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, corruption etc.*
- *Special efforts are needed to mobilise private capital for SDG investments in lower 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 are explored.*

Major risks and challenges:

- *Political and financial uncertainty, a challenging business environment, climatic chocks 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	2022-2024					
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**

Concept Note

High Risk - High Impact Investment in Africa

2021 capital contribution to IFU to replenish and expand a blended concessional finance initiative

September 2021

File: 2021- 27269

Table of Content

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
DKK	Danish Kroner
GDK	Green Diplomacy and Climate department of the Ministry of Foreign Affairs
IFC	International Finance Corporate
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 6.25
1 DKK	USD 0.16

Strategic Questions for the Programme Committee

This document constitutes a draft version of the project document concerning the proposed capital contribution to IFU for the replenishment of the HRHI initiative.

Guidance is sought from Programme Committee on the following issues for the formulation of support:

1. The HRHI initiative was originally designed to address a number of important thematic areas in low income countries including generation of decent jobs, MSME, gender equality, bottom of the pyramid, renewable energy, climate smart agriculture and food etc., and IFU has so far also invested in projects with a diverse thematic focus. According to the new MFA 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. Question: Green investments will often be able to also address other development challenges, including the generation of decent jobs, but to what extent should the green focus (more narrowly) direct the HRHI investment activities, and to what extent should there be room to pursue other thematic key investment opportunities that can generate development results (e.g. decent jobs) in low income countries?

2. The country focus was carefully assessed in relation with the 2019 appropriation. 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. On one hand, a broader geographical scope has its merits. On the other, more synergies may be established where Denmark is present. Should IFU focus on HRHI investment opportunities in all the concerned low income countries or would it be better to focus on fewer countries and in particular Danida partner countries?

3. IFU has in several of the HRHI investment projects successfully managed to cooperate closely with Danish embassies and EU in partner countries and hereby mobilised additional capital for the investments. This has been a very useful solution for all parties, and the cooperation indicates that opportunities to enhance such cooperation arrangements should be explored in order to ensure that IFU more systematically can develop cooperation arrangements with selected partners (embassies, other donors, DFIs, impact investors etc.). Questions: What are the prospects for more systematically developing cooperation arrangements with such partners including embassies, DFIs, EU, international impact investors, and can MFA facilitate the development of such cooperation arrangements (e.g. by including IFU representatives in country task forces)?

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. 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 1-2 years. 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 Africans[1].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.

Promotion of private investments that can generate significant development results are urgently needed to contribute to economic and social development. However, private investor 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 lower 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 lower 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. [2]

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[1] 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.

[2] 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.

IFU has traditionally been successful in investing in middle income countries in accordance with its current investment mandate[3]. 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 provide loans to SMEs in Somalia and in a financial institution in Uganda that provides financing to small farmers and agribusiness SMEs. I both cases EU has provided considerable additional funds, managed by IFU, to the investment projects.

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, and 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.

[3] 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.

- 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. An 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.

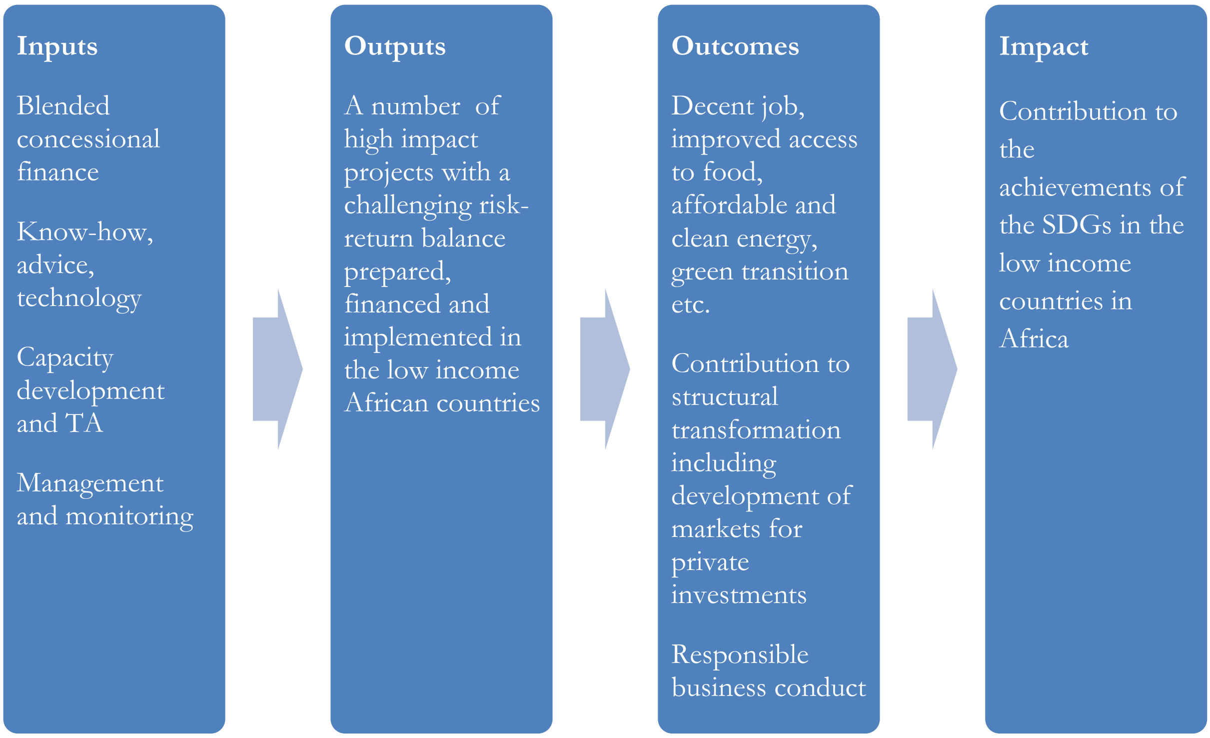
Immediate objectives: Blended concessional finance initiative further developed and expanded to promote IFU investments in projects with high development outcomes with a strong green focus in the low income countries in Africa.

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 1-2 years. A pipeline of relevant projects is already available. If the development and testing of 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 donors 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 the low income African countries, and this target has been maintained. 24% of IFU's investments in 2020 where placed 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 with specific focus on women and youth, number of smallholder beneficiaries, installed capacity of affordable 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). Baseline for all investments will be prepared, and the outcomes of the selected investments will be measured and reported based on IFU's results measurement system (Development Impact Model). The DIM 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. It is also envisaged that IFU after two years 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 results framework developed for the 2019 appropriation will be maintained during the entire test period, and it has therefore not been revised. The results framework is presented in annex 4.

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.

3.3 Justification

Relevance: The proposed commitment to IFU for the establishment of a blended concessional finance initiative that can complement the existing financing instruments, and promote high risk – high impact investments in the least developed 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 increasingly concentrate. 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. 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 on a short term basis and therefore need some facilitation or risk mitigation to materialise and prepare the market for 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 is able to 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 a number of 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 in itself 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. 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 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. It is the intention not to revise the country list before the end of 2022, or the test period, 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 in order 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 etc. A complete and stringent list of thematic priorities has not 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 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.

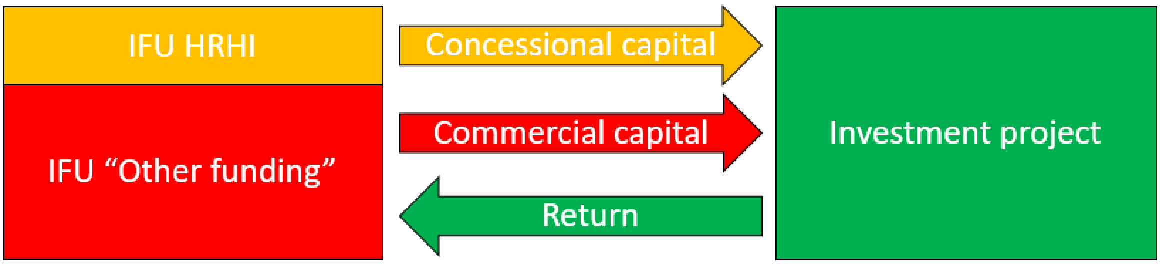
Governance consideration: International best practices and guidelines states, that blended concessional finance to some extent requires specific governance procedures. The additional MFA commitment to the HRHI initiative will, similarly to the 2019 commitment, be provided as core funding to IFU with soft earmarking for HRHI in order 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 in order to better address MFA priorities and to better integrate the use of blended concessional financing within the organisation. These amendments may include specific requirements to IFU's assessments of the investments projects including documentation for the need of concessional funds in relation to the specific investments, expected development outcomes, expected profitability, and not least additionality. These procedures should be fully developed during the test period.

Concessionality approach: IFU will continue to apply a flexible concessionality approach adapted to the specific investment projects. Internationally two basic business financing models are applied for blended concessional equity investments. The most common model applies two or several assets 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. 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 favourable 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 in order to materialise. It is expected that these pipeline projects in 2022 and partly 2023 will absorb the DKK 100 million that are planned to be provided under the MFA 2022 commitment. However, IFU may need to amend parts of the project pipeline to align it with the new MFA priorities on green focus, that will come into force as from 2022 and 2023. 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 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 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 favourable 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 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.



High Risk High Impact Investments function as a concessional supplement to a regular IFU investment with an ex-ante unfavorable risk-return balance. Without the additional HRHI concessional capital, the expected return would not justify the risks involved in the investment. With the HRHI investment, the total IFU investment increases, as well as the expected return to IFU.

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.

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 UN guiding principles for business and human rights, in accordance with its sustainability policy.

Additionallity: The additionality of the investments, both financial and value additionality, will be carefully assessed and documented in the investment proposals in order 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, technologies 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 is well integrated in 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, 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.

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

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 investment, the rational for the applied concessionality, development outcomes, sustainability etc. should be available.

IFU undertakes financial and Environmental, Social and Governance (ESG)/impact monitoring of its investment through annual reporting from investment companies and in most cases also through board representation. IFU is continuously developing its Development Impact Model (DIM) to estimate the expected development outcomes of the investments based on key indicators including: Number of employees distributed on female, youth and unskilled; local tax contribution, mitigated CO_2 emission during project lifetime, renewable energy capacity/production, smallholder farmers supported.

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 as far as possible be assessed according to IFU's risk management principles. Adequate measures will be taken to manage and minimise the risk. The investments will be spread on a number of countries and thematic areas, and a significant part of the investments are envisaged to be conducted together with other DFIs and impact investors, or made indirectly through specialised investment funds in order to mitigate and/or spread the risk. The main contextual, programmatic and institutional risks are presented in Annex 6.

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[4]
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
-

[4] 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.

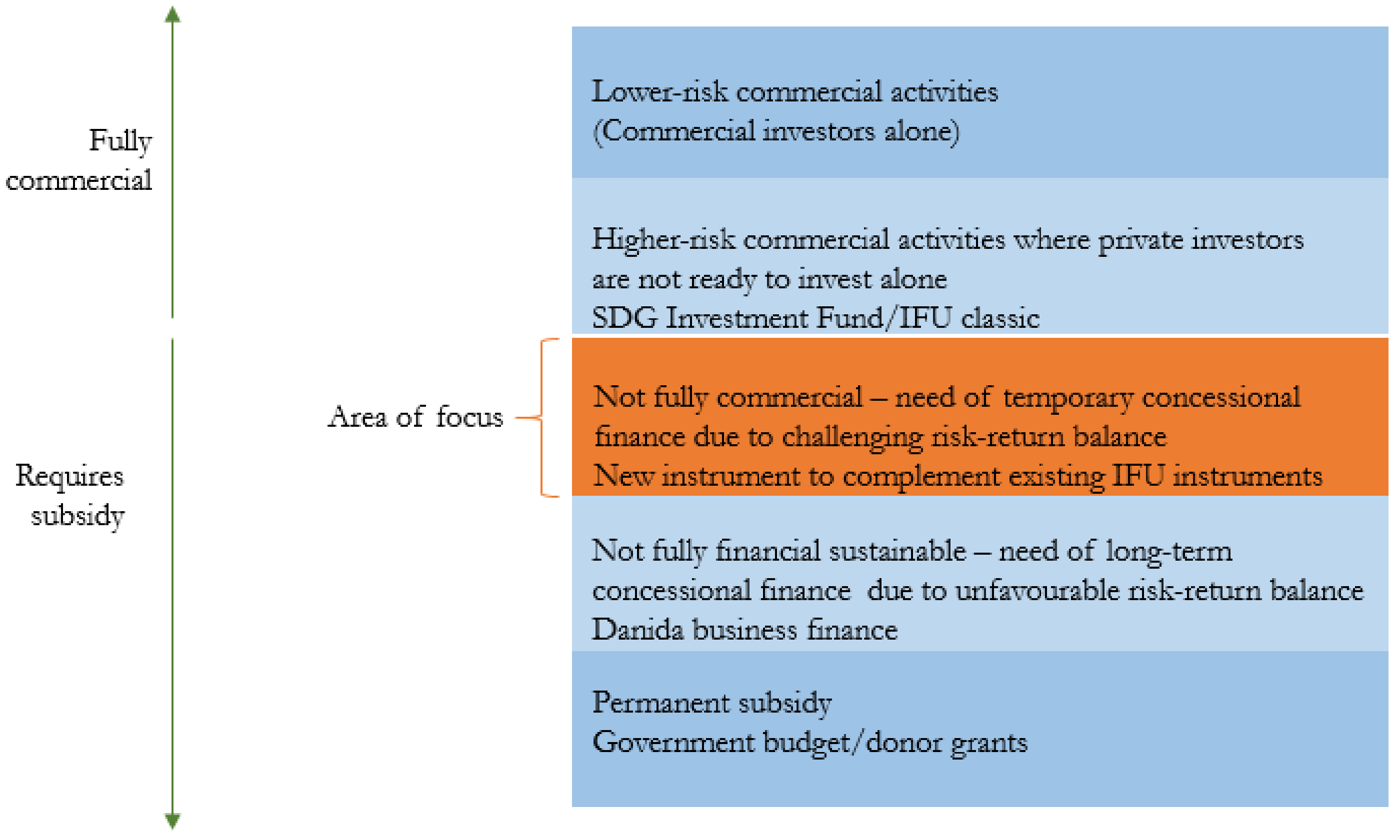
If HRHI is to transition from the current pilot phase to a longer term, and potentially permanent, initiative, a number of issues need to be considered. If IFU is to continue the efforts to grow the HRHI portfolio and position itself as a serious partner, IFU needs to be able to also honour the expectations 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: Results framework

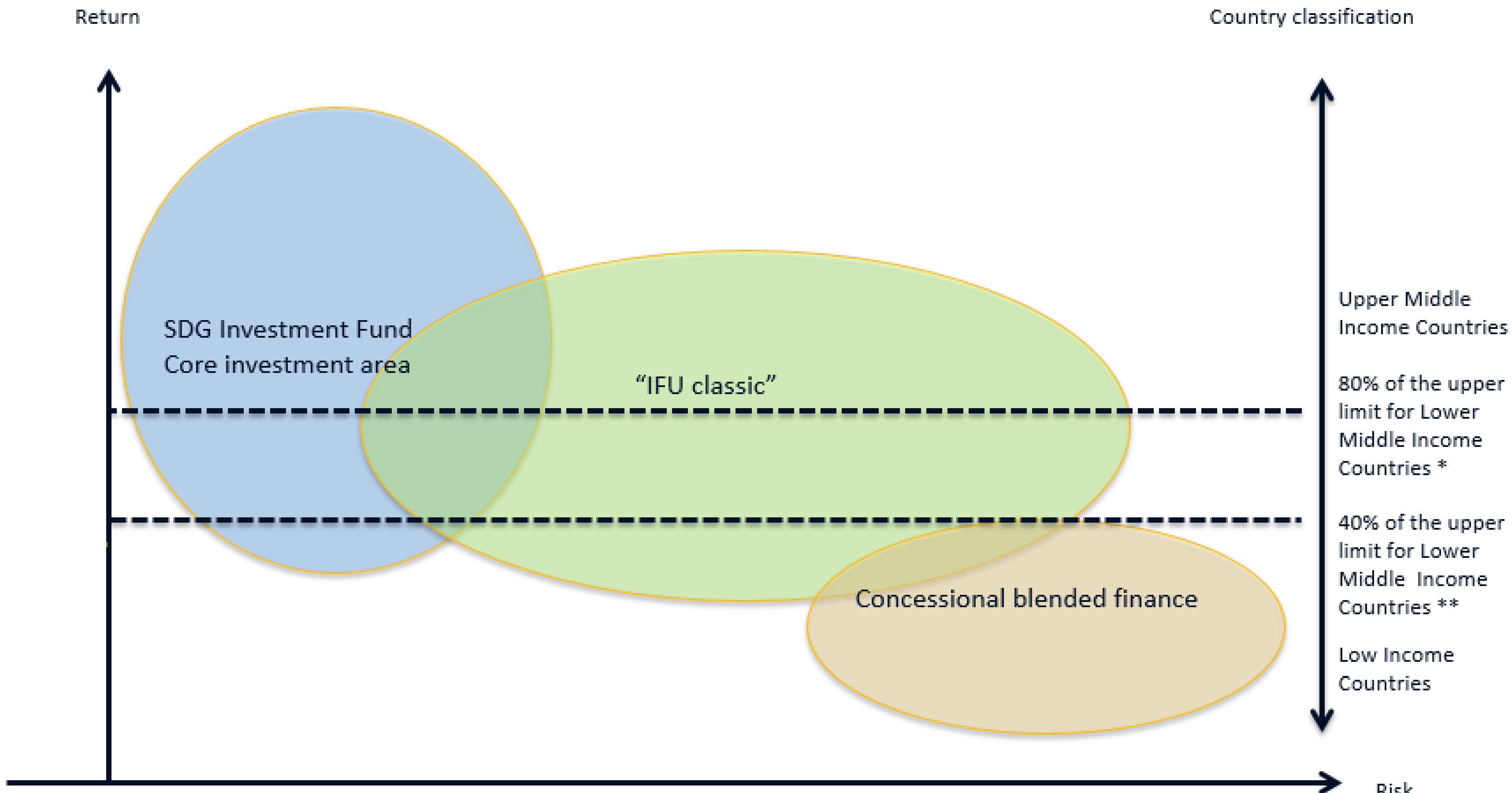
		High risk – high impact investment: Capital contribution to IFU to further develop and expand a blended concessional finance initiative.
Development objective of the fund and immediate objective of capital contribution		*Development objective*: Enhanced IFU contribution to job creation, and to inclusive, 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.
Engagement Title of Fund		Same as above
Outcome indicator		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, youth and unskilled • Number of smallholder beneficiaries • Installed capacity of renewable energy • Mitigated CO_2 emission • Female financial inclusion beneficiaries
Baseline	Year	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.
Target	Year 2023	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 2022. The overall measurable targets for the initiative 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.

Annex 5.1: 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 5.2: Positioning the new blended concessional finance initiative, figure 2



* At least 50% of IFU's investments, according to the current investment mandate, over a rolling period of three years, to be made in poorer developing countries with a maximum GNI per capita of 80% of the upper limit for LMICs according to WB's classification.
** New initiative: An intentional 25% 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 LMICs.

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[5]

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

[5] 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

It is suggested that the second commitment to IFU for 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. However, if needed GDK will establish a quality assurance group with specialists from Evaluation, Learning and Quality (ELK) and GDK in order to discuss possible key quality assurance issues connected with the additional commitment. Issues that may need to be discussed could include:

- The overall strategic approach and related development priorities including inclusiveness, sustainability, specific thematic issues etc.
- Preliminary lessons learned e.g. based on the review
- The results framework, results measurement and reporting according to international standards