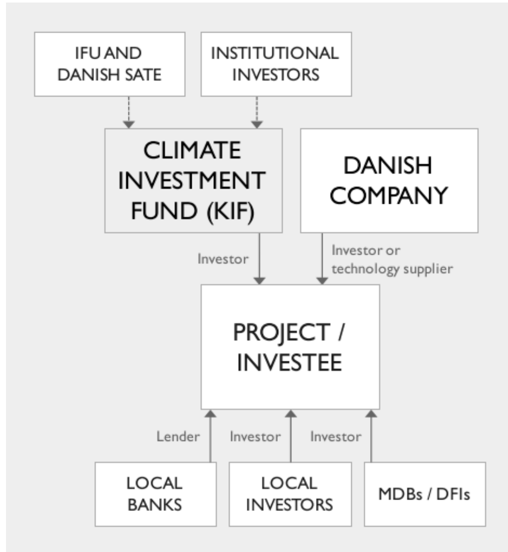
MITIGATION & ADAPTATION
BLENDED

FUND NAME	**Danish Climate Investment Fund (KIF)**[1]
COUNTRY/REGION	150 DAC countries, including in Africa, Latin America, Asia and some Europe
MANDATE	Invest in projects that contribute to reducing greenhouse gases and/or adapting to climate change in developing countries.
SIZE, FINANCIAL CLOSE AND TERM	Size: DKK 1.4B (~USD 220M) First Financial Close: 2013 Term of Fund: 10 years
INVESTOR(S) AND FUNDERS	Commercial Capital: four Danish pension funds- PensionDanmark (DKK 200 million); PKA (DKK 200 million); PBU (DKK 175 million); Dansk Vaekstkapital (DKK 150 million)); Aage V. Jensen Charity Foundation (DKK 50 million)
GUIDEBOOK TAXONOMY FINANCIAL SYSTEM ACTOR	Public Institutional Investors Public Balance Sheet Multilateral, Bilateral, and DFI Philanthropy, and Impact Investors
OBJECTIVE	To attract institutional capital to investments in low-carbon and climate-resilient projects in developing countries; support the goals of the Copenhagen Accord; promote transfer of Danish technology. Over 1,200 investments in more than 100 countries; total committed capital of DKK 1.4 billion
TECHNICAL ASSISTANCE (IF PROVIDED)	KIF does not have a technical assistance facility, however high-potential projects can receive technical assistance through the separate Project Development Programme run by the Danish state.
CAPITAL STRUCTURE	General Partners: IFU (DKK 250M); Danish state (DKK 225M) Private Limited Partners (PLPs): PensionDanmark (DKK 200M), PKA (DKK 200M), PBU (DKK 175M), Dansk Vækstkapital (DKK 150M), Aage V. Jensen Charity Foundation (DKK 50M)
FINANCING MODEL/APPROACH (EX: BLENDED FINANCE)	Blended Finance approach combining concessional/catalytic with commercial capital
RATIONALE FOR FINANCING MODEL/APPROACH	KIF was established to contribute to the Copenhagen Accord commitment by mobilizing additional resources for climate and to crowd-in Danish institutional capital into developing countries. KIF used a blended model with an innovative return structure to boost the confidence of institutional investors who were unfamiliar with working with development finance institutions and investing in developing countries. The structure also assured the public that the private sector was not receiving undue subsidy.
FINANCIAL INSTRUMENT(S) (LOANS (COMMERCIAL/ CONCESSIONAL), EQUITY, GUARANTEE)	Project finance facility - blended capital with mix of equity and mezzanine debt. DKK 35-50 million average, DKK 10 million minimum

[1] This case was provided by Convergence as a contribution to the Sharm El-Sheikh Guidebook for Just Financing

Diagram of the financing structure



Executive Summary

The Danish Climate Investment Fund (KIF) is a blended finance climate fund designed and managed by the Danish Investment Fund for Developing Countries, an independent instrumentality of the Danish state. It was established in 2012 to attract Danish institutional investors to climate mitigation or adaptation investments in developing countries and currently has an approximate size of DKK 1.4 billion. The goals of the fund are to mobilize Danish climate finance for developing countries as part of meeting the Copenhagen Accord, and to accelerate the transfer of Danish expertise, services, or technology.

The KIF operates on a preferred return structure, which allowed it to improve investor confidence in an unfamiliar investment vehicle. Under this structure, the fund targets a 12% internal rate of return per annum with a tiered payout system: first, the fund repays invested amounts to all investors, then the private sector limited partners receive returns up to 6% per annum, then the public investors are disbursed returns up to 6% per annum, and finally anything remaining is distributed pro rata with premium to the Danish state. Otherwise the fund is structured as a standard equity fund, with a 10 year term and a market-based management fee. This structure helped the fund mobilize capital from four of Denmark's major pension funds.

KIF aims to be an active minority stakeholder (5-49% ownership) in private sector mitigation or adaptation companies. Per its initial recommended pipeline, the fund is 60% invested in energy production and 40% in manufacturing. KIF requires each investment to have a Danish economic interest (e.g. Danish co-investor, Danish technology supplier). It also establishes collaborations with strong local or international private partners to leverage private sector co-financing for each project. KIF's impact metrics include GHG emissions avoided (for mitigation projects), the aggregate estimate of climate-related costs as compared to total project costs (for adaptation projects), corporate social responsibility performance, and development impact (e.g. jobs created).

The Danish public's support of climate goals was politically important to making the KIF possible. Danish state support was also critical, which was driven by the government's interest in contributing to the Copenhagen Accord and formally crowding in Danish institutional capital into developing countries.

Analysis

What made this project successful?	● Collaboration between private and public sector to build trust and common language ● Innovative returns model that made investment attractive to conservative public institutional investors, who receive preferential upside of up to 6% per annum, without exposing public money to disproportionate downside losses. ● A deeply networked and experienced general partner with a strong track record in the target countries and sectors that the private sector institutions can trust
To what extent is this model scalable?	IFU and the Danish state are currently structuring and fundraising a follow-on vehicle, a Sustainable Development Goals (SDG) Investment Fund.
What are the necessary conditions to make it replicable in other countries/regions?	The KIF already has a very wide reach (all of DAC, approximately 150 countries encompassing developing Asia, Africa, Latin America, and some Europe) and has made investments in over 100 of them.

Constraints/Drawbacks of Financing Model	Requires stakeholder buy-in from regulators, donors, and developers
Lessons Learnt	• Open and regular communication between governments and public pension funds builds trust and common language • A collaborative design process is critical to understanding investors' requirements and ensuring the capital structure is catalytic. • In blended finance, public investors often deploy instruments to reduce private investor risk; however, leveraging public money to alter the return profile is also a smart approach to attracting private capital. • A deeply networked and experienced general partner (GP) - in this case a DFI - is critical to attracting institutional capital to invest in markets in which the limited partners (LPs) do not have experience.