INVESTMENTS TO SUPPORT SUSTAINABLE DEVELOPMENT

A COMPARATIVE STUDY OF HOW THE NORDIC DEVELOPMENT FINANCE INSTITUTIONS WORK WITH DEVELOPMENT IMPACT IN CONTEXT OF THE SUSTAINABLE DEVELOPMENT GOALS

SKREVET AV NORDIC CONSULTING GROUP A/S

OMSLAG OG FORORD VED REDD BARNA, FORUM
FOR UTVIKLING OG MILJØ OG FIVAS

Denne rapporten er skrevet av Nordic Consulting Group (NCG) Danmark og bestilt av nordiske sivilsamfunnsorganisasjoner. Organisasjonene bak rapporten er Foreningen for internasjonale vannstudier (FIVAS), Redd Barna, Forum for Utvikling og Miljø (ForUM), de danske organisasjonene: Oxfam IBIS, MS/ActionAid DK, Folkekirkens Nødhjælp (DanChurchAid), WWF Denmark, Care Denmark, finske KEPA og svenske Diakonia.

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FORORD

Kappløp mot toppen: Hvordan kan Norfund bli best i Norden?

Gjennom FNs bærekraftsmål har verdens ledere gitt seg selv 15 år på å avskaffe ekstrem fattigdom og bygge en bærekraftig og rettferdig fremtid. Det vil være krevende: Vi må gå fra milliarder til billioner for å finansiere bærekraftig utvikling, vi må redusere ulikheten i og mellom land, og vi må nå bærekraftsmålene uten å overskride jordas tåleevne. Samarbeid mellom myndigheter, nærings-liv og sivilsamfunn er den eneste måten vi kan klare det på innen fristen 2030.

Redd Barna, Foreningen for internasjonale vannstudier (FIVAS) og Forum for Utvikling og Miljø (ForUM) har sammen med syv andre nordiske organisasjoner bestilt denne rapporten om de nor-diske utviklingsfinansinstitusjonenes bidrag til oppnåelse av bærekraftsmålene. Rapporten er ført i pennen av danske Nordic Consulting Group (NCG), og sammenligner hvordan de nordiske utviklingsfinansinstitusjonene jobber for å unngå skadelige konsekvenser målt mot den triple bunn-linjen; mennesker, miljø og profitt, og hvordan institusjonene bidrar til en overordnet utvikling mot oppnåelse av FNs bærekraftsmål. Så langt setter ingen av dem gullstandarden i så måte, men rapporten gir viktige lærdommer som vi mener kan gjøre Norfund enda bedre enn i dag.

Det er flere områder hvor både danskene, svenskene og finnene er kommet lengre enn Norge. Dette er skuffende. Med Norfunds status som et av Norges høyest prioriterte bistandstiltak er forventningene tilsvarende høye. Nedenfor trekker vi frem noen få, men viktige eksempler som viser forbedrings-potensialet i den nordiske utviklingsfinansieringspraksisen.

Danskene, svenskene og finnene slår oss på menneskerettigheter

Rapporten vurderer om de nordiske utviklingsfinansinstitusjonene overholder anbefalingene i FNs veiledende prinsipper for næringsliv og menneskerettigheter (UNGP). Prinsippene stadfester at selskaper skal ha en offentlig kjent menneskerettighetspolicy; at selskapene skal gjennomføre aktsomhetsvurderinger i henhold til risiko; og at de som berøres av selskapets aktivitet skal konsulteres og ha mulighet til å klage. Disse forventningene ble gjentatt av den norske regjeringen i Nasjonal handlingsplan for oppfølging av FNs veiledende prinsipper.

Det er kun danske IFU og finske Finnfund som har en offentlig menneskerettighetspolicy, og kun Finnfund har et krav om at det skal gjøres en konsekvensutredning for menneskerettigheter ved hver investering. Norfund referer til IFC (International Finance Corporation) Performance Standards, men disse er svakere enn kravene i UNGP. Her kan Norfund se til danske IFU, som har en offentlig menneskerettighetspolicy og en håndbok som alle partnere kan bruke.

Etter å ha fått rapporten til gjennomsyn kommenterer Norfund at rapportforfatterne har misforstått hvordan menneskerettighetene ivaretas av IFC Performance Standards, og at IFC selv viser til at områder knyttet til menneskerettigheter er et så omfattende at det best kan håndteres ved å inkluderes i alle underfelter. Standarden Norfund viser til krever klagemekanismer i prosjekter, men det er ikke klart hvordan Norfund følger opp dette kravet. Her kunne Norfund offentliggjort hvilke krav som stilles til prosjektene. Norfund har heller ingen sentral klage-mekanisme som kunne avdekket brudd på standarden. Swedfund er den eneste av de nordiske institusjonene som har en sentral klagebehandlingsmekanisme.

Med Norges fremtredende rolle i utarbeidelsen av retningslinjer for næringslivet og med den tydelige forventningen fra Utenriksdepartementet, som er Norfunds eier, er det spesielt skuffende at Norfund ikke overholder forventningene i UNGP.

Danskene scorer best i en dårlig klasse på utviklingseffekt

Rapporten gjennomgår også hvordan institusjonene jobber med utviklingseffekt i planleggingsfase, gjennomføringsfase og rapportering. Her kan alle institusjonene styrke sin effekt på oppnåelse av FNs bærekraftsmål gjennom forutgående vurderinger av prosjektenes sannsynlige bidrag til utviklingseffekt, og ved å studere utviklingseffekten av selskaper også etter at utviklingsfinans-institusjonene ikke lenger har eierandeler. Norfund fortjener ros for å ha knyttet sine utvalgte sektorer til bærekraftsmålene. Men rapporten viser til at Norfunds valg av sektorer ikke automatisk medfører en økt utviklingseffekt: å peke ut sektorer knyttet til bærekraftsmålene er ikke tilstrekkelig for å sikre initiativene har en samfunnseffekt utover det bedriftsøkonomiske. Et konkret forslag er at rapporteringen kan kobles til indikatorene i bærekraftsmålene for å dokumentere den bredere effekten på samfunnsutvikling prosjektene bidrar til. Danske IFU har nylig utviklet et rapporteringssystem for utviklingsindikatorer (Developmental Impact Model) som muligens kan fungere som en god modell for de øvrige institusjonene.

Norge og Sverige leder an på ubundet næringslivsbistand

Det er solid enighet om at bistand som ikke er bundet til tjenester eller varer fra en begrenset gruppe land eller donorlandet selv er mer effektiv. OECD har tidligere beregnet at kostnaden ved bundet bistand er mellom 15-30 prosent. Både danske IFU og finske Finnfund inkluderer nasjonale interesser som strategiske mål, og investeringene oppfattes å være semi-bundne. Her har både danskene og finnene noe å lære av Norfund og Swedfund.

Svenskene strengest på skatt

Kravene til åpenhet for institusjoner som er finansiert av offentlige bistandsmidler er også åpenbare, og utgjør en sentral del av rapportens kapittel om hvordan utviklingsfinansinstitusjonene kan unngå å påføre arbeidstakere, omgivelser eller lokalsamfunn skade. Norfund følger OECDs retningslinjer for skattespørsmål, og investerer etter sigende kun gjennom skatteparadiser når det er påkrevet. Norfund har her noe å lære av sin svenske søsterorganisasjon Swedfund som virker å ha et strengere regelverk for bruk av andre jurisdiksjoner.

Vi håper denne rapporten kan vise hvordan Norfund og de andre nordiske utviklingsfinans-institusjonene alle kan bli mer effektive verktøy for å bidra til utvikling gjennom å anvende praksiser som allerede er tatt i bruk av de andre institusjonene.

Oslo, 7. november 2016

Redd Barna
FIVAS
ForUM

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FINAL REPORT

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Abbreviations

CSR	Corporate Social Responsibility
DAC	Development Assistance Committee
DEAT	Development Effect Assessment Tool
DFI	Development Finance Institution
DIM	Development Impact Model
EDFI	European Development Finance Institutions
ESIA	Environmental and Social Impact Assessment
ESG	Environmental, Social and Corporate Governance
Finnfund	Finnish Fund for Industrial Cooperation LtD
HIPSO	Harmonized Indicators for Private Sector Operations
HRIA	Human Rights Impact Assessment
IFC	International Finance Corporation
IFI	International Financial Institutions
IFRS	International Financial Reporting Standards
IFU	Investment Fund for Developing Countries
ILO	International Labour Organisation
LDC	Least Developed Countries
MFA	Ministry of Foreign Affairs
NCP	National Contact Points
NGO	Non-Governmental Organisation
PRI	Principles for Responsible Investment
Norfund	Norwegian Investment Fund for Developing Countries
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OFC	Offshore Finance Centres
RBC	Responsible Business Conduct
SDG	Sustainable Development Goals
SME	Small and Medium-sized Enterprises
Swedfund	Swedish fund International AB
TA	Technical Assistance
UN	United Nations
UNCAC	United Nations Convention against Corruption
UNCTAD	United Nations Conference on Trade and Development
UNEP	United Nations Environment Programme
UNGC	United Nations Global Compact Principles
UNFCCC	United Nations Framework Convention on Climate Change
UNGP	United Nations Guiding Principles on Business and Human Rights
WBG	World Bank Group

1. Introduction and Methodology

1.1. Background

The four Nordic donor countries: Finland, Norway, Sweden and Denmark, all have a long history in the international landscape of development cooperation. In their official development aid (ODA), all four countries have an implemented focus on investing in business- and private sector development and therefore allocate funds to support market development, sustainable business, employment opportunities, financial systems and increasing the tax base in developing countries.

The allocated funds are managed and invested by the individual countries' Development Finance Institutions (DFIs): Finnfund in Finland, Norfund in Norway, Swedfund in Sweden and IFU in Denmark. The DFIs play a decisive role by providing high-risk loans, equity and guarantees to private sector investments in developing countries and emerging markets.

In recent years, and most notably by the 2015 adoption of the 2030 Agenda for Sustainable Development and the Addis Ababa Action Agenda on financing for development, the convergence between human rights, labour standards and the Sustainable Development Goals (SDGs – see annex A for an overview) has been recognised by the international community, thus setting forth a global reliance on the private sector to contribute to the achievement of the 2030 Agenda. A particular focus has been put on establishing the private sector as a active partner in eradicating extreme poverty by placing emphasis on private sector investments in supporting and creating inclusive growth and sustainable development[i]. In the light of these international developments, the role of DFIs has been considered to be particularly important by governments to bridge traditional development aid with private investments in developing countries.

The DFIs overall objective to contribute to sustainable development, place them as an important vehicle for change. Their significant responsibility towards implementing solid policies, procedures and monitoring systems in their investments are identified as key in supporting sustainable development in the countries in which they engage. It is therefore important to continuously measure and monitor the actual long-term development impact and short-term effect of their investments in order to establish transparency on results. Consequently, the need for DFIs to document the actual development impacts of their investments has been further solidified.

On this backdrop and with considerations given to the general level of increased engagement by Nordic DFIs[1] ten Nordic NGOs have commissioned this study. The study will look into the role of Nordic DFIs in development cooperation, highlight trends and developments through comparison of similarities and differences in practices and propose recommendations on how to improve their work with and reporting on development impact in the light of the 2030 Agenda[2].

1.2. The Role of DFIs

DFIs are state-owned risk capital investment funds with an official mandate from the government to foster sustainable growth in developing countries. This is aimed at promoting social, environmental and economic sustainable development through financing of and investing in profitable private sector enterprises. As state-owned entities, the DFIs are supposed to work in support of achievement of the SDGs, which is also clearly emphasized as core commitment in the Association of European Development Finance Institution's (EDFI) Flagship Report 2016.

The Nordic DFIs act as investment fund managers, providing funds, either as equity, loans or guarantees to foreign or domestic investors in developing countries and emerging markets where traditional commercial banks are reluctant to invest due to the high risks involved. The DFIs also invest in funds that function as financial intermediaries, which primarily invest together with SMEs. The objectives of the Nordic DFIs are to invest in sustainable private sector projects, to maximise impacts on development, to remain financially viable in the long run and to

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[1] Confirmed through interviews with Finnfund and Norfund.
[2] According to the Terms of reference (ToR) for this study

mobilise private sector capital[ii]. Additionality is a core foundational principle for the DFIs, which means that they as state-owned enterprises have to show that they are financing projects what would otherwise not have been financed - that they are not crowding-out private investments. In this respect the DFIs often refer to the nature of their investment and the markets, i.e. that they provide high-risk investments in developing countries in under-developed sectors that are considered too high risk for market -based investors. Thus, additionality is a key concept describing the role and "reason for being" of the DFIs.

With the DFIs acting as investment fund managers with a view to profitability on the one hand and development agents aiming at supporting sustainable development on the other, the debate on the role and effectiveness of the DFIs in reaching development outcomes have been on-going. Consequently, questions are still raised as to whether DFIs live up to the mandate of fostering sustainable growth and how and if they actually contribute to fulfilment of the SDGs through the impact of their investments. For an overview of the DFI´s, please see the box to the right and confer annex B.

1.3. Study Approach

This study has been undertaken in accordance with the Terms of Reference formulated by the clients. In order to look into the DFI's work with development impact, the consultants have found it necessary to make a first assessment of the publicly available DFI policies and procedures for avoiding adverse impact (do not harm) as this potentially could affect the achievement of development impact, which is presented in Chapter 2. This analysis serves to inform the subsequent assessment of how the DFIs measure and report on achieved development impact in the DFI investment process (positive contribution), which is presented in Chapter 3. Chapter 4 contains a discussion of the findings and conclusions and recommendations are presented in Chapter 5.

"Do no harm"

In order to assess the extent to which the DFIs seek to prevent and avoid having adverse impacts and thus "do no harm" through their investments, an analysis of the DFIs' operating frameworks along the line of observance of international minimum standards and guidelines is conducted. The DFIs are guided by the international standards towards avoiding adverse impact and to "do no harm" in all their investments also in countries, in which the national laws and legislation don't comply and fall below the international minimum standards.

This report applies the triple bottom line (TBL) framework within Corporate Social Responsibility (CSR) to present the international standards and guidelines within the areas of social, environmental and economic responsibility of corporations (people, planet, profit)[iii]. Some standards and guidelines address the entire TBL, while others specifically address either the social, environmental or economic responsibility of corporations.

The Nordic DFIs - overview

Finnfund was founded in 1980 with the mission to promote economic and social development in developing countries by financing responsible and profitable private projects. Finnfund has a strategic focus on low- and low-middle-income countries and priority is also given to investments in Africa. Finnfund focuses on projects involving renewable energy or improving energy and material efficiency as well as projects for sustainable forestry. Total portfolio in 2015 was EUR 602 million.

Norfund was established in 1997. Its task is to contribute equity and other risk capital, extend loans and provide guarantees for the development of sustainable commercial activities in developing countries. Norfund prioritises investments in LDCs and countries in Sub-Saharan Africa. Norfund has prioritised three specific sectors, which are Clean Energy, Financial Institutions and Food & Agribusiness. Norfund's investment portfolio was at year-end 2015 EUR 1,630 million.

Swedfund was established in 1979. Swedfund's mission is expressed as 'reducing poverty through sustainable business. Swedfund has a strategic focus on investing in Sub-Saharan Africa and works with three focus sectors: Manufacturing & Service, Financial Institutions and Energy. At the end of 2015, Swedfund's total portfolio was EUR 364 million.

IFU was established in 1967. IFUs mission is to promote economic development in developing countries through private sector investments in collaboration with Danish trade and industry. IFU does not have any focus on specific geographic areas or priority sectors, and is as such fully demand-driven. In 2015, IFU's portfolio was EUR 347 million.

Within Development Finance, the term "ESG" is used to describe the responsibility towards social, environmental and economic (good governance) areas. Thus, this term is used in the report and signifies the same division of responsibility as within the field of CSR.

The clients[3] have preselected a number of indicators[iv] to guide the research in this desk-study (see annex C). Where information on the preselected indicators has been able to retrieve, these are identified and stated following the Triple Bottom Line framework. Indicators include "environmental standards and environmental effects, protection of human rights (including land rights, child rights and the right to food and water), worker safety, protection and compensation of project affected people, economical dispossession, financial transparency and standards for responsible tax matters.

The publicly available DFI policies and procedures have been analysed and compared to evaluate if there are any areas where there is a potential risk of encountering adverse impacts due to lack of firm policies or procedures.

Development impact – "Positive contributions".

This report has assessed the measurement and reporting on development impact (positive contributions) of the DFIs by analysing their approach to "do no harm" and the gained strategic overview of the individual DFIs policies and procedures.

"Development Impact" is throughout this study, defined as the long-term impact of an investment in social, environmental and economic development. The development impacts in the results-chains are thus defined beyond outputs and outcomes and focused on the broader and long-term effects, in addition to what is confined to the immediate investment.

The structure of the analysis is linked to the general investment flow of the DFIs, in which the investment flow is divided into overall steps in the investment process. By applying this approach, the framework facilitates an immediate overview, in which the key pillars and foundations for development impact are accurately identified. The findings from the analysis of DFI policies and procedures thereby provide information for the further analysis of the actual development impacts, as the potential development impact will be dependent on firm policies and procedures for avoiding adverse impacts, and thus potentially influence and affect the development impacts.

The assessment of the work with development impacts (positive contributions) is based on a set of pre-defined indicators set forth by the clients[v]. The indicators include: climate effects and natural capital, social impacts (women's economic empowerment, poverty reducing measures, strengthening human rights, children's rights and land rights) and economic growth (pro poor growth, tax, decent jobs). Where there is any specific mentioning or account of these in relation to procedures in the investment flow, these will form part of the analysis.

The analysis and assessment of "do no harm" and the development impacts (positive contributions) provides the foundation for this reports conclusions and practical recommendations on how to improve DFI operations whilst obtaining a greater focus on development impacts of investments and the reporting on the progress of these.

1.4. STUDY METHODOLOGY

Literature and publicly available material

As there exist an array of international standards and guidelines within the areas of social, environmental and economic responsibility of corporations, the ones referenced as benchmark in this report are international standards and guidelines that enjoy wide international recognition as central and foundational. They all emancipate from the United Nations (UN), International Labour Organisation (ILO) or the Organisation for Economic Co-operation and Development (OECD).

[3] Oxfam IBIS, MS/ActionAik DK, Folkekirkens Nødhjælp (DanChurchAid), WWF, Care Denmark, Redd Barna, FIVAS, ForUM, KEPA, Diakonia

One of the underlying purposes of the study is to assess the level of transparency of the DFIs and hence to document what type of information on policies, procedures and development impacts that are publicly available. Readily available information from the DFIs, primarily annual reports, policies and other information extracted from DFIs' websites has been used to assess this. A second body of literature has served to inform the study; namely research papers, evaluation reports and articles. These have been identified and studied in order to discuss the challenges and opportunities for the DFIs' engagement and reporting.

Interviews

In addition, face-to-face interviews with all four DFIs have been carried out (please see annex D). The interviews have made it possible to discuss more in depth the strategic reasoning behind the directions of the DFIs and the interviews have also been used to obtain information on the newest development in the organisations, which is not yet captured in the written material. This has proved of utmost importance, as the DFIs are currently undergoing change processes several of which are linked to the sustainability agenda and documentation of results, policy changes, increasing expectations for information from stakeholders, and also as a response to and in order to align with the SDGs.

2. The DFI's Adherence to International standards, Guidelines and Principles

To ensure that the private sector involvement in developing countries contributes to sustainable social, environmental and economic development and do not become barriers to sustainable development, the international community has developed a large number of guidelines and standards in relation to human rights, labour, the environment and governance issues including anti-corruption and tax matters. Some standards/guidelines are quite progressive and even legally binding while others experience frequent criticism for not ensuring adequate safeguarding or 'do no harm' by corporations. As an actor in the nexus between being a state-owned investment fund and a "development institution", it is of utmost importance that DFIs observe international minimum standards and ensure that the investments they engage in do not have any adverse impact, but contribute to the development agenda, ensuring wide development impact in support of the SDG agenda.

To serve as a benchmark, this chapter presents an account of the most central and foundational international standards and guidelines within each of the three spheres of social, environmental and economic/governance responsibility of corporations[4] see also table overview in annex E. This account is followed by an assessment of how and to what extent each of the four Nordic DFIs observes these and whether frameworks are in place to prevent "doing harm" (risk management). The chapter is concluded with a brief discussion of key areas for improvement in relation to incorporation of international standards in the view of the authors.

General standards, guideline and principles on social, environmental and economic responsibility

In relation to international standards and guidelines on social, environmental and economic responsibility of corporations, there are a few that address the entire responsibility. The OECD Guidelines for Multinational Enterprises provide for the first set of a comprehensive code of conduct within the area of Corporate Social Responsibility. Where the IFC Performance Standards establish a private regulatory framework and are a requirement towards investees to fulfil contractual obligations, the UN Global Compact principles are voluntary guidelines. These are accounted for below.

- In 1976, the OECD Guidelines for Multinational Enterprises were negotiated multilaterally and adopted. These guidelines provide for the first set of a comprehensive code of conduct within the area of Corporate Social responsibility. Their aim was to guarantee the harmonisation of multinationals´ activities with public policies, strengthen the trust between companies and their host countries, improve the climate for foreign investments and boost the contribution of multinational enterprises to sustainable development[vi]. The OECD Guidelines are recommendations addressed by governments to multinational enterprises operating in or from adhering countries. The principles are voluntary, and not binding. However, member states have undertaken to set up National Contact Points (NCP) to which any non-compliance to the guidelines can be reported. The OECD Guidelines were updated in 2011 to adopt them to the new globalised economy. Particularly within the area of human rights changes were made following the new UN Guiding Principles on Business and Human Rights.

- The Performance Standards on Environmental and Social Sustainability from International Finance Corporation, known as the IFC performance standards (IFC PS), is the key benchmark for the DFIs in relation to risk management.[vii] The IFC PS establishes corporate standards in project finance on labour and working conditions; environmental practices; workplace health & safety; community health, safety and security; land acquisition and involuntary resettlement; relations with indigenous communities, and; preservation of cultural heritage. The agreement to implement the IFC PS is a prerequisite for the investees/partners to gain access to capital through the DFIs. The IFC PS are binding to the corporation that has chosen to adhere to them. Thus, once corporations have agreed to implement the IFC PS and incorporated these into contractual agreements, the IFC standards create legal obligations[viii].

- In 2000, the United Nations created the UN Global Compact, which is a policy and practical framework for businesses that are committed to aligning their operations and strategies with ten universally accepted principles within the areas of human rights, labour, the environment and anti-corruption. This

[4] As previously mentioned, this is for private sector entities normally referred to as the triple bottom line, cf. John Elkington 1994.

policy framework consists of ten recognised principles for voluntary initiative business can sign up to in order to align their operations with international priorities. The principles of the UN Global Compact are derived from The Universal Declaration of Human Rights, The ILO Declaration on Fundamental Principles and Rights at work, The Rio Declaration on Environment and Development and The UN Convention against Corruption. Global Compact does not have any effective external monitoring mechanism nor enforcement provisions and are often criticised as being a shield behind which companies can hide and avoid committing to binding international regulation on corporate accountability [ix]. The first two principles related to human rights, have been further operationalised in 2011 through The United Nations Guiding Principles on Business and Human Rights (UNGP).

2.1. SOCIAL RESPONSIBILITY (HUMAN RIGHTS INCL. LABOUR RIGHTS)

The United Nations Guiding Principles on Business & Human Rights (UNGPs), were unanimously endorsed by the UN Human Rights Council in 2011 and represent the most recent development within the field of Business & Human Rights. The UNGPs provide an authoritative global standard for preventing and addressing the risk of adverse human rights impacts related to business activity and is the first set of international guidelines to define the responsibility and expectations of both States and businesses through the 'Protect, Respect and Remedy' Framework.[x]

The State duty to protect against human rights abuses lies only within their own territory and national jurisdiction, although, where a business enterprise is state owned or linked formally to a State through investments or capital like the DFIs, the State has a further obligation to encourage and, where appropriate require human rights due diligence by the agencies themselves or the beneficiary business entities.

The corporate responsibility to respect human rights also includes a clear recognition of human rights due diligence as pivotal to avoid infringing on the human rights of others, in addition it also advocates for the implementation of a publicly available policy clearly stipulating the human rights expectations of all affiliations linked to the operations.

As mentioned, the DFIs function as state-owned enterprises, which initiates additional responsibilities compared to private enterprises. The additional steps serve to protect against human right abuses whilst ensuring that the States will not support or add to human rights challenges through their operations in the recipient State.

Core labour rights are an integral part of international human rights and thus fall under the requirements in the UNGP framework. The ILO´s Declaration on the Fundamental Principles and Rights at Work (1998) commits all member states to four categories of principles and rights, commonly known as the core labour rights[5].

The IFC incorporated strong reference to the UNGP framework in the IFC Sustainability Policy in 2012. IFC concluded that the existing performance standards were adequate to meet the new requirements of the UNGPs. This conclusion has however been challenged and the IFC, as well as a host of users of the IFC performance standards (IFC PS), are considering and investigating whether changes to the performance standards are required[xi]. Whereas the IFC PS1 make reference to human rights in general, none of the IFC performance standards specifically elaborate on how to meet the UNGPs expectation of "considering adverse impacts on all human rights; in every business activity in all contexts". By including some specific human rights areas when projects are likely to involve high risks, the DFIs are not assured compliance with the UNGPs by following the IFC performance standards. According to the UNGPs, the responsibility of business enterprises to respect human rights refers to internationally recognized human rights – understood as a minimum as all those expressed in the International Bill of Human Rights and the principles concerning fundamental rights as set out in the International Labour Organization's Declaration on the Fundamental Principles and Rights at Work[xii]. Consequently, attention to all potential adverse human rights impact should be part of risk assessments.

[5] Core labour rights; 1. freedom of association and the effective recognition of the right to collective bargaining, 2. the elimination of forced or compulsory labour, 3. the abolition of child labour and 4. the elimination of discrimination in respect of employment and occupation.

Besides these central instruments and standards, the Nordic DFIs differ in the number of international standards and guidelines they communicate to commit to or refer to in their external communication to stakeholders.

Finnfund – Finnfund has an Environmental and Social Policy that is aligned with its strategy and with a number of international practices and principles. Within the 'social' area, Finnfund makes reference to the IFC Performance Standards, the UNGP, UN Global Compact, and the Harmonized Environmental and Social Requirements (EDFI). In its policy, Finnfund clarifies the expectations to its clients in terms of compliance within ESG issues. Finnfund has a publicly available human rights policy formulated as recommended by the UNGPs. Finnfund communicates that they 'track' the UN Global Compact, the UNGP and the ILO Declaration of the Fundamental Principles and Rights at Work. It is however unclear how the "track" is performed. Finnfund carries out a human rights impact assessment[xiii] (HRIA) for each project using public sources and reviews, however no publicly available project-level HRIA exists[6]. Finnfund does not have a formal grievance mechanism established in case of adverse impact on stakeholders. This is a requirement under the UNGPs.

Norfund - In relation to human rights compliance, Norfund is guided by the IFC performance standards and the ILO core conventions. In their own words, Norfund has a "systematic approach" to the social responsibility by setting "high requirements for own operations and the operation of enterprises in its portfolio"[xiv]. However, there exist no publicly available material or information on how Norfund uses and adapts the IFC performance standards in this respect. Norfund communicates that they require "that account be taken of human rights, gender equality and local communities. Likewise, "Good working conditions" is a fundamental goal to Norfund. These areas are the communicated ESG priorities in Norfund. No sustainability policy or written document on the commitment to human rights exists, which as referenced above, is a requirement under the UNGPs and an essential part of risk management. Additionally, no HRIA process documents are publicly available, thus it has not been possible to analyse the HRIA process and whether the requirements in the UNGP framework is implemented. Norfund does not make any reference to the UNGP on their website or in its written material, only the IFC performance Standards are referenced as frame for the requirements to partners within the area of human rights. Finally, Norfund does not have a formal grievance mechanism established in case of adverse impact on stakeholders and it is not clear whether this is a demand at project level.

Swedfund - Swedfund is guided by its "Ethical Compass" and has an extensive ESG toolkit comprised of policies, guidelines and a range of references to international commitments and standards, including reference to the IFC Performance Standards[7]. Swedfund has signed up to the UN Global Compact principles and the Principles for Responsible Investment (PRI). Both UN Global Compact principles and PRI are voluntary measures and as such only guiding. Swedfund is working towards more clearly integrating the UNGP into its written sustainability policy[xv]. It does, however, remain unclear to what extent the UNGPs have been incorporated into procedures and into the HRIA as the human rights impact assessment document is not publicly available. Swedfund has a "code of conduct" and a formulated position on children's rights. The policy on children's rights supplements the sustainability policy, and encourages portfolio companies to use toolkits and implement responsible approaches to children's rights. Further, women's rights are stated as a high priority area[8]. Swedfund has established a whistle blowing service, which functions as a grievance mechanism and a reporting channel in cases of serious irregularities ad also requires that its portfolio companies have grievance mechanisms in place.

IFU - IFU requires that their partners work towards implementation of international standards based on the UN and ILO declarations, agreements and principles as added over time and could include the IFC Performance Standards[xvi]. Within the areas of human rights and labour rights, IFU has incorporated the UNGP framework as part of it's written (and public) sustainability policy and expect the partners' approach to sustainability to be consistent with the UNGPs. It is however unclear to what extent HRIAs are applied is IFU makes no specific reference to this in their external communication. IFU has produced a detailed and practically oriented handbook for all of IFU partners, which spells out, what requirements IFU has to its partners on managing sustainability. Within the area of social responsibility, IFU list requirements for partners in relation to labour practices including requirements to minimum age, forced labour, wages, working hours, collective bargaining etc.[xvii] Occupational health and safety guidelines are also included. Moreover, IFU specifically outlines achievement of "Positive Development Effects" in

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[6] See more about this process in chapter 3.
[7] This toolkit is not publicly available and it is therefore not possible to assess its usability
[8] According to conducted interview and Swedfund Policy for Sustainable Development

its Sustainability Policy[9] and commits to assure that the investees continuously work towards achieving long-term results. Companies in which IFU invest has to comply with the sustainability policy and requirements. IFU has established a central web-based grievance mechanism and encourages (but do not require) investees to establish local level grievance mechanisms in the projects[10].

2.2. Environmental and climate responsibility

The UN environmental conventions are based on the precautionary principle[11] and the principle of pollution prevention. These guide the international community on the minimum expectations to environmental protection. One of the most recent and recognised is the UN Convention on Biological Diversity (UNEP 2003). Other central and foundational guidelines and standards on environmental protection include the Rio Declaration on Environment and Development (UN 1992) and the Kyoto Protocol to the UN Framework Convention on Climate Change (UNFCCC 1997, in force from 2005)[12]. Most recently, the adoption of the Paris Agreement in 2015 within the framework of UNFCCC has set new targets on how to support climate action in order to reduce emissions and build resilience to climate change impacts. The Paris agreement will enter into force in 2020 and be legally binding for signatory governments.

The IFC Performance Standards framework includes standards for environmental assessments and performance including biodiversity, natural resources, resource efficiency, and pollution prevention[xviii]. Also within the framework of the UN Global Compact, three principles on minimum compliance on environmental responsibility are further specified for business[13].

Finnfund **-** In their Environmental and Social Policy, Finnfund refers to the IFC standards and the World Bank Group environmental health and safety guidelines[14] as minimum standards applied in the investment flow. Also the UNEP-FI is followed, which is a global partnership between UNEP and the financial sector on promoting the sustainability agenda on ESG areas. It is a prior condition of Finnfund financing that the recipient makes a contractual commitment to observe these standards. Additionally, Finnfund refer to the Intergovernmental Panel on Climate Change Greenhouse Gas Protocol and has developed their own tool for calculating CO2 emissions in relation to their investments. Other international standards or guidelines such as UN environmental conventions are not referenced in the Environmental and Social Policy.

Norfund - No formal environmental policy or account of environmental responsibility or references to specific environmental standards exist. As the other DFIs, Norfund refers to the IFC performance standards but without further elaboration in relation to central international standards such as e.g. existing relevant UN environmental declarations and Conventions[xix]. The areas of priority relating to the environment and referenced in the 2015 annual report are within "environment and biological diversity", which is rather unspecific and broadly defined[xx]. Norfund communicates that they require the companies, in which they invest, to have 'sound environmental and social practices' and that they 'comply with recognised international environmental and social standards, as well as national legislation and regulations'[xxi].

Swedfund **-** Swedfund follows the World Bank Group (WBG) environmental health and safety guidelines, which contain industry specific guidelines. Swedfund communicate that they have a special focus on the environmental aspect of their portfolio companies, and that they make proactive efforts to obtain positive changes on environment and climate change[xxii]. Swedfund do not have any specific policies in this respect but are currently working

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[9] Positive development effect signifies focussing on job creation, payment of taxes, contribution to government revenue, transfer of know-how and cleaner technologies, training, and education, gender equality, community health and food security and other corporate Social responsibility related activities. – from IFU "Sustainable Investments – a handbook for our partners.

[10] It is not possible within the present study to assess whether Swedfund and IFU's grievance mechanisms fulfil all the effectiveness criteria for non-judicial grievance mechanism under the UNGPs

[11] "In order to protect the environment, the precautionary approach shall be widely applied by States according to their capabilities. Where there are threats of serious or irreversible damage, lack of full scientific certainty shall not be used as a reason for postponing cost-effective measures to prevent environmental degradation". Principle 15 in Rio Declaration

[12] There also exist several more sector specific guidelines, which are not included in this brief overview.

[13] Principle 7: Businesses should support a precautionary approach to environmental challenges; Principle 8: undertake initiatives to promote greater environmental responsibility; and Principle 9: encourage the development and diffusion of environmentally friendly technologies.

[14] The EHS Guidelines are a technical reference documents with general and industry-specific examples of Good International Industry Practice

on a climate strategy that should be launched in 2016 and has as mentioned signed up to the non-binding UN Global Compact principles. Swedfund do, however, require from their portfolio companies, that they implement environmental management systems and ensure continuous improvements[xxiii].

IFU - IFU's Sustainability Policy is guided by the principles of the UN Global Compact through which IFU commits itself to improve environmental performance through a preventive and precautionary approach that addresses environmental challenges, including climate change, loss of biodiversity and land use changes. In IFU's sustainability handbook for partners, there are sections on the environmental requirements in relation to environmental performance and climate. In its sustainability handbook for partners, it is stated that IFU requires project partners to 'focus on' greenhouse gas emission (with stricter requirements for projects with large emissions), resource consumption, pollution prevention, minimise the use of hazardous substances, protect and conserve biodiversity and raise awareness among workers[xxiv]. IFU makes explicit reference to a large number of international conventions and declarations on environment and climate including the ones mentioned above as the most recent and internationally recognised. IFU manages the Danish Climate Investment Fund, (CIF)[xxv] which is specifically established to invest in projects, which directly or indirectly contribute to reduction of the emission of greenhouse gasses.

2.3. GOVERNANCE (INCL. FINANCIAL RESPONSIBILITY)

The UN Convention Against Corruption (UNCAC) is the first global legally binding international anti-corruption instrument, and together with the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (1997) they constitute the most central standards within the 'governance' area of anti-corruption and bribery. In relation to tax matters, the OECD Global Forum for Transparency and Exchange of Information for Tax Purposes is the most widely used international framework for ensuring the implementation of the internationally agreed standards of transparency and exchange of information on tax payments and fiscal responsibility. Through an in-depth peer review process, the OECD Global Forum monitors that its members fully implement the standard of transparency and exchange of information they have committed to implement. Countries go through a phase 1 and phase 2. review process and can after phase 2 be classified as compliant, largely compliant or non-compliant[xxvi].

As members of EDFI, the Nordic DFIs have undertaken efforts to harmonize their practices in the use of offshore financial centres by adopting the non-binding guidelines "EDFI guidelines for Offshore Financial Centres" which follow the OECD guidelines. However, it should be noted that there has been a lot of criticism towards the OECD Global Forum standard most recently in the light of the 'Panama papers' scandals, as Panama in the OECD process is actually not considered 'non-compliant'. These recent scandals point towards a need for an increased awareness and push for international standards to improve in this area. The Global Forum process has also received criticism for working towards relying on 'Automatic Exchange of Information' which will exclude many developing countries to participate due to underdeveloped infrastructures. Also the OECD Global Forum does not require public financial information on a country-by-country basis as well as beneficial ownership information[xxvii].

Additionally, the Addis Ababa Action Agenda on financing for development (July 2015) has emphasised the need to raise public domestic resources through enhancing revenue administration. This requires modernized, progressive tax systems, improved tax policy and more efficient tax collection, thus a broadened tax base to support sustainable development and achieving the SDGs.[xxviii]

Finnfund **-** While Finnfund explicitly communicate that they have a zero-tolerance policy towards bribery, corruption and potential conflict of interest, they do not reference the specific legal frameworks or the international standards/treaties they commit to comply with. It can be argued that transparency on which international frameworks that guide their position and a firm public policy would be an advantage for the stakeholders for transparency and accountability reasons and not at least for proper risk management. Finally, in relation to challenging markets and equity-rated investments in funds, Finnfund writes in the annual report that they are "opposed to tax evasion, corruption and money-laundering in investee countries and domiciles"[xxix], and urge that the OECD Global Forum standard agreement is observed. Further, Finnfund references the EDFI Guidelines for Offshore Financial Centres (OFC). However, no official formulated Finnfund OFC policy exists. Considering the very recent debate on OFCs, it would be recommendable to establish an OFC policy to strictly clarify the position of Finnfund, and possibly extend the policy to move beyond the OECD Global Forum Standards.

Norfund **-** Norfund follows the OECD guidelines on tax related matters[xxx], EDFI guidelines, and general OECD recommendations. This includes seeking to avoid using tax havens that do not comply with the OECD Global Forum standards[xxxi]. Additionally, Norfund have internal OFC guidelines, zero tolerance on corruption and a Business Integrity Policy[15]. In relation to the OFC policy, Norfund's current guideline for the use of third country is given by the state/owner in the letter of allocation for 2015[16]. According to Norfund, they use third countries only when it is strictly necessary to do highly prioritized investments, mainly equity investments in the poorest countries, typically LDCs, where such investments otherwise would not be done[xxxii]. Norfund mainly uses OFCs in relation to investment in SME funds.

Swedfund **-** In its ethical compass, Swedfund has incorporated international guidelines and standards on anti-corruption, bribery and on tax related matters.[xxxiii] Swedfund has an anti-corruption policy following the guidelines of international standards, which is also part of their code of conduct. Further, Swedfund refrains from taking part in investments through intermediary jurisdictions, which does not fulfil the requirements in the framework of the OECD Global Forum Standard Peer Review Process[xxxiv] (not approved in phase 1 or deemed non-compliant, cf. procedure above).

IFU **-** IFU reference international standards such as UNCAC and OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions as central in their Sustainability Policy. In the IFU handbook on sustainable investments, there is a section on expectations to partners within the area of corporate governance and business ethics. Areas included are anti-corruption, facilitation payments, fair competition/competition law and compliance with local tax regulations. Moreover, IFU has written anti-corruption guidelines that include information to investment companies on how they should work with these issues. In late 2015, IFU's board adopted a tax policy following the lines of the OECD Global Forum and transparency on tax matters and tax payments. OFC is briefly covered in IFU's Tax Policy. In this document it is stated that partners shall comply with and demonstrate clear progress towards satisfying OECD´s Global Forum´s Peer Review. This policy follows the EDFI OFC guidelines.

2.4. DISCUSSION OF AREAS FOR IMPROVEMENT

DFI Policy documents

To ensure proper implementation of ESG procedures and seek to avoid potential adverse impacts, there is a need for firm policies on managing ESG matters.

Elaborate sustainability policies covering the areas of social, environmental and economic responsibility are recommended. Further, a publicly available written policy commitment on human rights is a requirement under the operational principles of the UNGPs. A sustainability policy including a policy commitment to human rights following the UNGP requirements and describing the international commitments and expectation to project organisations and partners on ESG policies and procedures would serve to clarify and facilitate the communication of requirements to partners and thereby minimize risks. Further, in relation to human rights, it is advised that the UNGPs get firmly integrated into policies and practical procedures. Currently, it is not clear whether these have been solidly integrated by the DFIs due to a lack of transparency on risk assessments and the procedures for HRIA. Considering the fact, that the DFI investments often are placed with partners[17] in unstable regulative regimes and that the enforcement of policies is weak[xxxv], the responsibility and requirement to firm policies, procedures and action plans are even more urgent.

In general, all four DFIs could improve their coherence to international requirements by having formulated policies on standards, procedures and expectations to project companies, partners and other associated business relationships in relation to the environmental bottom line. The fact that a good part of the DFI investments are huge

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[15] The Business integrity policy in not publicly available, thus it has not been possible to evaluate the content.

[16] The letter states: *Norfund is, as a state-owned investment fund, required to follow the same guidelines as other state companies and funds with international operations. Norfund shall by investments through third countries follow the OECD guidelines in the tax area, including seeking to avoid utilizing tax havens that do not follow the standards of the Global Forum on Transparency and Effective Exchange of Information, or countries that have not signed information exchange agreements with Norway."*

[17] In this report, the terms "investee", "partner company", "portfolio company", "project company" , "investment company" are used to describe the investment partners.

investments within this sector (environment, green energy, forestry etc.)[18] place emphasis on having a solid environmental policy in place with clear priorities, standards and procedures. Additionally, there is a greater risk of adverse impact, if portfolio companies do not have more than very broad frameworks (such as the IFC performance standards) to make reference to.

Requirements to partners /investment companies

The requirement to partners of meeting the international minimum standards in relation to avoiding adverse impacts is considered differently by the four DFIs. Norfund, for example, 'expects' their investees to gradually be in compliance with IFC performance standards and Finnfund requires that the investees "reach compliance within a reasonable period"[xxxvi]. In Swedfund, portfolio companies must adhere to the IFC Performance standards and also to internationally recognised standards for sustainability; namely within business integrity, anti-corruption, corporate governance and human rights from the outset[xxxvii]. In IFU, it is required that partners work towards implementing international standards over time[xxxviii].

It can be questioned whether the acceptance of gradual adherence to minimum standards constitutes solid risk management, also considering the fact that the corporate responsibility to respect human rights under the UNGPs extends to the entire value-chain. This means that DFIs can become complicit in the acts of the business relationships and thereby the acts of the investees. This emphasises the need for initial solid human rights assessments and due diligence procedures.

Thus, it can be argued that it ought to be a requirement that all investees comply with the IFC performance standards incl. the UNGP framework from the outset in order to avoid adverse impact. However, arguments could also be made that if standards were not accepted to be raised gradually, this would exclude a number of potential investees, particularly in LDCs, microfinance clients and small companies, and thus harm the DFIs' ability to be 'truly additional in poor countries', as Norfund puts it[xxxix].

With these observations in mind, firm action plans on continuous progress and severe monitoring are imperative to apply with this current approach. The DFIs do formulate ESG "action plans" with detailed descriptions of company requirements in order to receive funding. Compliance with environmental standards, labour standards and environmental and social action plans are legally binding to the investees[xl]. These procedures are all aligned with the IFC performance Standard 1[xli]. However, as the requirements under the UNGP framework is not specifically explained or elaborate in the IFC performance standards, specific attention by the DFIs in the monitoring and review process and in the reports supplied to them should be concerned on whether these follow the elaborate requirements in the UNGP framework.

A general requirement from DFIs to partners on having a firm sustainability policy in place in the initial project phase is highly recommendable, as this will commit the partners to adopt the same requirements further down the value chain as the DFIs pose and thereby serve to reduce ESG risks. Additionally, OFC policies should be added to the sustainability policies in relation to having firm responsible investment guidelines and policies in place.

OFC policies /taxation standards

Recently, much public debate has centred on how investments through some jurisdictions can play a major role in facilitating tax evasion and avoidance.[xlii] Considering that tax payments are potentially the most sustainable financial source for investments in social services such as education and health for the poor[xliii], the potential social development impact gained from tax payments is significant. This emphasises the importance of securing that the tax revenues to target countries are maximised.

All four DFIs invest capital through direct investments, financial institutions and through private equity funds as part of their investment portfolios. According to the DFIs, investing in private equity funds is a way of reaching both the more challenging markets, as risks are shared, and also reaching the SME sector, which is relatively more resource demanding for the DFIs to invest in directly[19]. The private equity funds are often registered in third countries/jurisdictions that, according to the DFIs, ensure a stable political and legal climate of operation and because

[18] Confer annex B

[19] IFU and Danida have also established an SME facility through which Danish SMEs can apply for financial support for preparation of a business strategy, organisational and managerial development, feasibility studies, recruitment, environmental studies, training; and implementation of

they then avoid double taxation[xliv]. All four DFIs refers to the OECD Global Forum Standard[xlv] as the benchmark for deciding which private equity funds to invest in – that the funds should be registered in countries that comply with the OECD peer review process. According to critics the standards of the OECD Global Forum are however not ambitious enough and does not capture the many challenges in relation to OFCs[xlvi], and furthermore do not cover all developing countries. An alternative for the DFIs could be to apply the Tax Justice Networks' Financial Secrecy Index[xlvii]. This is a standard that has been merited by UNCTAD. This would eliminate countries such as Mauritius and the Cayman Islands as third jurisdictions – countries that are often used by the DFIs. While there is continuous discussion about whether these so-called 'tax havens' constitute a diversion of the best use of development funds and tax avoidance/tax optimisation schemes, it is at least fair to say that they are legitimised via the DFIs' fund investments.

Arguments for investing through third jurisdictions have also been that it is necessary to invest in certain countries through intermediary countries to secure the investments because the financial infrastructure in the end market is not developed[xlviii]. A discussion with relevant CSOs on how the DFIs can support the development of the financial infrastructures in the end countries could thus be next step in the process of raising the standards and ensuring responsibility with regard to payment of taxes throughout the entire investment chain[xlix].

Considering the recent debate in Norway of Norfund's use of OFCs, the scandals relating to the "Panama papers"[l], and the criticism of the OECD Global Forum Standards[li] it is within the interest and responsibility of the DFIs to push for a development of the current international standard. This would be possible considering the DFI leverage.

In general, the DFIs should ensure to have strict policies in place in relation to taxation and OFCs (no matter if they follow OECD or an alternative) in order to ensure that due diligence processes have a firm reference point in this respect and consequently to avoid adverse impacts[lii]. In relation to OFCs, it is clear from public criticism and the recent events within the field, that great caution has to be taken in relation to investments and transactions involving entities domiciled in OFCs. The DFIs are working with safeguarding in this respect, however attention should be paid to the recommendations from NGOs on establishing stricter requirements to partners on providing public financial information on a country-to-country basis and in relation to beneficial ownership"[liii].

Grievance mechanisms

As DFIs often invest in large-scale projects in sectors such as energy, agribusiness, infrastructure and extractive industries, the potential impact on the livelihoods and human rights of stakeholders and affected citizens is considerable.[liv] This makes the need for an independent complaint mechanism substantial, as any potential adverse impact must be reported and mitigated.

Norfund and Finnfund do not have an established grievance mechanism at central level, nor is it something they demand of their project companies[20]. While IFU and Swedfund both have a central web-based mechanism in place, it is questionable whether these comply with the UNGP criteria of "accessibility" as the services are English web-based platforms, which potentially excludes locally affected people from understanding and accessing the service. Further, it is questionable whether potentially affected stakeholders have knowledge of the existence of the mechanism/whistle-blower service. IFU encourage establishment of local/project based grievance mechanisms, and from 2016, Swedfund requires that all portfolio companies set up an appropriate grievance mechanism available for all employees, and other stakeholders.

A recent Finnish evaluation[lv] has highlighted a few cases involving issues related to land rights that were not resolved in Finnfund projects, and the same report mentions that there is little exchange of information between Finnfund and the Finnish embassies (Finnfund does not have local representation). It is beyond the scope of this report to analyse the correlation between issues with safeguarding of locally affected people, establishment of effective and accessible grievance mechanism and local presence or strong local exchange by the DFIs, but part of the argument for having local presence is increased opportunity for communication with locally affected people, better local knowledge and being closer to the implementation.

CSR initiatives in relation to projects they seek to implement in IFU countries.

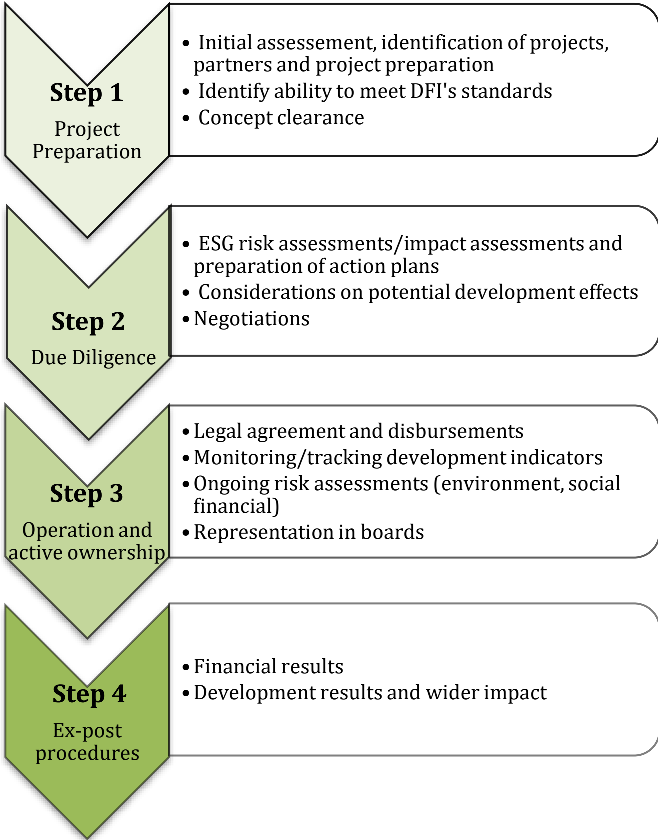
[20] Norfund confirmed through interview that a new website is under way and possible be implemented fall 2016. A whistleblowing mechanism will be part of the website.

3. The DFIs´ reporting on development impact

The development Impact of DFIs can be described as the long-term sustained effect of their investments on people´s lives[lvi]. This is the long-term objective of the investment projects, e.g. construction of a wind farm in Kenya will have a short-term impact on job creation and increased tax base but should in the long-term lead to access to cleaner and more reliable energy for the population and local industries, which can lead to better living conditions and economic growth. In this way, the DFIs contribution to supporting the SDGs and while the overall goal of poverty reduction can be assisted through contributing to sustainable economic growth, the individual SDGs are supported through the different type of investment projects in which the DFIs engage (see overview of the SDGs in 2017), either through project specific results (e.g. cleaner energy/SDG7) or as wider impact (e.g. sustainable communities/SDG11). The procedures and assessments done before embarking on an investment ('ex-ante') to a large degree set the standards for the level to which the DFIs are able to target and report on the development impact of their investments. Through a proper ex-ante analysis, including a clear link to the SDGs, solid ESG impact assessments (based on the frameworks outlined in previous chapter), action plans and risk management throughout the investment phase, the development impact can be strategic and targeted and thus increasing the likelihood for obtaining a greater long-term development impact.

In this chapter, the investment flow of the DFIs will be depicted and described step by step, as the way to structure the investment analysis. The analysis is further guided by the research questions defined from the Terms of Reference (ToR). Analysis of how the DFIs work with and report on the potential development impact of their investments will be an integrated part of this. This account of the investment process and information on the individual DFI procedures will make it possible to critically discuss the approach by the DFIs in the analysis that follow.

3.1. Investment flow of the Nordic DFIs



3.2. Step 1: Initial assessment / Identification of projects, partners and project preparation

How do the DFIs decide on which partners and projects to fund and include in the investment portfolio?

The DFI investments are required to both support economic growth and social development qua the mandates they have from their respective governments. In a development perspective, it is important that the DFIs strategically consider which projects to fund/invest in when identifying projects and potential partners, both to safeguard against adverse impact and to ensure development impact. It is by no means a given fact that private investment projects in developing countries will lead to development impact. The DFIs' decision whether to invest is based on different criteria such as geographical areas, sectors, Return on Investment, national commercial interest and in relation to how the investments can contribute to support the SDGs.

All four DFIs identify projects and partners through network and direct approach by companies. The direct investments are primarily through and with relatively large companies. The SME segment is reached through financial intermediaries (investment in funds) or through specific facilities (e.g. IFU SME facility)[lvii].

In ***Finnfund,*** priorities are given to investments that combine Finnish commercial interests and key competencies with issues to be solved in the developing world. No specific references are made to the SDGs in the targets[21]. Inclusion of 'Finnish interest' entails that Finnfund's investments are 'semi-tied'[22].

In ***Norfund***, priorities are given to investments in LDCs and Sub-Saharan Africa in order to promote growth. There are no obligations to support Norwegian commercial interests or invest with Norwegian partners. Norfund has linked the sectoral priorities to the SDGs and the potential positive impact in relation to the sector priorities at the strategy level. Recently, targets have been introduced that at least half of the annual allocation of capital must be invested in renewable energy[lviii].

In ***Swedfund,*** the decision to invest is strategically linked to selected main sectors and the development impact these potentially have in relation to the SDGs. The priorities are 1. Manufacturing and Services, 2. Financial institutions, and 3. Funds and Energy. They all link to the SDGs 7, 8, 9 and 12.[lix] Swedfund´s investments are 100% untied.

In ***IFU***, priorities are generally related to promote economic development with particular attention paid to promoting Danish commercial interests.[lx] Even though a Danish investment partner is in principle not needed, by far the largest part of IFUs investments is with Danish companies and IFU makes a clear link to the national private sector. IFU's investment can be considered 'semi-tied'. IFUs investments are open to all DAC countries and investments are purely driven by interest and competencies of the investment partners (no priorities stated).

All DFIs work with an "exclusion list". This is a list of product areas that the DFIs exclude from their investment portfolios. It is an industry standard and a result of harmonisation amongst the DFIs and has been prepared in cooperation with EDFI[lxi]-

Summing up, the specific criteria for selection of investment projects are not publicly available, but the overall strategic directions, which are aligned with official development policies, are quite clear for all four DFIs, it however remains on a very overall level. They work differently with the link to the national priorities and the concept of un-tied aid, and also have different degrees of linkages to the SDGs in their strategic investment decision. In general, the DFIs could all benefit from strengthening their links to the SDGs and their communication about this and strategic investment decisions.

[21] The SDGs are not publicly accounted for in the publicly available material but are according to Finnfund part of the annual guidance letter on targets from The Finnish Ministry of Foreign Affairs.

[22] The OECD-DAC definition of tied aid is that "Tied aid describes official grants or loans that limit procurement to companies in the donor country or in a small group of countries". OECD-DAC works actively for untying bilateral aid especially to the least developed countries.

3.3. Step 2: Due diligence

How do the DFIs initially assess social, environmental and governance risks?

In order to minimise potential adverse impacts in projects and to be able to strategically support the development impact in relation to social, environmental and economic sustainable development, it is of great importance that solid ESG risk assessments are performed and the expected development effects are identified and monitored.

In the initial project preparation stage, the DFIs assess the potential development impact, the potential environmental & social impact, risks and performance of the project. All the Nordic DFIs request that their partners/investees comply as a minimum with national legislation in the host country in which the project operates.

The process for ex-ante ESG risk assessment and due diligence process follows the procedures of the IFC Performance Standards and procedures jointly agreed with the European DFIs (EDFI), which are in line with the process generally applied by International Finance Institutions. The specific processes by the four individual DFIs are not communicated publicly nor are the individual due diligence reports or results.

For each project, the DFIs initially carry out the environmental and social categorisation of the project and a separate environmental and social due diligence assessment depending on the initial screening result[lxii]. Screening is an initial quick check analysis to determine whether a full environmental and social impact assessment (ESIA) is necessary[23].

Depending on the potential risk of the investment, the DFI due diligence process will be tailored to meet the risk level according to IFC Performance Standards. For projects/investees with medium to high E&S risks, the investees are required to comply with the above-mentioned IFC Performance Standards[24]. Consequently, the performance of the projects/clients in the following areas should be covered by the investigation: environmental and social assessment and management, labour and working conditions, land ownership and tenure, exploitation of resources, community health safety and security, food security, population movement, protection of cultural heritage, the status of indigenous people and other vulnerable groups, hearing and consultation of stakeholders[25]. To a degree to which a full Human Rights Impact Assessment (HRIA) following the requirements in the UNGPs is completed, cannot be evaluated by the study team due to a lack of transparency on impact assessments and procedures for HRIA.[26]

The results of the E&S due diligence assessment are taken into account when negotiating the financial, environmental and social conditions of the investment and formulating the ESG action plan. The action plan is established based on the identified risks, addressing how to mitigate these. A due diligence report is then commissioned, describing the performance of the investee/project against the benchmark of the IFC Performance Standards, environmental health and safety guidelines and other international industry specific standards.[lxiii] The due diligence report analyses project and customer operations and compares them to relevant international standards[lxiv] with the aim of identifying, mitigating, remedying and pre-empting possible adverse impacts.[27]

How do they assess potential development impact?

To assess the anticipated development effect of new projects, ***Finnfund*** has developed a Development Effect Assessment Tool (DEAT) that includes both qualitative and quantitative indicators. DEAT concentrates on assessing the sustainability of the project and effect on different stakeholders (company level and individuals). The DEAT is

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[23] Part of standard procedure following the IFC performance standards. Specific ESIAs or screening results are not publicly available

[24] The IFC Performance Standards do not include requirements on the way the DFIs should complete their assessments.

[25] As required in the IFC Performance Standards

[26] No public information on the exact procedure is available.

[27] Due diligence reports are not publicly available.

divided into three parts[lxv]; *Corporate Sustainability Principles[28], Economic Development Effects[29] and the Role of Finnfund[30].* The DEAT tool is not publicly available, neither are the DEAT assessments.

According to ***Norfund,*** it is the preselected sectors and geographical area that define the developmental focus of its investments, but there are no specific targets in Norfund set for the expected development effects of a potential project/investment in the identification process. The expected development effects are very broad, and relates to macroeconomic effects such as job creation or tax payments.

In ***Swedfund***, the potential development impacts of an investment are considered against Swedfund´s strategic sustainability goals, which focus on tax and transfer of know-how, (decent) job creation and environment, long-term sustainable and financially viable companies, and anti-corruption. Swedfund reports internally and externally on these goals. As a new initiative, Swedfund makes an assessment of each investment opportunity in terms of how it relates to the SDGs[31]. The indicators include Gender equality, Decent work, Environment & climate and Anti-corruption.[lxvi]. However, no details in any of these areas are publicly available.

IFU has worked with a 'success criteria model' for a number of years. This includes ex-ante assessment of inter alia the expected development impact of each investment. Criteria include additionality, employment, knowledge transfer and the very broad category of 'CSR issues'. The success criteria model is rather complex and IFU is in a process of replacing it with a new Development Impact Model (DIM) that more clearly links to the SDGs[32].

All four DFIs assess the potential development effects their investment will have in the country of operation. The transparency about how they do this is however extremely limited, and it is not possible for the public to really assess and comprehend the decisions of the DFIs. Focus of the DFIs is on the short-term directly measurable effects such as number of jobs, tax revenues and growth. These are important prerequisites for growth. However, it is not a given fact that the investments will lead to sustainable growth, decent jobs, equal income distribution or that the increased tax base is used for the benefit of the poorest segments of society. No implicit or explicit link to the wider societal effects is explicitly addressed or at least not communicated. It can be argued that at least articulating the potential long-term impact and considering the wider impact on society (spelling out the theory of change) behind this could both ensure a closer link to the SDGs and might also ensure increased development impact if the development impact from the outset of project investments became more focused on potential wider impact.

3.4. STEP 3: OPERATION AND ACTIVE OWNERSHIP

Do the DFIs involve themselves as "active owners" and guide the investment process?

In order to support and safeguard the investment process and promote the financial interests and ethical commitments, the DFIs co-investors exercise "active ownership" in the investment. Active ownership is defined as the use of shareholder rights and position to influence the behaviour of a company[lxvii]. Thus, active ownership means that the DFIs use their shareholder rights to gain influence on, e.g. operational, managerial and strategic issues. This could therefore also be a key means for the Nordic DFIs to ensure greatest possible development impact of the investment projects.

All the Nordic DFIs communicate that they guide the investment process through active ownership. In order to be able to secure and monitor direct investments in terms of ESG compliance and to be able to support the achievement of ESG action plans, a board seat in the investee company is a strategic way for the DFIs to guide and keep a firm hand on the investment process and achievement of development impact. The DFIs communicate that they

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[28] They measure how well the project suits project and strategy defined in the Finnish governments development policy programme. Among the aspects studied are effects on the environment, on climate change, on the local community
[29] Assesses the anticipated results for project stakeholders. It calculates employment effects and the volume of tax revenues as well as project´s influence on local markets via the production chain or the launch of a new product.
[30] Estimates the added value that Finnfund financing brings to the project.
[31] Interview with Swedfund staff, no further information is available at this stage.
[32] The DIM has not been implemented yet but its main principles have been shared by IFU and therefore reference is made to this model.

work with the portfolio companies and influences them through, e.g. board participation, exchanges of experiences and through performance monitoring[lxviii].

Even though ***Finnfund*** uses the term "active ownership[lxix], they do not make clear to the public what this entails, and in what way they use their influence to steer the investment.

Norfund communicates that they normally require a board seat in direct investments, and that focus is on engaging in the training and capacity-building of the board members and development of the company beyond pure investment. Focus is on risk management and good corporate governance[lxx].

Swedfund communicates that they have a proactive approach to board participation, through which know-how is transferred to the portfolio companies. Point of departure is taken in the legally binding ESG action plan, which is attached to all investment agreements. The Swedfund board member works actively to develop portfolio companies' best practices in areas such as financial management and reporting, environment, human rights, working conditions, anti-corruption, business ethics, gender equality and diversity.[lxxi]

IFU has integrated the obligation of exercising active ownership into their Sustainability Policy. In the Sustainability Policy IFU explicitly communicates that it seeks active ownership of investees through board membership, where IFU shares and disseminates its experience, facilitates networking and partnerships regarding the business environment and sustainability issues.[lxxii]

Both IFU, Swedfund and, until 2015, Norfund have received separate funds for technical assistance and training from their respective governments. The TA funds are used to assist companies to improve different aspects of ESG and sustainability. With the TA funds, the DFIs have according to themselves helped build capacity in areas such as improved management systems, application of governance policies and routines, energy efficiency, accounting, occupational health and safety, etc. Norfund has explained that they have considered the schemes an important tool to exercise active ownership, through assisting and backing up portfolio companies in ESG matters, and thereby potentially enhancing the development effects and strengthen Norfund's additionality. It would be recommendable if also Finnfund could get access to such funds (and that Norfund's grant scheme is revitalised). The level of the funds is, however, rather limited (in 2015 Norfund had access to NOK 25 million, IFU to DKK 3 million and in 2016, Swedfund received SEK 10 million to be spend over a number of years.

Summing up, the active ownership and project steering that the DFIs exercise, seems mainly to focus on guidance on internal ESG matters of investee; namely within the area of sustainable and responsible business conduct. More attention could be placed on ensuring the greatest possible development impact of the project, and thus the wider societal impact. As Finnfund articulates it: "profitable businesses are necessary, but not sufficient condition for development"[lxxiii]. Working to promote profitable, sustainable and responsible businesses is one step further to development but the long-term impact of the DFIs' operations demands cooperation and long-term visions of expected development impact in project planning – and working towards this through "active ownership".

How do the DFIs track development indicators and monitor project implementation?

In order to be able to track development and monitor the implementation of the projects, there is a need for systematic internal procedures and key indicators that serve to enforce sustainable development efforts. Transparency in these processes increase accountability of the DFIs.

Through engagement in EDFI, the Nordic DFIs have all adopted the "International Financial Institutions (IFI) Harmonized Development Results Indicators for Private Sector Investment Operations". The initiative harmonizes indicators, definitions, units of measurement and reporting standards for 28 core indicators from 12 different sectors, and represents a landmark achievement for Development Finance towards developing a global standard to measure and report on development results. All four Nordic DFIs aligns with this framework in relation to tracking and measuring of development results. The reporting from the DFIs on this is not publicly available, which makes it difficult to analyse the usefulness of linking up to this framework and whether the standards are useful in light if the DFIs work towards alignment with the SDGs.

Finnfund applies the IFI harmonization framework as a guide to tracking and reporting on development effects of its investments. Each year, Finnfund gathers information on the development effects of its portfolio investments

with cross-sector and sector-specific indicators (such as jobs and tax revenue, or produced energy / volume of MSME financing). The information is based on data provided by the client companies. Finnfund specifically references quantitative indicators such as tax payments and job creation as focus areas of annual development effectiveness reporting, as this is where Finnfund's effect is most straightforward to measure[lxxiv]. Finnfund produces information on its individual investments in line with general practice in the field of finance, and what has been agreed with the portfolio companies. The monitoring tools are reports supplied by the company and third parties, regular visits and collaboration with other financial institutions and stakeholders involved.

Norfund tracks development indicators after an annual collection of data from each investee and sub-project. To the extent possible Norfund applies the IFI framework in the analysis of development impact and partly uses the indicators based on reporting requirements from the owner[lxxv]. In the 2015 Report on Operations, Norfund reports on: 1. Number of jobs created in the respective regions; 2. Workforce disaggregated into permanent/temporary jobs and male/female employees; 3. Domestic purchases; and 4. Local tax payments. In addition, sector-specific data are collected (energy produced, CO2-emmisions avoided, food produced, number of borrowers in banks and microfinance institutions, associated smallholders, etc.). At portfolio level, the share of investments in LDCs, Sub-Saharan Africa share, greenfield share and equity share are reported in addition to financial performance of the companies. Development effects data are collected from all projects and sub-projects annually. In Norfund regular monitoring is a standard practice[lxxvi]

Swedfund tracks development indicators, which are tailored to each investment. Swedfund's portfolio companies report on energy consumption, energy sources and carbon emissions in annual reports. Swedfund carries out internal audits based on the Swedfund strategic sustainability goals[lxxvii] and marks all investment as either low-, medium- or high-risk. High-risk investment projects are visited on an annual basis. Swedfund requires that all portfolio companies annually fill in a sustainability questionnaire, which is a self-assessment with questions regarding ESG and Development Impact[33]. Based on the self-assessment, Swedfund measures the development of the strategic sustainability goals and presents these results in the public annual integrated rapport. Swedfund reports tax-revenues on a country-by-country basis. In Swedfund, annual external and internal audits are carried out based on the risk category of the investment. This categorisation is based on the EDFI IFI harmonised indicators.

IFU tracks development indicators according to the newly developed Development Impact Model[lxxviii]. The DIM model is mainly based on the indicators in IFI harmonization framework, but has been extended to include indicators related to the SDG targets[lxxix]. The indicators contained in the new DIM tool will for all projects concern information on employment and tax contribution. Employment is divided into strategic (overlapping) sub-groups, namely women, youth and unskilled labour. Another set of indicators for development outcomes are sector-specific and are divided into climate, energy, agribusiness and micro-finance. On top of these indicators, a number of 'IFU strategic indicators' are proposed which include additionality, catalytic effect and project sustainability. These indicators all link up to the SDGs by addressing general development outcomes in relation to SDG 1, 5, 8 and 10[lxxx], sector specific outcomes in relation to SDG 13, 7, 2, 5, and 10. Additionally, the "Additionality" indicators are linked to SDG 9, 10, 12 and 17, the "Catalytic effect" link to SDG 17 and "Project sustainability" link up to SDG 12[lxxxi]. On an annual basis project companies submit an annual sustainability status report to follow up on action plans and requirements from IFU.

All DFIs have procedures and systems in place, which enables them to closely monitor project implementation. The continuous monitoring of projects clearly has a focus on outputs and short-term impact (tax, jobs, internal ESG compliance). IFU most clearly link to the SDGs in their new monitoring model, but the steering toward long-term development impact seems not to be part of the monitoring. None of the DFIs disclose other project specific data, which according to the DFIs mainly is due to a general concern from the private companies with whom they invest. This is a balance that should be carefully considered by the DFIs; their accountability towards their owner, the general public (the tax payers) vis-à-vis their accountability towards their co-investors, the private companies. The two have a very different point of departure in terms of need for transparency.

The DFIs differ quite a lot in terms of 'on the ground presence' and hence ability to perform ongoing monitoring. IFU has 10 regional representations, Norfund has six, Swedfund one and Finnfund has none. It seems reasonable to claim that a stronger presence locally or at least regionally could be beneficial during both project preparation

[33] The tool is publicly available but the individual assessments are not

and implementation especially in terms of knowledge of national legislation, safeguarding against adverse impact on affected stakeholders and especially creating a link between the national level of operation and Fund-level in the Nordic Capitals.

3.5. STEP 4: PROJECT EXIT / EX-POST PROCEDURES

How do the DFIs measure development impacts?

In **Finnfund,** a final assessment is carried out at exit. The key indicators for development effects are the directly measurable results of the investments[34]. These are number of jobs and income, occupational safety, revenue from taxes and fees. Wider development impact such as, e.g. the promotion of democracy is according to Finnfund practically, for technical reasons impossible to attribute directly to the investment. Finnfund assumes that its clients' projects may contribute to these society-wide impacts. No follow-ups are carried out after investment exit. Finnfund does not monitor projects after exit, as there is no contractual obligation for the companies to provide information after Finnfund is no longer involved.

In Norfund, a final assessment is carried out at exit. The key indicators for impact publicly reported is number of jobs created in the respective regions, workforce in relation to permanent employment and gender division, Payments to local supplier and tax payments to local governments. These four indicators are directly measurable and the numbers can directly be attributed to the particular investments.

In 2015, as part of its strategy process, Norfund commenced the analysis of exited investments to improve the understanding of their impact. Consequently, Norfund collects data on both its on-going as well as exited investments in line with its strategy. The monitoring of profitability after exit has become a way to gain more insight into the impact of the portfolio and thereby be able to improve practises.

In **Swedfund**, an exit assessment is carried out for each investment, including ESG and social impact. Key indicators for impact are job creation, transfer of know-how and tax revenues. These assessments are not publicly available. No systematic follow-ups are carried out after investment exit, but Swedfund can use TA funds for follow-up on individual projects to measure impact. That has however not been done the past three years[lxxxii].

In **IFU,** a final evaluation report is prepared for all projects upon exit, typically after 5-7 years. These are not publicly available. IFU prepares an annual portfolio overview, which includes figures on direct employment for all current and past investments. The indicators contained in the DIM will for all projects report on employment and tax contribution. Employment is divided into strategic (overlapping) sub-groups, namely women, youth and unskilled labour. There are no follow-ups after exit.

Summing up, the reporting and communication on development impact that goes beyond the implementation of the projects is almost non-existing. Interviews underline that even internal evaluations or assessments of the wider societal impact of the investments do not take place due to difficulty in attributing the wider social impacts to the investments. The DFIs limit the scope of their result framework to the output level.

3.6. TRANSPARENCY IN PROCEDURES AND COMMUNICATION WITH STAKEHOLDERS

How transparent do the DFIs report on challenges in implementation and achievements of results?

Transparency and accountability goes hand in hand, and transparency in DFIs policies and procedures is necessary to facilitate dialogue and ensure accountability by the state-owned enterprises. Structured dialogue and **communication** with the internal and external stakeholders on how and why the investments are done is an important tool in this process, also to identify expectations and key concerns.

[34] Finnfund distinguishes between the measurement of development results and impacts. Where the development results are the directly measureable effect on stakeholders, the potential impact on society is an indirect effect, which in many cases is difficult to attribute directly to the investment.

Finnfund communicates that they "aim to maintain regular and open interaction with its various stakeholders."[lxxxiii] In 2015, Finnfund's interaction with stakeholders was influenced by a debate caused by the government's development cooperation budget and request for more information from stakeholders. Finnfund decided to establish a separate team to promote communication and awareness and to allocate additional resources to provide more transparency[35]. Finnfund has, however, not established any forum for structured or regular dialogue with NGOs. Finnfund presents selected results of their investments on their website.

During the last few years, ***Norfund*** has arranged several dialogue meetings with NGOs on relevant issues, such as large-scale agriculture/agribusiness investments, the use of offshore financial centres, investments in hydropower projects and investments in gas-fired power production[lxxxiv].Norfund also attends external fora where relevant issues are discussed, and take part in public debates in newspapers etc.[lxxxv] In addition Norfund refers to the IFC performance standard requirements, which requires involvement with workers and local communities affected by the projects.[lxxxvi]

According to the Owner's Instruction, ***Swedfund*** must work towards greater transparency and assist in fulfilment of the obligation to increase openness in Swedish development cooperation by actively increase public access to information about its operations. Swedfund holds a number of 'stakeholder dialogues' with CSOs and other stakeholders on different policy issues, e.g. climate, results, human rights, etc. and notes from these meetings are published on Swedfund's website. Also, the fully integrated annual report is one important tool to increase transparency as well as the country-by-country reporting on tax.

IFU is not subject to the Danish Access to Public Administration Files Act, regarding its investments. IFU has a sustainability advisory Board with two NGO representative with whom they have regular dialogue meetings on different issues[36]. Since 2014, IFU annually discloses the aggregate amount of tax expenses as reported in the accounts of companies in which IFU invests[lxxxvii]. There is public information available on all the individual projects related to project partner, financial commitment and disbursement and employment (expected and actual). Furthermore, IFU has prepared a large number of cases available on the homepage. IFU emphasise that they prefer the companies themselves to published information about the projects, and its performance to get a consistent information flow. IFU is currently in a process of determining what information gathered from the new DIM model to publicly disclose as a growing interest in information on development impact has occurred.[lxxxviii]

In general, the level of transparency of the individual investment projects is low both in terms of ex-ante analysis, monitoring results and also ex-post development results. In this respect, the DFIs stand with one foot in each camp: one being a state-owned actor using public funds, which demands a high degree of transparency, and the other hand being an investor that need commercial confidentiality and thereby careful about the disclosure of information that can be sensitive and influence their reputation and competitive advantages.

Even though the level of transparency is low, it is clear from both the described procedures and interviews that the level of transparency has actually increased during the past years. All four DFIs are furthermore currently in a process of rethinking their active engagement with the public and what project-specific information to publicly disclose.

The dialogue with civil society at head quarter level is one way of addressing the needs for closer interaction and engagement, which is most advanced in Sweden and Norway, to a lesser degree in Denmark, and which seems close to non-existing in Finland.

[35] More detailed information is not available
[36] For example, the new DIM model was presented to and discussed with this Board

4. Contribution to wider development

In this chapter, the findings from the analysis in previous chapters will be framed within the SDGs and considerations as to how the DFIs can work more proactively with results in their projects to ensure greater accountability and possibly also greater impact will be discussed. The prerequisite for the existence of the DFIs is their additionality; that they engage in high-risk investments projects where market based investors hesitate. With a mandate from the state to not only invest in profitable projects, but also to support sustainable growth and development, more consideration should be made throughout the investment flow as to whether and how the investments provide for opportunities to support the SDGs. If strategic positive contribution to sustainable development is to be achieved, progressive and qualitative requirements relating to development impact and the SDGs should preferably be formulated and monitored for each individual project.

Linking project preparation to the sustainable development goals

To strengthen the development impact that goes beyond the immediate boundaries of the investment project and into the larger society, entails that the project partners focus on this throughout all steps in the investment flow, starting from the project preparation phase. The DFIs have all quite clearly formulated that their accountability goes to the outcome level of projects. To ensure that the outcomes of the investment projects (jobs, tax) contribute to benefiting the poorest segments in the society and create wider development impact is outside the scope of their accountability. This level of impact is influenced by a lot of external factors – especially on national and/or local policies on which the DFIs clearly have no influence.

However, if considerations on how the investment project or the future operation of a business could lead to a wider impact than just in the near sphere of the actual construction e.g. by looking 5-10 years beyond the exit, were part of the project preparation, impact might be greater. This could be done by making considerations to the entire supply chain and by ensuring that positive links to the surrounding society (not just avoiding adverse impact) is part of every project preparation phase.

Furthermore, in a learning perspective, the issue of <u>why and how</u> impact is supposed to come about (what is referred to as the theory of change approach in development cooperation) is key in order to be able to verify the causal chains that creates results and use this proactively in an internal learning process to create better results in other projects as well. As mentioned, the consultants have not had access to any internal documents on individual projects, so it is not possible to actually judge to what extent the DFIs might have embarked on working more with the long-term impact level, but through study of public material there is very little indication of working on this level, which was also confirmed by the DFIs in interviews.

For example, when asked about how they ensure development impact of their projects, Norfund argues that the fact that it has a focus on Africa in their portfolio and have actively selected to focus on 'Clean Energy', 'Financial Institutions' and 'Food and Agribusiness' as priority sectors, are the factors that will ensure positive development impact of their activities. That causal result chain is extremely weak and though it might be implicitly unfolded during due diligence processes and in the project preparation phase, it would be useful for the liability of the DFIs in general to work more with potential impact upfront. This includes also to holding the investment companies accountable in order to create broader impact and not only focusing on results that are confined to the specific project or company but on an industry or society level. If it is considered and assessed upfront it could help the DFIs in capturing these results in their reporting as well.

Here the SDGs provides a good opportunity for framing the discussions internally and with the partners, as the 17 SDGs have a total of 169 targets formulated, which the projects results could link up to and thus ensure that they go beyond results on tax, jobs, pollution and internal ESG matters.

Using active ownership as leverage to ensure greater impact

The 'do no harm' approach and avoiding adverse impact is a prerequisite for working meaningfully with development impact. As the analysis in this and previous chapter has shown, for the sustainability related work at project partner and company level in developing countries, the immediate focus is on ensuring that they live up to national legislation and industry minimum standards – and the link to the SDG agenda might thus constitute a big leap for many of the partners.

In this respect, the DFIs have a key role to play in the investments they engage in. As state-owned institutions, the DFIs have a commitment to the comprehensive set of international frameworks that exist within economic, social and governance related matters, which is an obligation that extend to the entire value chain and hence to the companies they invest in and work with.

Firstly, as the analysis has shown, the DFIs work quite closely with capacity building of the companies in the field of sustainability and ESG requirements. The analysis has shown that this is actually the main focus when they exercise active ownership through board positions. It is also training in ESG matters and sustainability issues that the TA funds, to the degree that they exist, are used for. It is arguably important to bring the companies up to an acceptable level of international standards, but the DFIs through the influence they have in boards and through the key leverage they have as a large (though minority) investment partner, could also use this influence and leverage to ensure greater impact of the investment projects. Steering of the projects towards wider impact, continuous engagement of the local community, ongoing discussions with the local authorities, etc. could all help in ensure greater and longer-term sustainability and strengthening the impact of operations.

To rely on the private sector as a participant in the work with poverty eradication and contributing to development impact places a responsibility on the governments and the DFIs who use the private actors as channels. Contrary to development agencies, private sector companies' first priority is to ensure survival, make profit and expansion through upholding their competitive advantage. This can be done in conjunction with ensuring positive development impact, but the companies rarely have the full overview of all the requirements, options and possibilities that lie in the international framework that guide responsible investments in developing countries. Even though different tools exist (e.g. the SDG compass, UN Global Compact self-assessment tool, The Human Rights Compliance Assessment etc.), many private companies need to be trained or coached in their usage, and particularly so in the benefits it can bring them (clear motivation factor). It needs to be hands-on for private companies to be able to make fully use of the international frameworks that exists.

This relates to another key area, that the DFIs could focus on in its ongoing discussions with local project partners, which is the business case of working within the framework of the SDGs and the sustainability agenda in general. There is a clear business perspective for the private sector in focusing on responsible business conduct and sustainability; studies show that integration of sustainability into the business creates more profitable companies[lxxxix]. In order to ensure that the operations of the companies do not have any adverse impact and that the rights of local stakeholders are safeguarded etc. the international framework for engaging in responsible business provides opportunities to build a solid and sustainable business case.

The international community has increasingly expressed the necessity of reshaping the role of business in development cooperation. The SDGs have opened new opportunities for creating shared value[37] for business and the wider society. Considering the proven correlation between good environmental and social performance and financial performance, increased requirements and progressive targets for broader impact represent a long-term business opportunity for both the DFIs and the investees. Increasing the level of active partnership and through this the level of communication on the possibilities and advantages of wider social development impact would serve to foster awareness of the opportunities and challenges that exist in relation to the individual investments. It could increase motivation, and potentially create new innovative business strategies.

Thus, by strengthening the requirements on development impact for investees (in terms of contributing to the SDGs), and at the same time strengthening dialogue and training on the advantages and the "business case" of working integrated with sustainability (responsible business conduct and wider social development impact), the DFIs could further support the achievement of the SDGs.

Measuring the long-term and wider impact

Where the development results are the directly measurable effect of the projects, the potential impact on society is a more indirect effect, which in many cases is difficult to attribute directly to the investment. Consequently, the directly measurable results of the investments are related to indicators such as jobs and income, occupational safety, revenue from taxes and fees, whereas the potential wider development impact is related to areas such as

[37] Shared value: is a management strategy focused on companies creating measurable business value by identifying and addressing social problems that intersect with their business.

human rights, equality, democracy, increased tax revenue base, economic growth, environment, technology transfer, greenhouse gas cuts. These indicators are arguably more demanding to work with and many require more qualitative results reporting, but it is indeed possible to establish a results framework that captures this level as well.

In their results reporting, the Nordic DFIs clearly focus on the results that are measurable (quantifiable) and can be attributed to their activities, and hence what they can be held directly accountable for. Job creation and payment of taxes are the indicators they primarily report on. E.g. on job creation, the reporting is quantitative and no reporting is made on creation of "decent" or lasting jobs. It is taken for granted that the jobs are decent when the partners live up to the ILO conventions. Lasting jobs are simply not accounted for, as the DFIs generally do not follow-up after exit.

The lack of follow-up after project exit makes it difficult for the DFIs to assess the wider impact of their projects, but it also makes the internal learning difficult, e.g. why some projects have a greater impact than others, why some projects companies have been successful in implementing similar projects afterwards, while others have not, just to name a few examples. This could lead to better and more successful projects in the future. Especially for the DFIs with local representation in some of the countries, the follow-up post-exit seems natural for such international institutions with a development mandate from the governments.

Accountability and transparency

It is quite clear that little information about the individual investments of the DFIs is publicly available. The DFIs refer to the issue of commercial confidentiality, and that the information they provide on individual investments is in line with general practice in the field of finance. Finnfund and IFU specifically mention that they encourage the companies with whom they invest to report on and openly share information on their operations. That encourages openness to engage the investees/companies in the public discussions.

There is a fine balance for the DFIs to strike between assuring confidentiality for the companies on the one hand and being held accountable as a state-owned institutions enterprise on the other. According to the UNGP framework, business enterprises whose operations/ operating framework pose risks of severe human rights impacts should according to the UNGP framework report formally on how they address these. Thus, attention should be paid to observing commercial confidentiality along the lines of UNGP requirements.

Even though the level of transparency is relatively low, and there is a clear lack of structured communication about impact of the investment projects. This study does not conclude that there is no impact or not enough impact (compared to level of investment) of the engagement of the Nordic DFIs. The problem is that the level of communication on the development impact is very limited. The websites of the Nordic DFIs have case stories of many successful projects that have had a profound change in people's lives in the developing countries. The main issue of concern is that these are all stories told by the DFIs, and as long as the project-specific risk assessments and reporting is not publicly available, the challenges not articulated and the potential results not framed within a global results framework such as the SDGs, it is difficult to know if there is value for money when letting an increasing part of the scarce development resources channel though the DFIs.

5. CONCLUSIONS AND RECOMMENDATIONS

This report has analysed and assessed the DFIs' approaches to measuring and reporting on the development impact of their investments and has been based on publicly available materials related to the topic. The study shows that all the DFIs have a proclaimed intention towards compliance with international standards. In terms of ensuring transparency and through transparency ensure accountability of operations, the practical application and execution of standards leaves room for improvement. This has also added a distinct limitation to the current assessment.

The following recommendations are therefore issued to the DFIs in relation to implementation of frameworks and initiation of processes that support observing the social, environmental and financial responsibility with special attention given to ensure the respect for human rights and obtaining development impact trough sustainable investments Even though the study shows that there are differences between the four DFIs, the recommendations are framed in a general manner. It should be noted that the observations made in this report and thus the recommendations below are based on a snapshot of the current international requirements, DFI practises and reporting. As this is a moving field, developments are rapidly occurring.

Ensure full compliance with international standards and guidelines

Private capital and hence private sector engagement based on responsible business conduct is essential to achieve the SDGs. In their work with private sector actors, the DFIs must clearly incorporate all central international standards and principles into firm policies and procedures and clearly communicate and ensure the observance of the requirements to clients/associated business relationships. This includes having firm and solid ESG policies formulated, conducting thorough risk and impact assessments and having a solid due diligence process in place within the spheres of both the environmental and social responsibility, including human rights**.**

The Nordic DFIs communicate very little about the actual methods or process for conducting HRIA. In order to comply with the international standards throughout the investment, it is essential to implement a framework that encompasses the pivotal principles and the possibility to measure progress. Although HRIA is an emerging practice, it is recognised as the most comprehensive approach to implement human rights due diligence in which human rights risks are identified, prevented, mitigated and accounted for.[xc]. By implementing HRIA as a defining project process following the UNGP requirements, the DFIs will be able to manage and measure progress on human rights risks while ensuring transparency, accountability and participation throughout. The development impact is contributions beyond the businesses core responsibility to respect human rights and should therefore be measured on the basis of full compliance, to ensure that adverse human rights impacts are not implicitly set off.

Have stricter OFC policies in place

There is a need for solid OFC policies and as the international standards in this area are not very progressive, the DFIs should consider to set the bar higher. Considerations should be made to disclosure on beneficial ownership information and reporting back their financial accounts on a country-to-country basis. Through EDFI, the Nordic DFIs could push to work actively for increased transparency in this respect.

Apply a theory of change analysis for each investment

The theory of change approach – from input, output, outcome to impact should be integrated into the project preparation phase and be used in the monitoring of project progress. In order to obtain development impact, it is essential to be aware of the change process that is expected to unfold. Close monitoring at this level will also give input to possible adjustments during implementation. Private sector agencies are rarely used to work with this approach so the DFIs should take the lead, built on their mandates on promoting sustainable development. The DFIs' work with development impact should be broadened to include quantitative as well as qualitative indicators, direct as well as indirect impact, attribution as well as contribution. Further, the investment companies should be held accountable, e.g. through having policies in place in relation to the international requirements and in relation to reporting on broader development impact.

Establishment of project-specific grievance mechanism

Grievance mechanisms need to follow the "effectiveness criteria" for non-judicial grievance mechanisms prescribed by the UNGPs. They should be accessible, both in terms of language, outreach and information. Establishment of grievance mechanisms should take its point of departure in the local stakeholder engagement process. The local/project specific grievance mechanism should be linked to a higher level of complaints as a form of appeal structure in order to ensure accountability. The annual meetings in the EDFI network could address this issue to develop EDFI specific policy and procedure as it seems more capacity and knowledge within the area is needed.

Ensure better impact through active ownership

As a large investor, the DFIs should use their leverage more actively to ensure that more attention is paid to the long-term development impact of investment projects throughout the investment flow. All four DFIs use Board representation in the project companies as a way to steer the projects and influence. In their Board work, focus is primarily on the compliance/do no harm level and less on the level of development impact.

Development of a coherent set of indicators

With 17 goals and 169 indicators, the SDGs presents a unique opportunity for all the different standards and impact measurement systems that exist (IFC harmonised standards, HIPSO, EDFI reporting, Global Compact reporting etc.) to link up to something that has been globally agreed upon. There are several benefits in using joint indicators: less resource demanding internally in the DFIs, it eases the process for all partners when the DFIs are co-investing and will improve the opportunities for cross-analysis.

Ensure allocated funds for technical assistance to support capacity building

Technical Assistance funds should support knowledge sharing and capacity building of the persons responsible for ESG matters. Technical Assistance funds are of great importance to assure continuous learning and capacity building of partners within specific fields. It is highly important that new investors are capable (knowledgeable) and will be able to follow the international minimum standards, guidelines and principles on ESG as set by the DFIs. Technical assistance can be procured from a range of different stakeholders including NGOs and research institutions and be tailor-made to meet the specific needs of the individual project companies.

Tracking development impact after exit

In order to ensure continuous learning and be able to adjust procedures to maximise impact, the DFIs should complete follow-up analysis of exited investments in a systematic manner. A challenge reported by the DFIs in this respect is that companies might have shut down or restructured which makes it difficult to track impact. However, that is a result in itself that is relevant to report, i.e. the sustainability of the exited companies. It is critical to develop a methodology for this that ensures that the task is not too cumbersome. This could enhance accountability considerably.

Transparency & Accountability

As DFIs operate as state-owned enterprises managing public funds, the requirements in relation to transparency, external communication and accountability is considerable. Necessarily, the DFIs must strike the balance between commercial confidentiality and the public need for transparency and accountability in terms of communication on e.g. human rights risks. It is recommended that more publicly available information and material on the risk assessment processes in all three spheres and the process for measuring development impact is published to ensure accountability.

Annex A: The Sustainable Development Goals – brief overview

Between 2000 and 2015 the Millennium Development Goals (MDGs) established an important common language for international development work in which, the first framework for collective global action was set forth. The MDGs achieved success in a number of areas such as reducing poverty, improving health and education in developing countries.

The SDGs succeed the MDGs by expanding the challenges that must be addressed to eliminate poverty from eight to seventeen overall goals, that define the global priorities and aspirations for 2030, while embracing a wide range of inter-connected topics across the economic, social and environmental dimensions of sustainable development including a particular emphasis on the private sector contributions.

The new goals are created as universally applicable in developing and developed countries alike because of the reflections and substantive input provided from all sections of society and all parts of the world throughout what is arguably the most inclusive process in the history of the United Nations.

Although the SDGs are primarily targeted towards governments - which are expected to translate the goals into national action plans, policies and initiatives reflecting the different realities and capacities their countries possess - they are also designed to include a wide range of organisations to contribute to shaping priorities and aspirations for sustainable development whilst considering business' to hold a key position in the realisation and achievement of the framework goals and targets.

Sources:

- http://www.sdgfund.org/mdgs-sdgs;
- http://www.undp.org/content/undp/en/home/sdgoverview/post-2015-development-agenda.html;
- http://sdgcompass.org/sdgs/

ANNEX B: OVERVIEW OF THE FOUR NORDIC DFIS

FINNFUND[xci]

The Finnish Fund for Industrial Cooperation LtD. (Finnfund) is the Finnish DFI, founded in 1980 by the Finnish State. The mission of Finnfund is to promote economic and social development in developing countries by financing responsible and profitable private projects. Projects financed by Finnfund shall include Finnish interests (i.e. not necessarily Finnish companies directly). The Ministry of Foreign Affairs is decisive in giving direction, setting targets and outlining objectives for Finnfund. The Finnfund business strategy is in the hands of the Finnfund board[38].

Geography : Finnfund has a strategic focus on low- and low-middle-income countries (46.3% of new investments in 2015 was in LDCs)[xcii]. Priority is also given to in investments in Africa. In 2015, 44% of investments were in Africa, 25% in Asia, 13% in Latin America, and the remaining 17% in Central and Eastern Europe, The Mediterranean and in multicountry investments (such as international funds)[xciii]. Finnfund does not have any local/regional offices.

Sectors : Finnfund prioritises investments that combine Finnish interests and key competencies with issues to be solved in the developing world. In its current strategy that is expressed as a focus on projects involving renewable energy or improving energy and material efficiency as well as projects for sustainable forestry[xciv]. The Ministry of Foreign Affairs gives annual guidance letters to Finnfund including annual targets that naturally relates to the SDGs. This is however not explicit in any policy or strategy documents. However, of the total portfolio of EUR 602M in 2015, approximately 25% was in energy and environment and 13% in forestry. Financial services and investments in funds made up 36%[xcv].

Funding : Funding is provided via borrowing from financial markets and bilateral loans, returning capital and interest rates and separately yearly negotiated capital allocations from Finland's ODA budget (between EUR 0-20M/year). Since its creation in 1980, Finnfund has received a total of 165 million euros in capital from the State. Meanwhile, the capital has increased by more than 83 million to approximately 250 million Euros due to returns on investment[xcvi].

The budget approved by the Parliament for 2016 includes EUR 140M for financial investments in development co-operation. The allocation of the funds are not yet available but according to the Ministry for Foreign Affairs approximately EUR 130 million, will be used to improve Finnfund's operating possibilities[xcvii]. This is a massive increase in Finnfund's capital base. Finnfund's return on equity was in 2015 2%.

Portfolio size : The investment portfolio of Finnfund was by end 2015 EUR 329.6M (an increase of EUR 77.3M from 2011 (EUR 252.3M)[xcviii].

Instruments : In 2015, of the total portfolio 46% of Finnfund's was in forms of loans, 27% in equity and 27 % was invested in funds[xcix].

Engagement : When investing in funds, Finnfund assures "active ownership" by representation in the advisory committee and sometimes in the board. Finnfund always participate with a minority stake[c].

[38] Finnfund differs from the other three DFIs covered by this study in terms of ownership structure. 93,4% is controlled by the State of Finland, 6,5% is controlled by Finnvera Plc (Finland's export credit agency) and 0,1% by Confederation of Finnish Industries EK.

NORFUND[ci]

Norfund is the Norwegian Investment Fund for Developing Countries, established in 1997 by the Norwegian Parliament. Norfund expresses its 'task' as 'to contribute equity and other risk capital, extend loans and provide guarantees for the development of sustainable commercial activities in developing countries[cii]. The Norfund board is appointed by and reports to the General Assembly; the Norwegian Minister of Foreign Affairs. Norfund´s activities are conducted in accordance with the principles of Norway´s development cooperation policy. Norfund currently operates under a strategy covering the period 2016-2020.

Geography : Norfund prioritises investments in LDCs and countries in Sub-Saharan Africa. Since 2010 Norfund have had as target to invest minimum 50% in Sub-Saharan Africa and at least 38% in LDCs. With its new strategy increased focus is placed on stronger regional presence. In 2015 85% of Norfund's investments were in Sub-Saharan Africa, 9% in Asia and 6% in Latin-America[ciii]. In all regions Norfund has a number of priority countries. Norfund has regional offices in Costa Rica, Thailand, South Africa, Mozambique, Kenya and Ghana.

Sectors : In its new strategy Norfund has prioritised three specific sectors for investments, namely "Clean Energy", "Financial Institutions" and "Food and Agribusiness". In 2015, 49% of the portfolio was invested in clean energy[39], 28% in financial institutions, 11% in Food and Agribusiness, and 12% in SMEs through private equity funds[civ].

The reasoning behind the strategic sector priorities are: 1. The importance for increased power production for development in poor countries, hereunder access to electricity, 2. Lack of access to finance is a main impediment to private sector development, making it crucial for small businesses to gain access to finance and 3. The potential for improving productivity and job creation in the agribusiness sector and thereby achieving significant development impacts[cv].

On the strategy level, Norfund links the sectoral priorities to the SDGs and the potential positive impact the sector prioritisation will have in supporting the 2030 agenda. Additionally, in recent years, it has been a prerequisite from the owner that at least half of the annual allocation of capital must be invested in renewable energy.

Funding : Funding is provided via capital allocations from Norway´s ODA budget. In 2015, Norfund received a total of 1.48 billion NOK from the Ministry of Foreign Affairs. In 2015, the rate of return was 3.5%[cvi].

Portfolio size : Norfund's investment portfolio was at year end 2015 EUR 1,630 million, making Norfund by far the largest of the four Nordic DFIs. This is almost twice the size of 2012.

Instruments : Norfund's portfolio is divided into equity (70%), loans (15%) and investments in SMEs via funds (15%). Norfund's investments are not tied to Norwegian companies, hence investments do not necessarily need to include a Norwegian partner. In 2015, 12% of the portfolio investments went through private equity funds. In the last three years the investments in these funds have been narrowed to markets where there are no other capital investors.

Engagement : Norfund takes up a board position in the investees or appoints an external board member with the specific technical knowledge to act on behalf of Norfund. Norfund is always minority shareholder.

[39] Norfund owns 50% (Statkraft the other 50%) of SN Power which is reported as an 'associated company' of Norfund. SN Power invests in hydropower projects.

SWEDFUND[cvii]

Swedfund International AB was established in 1979 by the Swedish state. Swedfund's goal and mission statement is aligned with Sweden's Policy for Global Development and is therefore set by the Ministry of Foreign Affairs from which Swedfund gets it instructions/owner directions. Swedfund's mission is expressed as 'reducing poverty through sustainable business (in some of the in some of the world's toughest and most promising growth markets)'.[cviii] Swedfund is managed by the Ministry of Enterprise and Innovation. Swedfund works with four strategic sustainability goals, which are: Impact on society, sustainability, financial viability and anti-corruption.

Geography : Swedfund has a strategic focus on investing in Sub-Saharan Africa, which is linked to its mission statement of poverty eradication. In 2015, 60.3% of Swedfund's portfolio was in Africa, 22,2 in Asia, 7,5 in Eastern Europe, 0.4 in Latin America and 9.6% in other[cix]. Swedfund does not report on portfolio in relation to country income level in their integrated report. Swedfund has a regional office in Kenya.

Sectors : Swedfund works with three focus sectors: Manufacturing & Service (43.7%), Financial Institutions (39.7%) and Energy (13.9%) (other constitute 2.7%)[cx]. Swedfund's strategic reasoning behind the choice of sectors is the focus on poverty reduction and the link and obligations towards Sweden's Policy for Global Development. Swedfund explicitly link its strategic choice of sectors to SDGs 7, 8, 9 and 12[cxi].

Funding : Funding is provided via capital injections from the Swedish state, which varies from one year to the next. In 2015, Swedfund did not receive a capital injection, but in both 2014 and 2016 it was EUR 42M (and indications are that it will be the same level in 2017 and 2018), which constitute approximately 1% of Swedish ODA.

There is a specific demand in Swedfund set by the Swedish state that the return on equity should exceed the average interest rate on Swedish central government debt of one-year maturity. Return shall be measured over rolling seven-year periods. This was in 2015 0.71%. Swedfund was not able to meet this target in 2015.

Portfolio size : At the end of 2015, Swedfund's total portfolio was 2015 EUR 364M[40]. In comparison it was EUR 2.74M in 2011[cxii].

Instruments : Swedfund's portfolio is divided into investments in forms of equity (29.3%), loans (44.3%) and investments in funds (26.4%). Swedfund's investments are not tied to Swedish companies nor Swedish interests[41].

Engagement : Swedfund ensures Board representation in all investments. Swedfund is minority owner of the portfolio companies.

[40] SEK 3,456 billion, number taken from Swedfund's Integrated Report 2015, p.6

[41] Exception is Swedpartnerships, which is a support scheme for SMEs that are establishing partnerships with foreign businesses. That is however outside the scope of this study.

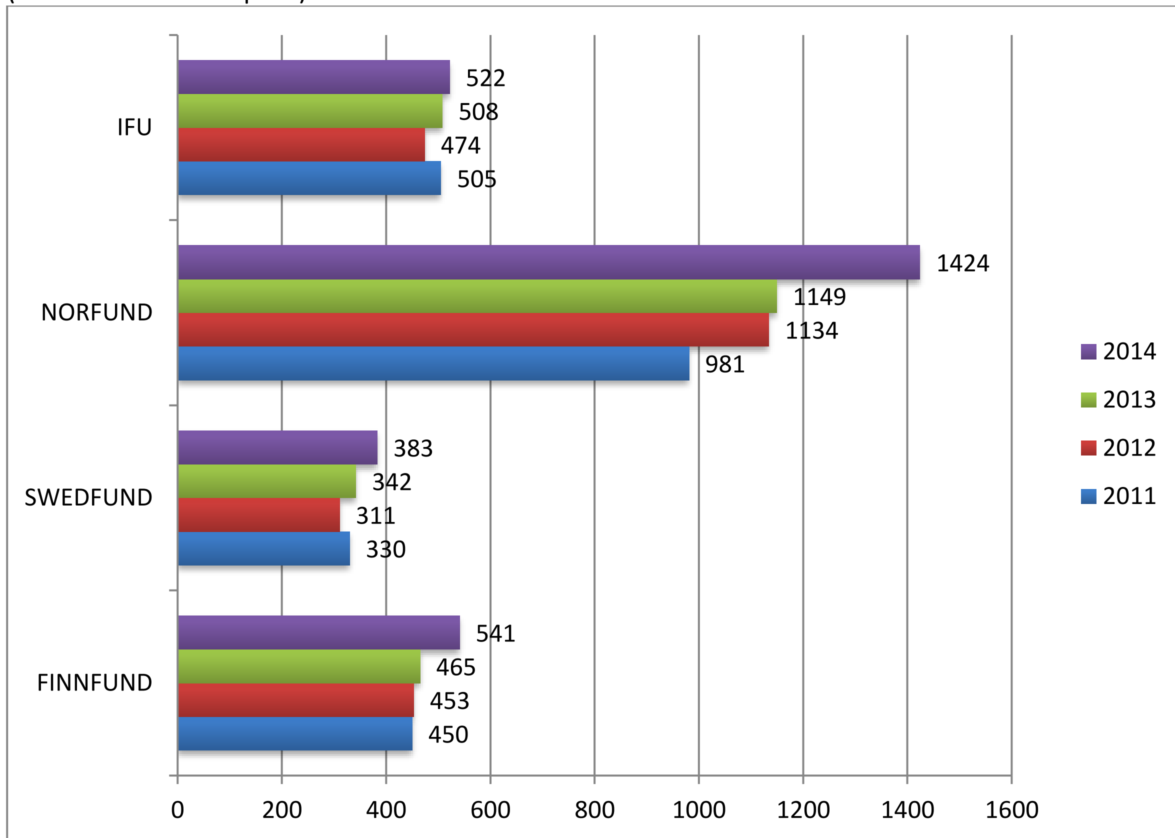
IFU[cxiii]

The Investment Fund for Industrial Investment (IFU) was established in 1967, is governed by the Danish Act on International Development Cooperation and is an independent government-owned fund. IFU works on commercial terms and provides risk capital for investment projects with a Danish interest (i.e. not necessarily a Danish investment partner). IFUs mission is to promote economic development in developing countries through private sector investments in collaboration with Danish trade and industry. Of the four DFI's, IFU has the clearest link to the Danish private sector in its mandate/objective.

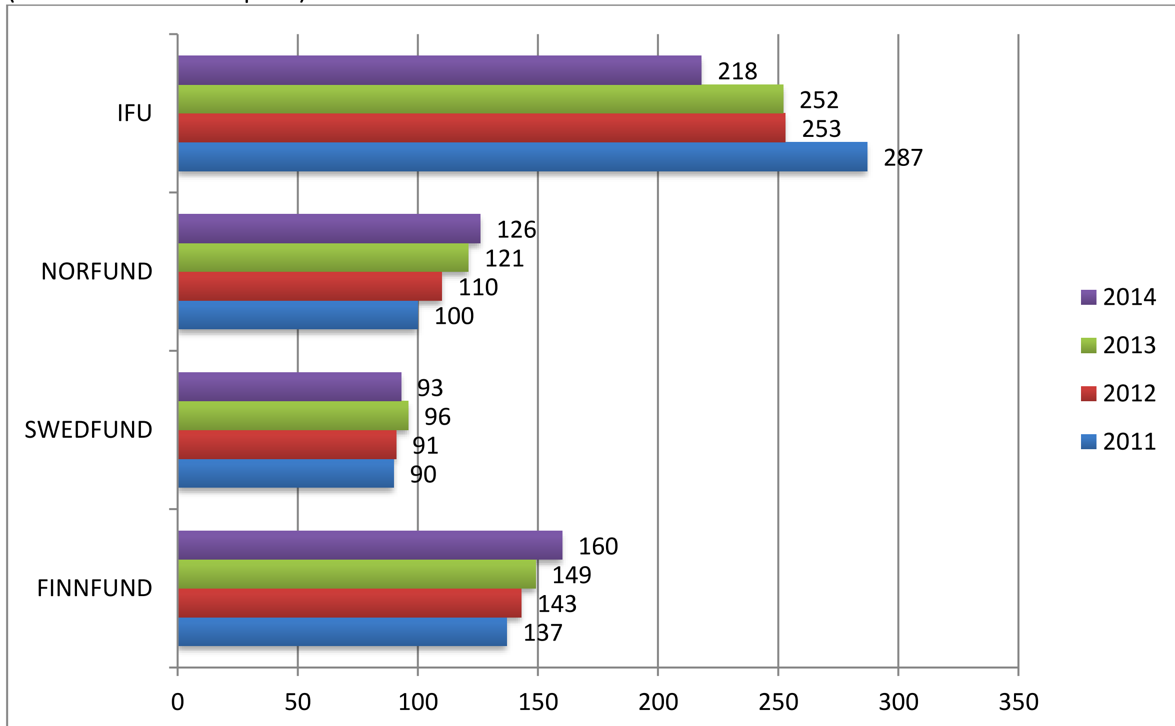
Geography	:	No focus, 100% demand-driven and hence based on Danish competencies and interests. In 2015, IFU's mandate was extended to include all countries on the DAC list of ODA recipients (requirement that minimum 50% of the portfolio is in low-income countries)[cxiv]. In 2015 the geographical spread of investments (in terms of size) was Africa 38.8%, Asia 31.1%, Latin America 19.7% and global projects 19.7% (this covered both new investments and additional investments in existing projects)[cxv]. IFU has a total of 10 regional offices in Ghana, Kenya, Egypt, Nigeria, South Africa, Colombia, Ukraine, China, Singapore and India.
Sectors	:	No sector-specific focus. 100% demand-driven and hence based on Danish competencies and interests. IFU does not report on sector division of its portfolio but in terms of number of new investments made in 2015, they were divided as follows: manufacturing 36%, climate 19%, Food, agriculture and animal farming 16%, Financial institutions 14%, other 16%[cxvi].
Funding	:	IFU works as a revolving fund and is self-financing, and its revenues are comprised of income from interest, dividends and capital gains. Hence IFU does not get any tranches from the MFA (is not on the finance and appropriation Act). IFU manages a significant number of funds for the MFA, some in which IFU commits own resources (statutory funds) and pools these with funds from MFA and Danish private investors[42]. In 2015, IFU had a return on investments/loans of 10.3%[cxvii].
Portfolio size	:	IFU has been growing in terms of size, especially in 2015, where investments through the Danish Climate Investment Fund investments took off. In 2015, IFU's portfolio was EUR 347M[cxviii]. In comparison, it was EUR 250M in 2011[cxix].
Instruments	:	Equity, loans, guarantees, investment in funds (maximum 20%).
Engagement	:	When IFU is a shareholder, they seek active ownership in the project company as a board member. Where IFU is a lender only, IFU also works to have a similar influence as when IFU is a shareholder. IFU has developed a handbook on Board work.

[42] All funds: The Arab Investment Fund (AIF), IFU Investment Partners (IIP), the Danish Climate Investment Fund (DCIF), the Danish Agribusiness Fund (DAF) and the Investment Fund for Central and Eastern Europe (IØ). Programmes: The SME Facility, the Project Development Programme.

DFI portfolio size in million Euros, 2011-2014
(source EDFI annual reports)



DFI portfolio number of projects, 2011-2014
(source EDFI annual reports)



The data behind the figures above (derived from EDFI annual reports and thus comparable across years and across DFIs) does not fully correspond with the figures in the overviews of the individual DFIs presented, due to different methods for reporting.

ANNEX C: INDICATORS IN RESEARCH

Compliance	Indicators (preselected and part of the ToR)
Social responsibility	Protection of human rights (including land rights and the right to food and water) Worker safety Protection and compensation of project affected people Economic dispossession
Environmental responsibility	Environmental standards and environmental effects
Economic responsibility	Financial transparency and standards for responsible tax matters (safeguards, OFC policy, etc).
Positive contribution	**Indicators (preselected and part of the ToR)**
Social impact and sustainability	Women's economic empowerment Poverty reducing measures Strengthening human rights, children's rights and land rights
Environmental impact and sustainability	Climate effects Natural capital
Economic impact and sustainability	Economic growth (pro poor growth, tax, decent jobs)

Annex D: List of people interviewed

Organisation	Name	Title
Norfund	Ola Nafstad	Head of Strategy and Analysis
Norfund	Inger Nygaard	Communication Manager
Swedfund	Karin Kronhöffer	Director Strategy and Communication
Swedfund	Jenny Järnfeldt	ESG Manager
Swedfund	Karin Askelöf	Senior Manager ESG Affairs
IFU	Birgitte Bang Nielsen	Sustainability Director
IFU	Rune Nørgaard	Communications Dector
IFU	Andreas Brogaard Buhl	Head of Sustainability and corporate governance
Finnfund	Veera Iija	Development Impact Advisor
Finnfund	Tapio Wallenius	Director, Impact and Communications

ANNEX E: CORE INTERNATIONAL STANDARDS, GUIDELINES AND PRINCIPLES

General standards, guidelines and principles	Social responsibility	Environmental responsibility	Economic responsibility
OECD Guidelines on Multinational Enterprises (OECD 1976, updated 2011)	International Bill of Human Rights consisting of The Universal Declaration of Human Rights (UN, 1948) and the two International Covenants on Civil and Political Rights, and Economic, Social and Cultural Rights (UN, 1966)	Rio Declaration on Environment and Development (UN, 1992)	Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (OECD, 1997)
UN Global Compact Principles (UN, 2000)	ILO Declaration on the Fundamental Principles and Rights at Work (ILO, 1998)	UN Convention on Biological Diversity (UNEP, 1993)	OECD Global Forum For Transparency and Exchange of Information for Tax Purposes (OECD, 2002)
IFC Performance Standards (IFC, newest edition 2012)	ILO Core Conventions • Freedom of Association and Protection of the Right to Organise Convention, 1948 (no. 87) • Right to Organize and collective Bargaining Convention, 1949 (no. 98) • Forced Labour Convention, 1930 (no. 29) • Abolition of Forced Labour Convention, 1957 (no. 105) • Minimum Age Convention, 1973 (no. 138) • Worst Form of Child labour Convention, 1999 (no. 182) • Equal Remuneration Convention, 1951 (no. 100) • Discrimination (employment and Occupation) Convention, 1958 (no. 111)	Kyoto Protocol to the UN Framework Convention on Climate Change (UN, 1997)	UN Convention Against Corruption (UN, 2003)
	UN Guiding Principles on Business and Human Rights (UNGP) (UN, 2011)	UN Framework Convention on Climate Change (UN, 2005)	EDFI Guidelines for Offshore Financial Centres (EDFI, 2009)
		Paris Protocol (UN, 2015)	

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