

Danish Refugee Council's Feedback to the Final Draft Project Document for Impact Fund Denmark Development Guarantees

The Danish Refugee Council (DRC) welcomes the opportunity to comment on the draft Project Document for Impact Fund Denmark (IFDK) Development Guarantees (2027–2030).

DRC brings direct, operational expertise to this agenda as a humanitarian actor structuring market-based economic solutions in forced displacement settings, including through our SDACKED Kenya partnership (a partnership between DRC, KCB Bank and Sida as provider of unfunded guarantees, 2022-2026).

DRC highly appreciates that the IFDK Development Guarantees framework establishes an ambitious mechanism to mobilise private capital for sustainable development and climate action, notably committing to a minimum 40% portfolio allocation target for poor and fragile countries by 2030 (p. 1, 15). We particularly welcome the deployment of the dedicated Technical Assistance (TA) facility alongside targeted ODA risk premium subsidies (p. 11–12, 17–19), which are critical enablers to overcome initial affordability thresholds and address institutional capacity constraints within partner financial intermediaries, especially for underserved groups such as forcibly displaced people.

As an international humanitarian organization focused on displaced people, we observe the growing push to mobilize private investment through large-scale development guarantees in Fragile and Conflict-affected Situations (FCAS). Practitioners including DRC are noting that this requires deliberate structural adaptations. Moreover, forcibly displaced people face barriers to financial inclusion that go beyond availability and eligibility of finance – many of them linked to either perceived or actual displacement-related risks.

A key consideration to our feedback is exploring whether IFDK's proposed development guarantees can contribute to overcoming the concentration of blended finance in middle-income countries and lower-risk environments, at the expense of displacement-affected people.

Page 4 – Section 3.1: Thematic context: supporting access to finance & vulnerable groups

The document notes that guarantees will assume risk to encourage lending in sectors and regions that are typically underserved or deemed "high-risk," expanding access to finance for SMEs and underserved groups such as women and youth (p. 4).

- We note that forcibly displaced people (refugees, internally displaced people) and their host communities are not highlighted. Displaced communities represent some of the most financially excluded segment in fragile markets due to documented barriers in civil documentation, non-portable credit histories, and elevated risk perceptions.
- DRC and peer humanitarian agencies have demonstrated that commercially viable lending to displacement-affected populations is achievable when microfinance institutions and commercial banks are supported with tailored risk-sharing instruments, pipeline aggregation and technical assistance.

Pages 2 & 15 – Section 2.1 & Section 6: Geographic targeting and additionality within "Africa" and "Poor & Fragile"

The portfolio allocation criteria set rolling targets for Africa (>50%) and Poor & Fragile countries (>40%) (p. 15). However, these categories are aggregate and risk obscuring extreme sub-national disparities.

Globally, according to OECD¹, out of USD 149 billion in private finance mobilized globally by bilateral and multilateral development actors over the 2023–2024 biennium (USD 115 billion earmarked for specific recipient countries), only 11% went to countries facing high fragility, and a mere 0.7% went to countries facing extreme fragility.

The instrument should avoid concentrating the 40% target in relatively mature commercial centres of lower-risk economies.

Pages 2 & 21 – Sections 2.1 & 8.1: The 1.4% Guarantee Framework Fee and Cost-Neutrality Covenant

Under Clause 4.5–4.7, IFDK is required to pay an annual Guarantee Framework Fee of 1.4% on aggregate outstanding exposure to the Danish Ministry of Finance. The fee is designed to anchor cross-subsidization across IFDK's global guarantee portfolio, whereby higher-margin guarantee risk premiums (baseline bank guarantee risk premiums modelled at ~4.2%, p. 18) offset premiums from lower-margin Climate & MDB Guarantees (~0.2%–2.5% premium).

Incentive misalignments in fragile markets: without a more defined framing of "Poor & Fragile" countries, this may exacerbate overcrowding of financial guarantees in mature markets. The instrument should avoid concentrating the 40% target in relatively mature commercial centres of lower-risk economies.

Pages 6, 23 & 24 – Sections 3.5, 9.3 & 10: Integrating Conflict Sensitivity and Fragility Safeguards

The strategy relies on standard Environmental, Social, and Governance (ESG) frameworks, the OECD DAC Private Sector Instrument (PSI) rules, and financial additionality tools (p. 6, 23).

- **Absence of conflict-sensitive and displacement-related screening:** Standard ESG and financial additionality tools do not evaluate political-economy dynamics, conflict drivers, or inter-communal fault lines. In FCAS, injecting capital into commercial banking systems without conflict analysis risks reinforcing patronage networks, aggravating tensions between host communities and displaced populations, or capturing public subsidies for political elites.

Pioneering work from a growing group of practitioners including the Africa Resilience Investment Accelerator (ARIA – a joint initiative of DFIs including BII, Proparco, EIB) underscores that standard environmental and social risk compliance can be insufficient in fragile settings: DFI interventions require explicit, ex-ante conflict diagnostics, context-specific political-economy analysis, to prevent unintended escalation and ensure investments do not reinforce underlying conflict and displacement drivers.

Pages 12 & 19 – Sections 4.3 & 7: Technical Assistance

The IFDK Development Guarantee Technical Assistance (TA) facility (DKK 15–25 million annually) is targeted toward partner banks' internal capacity: operational rollout, SME portfolio strategy, cash-flow lending tools, and portfolio analytics (p. 12, 19).

- **Bridging last-mile delivery gaps:** While bank-focused TA is critical, commercial financial institutions in FCAS rarely have the branch networks, operational presence, or socio-economic verification

¹ OECD Peace, Resilience and Investment (OECD, 2026)

systems needed to reach displaced entrepreneurs, micro-enterprises, or marginalized agricultural value chains. For example, NGOs can act as non-commercial pipeline aggregators—linking humanitarian cash-and-voucher graduation programs, vocational cohorts, and community savings groups directly to guaranteed commercial lenders. This approach lowers customer acquisition costs, ensures inclusive reach, and reinforces durable economic solutions for vulnerable and displaced populations.

- **Advisory support and analytical inputs to help financial institutions identify and segment priority underserved groups—including forcibly displaced people:** supports segment-specific underwriting for vulnerable groups, including forcibly displaced populations

Recommendations

- **Explicit inclusion of displacement-affected populations:** DRC proposes explicitly including displacement-affected populations (refugees, internally displaced persons (IDPs), returnees, and host communities) as a distinct category of underserved beneficiaries alongside women and youth (p. 4, 5).
- We recommend embedding explicit eligibility windows and reporting sub-indicators for displaced entrepreneurs under intermediate outcome indicator 1.2 (p. 15).
- **Guarding against FCAS bypassing:** DRC strongly encourages IFDK to establish clear sub-criteria within the "Poor & Fragile" category to differentiate stable, lower-middle-income markets from high- and extreme-fragility contexts (OECD/World Bank FCV lists). IFDK should articulate how origination will reach underserved subnational geographies where private capital additionality is highest and where commercial financiers are least present.
- **Potential structural adaptation:** DRC suggests exploring mechanisms to partially ringfence or decouple investments counted toward the 40% FCAS quota from the 1.4% cost-neutrality fee obligation (p. 15, 21). Allocating dedicated first-loss concessional grant capital to absorb FCAS-specific credit losses would ensure underwriting teams are not penalised for executing high-additionality transactions in volatile settings.
- **Expanding the scope of eligible TA implementation:** DRC recommends that IFDK adopt emerging DFI best practice by integrating mandatory **ex-ante Conflict Sensitivity and "Do No Harm" assessments, and advisory support** that are of most relevance for displacement-affected people.