Ministry of Foreign Affairs – Department for Green Diplomacy and Climate

Meeting in the Council for Development Policy on

Agenda Item No. 4

1. Overall purpose:	For discussion and recommendation to the Minister
2. Title:	High Risk – High Impact Investment in Africa - 2022 capital contribution to IFU to replenish and expand a concessional finance initiative
3. Presentation for Programme Committee:	5 October 2021
4. Previous Danish support to HRHI presented to UPR	Yes, Danish contribution of DKK 200 million presented to UPR on 29 October 2019.

High Risk – High Impact Investment in Africa

Key results:
This commitment for the replenishment of the High Risk High Impact initiative is directly delivering on the new Danish development strategy's ambition to further develop IFU's capacity to invest in projects with strong green focus in low income and fragile countries in Africa, which are facing severe development challenges. These countries have significant difficulties attracting needed private capital for SDG investments due to their fragility and related investment risk.

Important development outcomes are expected to be achieved in relation to several SDGs including MSME financing and generation of decent jobs, clean energy and green transition, smallholder agriculture and gender equality.

Justification for support:

- *The enhanced focus on low income countries in Africa is fully in line with the new Danish development strategy, and the recommendations of the 2019 evaluation of IFU*
- *Commercial investments in low income countries in Africa are particularly challenging due to inadequate regulatory framework, inadequate infrastructure, inadequate access to finance, shortage of bankable projects, challenging bureaucracy, low level of education, small markets, corruption etc.*
- *Special efforts are needed to mobilise private capital for SDG investments in low income countries in Africa, otherwise they will be bypassed and locked in their poverty and fragility.*
- *Blended concessional finance is a relevant approach to catalysing important impact investments that cannot be implemented on purely commercial terms*
- *The preliminary results of the HRHI initiative are promising. An external mid-term review has in September 2021 concluded that the HRHI initiative is highly relevant, and it is recommended that the HRHI initiative is continued and opportunities for scaling the initiative explored.*

Major risks and challenges:

- *Political and financial uncertainty, a challenging business environment, climatic shocks etc. are major contextual risks which affect investments in the least developed countries in Africa. IFU will apply a number of risk mitigating measures, but the risk will always be relatively high.*
- *Reputational risks due to local partners violation of human rights, Occupational Safety and Health, environmental standards, corruption etc. may be relatively high in the concerned countries.*

File No.	2021-27269					
Country	Africa region					
Responsible Unit	GDK					
Sector	MSME, renewable energy, agriculture, water etc.					
Partner	IFU					
DKK mill.	**2022**	**2023**	**2024**	**2025**	**2026**	**Tot.**
Commitment	100					100
Projected ann. disb.	100					100
Duration	2022-2023					
Previous grants	DKK 200 in 2019.					
Finance Act code	§06.38.01.11 (udbetalingsstyret)					
Head of unit	Rasmus Abildgaard					
Desk officer	Jørn Olesen					
Financial officer	Christina Hedegård Hyttel					

Relevant SDGs

No Poverty	No Hunger	Good Health, Wellbeing	Quality Education	Gender Equality	Clean Water, Sanitation
Affordable Clean Energy	Decent Jobs, Econ. Growth	Industry, Innovation, Infrastructure	Reduced Inequalities	Sustainable Cities, Communities	Responsible Consumption & Production
Climate Action	Life below Water	Life on Land	Peace & Justice, strong Inst.	Partnerships for Goals	

Strategic objectives:

The overall objective is to enhance IFU's contribution to job creation, and to inclusive, sustainable green growth and climate action in low income countries in Africa facing particular challenges in attracting private investments in the SDGs.

Justification for choice of partner:

It is important to strengthen IFU's capacity to invest more in the low income African countries in line with the new Danish strategy for development cooperation. This commitment will allow IFU to increase investments in relevant SDG projects that would otherwise not be realised.

Summary:

There is an urgent need to promote private investments in the low income African countries in order to accelerate the generation of decent jobs and a sustainable green transition in line with the Paris agreement. Every year around 12 million young people enter the African job market, but only around 3 million jobs are created meaning that the remaining are left in an unsecure situation with unemployment, under employment or forced self-employment. This is a worrying source to poverty, instability and migration, which particularly are affecting the low income countries of Africa, and these challenges are increasingly exacerbated by climate changes and related natural disasters. There is a need for IFU to continue efforts to invest more in job generation and green transition in these challenging low income countries in Africa. A number of other European development finance institutions have recently initiated similar lines of work with new capital contributions from their owners (Governments).

Budget:

Core funding to IFU with soft earmarking to HRHI initiative	DKK 99.5 million
Final review of the HRHI test period	DKK 0.5 million
Total	**DKK 100.0 million**

Ministry of Foreign Affairs of Denmark **Danida**

Project Document

High Risk - High Impact Investment in Africa

2022 capital contribution to IFU to replenish and expand a blended concessional finance initiative

November 2021

File: 2021- 27269

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Abbreviations

AGF	African Guarantee Fund for Small and Medium-Sized Enterprises
Danida	Danish International Development Assistance
DCIF	Danish Climate Investment Fund
DFI	Development Finance Institutions
DIM	IFU Development Impact Model
DKK	Danish Kroner
GDK	Green Diplomacy and Climate department of the Ministry of Foreign Affairs
IFC	International Finance Corporation
IFU	Investment Fund for Developing Countries
LIC	Low Income Countries
MFA	Ministry of Foreign Affairs of Denmark
M&E	Monitoring and Evaluation
MSME	Micro, Small and Medium Enterprises
PPP	Public Private Partnership
SDG	Sustainable Development Goals
SME	Small and Medium Enterprises
GDK	Green Diplomacy and Climate
UNGP	United Nations Guiding Principles on Human Rights and Business
USD	United State Dollar
WB	World Bank

Currency	
1 USD	DKK 6.50
1 DKK	USD 0.16

1. INTRODUCTION

The present project document outlines the rationale and proposed structure for an enhanced SDG and climate action investment effort in low income countries in Africa though the IFU managed High Risk High Impact initiative which was initiated in 2020. There is an urgent need to promote private investments in the low income African countries in order to accelerate the generation of decent jobs and a sustainable green transition in line with the Paris agreement. These low income countries are facing severe development problems, and they are unable to attract capital for needed investments. Low income countries receives a very small part of even DFIs and multilateral development banks investments – in 2018 only 6.4% of total investments from these development finance institutions[1]. The High Risk High Impact initiative is a blended concessional finance initiative that will enable IFU to invest more in African low income countries where the risk adjusted return is below IFU's normal business zone.

In 2019 the MFA provided a capital contribution of DKK 200 million to IFU to develop and implement the High Risk High Impact initiative. The initial progress and performance of the initiative has been very promising, and the funds has already been invested/committed. An external mid-term review conducted in August/September 2021 concluded that the HRHI initiative is highly relevant, and recommended that the HRHI initiative be continued and expanded. The purpose of the 2021 capital contribution is to replenish the High Risk High Impact (HRHI) initiative to further develop and expand IFU's capacity to invest in projects with strong green focus in low income countries in Africa.

The additional funds are expected to be invested within the next year. A pipeline of relevant projects is already available. The HRHI initiative is fully integrated into IFU's governance structure, and will be managed according to current policies and strategies. The project documents specify the objectives, expected outcomes, management procedures etc. of the HRHI initiative.

2. CONTEXT

2.1 Background

The Danish 2022 Finance Act proposal includes a commitment of DKK 100 million from the development budget to IFU for the replenishment and expansion of the High Risk High Impact (HRHI) initiative focusing on investments with high development impact in low income countries in Africa. IFU launched the initiative at the beginning of 2020 following a MFA capital contribution of DKK 200 million in 2019.

An independent evaluation of IFU, published in 2019, recommended that IFU should be better aligned with the development priorities of the MFA, and place a bigger share of its investments in the least developed countries. In particular there is a strong need to increase private investments in Africa, where most of the world's poorest countries are found. 23 of the world's 25 low income countries are African[2]. The political, economic and social development in most of these countries is very weak and fragile. This is a source to poverty, instability and migration, and widespread and devastating climate changes are likely to further challenge living conditions in the low income countries in Africa. Many more new jobs need to be generated for the large populations of young Africans that are entering the labour markets in the years to come, and much more need to be done to promote green transition in these countries.

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[1] See Development Finance Institutions: The need for bold action to invest better, Attridge and Gouett, ODI, April 2021: https://cdn.odi.org/media/documents/DPF_Blended_finance_report_tuMbRjW.pdf

[2] The World Bank defines low-income countries (LIC) as those with a GNI per capita of USD 1036 or less in 2020. The World Bank list of LIC countries comprises 25 countries of which 23 are African.

Promotion of private investments that can generate significant development results are urgently needed to contribute to economic and social development. However, private investors are mainly targeting middle income countries with an adequate business environment, and rarely low income countries where the investment risk is high. Special efforts are required to also promote the mobilisation of private capital for investments in the low income countries and fragile states, and particularly in Africa where some of the world's most challenging poverty and fragility problems are rooted. Promotion of private investments in these low income countries requires some kind of public support, e.g. in the form of public-private financing arrangements that can reduce the risk of the private investors. Public-Private Partnerships (PPP) arrangements based on blended concessional finance has in this respect proved to be a promising approach.[3]

IFU has traditionally been successful in investing in middle income countries in accordance with its current investment mandate[4]. However, investments in the low income countries and fragile states, have so far been less prominent. IFU's mandate has been untied since 2017 and the untied mandate provides better opportunities to identify relevant investment partners and projects in these challenging countries, but an unfavourable risk-return balance remain an obstacle for expansion.

The rationale behind the High Risk – High Impact initiative was to enlarge IFU's toolbox of financial instruments with a blended concessional finance initiative where concessional donor funds are blended with other types of finance on commercial terms. The new initiative should enable IFU to invest more in projects with promising development outcomes but with a challenging risk-return balance. The first MFA commitment to the High Risk High Impact initiative was provided in November 2019 and the initiative was launched in the beginning of 2020. The initiative was prepared within a clearly defined strategic framework including issues concerning country focus/GNI per capita threshold, investment targets in the concerned region (Africa), focus on development results, thematic focus, concessionality approach, risk/return balance, governance, results measurement, and reporting. It was emphasised, that the first two to three years of the implementation should be considered as a test period in order to gain experience and, if necessary, to adapt approaches and procedures. It has from the start been the intention, that the HRHI initiative should enhance IFU's toolbox of financial instruments on a permanent basis, and that additional MFA capital contributions therefore would be needed to replenish the initiative.

2.2 Preliminary results of the HRHI initiative and international experience

The preliminary results of the HRHI initiative are promising. IFU has already invested or committed the funds provided under the first HRHI appropriation, and IFU has developed a solid pipeline of relevant impact investment projects. IFU has e.g. invested in a fund that provides loans to SMEs in Somalia, and in a financial institution in Uganda that provides financing to small farmers and agribusiness SMEs. In both cases EU has provided considerable additional funds, managed by IFU, to the investment projects.

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[3] The DFI Blended Finance Working Group defines blended concessional finance as: "Combining concessional finance from donors or third parties alongside DFIs' normal own account finance and/or commercial finance from other investors, to develop private sector markets, address the Sustainable Development Goals (SDGs), and mobilise private resources". Source: DFI Working Group on Blended Concessional Finance for Private Sector Projects, Joint Report, October 2018.

[4] At least 50 per cent of IFU's investments must over a rolling period of three years be made in poorer developing countries with a maximum GNI per capita of 80 per cent of the upper limit for Lower Middle-income Countries according to the World Bank's classification. This GNI threshold was in 2018 USD 3,196 per capita. During the 2018-2020 period 71 per cent of IFU's investments were below the threshold.

IFU has developed a new investment strategy with two overall impact priorities: transition to a green economy and to a just and inclusive economy. These objectives are being pursued through investments within four focus areas:

- Healthy food and healthy lives, including agriculture and the health sector
- Access to renewable energy, water and waste
- Financial inclusion and
- Transformational businesses

The overall priority of the green transition entails that climate change has become a key area for IFU. Positive and negative contributions to climate change are assessed for each project and at portfolio level. As from 2020 IFU is calculating the total climate footprint of its outstanding investment portfolio, and the footprint is reported in the annual report. IFU has furthermore strengthened its focus on gender equality and is assessing whether investment projects qualify for the 2X gender challenge[5].

To strengthen focus on impact in the investment process, IFU has developed a detailed screening tool to screen all projects to ensure and prioritise that they promote the green transition (applying the evolving EU Taxonomy), and/or promote social inclusion, and that they do not have any significant negative impact on the environment. A results framework and an impact creation plan is agreed with each investee company that signs up to deliver and report on the relevant impact indicators.

The thematic focus areas that been targeted so far are fully in line with the HRHI priorities envisaged:

Partner Name	**Focus of Investment**	**Main IFU Focus Area**				
		Healthy Foods	**Healthy Lives**	**Financial Inclusion**	**Renewable energy, water waste**	**Transformational Business**
African Green Co.	Renewable energy off-taker and platform for distribution in Southern Africa				X	X
aBi Finance	Funding of agribusiness and SMEs	X		X		
African Guarantee Fund	Providing guarantees to financial institutions for facilitating financing to SMEs. IFU invests specifically in the green guarantee facility to ensure focus on job creation through climate related/green investments			X	X	
Symbiotics	Bond instrument for financing smaller Financial Institutions to on-lend to MSMEs			X		
Spark+ Africa Fund	Investment in companies providing clean cooking solutions and thereby reducing use of traditional energy sources and their negative health, climate and environmental impact		X	X	X	X
Horn of Africa Fund	Debt funding of SMEs			X		
CRDB	Banking services in the Democratic Republic of Congo			X		

The HRHI project document states that a mid-term review should be carried out 1-1½ years after the launch of the initiative in order to assess progress and performance. The review was conducted in August-September 2021. The review report concludes that the HRHI initiative is highly relevant and has enabled IFU to invest in projects that have strong potential development outcomes but are too risky/have a too low IRR for traditional IFU investments. The review

[5] The 2X challenge is a commitment by DFIs to promote gender equality applying several criteria related to women in management, ownership, employment, financial inclusion etc. See: https://www.2xchallenge.org/criteria

further concludes, that the HRHI initiative has enabled IFU to better respond to the raised criticism of not investing enough in the least developed countries and not having adequate focus on development impact.

The main conclusions and recommendations of the review are:

- IFU has demonstrated that the HRHI initiative is highly relevant, and it is recommended that the HRHI initiative is continued and opportunities for scaling the initiative are explored.
- IFU has dedicated resources to strengthen its impact measurement system and changes are materialising. It is recommended, that the work to strengthen the results measurement systems is continued and maintained as a high priority within IFU.
- IFU has succeeded in leveraging five times the HRHI funding to the investment projects. In light of the relatively limited resources within IFU and limited size of HRHI funds available, it is recommended that IFU engages in strategic partnerships to a) build a portfolio of projects with strong development impacts and b) mobilise additional investments.
- It takes longer time and more resources to identify, mature and implement HRHI projects, and it is recommended that IFU and MFA engage in a higher level discussion to agree on the future of HRHI and agree on viable pathways with a long term horizon that ensures that IFU has the financial and human resources to scale the HRHI initiative. The executive summary of the review is included as annex 3.

Internationally the use of blended concessional finance to promote impact investments in challenging markets has increased considerable during the last decade. IFC has been a leading player and has increased annual commitments considerable in recent years. Since July 2009, IFC has blended USD 1.6 billion of donor capital to support 266 investments projects that leveraged more than USD 13 billion in IFC and third-party financing. In 2020 IFC committed USD 3.5 billion of blended concessional finance of which 14 percent was donor funds, 49 percent IFC funds and the remaining 37 percent funds from other sources. The concessionality percentage varies considerable from project to project, due to the diversity of the risk-return profile of the projects.

Some of IFU's sister organisations including Norway (Norfund), UK (CDC), Finland (Finfund), the Netherlands (FMO) have also agreed with their owners to expand the use of blended concessional finance to enable the DFI's to take more risk when impact is high.

3. PROJECT PRESENTATION

3.1 Objectives and targets

The HRHI initiative is still under development and testing, and the objectives stated under the 2019 appropriation is therefore maintained with the exception of a minor change in the wording.

Development objective: Enhanced IFU contribution to job creation, and to inclusive, sustainable, green growth and climate action in the low income countries in Africa facing particular challenges in attracting private investments in the SDGs and climate action.

Immediate objectives: Blended concessional finance initiative further developed and expanded to promote IFU investments in projects with high development outcomes with a strong green focus in the low income countries in Africa.

MFA will provide an additional DKK 100 million to replenish the HRHI initiative and allow IFU to continue and expand its HRHI investment activities. The additional funds are expected to be invested within the next year. A pipeline of relevant projects (10-15) is already available. These have been generated with limited promotional efforts, indicating an untapped need, and that projects in low income countries suitable for HRHI are available. If the HRHI initiative continues to provide promising results, then additional replenishments of the initiative will be needed in the years to come to enable continuation and expansion. Blended concessional finance requires some donor support, but in most cases only limited donor funds are needed. In 2020 almost 50 percent of IFU's total annual investments were invested in the entire Africa region, and with a stronger investment focus on Africa, it is expected that IFU in the future will be able to increase this percentage further. The target in the 2019 appropriation stated, that IFU, over the next two to three years depending on further capital contributions, on an annual average would invest at least 30 percent of its own capital in low income African countries. This target has been maintained. IFU achieved the target in 2020 where 30.8% of IFU's new investments where in these low income African countries.

The instrument will contribute to the achievement of the Paris Agreement's climate ambitions and several of the SDGs through the implementation of selected high risk – high impact projects that would otherwise not be financed and implemented due to a challenging risk-return balance. The specific investment projects will be selected based on their ability to generate significant development outcomes in relation to specific development indicators such as number of decent jobs, including for women and youth, other gender equality indicators related to the 2x challenge that IFU has signed up to, number of smallholder farmers reached, installed capacity of renewable energy etc. However, compared to the 2019 appropriation, the 2021 commitment will have a stronger focus on green transition in line with new MFA priorities and guidelines (rf. section 2.4), although social inclusion and gender equality would also be important. Baseline for all investments are prepared, and the outcomes of the selected investments measured and reported based on IFU's results measurement system, which is continuously being further developed to better capture all the outcomes and results of these types of transformative impact investments. A more comprehensive MFA review of the HRHI pilot phase will be conducted after 1-2 years.

As part of the impact measurement system, results frameworks have been established for each investment. Going forward, this should enable IFU to document results on output level based on reporting from investees. It is also envisaged that IFU will be able to prepare studies on the preliminary development outcomes of selected investment projects in order to provide more detailed documentation and learning on performance and development outcomes of the HRHI initiative.

The below results framework developed for the 2019 appropriation will be maintained during the entire test period, and it has therefore not been revised.

	High risk – high impact investment: Capital contribution to IFU to further develop and expand a blended concessional finance initiative.
Development objective of the fund and immediate objective of capital contribution	*Development objective*: Enhanced IFU contribution to job creation, and to inclusive, sustainable, green growth and climate action in the low income countries in Africa facing particular challenges in attracting private investments in the SDGs and climate action. *Immediate objective:* Blended concessional finance initiative further developed and expanded to promote IFU investments in projects with high development outcomes with a strong green focus in the low income countries in Africa.
Impact Indicators	The impact of the initiative will be determined on the basis of the individual investment projects which will be implemented across countries and thematic areas/sectors. Impact assessment will be based on the indicators of IFU's DIM system, which will be further developed to better capture transformative impact investments, and these indicators will also be used in relation to specific ex-post studies of selected investment projects.

<table>
<tr><td colspan="2">Engagement Title of Fund</td><td>Same as above</td></tr>
<tr><td colspan="2">Outcome indicator</td><td>The outcome indicators will be based on IFU's DIM system which will be further developed to address broader range of development outcomes. The present DIM outcome indicators most relevant for the initiative include:
• Number of direct jobs distributed on female and youth
• Number of farmers reached
• Installed capacity of renewable energy
• Avoided CO_2 emission
• Female financial inclusion beneficiaries</td></tr>
<tr><td>Baseline</td><td>Year</td><td>An ex-ante baseline will be prepared by IFU before a new investment project is initiated. Follow-up include annual reporting on selected indicators as well as ex-post assessment at exit. A final evaluation report will be prepared for each investment project, and in-depth outcome or impact studies will be prepared on selected investment projects.</td></tr>
<tr><td>Target</td><td>Year 2023</td><td>Targets of the blended concessional finance investment initiative:

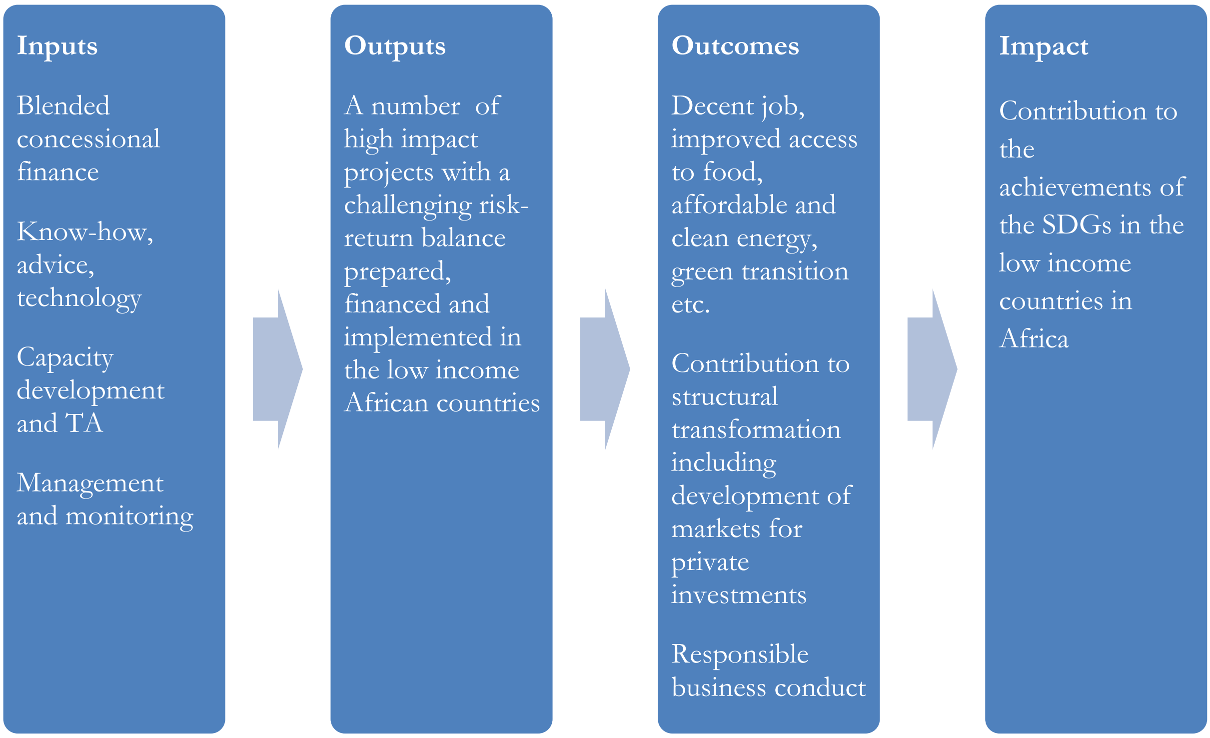
IFU will during the 2020 – 2023 period, on an annual average invest at least 30 percent of its own capital in the low income African countries with a GNI of less than 40 percent of the upper limit for lower middle income countries, such that countries that were above the threshold for the first time in July 2019 can only be ineligible at the earliest from end of 2023.

The overall measurable targets for the initiative have been maintained (as has the baseline year of 2019) and furthermore include:
• New system for development impact screening of investment tested and ready for upscaling to IFU investment portfolio
• Improved DIM system tested and ready for upscaling to IFU investment portfolio
• Channels for sourcing high impact projects in the target countries enhanced
• IFU investment officers have obtained experience with identifying and developing high impact investments
• Initiative aiming at enhancing development effects during the investment period, involving for instance technical assistance and training, have been tested (impact value creation)
• Approach for mid-term impact studies of investments has been developed and tested on investments under this initiative

The specific targets of the indicators are established prior to the investment decision for each investment in collaboration with the investee. They will be based on projections of outreach and deliveries on the specific investments.</td></tr>
</table>

3.2 Theory of change

At the overall level the Theory of Change for the blended concessional finance initiative remain the same as for the 2019 appropriation and can be described as follows: The mobilisation of private capital, technology and knowhow for high impact investments in the low income countries in Africa is at present marginal due to limited market knowledge and a challenging perceived or real risk-return balance. Donors and DFIs therefore need to facilitate the involvement of private investors through the provision of blended concessional finance instruments that can reduce the financial risk and ensure that the private investors gain experience and gradually become more willing to invest in these markets. **If** Danida and IFU, were able to provide blended concessional finance solutions, **then** it would be possible to increase IFU's investments in high impact projects in low income African countries where IFU's current investment portfolio is low.



The theory of change is based on a number of assumptions including: a) Investments in low-income countries and high-risk markets are to a large extent challenged by a high risks and lack of market knowledge; b) IFU will have access to a satisfactory pipeline of high impact projects in the least developed countries; c) qualified private investors are willing and committed to participate in such blended concessional finance initiatives; and d) it is possible to establish a satisfactory balance between development objectives and commercial objectives throughout the entire investment period. By having the 2022 replenishment funding available it will make it possible for IFU to target specific DFI channels, impact investors among other for seeking leads within the thematic focus areas.

3.3 Justification

Relevance: The proposed commitment to IFU for the further development of a blended concessional finance initiative that can complement the existing financing instruments and promote high risk – high impact investments in the lower income countries, is highly relevant and fully in line with the new Danish development strategy 2021-2025, The World We Share, and with the recommendations of the 2019 evaluation of IFU. In particular, the financing will support following objectives of the new strategy:

- Reform the IFU to ensure a greater number of economically and socially sustainable, green and responsible investments in developing countries, particularly in Africa and the poorest countries.
- Contribute to ensuring new and more positive opportunities for the individual through job creation, and sustainable economic growth. The private sector must play an active role, and we must promote market-based development with the aim of creating jobs.
- Improve the framework conditions for the private sector in developing countries to generate economic growth, decent jobs and development.
- Increase mobilisation of green development financing, including climate finance.

The recently conducted mid-term review also concluded, that the HRHI initiative is highly relevant. IFU has in recent years become increasingly important in relation to Danish development policies, and this evolution is expected to continue in the future. Special efforts must be taken to mobilise more private capital, technology and knowhow for climate and SDG investments in low income countries and fragile states in order to avoid that they are bypassed and locked in their poverty and fragility. This is particularly needed for the Africa region, where extreme poverty is increasingly concentrated. Commercial investments in these countries are challenging due to a number of factors including inadequate regulatory framework, inadequate infrastructure, inadequate access to finance, poorly developed markets, shortage of bankable projects, political instability, corruption etc. which all contribute to an unfavourable investment climate, which scare many commercial investors away[6]. It may therefore not be possible to promote investments without a certain subsidy that can ensure an acceptable risk-return balance. Blended concessional finance is in this respect a useful, flexible and relatively cheap instrument to catalyse impact investments, that cannot be implemented on fully commercial terms and therefore need some risk mitigation to materialise and develop to a stage where they would be considered viable by commercial investors.

Efficiency: The instrument will be an integral part of IFU's institutional structures and procedures, and efficiency is therefore envisaged to be satisfactory. However, it is obvious that IFU may use relatively more time on HRHI investments, because the complex and relatively risky investment environment requires more preparatory work. This has also been concluded in the review report.

Effectiveness: The preliminary lessons from the 2019 appropriation indicate that effectiveness is likely to be high, as the instrument can deliver high additionality contributing to sustainable investments with high development impact that would otherwise not take place. The preliminary lessons also indicate that a more complete IFU toolbox of financial products enables IFU to offer a better and broader mix of financial solutions to investors and ensures satisfactory additionality and leverage. It is further expected that the initiative can contribute to the promotion of new business models for commercially based investments in challenging markets.

Impact: It is still too early to assess the future impact of the investments conducted under the 2019 appropriation, but there are clear indications that the HRHI initiative within the years to come will generate high additionality and promising development results. The development results can be obtained within several thematic areas and in particular green transition, generation of decent jobs, agriculture and food, gender equality etc.

Sustainability: IFU will have strong focus on sustainability in accordance with its new sustainability policy and international sustainability standards. Promotion of the sustainability agenda will be an important outcome in these fragile countries, where sustainability may not be adequately prioritised.

3.4 Strategic considerations

Types of investments: The HRHI initiative targets commercial investments with expected significant development outcomes in some of the most difficult African markets. Investment projects must be designed with the purpose of generating strong development outcomes. This should be the key driver. Obviously, investments should generate adequate return to the investors, but a lower than usual rate of return should be accepted in favour of higher impacts and market transformation or over a period of time till the companies prove their business case, grow and achieve higher profitability. Various criteria, including country per capita income and specific thematic priorities will be used to define the type of investments that will be eligible to obtain

[6] Foreign direct investments to Sub-Saharan Africa dropped at an annual rate of 2% from 2013-2018 ref: https://cdn.odi.org/media/documents/DPF_Blended_finance_report_tuMbRjW.pdf

financing from the new concessional financing initiative. The strategic position of the new instrument compared with IFU's existing mix of financial products is illustrated in annex 5.

Country focus: The country focus was carefully assessed in relation with the 2019 appropriation. The challenge was to develop a system which was in line with the objectives of the instrument, simple in its design in relation to the overall IFU investment mandate, and adequately robust to avoid frequent replacement of countries on the list of eligible countries. It was finally decided to use a GNI per capita approach, based on countries with a GNI per capita of max 40 percent of the upper limit for Lower Middle Income Countries according to the World Bank's classification, which in 2019 corresponded to USD 1,558 per capita. This group comprises a total of 33 African countries. IFU has no active projects in about two third of these African countries, and IFU's active investments in the remaining one third of the countries are concentrated in a few countries including Kenya and Uganda. IFU will have special focus on Danish partner countries in order to promote possible synergies with Danish supported development activities. However, it is also important that IFU can invest in all the HRHI countries, to be able to identify partners and investment projects with high development potentials. This is even more important as the instrument increasingly becomes targeted green investments in the future. The key investment driver should be the potential development outcome of the investment case. It is the intention not to revise the country list before the end of the test period (end of 2022 or 2023), to allow IFU adequate time for investment preparation. It is noted that Kenya, Côte d'Ivoire and Congo today have a GNI per capita which is slightly higher that the threshold set in 2019. The list of the 33 African countries is presented in Annex 6.

Thematic focus – strong focus on green investments: The 2019 appropriation stated that the country focus should be complemented with a thematic focus to prioritise investments, which are expected to generate high development outcomes on defined key indicators in local economies. The thematic focus could include generation of decent jobs, focus on women and youth, smallholder agriculture, MSME, access to affordable and clean energy, access to clean water, access to finance and decent jobs in refugee situations etc. A complete and stringent list of thematic priorities has not been prepared in order to ensure adequate investment flexibility.

The thematic priorities are maintained in the 2021 commitment, but with substantially greener focus. The HRHI initiative must comply with the new MFA policy on business instruments that implies a substantial green focus. According to the new policy procedures at least 50 percent of the business instrument funds should be invested in green projects in 2022 and at least 80 percent as from 2023. The HRHI initiative should in particular target green investments which at the same time will have a strong impact on other thematic priorities including generation of decent jobs and gender equality. The initiative will thus, increasingly prioritise sustainable development financing and investments in measures to reduce the negative impact on climate, nature and environment, including but not limited to measures targeted at water scarcity, sanitation, renewable and clean energy, food shortages and sustainable food production. In practical terms, IFU would apply the EU Taxonomy as IFU does in its screening for green projects, including those funded by the Green Future Fund. However, for the moment consistency with the OECD DAC Rio Markers is also required, and IFU should report according to these methodologies and standards, in particular when it comes to official reporting on climate financing.

Gender equality: Gender equality and the 2 X Challenge (pertaining to women ownership, management, employment, targeted consumption, financial inclusion focus a.o.) will continue to have high priority in IFUs investment selection, starting initially during the project screening process, being addressed further in details in the appraisals and in the selection of relevant indicators to be incorporated in the legal agreements as part of the investees obligations to work and comply with the agreed impact creation plan and thereby for IFU eventually to monitor and capture the data accordingly. Strong gender equality focus is a key element to ensure optimal performance and outcome of the investment projects. IFU's gender equality efforts was noted by the HRHI review, which concluded that the HRHI pilot phase has demonstrated impressive gender achievements on metrics such as female financial inclusion.

Governance consideration: International best practices and guidelines states, that blended concessional finance to some extent requires specific governance procedures. The additional MFA commitment to the HRHI initiative will, similarly to the 2019 commitment, be provided as core funding to IFU with soft earmarking for HRHI to ensure that it will be fully integrated into IFU's governance system. The establishment of a specific concessional finance facility will be avoided, as this would require more administrative resources and hamper a satisfactory integration into IFU's organisational culture. The implementation of the HRHI initiative will be conducted in accordance with the MFA policy priorities for IFU and prevailing IFU guidelines and procedures. It is envisaged that IFU may further develop or amend some of its guidelines and procedures to better address the HRHI objectives and priorities and to better integrate the use of blended concessional financing within the organisation. These amendments may include specific requirements to IFU's assessment of the investment projects including documentation for the need of concessional funds in relation to the specific projects, expected development outcomes, expected profitability, and not least additionally.

Concessionality approach: IFU will continue to apply a flexible concessionality approach adapted to the specific investment projects. A key ambition is to invest in early stages of a company, where risks are high and returns low, help develop the company into becoming fully commercially viable and ready for sale to commercial investors, rendering IFU proceeds which can then be used for new investments[7]. Internationally two basic business financing models are applied for blended concessional equity investments. The most common model applies two or several asset classes where the concessional funds are allocated to a special assets class which mitigates the risk of the private investors, through various risk mitigation arrangements such as first loss cover. The other model operates with one assets class only, where all investors will obtain the same, and normally a relatively lower return. This model is mainly able to mobilise capital from DFIs and private impact investors, whereas the expected return often will be too low to attract significant capital from commercial private investors, like pension funds and banks. IFU will, depending on the character of the specific investments, apply both models. In addition to the equity investments IFU is expected to provide various types of concessional loans with interest and repayment conditions that are more favorable than what commercial banks can offer.

Pipeline and investment opportunities: IFU has since the launch of the HRHI initiative developed a solid pipeline of relevant and attractive projects that need concessional funding. It is expected that by end of 2022 or early 2023 these pipeline projects will absorb the DKK 100 million that are planned to be provided under the MFA 2022 commitment. In IFU´s current pipeline of 10 - 15 projects, most of these are targeting renewable, green energy and off-grid solutions (such as Pamiga African Rural Impact Investment Fund, Green for Access First Loss Facility). However, IFU will still identify new opportunities that are aligned to the new MFA green focus, that will come into force as from 2022 and 2023. Possibilities to invest in area affected by refugees would also be looked into.

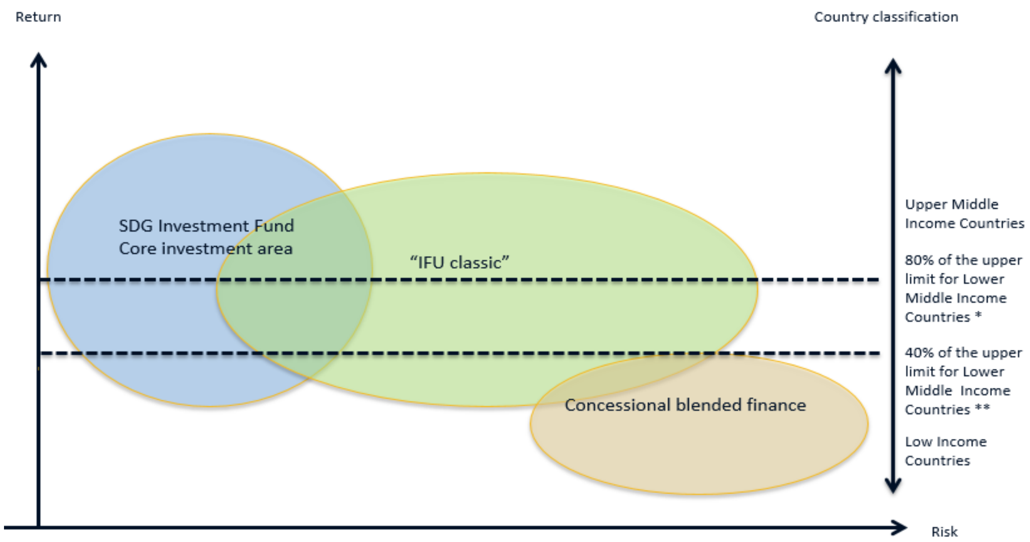
Blended concessional finance should only be used to catalyse promising market opportunities that would not take place without a special temporary effort. The subsidised investments should

[7] Africa GreenCo is an example. The company is a greenfield investment, first of its kind in Southern Africa which will help reduce off-taker risk of independent renewable energy producers, thereby enabling private sector investments in renewable energy.

address market shortages and demonstrate opportunities which can pave the way for subsequent commercial finance. It is therefore important that the market shortages are carefully assessed to ensure that they can be effectively addressed with blended concessional finance to achieve the expected results. It is envisaged, that IFU continuously will be able to develop a solid pipeline of relevant investment projects, and that the pipeline from 2023 will have a strong green focus in line with MFA policy priorities.

Financial products: The majority of the HRHI capital invested up till now has been in the form of equity, and this situation is expected to continue with the funds provided under the 2022 commitment. Equity, being the most risk oriented financial product is more additional than debt financing and is strongly needed in these markets. The remaining part of the capital for the HRHI investments will be provided as senior or mezzanine loans, where the subsidy element will allow IFU to provide loans with more favorable terms and interest compared to what IFU would normally be able to accept for such investments. Various types of guarantees can also be considered.

Risk-return balance: The risk return balance of HRHI compared with other IFU financing instruments is illustrated in the below figure. The HRHI initiative is targeting investments that are outside IFU's regular business zone with regards to the expected risk adjusted return on equity and loans. Not only will the risk in terms of country risk, commercial risk etc. be relatively high, but the types of investments in terms of thematic focus, size etc. may also generate a return that is lower than normally accepted. The HRHI impact investment functions as a concessional supplement to a regular IFU investment with an ex-ante unfavourable risk-return balance. Without the additional HRHI concessional capital, the expected return would not justify the risk involved in the investments.



1. *General IFU investment mandate: At least 50% of IFU's investments, over a roling period of three years, to be made in developing countries with a maximum GNI per capita of 80% of the upper limit for LMICs according to the World Banks classification*
2. *HRHI initiative: An intentional 30% of IFU's annual investments with own funds, over a rolling period of three years to be invested in African countries below a maximum GNI per capita of 40% of the upper limit of LMIC.*

Modalities: Similar to the 2019 appropriation the new commitment of DKK 100 million will be provided as a capital contribution to IFU softly earmarked for the HRHI initiative, to ensure continued integration of the initiative into the IFU organisation. It is envisaged, that IFU, in the specific investments, complement the MFA contribution with own funds, to achieve an acceptable risk/return balance on IFU's own funds, and to avoid unnecessary levels of concessionality. IFU will mobilise IFU funds to the HRHI investments to the extent possible, with a view to secure IFU a reasonable return on investment in line with IFU risk policies. This has been the case in several approved HRHI projects (Africa Guarantee Fund, Symbiotics, and Spark). However, due to the risk factors involved (country, political, thematic and commercial) it will be a challenge upfront to set firm rules for such fund splitting. During 2022 more lessons will be learned that can form development of guidelines for such blending of HRHI with other IFU funding.

Sustainability and responsible business conduct: IFU will have strong focus on the sustainability of the investments. The financial sustainability of the investments will be relatively challenging compared with IFU's other commercial investments, but careful preparation and monitoring shall ensure that the investments on average will achieve satisfactory financial sustainability. IFU will apply sustainability standards, including IFC standards, UN guiding principles for business and human rights, in accordance with its sustainability policy.

Additionality: The additionality of the investments, both financial and value additionality, will be carefully assessed and documented in the investment proposals to ensure the initiative generates commercial investments and development outcomes that would otherwise not have been achieved or achieved in a much less ambitious way. Considering the use of concessionality it is important that IFU is able to document strong additionality, and evidence that market distortion will be avoided. Overall, the additionality is expected to be significant due to the challenging risk-return balance related to the investments.

Leverage: A key purpose of blended finance is to use donor funds as leverage for the mobilisation of private capital, technology and knowhow. There will be no set targets for the leverage factor, which is envisaged to vary considerable from project to project. On an average the leverage factor is envisaged to be lower than for IFU's traditional blended finance investments reflecting the less mature markets and higher risks of the intended transactions. The leverage factor of the funds provided under the 2019 appropriation has been 5 compared to a leverage factor of 6.2 for IFU investments overall. The leverage factor of 5 is composed on 1.7 for donor funding and 3.30 for DFI and other commercial funding.

4. GOVERNANCE AND MANAGEMENT SET-UP

4.1 Governance structure

The HRHI initiative has from the start been integrated into IFU's governance structure and managed according to prevailing IFU policies and procedures. Around a quarter of IFU's staff have so far been involved in the preparation of the HRHI investment projects, indicating that the HRHI initiative already has become well integrated into the entire IFU organisation. However, the initiative may still require certain amendments of various IFU guidelines and procedures to ensure clear and transparent management and documentation of the initiative e.g. with regards to the specific country and thematic investment requirements, the use of concessional finance, the specific reporting requirements with regards to progress, performance and not least planned and actual development outcome. The 2019 appropriation stated that the MFA should be informed about concrete investment proposals before the IFU Clearance in Principle (CIP) approval step to enable possible clarifications before CIP. These procedures have functioned satisfactory and will be continued under the new commitment. The discussions with MFA may e.g. address key issues in relation to type of investment, additionality, consessionality, development outcomes, result measurement, sustainability, risk and rate of return. The discussions will further allow assessments of possible synergies with planned and ongoing MFA development programmes and instruments.

Regarding IFUs internal capacity building for delivering impact, this is an ongoing process, being further developed among other by 1) early stage project screening of developmental impacts, 2) extended use of IFU's un-tied mandate to make project search broader and more universal and 3) the creation of cross sectorial in-house teams including several staff members to a project.

The African continent continues to have a high priority for investments by IFU. Approx. half of the total investments contracted in 2020 were in Africa and IFU invested 30% of its own capital into HRHI countries this year. IFU's active owner role with focus on value and impact creation plans have helped develop the organisation capability of combining profitable business with high impact – even in a fragile environment such as much of SSA. Of IFU's total investment portfolio of >1,300 investments throughout the years, approx. 22% were in the African continent.

4.2 Budget

The overall budget of the proposed replenishment of the HRHI is DKK 100 million as indicated below:

	DKK million
Capital contribution to IFU with soft earmarking to IFU's HRHI initiative	99.5
MFA review	0.5
Total contribution	100.0

The MFA commitment does not include separate funds for technical assistance, capacity building etc. which may often be needed for the preparation and implementation of the investments. These costs will be covered by IFU according to needs.

4.3 Financial management

Similar to the 2019 appropriation the new commitment will be allocated as core funding to IFU with a soft earmarking for the HRHI initiative. IFU will invest the funds according with the investment mandate and procedures of the HRHI initiative. Financial reporting on the HRHI initiative will be integrated into IFU's overall financial reporting. It is envisaged, that IFU contribute to the initiative with own resources. Reflow of funds from the investments will be an integral part of IFU's capital and business activities in line with the general investment mandate.

4.4 Monitoring and evaluation

IFU's impact management system is fully integrated into its investment cycle and involves a number of steps from initial project screening to exit.

Through IFU's project screening tool introduced in 2020, all initial investment opportunities are checked against IFU's investments strategy, including the impact criteria for green transition and for just and inclusive growth.

During the due diligence process, projects are assessed for their potential positive and negative contribution to the SDGs and how IFU can enhance the development effects, for instance by strengthening Environmental, Social and Governance (ESG) requirements, providing technical assistance or putting up specific requirements to the company. Linked to the impact creation plan, a results framework with specific indicators, baseline values and targets is elaborated and agreed with the investee company as an integrated part of the investment agreement and the investee's reporting obligations.

The investments under the initiative will be part of the overall IFU portfolio and reported in the annual report, which will include data on the share of investments undertaken in the countries targeted through this initiative as well as a narrative description of the investments. IFU's annual report will also provide data on IFU's total annual investment in Africa. At a later stage more specific documentation on progress and performance of selected investments including the rational for the investments, the rational for the applied concessionality, development outcomes, sustainability etc. should be available.

IFU undertakes financial and Environmental, Social and Governance (ESG) and impact monitoring of its investment through annual reporting from investment companies and in most cases also through board representation. IFU is continuously developing its monitoring system used for documenting development effects of the investments based on standard indicators including: Number of direct jobs (total, female, youth); Number of farmers reached; Installed capacity of renewable energy; Avoided CO2 emissions and Number of female clients in financial institutions

The full list of IFU's standard indicators is included as Annex 4.

The preliminary findings of the impact tracking pertaining to the current HRHI portfolio can be summarized as follows (based on expected figures, to the extent being formalised)					
Investments	**No. of direct jobs (total, female, youth)**	**No. of farmers reached**	**Installed capacity of renewable energy**	**Avoided CO2 emission**	**No. of female clients**
African Green Co			3GW	TDB	
AbI	TBD	113,828	TBD		40%
AGF	43,200		23,000 kW		5,760
Symbiotic	50,000				50%
Spark+			4.5 million (households)	15.9 million Tons	50%
Horn of Africa	300		26% (of borrowers)		30%
CRDB	TBD				TBD

The projects will be monitored by the investees being obligated to report on a number of individual, measurable indicators, designed and relevant for the specific investment in question.

An additional MFA review of the HRHI initiative assessing progress and performance of IFU's development of the instrument will be conducted at the beginning of 2023, when the test period is expected to be completed. The review will among other assess progress against targets, the investment mandate, the approved investment projects, the development of the results measurement system, and the prospects of continued MFA support to the initiative.

4.5 Risks

The projects to be financed by the instrument are by definition high risk and beyond IFU's normal business zone. The risks are of country, political, thematic, and commercial nature. However, IFU has a well-developed risk management system, and the individual investments projects will be assessed according to IFU's risk management principles and be subject to thorough due diligence (appraisal): From screening projects for development impact and HRHI eligibility, to the preliminary approval by IFU Vice Presidents (Gate 1), to Clearance in Principle in IFU´s Investment Committee and Board to final approval, Binding Commitment, in IFU´s Investment Committee and Board). The due diligence draws on in-house expertise and external consultants to assess opportunities and relevant risks related to policies and regulations, market potential, financials, governance and compliance, environmental, social and human rights risks etc. Adequate measures will be taken to manage and mitigate the risks. IFU will normally be an active owner with board representation and monitor financial and impact performance. The investments will be spread on a number of countries and thematic areas, and a significant part of the investments are envisaged to be undertaken with other DFIs and impact investors, or made indirectly through specialised investment funds that have the capacity to mitigate and/or spread the risk. The main contextual, programmatic and institutional risks are presented in Annex 8.

Annexes

Annex 1: Context analysis

1. Overall development challenges, opportunities and risks
Briefly summarise the key conclusions from the analyses consulted and their implications for the programme regarding each of the following points:
- IFU has achieved promising results with its PPP based investments funds. However, preliminary experience shows, that such investment funds prioritise investments with a relatively predictable and adequate risk-return balance, and the investments are therefore mainly made in middle-income countries. - An independent evaluation of IFU, published in 2019, recommended that IFU should be better aligned with the development priorities of the MFA, and place a bigger share of its investments in the least developed countries. - Special efforts are required to also promote the mobilisation of private capital in the least developed countries and fragile states. - Several DFI's including Norfund, CDC, Finfund and IFC have already agreed with their owners to make steps to support such investments. - A similar process is needed for IFU to promote investments with high development outcomes in the least developed countries, particularly in Africa,, where the risk-return balance is challenging. • Mid-term review of the HRHI initiative concludes that the HRHI initiative is highly relevant, and it is recommended that the HRHI initiative is continued and opportunities for scaling the initiative are explored.
List the key documentation and sources used for the analysis: - A large number of documents prepared by DFIs, the World Bank Group, donors and international organisations.
Are additional studies / analytic work needed? How and when will it be done? - No need to conduct additional contextual studies and analyses.

2. Fragility, conflict, migration and resilience
Briefly summarise the key conclusions and implications for the programme of the analysis of the below points:
- The proposed support is closely linked to fragility, conflict, migration and resilience. It is important to promote SDG relevant private sector investments in the least developed countries and fragile states. However, this can only be done through blended concessional finance initiatives, that can ensure the mobilisation of needed commercial investment capital, demonstrate business opportunities and results that can be replicated, and ensure private investors a relatively predictable and acceptable rate of return. IFU has e.g. in cooperation with MFA, Norad and a private investment fund (Horn of Africa fund) demonstrated opportunities to

successfully invest in SMEs in Somalia. The investments can generate important development impact in terms of generation of jobs and income for many local people and demonstrates opportunities for other local SMEs and investor to follow this path.
List the key documentation and sources used for the analysis: - A large number of documents prepared by DFIs, the World Bank Group, donors and international organisations.
Are additional studies / analytic work needed? How and when will it be done?   - No need to conduct additional contextual studies and analyses.

3. Assessment of human rights situation (HRBA) and gender[8]
Briefly summarise the key conclusions and implications for the programme of the analysis of the below points:
Human Right Standards (international, regional and national legislation)   - The investments will be conducted in a complex environment across a number of the least developed countries and challenging sectors in Africa, where the stakeholders may not always give high priority to sustainability standards. IFU will apply its sustainability policy and procedures which are based on international standards incl. the UN Guiding Principles.
Universal Periodic Review   - N.A
Identify key rights holders in the programme
Identify key duty bearers in the programme
Human Rights Principles   - All IFU investments will be subject to a stringent due diligence process, which will ensure that the investment projects adhere to the principle of good corporate governance, comply with the principle of good business conduct etc. IFU will apply sustainability standards, including UN guiding principles for business and human rights, in accordance with its new sustainability policy.
Gender   - The investments under the instrument will give special priority to gender equality and the promotion of women entrepreneurs.
Youth   - The same as for gender
List the key documentation and sources used for the analysis: -
Are additional studies / analytic work needed? How and when will it be done?   **No**

4. Inclusive sustainable growth, climate change and environment
-

[8] The purpose of the analysis is to facilitate and strengthen the application of the Human Rights Based Approach, and integrate gender in Danish development cooperation. The analysis should identify the main human rights issues in respect of social and economic rights, cultural rights, and civil and political rights. Gender is an integral part of all three categories.

Briefly summarise the key conclusions and implications for the programme of the analysis of the below points:
- The IFU investments will strengthen the sustainability agenda among the involved stakeholders. This can be a challenging task considering that the instrument is envisaged to promote investments in a number of the least developed countries, hereby addressing a broad and diverse group of stakeholders. - IFU has a well-developed set of policies and procedures which will be applied to address the sustainability agenda in relation to the investments.
List the key documentation and sources used for the analysis: - IFU's sustainability policies and related policies on tax, climate etc.
If this initial assessment shows that further work will be needed during the formulation phase, please list how and when will it be done? - **N/A**

5. Capacity of public sector, public financial management and corruption
Briefly summarise the key conclusions and implications for the programme of the analysis of the below points:
- N/A
List the key documentation and sources used for the analysis: - N/A
Are additional studies / analytic work needed? How and when will it be done? - N/A

6. Matching with Danish strengths and interests, engaging Danish actors, seeking synergy
Briefly summarise the key conclusions and implications for the programme of the analysis of the below points:
- These issues will be assessed by IFU on a case-by-case basis in relation to the specific investment proposals. - IFU is untied, but is often working with Danish investors and economic interests. However, the blended concessional finance instrument is targeting the least developed countries in Africa and the opportunities of involving Danish investors with adequate interest and capacities are envisaged to be relatively limited.
List the key documentation and sources used for the analysis: - N/A
Are additional studies / analytic work needed? How and when will it be done? - No additional studies are required.

7. Stakeholder analysis
Briefly summarise the key conclusions and implications for the programme of the analysis of the below points:

The key stakeholders in relation to IFU and the HRHI instrument are: - Other donors and DFIs, international private impact and commercial investors, private companies, and local investors in the countries where the investments will take place.
List the key documentation and sources used for the analysis:
Are additional studies / analytic work needed? How and when will it be done? - No additional studies are required.

Annex 2: Partners

Summary of stakeholder analysis

A mid-term review of the progress and performance of the 2019 appropriation has been conducted in August/September 2021, and the review concluded that the initiative is highly relevant, that the initiative should be continued and opportunities for scaling the initiative should be explored. No additional stakeholder analyses have been conducted. The commitment is a replenishment of the 2019 appropriation, and the basic objectives and targets mains unchanged. IFU is a well-established organization, and the planned commitment to the HRHI initiative will only to a minor extent effect IFU's current governance procedures and business activities.

IFU offers risk capital and advice to companies that want to invest in commercial investment activities in developing countries. IFU has built up a strong experience with investments in developing countries including low-income countries, and IFU has the required capacity and networks to develop and implement the new instrument.

Criteria for selecting programme partners

N/A, ref. above.

Brief presentation of partners

Ref. above.

Annex 3: Executive summary of the HRHI mid-term review

In 2019 the Ministry of Foreign Affairs of Denmark provided a capital contribution of DKK 200 million to the Investment Fund for Developing Countries (IFU) to develop a blended concessional finance instrument called the High Risk – High Impact initiative (HRHI). To date (September 2021), the funding envelope has been exhausted and the pipeline is growing. IFU has demonstrated that the HRHI initiative is highly relevant. With HRHI IFU has a tool to invest in projects that have strong potential development outcomes but are too risky/have a too low IRR for traditional IFU investments. The HRHI initiative has contributed to IFU's efforts to respond to the criticism of IFU related to inadequate investments in the least developed countries and inadequate focus on development impact.

The new Danish Strategy for Development Cooperation (2021) sets a clear direction where IFU is expected to ensure more economically and socially sustainable, green and responsible investments in developing countries, especially in the poorest countries in Africa. In light of the demonstrated traction and clear strategic relevance, the review team (RT) recommends (REC #1) that the HRHI initiative is continued and that opportunities for scaling the initiative are explored by both MFA and IFU.

The RT recognizes that IFU is on a change path towards a stronger focus on development outcomes and impact. One key dimension of succeeding in this endeavour is the continuous adjustment of systems and procedures including the results measurement system. IFU has dedicated resources to strengthen its impact measurement system and changes are materialising. While this is positive, there is still some way to go in terms of finalizing a revised development impact results measurement system that is applied across the entire IFU portfolio. The RT recommends (REC #2) that the work to strengthen the results measurement systems is continued and maintained as a high priority within IFU.

HRHI has given IFU the ability to engage in new types of investments and work with a new type of partners. IFU has succeeded in leveraging five times the HRHI funding to the investment projects. IFU has invested IFU Classic funds into three of seven of these investments. Considering the concessional nature of the HRHI funds, it is important for IFU to have a strong focus on maximising the leveraging of other resources (internal and external) with the HRHI financing. In light of the relatively limited resources within IFU and limited size of HRHI funds available, the RT recommends (REC #3) that IFU engages in strategic partnerships to a) build a portfolio of projects with strong development impacts and b) mobilise additional financing.

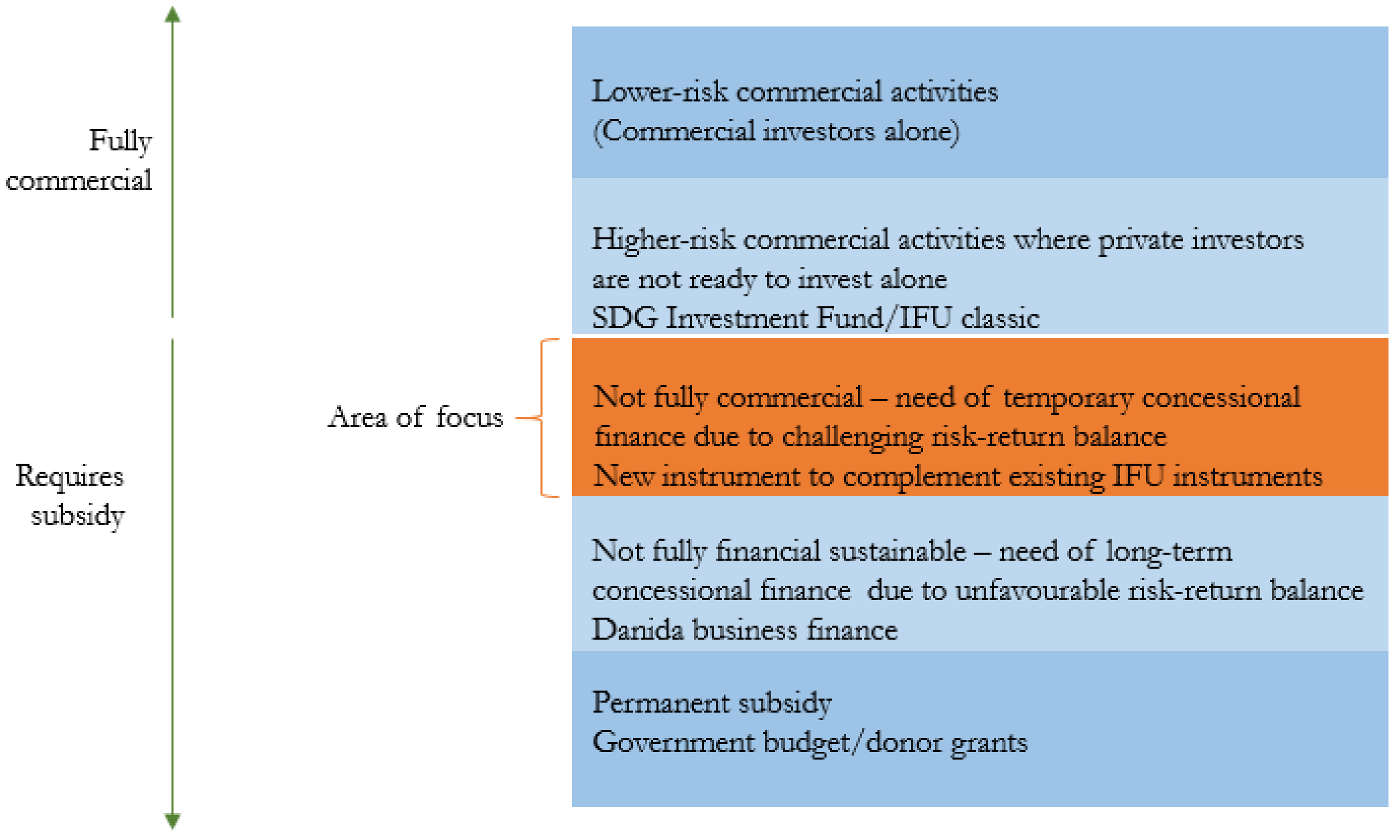
If HRHI is to transition from the current pilot phase to a longer term, and potentially permanent, initiative, a number of issues need to be considered. If IFU is to continue the efforts to grow the HRHI portfolio and position itself as a serious partner, IFU needs to be able to also honour the expectations raised once the soft pipeline matures and becomes ready for investments. It constitutes a reputational risk for IFU, if IFU is not able to invest due to lack of continuity in funding/knowledge of what will come.

It takes longer time and more resources to identify, mature and implement HRHI projects. The implication is that IFU, beyond the lower IRR on HRHI projects, will have to spend more staff resources on this type of investments. In short, IFU can grow the HRHI portfolio, but it will have implications on the draw on human resources which will have to be factored into the overall assessment of IFU performance if IFU is to pursue HRHI at a larger scale. The RT recommends (REC #4) that IFU and MFA engage in a higher level discussion to agree on the future of HRHI and agree on viable pathways with a long term horizon that ensures that IFU has the financial and human resources to scale the HRHI initiative.

Annex 4: IFU Standard indicators

SDG	Indicator	Unit
1 NO POVERTY	Number of microfinance clients	#
3 GOOD HEALTH AND WELL-BEING	Number of patients served	#
	Number of female patients served	#
	Number of underserved patients served	#
5 GENDER EQUALITY	Positive gender impact (2X-eligible)	% investments
6 CLEAN WATER AND SANITATION	Number of new connections to water and wastewater services for underserved groups	#
7 AFFORDABLE AND CLEAN ENERGY	RE capacity installed	MW
	RE generated (annually)	GWh
	Number of new connections to energy	#
8 DECENT WORK AND ECONOMIC GROWTH	Employment, total	#
	Employment, women	#
	Employment, youth	#
8 DECENT WORK AND ECONOMIC GROWTH	Domestic purchase	mUSD
	Annual total wages paid to employees	mUSD
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	Total volume of loans (corporate, SME, micro, mortgage, retail)	USD
	Total number of clients (credit)	#
	Number of female clients	#
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	Farmers reached	#
	Sustainable management of natural resources	ha
13 CLIMATE ACTION	Absolute GHG emissions (annual)	tCO2e
	Avoided GHG emissions (annually)	tCO2e
17 PARTNERSHIPS FOR THE GOALS	Taxes paid (finance data)	mDKK

Annex 5: Positioning the new blended concessional finance instrument, figure 1



Source: Adapted from IFC: When blended concessional funds make sense. "Blended concessional finance: Governance matters for impact", March 2019.

Annex 6: List of eligible countries for the initiative

List of countries eligible from July 2019 - June 2020. Based on GNI per capita, Atlas methods (current USD) from World Development Indicators[9]

The list will only be updated at the end of the test period, which will be end of 2022 or in 2023.

	GNI per capita, Atlas method (current US$)		
Country Name	2016	2017	2018
Benin	820	800	870
Burkina Faso	600	590	660
Burundi	270	280	280
Cameroon	1,380	1,340	1,440
Central African Republic	410	420	480
Chad	730	640	670
Comoros	1,320	1,280	1,320
Congo, Dem. Rep.	470	460	490
Congo, Rep.	1,820	1,480	1,640
Cote d'Ivoire	1,530	1,480	1,610
Eritrea			
Ethiopia	660	740	790
Gambia, The	620	650	700
Guinea	770	830	830
Guinea-Bissau	650	680	750
Kenya	1,360	1,440	1,620
Lesotho	1,360	1,300	1,380
Liberia	620	620	600
Madagascar	400	400	440
Malawi	340	340	360
Mali	780	770	830
Mauritania	1,160	1,120	1,190
Mozambique	490	430	440
Niger	370	360	380
Rwanda	720	730	780
Senegal	1,270	1,280	1,410
Sierra Leone	490	520	500
Somalia			
South Sudan	460		
Sudan	2,130	2,390	1,560
Tanzania	970	970	1,020
Togo	610	590	650
Uganda	660	620	620
Zambia	1,380	1,300	1,430
Zimbabwe	1,290	1,370	1,790

[9] African countries with a GNI per capita of max 40 percent of the upper limit for Lower Middle Income Countries according to the World Bank's classification which corresponds to USD 1,598 per capita, according to the latest figures (published July 2019). Eritrea, Somalia and South Sudan have no data, but are assessed to be eligible.

Annex 7: Preliminary Risk Management Matrix

Contextual risk

Risk factor	Likelihood	Impact	Risk response	Residual risk	Background to assessment
Possible global financial instability and economic slow-down	Possible	Medium	A thorough involvement of IFU and the other involved investors can mitigate the impact.	Minor	Financial turbulence and economic slow-down triggered by global political or financial crises.
Political and/or financial instability in some of the concerned African countries challenging Foreign Direct Investments	Possible	Major	The investments are envisaged to be conducted in a number of different African countries, and IFU will therefore not be heavily exposed to any single country. IFU will try to mitigate possible consequences on ongoing investments, whereas new investments will only be conducted if sufficient risk mitigation is in place.	Medium	During recent years political and financial turbulence have taken place in many developing countries, particularly in the least developed countries and fragile states, including Africa.

Programmatic risk

Risk factor	Likelihood	Impact	Risk response	Residual risk	Background to assessment
Inadequate interest among investors	Possible	Medium	A broad geographical and thematic approach will limit the risk. In addition IFU's untied mandate provides better opportunities to identify qualified investors including other DFIs and foreign investors.	Minor	Many private investors will be reluctant to invest in the least developed African countries and fragile state due to a relatively high risk exposure.
Commercial failure of individual investments	Medium	Major	IFU has a well-developed risk management system designed to mitigate risks during the preparation, implementation and operation of the investments. However, the risk of investing in the least developed countries and fragile states will remain relatively high.	Medium.	Unless investments in the concerned African countries are carefully prepared and appraised they can easily end up as commercial failure

Shortage of bankable projects	Medium	Major	IFU is aware of the importance of maintaining a solid pipeline of investments projects, and efforts to develop a satisfactory pipeline are ongoing. IFU's untied mandate will make it relatively easier to maintain a solid pipeline..	Minor	Overall there is a shortage of bankable investment projects in developing countries, and that is in particular an issue in the least developed countries and fragile states in Africa where the risk-return balance is relatively challenging.

Institutional risk

Risk factor	Likelihood	Impact	Risk response	Residual risk	Background to assessment
Reputational risks due to violation of human rights, OSH, environmental standards etc.	Medium	Major	IFU has well-established sustainability policies and procedures which will ensure that sustainability issues are professionally addressed during investment preparation and operation	Minor	Various studies indicate that international and not least local companies often violate human rights, OSH, environmental standards etc.
Misuse, corruption and fraud by participating international and local partners	High	Medium	These risks can never be avoided, but IFU has developed a number of monitoring and control procedures to mitigate the frequency and impact of these risks.	Minor	According to international business environment indexes, including the Transparency International Index, corruption, fraud and misuse of funds is widespread in the concerned countries.

Annex 8: Process Action Plan – Second commitment to the IFU managed High Risk High Impact initiative

Time line	Activity	Documentation	Responsible
August – 15 September	Mid-term review of the first commitment to High Risk High Impact	Review report	GDK
August – 10 September	Preparation of Concept Note	Concept Note	GDK
14 September	Concept Note forwarded to ELK	Concept Note	GDK
September 15 - 28	Public hearing	Concept Note	ELK
October 5	Programme Committee meeting	Concept Note	GDK
September - October	Preparation of programme document	Programme Document	GDK
Beginning of November	Programme Document and Appropriation Cover forwarded to ELK	Final Programme Document and Appropriation Cover	GDK
November 25	Council for Development Policy	Minutes of meeting	GDK
End November/beginning of December	Presentation of project proposal to the Minister for Development Cooperation	Signature	ELK
Medio December	Signing of agreement with IFU (depending of 2022 Finance Act approval)	Legally binding agreement	GDK and IFU
Beginning of January	Disbursement of funds to IFU (depending of 2022 Finance Act approval)	Receipt	GDK, IFU

Formulation and quality assurance

The Programme Committee decided that the capital contribution to IFU for the replenishment and expansion of the HRHI initiative be exempted from the normal appraisal procedures. The main reason is that the commitment only concerns a replenishment of the HRHI initiative and that the objectives, the strategic framework, modalities, indicators and operational procedures remain the same. An external review has further concluded that progress and performance of HRHI test period so far has been satisfactory.

The responsible department (Green Diplomacy and Climate) has adequate capacity to conduct quality assurance.

Annex 9 - Quality Assurance checklist for appraisal of programmes and projects[10]

File number/F2 reference: 2021-27269

Programme/Project name: High Risk – High Impact Investment in Africa – 2021 capital contribution to IFU to replenish and expand a blended concessional finance initiative

Programme/Project period: 2022 – 2023 (Investment period)

Budget: DKK 100 million

Presentation of quality assurance process:
The proposed commitment for the replenishment of the HRHI initiative was presented to the Programme Committee on October 5th, 2021. The programme Committee concluded, that a separate appraisal is not required, because the proposal comprises a replenishment into an existing pilot initiative, but if anything it could be considered to use Annex 9 "Quality Assurance Checklist in the AMG to ensure that all due considerations are made. The Programme Committee further noted, that a review of the 2019 HRHI commitment had been conducted in August/September, and that the review concluded that the HRHI initiative is highly relevant and has enabled IFU to invest in projects that have strong development potentials.

The design of the programme/project has been appraised by someone independent who has not been involved in the development of the programme/project.
See above. The 2019 quality assurance process was conducted on the basis of an internal process where GDK cooperated with the Evaluation, Learning and Quality department (ELK).

The recommendations of the appraisal has been reflected upon in the final design of the programme/project.
The Programme Committee assessment and discussion was based on a detailed Concept Note that included all the subjects found in the final project document. The Programme Committee raised certain issues to be clarified and detailed in the final project document. These issues are listed below together with comments from GDK explaining how the issues have been addressed in the final project document.

- Include findings from the independent review in a more explicit fashion in the documents to be submitted to UPR.

GDK comments: The key findings have been of the review have been incorporated into several sections of the project document.

- How to address the shortage of private capital mobilisation and the perceived lack of bankable projects.

[10] This Quality Assurance Checklist should be used by the responsible MFA unit to document the quality assurance process of appropriations where TQS is not involved. The checklist does not replace an appraisal, but aims to help the responsible MFA unit ensure that key questions regarding the quality of the programme/project are asked and that the answers to these questions are properly documented and communicated to the approving authority.

GDK comments: Low income countries are facing challenges mobilising capital for needed SDG investments. Low income countries receives a very small part of even DFIs and multilateral development banks' investments – in 2018 only 6.4% of total investments from these development finance institutions. This is the principal rationale behind the development of the HRHI initiative. The MFA and IFU wanted to assess whether it would be possible to promote private investments in the poorest countries through the use of blended concessional finance. The preliminary results clearly indicate that it is possible to mobilise private risk capital for such investments projects, and that it is possible to develop a solid pipeline of bankable projects. IFU has managed to identify various niche markets, e.g. in cooperation with other Danish development programmes, and the HRHI instrument has proved to be adequately designed for the purpose. This will enable IFU to demonstrate opportunities and hopefully inspire other development finance institutions to initiate/expand similar initiatives. These issued have been further detailed in various sections of the project documents.

- Need for further elaboration of criteria for "green investments": To follow and monitor this a baseline (50%) and a future target by 2023 (8o%). Consistency with the DAC Rio Markers required.

GDK comments: This issue has been further detailed section 3.4 in the project document – rf. section on thematic focus – strong focus on green investments. IFU will apply the EU Taxonomy as IFU does in its screening for green projects, including those funded by the Green Future Fund. However, for the moment IFU will also continue to apply the OECD DAC and Rio marker methodologies and standards in its screening and reporting, in particular when it comes to official reporting on international climate financing to developing countries.

- While investments outside Danish "Expanded Partnership" countries might be warranted, e.g. DRC, the major bulk of the investments should be targeted at the "Expanded Partnership" countries to pursue the goals of "the World We Share".

GDK comments: The country focus was carefully assessed in relation to the 2019 appropriation. The intention was to establish an initiative which as far as possible could be integrated into IFU's overall investment mandate. It was finally decided to use a GNI per capita approach, based on countries with a GNI per capita of max 40 per cent of the upper limit for Lower Middle Income Countries. This group comprised a total of 33 African countries. A broader geographical scope, similar to the one selected, has its merits because it is relatively easier to identify interesting partners and investment projects. On the other hand, more synergies may be established where Denmark is present. IFU will have special focus on Danish partnership countries in order to promote possible synergies with Danish supported development activities, and this has also been the case for the majority of the HRHI investment projects, that IFU so far has or will invest in. However, it is also important that IFU can invest in all the HRHI countries, to be able to identify partners and investment projects with high development potentials. This is even more important as the instrument increasingly becomes targeted green investments in the future. The key investment driver should be the potential development outcome of the investment case.

- A need to highlight gender considerations, e.g. female financial inclusion in projects.

GDK comments: This important issue has been further described in section 3.4 (Strategic considerations) and section 4.4. (Monitoring and evaluation). IFU is e.g. applying the 2X challenge, which is a commitment by DFIs to promote gender equality applying several criteria related to women in management, ownership, employment and financial inclusion. IFU's DIM system further include several gender segregated indicators, e.g. in relation to SDG 3, SDG 5 and

SDG 9. The majority of the HRHI investment projects that IFU so far has or will invest in have strong focus on female financial inclusion.

- IFU's internal capacity to screen and monitor the proposed HRHI investment projects for criteria such as poverty, climate, gender etc.

GDK comments: IFU's internal capacity building in relation to these issues is an ongoing process, which is being further developed among other by 1) early stage project screening of development impact, 2) extended use of IFU's un-tied mandate to make project search broader and more universal and 3) the creation of cross sectoral in-house teams including several staff members to a project. Around a quarter of IFU's staff have so far been involved in the preparation of the HRHI investment projects, indicating that the HRHI initiative has become well integrated into the organisation. The IFU impact measurement system has been strengthened considerably during the last three years, and the HRHI review team concluded, that IFU has dedicated resources to strengthen its impact measurement system and that changes are materialising.

□□ Issues related to HRBA/Gender, Green Growth and Environment have been addressed sufficiently.
GDK comments: Yes, rf. above

□□ Comments from the Danida Programme Committee have been addressed (if applicable).
GDK comments: Yes, rf. above.

❑ The programme/project outcome(s) are found to be sustainable and is in line with the partner's development policies and strategies. Implementation modalities are well described and justified.
GDK comments: Yes, this is documented in the project document and the review report.

□□ The results framework, indicators and monitoring framework of the programme/project provide an adequate basis for monitoring results and outcome.
GDK comments: Yes, rf. project document including annexes and the above comments

□□ The programme/project is found sound budget-wise.
GDK comments: Yes. IFU has a strong pipeline of investment projects. The MFA commitment will be provided as earmarked core funding to ensure that it will be fully integrated into IFU's governance system.

□□ The programme/project is found realistic in its time-schedule.
GDK comments: Yes, the replenishment of the commitment will be implemented over a period of two years, after which the outcome of the test period will be assessed.

□□ Other donors involved in the same programme/project have been consulted, and possible harmonised common procedures for funding and monitoring have been explored.
GDK comments: Not directly, but EU has provided additional funding (administrated by IFU) to two of the projects supported under the 2019 commitment, and some of the other HRHI investment projects are also, or is expected to be, co-financed by other DFIs

□□ Key programme/project stakeholders have been identified, the choice of partner has been justified and criteria for selection have been documented.

GDK comments: Yes, rf. project document. IFU is continuously developing the pipeline of investment projects including investment partners. The projects and partners will be carefully screened and assessed before final commitment.

□ The executing partner(s) is/are found to have the capacity to properly manage, implement and report on the funds for the programme/project and lines of management responsibility are clear.
GDK comments: Yes (rf. above, project document and review report).

□□ Risks involved have been considered and risk management integrated in the programme/project document.
GDK comments: Yes (rf. project document)

□□ In conclusion, the programme/project can be recommended for approval: Yes

Date and signature of desk officer: 03-11-2021 Jørn Olesen

Date and signature of management: 03-11-2021 ____________________

Adam Sparre Spliid