Evaluation of the Danida Sustainable Infrastructure Finance Programme
Summary, management response and follow up note

This management response and follow-up note includes a summary of the main findings, conclusions and recommendations of the final evaluation report, as well as general comments to the evaluation by the Ministry of Foreign Affairs and follow-up to the evaluation recommendations. The evaluation was commissioned by the department of Evaluation, Quality and Learning, and conducted by a consultancy team from Particip.

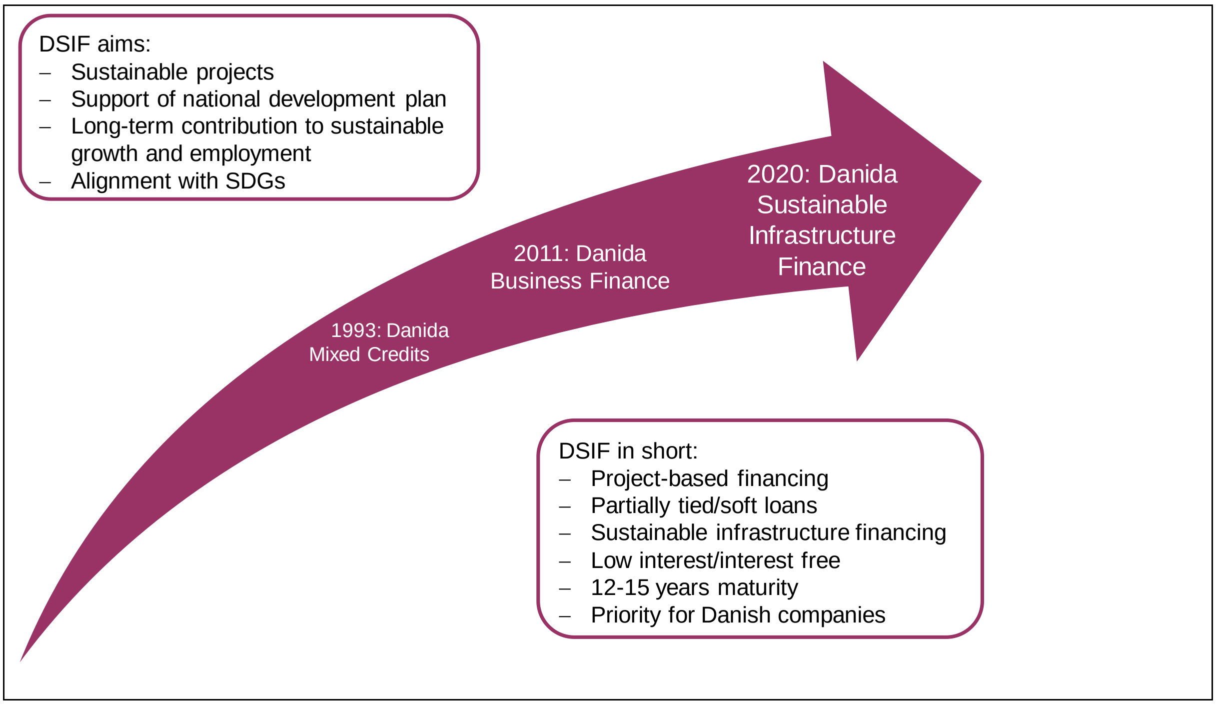
Introduction to the evaluation

The evaluation of the Danida Sustainable Infrastructure Finance (DSIF) programme covers the period 2001 to 2019 and had two objectives:

1. Assess DSIF's relevance, coherency, effectiveness, efficiency, development impact and sustainability, as well as commercial outcomes through its investments.
2. Assess DSIF's mandate and the policy directions of the MFA over the evaluation period and provide an assessment of DSIF's envisaged future role in Danish development cooperation, and whether the organisation is fit for purpose.

DSIF was established in 1993 under the name "Danida Mixed Credit" and was renamed "Danida Business Finance" in 2011. It provides access to finance for commercially non-viable infrastructure projects and is a facility that mobilises finance for sustainable infrastructure projects in developing countries based on the countries' development strategies. Figure 1 gives an overview of the programme and its aims.

Figure 1 Overview of DSIF



Source: Particip

The programme's results contribute to the achievement of the UN's Sustainable Development Goals (SDGs), thereby creating growth and employment in developing countries. It supports development projects which can neither be financed on ordinary commercial terms nor with grant assistance and complements other Danish financed activities for the benefit of the recipient countries.

The supported projects should have a significant Danish involvement through the use of equipment sourced in Denmark, construction work undertaken by Danish contractors, or Danish technical experts and engineers. A small team within the Ministry of Foreign Affairs (MFA) ran DSIF until 2017, when management was passed to the Investment Fund for Developing Countries (IFU) and the DSIF team relocated to the IFU office.

The evaluation entailed reviews of 21 projects (25% of the total number) in seven countries, four of which (Bangladesh, Ghana, Mozambique and Vietnam) were physically visited by the evaluation team.

Profile of DSIF Portfolio

85 projects in 24 countries (primarily in Asia [10] and Africa [9]) were approved in the period 2001 to 2019. Overall, DSIF's geographical reach has been limited.

In total, DSIF financing in the evaluation period amounted to DKK 14 billion (an average of DKK 737 million per year), which was roughly equally divided between the 2001-2009 and 2010-2019 periods.

There was a significant shift from small and medium-sized projects to larger projects. In the period 2001-2009, 69 projects with an average value of DKK 96 million were approved, while from 2010-2019, 16 projects with an average value of DKK 454 million were approved.

31% of project approvals in terms of number and 38% in terms of total value were in low-income countries (LIC), with 67% and 60% respectively in lower-middle-income countries (LMIC). While in the 2000-2009 period, most projects were in Asia (primarily China and Vietnam), there has been a greater focus on Africa since 2010.

Sector coverage was uneven over the evaluation period. 33% in terms of number and 39% in terms of value were in water and sanitation (WatSan), followed by 26% and 36% respectively in the energy sector, and 9% and 14% in transport. In recent years the focus has been on WatSan and renewable energy.

Key findings of the evaluation

Assessment of DSIF's relevance, coherency, effectiveness, efficiency, development impact and sustainability

In the countries where DSIF operates, it has been closely aligned with national development policies and achieves high levels of relevance. With increasing integration into Danida country level strategic frameworks, relevance is likely to remain high, but within the limitations imposed by being a tied-aid programme. Coherence with Danish development policies and programmes was less evident in the first half of the evaluation period as DSIF supported projects in a number of sectors outside of Danish country strategies. Since 2010, however, coherence has improved. DSIF's operations are now more closely aligned with Danish development policies with narrower focus on large public sector infrastructure projects particularly in water, sanitation and renewable energy. Moreover, country development strategies are being designed to cover Denmark's entire range of programmes, including those of IFU and DSIF, which should result in better coherence. Coherence with the programmes of development partners, including co-funding in projects, is constrained by the DSIF tied-aid business model that is incompatible with international competitive bidding that predominates. The degree to which DSIF has assisted Danish companies to establish permanent business links in the investment destinations is mixed and difficult to verify.

Geographically, there has been a fair distribution of the 85 DSIF projects in 24 countries, principally in Africa and Asia. The focus has been primarily in low-middle income countries, with limited attention having been given to low-income countries and fragile states. Operationally, the organisational structure, policies and procedures followed for DSIF operations are in general reasonable but could be improved. Additionality in terms of project realization is pronounced, as most of the projects would not have been realized without DSIF support. However, it is overwhelmingly provided in the form of subsidised long-term finance and grants.

DSIF projects have contributed to direct and indirect beneficial development effects, but these are difficult to quantify due to a lack of information. The majority of appraisal reports do not consider the planned development benefits of DSIF projects in sufficient detail, although there has been an improvement in recent years. Gathering information on outcomes and impacts is further restricted by the lack of ex-post reporting after project completion and handover. Field visits found that most projects have delivered planned outputs and continue to be operational post-handover. Coverage of environmental issues has been to a high standard. There has been lighter coverage of social and governance issues, but no serious detrimental long term effects were identified in the field visits. DSIF does not actually track whether projects achieve sustainability. Field visits for completed DSIF case study projects found that sustainability was satisfactory in only one third of them.

Assessments of DSIF's mandate and the policy directions of the MFA over the evaluation period and DSIF's envisaged future role in Danish development cooperation

DSIF has followed well its mandate and the specific policy directions furnished by MFA well, although with some lag, as changes to the portfolio obviously take time to implement. In this process DSIF has become more focused and relevant to partner governments who are increasingly viewing DSIF as a partner in financing public infrastructure for green transitioning. However, DSIF has been challenged to evidence its contribution to the overall objective of Danish development cooperation, which is poverty reduction. While this evaluation does provide some insights into these issues, it has been constrained by a lack of information in DSIF files on the effectiveness of its operations that limits both its accountability and lessons learnt.

DSIF has received only general medium to long-term strategic guidance from MFA on what sectors and geographical areas it should focus on, apart from a continued concentration on public infrastructure in renewable energy and water and sanitation, primarily in Africa. With respect to its position in the spectrum of Danish development cooperation, DSIF itself has started to consider projects outside its tied-aid model where other forms of Danish technical expertise and support may be more appropriate. As a unit within IFU, DSIF in 2021 prepared an internal strategy that, inter alia, sets out a greater focus on sub-Saharan Africa, more financial and institutional innovation (including a broader perspective on the promotion of Danish interest) and finally also increased focus on technology transfers. The evidence in this evaluation supports such a change, but arguably there may be a need to go even further to ensure that DSIF is fit for the future. In particular, the rather rigid tying of aid to Danish suppliers is increasingly restricting DSIF's ability to engage with agility and flexibility. This is because the concept of 'Danish' content is becoming more intangible and often intertwined with content from other countries, as Danish companies have pursued globalisation and outsourcing intensively. These constraints and inconsistencies call for a rethink of the current tied-aid policy imposed on DSIF, allowing for better delivery on its development mandate. The recommendations contain pointers to what such a rethink should focus on.

Key Conclusions

Key conclusions at Programme Level

As a tied aid facility, DSIF has been **fit for purpose** in terms of delivering on agreed outputs during the evaluation period. However, it has been less good in tracking the development effectiveness of projects, with insufficient information on development outcomes. DSIF has adjusted to and followed evolving MFA and Danida policies and mandates. It has identified areas of core Danish competencies and focused on fewer and potentially higher impact projects within the public sector. Moreover, it has worked well with Danish companies offering cutting edge technologies required for green transitioning, which are increasingly in demand in partner countries. Nevertheless, the **tied-aid model** limits development effectiveness and flexibility. Specifically, the operating model may restrict DSIF's ability to support and complement other Danish in-country engagements in focus countries (for example, where it cannot identify Danish partners to work with), potentially reducing the overall effectiveness of Danish aid by making it more challenging to align with Danish strategic country frameworks in partner countries. Also, no evidence was available to prove that tied aid is cost-effective for clients.

For the most part, DSIF has fulfilled its **mandate** and complied with Danida policies. It has adapted to shifting Danida sectoral priorities by, inter alia, ending private sector projects (in agribusinesses and industry). It moved decisively towards green infrastructure, most notably within renewable energy, water, and sanitation. Moreover, it now concentrates on larger investments. A downside of this shift is that DSIF currently only approves around one project per year and has a thin pipeline in a small number of countries, reducing its geographic reach.

The anticipated benefits of the **relocation of DSIF to IFU** have only been partially realised. This is due to an incompatibility between DSIF's tied aid public sector operations and IFU's private sector mandate that makes project-level collaboration difficult. The relocation has formalised and made explicit the goals and strategic objectives that MFA has set for DSIF and how they are monitored.

On the crucial mandate of delivering on the **poverty reduction** that is enshrined in law, DSIF has made inadequate efforts to define and quantify development outcome objectives and, more importantly, track their achievements. DSIF's focus is principally on outputs and its engagement with clients ends with completion and handover of projects.

At the strategic level, **coherence with MFA's global policies**, which DSIF consistently followed, has been robust. In recent years, the transition to larger public sector infrastructure projects and closer collaboration with embassies has strengthened project and country-level coherence.

By concentrating on sectors and areas where Danish companies, contractors, and consultants are internationally competitive and can add value, DSIF has remained **relevant to project buyers, government partners and the MFA**. To be relevant developmentally, the move to only supporting large projects makes it even more important that DSIF projects be in sectors of the highest national importance.

The focus on individual projects and not the overall programme has meant that little or no attention is paid to the **long-term sustainability of DSIF** as a whole. Moreover, having just one Danish bank (Danske Bank) making loans to DSIF clients, has left the programme vulnerable in the unlikely event that the bank decides to stop working with DSIF. It also restricts DSIF's ability to provide untied loans.

Key conclusions at Project Level

Overall, DSIF's geographical reach has been limited. Both in terms of number of projects and total value of projects, there has been a preference for lower-middle-income countries (LMIC). This trend continued in the 2010-2019 period, when there was a slightly lower proportion of LIC projects. The draft 2021 DSIF Strategy presentation, if implemented, would result in a more systematic and strategic way of developing the portfolio in which, inter alia, development effectiveness factors would be given more weight.

Relevance and coherence

By concentrating on sectors and areas where Danish companies, contractors and consultants are internationally competitive and can add value, DSIF has remained relevant to project buyers and government partners. The phasing out of support to smaller private sector projects and a concentration in recent years on large public sector infrastructure (predominantly water, sanitation, and renewable energy) has led to a **sharper project focus**. At the client level, DSIF has supported projects in sectors prioritised in Danish country development plans and strategies, especially in recent years. To be relevant developmentally, the move to only supporting large projects makes it even more important that DSIF projects be in sectors of the highest national importance.

There were no examples amongst the case studies of DSIF co-financing projects with partners such as multilateral or bilateral development institutions. DSIF has therefore not been able to leverage its investment and expertise by working alongside development partners, limiting its relevance.

Complementarity with Danish development policies and strategies

In most projects reviewed there were **strong complementarities** between DSIF and other Danida engagements although even more could be done. Cooperation on country interventions between DSIF, embassies and Danida HQ in strategic sectors (water, sanitation, and renewable energy) could have been better. One area of complementarity where further opportunities could arise is between Danida grants that can be used to subsidise utility tariffs so that they are affordable in DSIF supported projects, thereby enhancing development outcomes and impact.

Result Measurement System and Development Effectiveness

Logical and results frameworks in the 21 projects reviewed emphasised and focused on outputs (i.e., up to project completion and handover). Insufficient attention was given to outcomes (baselines, targets, and indicators to measure outcome achievement). Given the DSIF focus on project completion and handover to clients it is unsurprising that the output information available, with some exceptions, was generally good. Moreover, many outcome indicators in appraisal reports relate in fact to outputs. In older projects, logical- and monitoring- frameworks are often generic and not well developed or tailored to project characteristics. In recent years there has been an improvement in these frameworks, although they still include generic indicators and do not attempt to identify improvements in the lives of the ultimate beneficiaries, such as better health due to clean water and sanitation.

Tracking outcomes over the medium term is not possible as project monitoring terminates at the end of the one-year period following completion and handover (with the verification of no defects). In fact, DSIF project management guidelines require that "*[…] the Project Implementing Partner will report the outcome indicators for a period of five years,*" but this has not occurred. In 2018 Nordic Consulting Group issued a report to DSIF on how to improve its results measurement system.[1] This report's recommendations have not been incorporated into DSIF's operating policies and procedures, although some of its recommendations are being reflected in projects approved since DSIF's move to IFU.

Given these weaknesses in the RMS it is unsurprising that none of the 21 projects were rated satisfactory on this measure, with 18 rated as partly satisfactory and the remaining three being rated as unsatisfactory. In short, the result measurement system as applied to projects by DSIF is a significant weakness and far below the standard required to deliver appropriate, reliable data on outcomes of project activities during the operation phase and development outcomes in general.

The evaluation field visits provided most of the data on outcomes, most of which is qualitative, as well as often anecdotal in character. DSIF **projects mostly generate significant development outcomes that are not being captured and recorded in its monitoring frameworks**. Water and sanitation projects (if properly implemented) should deliver significant direct outcomes in beneficiary communities that can be measured and quantified. Outcomes have been enhanced by compliance with the higher

[1] Nordic Consulting Group (2018): Results Framework for Danida Business Finance.

environmental standards that DSIF has insisted upon as a condition for its support. The lack of data on outcomes limits the **accountability of DSIF to MFA** and its other stakeholders.

Over the evaluation period there has been an **increasing focus on development outcomes** at the expense of commercial viability. DSIF is increasingly willing to support projects that are likely to remain financially fragile and dependent on government subsidies. This is appropriate provided that the infrastructure projects themselves can cover operating and maintenance costs which may involve government subsidies and other support. This, however, is often not well discussed in appraisal reports. This tilt in the balance towards a stronger development focus is partially obscured by several project documents making overly optimistic assumptions that utility tariffs will be raised, which is unlikely given that low prices are deemed necessary by governments to enable low-income groups to pay for services and thus retain political support. In the water, sanitation, and renewable energy sectors, for example, the expected development benefits of increasing access of the poor to these services appear to be high enough for DSIF to accept the risks associated with weak financial performance.

A lack of reporting post-completion on how projects are performing means that DSIF has **limited information on project sustainability**. Furthermore, there is no system in which lessons learnt from projects already undertaken, i.e., what works, what does not and why, are recorded for use in the design and structuring of new projects.

In half of the completed projects there were good indications that they will continue to deliver developmental benefits over the medium to long-term. In another third of projects there was some but not conclusive evidence of developmental sustainability. Coverage of environmental issues and delivery of direct environmental benefits and potential sustainability is strong. Social and governance benefits are also being delivered although consideration of these issues has been less of a priority. Financial sustainability was much weaker with only two projects having satisfactory ratings for this kind of sustainability. The 15 completed DSIF projects reviewed had a mixed performance as regards sustainability overall, with five being 'Satisfactory', eight 'Partly satisfactory' and two 'Unsatisfactory'.

Project documents tended to be too optimistic on economic viability with constraints and risks underestimated, as was evident, for example, in the Ghana fibre optical cable project that failed to consider the regulatory issue that prohibits one government agency from buying commercial services from another agency.

Additionality

DSIF's additionality was evident in 90% of the case study projects reviewed. Additionality primarily took the form of subsidised finance and grant packages that were required for projects that were not financially viable (financial additionality). In most projects in the water, sanitation and renewable energy sectors, low tariffs that make their services affordable to low-income groups meant that utilities were dependent to varying degrees on subsidies to help cover operating and maintenance costs. As a result, such projects were not 'bankable' and could not raise finance on commercial terms. In none of the case study projects was additional commercial/DFI funding mobilised. It should be noted that DSIF's tied aid model, with equipment supply and contracting restricted to Danish companies, may not be acceptable to development partners who generally require international competitive bidding.

Non-financial additionality was found in only half of the case studies and took the form of support for feasibility studies, ESG studies and other DSIF support in launching projects.

Operating Policies

With the exception of projects having to be approved by both IFU and MFA, the policies and **procedures for the identification and appraisal** of projects are appropriate and similar to those used in other development institutions. There is some overlap and duplication between DSIF and MFA during the project cycle, resulting in additional workload for DSIF staff and thus longer processing times. MFA's sees its role during appraisal as ensuring that DSIF projects are in accord with its policies and strategies. Although there has been an improvement in recent years, DSIF project documents do not include sufficiently detailed theories of change that set out development baselines, goals, and appropriate indicators with which to measure development effectiveness. This is not because the policies as such are weak, rather that implementation has not been adequate. The draft **2021 DSIF Strategy** (an internal IFU document), sets a more targeted and systematic approach to identifying projects in water, sanitation, and renewable energy sectors in those countries where the development effectiveness of DSIF will be highest. The Project Development Facility plays an important role in bringing project ideas to a stage where DSIF can support them.

Compared with broadly similar programmes, IFU management costs are modest for the services provided, although this may in part be due to limited monitoring of development outcomes.

Risk management

Risk management at DSIF is project focused. There is no programme (portfolio) approach to risk management for DSIF. EKF, which issues the guarantees, tracks in a passive way the portfolio but there is no evidence that quarterly reports feed back into the way that DSIF approaches the identification of new projects. Instead, the risk management focus is at the project level of implementation. No consideration is given to the export credit rating of a country and DSIF is willing, for example, to do projects in the high-risk Sahel region (e.g. Mali electricity project).

There are no policies or rules setting out **portfolio concentration** limits by sector, country income category, individual borrower limits or geographic location. The approach to portfolio development has been opportunistic and without regard to the existing portfolio. The recent, but still an internal draft, 2021 DSIF strategy, however, signals a more systematic, planned approach. Of note is the approach to ESG risk management where the insistence on high standards in projects is a particular DSIF strength that brings value to projects.

At the operating level, the DSIF strategy of fewer but much larger projects presents a risk to the continuity of operations as preparation delays are likely to interrupt the already long project pipeline period, which is thus likely to be 'lumpier'.

Communications

The communication approach is effective in terms of reaching the narrow set of core stakeholders in Denmark (e.g. contractors and consultants) and in partner countries (e.g. ministries, authorities, utilities, and embassies) by using direct engagements and establishing relations, often on a personal basis. However, there is potential for systemising the approach somewhat in e.g. developing material that could promote DSIF offerings and inform potential partners better, including Danish Industry.

DSIF **communication to the wider public** has become somewhat less effective over time with the publication of an annual report being replaced by the OpenAid website that provides less information and is harder to extract in an easily readable form. The absence of an annual report combined with limited overall strategic guidance and results frameworks has allowed for a more ad hoc and transactional approach to pipeline development and engagement choice. It has also reduced the accountability of DSIF to the public as there is no overview of the portfolio and only limited information on the outputs produced. Moreover, there is no reporting on outcomes and impacts against the key objectives, including the core one of poverty reduction. The Austrian tied-aid facility, OeKB, by contrast, issues annual reports that contain useful information on its operations.

Involvement of Danish Exporters, Contractors and Consultants

A relatively **small number of Danish exporters, contractors, and consultants** were directly involved in the 21 case study projects. There is no policy or formal definition of what type of exporter, contractor or consultant is eligible to participate in a DSIF project. The de facto, informal eligibility criterion is that a proposed Danish partner has significant operations in Denmark: for example, a factory producing wind turbines or a significant number of people working in an office or facility. The lack of a clear definition may allow a non-Danish company to set up a small office and subsidiary in Denmark to become an eligible contractor, as appears to have happened in some of the Vietnamese water and sanitation projects.

Recommendations

Key Recommendations

1. ***Upgrade the Results Measurement System***. DSIF should put development effectiveness at the centre of its projects, starting with the theory of change in project reports and tracking outcomes for five years post-completion. This should lead to a much stronger commitment to delivering the forecast economic rates of return/development outcomes and ensuring the long-term sustainability of projects.
2. Until wider finance, governance and accountability reforms are undertaken (see below), ***MFA should increase its assistance to DSIF in the preparation phase****, including ensuring that appraisal reports are fully compliant with Danida policies and strategies*. Currently, project processing involves both IFU and the MFA, resulting in delays and additional workload for DSIF staff. While MFA's participation in appraisals has been uneven in terms of frequency and quality, recent examples point to substantial added value of such participation if the right competencies are engaged. Additionally, MFA could assist DSIF in formatting required documentation for presentation of projects to the Danida Programme Committee and the Development Policy Council. These two bodies provide valuable oversight and useful comments and suggestions. The current portfolio and limited number of projects being processed annually (around one) does not justify the establishment of a new DSIF governance set-up, as the current transaction costs imposed on DSIF are manageable, if still an additional administrative burden. Stronger MFA (including embassies) assistance in the preparation phase could further reduce this burden and complement DSIF competencies within political economy analysis and local contextualisation.

   However, if DSIF is to provide more untied financing and possibly also undertake insourcing of the funding of the loans (as this evaluation recommends should be studied), the loan volumes and number of projects could increase even without increases in the Danida grant aid, as more finance can be leveraged per grant aid Krone. In this 'big bang' reform scenario, where DSIF would become akin to a public sector infrastructure financing arm of the IFU, governance and accountability reforms may be appropriate. In this scenario, it is recommended that DSIF assumes full responsibility for the preparation process, and that a DSIF board be established to replace the role of the programme committee and the UPR, with representation from the IFU, the MFA, civil society, industry, and labour. There should thus still be a two-stage approval process but following DSIF's own timelines and formats. This will necessitate the updating of the administrative agreement between the MFA and the IFU as well as the legal document from 2017.
3. **Consider undertaking untied aid projects.** This would make it easier for DSIF to work with DFIs and increase the reach of the Danish aid Krone, as the subsidy level would be lower. Potentially, the volume of DSIF projects could increase. Such a radical change in the business model would have to be based on an in-depth review to determine: i) whether there is an opportunity in public sector development finance that DSIF could play a role in, and ii) how DSIF would have to change operationally to be able to take advantage of the opportunity, in particular how it could acquire the necessary project finance skills. A possible starting point in the formulation of collaboration models with other DFIs may be the Kremenchuk district heating project in Ukraine, in which the financial plan included a DSIF grant and a Nefco loan. Sectorally, it is likely that DSIF would continue to focus

on renewable energy, water, sanitation, and waste management/recycling sectors where Danish companies and contractors are internationally competitive.

Specific Recommendations

4. *Relevance and Complementarity with Danida Strategies*

a. ***DSIF's sector focus should be reviewed*** *and refined on a regular basis to ensure that it remains relevant to clients in target countries and to the mandated objective of poverty reduction.* While energy and especially water are likely to remain key sectors, there may be others where Danish expertise brings added value to infrastructure projects. There could, for example, be an increased focus on green technology that would be a logical extension to its existing focus sectors. Such technology could include waste management, recycling, upcycling and 'cradle to cradle' technologies for example, sectors where Danish expertise could be introduced to developing countries. Other areas that DSIF might move into include climate resilient and mitigation infrastructure, such as, for example, the repurposing of old coal plants to provider cleaner energy, something that the World Bank has identified.[2] To be eligible for support, projects in such sectors should have clear poverty alleviation objectives.

b. ***Closer collaboration with Danish industry through the Confederation of Danish Industry*** *should help identify new sectoral opportunities for DSIF.* Within energy, non-commercial, land-based wind turbine projects may be restricted to low-income countries. Instead, commercially competitive operations, not requiring DSIF support, will probably emerge but there could still be a role for distribution and transmission, also to optimise development effectiveness (e.g. reach poorer and more remote beneficiaries through e.g. rural electrification and access of the urban poor to potable water and sanitation). DSIF should intensify its engagement in the water sector, possibly creating more longer-term and strategic partnerships with Danish resource institutions and companies, many of which are located in the 'water valley' of western Denmark. DSIF strategic documents should include sections discussing its continuing sectoral relevance and proposed refinements or changes.

c. *DSIF should make even* ***greater use of embassies*** *to help identify projects and ensure a good alignment with the Danida country strategic frameworks.* Such frameworks offer a good entry point for DSIF to identify new project opportunities, working closely with embassies. While solid progress has been made there are opportunities for even better in-country coherence where, for example, Danida grant financing can ensure higher inclusiveness and better development outcomes of DSIF investments if properly planned and executed. Similarly, the strategic sector cooperation programmes could be leveraged even more to ensure that Danish public sector competencies are utilised where relevant. Also, during implementation, DSIF staff and monitoring consultants visiting projects should always meet with embassies so that they are fully aware of any wider economic, environmental, and political issues that may affect outputs and outcomes of such projects.

d. ***Systematic integration into ongoing and future country strategic frameworks*** *will aid this process and allow for better alignment, potentially ensuring that Danish industry interests are also leveraged whenever relevant and feasible.* Cooperation with the Danish Trade Council may assist in some cases. DSIF projects will clearly form part of this process as the strategic frameworks are encompassing Denmark's entire engagement and strategic direction in a country. However, there will also be instances where there are no clear synergies between the bilateral grant-based development programme and DSIF in which case one should be careful not to attempt to create synergies that are not obvious.

e. ***Experiment more with IFU and DFI*** *co-financing in projects, even if it may require undertaking projects where tied aid cannot be used.* DSIF's special business model may result in missed development opportunities. To be able to seize these and increase relevance among its peers, it should engage more systematically in such co-financing and parallel/complementary financing efforts. This has the potential to promote the division of labour between concessional, blended, and private funding at the project level.

[2] See, e.g., World Bank: Coal Plan Repurposing for Ageing Coal Fleets in Developing Countries, 2021

Examples from Ukraine projects offer some pointers to how such engagements might be structured and provide key lessons, that may be applicable elsewhere.

f. *DSIF should intensify efforts to* ***strengthen business links in partner countries*** *to maximise the opportunities for Danish exports of equipment and services, including know-how and technical expertise*. If DSIF aid is tied, more efforts should be devoted to ensuring that Danish companies benefit above and beyond the specific DSIF investment, e.g. from sustained exports. Danish companies and partner countries could also benefit from offering and implementing non-financial aid, i.e., technical assistance focused on capacity building in the public and private sector, which could involve support in developing business models for monetarizing the provided infrastructure. Close engagement with Danish industry would aid this process in some instances.

5. DSIF Mandate

a. *Consider* ***widening the mandate*** *governing portfolio choice to include a broader list of activities and partners, while simultaneously sharpening operational focus on development outcomes*. While DSIF has to date been able to find a balance between a policy-driven and demand-driven portfolio, this may become more difficult to achieve. A combination, inter alia, of factors, including debt crises in many partner countries and increasingly narrower range of competitive and interested Danish contractors, may necessitate changes in the portfolio's guiding principles. Specifically, a broader set of sustainable infrastructure categories and possibly also increased use of untied credits could facilitate collaboration and joint investments with other DFIs.

b. *In this context, there is a need to put less emphasis on leveraging (Danish) commercial capital, which has proven challenging, and instead* ***seek to work alongside DFIs*** *to undertake larger infrastructure investments that would* ***complement DSIF's tied credits*** *and thus provide more flexibility in times of limited opportunities for Danish contractors*. This could also assist in having a sharper developmental focus in the projects, as untied DFIs tend to have.

c. *Given that there are generally limited direct synergies with IFU's core business, DSIF should seek to* ***leverage complementarities*** *only where they appear feasible*. The DSIF portfolio has, by policy choice, evolved further away from IFU classic and it can be counterproductive to try and force synergies where the scope is limited. Instead, it is suggested to specifically focus on potential synergies with IFU by improving the complementarity of DSIF investment and IFU strengths.

6. Additionality

a. *When undertaking appraisals, DSIF should seek to* ***maximise its overall additionality*** *by discussing with project buyers where non-financial forms of support from DSIF may be appropriate and can be incorporated*. Technical assistance for operations and maintenance post-completion, which is being used in some projects, should be provided more widely. Appraisal reports should explain how DSIF has sought to maximise its contribution both financially and non-financially.

7. Risk management

Better risk management will enhance the sustainability of projects.

a. ***Introduce portfolio concentration limits*** *by sector, country income, individual borrower limits and geographic location*. This would make explicit, for example, how many new projects would be done in the focus sectors over a specified time period, as well as how much could be committed to each sector. There should also be country and regional limits, as well as by country income category, that should make the portfolio more diversified geographically. It should be noted that the concentration in part is driven by a deliberate strategic choice. However, more should be done to be explicit about the current and future risk inherent in investing in infrastructure in low-income and low-middle-income countries.

b. ***EKF portfolio reports should analyse trends in the portfolio and be linked to implementation of the overall DSIF strategy***. New projects would then only be considered if they fall within the scope of the strategy and do not lead to concentration limits (geographical, country income and sectoral) being exceeded.

c. *At the project level, greater attention in appraisal reports should be given to* ***assessing the reasonableness of implementation*** *schedules and the capability of sponsors to operate and maintain projects post-completion*. Linked to this is ensuring that utilities and projects have sufficient financial resources to cover their operating and maintenance expenses.

8. *Communications*

a. *DSIF, which has recently become a dedicated investment unit within IFU, should* ***communicate more effectively and comprehensively about its ongoing portfolio****, the results it is achieving (many of which are impressive and could form part of a wider learning platform) and the impacts*. This also clearly relates to the wider issue of not only communicating but also evidencing the results of DSIF, which has been sorely lacking.
b. *DSIF should make public on its website its* ***portfolio approach and strategy.*** This could be a useful component in attempts to raise awareness of what DSIF does and inform a wider set of stakeholders about the key priorities and plans that govern it.
c. *To increase awareness of what it does, DSIF should work more closely with* ***Danish industry groups*** *(industry associations etc)*. This should benefit DSIF in terms of keeping up to date on Danish expertise and technology in focus sectors. It may also generate possible project opportunities for DSIF from Danish companies who are considering projects in focus countries but are concerned about the risks and how to find project buyers.

Matters for Further Review and Analysis

1. *Danish Company, Contractor and Consultant Eligibility*

a. *To further increase legitimacy of DSIF it is important to demonstrate the* ***unique Danish added value*** *both in terms of investments and in generating business links that last longer than the DSIF project itself*. This will require that companies are bona fide Danish companies that deliver more than contract management and quality assurance, in terms of high-quality equipment, know-how, technology, capacities and project management. *A review should be undertaken to* ***define clear eligibility criteria****, which should be posted on the DSIF website.*

2. *Review of DSIF Business Model*

a. *DSIF should examine the potential of* ***alternative business models*** *that are more open to cooperation with other financial institutions*. The current way in which DSIF structures projects, through loans to governments that are disbursed to the target projects, limits its additionality, and makes it difficult to co-finance with development and commercial banks. Consideration should be given to structures, such as dedicated legal entities (project companies), into which DSIF supported funding can be disbursed and a project finance approach adopted to mobilise commercial or development bank loans, following a blended finance financial plan.

3. *Value Added of Tied Aid*

a. As tied aid can impose a deadweight cost, it is important to continually ensure that DSIF and its Danish partners deliver competitive products and services that are meeting the demands of partner countries, ideally even without the subsidy. *Consideration should be given to* ***a review to assess the actual value (and, by implication, cost) of tied aid*** *and the potential of other modalities for DSIF.*
b. ***Initiate a study of the feasibility of in-sourcing the financing of DSIF projects***. Contrary to expectations, there has not been real competition for the provision of financing to DSIF and the current situation leaves DSIF vulnerable and potentially in a position where its commercial offering is not market tested. Moreover, the bank currently used is not interested in providing untied loans,

further restricting DSIF. However, any such in-sourcing will require time and thorough preparations as IFU is not currently geared towards this kind of finance. IFU would have to establish proper treasury functions, oversight, regulation, and a credit committee

Management response

The Ministry of Foreign Affairs (MFA) welcomes the evaluation of DSIF for the period 2001-2019. The timing of the evaluation is good: Denmark's new Strategy for Development Cooperation "The World we Share", is well into its first year of implementation, and DSIF's direction aligns well with the strategy's objectives and specific priorities, such as contributing to ensuring climate-smart infrastructure and the reform of the Investment Fund for Developing Countries (IFU).

Regarding the evaluation's overall findings (evaluation objectives), the MFA is pleased to note the high levels of relevance and close alignment with national development policies, as well as the strengthened coherence and additionality of DSIF. The MFA also notes that the field visits confirmed that DSIF projects have contributed to direct and indirect beneficial development effects, with most projects delivering the planned outputs and continuing operations after handover.

MFA appreciates that the evaluation finds that DSIF contributes to central priorities of the Danish development cooperation in terms of the Sustainable Development Goals, notably SDG 6, 7 and 13. At the same time, the MFA acknowledges the finding of the evaluation that DSIF has made inadequate efforts to define and quantify development outcomes related to poverty reduction. MFA agrees that going forward, relevant aspects of poverty reduction should be more clearly defined and tracked.

The evaluation concludes that "DSIF projects mostly generate significant development outcomes that are not being captured and recorded in its monitoring frameworks". Whereas the MFA is pleased that DSIF projects generate significant development outcomes, the MFA also recognizes the need to improve the monitoring frameworks from the preparation phase through implementation, handing over of projects and beyond. Reporting on results is a central priority for all MFA engagements.

The MFA acknowledges that the Covid-19 pandemic has created difficult circumstances for the evaluation and appreciates the efforts by the team to carry out field visits, which provided numerous important insights. Nevertheless, the MFA finds that the evaluation would have benefitted from a better understanding of DSIF as a development instrument and its journey, including a deeper and more nuanced use of the field visit information as well as more attention to unpacking the links between empirical findings, assessments and conclusions.

Comments on key recommendations

The MFA agrees with most conclusions of the evaluation, both at programme and project level. The following sections outline the response to each recommendation, planned actions as well as measures already undertaken.

1. Upgrade the Results Measurement System
   The MFA supports the need to strengthen the focus on results measurements, both in the preparation and implementation phase, as well as after construction completion when the projects have started to deliver services. The MFA agrees that projects should be clearer in defining their contribution to the poverty reduction objective, addressed through the improvements in the lives of the ultimate beneficiaries in different poverty dimensions. As the evaluation also recognises, DSIF has upgraded the results framework for projects approved in recent years. However, given the long implementation

periods for projects, the effects of strengthened focus on outcome and impact (in addition to outputs) are yet to be seen.

The MFA will carry out an administrative review ("tilsyn") to ensure alignment between DSIF and the MFA financial and results reporting system, including adoption of a standardised results framework for the implementation period and a process for measuring impact post-completion.

2. MFA should increase its assistance to DSIF in the preparation phase, including ensuring that appraisal reports are fully compliant with Danida policies and strategies
   The evaluation is not entirely clear in its description of the roles played by the MFA and DSIF respectively since 2017. The MFA's experience is that the MFA assistance (including embassy input) provides relevant political economy analysis, local contextualisation, alignment to priority areas (e.g. climate-relevance and gender), among others. However, the MFA agrees that MFA assistance should be improved in the short-term, not just during the appraisal but also earlier, e.g. in reviewing Terms of Reference (ToR) for feasibility studies. It is crucial that cooperation between DSIF and MFA is organised in a way whereby delays and duplication are minimized, e.g. through conducting feasibility studies and appraisals concurrently. The MFA will reach an internal agreement regarding support from the Department for Evaluation, Quality and Learning (ELK), to ensure the dedication of relevant resources to these tasks. The MFA and IFU will update the administrative agreement and overview of responsibilities accordingly.

   As part of the current Strategy for Development Cooperation, a reform of the IFU is envisaged. Possibilities of adjusting the DSIF model as part of this process will be investigated, and appropriate adjustments to the governance and business model of DSIF analysed.

3. Consider undertaking untied aid projects
   The MFA notes the evaluation's suggestion of considering more projects outside the tied-aid model, while also reminding that engagement of Danish private sector is a priority in Denmark's Strategy for Development Cooperation. The MFA finds that the evaluation does not reflect on the benefits of the tied-aid model, i.e. security in terms of financial flows and stakeholder management. The current setup means that payments under the loan, including the DSIF grant, is transferred between Danish stakeholders only. Further, the Danish stakeholders (contractors, consultants and lender) are trustworthy partners committed to delivering a good product to DSIF.

   Nevertheless, the MFA agrees the time is ripe for exploring ways of untying projects in cases where it would allow better synergy with other Danish engagements, such as the Strategic Sector Cooperation (SSC). SSC projects are currently mainly implemented in upper-middle income countries, where tied aid projects cannot be undertaken. Untied projects require a different funding setup, and potentially more resources.

   As the evaluation mentions, the DSIF team has been working on a new strategy in dialogue with the MFA. The final version of the strategy includes a window for transformational projects, described as projects that "leverage Danish strengths within other sectors based on a strategic approach and focus on climate impact". This window allows for innovative technology, partnerships and financing, i.e. through untied projects in upper middle-income countries. The learnings from these new projects will be assessed before making larger changes to the instrument.

Comments on specific recommendations

4. Recommendations regarding relevance and complementarity with Danida strategies

   The MFA agrees with the first four recommendations on regular review of sector focus, closer collaboration with Danish industry, greater use of embassies and systematic integration into country strategic frameworks. This requires that embassies/MFA in the future ensure a timely involvement of DSIF in the preparation of these frameworks. The sector focus, as well as country-specific strategies, will be discussed at the semi-annual steering committees.

   The MFA agrees that DSIF should continue to engage with stakeholders in the Danish business community to identify both stand-alone projects and projects that complement commercial projects by adding components with a developmental aim. Within the past years, DSIF has established a stronger collaboration with the Confederation of Danish Industry in the water sector. As part of these efforts, DSIF has developed an information page outlining stakeholder involvement at different times. The new DSIF strategy can also facilitate a more structured dialogue between DSIF and Danish industry.

   In line with the evaluation, the MFA sees potential in stronger alignment with other Danish engagements and greater use of embassies, in particular concerning the previously mentioned Strategic Sector Cooperation (SSC). The SSC has already been instrumental in identifying and developing projects in Ghana, Indonesia and Burkina Faso. The MFA and DSIF will therefore seek to institutionalize embassy coordination and DSIF integration into the formulation processes for country strategy frameworks. DSIF will present the new strategy to embassies and facilitate a dialogue on avenues to explore in the different countries. Within the MFA, the establishment of the new Department for Green Diplomacy and Climate in January 2021 has greatly enhanced cooperation between the development engagements and the Trade Council.

   The MFA partially agrees to the recommendation on experimenting more with IFU and DFI co-financing. As mentioned above, the MFA agrees that DSIF should continue to explore (untied) co-financing of projects, but does not agree that this avenue is necessarily the best direction for DSIF. It would, however, have been useful if the evaluation had unpacked and drawn upon existing experience with co-financing more in-depth. Contrary to what is stated in the evaluation ("no examples of DSIF co-financing .."), one of the DSIF case studies (Saidabad II) involves co-financing with other DFI's. Further, it would have been helpful if the evaluation had reflected on possible disadvantages with co-financing; i.e. lower levels of ownership by partners, less control and flexibility for adjustments, more complicated administrative procedures combined with higher administrative burden, higher risk of corruption, which is generally a significant risk in large public infrastructure projects in developing countries. The MFA finds that DSIFs value proposition lies in its project development capacity, close partner dialogue (with both governments and contractors) throughout the full preparation and implementation period as well as an attractive funding package. Therefore, when pursuing co-financing, DSIF should make an informed choice based on envisioned benefits and disadvantages, as well as be very clear on the type of additionality provided.

   Regarding strengthening business links, the MFA agrees that an important component of DSIF is supporting the transfer of state-of-the-art technology and expertise of Danish companies to developing countries in line with SDG 17. The evaluation question on commercial outcomes was included to address this component of the DSIF instrument and the MFA would have appreciated a more in-depth treatment of this.

As mentioned previously, the MFA seeks to strengthen the synergy between different initiatives. Under the SSC, the MFA is currently piloting the placement of investment advisors in three countries (India, Indonesia and South Africa). The investment advisors work closely with other SSC advisors with the purpose of contributing to identifying investment and financing opportunities as well as providing policy advice to reduce framework conditions that create bottlenecks for investments, including in large infrastructure projects.

5. Recommendations regarding DSIF mandate

As mentioned above, DSIF's new strategy allows for a wider range of activities, in line with the recommendation of widening the mandate.

However, the MFA does agree with the recommendation of decreasing DSIF's emphasis on leveraging (Danish) commercial capital in favour of working more with DFIs. As mentioned above, the MFA finds that DSIF's current prioritisation and specialisation is appropriate for the size of the DSIF. DSIF's setup allows it to be flexible and hands-on. That should continue, so that DSIF's choice of undertaking investments with other DFIs should rely on the additionality provided.

The MFA supports the assessment that policy choice means the scope for project level synergies between IFU and DSIF is limited. Meanwhile, the MFA finds that the evaluation assesses synergy very narrowly, not properly recognizing that DSIF today draws on IFU's larger organization and institutional expertise e.g. within sustainability, impact screening and legal matters. Efforts will be made to ensure that the different types of synergies are better outlined in an updated administrative agreement.

6. Recommendation regarding additionality

The MFA agrees that DSIF should seek to maximize overall additionality. However, this should not only be an element of appraisal reports as mentioned in the recommendation, but be integrated into the full project cycle. The evaluation concludes that "non-financial additionality was found in only half of the case studies", without a reflection on change over time. As mentioned above, more recent DSIF projects have to a large degree benefited from support to feasibility studies, including ESG analysis, and these projects include Technical Assistance and/or Twinning components, e.g. for operations and maintenance. Due to the flexible nature of DSIF programming, these components are tailored to the individual project context and partner capacity. The new DSIF strategy will outline the various types of additionality that the instrument engages in.

7. Recommendations regarding risk management

The MFA partially agrees with the recommendations on introducing portfolio concentration limits and trend analysis. As the evaluation team notes, the current concentration is in part a deliberate strategic choice, informed by development priorities. DSIF projects are only possible in countries with a Danish representation, limiting its geographical spread. The evaluation concludes that there is no direction on geographic spreading, thereby missing that for some years there has been a requirement that minimum 66% of projects are in Sub-Saharan Africa. Considering the limited number of projects in the DSIF portfolio, in combination with semi-annual dialogue on pipeline, the MFA currently does not find it imperative to introduce further portfolio concentration limits, but will assess the relevance of this in a planned review of the Project Development Facility.

The MFA agrees that there is a need to clearly assess and communicate the financial risk of operating in the given countries, especially since financial additionality is an important component of DSIF' value proposition. The planned administrative review ("tilsyn") will include a discussion about portfolio-level risk assessments (based on the EKF guarantee overview) and introduce this as a component of the semi-annual steering committee meetings.

Regarding the recommendation on paying greater attention during appraisals to the assumptions underlying successful implementation and long-term sustainability, the MFA fully agrees. Furthermore, this should not only be assessed at appraisal stage, but also be addressed earlier on, during the feasibility study. Going forward, both DSIF and the MFA, through the involvement of ELK, will dedicate more effort to the formulation of the Theory of Change framework, and further aspects of the Doing Development Differently agenda, including results management as commented on above.

8. Recommendations regarding communications
The MFA agrees with the recommendations regarding improved communication. DSIF will formulate a communication strategy and update its website, addressing both communication regarding the portfolio (strategy, eligibility requirements etc.) as well as timelines for communication on individual projects (progress on milestones, final results etc.).