

## Annex 2 Evaluation Methodology

### A2.1 Structuring of the evaluation in four phases

The evaluation was structured in four phases as shown in the following table.

**Table A2.1. Structuring of the evaluation in four phases**

Evaluation phase	Main activities
<b>Inception phase</b> April-May 2018	Preliminary document review and interviews Inception report with detailed evaluation approach/discussion ERG
<b>Desk study phase</b> June-August 2018	Detailed document review and 44 interviews with different stakeholders Selection of countries for field visits, sampling approach Desk study report/discussion ERG
<b>Field phase</b> August- November 2018	Three country visits (Kenya, China and Ukraine) and 50 case studies Debriefing preliminary findings at country level and DCIF level PPT with preliminary findings presented to ERG
<b>Reporting and analysis phase</b> November 2018- January 2019	Triangulation and validation of all findings Draft final evaluation report to be discussed with ERG

### A2.2 Five main evaluation issues: concepts and definitions

As explained in the introduction there are five main evaluation issues:

#### 1. Relevance and complementarity.

The OECD/DAC definition of relevance is ‘The extent to which the objectives of a development intervention are consistent with beneficiaries’ requirements, country needs, global priorities and partners’ and donors’ policies.’ In this evaluation, the focus is on the extent to which IFU through its investments addresses country needs (general development needs and specific private sector development needs), but also the alignment with MFA/Danida policy priorities, and the extent to which Danish private sector needs are addressed. It should be realised that stakeholders have different and even conflicting needs. The general definition of complementarity is ‘a relationship or situation in which two or more different things improve or emphasize each other's qualities.’ These improved relations or qualities are also referred to as synergies.

#### 2. Efficiency and risk assessment.

The OECD/DAC definition of efficiency is ‘A measure of how economically resources/inputs (funds, expertise, time, etc.) are converted to results’. The ToR focuses on efficiency of the organisation. In line with this definition, the evaluation has focused on some

specific elements of efficiency such as governance, operational efficiency and efficiency of the investment process. The analysis of these elements of efficiency contribute to answering the overall question whether IFU is fit for purpose.

In addition, the risk assessment system of IFU and how it functions in practice is analysed. IFU applies an internal risk model which in its current form was introduced in 2011. IFU's financial risk management handles different types of risk at different levels: overall portfolio level, country level, partner level and individual investment level.

### 3. **Additionality.**

Since DFIs often also use (ODA) government funds for (a part of) their activities, international best practice according to OECD/DAC standards require that DFI investments are 'additional' to the activities from the commercial market. Even though there is general consensus that additionality means providing and support that would not have been provided by the private sector otherwise<sup>1</sup>, there is (still) no internationally agreed definition on how precisely to measure additionality. A study by the UK Aid Network found that in nine reports that evaluated DFIs additionality, the definitions used varied strongly and also the results were mixed.<sup>2</sup>

Also in the case of IFU, the concept of additionality has been mentioned in several documents prepared by IFU, the MFA and other stakeholders, but an explicit reference to what is IFU's additionality is supposed to be was missing until the MFA formulated its strategy for IFU in 2017<sup>3</sup>. It defines additionality as a key principle for IFU's investments that should be assessed qualitatively for each investment decision from two perspectives: financial additionality and value additionality. With this distinction, the MFA follows the working definition that is applied by the OECD until their special taskforce has defined a more specific internationally agreed definition (OECD, 2016b). Applied to the context of this evaluation, financial additionality and value additionality are defined as:

- **Financially additional** – when the private sector could not have done the same, or otherwise could not provide financing on an adequate scale or on reasonable terms to IFU's investee companies, or when IFU investment catalyses private investment that would not have occurred otherwise.
- **Additional in value** – if IFU offers or mobilises, alongside its investment, non-financial value that the private sector is not offering, leading to better development outcomes.

Independently establishing additionality is very challenging as the analysis requires finding out whether a private investor would have made an investment at the time of investing, at which terms and which services would have been offered. This is very difficult to find out *after* an investment has been made, especially because information asymmetry exists during the time of negotiations between IFU and the investee company. Practitioners globally agree that the demand-led nature of many DFIs' business models create bias in the data and that thus rigorous evidence does not exist (Carter *et al*, 2018). This evaluation analyses IFU's financial

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<sup>1</sup> *When is 0 + 1 > 1*, available at: <https://cidpnsi.ca/additionality-in-development-finance/>.

<sup>2</sup> *Idem*.

<sup>3</sup> Ministry of Foreign Affairs (2017). The Ministry of Foreign Affairs Strategy for The Investment Fund for Developing Countries (IFU) 2017-2021.

and value additionality on the basis of (1) an in-depth review of 50 case studies, involving document review and a range of interviews per case, and (2) an analysis of the manner in which IFU itself assesses and reports on additionality.

#### **4. CSR performance and development outcomes.**

CSR describes a company's commitment to stakeholders and socially responsible practices. CSR is a business model that helps a company be socially accountable — to itself, its stakeholders, and the public. ESG is a related concept and is used by investors and lenders. ESG refers to a set of standards that are used to screen a company's practices. ESG and sustainability are used interchangeably, also by IFU. ESG, CSR and sustainability indicators as used by IFU in the ASSR and Annual Reports are directly related to the investee company in its immediate environment. Therefore, it includes community engagement, but it hardly deals with broader development outcomes at sector level, and the national or regional economy.

Development outcomes are the likely or achieved short-term and medium-term development effects of an intervention's outputs. Development outcomes refer to the broader effects of an intervention on its environment, the sector or society at large.

#### **5. Financial outcomes.**

Financial outcomes refer to the financial returns on investment as well as the financial returns at fund level and IFU at large.

### **A2.3 Four levels of evaluation**

In the inception phase it was proposed to distinguish the following four levels of evaluation, which allows to combine breadth and depth, which is necessary for such a complex evaluation:

#### **1. The overall strategic and institutional level of IFU (main focus during the desk study and reporting and analysis phase).**

This level focused on IFU itself, its governance and mandate, the relationship with the Ministry of Foreign Affairs (MFA) and other key stakeholders, its strategy, its various funds, its overall portfolio, its working methods and its result measurement in the rapidly evolving Danish and international context. Future development such as the set-up of the SDG Fund were also taken into account. The analysis at this level was both retrospective and prospective as the envisaged future role of IFU was examined. The analysis at this overall level is also fed by the analysis at the three other in-depth levels in the reporting and analysis phase.

#### **2. The level of the various IFU funding instruments.**

While an overview of all IFU funds and facilities including grant facilities is provided as part of the overall analysis, this level focuses on some selected IFU funds, namely the statutory funds IFU Classic and one thematic PPP fund DCIF.

#### **3. The country level** (the three selected countries and LDCs; see the sampling approach presented below);

#### **4. The level of individual projects** (the 50 case studies; see the sampling approach presented below).

## A2.4 Evaluation matrix

During the inception phase detailed evaluation matrices were made for each of the evaluation issues. In order to make a comprehensive analysis several evaluation issues were merged during the evaluation process. The following adjustments were made during the desk study and field phases:

- During the inception phase the 'ToR' evaluation issues 'Balance between a demand-driven and a policy-driven portfolio' and 'Effectiveness in terms of desired outputs' dealing with portfolio analysis were already merged. In the analysis and reporting phase it was decided to merge this issue further with 'Relevance of IFU instruments' into one overall evaluation issue 'Relevance and complementarity'.
- During the desk study phase the topic 'communication' was shifted from 'Results measurement' to 'Effectiveness in promoting sustainable development outcomes'. In the reporting and analysis phase it was decided to have one overall evaluation issue on CSR performance and another issue related to development outcomes, which includes results measurement.
- The evaluation issues 'Efficiency of the organisation' and 'Risk management' were merged into one issue 'Efficiency and risk assessment'.

The evaluation matrices are presented below. The indicators used for scoring the case studies are presented in red, while the scoring system is explained below.

**Table A2.2: Evaluation Matrix 1: Relevance and complementarity**

Topic	Level of analysis	Indicators	Sources	Method
Has IFU's strategy and portfolio developed in line with the policy guidelines provided by the MFA?	Overall IFU	Formal changes in IFU's mandate Clarity and transparency of MFA guidelines for IFU Initiative for changes in mandate References to MFA policies and guidelines in IFU document Internal target setting in line with mandate Appreciation of the mutual relations by key stakeholders	MFA documents IFU strategies Minutes of Board meetings Minutes of meetings between MFA and IFU Interviews	Document review Interviews MFA, MFA observers in the Board, interviews other Board members, interviews Executive management
What are the key characteristics of	Overall IFU	Various IFU funds Volume of IFU	Portfolio IFU	Portfolio analysis Interviews IFU

<p>IFU's portfolio? Are changes in the mandate of IFU reflected in the portfolio of IFU over time?</p>		<p>capital Number and size of investments Used instrument (equity, debt, mezzanine, guarantee) Location / Geography in relation to changes in the mandate Investments in Danish companies (in relation to tying of funding) Sectors</p>	<p>documents</p>	
<p>To what extent has IFU addressed the private sector development needs of partner countries?</p>	<p>Overall IFU Country level</p>	<p>Extent to which general development needs are addressed Extent to which changing private sector development needs in developing countries are addressed Trends in funding needs selected countries Number and volume of greenfield investments Role of Danish companies and other Danish stakeholders in identifying funding needs</p>	<p>IFU documents International literature Interviews at country level Case studies</p>	<p>Document review Interviews with PSD experts at country level, private companies, local and international banks Scoring of case studies</p>
<p>To what extent has IFU addressed the needs of private sector in Denmark?</p>	<p>Overall IFU Investment level</p>	<p>Extent to which the changing needs of the Danish private sector are</p>	<p>IFU documents Interviews Case studies</p>	<p>Document review Interviews IFU, private sector</p>

		addressed Appreciation of IFU's funding role by Danish companies and stakeholders		representatives, companies Scoring of case studies
What is the complementarity between IFU and other government/MFA/Danida Business instruments and with other DFIs? (external complementarity)	Overall IFU Country level	Overview of other PSD instruments and key characteristics Appreciation of the co-location of IFU offices at Danish embassies Formal and informal contacts between IFU and actors responsible for other instruments to exchange information Concrete agreements to realise synergies Reporting/ best practices on external synergies	IFU and MFA documents Interviews Case studies	Document review Interviews IFU, MFA, EKF, country level
To what extent are the IFU managed funds complementary to the core activities of IFU? (internal complementarity)	Overall IFU Fund level	Investment criteria IFU Classic Investment criteria IFU managed funds Other characteristics of IFU managed funds vs IFU Classic	Portfolio IFU documents Interviews Case studies	Portfolio analysis Document review Interviews IFU, pension funds, MFA

**Table A 2.3: Evaluation matrix 2: Efficiency of the organisation and risk assessment**

Topic	Level of analysis	Indicators	Sources	Method
How do MFA and IFU perceive the relation in view of	Overall IFU Country level	Number of formal and informal meetings between	IFU documents IFU reports	Document review Interviews IFU,

<p>the formal (and changed) mandate of IFU?</p>		<p>MFA and IFU per year Respect of reporting requirements Clarity of MFA guidelines for managing various IFU funds IFU's capability to manage funds on behalf of third parties (MFA) Payments of dividends to MFA Capital contributions and withdrawal by MFA</p>	<p>MFA guidelines Interviews Denmark and at country level</p>	<p>local country offices, MFA</p>
<p>Is the governance structure of IFU clear and in line with best practice?</p>	<p>Overall IFU Fund level</p>	<p>Main features of IFU's governance: Appointment of the Board, Composition of the Board, frequency of meetings Benchmarking IFU governance with selected other DFIs</p>	<p>IFU documents Interviews Other DFI data</p>	<p>Document review Benchmark Interviews IFU, MFA, fund investors, EDFI</p>
<p>Is the organisational set-up of IFU adequate to fulfil its changing role ?</p>	<p>Overall IFU Fund level</p>	<p>Division of tasks within IFU HQ Staffing in IFU HQ and the regional offices Division of labour between HQ and the regional offices IFU staff development Use of external advisors Composition and functioning of the Sustainability</p>	<p>Portfolio IFU documents Interviews</p>	<p>Document review Portfolio analysis Interviews IFU, companies (in Denmark and locally), fund investors</p>

		Advisory Board Appreciation by investees and other external stakeholders of the organisational structure of IFU		
Are the IFU management costs in line with international best practice of DFIs?	Overall IFU Fund level	Management costs broken down in different categories Management costs per fund Management costs for small and large investments Management costs for tied and untied funding Costs of the regional offices	IFU annual and financial reports Interviews Other DFI data	Document review Benchmark Interviews IFU, MFA, fund investors, EDFI
What is the risk management framework of IFU? What are the different components and how does it function in practice?	Overall IFU	Set-up of the risk system Use of a risk register Organisation of the due diligence process Different components of the risk framework Clarity of distinction between financial risks, contextual risks, programmatic risks, credit risk and reputational risks Decision-making on risk mitigation Reporting to the Board of Directors	IFU documents Interviews	Document review Portfolio analysis Interviews IFU, fund investors
How adequately has the risk assessment system		Adequacy of assessment of financial risks	Case studies	Document review Interviews



worked in practice?		<p>Adequacy of assessment of contextual risks</p> <p>Adequacy of assessment of governance and organisational</p> <p>Adequacy of assessment of reputational risks</p> <p>Adequate identification and follow-up of risk mitigation measures</p> <p>Formulation of clear exit strategy</p>		Scoring of case studies
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**Table A2.4: Evaluation matrix 3: Financial and value additionality**

Topic	Level of analysis	Indicators	Sources	Method
What is the financial additionality of IFU?	Overall IFU Investment level	<p>Role of IFU in the deal /share of IFU investment</p> <p>Availability of alternative finance / equity</p> <p>Involvement of other investors / lenders. Changes over time</p> <p>Tenor/ expected time until exit</p> <p>Interest rate</p> <p>Collateral requirements</p> <p>Appreciation of financial additionality by stakeholders</p>	<p>IFU procedures on assessment of additionality</p> <p>Case study documents</p> <p>Interviews stakeholders selected</p> <p>investments</p> <p>Case studies</p>	<p>File review at cease study level and overall IFU reporting</p> <p>Interviews with IFU staff, Danish and local companies, Danish and local banks, PE funds</p> <p>Scoring of case studies</p>
What is the catalysing role of IFU?	Overall IFU Investment level	<p>Other investors/ lenders</p> <p>Amount invested / lent by other parties</p> <p>Buyers of shares at</p>	<p>Desk study</p> <p>Interviews stakeholders</p>	<p>File review at cease study level and overall IFU reporting</p> <p>Interviews with</p>

		realised exits		IFU staff, companies, Danish and local banks, PE funds
What is the value additionality of IFU?	Overall IFU Investment level	Board seat Advice provided by IFU in various stages of the investment Appreciation of IFU's value additionality by stakeholders	Desk study Interviews stakeholders Case studies	File review at cease study level and overall IFU reporting Interviews board members on behalf of IFU and companies Scoring of case studies

**Table A2.5: Evaluation matrix 4: CSR Performance and development outcomes**

Topic	Level of analysis	Indicators	Sources	Method
What is the CSR performance?	IFU overall Investment level	Compliance issues: CSR action plan, sustainability policy in place; certified management system, signing of Global Compact Decent labour conditions and OHS (salaries above minimum wage, good labour conditions, staff training programmes, equal rights measures and reporting, protection equipment, accident protocol, health and safety committee, Company health policy) Business ethics (Complaints officer, anti-corruption)	IFU documents Interviews Case studies	Document review Portfolio analysis File review Interviews IFU, companies (in Denmark and locally) □ Scoring of case studies

		<p>policy)</p> <p>Environmental awareness and measures taken (energy savings, waste water treatment, animal welfare, CO<sub>2</sub> emission reduction)</p> <p>Community development /outreach activities</p>		
<p>What are the development outcomes of IFU's investments?</p>	<p>Investment level</p>	<p>Jobs created (incl no of women, youth Indirect employment generated / value chain effects Transfer of Danish technology and knowhow/ Improved capacity of local staff Climate/environmental effects: Greenhouse Gas emissions reduced Taxes paid and location of payment of taxes Demonstration and spill-over effects. Broader sectoral or socio-economic effects</p>	<p>Portfolio IFU documents Interviews Case studies</p>	<p>Document review Portfolio analysis File review Interviews IFU, companies (in Denmark and locally) Scoring of case studies</p>
<p>How sustainable are the development outcomes?</p>	<p>IFU overall Country level Investment level</p>	<p>Prolongation of development outcomes after IFU withdrawal Ability of IFU to prevent adverse development effects</p>	<p>IFU documents International literature Interviews Case studies</p>	<p>Document review Portfolio analysis File review Interviews IFU companies (in Denmark and locally)</p>

<p>How does IFU communicate its results and risks to the public?</p>	<p>IFU overall</p>	<p>Annual number of reports made available to the public Quality of the reports Transparency of the reports Information on results provided via the IFU website and other social media Frequency of communication to the public</p>	<p>IFU documents Interviews Workshop Sustainability Advisory Board</p>	<p>Document review File review Benchmark other DFIs Interviews IFU, companies</p>
<p>How adequate are the procedures related to compliance with ESG standards?</p>	<p>Overall IFU Fund level Investment level</p>	<p>Assessment of ESG in the investment preparation phase Monitoring of ESG -CSR during implementation ESG-CSR reporting in the exit phase</p>	<p>IFU documents Interviews</p>	<p>Document review Portfolio analysis Interviews IFU, companies (in Denmark and locally), fund investors</p>
<p>How do the two results systems SCM and DIM compare to each other?</p>		<p>Type of system used Indicators tracked Validity of the information Reliability of the information Transparency of the information Familiarity of IFU staff with the result management system Degree of alignment with other DFI systems Timeliness of information Availability and quality of the evaluation reports for existed investments</p>	<p>IFU documents International literature Case studies Interviews</p>	<p>Document review File review Benchmark other DFIs Interviews IFU, companies</p>

		Evidence of learning from results management		
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**TableA2.6: Evaluation matrix 5: Financial Outcomes**

<b>Topic</b>	<b>Level of analysis</b>	<b>Indicators</b>	<b>Sources</b>	<b>Method</b>
What are the financial outcomes of IFU's investments?	IFU overall Investment level	Increased value of shares (incl information in annual accounts on fair value of shares) Dividend payments Interest payments on loan IRR(expected and realised) Performance company in line with expectations Financial results after exit from equity: value of shares Repayment of loan Equity balance ratio	Portfolio IFU documents Interviews Case studies	Document review Portfolio analysis File review Interviews IFU, companies (in Denmark and locally) Scoring of case studies
Are the financial results of IFU sustainable?	IFU overall Investment level	IRR developments over time Interests on loans over time Development in portfolio at risk over the evaluation period Losses on loans and on private equity Performance of portfolio companies compared to expectations	Annual accounts and other documents Interviews	File review Interviews IFU staff
Are the various	IFU overall	Revolving nature of	Document	File review

IFU funds sustainable	Fund level	the funds Management fees, terms and conditions for thematic funds (DCIF, DAF, SDG) Fair value of funds and dividend paid out in the funds	review Interviews	Interviews IFU staff
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## A2.5 Evaluation methods

In line with the evaluation matrix the following methods for data collection at the strategic level were used:

- **Document review** including strategic documents from the MFA and IFU, agreements between the MFA and IFU, correspondence between the MFA and IFU, IFU handbooks, procedures manuals, minutes of Board meetings, international literature etc. (see Annex 4 for an overview of the non-confidential documents)
- **Portfolio review** based on portfolio data provided by IFU, crosschecked with information in annual reports and adjusted in close consultation with IFU (see Annex 6);
- **Interviews** with the MFA (VBE), IFU (various levels incl. country offices and (former) Board members, Danish stakeholders such as Danish Pension Funds, the Danish Trade Council, EKF (Danmarks Eksportkredit), Dansk Industri, Danish investee companies, advisors/experts on private sector development and DFIs, civil society representatives, etc. The interviews were structured around the relevant issues, questions and indicators in the evaluation matrix;
- **One workshop/brainstorm** with IFU Sustainability Unit staff and the Sustainability Advisory Board on 21 November 2018 on challenges regarding measuring CSR performance and development outcomes.

The following analytical methods were used:

- **Actor/stakeholder analysis.** There are different actors with different interests that need to be analysed carefully both from a backward-looking and a forward-looking evaluation perspective.
- **Benchmarking** of IFU with other DFIs is done to the extent possible. In principle, benchmarking is a good method to compare IFU's performance with other DFIs. Recently, more comparable information has become available<sup>4</sup> and the evaluators also have good knowledge of and access to other DFIs including FMO, which served for quite some time as an example to IFU, IFC, BIO and Norfund. An attempt was made for benchmarking with Finnfund as at the same time a Finnfund evaluation was ongoing. However, as benchmarking was not built in as part of the evaluation design, no meaningful benchmarking on common

<sup>4</sup> Eg. Charles Kenny et al, Comparing Five Bilateral Development Institutions and the IFC, CDG Policy Paper No 116, January 2018.

indicators proved to be possible. This is another challenge that has to be taken up internationally.

- At the end of the field phase all collected information was triangulated and validated in line with the evaluation matrix. **Triangulation** facilitates validation of data through cross-verification from more than two sources. The combination of two triangulation approaches will enhance the validity and reliability of the findings and will allow to corroborate different evidence. The first triangulation approach refers to the use of the abovementioned data collection tools. In addition, data triangulation will also be applied through the use of information collected from multiple sources and stakeholders as reflected in the information sources mentioned above.

An overall assessment of effectiveness in terms of realised development outputs and outcomes was done on the basis of the sample of case studies and compared with IFU's own reporting of development outcomes. However, the collected data necessarily refer to aggregate outputs and outcomes and do not specify the specific IFU contribution. Therefore, in the inception phase it was considered that contribution analysis could be applied to the extent possible, in order to deal with the question whether and how IFU have contributed to or helped to cause the observed outcomes. However, it was not possible to do a contribution analysis on the basis of the available information. Contribution analysis for DFIs is notoriously complicated, which also proved to be the case for IFU. Nevertheless, the contribution of IFU to the total investment in the project together with the leveraging effect provides information for a simple and pragmatic contribution analysis.

## **A2.6 Methodological details on the analysis on compliance with mandate**

In Chapter 2 of the report (Figure 2-1), the results of an independent analysis on whether or not IFU complied with its country mandate were presented. This section presents more details on the method that has been followed to conduct this analysis. The analysis of IFU's compliance with the mandate has been conducted in close contact with IFU staff, who have provided support with validating the original portfolio data and explaining how in practice the various rules around the mandate had been applied in IFU.

**1) The basis of the analysis on compliance with the mandate is the portfolio database** of investments conducted within the evaluation period that has been supplied by IFU to the evaluation team. This database contains all details on all investments conducted by IFU and IFU-managed funds between 2004 and 2017. After this database had been transferred to an Excel workbook by the evaluation team, the correctness of all data was validated in a bilateral discussion with IFU in November 2018.

**2) Information on the applicable country limits for the three mandate periods (2005-2010, 2011-2015 and 2015-2017) was added to the workbook.** The income limits that applied year on year for when countries classify as Low Income Country (LIC), Lower Middle Income Country (LMIC), etc. were sourced from the emails that IFU management sent to IFU staff year on year, that were in turn based on the limits that the Worldbank applied (World Bank's limit for loans with 17 years' maturity). The respective limits year on year are summarised in Table A3-1 in Annex 3. The exact figures of the limits used were validated in bilateral communicated with IFU.

**3) For every single investment in the evaluation period the Gross National Income per capita for the applicable country was added to the dataset and compared with the country limit thresholds described in point 2) above.** The GNI per capita data was sourced from the World Development Indicators from the World Bank on the basis of the indicator *GNI per capita (Atlas Method) – Current US\$*. In consultation with IFU, the GNI per capita figure for a respective country *from two years back* was taken as applicable figure for every investment in a given year. For example, for an investment in Thailand in 2008, the applicable GNI figure for Thailand in 2006 sourced from the World Bank dataset. This is done because the new country limits that apply to the various income brackets are communicated in July each year on the basis of GNI data from the year before. IFU then uses these new limits for its investment strategy in the *following year* and thus the IFU investments in that year need to be tested with the GNI figures from two years ago in order to use the same data on which the income limits are based. *Example: In July 2007, the World Bank communicates on the basis of complete GNI data from 2006 that the country limit for 80%LMIC is 2772 USD. So for IFU the 2008 limit for 80%LMIC is 2,772 USD (on the basis of 2006 GNI figures). Therefore, if Thailand's GNI figure for 2006 was 2,790 it would have been above the 80%LMIC limit.* For every investment, this applicable GNI per capita figure is compared with the respective country income level limit and score every investment as either an investment in LIC, 80%LMIC, 50% UMIC, UMIC or HIC.

**4) The agreed exemptions and phasing out rules were applied throughout the database:**

- From 2005 onwards South Africa is treated as an exemption to compliance with the mandate
- From 2006 onwards, investments in Botswana and Namibia were treated as exemptions
- For the entire evaluation period (2005-2017), the *phase-out rule* (as described in Chapter 2) was applied in the dataset by:
  - Checking in the yearly communication from IFU whether a country had entered its phase-out year based on the mails sent by IFU management to IFU staff yearly (that included this information on phase-out). The information in these emails was checked with the independent information on GNI data from the WorldBank to validate that a country was indeed in its phase out year
  - If that was the case, the investment was manually corrected to be compliant.
- The evaluation team identified all follow-on investments in the portfolio that were done in countries that had exceeded the 80%LMIC and 50%UMIC income thresholds and manually corrected them to fall within the earlier mentioned income caterogies (i.e. making them compliant with IFU's mandate) since the 2005 mandate and bilateral letters approved these investments from a safeguarding perspective.

**5) An annual overview of where IFU invested (in which income brackets) was created to create Figure 2-1 that shows IFU's compliance with its mandate.** The figure was made on the basis of:

- The value (DKK million) of IFU Classic investments in 2005-2017, including new and follow-on investments, but not including investments from its managed funds (DCIF, IO, DAF, etc.) as those funds operated on separate mandates.



- Excluding the interfund transfers of investments from IFU to e.g. DCIF or DAF (which appear as negative values for IFU classic and positive values for the funds in the dataset)

### **Areas of uncertainty remain**

Despite a rigorous assessment of all investments against country income limits, not all investments could directly be marked as compliant with IFU's mandate due to a variety of reasons and were discussed with IFU in bilateral discussions on multiple occasions to resolve them against compliance with the mandate. These included:

- Investments in projects that did not have a specific country focus and could thus not be attached to a specific GNI (e.g. an investment in a project that helped hedge investments in local currency loans globally). These investments were allocated as compliant with the mandate after IFU showed documentation that these had been discussed with the Ministry while making the investments.
- As mentioned in Chapter 2 and is visible in Figure 2-1, IFU has invested in third party managed funds that have a regional focus for their subsequent investments. Some 11% of the total portfolio were in these funds (brown areas in the graph). In bilateral discussions IFU provided additional documentation on the country focus of these funds, for example that they only focused on low income countries or countries under the 80%LMIC income limit. For the funds that exclusively focused on these countries and for which the documentation provided was clear, the evaluation team has assigned these funds as compliant with the mandate manually. However, some investments in funds remain that included also countries above the 80%LMIC limit, for which the documentation was not conclusive or for which there was proof on the Fund's website that the fund also invested in countries above the 80%LMIC limit. Since the mandate from the MFA and the IFU operational rules were not clear on how to allocate these investments, they were left 'unallocated' in the analysis and marked as such in Figure 2-1.
- Using the WorldBank GNI per capita data from their dataset in 2019 means that historic GNI figures may have been slightly revised up or downwards due to better availability of data over time. However, when IFU decides on investments they only have access to recent GNI data that is based on two years ago (see explained above). Therefore, IFU may have worked with slightly different GNI figures than the evaluation team did. These cases have been identified in bilateral exchanges between IFU and the evaluation team and were adjusted if relevant for the overall conclusions on the mandate (if those investments would make a difference for meeting the mandate or not).

Despite multiple detailed bilateral exchanges with IFU on the above areas, not all issues were judged feasible to solve in the framework of this evaluation. As a result, Figure 2-1 still includes some investments that could not be fully allocated (the brown areas).

### **A2.7 Sampling at country and case study level**

The final selection of countries to be visited was made at the end of the desk study phase. This choice was made on the basis of the available information on the top-10 investment countries. The criteria for the country selection were as follows:

- Sufficient number of investments to justify a country visits (choice among top-ten countries);

- Sufficient IFU-Classic and DCIF investments as well as a variety of investments via other IFU (managed) funds;
- Balance among countries in different continents (in the ToR it was suggested that four country visits would be made: one per continent);
- Focus on LIC and LMIC countries
- Presence of a IFU country or regional office.

The top-10 countries from which a choice was made:

1. China
2. India
3. Africa (Regional)
4. Ukraine
5. Russian Federation
6. Kenya
7. Vietnam
8. Egypt
9. Ghana
10. Thailand

The following choice was made:

- **China:** the country with most investments during the evaluation period (both in number and volume of investments); LMIC from 2004 to 2009, and UMIC from 2010 onwards; a specific threshold of 20% of annual investments was set for China; a large variety of investments through different funds has been realised in China; office North East-Asia in Shanghai.
- **Kenya:** largest country investment portfolio in Africa (regional investments excluded); both IFU Classic and big DCIF investments, LIC from 2004 to 2013, LMIC from 2014 onwards, East-Africa office based in Nairobi.
- **Ukraine:** large investment portfolio in East Europe, large variety of investments via various Funds (IFU Classic, IØ, DCIF, DAF and UFA), LMIC from 2004-2017 but with drastic deterioration of the investment climate and socio-economic situation from 2009 onwards and a crisis in 2014; specific MFA policy attention, country office based in Kiev .
- During the inception and desk study phase it was explored whether a LIC and/or a country in Latin America could be visited. However, the portfolio analysis showed that the number and amount of investments in LICs and Latin American countries are very scattered. Therefore, an additional country visit not add sufficient value to the evaluation. Furthermore, Kenya was a LIC during most of the evaluation period. To cover LICs and Latin America additional case studies in these countries were added to the sample.

## A2.8 Sample of case studies

The ToR gave as a rough indication that four field visits should be planned. Per visit approx. 10-15 visits should be planned. The definition of a project or case study is that it includes all new and follow-on investments into a specific company taking also into account specific grants IFU has provided. The following steps were taken to select the sample of case studies:

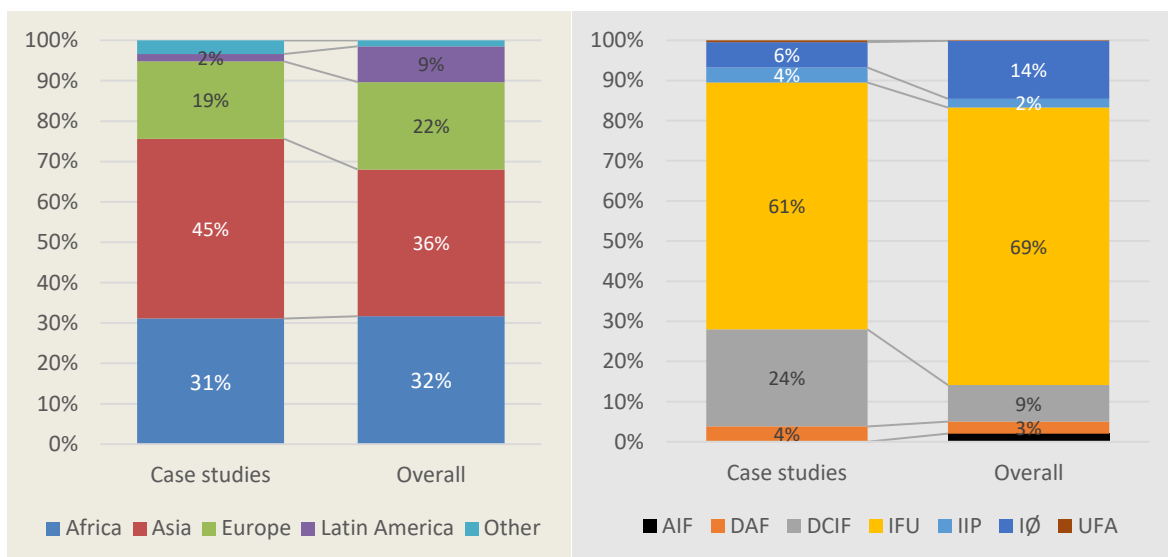
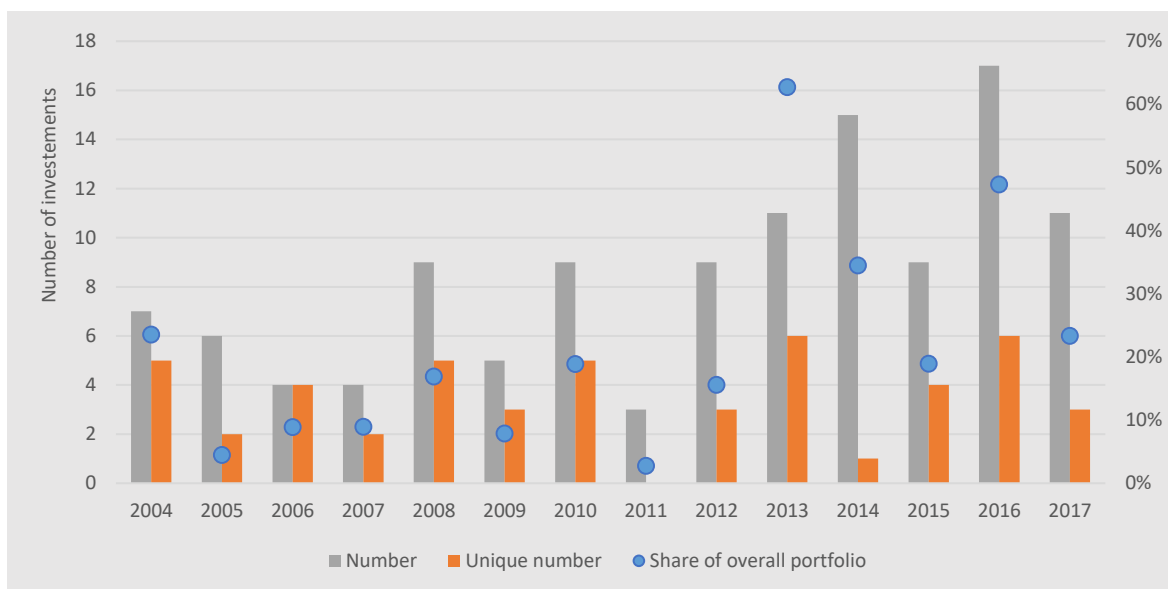
1. For Kenya, given the size of the portfolio all 12 projects /case studies (exited and ongoing investments) were included.
2. For China and Ukraine the selection of a balanced mix of investments was based on the following sub-criteria:
  - Variation in active and exited investments;
  - Variation in size of investments including preferably the biggest investments;
  - Variation in sectors (based on overall sector classification, including the most important sectors such as agribusiness and energy);
  - Variation in unique investments and investments with follow-on equity or loans;
  - Variation in start of the investment;
  - Sufficient number of investments related to a grant;
  - Focus on IFU Classic and DCIF, but also investments from other IFU managed funds;
  - Representation of a sufficient number of investments of the top-10 companies including some pairs of investments;
  - Variation in financial performance.

In China 16 case studies were selected and 10 in Ukraine.
3. Five case studies involving IFU investments in funds were included, based on the following criteria:
  - Office in one of the countries to be visited;
  - Variation in broad focus (2 case studies: one in Africa and one in Asia) and focus on Renewable Energy (3 case studies).
4. Four additional case studies in LICs showing a good geographical and sector variation.
5. Two additional DCIF investments (incl. one in Latin America) to have a good coverage of the entire DCIF portfolio.
6. One additional case study in Latin America: the choice was made for a case study in Nicaragua for which a recent value chain study was done.

A preliminary sample was presented to IFU to check on factual errors and possibilities to actually visit the projects. The Evaluation Team did a final check on representativeness and variety of investments, which led to the full sample presented in Annex 5.

## **A2.9 Representativeness of the sample**

The following figures demonstrate that the selection criteria used for the selection of case studies were effective in achieving a high representativeness of the case studies in relation to the characteristics of the overall portfolio (see the figures below).



Not all criteria are depicted in the Figure above. However, also in terms of size of investments (with a slight bias towards larger investments), balance between active and exited investments, sector balance (with a bias towards RE given the focus on DCIF), balance between unique investments and investments with follow-on equity or loans; a sufficient number of investments related to a grant and variation in financial performance representativeness is achieved.

### A2.10 Country field visit approach

Each country field visit consisted of the following elements:

- Analysis of evolving context/investment climate, synergies and (changes in) IFU organisation
  - Desk study on country context
  - Interviews IFU staff, embassy, other DFIs and funds
  - Debriefing IFU and embassy
- Desk study, interviews and field visits regarding case studies

## A2.11 Case study approach and scoring

The Evaluation Team has signed a non-disclosure agreement as the team has access to confidential business information both via documents and interviews. In the inception phase it was indicated that this business information would only be used for analytical purposes and all information would be aggregated in such a way that no traces can lead to individual companies.

For each case study the following steps were taken:

1. An investment assessment sheet was developed to analyse each selected investment in the sample. Both key characteristics (e.g. project name, volume of investment, start date of investment, type of investment, country, sector, planned duration, SCM/DIM information, etc) were collected in the sheet as well as an assessment of each case study in line with the seven issues to be scored along the indicators defined in the evaluation matrix, while using the traffic-light scoring system.
2. Analysis of all relevant documents (CiPs, BCs, Minutes of Board/Investment Committee, Sustainability documents, other case study documents) that were uploaded for each case study in the virtual data room and a summary of the documents was presented in the individual assessment sheets, which allowed to identify main gaps in information;
3. Interview with the responsible IFU investment officer regarding the gaps in information;
4. Interview with the management of company if possible in combination with a field visit (face-to face interviews with 32 companies) or 8 phone/skype interviews in case studies that could not be visited. For ten case studies no interview with management was possible because the company did not exist anymore, was sold or the original owners/partners of IFU did not respond.
5. In 5 case studies additional interviews and or field visits to other partners in the value chain could take place
6. All the data collected in the interviews and field visits was analysed together with the documents for each case study. On that basis each of the issues was scored and a summary assessment was provided.

As already indicated above, given the confidentiality of business information, the individual investment assessment sheets will be kept confidential. At the end of the field phase, scores on the basis of the assessment in the individual assessment sheets will be aggregated.

**A score sheet for all 50 case studies** was developed (see explanation of the scoring system below). In this score sheet all basic characteristics for each case study (name, country, IFU fund, grants, start and end date, number of investments, volume of investments (total, equity and loans), some key indicators such as lead times, number of jobs and the scoring plus assessment of each of the seven evaluation issues was filled out. The Evaluation Team did a consistency check of all scores.

There are five main evaluation issues, but the scoring for two evaluation issues has been split into two parts:

- **Additionality:** distinction between financial and value additionality;
- **Development outcomes:** distinction between CSR performance and development outcomes

This mean that seven criteria have been scored using a traffic-light system. This is a system for scoring indicators and/or criteria using the red-amber-green traffic lights and the scoring is explained in the following seven tables:

**Table A2-7 Scoring criteria on relevance and complementarity**

	High	Medium	Low
<b>The extent to which relevant country and sector development needs are addressed</b>	The investment addresses relevant development needs in priority sectors for economic growth; sectors where important growth of employment is expected and sectors that are considered to be of key importance and for which a favourable enabling environment is created	The investment addresses some relevant country and/or sector development needs, but sectors may not be considered of key importance and/or insufficient attention is paid to the enabling environment	The investment does not address relevant country or sector development needs
<b>The extent to which Danish private sector development needs are addressed</b>	The investment addresses relevant needs for internationalisation of the Danish business community: Large companies as well as SMEs	The investment addresses some relevant needs for internationalisation of the Danish business community: Large companies as well as SMEs	The investment does not addresses relevant needs for internationalisation of the Danish business community: Large companies as well as SMEs
<b>The extent to which private sector development needs of developing countries are addressed</b>	The investment addresses relevant development needs of the private sector in host countries	The investment addresses some relevant development needs of the private sector in host countries	The investment does not address relevant development needs of the private sector in host countries
<b>Complementarity of IFU instruments</b>	There is clear evidence of complementarity among two or more IFU instruments	There is some evidence of complementarity among two or more IFU instruments	There is no evidence of complementarity among two or more IFU instruments
<b>Synergies with</b>	There is clear evidence	There is some	There is no evidence of

	High	Medium	Low
other Danish activities/instruments incl Danida/MFA business instruments	of complementarity among the IFU investment/activities and other Danish government/MFA/Danida business instruments	scattered evidence of complementarity among the IFU investment/activities and other Danish government/MFA/Danida business instruments	complementarity among the IFU investment/activities and other Danish government/MFA/Danida business instruments
Synergies with other DFIs	There is clear evidence of complementarity between the IFU investment and investments of other DFIs	There is some scattered evidence of complementarity between the IFU investment and investments of other DFIs	There is no evidence of complementarity between the IFU investment and investments of other DFIs

**Table A2.8 Scoring criteria on risk assessment**

	High	Medium	Low
Adequacy of assessment of financial risks	Adequate assessment of potential financial risks, good scenario analyses and relevant sensitivity analyses, attention of IC to such risks	Financial risk assessment conducted and main elements included, but generic scenarios and sensitivity analyses used and/or generic key risks identified and/or reliance on financial models of partner(s)	Inadequate assessment of financial risks due to omission of sensitivity analyses to obvious risk factors and/or otherwise main elements of financial risk assessment missing and/or little reflection on risk assessments from partner
Adequacy of assessment of contextual, reputational and governance risks	Sufficient attention to relevant potential contextual, reputational and governance risks, sufficient attention of IC to such risks	Some (key) risks mentioned, but not worked out sufficiently and/or inadequate attention from IC to such potential risks	Obvious key contextual and reputational risks missing and/or inadequately covered in documentation. No attention of IC to such key risks
Adequate identification and follow up of risk mitigation measures	Sufficient attention to formulation of good mitigation measures and evidence on required follow-up if relevant	Some potential, more generic mitigation measures included for key risks and/or little evidence on steering or follow-up on those measures during active	Omission of mitigation measures in investment documentation while key risks mentioned, no evidence on follow-up of mitigation measures in agreement or from board



	High	Medium	Low
		phase	meetings
(Equity) Formulation clear exit strategy	Terms of exit included in full detail in investment documentation	No full details on exit negotiated, but general agreement on broad terms of exit arranged	No exit strategy defined whatsoever

**Table A2.9 Scoring criteria financial additionality**

	High	Medium	Low
Main reason for the company to have IFU as investor	Project showed high risk profile or other indications that IFU funds were key for the project	Project with medium risk profile or indications other DFI funding was available or commercial funding against somewhat worse rates	Company had commercial possibilities available, corporate guarantees present, or IFU role limited to 'Crown & Flag'
Role of that IFU funds played in the overall funding of the company	IFU takes larger minority investor role or takes first loss	IFU takes smaller equity role together with multiple other investors	IFU provides debt with low margins, takes safer loss position or multiple investors already present
Type of other funders/investors involved and their timing of involvement	IFU plays cornerstone investor role and takes decisions together with investee company, additional funding mobilised after IFU	Some other (public) investors already involved, but IFU still before commercial investors	Commercial investors already involved and project already more matured
IFU's role in leveraging additional funding	Other DFIs or commercial investors have also invested after IFU	There is a decent outlook that other investors may join in the future	No evidence on follow-up investments by others and IFU made follow-on investments

**Table A2.10 Scoring criteria value additionality**

	High	Medium	Low
Appreciation of IFU's non-financial role by the company or other stakeholders	IFU specifically chosen for expertise on local market and considered critical for success of entering new market	IFU chosen as investment partner for image reasons, bringing Crown & Flag' rubber stamp	No indication on appreciation of IFU's non-financial role/engaged with IFU purely as financial partner
Evidence on	IFU has board seat	IFU has board seat,	IFU has a board seat but



	High	Medium	Low
use IFU board seat	and has made a significant (positive) impact with it	but there is no evidence on significant contributions or impact	contributions significantly below expectations or IFU has no board seat
Evidence on useful IFU advice before investment or at exit	There are concrete examples of evidence of particular IFU support provided before or after investment	Evidence that IFU support was generally appreciated, but no concrete examples of support were mentioned or found in documentation	No support provided by IFU before or after investment period or evidence on unmet expectations regarding IFU support
Evidence on useful IFU advice throughout investment	Evidence on specific follow-up during investment and/or active role IFU when problems arise	Evidence that IFU support was generally appreciated, but no concrete examples of support or advice given	Role of IFU during investment stage low and/ or little evidence on necessary follow-up when problems arise

**Table A2.11 Scoring criteria on CSR performance**

	High	Medium	Low
CSR Action Plan or sustainability policy in place, compliance with international standards and norms (Global Compact, etc)	A CSR Action Plan or Sustainability Policy is in place, and in addition there might be a certified mgt system and Global Compact may have been signed	A CSR Action Plan or Sustainability Policy is in place,	No CSR Action Plan or Sustainability Policy is in place,
Decent labour conditions (salaries above minimum wage, good labour conditions), occupational health and safety measures/	Evidence of decent labour conditions (incl. salaries above minimum wage), a functioning health and safety committee and a clear protocol and respected safety measures (helmets, coats, glasses) in	Evidence of decent labour conditions (incl. salaries above minimum wage, possibly a functioning health and safety committee, and possibly a protocol and safety measures	Only scattered evidence of decent labour standards and of some health and safety standards, but not according to strict guidelines or a protocol

	High	Medium	Low
health and safety committee	place	(helmets, coats, glasses) in place, but not rigorously respected	
Environmental awareness and measures taken (waste management, energy efficiency, animal welfare, etc.)	Evidence of upstream and downstream environmental measures implemented regarding all relevant production processes	Some evidence of upstream and downstream environmental measures implemented regarding various production processes, but not in a systematic way	Limited or no evidence of upstream and downstream environmental measures implemented regarding all relevant production processes
Business ethics and anti-corruption policies and guidelines	Evidence of good business ethics and anti-corruption guidelines laid down in a document and communicated on a regular basis to the staff and other stakeholders	Some scattered evidence of good business ethics and anti-corruption guidelines laid down in a document and communicated to the staff and other stakeholders	No evidence of good business ethics and anti-corruption guidelines laid down in a document and communicated to the staff and other stakeholders
Actions involving the community around the company	Evidence of a variety of community actions both regarding information on the company's activities as well as mitigation measures and active support to the community	Scattered evidence of some community actions both regarding information on the company's activities as well as mitigation measures and active support to the community	No clear evidence of a variety of community actions both regarding information on the company's activities as well as mitigation measures and active support to the community

**Table A2.12 Scoring criteria on development outcomes**

	High	Medium	Low
Jobs created	Evidence of jobs created through the investment in line with expectations	Evidence on number of jobs created is substantially below expectations	No evidence of jobs created through the investment
Value chain effects/	Evidence of	Limited evidence	No evidence of number

	High	Medium	Low
Indirect employment	number of indirect jobs created through the investment and/or clear value chain effects such as number of smallholders involved	of number of indirect jobs created through the investment and/or no clear value chain effects	of indirect jobs created through the investment and no clear value chain effects
Transfer of Danish technology and knowhow, improved capacity of local staff	Evidence of transfer of Danish technology and/or knowhow and company and staff being trained and using this	Limited evidence of transfer of Danish technology and/or knowhow and company and staff being trained and using this	No evidence of transfer of Danish technology and/or knowhow and company and staff being trained and using this
Taxes paid and location of payment of taxes	Evidence of regular payment of local taxes	Some indications of local taxes paid, but not on a regular basis	No information on payment of local taxes
Climate/environmental effects ie reduction of GHG emission	Evidence of GHG emission reduced or other positive environmental effects	Some evidence of GHG emission reduced or other positive environmental effects	No evidence of GHG emission reduced or other positive environmental effects
Demonstration or spill-over effects, broader sectoral or socio-economic effects	Evidence of broader socio-economic or sector effects such as better access to energy or services, better sector performance, adoption of new standards and norms	Some scattered evidence of broader socio-economic or sector effects such as better access to energy or services, better sector performance, adoption of new standards and norms	No evidence of broader socio-economic or sector effects such as better access to energy or services, better sector performance, adoption of new standards and norms

**Table A2.13 Scoring criteria on financial returns**

	High	Medium	Low
IRR (expected)	Positive realised	(Slightly) positive	Negative IRR and below

and realised)	IRR, higher or close to expected IRR	realised IRR, lower than expected IRR	expectations
Performance company in line with expectations	Performance of the company in line or above expectations	Performance of the company somewhat below expectations, but with chances for improvement	Performance of the company clearly below expectations and no clear chances for improvement
Timely interest payments on loans	Payment of interests on loan in line with agreement	Some delays on interest payments, but repayment is expected, possible rescheduling	Interest payments on loans seriously lagging behind and/or rescheduling
Dividends payments	Dividends paid on a regular basis	Dividends paid on an irregular basis	No payment of dividends
Financial results after exit from equity: value of shares	Higher value of shares in line or above expectations at the start	Value of shares somewhat below expectations at the start	Very low or no value of shares at exit
Repayment of loan	Loan fully repaid	No full repayment of the loan, but substantial part	No repayment of the loan or limited part