects in IFU's active portfolio, 133 submitted sustainability and impact reporting to IFU:
- 84 of 95 direct investments submitted sustainability and impact reporting, with 80 of them submitting IFU's standard Annual Sustainability Report in 2022. Three of the remaining submitted ESG reports in their own format, as required by their contracts. One project was unable to submit a report, but proxy data from previous reporting was relevant to the 2021 financial year and was able to be used. Of the remaining, seven were in the process of being exited at the time of reporting, two were in distress and two were not required to report.
- 11 of 12 financial institution investments submitted IFU's standard Annual Sustainability Report in 2022. The remaining project was in the process of being exited was not required to report.
- 38 of 49 fund investments submitted sustainability and impact reporting to IFU in 2022, with 31 of them submitting IFU's standard Annual Sustainability Report. Seven of the remaining submitted ESG reports in their own format, as required by their contracts. Of the remaining, four were in the process of being exited at the time of reporting, of which two were in distress, and five were not required to report.

The direct investments are obliged to use an online reporting template with fixed question and answer options, e.g. standardised tick boxes. This template was introduced in 2019 to align the sustainability reports and enable aggregation of data.

In 2022, an online reporting template with fixed question and answer options was also introduced for financial institution investments. This questionnaire was created based on collaboration with EDFI to work towards standardized sustainability and impact data collection for each of the member institutions.
In 2022, an Excel reporting template with fixed question and answer options was introduced for fund investments.

These templates allow for improved data quality and greater ease with data aggregation, both within each investment classification and across the portfolio. However, procedures for gathering data in the projects will always be of varying quality, and IFU will continue to adjust the indicators and questions in the template to improve reporting and data accuracy.

As IFU continuously contracts new projects and divests projects in the portfolio, the composition of the portfolio varies from year to year, thus introducing year-on-year variability across the portfolio impacts.

An important note is that 40 per cent of the portfolio are projects contracted before 2015, after which IFU's sustainability policy requirements were strengthened. These earlier projects are thus not required to meet the same sustainability requirements as projects contracted 2015 onwards.

Internationally aligned sustainability indicators
At portfolio level, IFU applies a range of indicators closely aligned to the HIPSO indicators and definitions, as agreed among European DFIs. These include crosscutting indicators applicable to all investments and sector-specific indicators for priority sectors.
In addition to this annual report, IFU also reports annually to the UN Global Compact (UNGC) and the UN Principles for Responsible Investment (UNPRI). In 2021, IFU also published its 2nd Disclosure Statement that is available on the Operating Principles for Impact Management (OPIM) website.

Attribution on climate metrics
The climate metrics also account for attribution, in accordance with the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard. The attribution factor is defined so that GHG emissions from loans and investments are allocated to the reporting financial institutions, based on the proportional share of lending or investment in the borrower or investee.

In practice, this means that for an investment, the attribution factor is calculated by dividing the total outstanding equity and debt of IFU at the end of the reporting period, by the total assets of the project, company, or bank considered, as per their balance sheet. For investments in funds, the value of the assets in the fund's portfolio is used as the denominator. The attribution factor is then multiplied with the emissions of the company or project.

Extract from IFU's methodology paper on the website:

Information	Listed equity and corporate bonds	Business loans and unlisted equity	Project finance	Financial intermediaries
Formula	$\text{Attribution factor}_c = \frac{\text{IFU's amount}_c}{\text{EVIC}_c}$	$\text{Attribution factor}_c = \frac{\text{IFU's amount}_c}{\text{Total equity + debt}_c}$	$\text{Attribution factor}_c = \frac{\text{IFU's amount}_p}{\text{Total equity + debt}_p}$	$\text{Attribution factor}_c = \frac{\text{IFU's amount}_{F1}}{\text{Total assets}_{F1}}$
Numerator (monitoring) The financial year-end outstanding amount of IFU in the investment. In the case of debt, the outstanding amount is defined as the value of the debt the borrower owes to IFU. In the case of equity, the outstanding amount is the outstanding value of equity IFU holds in the investment.				
Denominator (monitoring)	If available, the EVIC at the end of the fiscal year. Otherwise approach for business loans and unlisted equity is used.	The total balance sheet value (i.e. the client's total assets) at the end of the financial year.*		The total assets of the financial intermediary in the reporting year. For this purpose, the funds' "total size" is used, while for other FIs, like banks or microfinance institutions, the total assets of the FI are used.

* According to PCAF, for business loans and unlisted equity, the denominator should be the sum of total company equity and debt, which can be found on the client's balance sheet. Total debt includes both current and long-term debt on the balance sheet. For project finance, this should be the balance-sheet value of total equity and debt. For both these approaches, the PCAF standard allows to fall back to the total balance sheet value (i.e. the client's total assets). As the latter is the information that IFU collects as part of their financial report, this is what is used for the calculation of attribution.

STAFF

Staff - See www.ifu.dk - click here

GLOBAL PRESENCE

INVESTMENT FUND FOR
DEVELOPING COUNTRIES

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IFU SOUTH ASIA
Singapore

IFU CHINA
Shanghai

TOTAL CAPITAL UNDER MANAGEMENT IS DKK 15.6BN

INVESTMENT FUND FOR
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Cover photo: Jackeline Nyangaresi, Kenya. Customer of Juhudi Kilimo, Abler Nordic portfolio company. Source: Juhudi Kilimo. Other photos by Ernst Tobisch, IFU project companies and IFU board and staff.

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