# Evaluation of the Investment Fund for Developing Countries, 2004 – 2017

## Summary, management response and follow up note

This note summarises the main findings and lessons learned from an evaluation of the Investment Fund for Developing Countries (IFU), covering the period 2004 – 2017. The note includes the management response and follow up proposals drafted by the Department of Growth and Employment. The Independent Evaluation Department of the Ministry of Foreign Affairs commissioned and managed the evaluation, which was carried out by Nordic Consulting Group and Carnegie Consult.

## Summary of evaluation

The Evaluation Department of the Ministry of Foreign Affairs has commissioned an evaluation of the Investment Fund for Developing Countries (IFU) over the period 2004-2017. The last independent evaluation of IFU was published in 2004. The consortium of the Nordic Consulting Group (NCG) and Carnegie Consult BV (hereafter referred to as 'the Evaluation Team') was selected to carry out the evaluation. There are two objectives for this evaluation:

1. To assess IFU's contribution to development and commercial outcomes through its investments in developing countries in line with its mandate;
2. To assess IFU's strategy and envisaged future role in Danish development cooperation policies, and whether the organisation is fit for purpose.

The evaluation was done at various levels: strategic (IFU as organisation), funds (IFU's statutory funds, IFU Classic and the Danish Climate Investment Fund in particular), partner country level (field visits to Kenya, China and Ukraine) and on the basis of a representative sample of 50 in-depth case studies.

### Changing international context for Development Finance Institutions

IFU is the Danish Development Finance Institution (DFI), which invests in commercially sustainable private sector projects in developing countries. In 2004, at the start of the evaluation period, DFIs were working in the international arena, but were relatively disconnected from the broader international policy agenda. However, this gradually changed. Globally, DFIs have shown rapid growth of more than 600% between 2002 and 2014 based on government and private sector capital injections and retained profits, compared to 50% growth of Official Development Assistance (ODA) during the same period. Governments now consider DFIs as key institutions to promote private sector development in order to achieve key development outcomes including the Sustainability Development Goals (SDGs) formulated in 2015. The main common challenge for DFIs is to act as a driver to maximise development outcomes and impact on the one hand and being commercially sustainable on the other.

### Main changes in IFU during the evaluation period

The 14-year evaluation period can be split in three sub-periods according to changes in the IFU mandate:

i) **2004-2010**: Fully tied mandate and limited country mandate (since 2005) with focus on poorer developing countries and Africa; substantial capital extractions by the State; stagnation in the portfolio (around DKK 600 million investments per year); limited number of instruments;
ii) **2011-2014**: Fully tied mandate, but broader country mandate allowing investments in the lower segment of upper middle income countries; some capital extractions by the State; start of first

Public Private Partnership (PPP) funds with private investors and also set-up of new government fund, but no growth (around DKK 600 million investments per year);

iii) **2015-2017**: from a partially to a fully untied mandate and a broadened country focus allowing investments in all developing countries, rapid expansion both in terms of annual volumes of investments (more than DKK 1.2 billion investments in 2016 and 2017) and in number of funds (government and Public Private Partnership funds) and facilities (total of 11 funds and facilities end 2017), role for private sector investors in IFU governance, restructuring of the organisation, annual dividend payments to the State and new capital injections by the State.

Compared to the other 14 other European DFIs, IFU is among the smaller DFIs, despite its recent growth, which started later than for most other DFIs. There is an enormous variation among DFIs, regarding their size, mandate, sector and regional focus, type of instruments, governance and involvement of private sector investors. Compared to other DFIs, IFU does stand out in the following areas:

- Its tied mandate until 2015, which allowed IFU to invest only in Danish partners and a continued focus on Danish interests even after the untying;
- Its recent growth through PPP funds with institutional investors;
- The relatively large number of both government and PPP funds and facilities;
- Traditionally a relatively strong focus on agribusiness and industry/manufacturing given the demand from Danish business, but recently more focus on renewable energy and the financial sector, where IFU for a long time was less active than other DFIs;
- Its nine regional and country offices with well-qualified on-the ground staff;
- Above average share of equity and quasi-equity (53% of new investments) in the portfolio.

**Key findings and conclusions**

IFU's mandate consisted of a country mandate and regulations on tying to Danish business. This was the main government instrument to steer IFU. While the MFA defined eligible country categories, the operationalisation of the country mandate was left to IFU. In 2003, a number of exemption and phasing-out rules were defined, which are still applied today. As IFU had to stop its investments in a large number of countries from 2005 onwards, these rules allowed IFU at the time to manage the effects on its ongoing business. IFU did not report separately to the MFA regarding its compliance with the mandate, but refers to its Annual Reports in which no systematic assessment of compliance with the mandate is presented.

A detailed portfolio analysis of all IFU Classic investments during the period 2005-2017 shows that it is very plausible that IFU complied with its mandate. In some years (i.e. 2011, 2013 and 2014) it is directly clear that IFU complied with its mandate, because even without considering the investments in regional funds a sufficient amount of investments was made in lower income countries. However, for the other years assumptions had to be made regarding the country allocation of IFU's investments in regional funds.

Since 2011, the portfolio shows a rapid shift towards more investments in middle-income countries, varying between 20% and 45% of the annual investment volume. This is logical given the broadening of mandate and the preference of the PPP funds to invest in countries where risks are perceived to be relatively low. The portfolio also shows a steady increase in investments in Africa from 3% of total annual investments in 2004 to 35% on average during the period 2015- 2017, which is in line with the ambitions of the MFA and IFU.

The relations between the MFA and IFU, which were rather tense at the beginning of the evaluation period, gradually improved over time. The continued capital extractions by the Danish State (net total DKK 4.4 billion) during the evaluation period were one important source of tension. By the end of the evaluation period, the State provided some new capital injections to IFU. Despite formal arrangements and frequent informal meetings, Government oversight and supervision of IFU has been rather limited throughout the evaluation period. The MFA depended mainly on IFU's Annual Reports and did not ask for additional reporting on key issues. The Government did also not commission any external evaluation during the period 2004-2017.

IFU has been very pro-active in mobilising private sector capital to set up PPP funds, which can be considered as an important innovation in line with international priorities for DFIs. From 2011 to 2017, IFU raised DKK 1.8 billion private capital for its PPP funds. In 2018 – January 2019, IFU raised additional private capital – DKK 2.9 billion- for the new SDG Equity Fund, adding up to a combined total of DKK 4.7 bn raised from the private sector. The set-up of these PPP funds such as the Danish Climate Investment Fund (DCIF) has been the main driving force for change in IFU, which led to better risk assessment and also drove further professionalisation of the investment process.

The portfolio of IFU has been primarily demand-driven by the Danish business community. Initially, the focus was on both large Danish companies and SMEs. However, especially from 2014 the number of investments in Danish SMEs decreased as these investments were considered to be quite time-consuming and showed an inadequate risk-return balance. Demand from large Danish companies also decreased over time as some of them can now find the money on the capital market. The untying of the mandate provided IFU with the opportunity to invest also in non-Danish actors. Nevertheless, IFU will keep a focus on Danish interests.

When the mandate was tied, the prime focus of IFU was on internationalisation of Danish business while realising development impacts at the same time. The evaluation found that IFU's investments did address relevant development needs of developing countries. However, the focus has so far not been on maximising development outcomes. In practice, IFU and the investee companies were, in addition to the financial returns, mainly focused on Corporate Social Responsibility (CSR) or sustainability performance. IFU developed a good system to check on compliance with human rights, environmental, social and governance standards. At company level evidence on some good achievements such as good labour conditions and environmental measures was found to which IFU contributed.

In contrast with the attention to CSR performance, there is still insufficient attention to measuring and reporting on development outcomes in all stages of investment, i.e. screening, appraisal, implementation and exit with the exception of one indicator namely the number of jobs. Although CSR and sustainability overlap to some extent with development outcomes, they are centred around the company and do not deal with broader development outcomes at sector and host country level. If outcomes are measured such as job creation, IFU still has to overcome various measurement problems, which are common according to international literature. The monitoring system is still too much a 'one-size-fits-all' model based on self-reporting by the investee companies.

Despite the measurement problems, in more than half of the case studies evidence was found on primarily positive development outcomes. Main positive development outcomes were job creation, transfer of (Danish) technology and knowhow, climate effects and sector effects such as better access to energy. It is estimated that IFU contributed to the creation of 80,000-100,000 jobs from 2004 to 2017. The positive development effects are most noticeable in the energy sector and to some extent in agribusiness. However, in one third of the case studies development outcomes were negligible or below expectations or the positive outcomes were offset by negative development outcomes. There is a clear correlation between negative or poor financial outcomes and a low score on development outcomes. In other cases with limited or negative development outcomes production facilities had very little integration in local supply chains and/or distribution or hardly any new jobs were generated.

During the evaluation period, IFU has communicated more and better on its CSR performance and on some development outcomes, in particular in its Annual Reports. However, despite the fact that IFU opened up to a certain extent, communication on sensitive issues remains challenging. IFU still tends to be rather defensive in its communication. More and better learning can and should take place on the basis of complete and more credible stories, including some negative results.

IFU has generally been financially additional to the market during the evaluation period especially for Danish SMEs. IFU managed to invest either at the right time or in the right type of countries: particularly during the financial crisis when credit was scarce and/or in countries where risk oriented capital credit was difficult to obtain. IFU's role as service provider providing non-financial value to investments is less pronounced. The non-financial value provided by IFU is reflected in the form of bringing 'the Crown & Flag' as government institution, but there is little concrete evidence on how and when this advantage is used.

In general, IFU has made good financial returns on its equity investments, often in double digit figures, which is higher than its returns on loans with interest margins usually in the 5% -7% range.

The recommendations are based on the key evaluation findings and conclusions, while at the same time the challenges regarding the way forward, in particular the challenges related to the SDG Equity Fund such as the preference to operate in relatively risk-averse environments are taking into account.

**Recommendations to MFA (in consultation with IFU):**

1. Develop an overarching long-term supervision agreement for IFU with several attachments on specific issues for specific periods. In addition to the Act on International Development Cooperation, which forms the legal basis for IFU, there is no long-term a supervision agreement that specifies the details of the governance system, reporting requirements for IFU, IFU Board composition and profiles of Board members.

   The following elements can be added as attachments to the overall long-term agreement:

2. Define a new clear mandate for IFU Classic for 4-5 years (2019-2022/23) with specific development outcomes, clear and transparent investment criteria, focus on poor (and fragile) countries and with a variety of financial instruments. Given the new broad mandate for the SDG fund and its first right of refusal, it is urgent to define a new mandate in clear and operational terms for IFU Classic. It should be avoided that all rejected investment proposals by the SDG Fund will easily get funded by IFU Classic in the absence of own specific investment criteria. IFU Classic should have a strong development focus aiming to maximise development outcomes.
3. Prepare a M&E protocol for 4-5 years: with responsibilities for the MFA such as the preparation of an evaluation plan including independent external evaluations at fund, sector and thematic level that should contribute to further learning
4. Develop and revise agreements/programme documents regarding specific funds and facilities to be managed by IFU, keeping the number of funds and facilities to a strict minimum while paying due attention to consistency of objectives, clear and well-defined targets.

5. Agree on additional expenditures for strengthening IFU's development expertise at all levels of the organisation.

**Specific recommendations_to IFU (to be aligned with MFA recommendations):**

6. Strengthen the development expertise within the organisation at all levels, including the Board.
7. Focus on expansion in sectors where IFU has already built up (some) good expertise such as agribusiness, industry and more recently in renewable energy and finance, in principle, no expansion in the coming years to new sectors where IFU has hardly any expertise.
8. Improve M&E (see the M&E protocol above): from the present focus on compliance with CSR standards to more pro-actively monitoring and evaluation (at exit) of actual CSR performance and development outcomes with a clear focus on learning.
9. Improve the transparency of IFU, its learning culture and communication further. IFU should further improve its communication of development results and be more transparent and open in the dialogue on sensitive issues such as investments in Offshore Financial Centres/tax havens and issues raised by civil society and in the media.
10. Set clear criteria for Board membership in investee companies to help increase the non-financial value that IFU can deliver to investee companies.
11. Further strengthen and/or expand the role of the country/regional offices in order to procure increasingly scarce bankable projects.

## Management response

### *General comments*

*MFA welcomes this timely and important evaluation. The evaluation provides a number of relevant findings about IFU's performance, contributions to development outcomes, returns on investments, as well as recommendations for IFU's future development and strategic orientation. The evaluation covers a very long period, during which the investment context and framework conditions for IFU's operations have changed considerably. This made the evaluation task complex and comprehensive.*

*During the evaluation period, and in particular during the last five years, IFU has changed considerably: Annual investments have almost tripled; IFU's mandate has been untied from investing only with Danish companies to a mandate with a much stronger international orientation; and IFU has emerged as a visible development finance institution more closely aligned to the Danish and international development agenda. The MFA acknowledge that oversight of IFU was less structured during the first years of the evaluation period, where IFU played a lesser role vis-à-vis Denmark's official development agenda. However, governance and oversight of IFU has improved, not least in recent years following IFU's increasing integration into the development agenda, and with clearer policy guidance for line-ministries' ownership role in state-owned enterprises.*

*In the short to medium-term perspective MFA key priorities for IFU include: a) continued growth in annual investments to ensure that IFU can continue to play an important role towards achievement of the SDGs; b) redesigning "IFU classic", following the establishment of the SDG Fund and the untying of IFU's mandate, to expand investments in the least developed countries and fragile states where the investment risk is relatively high; c) improved results measurements and reporting on development outcomes using the best international methodologies and approach; d) more emphasis on sustainability and additionality criteria in investment assessment and decision processes; e) improved transparency and communication with external stakeholders on IFU's activities and achievements.*

*The MFA agrees that IFU has been pro-active in mobilising private capital through the establishment of PPP based investment fund arrangements, and this is an important innovation in line with Danish and international development priorities. Comprehensive and innovative private sector participation is necessary to achieve the SDGs in developing* *countries. IFU is a first-mover in mobilizing urgently needed private capital, technology and knowhow for SDG relevant investments in developing countries. IFU has with the establishment of the Climate Investment Fund and the SDG Investment Fund gained international recognition for the approach and results, which have inspired other donors and DFIs. Experience from DCIF and DAF shows that such PPP-investment funds prioritise investments with a predictable and adequate return–risk balance – and these investments are therefore mainly in middle-income countries. However, it is also important that IFU focus on investments in the least developed countries and fragile states, where the risk is higher. MFA and IFU will in the future test and pursue ways to increase investments with high development outcomes in such countries (ref. above).*

*It is noted that the overall development outcomes of IFU investments are positive when considering indicators such as job creation, transfer of technology, climate effects, and various sector effects. IFU investments must be based on a sound commercial rationale, and IFU has therefore traditionally had a strong focus on risk issues, financial results, CSR issues and other company related performance criteria rather than more broad-based development outcomes. With IFU emerging as an ever more prominent part in delivering on the international development agenda, results measurement and reporting on development outcomes has become increasingly important. Therefore, IFU has started improving its M&E systems in recent years, in line with other DFIs. But more needs to be done in order to strengthen documentation and learning on long-term development effects of investments, including paying more attention to measuring and reporting on development outcomes at all stages of the investment cycle.*

*It is noted with satisfaction that IFU's investments have generally been financially additional during the evaluation period. This indicates that IFU has not crowded-out private investors, on the contrary it has contributed to creating new markets. MFA and IFU agree that the investments must be additional ensuring that IFU is only investing in projects which private investors would otherwise not undertake on their own or only implement in a less ambitious way, e.g. with regards to development focus and sustainability. The increasing practice of blending public and private sources of finance for the mobilisation of private capital for investments in the SDGs in developing countries has increased the need for adequate additionality assessment. Possible market distortion by DFI investments must be avoided. Assessment of additionality is a complicated issue, which is high on the agenda of DFIs and their owners. MFA and IFU are committed to improving assessment on both financial and value additionallity of IFU's investments. In recent years, several developing countries have graduated to middle-income status with better market opportunities. This gives more room for private investors, and it is evident that many new private investors, in the years to come, will enter these markets. This development is good for the developing countries and the SDGs. IFU must position itself as a complement to the private sector and create new markets.*

*The evaluation concludes that the development outcomes and returns of IFU's investments with Danish SMEs are less convincing than investments undertaken with larger partners. Higher transaction costs add to the challenges IFU faces in relation to some of its investments in this area. The segment of Danish SMEs with an interest, capacity and commitment to undertake equity investments in developing countries is small, and there are signs that it may be close to saturation. Special efforts and programmes to promote and buttress SME investments have so far not had the intended effect. Still, the MFA is committed to search for ways to support Danish SMEs' pursuit of market opportunities in developing countries either through IFU or through other business development instruments.*

*On a related note, it should be emphasised that IFU, during the last year has been able to significantly increase investments in financial institutions in developing countries targeting local micro-, small, and medium enterprises (MSME), not least in Africa. These investments will facilitate a large number of local MSMEs to access finance for investments and thereby contribute to economic and social development through generation of jobs, income opportunities and public revenue. These promising IFU investments in local financial institutions have become possible due to IFU's new untied mandate.*

*The report indicates, that IFU, and in particular IØ, has been a good investment for the Danish State which over the evaluation period received DKK 4.4 billion from IFU and IØ through continued capital extraction. It is important to emphasise that the State's capital injections and extractions are results of political priorities, and according to the statutes* *of IØ the capital should be paid back to the state at the closure of the fund. IFU and IØ received significant capital injection before the evaluation period, and the State's overall capital injection since IFU's establishment is higher than the total capital extraction. In recent years there has again been significant net capital contributions to IFU from the State, due to IFU's new and more important role in the Danish development agenda. IFU has since the establishment built up a solid equity capital of DKK 3.3 billion.*

### Comments on recommendations

The recommendations fall in two categories: a) Recommendations to MFA (in consultation with IFU) and b) Specific recommendations to IFU (to be aligned with MFA recommendations).

*Recommendations to MFA*

Recommendation 1: Develop an overarching long-term supervision agreement for IFU with several attachments on specific issues for specific periods. In addition to the Act on International Development Cooperation, which forms the legal basis for IFU, there is no long-term supervision agreement that specifies the details of the governance system, reporting requirements for IFU, IFU Board composition and profiles of Board members.

*The MFA agrees that oversight of IFU must be guided by good regulatory systems and governance procedures. This framework is already in place through the government's policy for state-owned enterprises (Statens ejerskabspolitik) which sets out the framework for the state's ownership of enterprises, their governance and reporting. In addition, the governance of IFU and MFA's oversight are guided by a number of strategic and statutory documents including i) the Act on International Development Cooperation, (ii) IFU's articles of association, which describe the regulatory framework, governance system, and reporting, as well as the Rules and Procedures of the Board; (iii) IFU's strategic directions and MFA's strategy for IFU. MFA is currently editing the strategic ownership document (Strategisk Ejerskabsdokument) for IFU. The Strategic Ownership Document will address the elements of this recommendation. In accordance with the Government approved recommendations of the recent analysis of the strategic ownership of State-owned enterprises (McKinsey & Company), the Strategic Ownership Document for IFU will e.g. include strategic considerations for Board composition, periodic evaluation of Board performance, profiles of Board members, additionality of IFU investments, and M&E and reporting requirements. The MFA agrees that the framework and procedures for IFU's reporting should be more clearly specified.*

Recommendation 2: Define a new clear mandate for IFU classic for 4-5 years (2019-2022/23) with specific development outcomes, clear and transparent investment criteria, focus on poor (and fragile) countries and with a variety of financial instruments.

*The MFA agrees that there is a need to articulate a clear strategic orientation for IFU, following IFU's untied mandate and the establishment of the SDG Investment Fund. An important step to scale IFU's investments in the SDGs have been taken with the establishment of the SDG Fund. Given the investor base of the SDG Fund, and the experiences gained from DCIF and DAF, it is likely that focus will be on investments with a more predictable and adequate risk-return balance. But to achieve the SDGs there is also an urgent need to increase investments in low-income countries and fragile states, where the expected risk is higher. IFU's sister organisations from Norway, UK, Finland as well as IFC of the World Bank Group have already agreed with their owners to take steps to support such investments. A similar process will be sought for IFU. In 2017, the operational part of DBF was transferred to IFU with the aim to strengthen synergies between IFU and DBF, e.g. in relation to infrastructure projects within renewable energy and water. A next step comprises a 2019 Finance Act commitment to IFU in order to promote investments with high development outcomes in the least developed countries and fragile states where the risk-return balance is challenging. Specific modalities and procedures for this approach are in preparation. Thematic priorities of the investments are envisaged to include women, youth, local MSMEs and renewable energy. Other initiatives in the reorientation process include efforts to strengthen IFU's project development capacity. There is a shortage of bankable projects, and DFI's including IFU, need to* *strengthen their capacity in project development. The strategic reorientation of IFU is envisaged to continue in the years to come.*

Recommendation 3: Prepare an M&E protocol for 4-5 years: with responsibilities for the MFA such as the preparation of an evaluation plan including independent external evaluations at fund, sector and thematic level that should contribute to further learning.

*The need to strengthen M&E, including preparation of specific ex-post evaluations, in order to contribute to further learning is well noted. IFU has become an important part of Denmark's international development toolbox. As already stated, this calls for policies and strategies, and measurement of development outcomes for reporting and learning purposes. IFU has during the last decade built up a comprehensive M&E system, and is continuously working to improve it. More needs to be done. More frequent preparation of minor ex post evaluation studies of specific investments, or with a sectoral or thematic focus, is also needed, and MFA and IFU will jointly explore opportunities for strengthening this aspect of IFU's work. Due to the ever-changing landscape of development finance and private sector development, it is important that future studies in this area take on recognised academic research as well as best practices of e.g. OECD and IFC, in order to move practices forward and shed light on the best results measurements methods. The same approach will be considered for ex-post evaluations of investments and to contribute to learning and harmonisation across DFIs. Over the past three years, MFA has conducted three reviews of thematic IFU funds and facilities. The intention is to continue using such reviews to assess progress and performance and inspire new directions.*

Recommendation 4: Develop and revise agreements/programme documents regarding specific funds and facilities to be managed by IFU, keeping the number of funds and facilities to a strict minimum while paying due attention to consistency of objectives, clear and well-defined targets.

*MFA agrees that the number of funds and facilities should be kept manageable to keep necessary focus and a lid on transaction and administrative costs. The number of facilities has been reduced significantly over the past two years. However, new funds and facilities may also be established in the future to address specific government priorities. The MFA agrees that attention should be paid to consistency of objectives and the formulation of well-defined targets. MFA support to IFU will be aligned to IFU's internal systems and procedures for M&E and include clear language on reporting requirements to MFA.*

Recommendation 5: Agree on additional expenditures for strengthening IFU's development expertise at all levels of the organisation.

*MFA will as owner ministry support that IFU allocates additional resources for this purpose to ensure, that the recommendation is addressed. IFU investments must be prepared and implemented with the aim to generate strong development results in addition to commercial returns. IFU therefore needs to build up a stronger development culture within the organisation, ensure that adequate expertise and resources are available for these purposes, and e.g. consider increased focus on development outcomes in performance bonuses. IFU is currently recruiting to strengthen this area. MFA acknowledge that this should also include a strengthening of the development capacity of the Board, and the profile of Board members and the composition of the Board will be assessed periodically, cf. recommendation 1.*

Specific recommendations to IFU (to be aligned with MFA recommendations)

Recommendation 6: Strengthen the development expertise within the organisation at all levels, including the Board.

*Reference is made to comments in relation to recommendation 5 above. IFU acknowledges that the development expertise within the organisation needs to be strengthened. This process has already started, and staff with development expertise and experience will be recruited. IFU is working to strengthen the development agenda in relation to the Board, e.g. through a stronger focus on additionality and development outcomes in Board papers.*

<u>Recommendation 7</u>: Focus on expansion in sectors where IFU has already built up (some) good expertise such as agribusiness, industry and more recently in renewable energy and finance, in principle, no expansion in coming years to new sectors where IFU has hardly any expertise.

*It is correct that IFU has built up specific expertise within certain sectors including agribusiness, industry, and renewable energy, and that these sectors constitute the very majority of IFU's investments in recent years. However, IFU operates in a continuously changing environment affected by political, contextual and commercial factors, and IFU should therefore be prepared to pursue investments in new thematic areas that are crucial to development and according to political priorities, e.g. in the water sector and the financial services sector. This has become easier since IFU's investment activities were untied. Good examples include recent investments in MSME finance institutions in Africa. A way to explore new markets and investment opportunities and gain experience, are through partnerships with other DFIs or indirect investments through thematic investment funds.*

<u>Recommendation 8</u>: Improve M&E (see the M&E protocol above): From the present focus on compliance with CSR standards to more pro-actively monitoring and evaluation (at exit) of actual CSR performance and development outcomes with a clear focus on learning.

*IFU acknowledges that the M&E system needs to be strengthened to better measure performance and development outcomes, see also recommendation 3. In this relation, it is important to emphasise that there are real methodological issues and challenges that IFU is not alone in facing. IFU is in this respect actively participating in several professional M&E networks in order to exchange lessons and coordinate approaches where possible and relevant. The current exit evaluation system will be strengthened to provide better information and learning on development outcomes.*

<u>Recommendation 9</u>: Improve the transparency of IFU, its learning culture and communication further. IFU should further improve its communication of development results and be more transparent and open in the dialogue on sensitive issues such as investments in Offshore Financial Centres/tax havens and issues raised by civil society and media.

*IFU has the ambition to further improve transparency and communication in relation to its investment activities. IFU's information and communication policy states that IFU strives to be open and transparent about the fund's services and impacts, because it is perceived as the best way to generate awareness and dialogue with stakeholders and clients. IFU has improved transparency and communication in recent years, which is also acknowledge by the evaluation team.*

*In recent years, IFU has intensified the dialogue by engaging in joint ventures with NGOs related to for example impact research and gender aspects of investments, project-related knowledge sharing and open stakeholder meetings.*

*IFU is to an increasing extent an integrated part of Danish and international development assistance and that requires improved transparency and communication with external stakeholders. IFU will pursue transparency, while at the same time respecting the need for confidentiality around transactions and investments.*

<u>Recommendation 10</u>: Set clear criteria for Board membership in investee companies to help increase the non-financial value IFU can deliver to investee companies.

*IFU agrees to the importance of having clear criteria for the selection of board members that fit the needs of investee companies and represent IFU's interest. There is an ambition to nominate experienced and skilled board representatives who can generate value additionality. In certain situations it can be a challenge to get the right match. IFU will in its guidelines further emphasize the role of the IFU Board nominees to enhance value creation in its investee companies.*

<u>Recommendation 11</u>: Further strengthen and/or expand the role of the country/regional offices in order to procure increasingly scarce bankable projects.

*IFU acknowledges the importance of country/regional offices, which provides significant opportunities in terms of visibility, local networking and monitoring. The successful regional office requires the right location and the right size, as well as a precise definition of its role. IFU will continue to adjust, expand and consolidate its network of regional offices so that it will at all times respond to the requirements of the organisation. IFU will in cooperation with MFA continuously consider possibilities to facilitate generation of synergies between MFA representations and IFU offices.*