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Response to the Danish Ministry of Foreign Affairs public consultation on Impact Investor Partnerships – E5

NOVO NORDISK FOUNDATION, POUL DUE JENSEN/ GRUNDFOS FOUNDATION, BESTSELLER FOUNDATION, GATES FOUNDATION, HEPPEL FONDEN & DANISH INDUSTRY

The Strategy for Development Cooperation sets out an ambition to increase the mobilisation of private capital for global development. This ambition is shared by Danish philanthropic foundations and capital owners, and we therefore welcome the Danish Government's initiative to expand the current business support initiatives with the proposed 'Impact Investor Partnerships' (E5).

Danish philanthropic foundations and family offices are already important partners in global development. They bring not only capital, but also deep thematic expertise, strong international and local networks, long-term engagement, legitimacy and experience from partnerships across sectors.

This makes foundations and family offices particularly relevant as strategic partners in the development of new approaches to mobilising capital and creating sustainable impact in emerging markets and developing economies (EMDEs). It is therefore important that foundations and family offices are not approached solely as sources of capital, but as co-strategic partners in designing, scoping and implementing initiatives that combine development impact, local knowledge and financial sustainability.

We welcome the instrument's overall vision to create partnerships between Impact Fund Denmark (IFDK) and Danish private and philanthropic capital owners, as well as the ambition to strengthen the Danish impact investment ecosystem. However, there is still a need to support the instrument with other types of public-private cooperation, which can bring Danish philanthropy's risk-tolerant, flexible and strategic capital into play, while also utilising foundations' knowledge, networks, legitimacy and long-term engagement.

Against this background, we have the following comments on the proposed instrument, which is currently subject to public consultation:

A flexible instrument must build on the strengths and experience of philanthropic actors

The proposed instrument highlights the growing interest among Danish philanthropic capital owners and family offices in investing for impact in emerging markets and developing economies (EMDEs). This is an interest we recognise. Danish foundations have a growing wish to further strengthen their global presence and development impact, and several foundations are already actively exploring how their capital, knowledge and partnerships can contribute to sustainable development.

It is therefore important to highlight that the consultation material's reference to limited knowledge, data and experience among Danish capital owners as barriers to increased investment in EMDEs does not apply equally to all actors in the field. While knowledge gaps and perceived risks are clearly relevant barriers, it is important that the instrument does not underestimate the existing experience, capacity and appetite among Danish philanthropic capital owners. In the implementation of the instrument, IFDK should draw on this expertise and knowledge.

Furthermore, we welcome that the instrument can be used in all OECD DAC countries and across sectors, as this flexibility is essential for matching the diverse priorities of Danish philanthropic capital owners and for building relevant investment pipelines. While maintaining broad eligibility across sectors and geographies, the instrument may achieve greater impact by supporting partnerships around themes where Danish actors have recognised expertise, strong networks, capabilities and established interest - this could be in line with the four thematic tracks that Impact Fund Development already have. A degree of thematic focus may help attract partners, strengthen pipeline development, enhance impact, and increase the likelihood of successful mobilisation.

Lastly, it is key that the instrument is implemented in a way that is easy for Danish philanthropic actors to work within. This means avoiding unnecessary administrative burdens and governance requirements and keeping compliance requirements proportionate.

IFDK must take the lead in engaging with philanthropic capital owners

We believe that the dual modality of the new instrument — allowing for both '*strategic partnerships to increase engagement*' and '*de-risking to mobilise*' — can lead to increased investment and impact in the Global South by engaging different types of philanthropic actors. However, it is important that the Danish Ministry of Foreign Affairs also continues to engage in innovative partnerships such as the collaboration on Inclusive Refugee Response in Kenya.

We support the role of IFDK as implementing partner, given its experience with investments in emerging and developing markets, as well as its role as an independent government-owned fund. However, the cooperation with IFDK should be designed as a

genuine partnership model, with IFDK taking the lead in engaging Danish philanthropic actors and scoping relevant opportunities.

Furthermore, it should be clearly defined how IFDK will engage with philanthropic capital owners, how decision-making will take place, how projects will be scoped, which targets will be set for each project, and how different mandates and investment strategies will be accommodated. In the implementation of the instrument, there also needs to be a strong focus on ensuring a relevant pipeline, creating local ecosystems and building capacity.

In addition to mobilising capital, successful implementation will require a strong focus on pipeline generation and investment origination, as sufficiently strong pipeline often ends up as the bottleneck. The availability of investment-ready opportunities is often a greater constraint than the availability of capital itself. The instrument should therefore place explicit emphasis on developing and strengthening the pipeline of investable opportunities.

The budget must allow for flexible financial structures

While we welcome the establishment of the instrument, we note that the proposed budget appears modest relative to the ambition of mobilising significant new pools of Danish private and philanthropic capital. Consideration should be given to whether the scale of concessional capital is sufficient to generate the demonstration effects and risk-sharing required to attract new investors and build a sustainable market. Furthermore, the instrument should allow for more flexible financial structures.

Where *pari passu* investment terms may be relevant in some cases, they should not be the default assumption across all partnerships. In addition, many philanthropic actors will not be able to receive financial returns on their investments, and such returns should therefore be retained by IFDK for further reinvestment within the given project. For enterprise foundations, there is a taxation challenge that does not allow returns. This could also be addressed by adding a mechanism to E5 providing the opportunity for investments to be aligned with grants from enterprise foundations without a requirement of co-investment.

Ongoing evaluation must ensure that the instrument remains continuously relevant

To ensure that the ambitions of the *'Impact Investor Partnerships'* are fulfilled, we highlight the importance of ongoing monitoring and evaluation, as well as the possibility of reallocating funds between the different modalities within the instrument. An annual evaluation should be conducted, leading to adjustments of the instrument where needed. This should include an assessment of whether the balance between strategic partnerships, risk-sharing instruments and ecosystem development is appropriate. We look forward to further dialogue with both the Ministry of Foreign Affairs and Impact Fund Denmark on the implementation of the instrument.